COMPANIES HOUSE

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RC2 14/12/2016 #50

THIS IS HOW WE DO IT

Softcat plc Annual Report and Accounts 2016

Company registration number 02174990

WE DO THINGS DIFFERENTLY

Our aim is simple – to be the UK's leading IT infrastructure provider in terms of employee engagement, customer satisfaction and financial performance.

We live by our values and believe that a few simple truths about our business set us apart. They have helped us achieve 96% employee engagement, 99% customer satisfaction and 44 consecutive quarters of organic revenue and profit growth.

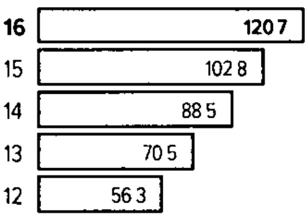
Come in; let us show you around. We are passionate about what we do.

IN THIS REPORT

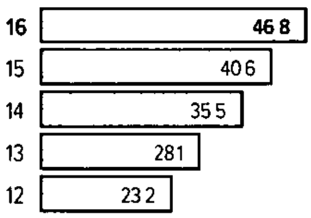
To read more visit
www.softcat.com

FINANCIAL AND OPERATIONAL HIGHLIGHTS

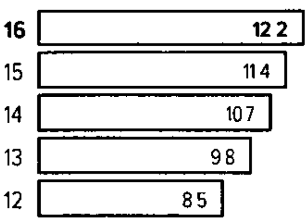
Gross profit £m



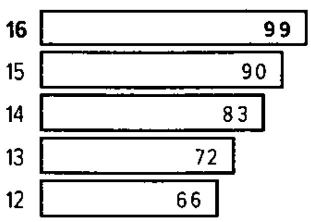
Adjusted operating profit £m



Customer numbers '000



Gross profit per customer £'000



- Gross profit growth 17%
- Adjusted operating profit growth 15%
- Cash conversion 85%
- New office opened in Glasgow
- Growth achieved across all business lines and offices
- Employee engagement 96%
- Customer satisfaction 99%

See page 21 for more information on our KPIs

WE ARE A RESELLER

99%
customer satisfaction rating

In an industry where many are moving away from the word 'reseller', we actively embrace it. Reselling is what we do (and we are very good at it too).

We believe there will always be a need to sell IT to businesses and organisations, so we have made it our mission to fill that need better than anyone else.

OUR OFFERING

We provide corporate and public sector organisations with software licensing, workplace technology, datacentre infrastructure, networking and security

We do not develop bespoke applications or specialise in any industry-specific vertical application but can partner with third-party organisations for these requirements Our focus is on providing the IT infrastructure and services to keep these applications performing, highly available and secure

Networking and security

Datacentre infrastructure

Software licensing

Workplace

100%
UK FOCUSED

The Sunday Times
Top Track

OUR TEAM

We have a people-centric culture that enables us to deliver outstanding customer service We believe that if people enjoy what they do they will do it better

GREAT PLACE TO WORK
UK's Best Large Workplaces 1st
2016

GREAT PLACE TO WORK
Most Trusted Leadership
2016

GREAT PLACE TO WORK
Laureate Award
2016

GREAT PLACE TO WORK
5th Best Workplace in Europe
2016

927
EMPLOYEES AS AT 31 JULY 2016

AWARD-WINNING SERVICE

So how are we doing with our mission to be the UK's best IT reseller?

MIMECAST
Premier Partner of the Year 2016

VMWARE
European Solution Provider
Partner of the Year 2016

Leading IT infrastructure provider for UK small and medium-sized organisations

Market-leading reputation based on 20 years of service excellence

OUR VENDORS

We work with over 200 different hardware and software vendors to bring the best and largest range of technology to our customers as well as a number of specialist service providers to complement the services that are provided by our in-house teams

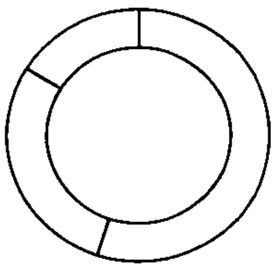
We work hard on our vendor relationships and strive to be the partner of choice for each of our key vendors

200+
VENDORS

OUR CUSTOMERS

We have a diverse customer base across all sectors of the market Traditionally we have served the small to medium-sized business ('SMB') customer segment but over the years we've grown to also trade with a number of larger organisations including some of the very largest enterprise organisations in the UK

We also enjoy a growing public sector business which has been particularly successful in health, education and local government



SMB/mid market
Public sector
Enterprise

12,200+
CUSTOMERS

CISCO
Commercial Partner of the Year UK&I 2016

SOPHOS
Partner of the Year UK & Ireland 2016

UK ENTERPRISE GROUP
Partner of the Year 2016

CANALYS EMEA
Channel Partner of the Year 2016

DEDICATED TO OUR CUSTOMERS

“ In the year of our IPO the Company has continued to deliver strong financial performance.

Brian Wallace, Chairman

View our KPIs on **page 21**

TEAMWORK

The bedrock of Softcat's success

99%
CUSTOMER SATISFACTION

96%
EMPLOYEE ENGAGEMENT

Throughout 2016 the Softcat team has continued to focus on providing outstanding service to our 12 200 customers This has been the bedrock of the Company's success since its inception in 1993 and will continue to be so into the future

This has enabled us to grow revenue by 13% to £672m (2015 £596m) and operating profit by 7% to £42 2m (2015 £39 6m) Adjusted operating profit increased 15% to £46 8m (2015 £40 6m)

IPO and governance

Softcat was admitted to the London Stock Exchange on 18 November 2015 and subsequently our share price strengthened resulting in our being admitted to the FTSE 250 on 21 March 2016 During the IPO process many potential investors took the time to visit our offices and we were very gratified by their feedback that the visit brought to life the spirit culture and differentiated approach of Softcat which is hard to communicate in a one-hour off-site meeting We hope to welcome other investors in the future

In reshaping the Board for the IPO we carried out a meticulous search process for Non-Executive Directors and, in Lee, Peter and Vin, I believe we have assembled a very capable and committed team who bring strong entrepreneurial, commercial, sector and public company experience to the table to support our executive leadership team Most importantly they are excited by the Softcat approach and prospects

As a Board we take our responsibilities very seriously to meet the expectations of our team our customers and other stakeholders in all aspects of our business including governance We approach governance positively on the basis that it is not just important in its own right but it is good for our expanding business and provides a framework within which the spirit and culture of Softcat can continue to flourish

Our greatest asset – the Softcat team

On behalf of the Board, I would like to pay tribute to the entire Softcat team so ably led by Martin Like the best sports teams Softcat benefits from having many leaders throughout the business We have opened a new office in Glasgow and the team now numbers 927 (2015 794) In a year when the IPO could have been a distraction they have carried on relentlessly, doing what they do best – serving customers It was very pleasing that Softcat took 1st place in the Great Place to Work Institute's Best Place to Work award category in the UK and placed 5th in Europe

Dividend

On the basis that the Company has sufficient distributable reserves at the time the Board intends to operate a dividend policy which targets an annual dividend of between 40% and 50% of the Company's profits after tax in each financial year before any exceptional items Subject to any cash requirements for ongoing investment, the Board will consider returning excess cash to shareholders over time The Board may revise the Company's dividend policy from time to time

The Board recommends a final dividend of 3 6p per ordinary share and a special dividend of 14 2p per ordinary share to be paid on 16 December 2016 to all ordinary shareholders who were on the register of members at the close of business on 18 November 2016 Shareholders will be asked to approve the final and special dividends at the AGM on 8 December 2016

Looking forward

Our marketplace is highly competitive and following the EU referendum the business environment is uncertain However, the Board believes the Company is well placed to grow its market share in 2017 and will maintain its focus on delivering profitable growth and strong cash conversion

Brian Wallace
Chairman
19 October 2016

WE ARE A RESELLER AND PROUD OF THAT

“ It's been an excellent year. Business performance has been strong.

Martin Hellawell, Chief Executive Officer

View our KPIs on **page 21**

Q&A

with Martin Hellawell

12,200+
CUSTOMERS

£9.9k
GP PER CUSTOMER

In summary, how has the year been for you?

It's been an excellent year Business performance has been strong and the Company has continued to show good growth and has executed well on our strategic objectives

The Company went public in November 2015 – tell us about that experience

While there was a lot of work involved in taking the Company public, it was actually a very straightforward process We were fortunate with the timing, the market was very much open for IPOs when we launched We were pleased with the reception we received from investors and the resulting supportive shareholder base we now have in Softcat

We tried very hard not to let the process distract employees or affect the way we run the business and I think we succeeded in achieving those objectives

How well have you executed against your business model this year?

Most things about Softcat are simple and that includes the business model We continue to grow the business and to do that we need more people For the business to succeed we need very special people people who have a strong work ethic and are passionate, resilient and real team players They are very difficult people to find and we spend an inordinate amount of time scouring the market for great talent to join our organisation A lot of new team members join us straight from university or at an early stage of their career, that model has served us well

To satisfy the future growth ambitions of the Company we have pushed the recruitment accelerator this year and increased headcount from 794 to 927

The second strand of our business model is to strive to be a great place to work for Softcat people We want our employees to be fully engaged with our Company and motivated to give their all and we want their contribution to be recognised and rewarded Softcat is well known for its vibrant culture and I'm sure this has always been absolutely key to our success We are far from perfect and ensuring we are constantly evolving with an ever larger and geographically more disparate workforce is a huge challenge, but one that is very much at the forefront of our minds

The leadership of the organisation has a pivotal role to play in this, but I think this works because all our employees accept and share the responsibility of making Softcat the best possible place to work I therefore thank all our employees for the fantastic accolade we received this year, being named as the No1 Best Workplace in the UK by the Great Place to Work Institute

We believe that the result of recruiting the right people and striving to be the best place to work we possibly can be results in a highly talented, engaged and focused team who relish in providing outstanding service and will happily go the extra mile for our customers In a fiercely competitive market, we believe that consistent quality of service is absolutely paramount to our success and is the key reason behind our growth and financial results

Again we are not perfect and strive to continually improve all aspects of our customer service In our annual customer satisfaction survey, which was carried out in June 2016, 991% of customers reported an overall level of satisfaction of good or very good (2015 991%) I'd like to take this opportunity to thank both our new and long-standing customers for their business and ongoing support

Are you pleased with this year's financial results?

I'm sure Graham will go through these in more detail in the Financial Review, so I'll be brief Overall, yes, I'm pleased We have now delivered 44 consecutive quarters of revenue gross profit and adjusted operating profit growth This includes both the third and fourth quarters of our financial year when demand from our customers remained solid despite the distraction of the referendum and subsequent political developments In fact the Company grew at an even faster rate during the second half On all three measures we delivered good double-digit growth for the full year with revenue growth of 13%, gross profit growth of 17% and adjusted operating profit growth of 15%

The shape of the results was slightly different this year Over the previous three to four years particularly with our very strong growth in public sector, we have seen revenue growing faster than gross profit and operating profit This year we saw the opposite This was partly due to a combination of one-off benefits and a change in the mix of our business

In line with the rest of the market we saw less demand for the more commodity high revenue lower margin end of our business particularly due to a slower PC market and stronger demand for higher margin solutions notably in networking and security, datacentre infrastructure and IT services We believe the Company excels in these added-value areas so the shifts in customer requirements largely played to our strengths and our gross profit and operating profit benefited accordingly

+17%
GROSS PROFIT GROWTH

+15%
ADJUSTED OPERATING PROFIT GROWTH

Are you pleased with this year's financial results? continued

I think it's important to note that our public sector business recorded another very strong year of growth and once again exceeded our expectations This was achieved despite us deciding not to compete at negative margins to win some very large revenue flagship software deals in the sector

We were very pleased that these results were achieved while investing significantly in both capability and sales power, which we will benefit from in future years

The Company maintained focus on disciplined management of working capital and delivered another year of strong cash conversion

How well are you delivering on your strategic objectives?

In simple terms our strategic objective is to sell more to existing customers and to win new customers Gross profit per customer increased 9% and we saw an increase in the rate of new customer acquisitions We believe we have performed well ahead of the market and taken market share, further consolidating our position as one of the leading value-added resellers ('VARs') in the UK

How is the market developing and how are you adapting to those changes?

The IT market is a fast moving market It always has been and it always will be I think it's fair to say that the pace of change only accelerates It's very important that we stay close to our customers and ensure we continually evolve our offering to meet customers changing requirements I think that's one of our strengths

We are extremely well placed No matter what the technology is or how it is provided, customers need to be informed about that technology They need to know what benefits it brings how it might fit into their existing infrastructure what the technical challenges are and how best to procure it Once they have purchased it they need ongoing support and customer care, leading at some point to a technology refresh or renewal Softcat has established an enviable position in the market with one of, if not the, largest account management team addressing a very large customer base, and often with a position of trusted adviser status with them, which we have earned through many years of working with them The relevance and need for the role Softcat plays is as strong today as ever, perhaps even more so as vendors increasingly look to the channel to serve Softcat's core mid-market customer base Customers are faced with increasingly complex technology choices and need a trusted adviser that is easy to do business with to help them navigate their challenges

"It's been an excellent year. Business performance has been strong and the Company has executed well on our strategic objectives.

Customer requirements are constantly evolving Increasingly, organisations want the IT function to focus less on running operations and more on providing incremental added value driven by technology That's easier said than done and is not done overnight but there s a definite trend in that direction Cloud computing can help organisations with this ambition and we are enjoying a continued rise in business from cloud-related technologies

7.5%

increase in customer numbers

As always the devil is in the detail Established organisations are finding that moving certain critical legacy applications to the public cloud is not feasible That results in organisations moving to a hybrid cloud environment, which in many ways further complicates the IT estate and how it is managed Once workloads are in the public cloud they still need managing and supporting These new types of infrastructure provision, coupled with an ever increasing need for true mobility, drive further considerations around security, connectivity networking, software management and end-user computing to name but a few The degree of help and support our customers require is increasing, not decreasing, and these are the areas in which we can help

Softcat is adapting to these changes In addition to our reselling business which will remain a core requirement for our customers those same customers want us to have deeper technical skills to help them with their new challenges They want us to help them manage their journey to the cloud They want us to provide more managed and support services to them to help provide what they need in this new style of IT without having to do everything themselves We are delighted to accompany our customers on that journey

That is the direction we are evolving in We continue to provide our core reseller services and, on top of that, we further develop the technical and other services we provide to our customers to adapt to their changing requirements

Any other highlights of the year?

We were pleased to fill up a few more shelves with further awards The Best Workplace ones are the ones that matter most to us but it was very pleasing to be awarded Partner of the Year by two of our close partners who also successfully IPO'd over the last year – Sophos and Mimecast We received similar awards from a number of great and interesting technology providers such as Cisco Systems Inc and VMware Inc and were delighted to be named the HP Enterprise Partner of the Year shortly after year end The support and encouragement we have received from all our key partners this year has been phenomenal and I would like to take this opportunity to thank them for that

After opening a Leeds branch the previous year which is now firmly established on the Softcat map we were delighted to finally 'go international' and open up in Glasgow! We are encouraged with the early signs from that office

And moving forward, what's the outlook?

As usual with Softcat it will be a year of continual development and evolution We will continue to focus on the core business model and strategy We are now very firmly established in the mid-market and the public sector and will continue to strive to take market share in those sectors as well as expand further into the large account market

With the development of our apprentice scheme we also expect to see increased penetration of the small organisation market

Our growth to date has been purely organic and this will continue to be the main focus Acquisitions while not our main focus remain a possibility and we always keep a watchful eye on potential opportunities in the market

Brexit brings with it challenges to economic confidence which may result in less overall market growth Whatever the impact is, we still have a small percentage of the market and our capacity to grow and take market share is proven and that is what we will focus on Relentlessly

Most importantly we have to stay very focused on bringing the right talent into Softcat and having the most engaged, focused and motivated team in the market May I take this opportunity to thank my outstanding colleagues for the fantastic work they do, for the manner in which they do it and for the extraordinary results they have achieved

Martin Hellawell

Martin Hellawell
Chief Executive Officer
19 October 2016

DELIVERING OUTSTANDING CUSTOMER SERVICE AND SATISFACTION

We keep our business light and lean and nurture an open and vibrant company culture that motivates our employees to deliver the best for our customers.

WE RECRUIT AND TRAIN GREAT PEOPLE WITH HIGH POTENTIAL

We work with universities across the country and see thousands of candidates each year before selecting those that are right for Softcat We look for exceptional people with the right attitude

+

WE INCENTIVISE AND ENGAGE OUR PEOPLE TO PERFORM

We strive to be a great place to work where people are rewarded for success We are well known for our Company culture and believe it is at the heart of our success

6,200
APPLICATIONS

96%
EMPLOYEE ENGAGEMENT

WHAT SETS US APART

1 Our people

Read more on our people
pages 12 to 13

2 Our markets and offering

Read more on our markets and offering
pages 14 to 15

Read more on our strategy
page 20

WE DELIVER OUTSTANDING CUSTOMER SERVICE

We seek to provide truly outstanding levels of service to our customers and we believe that is a direct function of the talent we recruit, the training we give them and their level of engagement

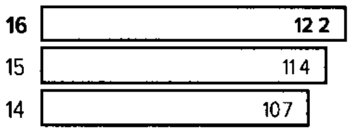
99%

CUSTOMER SATISFACTION FOR SIX YEARS IN A ROW

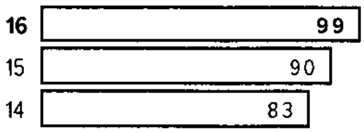
WE WIN NEW CUSTOMERS AND SELL MORE TO EXISTING CUSTOMERS

We have a strong track record of developing new revenue streams and are fast to move as the market evolves Despite our success we see more opportunities for organic growth

Customer numbers '000



Gross profit per customer £'000



3 Our vendor partnerships

Read more on our partnerships
pages 16 to 17

4 Our customer relationships

Read more on our customer relationships
pages 18 to 19

1 Our people

EVERYONE IS IN THIS TOGETHER

We don't believe in individual offices, so we put all of our desks together in the same space, reflecting the Company's ethos

LOOKING FOR THE SOFTCAT ATTITUDE

Our Company attitude is centred on three key characteristics – respect, positivity and courtesy. We employ individuals who exude this attitude by the bucketload and believe that this behaviour is essential in creating a super environment to work in.

Our company values have always been summed up in three words:

Passion

To be passionate about everything we do and to constantly go the extra mile
To get passionate staff, Softcat needs to recruit the right people with the right attitude, create a fantastic workplace and provide a platform where employees feel truly engaged with the activities of the business and feel part of the organisation's goals

Intelligence

Softcat has to show intelligence in everything it does All staff need to demonstrate high levels of emotional intelligence to respect and encourage their colleagues We need to manage the business in a highly intelligent way to succeed over our intense competition

Fun

We value fun in all its various forms We want employees to want to come to work and enjoy it We want customers to enjoy working with Softcat Different people have fun in different ways and we embrace that!

2 Our markets and offering

WE STRIVE FOR EXCELLENCE

We believe we have significant untapped growth potential

GROWING TO OUR FULL POTENTIAL

The requirement for technology is stronger than ever. All organisations continue to need to procure IT whether physically or virtually, on premise or in the cloud. Customers need to manage the complexities of dealing with multiple technology suppliers and vendors do not have the reach or relationships to sell directly to customers.

SOFTCAT UK MARKET SHARE: c.6%*

OFFERINGS

Datacentre infrastructure

- Flash and hybrid storage
- Converged and hyper-converged infrastructure
- Backup and Disaster Recovery as a Service
- Private, public, hybrid and multi-cloud

Network and security

- Software-defined networking
- Cloud connectivity and security
- WiFi analytics
- Machine learning endpoint protection

Workplace

- O365 migration factory and service wrap
- End-user mobility – VDI and application delivery
- Windows 10 and multi-form-factor devices
- Managed print

Software licensing

- Asset management
- Centralised licence desk service
- Transition to cloud-based licensing
- Vendor audit response

MARKETS

Public sector

Central government

Mid-market

Service providers

SMB

Enterprise

Lower enterprise

Micro market

* Market share is estimated based upon the CRN 2015 Top 100 VARs report

3 Our vendor partnerships

WE MAKE THE RIGHT CONNECTIONS

Our aim is to be the most effective reseller to work with and we are privileged to enjoy outstanding relationships with our vendor partners

MAKING THE RIGHT PARTNERSHIPS

We are proud of the Softcat offering, of the vendors we represent and of the services we provide. We value our partners and take our responsibilities extremely seriously, which is reflected in the long list of partner awards we have received and the close relationships we enjoy.

Partnerships with a portfolio of world-class IT suppliers

Meg Whitman, CEO of HP Enterprise Co and Martin Hellawell

Michael Dell, CEO of Dell Technologies and Martin Hellawell

4 Our customer relationships

WE VALUE OUR CUSTOMER RELATIONSHIPS

When a new recruit joins our sales force we teach them about technology, how to be a great team player and, most of all, how to provide outstanding service to our customers

OFFERING THE BEST SERVICE

We are proud of the Softcat technology offerings, but the difference really lies in our people and the service they provide. Our staff are highly skilled and passionate about delivering for their customers. Every time.

98%
of customers say they value the quality of our advice

“ As an organisation Softcat cares passionately about two things – outstanding employee satisfaction and world-class customer service. We believe the former drives the latter.

Martin Hellawell, Chief Executive

HOW DO CUSTOMERS RATE OUR SERVICE?

99%+
satisfaction rating

Satisfied
22.7%

Very satisfied
76.4%

WE HAVE A PROVEN GROWTH STRATEGY

We are great believers in focus and so our strategy is simple.

OUR GOAL:

To be the UK's leading IT infrastructure solutions provider in terms of employee engagement, customer satisfaction and financial performance.

SELL MORE TO EXISTING CUSTOMERS

We continue to expand and deepen our relationships with existing customers We call it 'turning the white space purple'

+

WIN NEW CUSTOMERS

In 2016 we grew our customer base by 7 5% but still served less than one in five of organisations in our target market

DEVELOP OFFERING

We are not pioneers but continue to move fast as technology evolves to meet the emerging needs of both our customers and our partners

+

BUILD SCALE

From office openings, access to new graduate talent and to enhanced service capabilities, we will continue to lay the foundations for future growth

OUTSTANDING CUSTOMER SERVICE

SUMMARY RESULTS AND KPIs

The financial and operational key performance indicators shown below demonstrate the Company's progress against its strategic goals and its delivery of financial growth. These metrics and trends are referred to throughout this report and are discussed in detail in the Financial Review on pages 22 to 23.

FINANCIAL

Revenue £m

16	672 4
15	5961
14	504 8

Gross profit £m

16	1207
15	102 8
14	88 5

Gross profit margin %

16	18 0
15	172
14	175

Gross profit margin is defined as gross profit as a percentage of revenue

Adjusted operating profit £m

16	46 8
15	40 6
14	35 5

Adjusted operating profit is defined as operating profit before the impact of exceptional items and share-based payment charges

Adjusted diluted earnings per share p

16	191
15	16 5
14	141

Adjusted diluted earnings per share (EPS') is defined as diluted EPS before the impact of exceptional items and share-based payment charges

Cash balance £m

16	62 4
15	74 6
14	377

NON-FINANCIAL

Employee engagement score %

16	96
15	98
14	98

Employee engagement score is derived from responses to an annual survey of all staff

Gross profit per customer £'000

16	9 9
15	9 0
14	8 3

Gross profit per customer is defined as gross profit divided by customer numbers

Customer satisfaction %

16	99
15	99
14	99

Customer satisfaction is defined as the percentage of customers who rate themselves as either 'satisfied or 'very satisfied' in response to an annual survey (possible responses also include 'dissatisfied' and 'very dissatisfied') In 2016 the survey had 1,078 respondents (2015 1,088)

Customer numbers '000

16	12 2
15	11 4
14	10 7

Customer numbers are defined as the total number of unique entities that traded with Softcat during the period

DELIVERING SHAREHOLDER VALUE THROUGH ORGANIC GROWTH

“ 2016 was yet another year of profitable growth for Softcat. Cash generation remains strong and the business enters the new financial year with confidence borne of a successful track record and strong financial position.

Graham Charlton, Chief Financial Officer

View our KPIs on **page 21**

16%

Adjusted diluted EPS growth

Revenue and gross profit

Softcat achieved revenue growth of 12 8% during the year, up to £672 4m, with gross margin also rising to 18 0% (2015 17 2%) As a result gross profit grew strongly up 17 5% to £120 7m (2015 £102 8m) This includes the impact of £3 4m non-recurring procurement savings within cost of sales Excluding this impact, gross profit grew by 14 1% and gross margin was 17 4% and this underlying performance reflects continued progress against the Company s strategic goals of winning new customers and growing income from existing customers

Excluding the non-recurring savings, growth in gross profit margin was driven by the Company's ability to capitalise on customer demand for complex technology solutions, such as networking and security software and datacentre infrastructure This was true across all customer segments and growth was evident in both the public sector and corporate accounts In keeping with recent years income from public sector customers expanded as a proportion of total revenue to 29% (2015 26%)

Revenue mix across technology categories (software hardware and services) was largely unchanged Services income expanded slightly as a proportion of the total from 14% to 15% mainly reflecting strong growth in the resale of vendor service products as well as the expansion of the Company's internal services capability

Customer KPIs

Customer numbers were up 7 5% (2015 6 5%) reflecting the positive impact of the acceleration in new graduate hires into the sales force during the past 18 months

Gross profit per customer rose by 9 2%, or 6 2% when the procurement saving impact is adjusted out (2015 9 0%) The modest reduction in underlying gross profit per customer growth is expected during a period of high new customer additions due to dilution in average tenure The Company typically sees close correlation between customer tenure (which is also closely tied to sales force tenure) and GP per customer

Revenue remains well dispersed across the customer base, with the largest customer accounting for just 1% of total income

Adjusted operating profit

Adjusted operating profit increased by 15 2% to £46 8m, including a net benefit of £2 6m from the one-off procurement savings (after commission costs) Excluding the one-off benefit adjusted operating profit grew by 8 9% This reflects the rise in gross profit, partially offset by new costs of public company governance of £1 1m (2015 £0 2m) Excluding both the net impact of the one-off and the governance costs adjusted operating profit increased 11 0% This is a strong result in the context of significant investments in the form of new graduate account managers as well as services and technical staff

Adjusted operating profit margin of 7 0% (2015 6 8%) was up slightly on prior year due to the rise in gross profit margin

To support the Company's growth strategy a sixth office was opened during the year The new location in Glasgow welcomed its first graduate recruits during the third financial quarter Previous new openings in Bristol (2014) and Leeds (2015) both delivered good growth in 2016 In line with our existing operating model, the incremental non-staff costs of the Glasgow office do not represent a significant increase in the Company s cost base (<£0 3m p a)

Operating profit

Operating profit of £42 2m (2015 £39 6m) is 6 6% up on the prior period reflecting the growth in adjusted operating profit, counterbalanced by exceptional IPO costs of £3 7m (2015 £1 0m), and share-based payment charges of £0 9m (2015 £0 0m)

Corporation tax charge

The effective tax rate for 2016 was 21 8% (2015 21 8%) This reflects the offsetting impacts of a reduction in the blended standard rate of UK corporation tax applicable to the period from 20 7% to 20 0%, set against the non-deductible nature of some expenses related to the IPO The Company has a net deferred tax asset carried forward of £426k at the balance sheet date, mainly in respect of share-based payment reliefs which will be applied to future periods

Cash and balance sheet

Cash conversion was strong at 85 5% (2015 132%), reflecting the ongoing close management of working capital balances as the business continues to grow Cash conversion was exceptionally strong during 2014–2015 due to improved debtor and creditor management in those years In 2016 closing net assets excluding cash, as a percentage of revenue was constant year on year at 3 7% (2015 3 6%), demonstrating the maintenance of the lean position developed over the previous periods

The Company's balance sheet reflects the nature of the business being both simple and efficient As a result of our partnerships with distributors and vendors stock holdings are kept to an absolute minimum and the value of inventory recognised at year end mainly reflects goods in transit

The Company closed the year with an aggregate cash balance of £62 4m and no debt, after the payment of pre-IPO and interim dividends in the year totalling £43 5m

Dividend

A final dividend of 3 6p per share has been recommended by the Directors and if approved by shareholders will be paid on 16 December 2016 The record date will be 18 November and the shares will trade ex-dividend on 17 November

In line with the Company's stated intention to return excess cash to shareholders over time the Board has proposed a further special dividend payment of 14 2p per share If approved by shareholders at the Company's AGM this would also be paid alongside the final dividend in December 2016 and would bring total cash returned to shareholders since IPO to £38 5m

Graham Charlton
Chief Financial Officer
19 October 2016

RISK MANAGEMENT

The Board has established mechanisms to identify, evaluate and manage risks with the aim of protecting its employees, customers and partners and safeguarding the interests of the Company and its shareholders.

Our approach

The Directors confirm that they have carried out a robust assessment of the principal risks of the Company The Board has identified the risks facing the Company and considered the likely impact that each could have on the business This has enabled the Board to target risks on a prioritised basis

Ownership for each risk has been assigned to a member of the senior management team based upon alignment with operational duties Risk owners take responsibility for designing appropriate internal controls and policies to mitigate the likelihood and potential impact of the risk materialising

A risk register is maintained which captures the assessment of each risk together with existing controls and further actions in progress The risk register is reviewed periodically by both the Board and the senior management team to ensure it remains current as the business and its markets evolve, and that controls remain effective and actions are progressed An internal audit function has been established to support and enhance the Company's management of principal risks

Consideration of the risk profile is factored into strategic planning and annual budgeting

Principal risks and uncertainties

BUSINESS STRATEGY

Risk

Customer dissatisfaction

Softcat relies on its ability to provide superior customer service to drive growth

Potential impacts

- Reputational damage
- Loss of competitive advantage

Management and mitigation

- Graduate training programme
- Ongoing vendor training for sales staff
- Annual customer survey with detailed follow-up on negative responses
- Process for escalating cases of dissatisfaction to MD and CEO

Risk

Failure to evolve our technology offering with changing customer needs

Potential impacts

- Loss of customers
- Reduced profit per customer

Management and mitigation

- Processes in place to act on customer feedback about new technologies
- Training and development programme for all technical staff
- Regular business reviews with all vendors
- Sales specialist teams aligned to emerging technologies to support general account managers
- Regular specialist and service offering reviews with senior management

OPERATIONAL

Risk

Cyber security

Softcat collects and holds sensitive data on customers, employees and vendors

Potential impacts

- Inability to deliver customer services
- Reputational damage
- Financial loss

Management and mitigation

- Company-wide information security policy
- Appropriate induction and training procedures for all staff
- External penetration testing programme undertaken
- ISO 27001 accreditation

OPERATIONAL

Risk

Disruption to Managed Services operations

Potential impacts

- Customer dissatisfaction
- Business interruption
- Reputational damage
- Financial loss

Management and mitigation

- Operation of back-up operations centre and datacentre platforms
- Established processes to deal with incident management, change control etc
- Continued investment in operations centre management and other resources
- Ongoing upgrades to network
- Regular testing of disaster recovery plans

FINANCIAL

Risk

Profit margin pressure including rebates

Potential impacts

- Reduced margins

Management and mitigation

- Ongoing training for sales and operations teams to keep pace with new vendor programmes
- Rebate programmes are industry standard and not specific to the Company
- Rebates form an important albeit minority element of total operating profits

PEOPLE

Risk

Culture change

Softcat's culture is an integral part of our business model

Potential impacts

- Reduced staff engagement
- Negative impact on customer service

Management and mitigation

- Culture embedded in the organisation over a long history
- Branch structure with empowered local management
- Quarterly staff survey with feedback acted upon
- Regular staff events and incentives

Risk

Poor leadership

Strong leadership is required to maintain Softcat's culture and vendor relationships

Potential impacts

- Lack of strategic direction
- Deteriorating vendor relationships
- Reduced staff engagement

Management and mitigation

- Succession planning process
- Experienced and broad senior management team

For information on our viability statement, please turn to **page 67**

HIGHLY SUPPORTIVE ENVIRONMENT

We take our social responsibility seriously, particularly in the areas of charitable activity, looking after our employees and minimising our environmental impact.

Charities

The charities team at Softcat has been operating formally for almost a decade raising money for a number of worthy causes chosen by our staff and, where possible, for causes our staff are already directly involved in or affected by We aim to do this by getting as many of our people involved as possible, as well as customers and suppliers In order to fulfil what we see as a very important part of our corporate responsibility We feel it is important to promote awareness of hardship and worthy causes and to show how individuals and teams may come together to do something fantastic for the greater good

The primary purpose has been to help raise money and provide assistance for charities, which has resulted in over £1 5m raised since the beginning of the programme, and £240 000 alone in 2016 through both employee and Company initiatives The Company has also benefited enormously from the programme as this has helped to increase staff engagement employee satisfaction and staff development through the multitude of activities employees run, encouraged and supported by the Company

Many charities both large and small local and national, have also benefited from this fundraising to date, including Cancer Research UK Tuberous Sclerosis Association, Clatterbridge Cancer Charity, Helen & Douglas House Harry Mills Trust, EducAID Africa and Save the Children – Haiti In particular, we have worked very closely with Dreams Come True over the last four years and were delighted to reach £1m in total funds raised to date during 2016 Alongside this, we support focus events from organisations such as Comic Relief, for whom we have acted as a contact centre for the last three years on top of our own fundraising activities for the cause These events are great fun in and of themselves as well as helping those less fortunate than ourselves

In the year ahead we will continue to support Dreams Come True as well as other charities we have an existing relationship with In addition, we plan to develop some new themes for our efforts, including tackling homelessness in the regions close to our offices We will also work with the Bubble Foundation UK to raise funds for medical equipment toys and educational aids for young children and their families

Environmental activity

Softcat is not a manufacturer of products and, as a services-based organisation, our carbon footprint is limited However, we take our environmental responsibility seriously and try to contribute positively wherever possible across the business In our business this means doing lots of small things and setting an example to employees

Softcat's impact on the environment

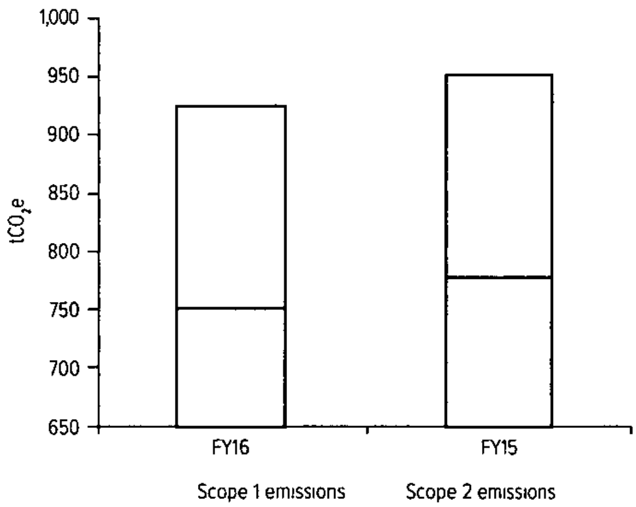
In each office we have a group of volunteers who care about the environment we call them the Green Team Environmental issues are of such importance at Softcat that the Green Team can boast that its ranks include our CEO, Martin Hellawell The Green Team, alongside management, works together to raise employee awareness around environmental issues

Decisions at Softcat are influenced by our care and passion for the environment, from our choice of low emission pool cars to our selection of energy-efficient office equipment Softcat uses LED lighting and thin clients instead of standard energy-hungry desktops and has installed technology that automatically powers down devices when not in use We recycle paper plastic and cans and have on-site composting at the Marlow office All Softcat offices (excluding Glasgow) are ISO 14001 and ISO 50001 certified Glasgow will undergo testing in the new financial year

GHG emissions

Our emissions have been calculated using the GHG Protocol Corporate Accounting and Reporting standard (revised edition), together with the latest emission factors from DEFRA and DECC

- Scope 1 comprises emissions from our pool cars and natural gas burnt for heating in our owned buildings
- Scope 2 comprises our energy consumption in leased and owned buildings



We have chosen to present our total emissions relative to the average number of employees, in order to represent how our emissions are impacted by the growth of our business We are pleased to report a 13 8% reduction in emissions per employee in 2016

Intensity ratios

	2016	2015
tCO_2e/£m	1 05	1 32
tCO_2e/employees	1 37	1 59

Softcat in the community

As well as our charitable activities Softcat endeavours to play a positive and active role in the local communities where we operate This takes the form of helping several local sports teams and associations, providing volunteers for a number of activities and events and supporting bodies like the local Chamber of Commerce

1 2

3

1 Mayball event
2 Mayball event Softcat charity leaders with Jack Whitehall
3 Softcat Marlow charity day

Looking after our employees

Softcat strives to provide a highly supportive environment for our most important assets – our employees We are committed to equality and diversity and try to provide the very best in employee welfare We provide excellent training development opportunities strong feedback mechanisms for employees on their performance and frequent communication between employees and the senior team Regular face-to-face communication between the organisation and its employees is seen as paramount and includes a weekly all-Company meeting The Company provides a wide range of benefits, including weekly on-site visits by a doctor and access to a plethora of Softcat sporting and social activities If any member of the Softcat team or their immediate family faces personal difficulties, we look to support them in any way we can

Gender breakdown

A breakdown of the Board senior managers and all employees is shown below

	2016				2015			
	Number[1]		%		Number[1]		%	
	Male	Female	Male	Female	Male	Female	Male	Female
Directors	5	1	83	17	5	0	100	0
Senior managers	10	1	91	9	10	1	91	9
Total permanent employees	649	278	70	30	565	229	71	29

Note
1 At 31 July 2016 and 31 July 2015

At Softcat we remain committed to gender diversity and acknowledge the 'Davies Report' recommendation that at least 25% of Board members should be female The Company recognises the benefits that it gains from having a diverse workforce throughout the organisation including at Board level Diversity in its many forms including but not limited to the skills industry experience race ethnicity and gender of the workforce continues to enable the Company to maintain its competitive advantage

The Strategic Report has been approved by the Board of Directors and is signed on its behalf by

Graham Charlton
Chief Financial Officer
19 October 2016

“ The Board is committed to promoting the highest standards of corporate governance.

Brian Wallace, Chairman

A STRONG GOVERNANCE FRAMEWORK

Dear shareholder,

I am pleased to present the Company s Corporate Governance Report for the year ended 31 July 2016 This review and the reports of the Audit Remuneration and Nomination Committees that follow summarise the Board's activities during the year

The Board is committed to promoting the highest standards of corporate governance as we believe this supports the achievement of the Company's strategy and also creates and preserves value for shareholders

This year has been one of positive change for Softcat In November 2015, our Company successfully listed on the London Stock Exchange As part of the preparation for the IPO the Board appointed three Non-Executive Directors, bringing a wealth of public company experience and industry knowledge The Board believes that these appointments enhance the leadership of the business as it begins its journey as a public company and provide effective support to the executive team Biographical details for all Board members can be found on pages 30 to 31

Since listing, the Board has continued to strengthen the Company's governance and risk management structure The Board has embarked on an internal audit review programme and through the Audit Committee has approved a plan for the next two financial years with the newly appointed outsourced internal auditor The Board has also reviewed the Company's risk culture and appetite to ensure that risk and strategy are appropriately aligned and to support the viability statement, published in this report on page 67

The Remuneration Committee has worked to establish and refine appropriate remuneration structures for the executive team and all employees and the Committee is pleased to present the first Remuneration Policy which is set out on pages 47 to 56

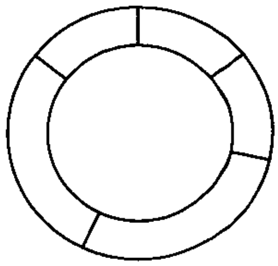
The Nomination Committee has been primarily focused on understanding the key roles within the business and planning for succession at executive and leadership team levels, recognising the value this has for both our employee engagement and motivation and in supporting our strategic goals

The following report explains the main features of the Company's governance structure to enable a greater understanding of how the principles and provisions of the UK Corporate Governance Code have been applied and to provide insight into how the Board and management team run the business for the benefit of shareholders

I hope that you will find this Corporate Governance Report both helpful and informative and we welcome any feedback you may have

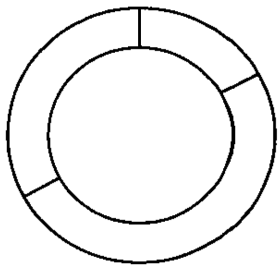
Brian Wallace
Non-Executive Chairman
19 October 2016

Directors' experience/backgrounds



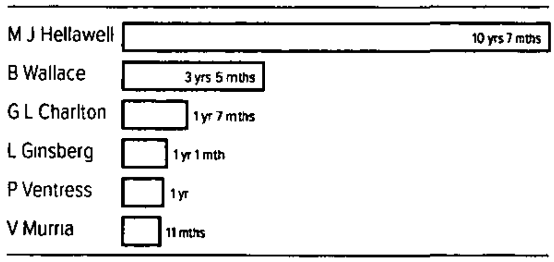
Finance	3
Marketing	3
Operations	6
Management	6
Technology	3

Board composition



Chairman (independent on appointment)	17%
Independent Non-Executive Directors	50%
Executive Directors	33%

Tenure of Directors



MAKING IT WORK WITH OUR TEAM

2016 was another year of evolution for the Softcat Board, which now has a structure and membership fully compliant with the Code.

BRIAN WALLACE NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE BOARD

Appointed to the Board
8 May 2013

Committee membership
Nomination Committee (Chair)
Disclosure Committee

Brian joined Softcat in May 2013 as a Non-Executive Director and was appointed Chairman in July 2014 He is also chairman of Travelodge and a non-executive director of FirstGroup plc Previously Brian held executive board positions with a number of FTSE 100 and FTSE 250 companies most recently as group finance director of Ladbrokes plc Prior to rejoining Ladbrokes, he was group finance director and deputy chief executive of Hilton Group plc A Chartered Accountant, he began his career at Price Waterhouse and went on to perform senior finance roles at Schlumberger APV and Geest He also previously served as a non-executive director at Scottish and Newcastle plc Hays plc, Camelot Entertainments plc and the Miller Group

MARTIN HELLAWELL CHIEF EXECUTIVE OFFICER

Appointed to the Board
24 March 2006

Committee membership
Disclosure Committee

Martin joined Softcat in 2006 as Managing Director and was appointed Chief Executive Officer in 2014 Previously, Martin spent 13 years at Computacenter plc, where he was responsible for the marketing function ran Computacenter's French subsidiary and led acquisitions in the United Kingdom, Belgium and Germany He was part of Computacenter s initial public offering team in 1998, ran operations chaired Computacenter's international joint venture ICG, and was chief operating officer of the dot-com spin-off Biomni Limited Martin has also worked for Specialist Computer Centres PLC and for Canalys com Limited as an independent consultant. Martin started his career at Miles 33, a software solutions provider for the publishing industry Martin earned a BA (Hons) in management studies (marketing) and French from Lancaster University

GRAHAM CHARLTON CHIEF FINANCIAL OFFICER

Appointed to the Board
19 March 2015

Committee membership
Disclosure Committee

Graham joined Softcat in January 2015 Previously he spent four years as finance director at comparethemarket com (a trading name of BISL Limited) Prior to that, Graham spent one year as finance director at See Tickets (the trading name of See Group Limited) and over five years in various roles including group financial accountant finance manager and finance director, decision analytics, at Experian Ltd Graham is a Chartered Accountant and began his career with Andersen Graham earned an MA in natural sciences from King's College the University of Cambridge

LEE GINSBERG
SENIOR INDEPENDENT DIRECTOR

Appointed to the Board
16 September 2015

Committee membership
Audit Committee (Chair), Nomination Committee, Remuneration Committee

Lee joined Softcat in September 2015 He is also a non-executive director at Mothercare plc and Trinity Mirror plc a non-executive director and senior independent director at On The Beach Group plc, a deputy chairman and senior independent director at Patisserie Valerie Holdings plc and non-executive chairman at Oriole Restaurants Limited Prior to joining Softcat he spent ten years as chief financial officer of Domino's Pizza Group plc and held the post of group finance director at Health Club Holdings Limited, formerly Holmes Place plc, where he also served for 18 months as deputy chief executive Lee earned a Bachelor of Accounting (Hons) from UNISA (University of South Africa) and qualified as a Chartered Accountant at Price Waterhouse

PETER VENTRESS
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board
1 October 2015

Committee membership
Audit Committee, Nomination Committee, Remuneration Committee (Chair)

Peter joined Softcat in October 2015 He is also deputy chairman and senior independent director of Galliford Try plc, a non-executive director of Premier Farnell plc and a director of BBA Aviation plc Prior to joining Softcat he spent five years as chief executive officer of Berendsen plc held several senior executive roles, including international president, at Staples Inc , held several senior executive roles including chief executive officer, at Corporate Express NV prior to its acquisition by Staples Inc and held a number of other general management positions across a number of different businesses in a variety of industries Peter earned an MA in modern history and modern languages from the University of Oxford and an MBA from the Open University

VIN MURRIA
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board
3 November 2015

Committee membership
Audit Committee, Nomination Committee, Remuneration Committee

Vin joined Softcat in November 2015 She is also a non-executive director at Zoopla Property Group Plc, and a partner at Elderstreet Investments Prior to joining Softcat, Vin spent seven years as the founder and chief executive officer at Advanced Computer Software plc prior to its acquisition by Vista Equity Partners in 2015, and five years as chief executive officer of Computer Software Group plc prior to its acquisition by HG Capital and then Hellman & Friedman in 2007 Previously Vin was also a non-executive director at Chime Communications plc Greenko plc and chief operating officer at Kewill Systems plc

Named Entrepreneur of the Year in 2014 at the Grant Thornton Quoted Company Awards and Woman of the Year at the 2012 Cisco Everywoman Technology Awards Vin is a successful entrepreneur with a strong background in technology-based businesses Vin holds a Bachelor (Hons) in computer science and has also completed an MBA and a DBA

Compliance with the UK Corporate Governance Code

Prior to the IPO, the Board worked to ensure that it had established a framework of best practice which would enable the Company to operate at the highest standards of corporate governance In doing so, the Board has continued to take guidance from the Financial Reporting Council s UK Corporate Governance Code 2014 (the 'Code') and, with the following exceptions has maintained compliance with each of its requirements

i) *Provision B 6 1 – The board should state in the annual report how performance evaluation of the board, its committees and its individual directors has been conducted*

ii) *Provision B 6 3 – The non-executive directors led by the senior independent director, should be responsible for performance evaluation of the chairman taking into account the views of executive directors*

Regarding the above provisions B 6 1 and B 6 3, due to the short timeframe between IPO and the year end it was considered that it would be more appropriate and worthwhile to assess the performance of the Board, its Committees and the Chairman after a full year of listing

iii) *Provision E 1 1 – The chairman should ensure that the views of shareholders are communicated to the board as a whole The chairman should discuss governance and strategy with major shareholders Non-executive directors should be offered the opportunity to attend scheduled meetings with major shareholders and should expect to attend meetings if requested by major shareholders The senior independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders*

The Board is committed to effective and meaningful communication with shareholders and the Chairman ensures the views of shareholders are communicated to the Board through the CEO and CFO s meetings with shareholders and through investor roadshows In addition, shareholders are encouraged to attend the Company s AGM on 8 December 2016 and the Board welcomes any meetings with individual shareholders if requested Although no shareholders have requested any meetings to date, in the next twelve months, the Chairman intends to meet with shareholders where possible to discuss governance and strategy

"

The Board is committed to effective and meaningful communication with shareholders.

Brian Wallace, Chairman

A copy of the Code is available from the Financial Reporting Council's website www frc gov uk

Board structure and roles

The varying roles of Board members, including the Chairman and the CEO (and the separation of these two roles) the Non-Executive Directors and the Senior Independent Director are outlined below, along with that of the Company Secretary

Chairman

The principal role of the Chairman is to lead the Board effectively and provide direction and focus to its discussions through setting agendas and ensuring the requisite business, strategic and governance issues are covered throughout the year The Chairman is the guardian of the Board's decision-making processes and promotes effective probity of issues through a culture of openness and debate The Chairman was deemed independent upon appointment to this position The Chairman's experience of the IT sector has been gained from his membership of the Softcat Board since 2013 and of public limited companies, both as an executive and non-executive director over many years which has enabled the Board to function efficiently and effectively throughout the year

The Chairman's other significant commitments are indicated in his biography on page 30

Chief Executive Officer ('CEO')

Martin Hellawell, who has spent over a decade running the Company leads the senior management team and develops and oversees the implementation of all Board-approved actions, the strategic direction of the Company and its commercial objectives

Separation of Chairman and CEO roles

In compliance with the Code, the roles of Chairman and CEO are clearly distinguished and the duties of each were set out in the Company's Prospectus at IPO The Board recognises that sufficient separation between these positions enhances the independence and objectivity of the Board and that no single person has unfettered authority over the Company

Non-Executive Directors

Each Non-Executive Director of the Company is deemed independent by the Board as considered against the criteria set out in provision B11 of the Code and provides a crucial function in challenging the Board's decisions and discussions in an unbiased and objective way The Non-Executive Directors bring a wealth of experience, skills and knowledge to the Board from across the IT sector and a number of large listed companies During the year the Chairman met with the Non-Executive Directors, without the Executive Directors present, on two occasions

Senior Independent Director ('SID')

Lee Ginsberg has been the Senior Independent Director of the Board since his appointment Lee receives updates from the Executive Directors on any issues raised by shareholders and receives briefings from the Company Secretary on corporate governance issues which relate to investors In this role, he acts as an intermediary for the other Directors and welcomes any contact from shareholders on Company issues

Company Secretary

Capita Company Secretarial Services Limited has served as the Company Secretary since 19 October 2015 and is responsible for providing guidance to the Board as a whole and to the Directors individually with regard to their duties, responsibilities and powers and ensuring the proper administration of the proceedings and matters relating to the Board, the Company and the shareholders of the Company in accordance with applicable legislation and procedures

The Board and each Director has unlimited access to the Company Secretary, who advises the Board and the Board Committees on relevant matters, including compliance with the Company's policies and procedures, relevant legislation and regulation, including the Listing Rules and the UK Corporate Governance Code and other governance standards The Board is of the opinion that the Company Secretary is competent and has the requisite qualifications and experience to effectively execute its duties

Board composition and diversity

A list of the Company's current Directors, including their biographies, can be found on pages 30 to 31

At IPO the Board comprised three Independent Non-Executive Directors two Executive Directors and the Chairman, who was independent on appointment Each Director has an extensive set of skills, experience and knowledge in a number of relevant sectors and careers which is of great value to the Company

The Company considers that each Non-Executive Director is independent as outlined in the Code and is therefore able to exercise independent judgement

The Company recognises the benefits that it gains from having a diverse workforce throughout the organisation including at Board level Diversity in its many forms, including, but not limited to the skills industry experience race ethnicity and gender of the workforce continues to enable the Company to maintain its competitive advantage In preparation for the IPO, the Board was refreshed to broaden the backgrounds of the Directors and ensure the Company benefited from the diversity of each member The Company now believes that the Board of Directors is well balanced effective and capable of meeting its strategic and operational needs for the future and will continue to promote its growth and success

Whilst considering succession planning the Board and the Nomination Committee routinely review the structure, size and composition of the Board and its Committees The Nomination Committee will lead the process for Board appointments, through its assessment of candidates and recommendation to the Board for any approval Further details are included in the Nomination Committee Report on pages 40 to 41

As the Board is committed to making appointments based on merit, it has decided not to impose a quota on the gender balance of the Board It does however, remain committed to ensuring that the Board and the senior management team reflect the diverse nature of its workforce and customers when considering appointments

A breakdown of the gender diversity of the Company, including total staff, senior managers and Directors can be found on page 27

Board functioning

Role of the Board

The Board is responsible for the oversight of the Company through deciding the strategic objectives and governance structure required to promote the long-term success of the Company and increase shareholder value The role of the Board is outlined in the 'Matters Reserved for the Board' document which details those duties which are the sole responsibility of the Board of Directors In line with best practice, certain authorities have been delegated to the Committees to undertake decisions and recommendations on the Board's behalf Further information on the Committees of the Board can be found below and specifically in the Committee Reports on pages 36 to 44

Board programme

The Chairman with support from the Board sets the agendas for Board meetings to ensure that appropriate regulatory compliance has been met and the Company's strategic objectives for the year ahead are the central focus

> **"The Company recognises the benefits that it gains from having a diverse workforce throughout the organisation including at Board level.**
>
> **Brian Wallace**, Chairman

Board functioning continued

Board and Committee meeting attendance

Since IPO the Directors have held five face-to-face Board meetings at a number of the Company's different offices across the country including a strategy meeting in February 2016 In line with the Company's vision and ethos to be open and transparent and to engage fully with its employees the Board has also held question and answer sessions with and made presentations to staff at each office location visited The Company held three meetings of each of the Audit and Remuneration Committees and two meetings of the Nomination Committee

The table below shows the Directors and Committee members who held the position during the year and Board and Committee attendance subsequent to the IPO

		Meetings attended since IPO			
Name	Date of resignation	Board	Audit Committee	Remuneration Committee	Nomination Committee
M J Hellawell	–	○○○○○	–	–	–
B Wallace	–	○○○○○	–	–	○○
G L Charlton	–	○○○○○	–	–	–
L Ginsberg	–	○○○○○	○○○	○○○	○○
P Ventress	–	○○○○○	○○○	○○○	○○
V Murria	–	○○○○○	○○○	○○○	○○
P D J Kelly	15 October 2015	–	–	–	–
C W Brown	15 October 2015	–	–	–	–

○ Attended ○ Did not attend

Committees of the Board

In line with best practice recommendations, the Board established four Committees to which it has delegated authority to consider matters in detail before ultimate approval by the Board The full terms of reference for each Committee are available in the investor relations section of the Company's website at www softcat com Reports on the role, composition and activity undertaken during the year of each Committee, with the exception of the Disclosure Committee, are detailed on pages 36 to 44

Audit Committee

The Audit Committee assists the Board in discharging its responsibilities with regard to ensuring appropriate and effective external and internal audit and compliance arrangements, establishing suitable fraud prevention and whistleblowing arrangements and ensuring that the Annual Report and Accounts are reviewed and scrutinised In accordance with the Code, each member of the Committee is an Independent Non-Executive Director and the Committee has sufficient relevant and recent financial experience in the sector the Company operates in The Committee is chaired by Lee Ginsberg and more detail can be found in the Committee Report on pages 36 to 39

Nomination Committee

The Nomination Committee assists the Board in discharging its responsibilities relating to the review of the size, composition and make-up of the Board and through leading the process for Board appointments to ensure an appropriate balance of skills experience, availability, independence and knowledge of the Company is maintained The Committee comprises three Independent Non-Executive Directors and the Non-Executive Chairman, who was independent on appointment and is therefore in compliance with the Code The Committee is chaired by Brian Wallace and more detail can be found in the Committee Report on pages 40 to 41

Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to remuneration, including advising the Board on its overall Remuneration Policy It also undertakes to determine the individual remuneration and benefits package of each of the Executive Directors The Committee comprises three Independent Non-Executive Directors and is therefore fully compliant with the Code The Committee is chaired by Peter Ventress and more detail can be found in the Committee Report on pages 42 to 61

Disclosure Committee

The Disclosure Committee was formed by the Board following the introduction of the Market Abuse Regulations in July 2016 and has responsibility for identifying price sensitive information and determining on a timely basis the disclosure treatment of such information The Committee comprises the Chairman and the Executive Directors and the Committee members present at a meeting will elect one member to chair the meeting The Committee did not meet prior to the year end

Directorate matters

Appointment and tenure

Each Non-Executive Director is appointed under the terms set out in their letter of appointment, including the expected time commitment required of them On appointment, each Non-Executive Director confirmed that they had sufficient time to devote to their duties as a Director of the Company The appointment letters are available for inspection at the Company's registered office

The Non-Executive Directors are appointed for a term of three years, subject to earlier termination, including provision for early termination by either the Company or the Non-Executive Director on three months' notice In accordance with the Company's Articles of Association ('the Articles') all Directors must retire by rotation and seek re-election by shareholders every three years, however, it is intended that the Directors will each retire and submit themselves for re-election by shareholders annually

Directors' induction and training

The Chairman, with the support of the Company Secretary is responsible for the induction of new Directors and the ongoing development of all Directors The training needs of the Directors are periodically discussed at Board meetings and briefings are arranged on issues relating to corporate governance and other areas of importance The Directors regularly have the opportunity to visit various Company offices around the country and meet members of the senior management team to fully understand the business, culture and ethos of the Company

The Board is kept up to date on legal, regulatory and governance matters by the Company Secretary through presentations at Board meetings In addition external advisers are also given the opportunity to present to the Board on relevant matters Additional training is available on request, where appropriate, so that Directors can update their skills and knowledge as applicable

Independent professional advice

All Directors may seek independent professional advice in connection with their roles as Directors at the expense of the Company All Directors have access to the advice and services of the Company Secretary The Company has provided both indemnities and directors and officers' insurance to the Directors in connection with their duties and responsibilities

Director election/re-election

Following recommendation from the Nomination Committee, the Board considers that all Directors continue to contribute effectively are committed to and play active roles in their appointment and have sufficient time available to perform their duties As set out in the Nomination Committee Report on page 41 and in accordance with the Code, all of the Directors will be submitting themselves for re-election at the 2016 Annual General Meeting ('AGM')

Directors' conflicts of interest

In accordance with the Companies Act 2006 (the 'Act') and the Company's Articles of Association, the Board may authorise any matter that otherwise may involve any of the Directors breaching his or her duty to avoid conflicts of interest. The Board has adopted a procedure to address these requirements which includes the Directors completing detailed conflict of interest questionnaires The matters disclosed in the questionnaires are reviewed by the Board following the Directors' appointments and annually thereafter and, if considered appropriate authorised in accordance with the Act and the Articles

Board, Committee and individual Director evaluation

The Board recognises the importance of a formal and rigorous evaluation process to enable objective review of the functioning of the Board and its Committees An internal evaluation shall be conducted annually and an external provider shall be engaged to complete an external review every three years in line with the Code

As outlined above, due to the short timeframe between IPO and the year end it was considered that it would be more appropriate and worthwhile to assess the performance of the Board, its Committees and the Chairman after a full year of listing However, during the period, the Chairman has maintained regular contact and dialogue with the Non-Executive Directors

Shareholder engagement

Responsibility for shareholder relations rests with the Chairman CEO CFO and SID Collectively, they ensure that there is effective regular and clear communication with shareholders on matters such as governance and strategy In addition, they are responsible for ensuring that the Board understands the views of shareholders on matters such as governance and strategy The Board is supported by the Company's corporate brokers with whom we are in regular dialogue The CEO and CFO attend formal meetings with investors to discuss the Group s interim and final results During intervening periods the Company will continue its dialogue with the investor community by meeting key investor representatives and holding investor roadshows

The Directors will be available at the Company s AGM to answer any queries and look forward to having the opportunity to meet with shareholders

Accountability

Internal controls and procedures

The Company has in place a comprehensive system of internal controls, designed to ensure that risks are mitigated and that the Company is able to fulfil its objectives The Board has responsibility for reviewing and approving the effectiveness of internal controls operated by the Company, including financial, operational and compliance controls, and risk management

The Audit Committee, through authority delegated by the Board, oversees the activities of the Company's internal and external auditor The Committee reviews and approves any Company disclosures on internal controls and risk management in addition to compliance, whistleblowing and fraud

A review of the Company's risk management approach is further discussed in the Audit Committee Report on page 38 For detail on the management and mitigation of each principal risk see pages 24 and 25 The Group's viability statement is detailed on page 67 of the Directors' Report Please also refer to pages 36 to 39 for further detail in relation to the Audit Committee's role

Brian Wallace
Non-Executive Chairman
19 October 2016

Lee Ginsberg
Chairman, Audit Committee

AUDIT COMMITTEE REPORT

Members of the Audit Committee

L Ginsberg (Chair)
P Ventress
V Murria

Attendance of the Audit Committee

Name	Committee attendance 2016
L Ginsberg	○○○
P Ventress	○○○
V Murria	○○○
Total meetings held	○○○

○ Attended ○ Did not attend

Dear shareholder,

On 18 November 2015, the Company completed its successful initial public offering ('IPO') and entered the FTSE 250 index of the London Stock Exchange in March 2016 As a result the Board established an Audit Committee (the 'Committee') which includes each Independent Non-Executive Director as a member and is in line with the UK Corporate Governance Code (the 'Code') Since the IPO the Committee has undertaken a review of the Company s relevant audit and risk framework and approved new policies and structures which help support the Company being newly listed

The implementation of the EU Audit Directive and Regulation in the UK was also considered and the Company's non-audit services policy accurately reflects these requirements This is explained in more detail on page 39

Lee Ginsberg
Chairman of the Audit Committee

Committee composition and meeting attendance

The composition of the Committee is in compliance with the Code, which provides that all members should be Independent Non-Executive Directors The Committee held three meetings during the year and attendance is disclosed on page 36

In line with the requirements of the Code and the FRC's Guidance on Audit Committees, Lee Ginsberg the Committee Chairman, has recent and relevant financial experience through his previous employment in senior financial positions at large companies including listed companies, and is a Chartered Accountant The Board is also satisfied that the combined knowledge and experience of its members within the Company s sector enable the Committee to exercise its duties effectively

The Company Secretary is secretary to the Committee and attends all meetings Other attendees at Committee meetings may differ from time to time and, upon invitation from the Committee include Brian Wallace (Chairman), Martin Hellawell (CEO) Graham Charlton (CFO) and other members of the senior management team The Committee will also invite representatives from the internal auditor (Grant Thornton LLP) and the external auditor (Ernst & Young LLP)

Role and responsibilities

The Committee assists the Board with its responsibility regarding financial reporting internal controls and risk management systems, compliance, whistleblowing and fraud, and internal and external audit The Committee s responsibilities include but are not limited to

- reviewing and monitoring the integrity of the Company's financial statements and announcements including a review of the significant financial reporting judgements contained therein, assessing the basis on which the Company has been determined a going concern assessing the principal risks facing the Company and the prospects of the Company when considering the viability statement reported to shareholders, and a judgement on whether the financial reports are fair, balanced and understandable,
- reviewing accounting policies accounting treatments and disclosures in the financial reports,
- assessing the Company's internal control and risk management systems,
- overseeing and assessing the Company s management of all significant risks
- reviewing the adequacy and security of the Company's arrangements for its employees regarding possible wrongdoing in financial reporting or other matters, fraud detecting procedures and bribery prevention systems and controls
- monitoring and reviewing the effectiveness of the internal audit function in the context of the overall risk management system,
- overseeing the Company's relationship with its external auditor,
- making recommendations to the Board as to the appointment or reappointment of the external auditor, reviewing its terms of engagement including audit fees, engagement for non-audit services, and monitoring the external auditor's independence objectivity and effectiveness,
- reviewing the scope of the external audit, its findings and the effectiveness of the audit process and
- reviewing the overall relationship with the external audit firm, including the provision of non-audit services, to ensure that independence and objectivity are maintained

Further details on the Committee's duties can be found in its terms of reference which are available on the Company's website, www softcat com

Main activities

Since the IPO the Committee has been focused on the following i) monitoring the risk management framework, including the adoption of a risk register by the Company, ii) approval of the external audit engagement fees and 2016 audit plan iii) the appointment of the internal auditor, review and approval of the relevant internal audit areas for the year and approval of the internal audit engagement and fees for the 2016/17 financial year iv) considering and making recommendations to the Board relating to the Company's Half-Yearly Report, Annual Report and the financial statements, and v) review and approval of the Committee's terms of reference, as well as policies regarding risk management, external auditor independence and non-audit services

The Committee also undertook a review of the Company's whistleblowing policy and procedures, the Anti-Bribery Policy and the Code of Conduct

“Since the IPO the Audit Committee has focused on monitoring the risk management framework and the appointment of the internal auditor.

Lee Ginsberg, Chairman of the Audit Committee

Significant issues

The principal accounting policies applied in the preparation of the annual financial statements are detailed on pages 77 to 82 If applicable, further detail in the notes to the financial statements relating to the below issues is referenced as indicated

The Committee, through a process of consultation with both management and the external auditor, considered the following significant audit risks relating to the Company s financial statements

Significant audit risks	Steps taken by the Committee
Inappropriate revenue recognition	The Committee has reviewed the Company's revenue recognition policy and discussed in detail with management and members of the finance team the processes applied to accurately record revenue at period ends The Committee also receives detailed monthly reporting on business performance to include revenue recognition data and trends The Committee discusses the performance and data trends regularly with the CFO The Committee has concluded that the timing of recognition is in line with current IFRS requirements
Rebates	The Committee has taken steps to understand the nature and quantum of supplier rebates received by the Company The Committee receives management information on rebates accrued as part of monthly performance reporting and monitors trends against prior period results The Committee is satisfied in the Company's ability to accurately record rebates earned within the financial period

Going concern and viability statement

At its meeting in March 2016 the Committee received a report prepared by the Company s finance team which addressed the new viability statement requirement This report enabled the Committee to evaluate a stress test of the Company's three-year profit and loss balance sheet and cash flow plan against the impact of key risks selected from the risk register The strength of the Company's balance sheet was comfortably able to absorb the impact of the stress test Accordingly, the Committee has considered and recommended to the Board the viability statement which seeks to examine the Company's longer-term solvency and viability and which is detailed on page 67 It was agreed that three years would be an appropriate timeframe on which to base the long-term viability statement as it is in line with the strategic planning process undertaken by the Company and reflects the pace of change in the technology sector

Internal controls and risk management

The Board believes that effective risk management underpins the running of a successful business and is integral to the objective of constantly adding value to the Company It has adopted an integrated and effective risk management framework which grades key risks by reference to their likelihood and potential impact Risks are divided into functional areas under the ownership of the executive leadership team Each member is responsible for the management of risks in their area, including the assessment of potential impact and likelihood and defining necessary actions and controls for implementation

The Committee and the Board have a clear process for identifying, evaluating and managing the significant risks faced for the year under review and up to the date of the Annual Report The process is regularly reviewed by the Board and is in accordance with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and the requirements of the Code

The Board retains full and effective control over the Company and is responsible for monitoring management's implementation of Board decisions and strategies The Board ensures that the Company complies with the relevant laws regulations and codes of business practice The Committee assists the Board, by routinely reviewing and monitoring the risk management process and Company internal control systems

Internal audit

During the period, the Committee determined that to ensure objective and effective accountability, this function would be outsourced Following a competitive tender, Grant Thornton LLP was appointed as the Company's internal auditor The Committee identified the key internal audit areas and agreed a two-year internal audit plan to include but not be limited to procure to pay, accounts receivable rebates anti-bribery and fraud and cyber and information security The internal audit function will be regularly monitored and reviewed by the Committee in the context of the Company s overall risk management system

External audit

During the year, Ernst & Young LLP ('EY') has acted as the Company's external auditor and has been appointed since July 2013

The Committee is responsible for overseeing the external auditor on behalf of the Board, including approving the annual audit work plan and audit fee

External auditor independence and effectiveness

The Committee is committed to ensuring that the Company receives an effective, objective and independent audit and is responsible for ensuring this is delivered through an annual evaluation The Committee has reviewed the independence, objectivity and effectiveness of the external auditor and considers that EY continues to possess the skills and experience required to fulfil its duties effectively and efficiently The Committee's review of the effectiveness of EY as the external auditor is based on discussions with the senior finance team the robustness of the audit, the quality of reporting to the Audit Committee and reports published by the FRC

EY has confirmed that in its professional judgement it is independent within the meaning of regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired

As part of the Committee s assessment of the external auditor, separate meetings have been held between the Non-Executive Directors and the external auditor, without management being present

Audit tender and audit partner rotation

As a result of the UK s implementation of the EU's mandatory firm rotation requirements and the Competition and Markets Authority Statutory Audit Services Order ('CMA Order') the Company is required to ensure that the external auditor's contract is put out to tender at least every ten years, with the proviso that no single firm may serve as the Company's auditor for a period exceeding 20 years The Committee will consider the appropriate timing to conduct a formal tender process in accordance with these requirements while continuing to assess the effectiveness and independence of the external auditor In accordance with UK ethical standards (which allow an additional two years of flexibility if considered necessary to maintain audit quality), Karl Havers could serve until the financial year commencing 1 August 2017 as a key audit partner

Reappointment of auditor

The Committee has considered the objectivity and independence of the auditor and has determined that it is satisfied with the service provided by EY Accordingly, it has recommended to the Board that EY is reappointed as the Company's external auditor and that a resolution is included in the 2016 Notice of AGM for consideration by shareholders

Non-audit services

During the year, the Committee approved a non-audit services policy which took into account the implementation of the EU Audit Directive and Regulation and the FRC Ethical Standards The policy recognises that in certain circumstances it may be appropriate and cost efficient to engage its external auditor to undertake non-audit services, whilst not compromising its independence or objectivity The Committee considered and approved appropriate total annual monetary thresholds for non-audit services and determined appropriate approval systems and controls

During the year, fees for the non-audit service work carried out by EY were 275% of the audit fee, reflecting the considerable services EY provided as reporting accountant in connection with the preparation of the prospectus on IPO The Company considered that hiring EY was in the best interests of shareholders due to their expertise and experience in such services and their in-depth knowledge and understanding of the business In addition certain elements of the work were required to be carried out by the auditor To maintain the external auditor's independence and objectivity an independent partner was appointed to lead on these services

Fees

Refer to note 3 to the consolidated financial statements on page 83 for details of the remuneration of the auditor

CMA Order

During the year, the Company has complied with the CMA Order The work of the Committee in discharging its responsibilities is explained in more detail above

Fair, balanced and understandable

The Committee recognises the importance of the Company's Annual Report to be fair balanced and understandable The Committee has therefore reviewed the Annual Report and the process for its preparation and considered it in light of monthly management information and Board reports received during the year As a result the Committee has recommended to the Board that it confirms the Annual Report and Accounts in its entirety is fair balanced and understandable

Signed on behalf of the Audit Committee

Lee Ginsberg
Chairman of the Audit Committee
19 October 2016

Brian Wallace
Chairman, Nomination Committee

Members of the Nomination Committee

B Wallace (Chair)
L Ginsberg
P Ventress
V Murria

Attendance of the Nomination Committee

Name	Committee attendance 2016
B Wallace	OO
L Ginsberg	OO
P Ventress	OO
V Murria	OO
Total meetings held	OO

O Attended O Did not attend

NOMINATION COMMITTEE REPORT

Dear shareholder,
I am pleased to present the Company's first report on the activities of the Nomination Committee (the 'Committee') for the year to 31 July 2016 The Committee was established as part of the governance framework adopted by the Company prior to the initial public offering of its shares on the premium segment of the London Stock Exchange in November 2015 (the 'IPO')

In preparation for the IPO process, the membership of the Board was refreshed and a number of Committees were established The Committee believes that these appointments and the appointment of the Independent Non-Executive Directors have provided additional financial, strategic, technical and industry skills and expertise to both the Board and its Committees During the year the Committee has been predominantly focused on succession planning and talent management for the Board and the Company as a whole

Brian Wallace
Chairman of the Nomination Committee

Committee composition and meeting attendance

The Committee comprises the Chairman and all the Non-Executive Directors In the last year, the Committee has met twice and attendance at those meetings is detailed on page 40 Biographies of each member are shown on pages 30 and 31

The Company Secretary is secretary to the Committee and attends all meetings Other attendees at Committee meetings may vary from time to time and upon invitation from the Committee include the Executive Directors and key senior employees

Role and responsibilities

The Committee is responsible for evaluating the structure, size and composition of the Board and its Committees, and gives consideration to the skills knowledge experience and diversity within each The results of the annual Board performance evaluation process that relate to the composition of the Board will be taken into consideration by the Committee in making this assessment The Committee also considers succession planning of Directors and other senior managers in detail

The Committee is asked to lead, on behalf of the Board the selection process for new Board appointments as and when they arise and to make recommendations in respect of such appointments When considering appointments to the Board, the Committee will consider each candidate's time commitments and any potential conflicts of interest

At present the Board has not set any specific aspirations in respect of gender diversity although it believes that refreshment of the Board should take account of diversity in all its forms Details of diversity within our workforce, including at Board and executive management level, can be found on page 27

The time required from Non-Executive Directors will be reviewed by the Committee on an annual basis The annual Board performance evaluation will also be used to assess whether the Non-Executive Directors are spending sufficient time to fulfil their duties

In accordance with the Code, each Director will be subject to annual re-election at each AGM To this end, the Committee evaluates the best interests of the Company as a whole and recommends the elections or re-elections to the Board, where considered appropriate

The Committee's full terms of reference are available on the Company's website at www softcat com

Main activities

Prior to the Company's IPO, the Board appointed an executive search consultant Spencer Stuart, with whom the Company has no other connection, to identify candidates to fill three Non-Executive Board vacancies Following a rigorous selection process, Lee Ginsberg, Peter Ventress and Vin Murria were appointed as Non-Executive Directors

The Committee's main focus since IPO has been to review the Company's succession planning and talent management In May 2016 the Committee undertook an extensive succession planning exercise for the Executive Directors and key employees of the Company Following this, the Committee considered and evaluated the structure of succession within the Company and identified those areas which required additional training and development of staff to ensure adequate long-term succession The Company is dedicated to investing in its employees to ensure talented staff are able to flourish within their roles and progress throughout the Company

The Committee also noted that the Board and Committees had been in place for a short period of time since the Company's IPO and that, for the present time their structure, size and composition remained suitable and adequate for the proper running of the Company

Board and Committee evaluation

Due to the relatively short period of time between IPO and the Company's year end and since the Board composition was significantly updated in the months immediately prior to IPO the Committee has not yet undertaken a formal evaluation process of the Board and its Committees A formal and rigorous evaluation will be undertaken in the year to 31 July 2017

Directors' election and re-election

As stated above, the Company has decided in accordance with the Code, that each Director will be subject to annual re-election by shareholders at the AGM The Committee considers that the performance of each of the Directors standing for re-election at the 2016 AGM continues to be effective and demonstrates commitment to their roles The biographical details of the current Directors can be found on pages 30 to 31

The terms and conditions of appointment of Non-Executive Directors which include their expected time commitment are available for inspection at the Company's registered office Non-Executive Directors are appointed for an initial term of three years, subject to re-election at each AGM, and the Committee will make a recommendation to the Board for the reappointment of any Non-Executive Director at the conclusion of their specified term of office in particular for any term beyond six years

Signed on behalf of the Nomination Committee

Brian Wallace
Chairman of the Nomination Committee
19 October 2016

Peter Ventress
Chairman, Remuneration Committee

Members of the Remuneration Committee

P Ventress (Chair)
L Ginsberg
V Murria

Attendance of the Remuneration Committee

Name	Committee attendance 2016
P Ventress	○○○
L Ginsberg	○○○
V Murria	○○○
Total meetings held	○○○

○ Attended ○ Did not attend

REMUNERATION COMMITTEE REPORT

Dear shareholder,

As the Chair of the Remuneration Committee, I am pleased to present the report of the Board covering the Remuneration Policy and practice for the first time as a listed company Work on the Policy was started following the initial share offering on 18 November 2015

I was appointed to the Board and as Chair of the Remuneration Committee on 1 October 2015 Since then the Committee has reviewed and built on the remuneration work done by the Board in the lead up to the IPO and published in the prospectus

Our goal is to have a Remuneration Policy which supports the Company's goals to develop as a leading provider in the IT infrastructure solutions industry and to deliver long-term sustainable growth In our new Remuneration Policy we are striving to incentivise and motivate the leadership team to implement the Company's strategic goals and ensure they are aligned with shareholder expectations

This has guided our thinking and actions in our work This report lays out the core principles of our Remuneration Policy and our practice over the past year In our Policy description we have worked to provide the transparency and clarity to enable our shareholders to understand the intent of our remuneration

Peter Ventress
Chairman of the Remuneration Committee

REMUNERATION COMMITTEE CHAIRMAN'S ANNUAL STATEMENT

Structure of the report

Our core principles of remuneration:

- to ensure Senior Executives are attracted, retained and motivated to drive the next stage of development in the Company post-IPO,
- to incentivise the management team in extending the Company's position in the IT infrastructure solutions industry, and
- to deliver long-term sustainable growth

Company highlights for the 2016 financial year

2015 to 2016 was a transitional year for the Company as a result of the public listing of the Company on 18 November 2015 Extensive work was undertaken by the senior management team in preparation for the IPO to ensure its success

Throughout the transition and post-IPO, the CEO the CFO and the senior management team have continued to drive the Company's strategy

The effectiveness of the senior management team in implementing this strategy has been substantiated in the actual level of achievement of the Company's KPIs (outlined on page 21), in particular our strong performance against our operating profit targets which resulted in 99% of the maximum bonuses being earned by the Executive Directors

Remuneration Committee decisions and activity following the IPO

The Company's Remuneration Policy and practices were reviewed extensively in preparation for the IPO to ensure appropriate remuneration arrangements were in place to support Company strategy following the listing of the Company

The Policy that the Committee has developed and the implementation of that Policy has been carefully considered to support the business strategy The Committee has developed a remuneration framework and policy which adheres to practice that is fit for purpose for a FTSE 250 company The Committee's objective is to operate this Policy to ensure that our Executive Directors have a remuneration structure and total remuneration opportunity that is aligned to Softcat's business and is competitive when assessed against the market we compete for talent in

The application of this Policy and the current remuneration arrangements for the management team reflect the specific development and history of the Company

- Martin our CEO, has been with the business since 2006 and has been instrumental in the Company's development and IPO last year He is a major shareholder of the business and therefore his current remuneration package has been structured to reflect his history with the Company and ensuring that his interests are aligned to the next stage of the Company's development His base salary set at conservative levels compared to FTSE 250 CEOs of a comparable size to Softcat reflects his unique history with Softcat
- Graham our CFO, joined Softcat in 2015 to support the Company on its journey as a listed organisation His base salary level is currently conservative compared to other FTSE 250 CFOs In line with the Remuneration Policy the Remuneration Committee intends to review Graham's salary position year on year to ensure his total remuneration opportunity moves towards a market-competitive level This may mean that, in the event the Committee determines that adjustments to Graham's base salary are appropriate his salary may be increased at a level above that for employees generally until a competitive position is achieved
- As a newly listed organisation the management team is committed to generating returns to our shareholders and to ensuring that their pay is linked to Company performance Therefore, the Committee has proposed a Remuneration Policy whereby the opportunity under the variable incentives (annual bonus and long-term incentive opportunity) supports this pay-for-performance philosophy The annual bonus opportunities of 200% of salary and 120% of salary for the CEO and the CFO respectively are competitive against FTSE 250 companies of a similar size as is the annual long-term incentive opportunity of 200% of salary The achievement of these incentives is subject to stretching annual and multi-year targets
- The Committee notes that in developing the proposed Policy and the application of the Policy for our Executive Directors for 2016/17, it reviewed the total remuneration opportunity with the mix of conservative base salary levels and competitive variable incentive opportunities The current remuneration framework results in a target opportunity for our Executive Directors around the market lower quartile of FTSE 250 companies
- Overall the Committee is satisfied that the Remuneration Policy being proposed in this document and the application of that Policy reflect our specific Company needs and the profile of our current Executive Directors and supports the business in its next stage of development

REMUNERATION COMMITTEE CHAIRMAN'S ANNUAL STATEMENT CONTINUED

Remuneration Committee decisions and activity following the IPO continued

Since the IPO, we have taken the opportunity to review all the key components of remuneration outlined above to ensure that the proposed Remuneration Policy is fit for purpose for a listed company and aligns with the Company's strategic objectives and shareholder expectations

In addition, we have undertaken the following activities as a Remuneration Committee

- determined the Committee's terms of reference,
- formulated the Company's Remuneration Policy as a listed company, and
- completed the Company s first Remuneration Report as a listed company

We shared our Policy with our top shareholders and the main shareholder bodies in September prior to its formal publication It was a valuable opportunity to receive feedback on our Remuneration Policy

Two resolutions will be put to shareholders at the AGM

We will first seek approval for the Remuneration Policy Report (Part A pages 47 to 56) This outlines the Company's Remuneration Policy for Executive Directors effective from the 2016 Annual General Meeting ('AGM) The vote is binding on the Remuneration Committee and has a duration of up to three years

The second resolution is seeking approval for the Annual Report on Remuneration (Part B pages 57 to 61) It details decisions and actions taken by the Committee based on the performance of the Company and remuneration consequences This section of the report is subject to an annual advisory vote

Our goal has been to be thoughtful and clear in the layout of both parts of the report and I look forward to your support on both resolutions

I welcome any feedback from the Company's shareholders

Peter Ventress
Chairman of the Remuneration Committee
19 October 2016

Notes

An evaluation of the Remuneration Committee s effectiveness will be conducted after a full year of operation

This report has been prepared in accordance with Schedule 8 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013 the provisions of the current Corporate Governance Code and taking into account the new UK Corporate Governance Code (applying for financial years beginning on or after 1 October 2014) (the Code') and the Listing Rules The Report consists of three sections

the Annual Statement by the Remuneration Committee Chairman and associated at a glance section

the Remuneration Policy Report which sets out the Company's Remuneration Policy for Directors and the key factors that were taken into account in setting the policy This policy will apply for three years from its date of approval at the 2016 AGM and

the Annual Report on Remuneration which sets out payments made to the Directors and details the link between Company performance and remuneration for the 2016 financial year

The Chairman s Annual Statement and the Annual Report on Remuneration will be subject to an advisory vote at the AGM The Remuneration Policy will be subject to a binding vote

AT A GLANCE

INTRODUCTION

In this section, we set out the remuneration outcomes for the 2016 financial year and an overview of our proposed Remuneration Policy for FY17 (subject to a binding vote by shareholders at our 2016 AGM).

2016 financial year

Remuneration outcomes

FY16 was a transitional year for the Company as we successfully floated in November 2015 to become a listed company This marks a significant change for the Company and for the roles of our Executive Directors

Despite the backdrop of changes for the Company in FY16, the Company delivered strong operational performance in the year Our 2016 results and the associated annual bonus outcomes outlined below reflect the performance measures and targets put in place from the start of our 2016 financial year and the extent to which they were satisfied

2016 annual bonus outcomes

In respect of FY16, the bonus awards payable to Executive Directors were agreed by the Committee having reviewed the Company s results The FY16 annual bonus structure was put in place pre-IPO comprising of a quarterly and annual assessment of performance The new annual bonus structure operating in FY17 is outlined on pages 48 to 49

Performance condition	Performance period	Threshold	Target	Maximum	Actual	Actual as a % of maximum opportunity	Annual bonus payout Martin Hellawell	Annual bonus payout Graham Charlton
Normalised operating profit[1]	Q1	£8 10m	£9 00m	£9 27m	£8 70m	85%[2]	£20 400	£17,000
	Q2	£9 85m	£10 94m	£11 27m	£11 37m	100%	£24,000	£20 000
	Q3	£11 40m	£12 67m	£13 05m	£14 44m	100%	£24,000	£20,000
	Q4	£11 64m	£12 94m	£13 32m	£13 33m	100%	£24 000	£20 000
	Annual (FY16)	£40 99m	£45 55m	£46 91m	£47 83m	100%	£237 600	£98,000
Total							£330,000	£175,000

Notes

1 Normalised operating profit is defined as adjusted operating profit before the impact of incremental public company governance costs of £1 08m

2 The FY16 Bonus Plan implemented before IPO had a payout range whereby operating profit within the range 95% – 99 99% of target resulted in 85% of maximum bonus payout for the quarter The bonus was paid in full as performance exceeded the maximum requirement of 103% of target The FY17 Bonus Plan has a new structure and the schedule can be found on pages 48 to 49

The bonuses earned by Martin Hellawell and Graham Charlton in FY15, when the Company was a private company, amounted to £164 700 and £28,500 respectively Graham Charlton joined the Company in January 2015

No discretion was exercised by the Committee in relation to the outcome of the annual bonus awards The FY16 bonus will be paid in cash

Long-term incentives awarded

On 21 December 2015, awards under the Company's Long Term Incentive Plan ('LTIP') were made to the Executive Directors

Executive Director	LTIP award (% of salary)	LTIP award (shares)	Award date
Martin Hellawell	200	208 333	21/12/15
Graham Charlton	200	141 666	21/12/15

No LTIP awards were made to the Executive Directors in FY15

Equity exposure of the Executive Directors

The following table sets out all subsisting interests in the equity of the Company held by the Executive Directors at 31 July 2016

The CEO's shareholdings are substantially in excess of the Company's minimum shareholding requirement of 200% of base salary The CFO who joined the Company in January 2015 is building up his shareholding The Committee expects him to build up to the minimum shareholding requirement of 150% of salary over a five-year period from approval of the Remuneration Policy

AT A GLANCE CONTINUED

2016 financial year continued

Equity exposure of the Executive Directors continued

	Shareholding requirement (% of salary)	Beneficially owned shares	Value of beneficially owned shares (% of salary)[1]	Value of/gain on interests over shares (i e unvested/unexercised awards)[2]
Martin Hellawell	200	14,784,399	20 540	291%
Graham Charlton	150	616	1	290%

Notes

1 As at 31 July 2016 This is based on a closing share price of £3 473 at 31 July 2016 and the year end salaries of the Executive Directors Values are not calculated for Non Executive Directors as they are not subject to shareholding requirements

2 Indicative value of outstanding LTIP awards made in December 2015 – Martin Hellawell (208,333 shares) and Graham Charlton (141 666 shares) based on share price as at 31 July 2016

The number of shares of the Company in which current Directors had a beneficial interest as at 31 July 2016 are set out in detail on page 59

2017 financial year

Our proposed Remuneration Policy for implementation in 2017

On the IPO the remuneration arrangements for the Company were updated to reflect the Company's new public status and to align with Company strategy as it transitioned into a listed environment as a FTSE 250 company

The Remuneration Committee has reviewed and considered the key components of remuneration since the IPO to ensure that the proposed Remuneration Policy is fit for purpose and aligned with the expectations of a listed company

Our proposed Remuneration Policy (summarised below) has been designed to align remuneration of our Executive Directors with Company strategy and to drive continued success within a remuneration framework that meets the shareholder and governance expectations of a FTSE 250 company

Key elements and time period Year	+1	+2	+3	+4	+5	Overview of Remuneration Policy for 2017
Base salary						For 2017, base salaries for the CEO and the CFO will be £257 500 and £175 100 respectively This is a rise from the previous year of 3%
Pension						The maximum contribution into the defined contribution plan or a salary supplement in lieu of pension will be 20% of gross basic salary
Benefits						Standard benefits will be provided See Remuneration Policy for further details
Annual Bonus Plan ('ABP') Cash Deferred share award						The Committee can determine the proportion of the bonus earned under the ABP that is provided as an award of deferred shares For 2017 the maximum bonus opportunities for the CEO and the CFO will be 200% and 120% of salary respectively The annual bonus performance condition for 2017 is adjusted operating profit The level of deferral in shares will be one third of the bonus earned
LTIP						The performance conditions for LTIP awards will be equally weighted between earnings per share ('EPS') growth and comparative total shareholder return ('TSR') assessed over a three-year performance period For the achievement of threshold performance, 25% of the award will vest 100% of the award will vest for maximum performance There is straight-line vesting between these points In 2017 the maximum annual LTIP award of 200% of salary will be awarded to the CEO and the CFO The Committee will review prior to each grant whether to place an additional holding period post vesting (of up to two years) It is the Committee s intention not to do this for the FY17 award due to the material shareholding which the CEO has in Softcat and the CFO new in role is in the process of building up his equity stake in the Company up to his minimum shareholding requirement of 150% of salary

NED annual fees

	2017 annual fee
Chairman	£103,000
Board fee	£46,350
Senior Independent Director	£5,150
Committee Chairmanship (per Committee)	£10,300

The NED annual fees for FY17 in the table above represent a rise from the previous year of 3% consistent with the base salary increase for Executive Directors

The Committee proposes to implement the policy for the 2017 financial year for the Non-Executive and Executive Directors subject to shareholder approval at our 2016 AGM Further details of the Remuneration Policy and how our proposed Remuneration Policy aligns to Company strategy is set out in the following section

PART A – DIRECTORS' REMUNERATION POLICY

INTRODUCTION

In accordance with the remuneration reporting regulations, the Directors' Remuneration Policy (the 'Policy') as set out below will become formally effective at the AGM on 8 December 2016, subject to shareholder approval, and will apply for a period of three years from the date of approval.

The Company's core principles of remuneration are

- to ensure top Executives are attracted, retained and motivated to drive the Company in its next stage of development post-IPO
- to incentivise management in extending the Company's leadership in the IT infrastructure solutions industry, and
- to deliver long-term sustainable growth

The Committee will review annually all elements of remuneration, including the base salary, annual bonus levels, proportion of bonus to be deferred in shares and annual and long-term incentive performance conditions for the Executive Directors and selected members of the senior management team drawing on trends and adjustments made to all employees across the Company and taking into consideration

- our business strategy
- overall Company performance,
- market conditions,
- views of key stakeholders of the business
- corporate governance considerations and
- changing views of institutional shareholders and their representative bodies

Our Remuneration Policy and its link to our Company strategy

The Company's strategy is laid out on page 20

Ensuring the alignment of the proposed Remuneration Policy to the Company strategy was key for the Remuneration Committee in developing the proposed Policy below The key elements of the Company's strategy and how its successful implementation is linked to the Company's remuneration are set out in the following table

	Strategic priorities				
Remuneration Policy (from the date of shareholder approval)	Generate sector leading value for shareholders	Growth in profit from existing customers	Win new customers	Equity ownership and retention of shares	Retain and reward executive team to deliver the strategy
Annual bonus The maximum bonus (including any part of the bonus deferred into an ABP award) deliverable under the ABP will not exceed 200% of a participant s annual base salary	**Adjusted operating profit** The key performance indicator for the Company The Committee believes that the Directors should focus on this key metric during the financial year to maintain high profit growth and the success of the business following the IPO to deliver value for our shareholders Growth in this metric is a direct demonstration of the successful execution of our business strategy including winning new customers and growth of profit from existing customers				
LTIP Maximum annual award is normally 200% of salary Awards will vest at the end of three years For 2016 the performance conditions for awards are equally weighted between • earnings per share ('EPS') growth and comparative total shareholder return ('TSR')	**EPS and TSR** The success in maximising profit growth will be measured through the long term EPS growth targeted by the LTIP In addition sustained value generation will be reflected in the share price of the Company, which will be measured through the Company's TSR performance under the LTIP	**TSR** The generation of profit growth targeted by the annual bonus will help enhance the value of the Company which will be measured through the success of the Company s TSR performance against its comparators (a performance condition under the LTIP)	**EPS** An incentive to grow this market in the longer term is provided through EPS growth targeted by the LTIP The success of this element of the strategy should be reflected in long term TSR performance		
Share Incentive Plan ('SIP')					
Minimum shareholding requirements • Chief Executive Officer 200% of salary • Chief Financial Officer 150% of salary					

PART A – DIRECTORS' REMUNERATION POLICY CONTINUED

Remuneration Policy table

Remuneration Policy aim

The Committee has developed a remuneration framework and policy which adheres to practice that is fit for purpose for a FTSE 250 company The Committee's objective is to operate this policy to ensure that our Executive Directors have a remuneration structure and total remuneration opportunity that is aligned to Softcat s business and is competitive when assessed against the market we compete for talent in

Element of remuneration	How it supports the Company s short and long term strategic objectives	Operation
Salary	Provides a base level of remuneration to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Company s strategy	An Executive Director s basic salary is set on appointment and reviewed annually or when there is a change in position or responsibility When determining an appropriate level of salary the Committee considers • remuneration practices within the Company the general performance of the Company, salaries within the ranges paid by the companies in the comparator group used for remuneration benchmarking any change in scope role and responsibilities and • the economic environment Individuals who are recruited or promoted to the Board may, on occasion have their salaries set below the targeted policy level until they become established in their role In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved
Benefits	Provides a benefits package in line with practice relative to its comparator group to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Company's strategy	The Executive Directors receive private health insurance life insurance and death in service benefit. The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Company strategy Additional benefits may therefore be offered such as relocation allowances on recruitment The maximum will be set at the cost of providing the benefits described
Pensions	Provides a pension provision in line with practice relative to its comparator group to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Company s strategy	Pension arrangements are provided in line with practice relative to its comparator group to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Company s strategy The Company operates a defined contribution ('DC') scheme The Executive Directors are entitled to receive a maximum employer contribution into the DC scheme or a salary supplement in lieu of pension of 20% of basic salary per annum

Element of remuneration	How it supports the Company s short and long term strategic objectives	Operation
Annual and Deferred Bonus Plan ('the Bonus Plan')	The Bonus Plan provides a significant incentive to the Executive Directors linked to achievement in delivering goals that are closely aligned with the Company s strategy and the creation of value for shareholders In particular the Bonus Plan supports the Company s objectives allowing the setting of annual targets based on the business strategy at the time, meaning that a wider range of performance metrics can be used that are relevant and achievable The Committee has discretion to defer part of the annual bonus earned in shares under the Bonus Plan The advantage of deferral is increased alignment between Executives and shareholders created through deferral and the increased equity stake of management in the Company and amounts deferred in shares are subject to a Director s continuing employment which provides an effective lock-in	The maximum bonus (including any part of the bonus deferred into share awards) deliverable under the Bonus Plan will be up to 200% of a participant s annual base salary The Board will determine the bonus to be delivered following the end of the relevant financial year The Company will set out in the section headed Implementation of Remuneration Policy, in the following financial year the nature of the targets and their weighting for each year Details of the performance conditions targets and their level of satisfaction for the year being reported on will be set out in the Annual Report on Remuneration The Committee can determine that part of the bonus earned under the Bonus Plan is provided as an award of shares The maximum value of deferred shares is 50% of the bonus earned The main terms of these awards are • minimum deferral period of three years, during which no performance conditions will apply and the participant s continued employment at the end of the deferral period unless he/she is a good leaver The Committee may award dividend equivalents on those shares to plan participants to the extent that they vest. The Committee will review prior to each annual bonus year whether to place additional holding periods (of up to two years) post-vesting of the deferred bonus shares

Maximum opportunity

The Committee ensures that maximum salary levels are positioned in line with companies of a similar size to Softcat and validated against companies operating in a similar sector so that total remuneration opportunity (base salary benefits annual bonus and long term incentives) for the Executive Directors is competitive against the market.

When assessing salary levels the Committee will consider levels in the comparator group made up of organisations in the FTSE 250 (excluding financial services real estate and equity investment trusts) and sector peer companies of comparable size to Softcat

The Committee intends to review the comparator groups each year and may add or remove companies from the group as it considers appropriate Any changes to the comparator group will be set out in the section headed Implementation of Remuneration Policy in the following financial year

In general salary increases for Executive Directors will be in line with the increase for employees.

The Company will set out in the section headed Implementation of Remuneration Policy in the following financial year the salaries for that year for each of the Executive Directors

See description of benefits in previous column

The maximum contribution into the defined contribution plan or a salary supplement in lieu of pension will be 20% of gross basic salary

The Company will set out in the section headed Implementation of Remuneration Policy in the following financial year the pension contributions for that year for each of the Executive Directors

Maximum opportunity	Performance metrics
Percentage of bonus maximum earned for levels of performance Threshold 0% On target up to 60% Maximum 100% The annual bonus will be paid in cash and deferred shares	An award under the Bonus Plan is subject to satisfying financial and strategic/operational performance/personal performance conditions and targets measured over a period of one financial year A minimum of 50% of the bonus shall be based on financial performance measures The Board will determine the bonus to be delivered following the end of the relevant financial year The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed financial targets used for the annual bonus, disclosing precise targets for the Bonus Plan in advance would not be in shareholders interests Targets performance achieved and awards made will be published at the end of the performance period so shareholders can fully assess the basis for any payouts under the Bonus Plan In exceptional circumstances the Committee retains the discretion to • change the performance measures and targets and the weighting attached to the performance measures and targets partway through a performance year if there is a significant and material event which causes the Committee to believe the original measures weightings and targets are no longer appropriate and • make downward or upward adjustments to the amount of bonus earned resulting from the application of the performance measures If the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance Any adjustments or discretion applied by the Committee will be fully disclosed in the following year s Remuneration Report The Bonus Plan contains clawback and malus provisions

PART A – DIRECTORS' REMUNERATION POLICY CONTINUED

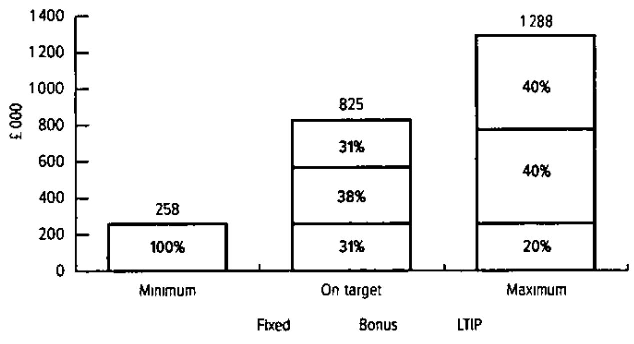
Remuneration Policy table continued

Element of remuneration	How it supports the Company's short and long term strategic objectives	Operation
Long Term Incentive Plan ('LTIP')	The purpose of the LTIP is to incentivise and reward Executive Directors in relation to long term performance and achievement of Company strategy This will better align Executive Directors interests with the long term interests of the Company and act as a retention mechanism The use of comparative TSR measures the success of the implementation of the Company's strategy in delivering an above-market level of return The use of EPS ensures Executive Directors are focused on long-term financial performance to ensure this flows through to long-term sustainable EPS growth	Awards are granted annually to Executive Directors in the form of a conditional share award nil-cost option or restricted share award Details of the performance conditions for grants made in the year will be set out in the Annual Report on Remuneration and for future grants in the section headed Implementation of Remuneration Policy in the future financial year Awards will vest at the end of a three-year period subject to • the Executive Director s continued employment at the date of vesting, and • satisfaction of the performance conditions The Committee may award dividend equivalents on awards to the extent that these vest The Committee will review, prior to each LTIP grant whether to place additional holding periods (of up to two years) post-vesting
Share Incentive Plan ('SIP')	The SIP is an all-employee share ownership plan which has been designed to encourage all employees to become shareholders in the Company and thereby align their interests with shareholders	The Company operates an SIP in which the Executive Directors are eligible to participate (which is in line with HMRC legislation and is open to all eligible staff) The Executive Directors will also be eligible to participate in any other all employee arrangement implemented by the Company
Minimum shareholding requirement	The Committee has adopted formal shareholding guidelines that will encourage the Executive Directors to build up over a five-year period and then subsequently hold a shareholding equivalent to a percentage of base salary Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned	

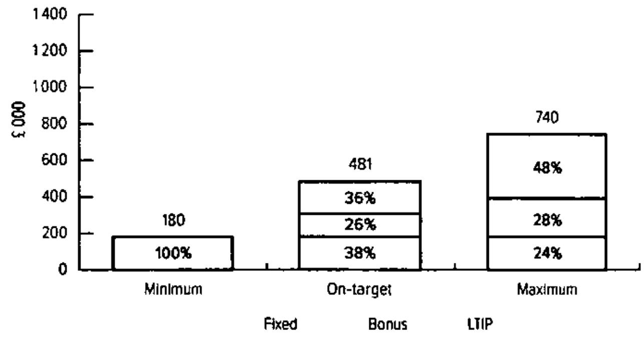
Illustrations of the application of the Remuneration Policy

The charts below illustrate the remuneration that would be paid to each of the Executive Directors for the financial year 2016 to 2017, under three different performance scenarios (i) minimum, (ii) on-target, and (iii) maximum The elements of remuneration have been categorised into three components (i) fixed (ii) annual bonus (deferred bonus) and (iii) LTIP

Chief Executive Officer (Martin Hellawell)



Chief Financial Officer (Graham Charlton)



Maximum opportunity	Performance metrics
Normal maximum value of up to 200% of salary p a based on the market value at the date of grant set in accordance with the rules of the LTIP In exceptional circumstances the Committee may grant an award with a maximum of up to 250% of salary 25% of the award will vest for threshold performance 100% of the award will vest for maximum performance There is straight-line vesting between these points	The performance conditions for the 2016 LTIP awards are earnings per share ('EPS) growth and relative total shareholder return (TSR) The Committee may change the balance of the measures or use different measures for subsequent awards as appropriate No material change will be made to the type of performance conditions without prior shareholder consultation In exceptional circumstances the Committee retains the discretion to • vary substitute or waive the performance conditions applying to LTIP awards if the Board considers it appropriate and the new performance conditions are deemed reasonable and are not materially less difficult to satisfy than the original conditions and make downward or upward adjustments to the amount vesting under the LTIP resulting from the application of the performance measures if the Committee believes that the outcomes are not a fair and accurate reflection of business performance The LTIP contains clawback and malus provisions
The maximums set by legislation from time to time	The Company in accordance with the legislation may impose objective conditions on participation in the SIP for employees

Corporate governance

The following table sets out the minimum shareholding requirements

Role	Shareholding requirement (% of salary)
Chief Executive Officer	200
Chief Financial Officer	150

The Committee retains the discretion to increase the shareholding requirements

The table below sets out the assumptions used to calculate the elements of remuneration for each of the scenarios set out in the charts opposite

Element	Description	Minimum	Target	Maximum
Fixed	Salary benefits and pension[1]	Included	Included	Included
Annual bonus	Annual bonus (including deferred shares) Maximum opportunity of 200% of salary for the CEO and 120% for the CFO	No annual variable	60% of maximum bonus	100% of maximum bonus
LTIP	Award under the LTIP Maximum annual award of 200% of salary	No multiple-year variable	50% of the maximum award	100% of the maximum award

Notes

1 Based on 2016 benefits payments and pension values as per the single figure table The actual benefits and pension contributions for 2017 will only be known at the end of the financial year

2 See page 57 for the single figure table and the accompanying notes

3 In accordance with the regulations share price growth has not been included In addition dividend equivalents have not been added to the deferred share bonus and LTIP share awards

4 Participation in the SIP has been excluded given the relative size of the opportunity levels

PART A – DIRECTORS' REMUNERATION POLICY CONTINUED

Illustrations of the application of the Remuneration Policy continued

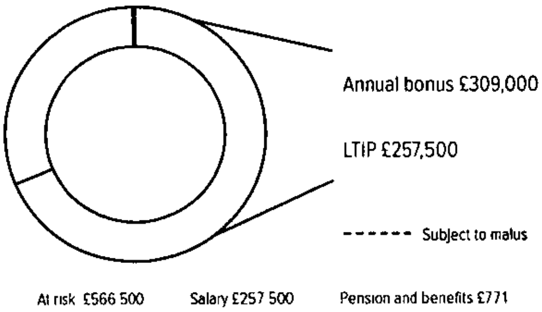
Pay at risk

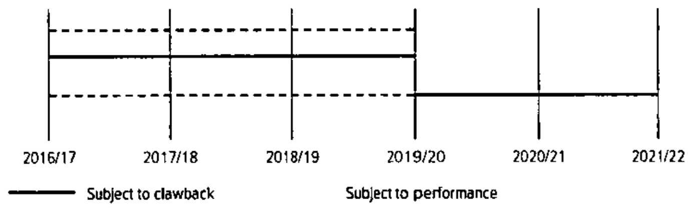
The charts below set out the single figure of each Executive Director based on whether the elements remain at risk For example

- payment is subject to continuing employment for a period (deferred shares and LTIP awards), or
- performance conditions have to still be satisfied (LTIP awards) or
- elements are subject to clawback or malus for a period over which the Company can recover sums paid or withhold vesting Further details of what triggers clawback or malus are set out below

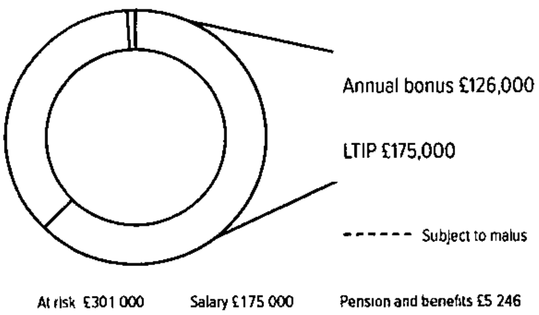
Figures have been calculated based on target performance The charts have been based on the same assumptions as set out above for the illustrations of the application of the Remuneration Policy

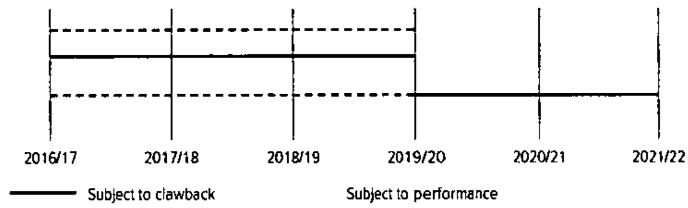
Chief Executive Officer (Martin Hellawell)





Chief Financial Officer (Graham Charlton)





Malus and clawback

The following describes the malus and clawback provisions in the incentive plans

- **Malus** is the adjustment of unpaid bonus, outstanding LTIP awards and deferred share bonus awards under the Bonus Plan as a result of the occurrence of one or more circumstances listed below The adjustment may result in the value being reduced to zero
- **Clawback** is the recovery of payments under the Bonus Plan or vested LTIP awards as a result of the occurrence of one or more of the circumstances listed below

The circumstances in which malus and clawback could apply are as follows

- the discovery that the assessment of any performance target or condition in respect of a Bonus Award or LTIP award was based on error or inaccurate or misleading information, and/or
- the discovery that any information used to determine the number of ordinary shares subject to a Bonus Award or LTIP award was based on error, or inaccurate or misleading information and/or
- the action or conduct of a holder of a Bonus Award or LTIP award which, in the reasonable opinion of the Board, amounts to fraud or gross misconduct, and/or
- events or behaviour of a holder of a Bonus Award or LTIP award leading to the censure of the Company by a regulatory authority or having a significant detrimental impact on the reputation of the Company provided that the Board is satisfied that the relevant holder of a Bonus Award or LTIP award was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to him

Malus and clawback continued

	Annual Bonus Plan	Deferred Bonus Plan	Long Term Incentive Plan
Malus	Up to the date of payment of a cash bonus	To the end of the three year deferral period	To the end of the three year vesting period
Clawback	Three years post the bonus determination	n/a	Two years post vesting

The Committee believes that the rules of the plans provide sufficient powers to enforce malus and clawback where required

Discretion

The Committee has discretion in several areas of policy as set out in this report

The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders as set out in those rules In addition, the Committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval

It is the Committee's intention that commitments made in line with its policies prior to admission will be honoured, even if satisfaction of such commitments is made post the Company s first AGM following admission and may be inconsistent with policy

Recruitment policy

The Company's principle is that the remuneration of any new Executive Director recruited will be assessed in line with the same principles as for the incumbent Executive Directors, as set out in the Remuneration Policy table above The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure a preferred candidate with the appropriate calibre and experience needed for the role In setting the remuneration for new recruits, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments as well as considering the appropriateness of any performance measures associated with an award

The Company's detailed policy when setting remuneration for the appointment of new Directors is summarised in the table below

Remuneration element	Recruitment policy
Salary, benefits and pension	These will be set in line with the policy for existing Executive Directors
Annual bonus	Maximum annual participation will be set in line with the Company s policy for existing Executive Directors and will not exceed 200% of salary
LTIP	Maximum annual participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 200% of salary in normal circumstances and 250% of salary in exceptional circumstances
'Buyout' of incentives forfeited on cessation of employment	Where the Committee determines that the individual circumstances of recruitment justifies the provision of a buyout the equivalent value of any incentives that will be forfeited on cessation of an Executive Director s previous employment will be calculated taking into account the following • the proportion of the performance period completed on the date of the Executive Director s cessation of employment, • the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied and • any other terms and conditions having a material effect on their value (lapsed value') The Committee may then grant an award up to the same value as the lapsed value where possible under the Company s incentive plans To the extent that it was not possible or practical to provide the buyout within the terms of the Company s existing incentive plans, a bespoke arrangement would be used
Maximum variable remuneration	The maximum variable remuneration which may be granted in normal circumstances is 400% of salary (450% of salary if the maximum LTIP grant is made)

Where an existing employee is promoted to the Board, the policy set out above would apply from the date of promotion but there would be no retrospective application of the policy in relation to subsisting incentive awards or remuneration arrangements Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the ongoing remuneration of the person concerned These would be disclosed to shareholders in the remuneration report for the relevant financial year

The Company's policy when setting fees for the appointment of new Non-Executive Directors is to apply the policy which applies to current Non-Executive Directors

PART A – DIRECTORS' REMUNERATION POLICY CONTINUED

Payment for loss of office

The Committee will honour Executive Directors contractual entitlements Service contracts do not contain liquidated damages clauses If a contract is to be terminated the Committee will determine such mitigation as it considers fair and reasonable in each case There is no agreement between the Company and its Executive Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid

The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment

Element	Overview of policy
Principles	The Committee will honour Executive Directors contractual entitlements If a contract is to be terminated the Committee will determine such mitigation as it considers fair and reasonable in each case
Salary, benefits and pension	These will be paid over the notice period The Company has discretion to make a payment as set out above In addition provision is retained to make a payment in lieu of notice
Cash bonus awards	**Good leavers** performance conditions will be measured at the bonus measurement date Bonuses will normally be pro-rated for the period worked during the financial year **Other leavers** no bonus payable for year of cessation **Discretion** – the Remuneration Committee has the following elements of discretion • to determine that an Executive is a good leaver It is the Committee s intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders and • to determine whether to pro-rate the bonus to time The Remuneration Committee s normal policy is that it will pro rate bonus for time It is the Remuneration Committee s intention to use discretion to not pro rate in circumstances where there is an appropriate business case which will be explained in full to shareholders
Share bonus awards	**Good leavers** all subsisting deferred share awards will vest at the end of the original deferral period **Other leavers** lapse of any unvested deferred share awards **Discretion** – the Remuneration Committee has the following elements of discretion to determine that an Executive is a good leaver It is the Remuneration Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders • to vest deferred shares at the end of the original deferral period or at the date of cessation The Remuneration Committee will make this determination depending on the type of good leaver reason resulting in the cessation, and • to determine whether to pro-rate the maximum number of shares to the time from the date of grant to the date of cessation The Remuneration Committee s normal policy is that it will not pro-rate awards for time The Remuneration Committee will determine whether to pro-rate based on the circumstances of the Executive Director s departure
LTIP	**Good leavers** pro rated to time and performance in respect of each subsisting LTIP award **Other leavers** lapse of any unvested LTIP awards **Discretion** – The Remuneration Committee has the following elements of discretion to determine that an Executive is a good leaver It is the Remuneration Committee s intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders • to measure performance over the original performance period or at the date of cessation The Remuneration Committee will make this determination depending on the type of good leaver reason resulting in the cessation and • to determine whether to pro-rate the maximum number of shares to the time from the date of grant to the date of cessation The Remuneration Committee s normal policy is that it will pro rate awards for time It is the Remuneration Committee s intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders
Other contractual obligations	There are no other contractual provisions other than those set out above, agreed prior to 27 June 2012

A good leaver reason is defined as cessation in the following circumstances

- death,
- ill health,
- injury or disability,
- redundancy,
- retirement,
- transfer of employment to a company which is not a Group company and
- at the discretion of the Committee (as described above)

Cessation of employment in circumstances other than those set out above is cessation for other reasons

Change of control

The Committee's policy on the vesting of incentives on a change of control is summarised below

Name of incentive plan	Change of control	Discretion
ABP cash awards	Pro rated to time and performance to the date of the change of control	The Committee has discretion regarding whether to pro-rate the bonus to time The Committee s normal policy is that it will pro-rate the bonus for time It is the Committee s intention to use its discretion to not pro-rate in circumstances only where there is an appropriate business case which will be explained in full to shareholders
ABP deferred share awards	Subsisting deferred share awards will vest on a change of control	The Committee has discretion regarding whether to pro-rate the award to time The Committee s normal policy is that it will not pro-rate awards for time The Committee will make this determination depending on the circumstances of the change of control
LTIP	The number of shares subject to subsisting LTIP awards will vest on a change of control pro rated to time and performance	The Committee will determine the proportion of the LTIP award which vests taking into account, among other factors the period of time the LTIP award has been held by the participant and the extent to which any applicable performance conditions have been satisfied at that time

Non-Executive Director remuneration

Element of remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Opportunity	Performance metrics
Non-Executive Director and Chairman fees	Provides a level of fees to support recruitment and retention of Non Executive Directors and a Chairman with the necessary experience to advise and assist with establishing and monitoring the Company s strategic objectives	The Board is responsible for setting the remuneration of the Non-Executive Directors The Remuneration Committee is responsible for setting the Chairman s fees Non Executive Directors are paid an annual fee and additional fees for chairmanship of Committees The Chairman does not receive any additional fees for membership of Committees Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors Fees are set at broadly the median of the comparator group Non Executive Directors and the Chairman do not participate in any variable remuneration or benefits arrangements	The fees for Non-Executive Directors and the Chairman are set at broadly the median of the comparator group In general the level of fee increase for the Non-Executive Directors and the Chairman will be set taking account of any change in responsibility and will take into account the general rise in salaries across the UK workforce The Company will pay reasonable expenses incurred by the Non Executive Directors and the Chairman and may settle any tax incurred in relation to these	None

Executive Director contracts and letters of appointment for Chairman and Non-Executive Directors

Executive Directors

			Notice periods		
Name	Date of service contract	Nature of contract	From Company	From Director	Compensation provisions for early termination
Martin Hellawell	29 October 2015	Rolling	Twelve months	Twelve months	None
Graham Charlton	29 October 2015	Rolling	Twelve months	Twelve months	None

Non-Executive Directors

Name	Date of letter of appointment
Brian Wallace	29 October 2015[1]
Lee Ginsberg	4 August 2015
Vin Murria	3 November 2015
Peter Ventress	29 September 2015

Note

1 Commencement date as Chairman 1 July 2014

The Committee's policy for setting notice periods is that a twelve-month period will apply for Executive Directors

The Non-Executive Directors of the Company (including the Chairman) do not have service contracts The Non-Executive Directors are appointed by letters of appointment Each Independent Non-Executive Director s term of office runs for a three-year period

The initial terms of the Non-Executive Directors' positions are subject to their re-election by the Company's shareholders at the AGM and to re-election at any subsequent AGM at which the Non-Executive Directors stand for re-election

All Directors will be put forward for re-election by shareholders on an annual basis

PART A – DIRECTORS' REMUNERATION POLICY CONTINUED

Statement of considerations of employment conditions elsewhere in the Company

The Remuneration Policy for all employees is determined in terms of best practice and ensuring that the Company is able to attract and retain the best people This principle is followed in the development of our Policy

The remuneration strategy of the Company has been designed to ensure all employees share in its success through performance-related remuneration and share ownership On IPO two new remuneration arrangements were introduced the LTIP for Executive Directors and annual bonus deferral for some members of the senior team Awards under both these plans will provide alignment between senior leaders and our shareholders based on overall corporate performance of the business

For all employees the Company has adopted a SIP Under the new plans, all employees will have the opportunity to purchase shares in the Company subject to certain restrictions

The Company does not use remuneration comparison measurements nor have employees been consulted directly on the Policy In setting the Remuneration Policy for Directors, the pay and conditions of other employees of Company are taken into account, including any base salary increases awarded

The Committee is provided with data on the remuneration structure for management-level tiers below the Executive Directors and uses this information to ensure consistency of approach throughout the Company

Link to objectives

The following table demonstrates how key objectives are reflected consistently in plans operating at various levels within the Company

			Strategic objectives				
Plan	Purpose	Eligibility	Generate sector-leading value for shareholders	Growth in profit from existing customers	Win new customers	Equity ownership and retention of shares	Retain and reward Executive team to deliver the strategy
SIP	To broaden share ownership and share in corporate success over the medium term	All employees					
Annual bonus	Incentivise and reward short-term performance At senior level, an element of bonus is deferred in shares	Executive Directors, Senior Executives Senior Managers and Managers					
LTIP	Incentivise and reward long-term performance	Executive Directors and Senior Executives					

Statement of consideration of shareholder views

The Committee takes the views of the shareholders seriously and these views are taken into account in shaping Remuneration Policy and practice Shareholder views are considered when evaluating and setting the remuneration strategy and the Committee commits to consulting with key shareholders prior to any significant changes to its Remuneration Policy

The Committee consulted with the Company's key shareholders along with the Investment Association ('IA') and the Institutional Shareholder Services ('ISS') on the proposed Policy set out in this report

PART B – ANNUAL REPORT ON REMUNERATION

Single total figure of remuneration (audited)

Executive Directors (audited)

The tables below set out the single total figure of remuneration and breakdown for each Executive Director in respect of FY16 and FY15

FY16

Executive Directors	Salary	Taxable benefits[3]	Bonus[4]	LTIP[5]	Pension	SIP	Other	Total
Martin Hellawell[1] (CEO)	£227,734	£771	£330 000	–	–	£3,612	–	£562 117
Graham Charlton[2] (CFO)	£164,751	£303	£175 000	–	£4 943	£903	£268,200[6]	£614 100

Notes

1 Salary of £168 920 prior to IPO date (Nov 2015) and £250 000 following the IPO to the end of the financial year

2 Salary of £150 000 prior to IPO date (Nov 2015) and £170 000 following the IPO to the end of the financial year

3 See section below setting out details of the benefits provided

4 Details of the bonus targets their level of satisfaction and the resulting bonus earned in FY16 are set out on page 45

5 The first grant of LTIP awards made in December 2015 which will vest in December 2018

6 As part of the pre IPO arrangements disclosed in the Prospectus Graham held 200 000 share options (issued on 31 March 2015) that vested on IPO The exercise price of these options was £1 059

Peter Kelly and Colin Brown were Executive Directors prior to the Company's IPO, until their resignations on 15 October 2015 The table below sets out their remuneration as Executive Directors between 1 August 2015 and 15 October 2015

Executive Directors	Salary	Taxable benefits	Bonus	Pension	Total
Peter Kelly	£33,872	£652	£17 000	–	£51 524
Colin Brown	£36 071	£126	£56 083	£1 082	£93,362

FY15

Executive Directors	Salary	Taxable benefits[1]	Bonus[2]	LTIP	Pension	Total
Martin Hellawell (CEO)	£168,920	£2,142	£164 700	–	–	£335 762
Graham Charlton[3] (CFO)	£63 281	£337	£28,500	–	£1,898	£94,016

Notes

1 See section below setting out details on benefits provided

2 Similar to FY16 the FY15 bonus structure was put in place pre IPO comprising a quarterly and annual assessment of performance

3 Graham Charlton joined the Company in January 2015

Peter Kelly, Colin Brown and Richard Lecoutre were Executive Directors during all (or in the case of Richard Lecoutre until his resignation on 19 March 2015) of FY15 The table below sets out their remuneration as Executive Directors during FY15

Executive Directors	Salary	Taxable benefits	Bonus	Pension	Total
Peter Kelly	£158,620	£2,940	£90,000	–	£251,560
Colin Brown	£168,920	£1 241	£154 610	£37,958	£362 729
Richard Lecoutre	£78,108	£1,005	£23,100	£2,343	£104 556

Taxable benefits

Benefits in the year for the Executive Directors comprised private medical insurance

2016 annual bonus outcomes

In respect of 2016, the bonus awards payable to Executive Directors were agreed by the Committee having reviewed the Company s results The 2016 annual bonus structure was put in place pre-IPO comprising a quarterly and annual assessment of performance The new annual bonus structure operating in 2017 is outlined on pages 48 to 49

Details of the targets used to determine bonuses in respect of FY16 and the extent to which they were satisfied are shown in the table on page 45 These figures are included in the single figure table

PART B – ANNUAL REPORT ON REMUNERATION CONTINUED

Long-term incentives awarded

Awards under the Company's Long Term Incentive Plan ('LTIP') are shown in the table on page 45

The awards were subject to the following performance conditions

Measure	Weighting	Details
Adjusted EPS	50%	• 20% vesting of this element for absolute EPS at end of performance period of 18 7p • Full vesting for 21 6p • Straight-line vesting between these points
Relative TSR – assessed against the constituents of the FTSE 250 (excluding real estate and equity investment trusts)	50%	• 30% vesting for median performance against the comparators • Full vesting for upper quartile performance • Straight-line vesting between these points

Pension entitlements

The Company operates a defined contribution pension scheme which the Executive Directors can participate in or they can take a cash supplement in lieu of pension

In FY16 and FY15, Martin Hellawell did not receive any pension entitlements and Graham Charlton received 3% of salary employer pension contributions into the defined contribution scheme

Share Incentive Plan ('SIP')

The table below sets out the free shares awarded to the Directors in the financial year

The Directors have an entitlement to purchase partnership shares under the SIP Graham Charlton purchased 616 partnership shares during the year in addition to the receipt of free shares below The total SIP holdings are provided on page 59 as part of the Directors' share interests table

Executive Director	Free shares awarded during the year	Award date	Market price on award date	Lapsed during period
Martin Hellawell	1,204	11/12/15	£3 00	—
Graham Charlton	301	11/12/15	£3 00	—

Non-Executive Directors (audited)

The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director

Non Executive Directors	2016 fees[1]	2015 fees	Roles
Brian Wallace	£100,000	£100 000	Independent Non-Executive Chairman
Lee Ginsberg	£55 000	—	Senior Independent Non-Executive Director Chair of the Audit Committee
Vin Murria	£33,750	—	Non-Executive Director
Peter Ventress	£45 830	—	Non-Executive Director Chair of the Remuneration Committee

Note

1 The fees are proportionate to time in service to reflect total fees paid during the financial year

Payments to past Directors/payments for loss of office

There were no payments in the financial year

Statement of Directors' shareholding and share interests

Director	Shareholding requirement (% of salary)	Current shareholding (% of salary)[1]	Shares held directly: Beneficially owned	Shares held directly: Deferred shares not subject to performance conditions	Other shares held: LTIP interests subject to performance conditions	Other shares held: Interests in unvested SIP shares[3]	Options: Vested and unexercised	Options: Unvested	Options: Exercised	Shareholding requirement met?
Executive Directors										
Martin Hellawell[5]	200	20 540	14 784 399	—	208 333	1,204	—	—	—	Yes
Graham Charlton	150	1	616[2]	—	141,666	301	—	—	200 000[4]	No
Non-Executive Directors										
Brian Wallace	n/a	n/a	860,000	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lee Ginsberg	n/a	n/a	20,833	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Vin Murria	n/a	n/a	30 000	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Peter Ventress	n/a	n/a	30 000	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Notes
1 As at 31 July 2016 This is based on a closing share price of £3 473 and the year end salaries of the Executive Directors Values are not calculated for Non Executive Directors as they are not subject to shareholding requirements Graham Charlton has purchased 137 partnership shares since the year end and the date of this report. There have been no further changes to the interests of the other Directors
2 Investment in partnership shares under the SIP
3 Interests of free shares under the SIP
4 As part of the pre-IPO arrangements disclosed in the Prospectus Graham held 200 000 share options (issued on 31 March 2015) which vested and were exercised on IPO The exercise price of these options was £1 059
5 Includes ordinary shares held by or in trust for Martin Hellawell and/or his family members

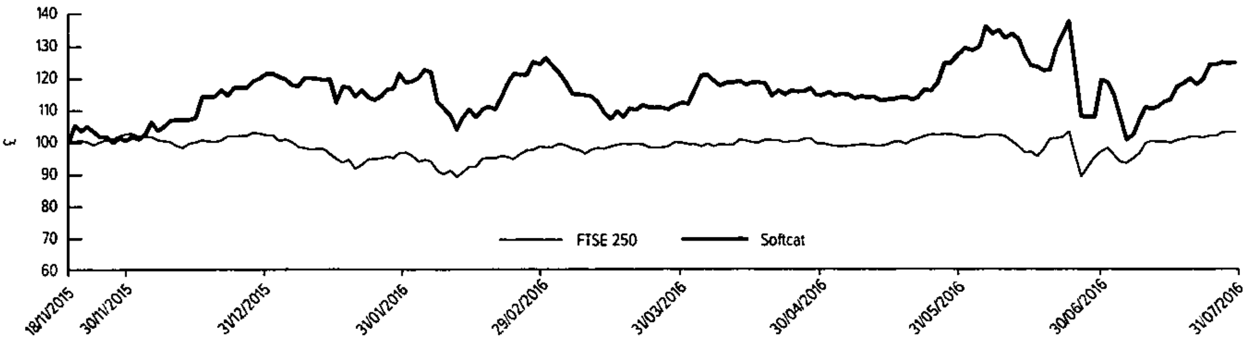
At 31 July 2015, prior to the pre-IPO share reorganisation which occurred on 12 November 2015, Martin Hellawell and Brian Wallace held 1 197 298 and 15,000 shares in Softcat Ltd respectively None of the other Directors held shares in the Company at 31 July 2015

Fees retained for external non-executive directorships
Executive Directors may hold positions in other companies as non-executive directors and retain the fees Martin Hellawell and Graham Charlton currently hold no external directorships

Comparison of overall performance and pay
The graph below shows the value of £100 invested in the Company's shares since listing compared with the FTSE 250 index The graph shows the total shareholder return generated by both the movement in share value and the reinvestment over the same period of dividend income

The Committee considers that the FTSE 250 is the appropriate index because the Company has been a member of this since the first review of the index since the IPO This graph has been calculated in accordance with the Regulations It should be noted that the Company listed on 18 November 2015 and therefore only has a listed share price for the period of 18 November 2015 to 31 July 2016

Total shareholder return



PART B – ANNUAL REPORT ON REMUNERATION CONTINUED

Chief Executive Officer's historic remuneration

The table below sets out the total remuneration delivered to the Chief Executive Officer over the last year valued using the methodology applied to the single total figure of remuneration

Chief Executive Officer	2016	2015
Total single figure	£562 117	£335,762
Annual bonus payment level achieved (% of maximum opportunity)	99[1]	72
LTIP vesting level achieved (% of maximum opportunity)	n/a[2]	n/a[2]

Notes

1 In FY16 the Q1 bonus achievement was below target which resulted in 85% of maximum bonus payout The Q2 Q4 targets and the annual target were met and resulted in a full payout (100%)

2 First LTIP award was made in December 2015 which will vest in December 2018

Relative importance of the spend on pay

The table below sets out the relative importance of spend on pay in the 2016 financial year All figures provided are taken from the relevant Company accounts

	Disbursements from profit in 2016 financial year	Disbursements from profit in 2015 financial year
Profit distributed by way of dividend	£43 5m	£7 3m
Total tax contributions	£16 7m[1]	£14 7m
Overall spend on pay, including Executive Directors	£59 3m	£43 9m

Note

1 Includes corporation tax and employers National insurance contributions

Change in the Chief Executive Officer's remuneration compared with employees

The Company has chosen not to provide this information for 2016 as the Committee does not believe that the remuneration payable in its earlier years as a private company bears any comparative value to that which is to be paid post-IPO In the 2017 report comparative information will be provided

Statement of implementation of the Remuneration Policy in financial year 2017

See table on page 46

Consideration by the Directors of matters relating to Directors' remuneration

The Board has delegated to the Committee, under agreed terms of reference responsibility for the Remuneration Policy and for determining specific packages for the Executive Directors and other selected members of the senior management team Prior to the establishment of the Remuneration Committee, remuneration decisions were made by the Board of the Company The Company consults with key shareholders in respect of the Remuneration Policy and the introduction of new incentive arrangements

The terms of reference for the Committee are available on the Company's website, https://www softcat com/investor-relations/board-members-and-corporate-governance and from the Company Secretary at the registered office

Our main responsibilities are

- to determine and agree with the Board the broad Remuneration Policy for the Executive Directors and other selected members of the senior management team,
- to review the ongoing appropriateness and relevance of the Remuneration Policy, and
- to review any major changes in employee benefit structures throughout the Company and to administer all aspects of any share scheme

The Committee receives assistance from the Company Secretary, who will attend meetings by invitation The Chief Executive Officer and the Chief Financial Officer attend by invitation on occasion

Advisers to the Remuneration Committee

Following a selection process carried out by the Board prior to the IPO of the Company, the Committee has engaged the services of PwC as independent remuneration adviser

During the financial year PwC advised the Committee on all aspects of the Remuneration Policy for Executive Directors and selected members of the senior management team PwC also provided the Company with tax and assurance work during the year The Committee is satisfied that no conflict of interest exists or existed in the provision of these services

PwC is a member of the Remuneration Consultants Group and the voluntary code of conduct of that body is designed to ensure objective and independent advice is given to remuneration committees Fixed fees of £15,000 (2015 £nil) were provided to PwC during the year in respect of remuneration advice received

Statement of voting at general meeting

The 2016 AGM will be the first AGM of the Company as a listed entity and therefore there is no historic voting information

This Remuneration Report has been approved by the Board of Directors and is signed on its behalf by

Peter Ventress
Chairman of the Remuneration Committee
19 October 2016

DIRECTORS' REPORT

The Directors present their report for the year to 31 July 2016

Softcat plc is a public company limited by shares, incorporated in England and Wales and its shares are traded on the Premium segment of the Main Market of the London Stock Exchange

Disclosures Incorporated by Reference

The following disclosures required to be included in this Directors' report have been incorporated by way of reference to other sections of this report and should be read in conjunction with this report

- corporate governance statement – refer to pages 32 to 35 of this report
- strategy and relevant future developments – refer to page 20 of the Strategic Report, and
- Financial risk management objectives and policies – refer to the Risk Management Report included in the Strategic Report on pages 24 to 25 and note 20 to the financial statements on pages 91 to 92

Directors of the Company

The following Directors have held office since 1 August 2015

Name	Position	Date of appointment/ resignation
M J Hellawell	Chief Executive Officer	—
B Wallace	Chairman	—
G L Charlton	Chief Financial Officer	—
L Ginsberg	Senior Independent Director	Appointed 16 September 2015
P Ventress	Independent Non-Executive Director	Appointed 1 October 2015
V Murria	Independent Non-Executive Director	Appointed 3 November 2015
P D J Kelly	Non-Executive Director	Resigned 15 October 2015
C W Brown	Managing Director	Resigned 15 October 2015

Directors' biographies can be found on pages 30 to 31

Powers of Directors

The general powers of the Directors are contained within UK legislation and the Company's Articles of Association (the 'Articles') The Directors are entitled to exercise all powers of the Company, subject to any limitations imposed by the Articles or applicable legislation

Directors' interests

The interests of the Directors in the issued shares of the Company at 31 July 2016 are disclosed in the Remuneration Report on page 59 The Remuneration Report also sets out details of any changes in those interests between the year end and 19 October 2016

No Director had a material interest in any contract of significance with the Company at any time during the financial year

Appointment and replacement of Directors

The rules about the appointment and replacement of Directors are contained in the Articles They provide that Directors may be appointed by ordinary resolution of the members or by a resolution of the Directors Any Director so appointed must retire and put themselves forward for election at the next Annual General Meeting ('AGM') Directors wishing to continue to serve as members of the Board will seek re-election annually in accordance with the UK Corporate Governance Code

In accordance with the UK Corporate Governance Code 2014 (the 'Code'), at the 2016 AGM each Director will stand for re-election

Indemnification of Directors

The Directors have the benefit of an indemnity provision contained in the Articles The provision was in force during the year ended 31 July 2016 and remains in force and relates to certain losses and liabilities which the Directors may incur to third parties in the course of acting as Directors of the Company In addition, Directors and officers of the Company and its subsidiaries are covered by directors and officers liability insurance

Compensation for loss of office and change of control

There are no agreements in place with any Director that would provide compensation for loss of office or employment resulting from a change of control Change of control provisions for the Company's share plans may cause options and awards granted under such plans to vest on a takeover Further information is provided in the Remuneration Report on page 54

The Company is not party to any other significant agreements that take effect after, or terminate upon a change of control

Articles of Association

The Articles may be amended by a special resolution of the members At the AGM held on 12 November 2015, shareholders approved by special resolution the amended Articles which took effect at the date of the initial public offering ('IPO') on 18 November 2015

Related party transactions

No related party transactions have been undertaken by the Company during the year

Share capital and control

The Company's ordinary issued share capital as at 31 July 2016 was 197 406 143 ordinary shares of 0 05p each, which have a premium listing on the London Stock Exchange The ordinary share class represents over 99 9% of the Company's total issued share capital

In addition to the ordinary shares the Company also has a class of 18,933 deferred shares which were created following the share capital reorganisation at IPO and which are not admitted to trading on a regulated market

Shares acquired through the Company's share schemes and plans rank equally with the other shares in issue and have no special rights The Company has an Employee Benefit Trust (EBT) and a Share Incentive Plan Trust ('SIP Trust') for the benefit of employees and former employees of the Company The EBT holds nil ordinary shares and the SIP Trust holds 787,064 ordinary shares in the Company

During the year ended 31 July 2016, share options were exercised pursuant to the Company Share Option Plan resulting in the allotment of 112,961 new ordinary shares On 11 December 2015 629 883 ordinary shares were allotted to Capita IRG Trustees Limited, as trustee of the Company's SIP Trust, to facilitate the free share awards to certain eligible employees of the Company

Holders of ordinary shares are entitled to attend and speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, corporate representatives who are entitled to attend general meetings and to exercise voting rights

The deferred shares carry no voting rights or rights to receive any of the profits of the Company available for distribution by way of dividend or otherwise On a return of capital on a winding up of the Company (but not otherwise) the holder is entitled only to the repayment of the amount paid up on that share after payment of the capital paid up on each other share in the capital of the Company and the further payment of £10,000,000 on each such share The deferred shares represent less than 0 01% of the Company's total issued share capital

Further information on the Company's issued share capital can be found in note 16 to the financial statements

The Company passed the following resolutions on 12 November 2015

- An ordinary resolution providing the Directors with authority to
  - (i) allot ordinary shares up to a maximum nominal amount of £32,792 to be reduced by the nominal amount allotted or granted under paragraph (ii) below in excess of such sum and
  - (ii) allot ordinary shares up to a maximum nominal amount of £65,585 in connection with a pre-emptive offer by way of a rights issue, such amount to be reduced by any allotments made under paragraph (i) above
- A special resolution granting the Directors the authority to make market purchases up to 19 675 492 ordinary shares, representing 10% of the Company's issued ordinary share capital No shares have been purchased pursuant to this authority

These authorities are due to expire at the Company's AGM to be held on 8 December 2016 and proposals for the renewal of the authority to allot ordinary shares are set out in the Notice of the Annual General Meeting The Company has no intention to complete a market purchase of its shares and will not seek this authority at the 2016 AGM

The ordinary shares are freely transferable with the exception of lock-up arrangements pursuant to the Underwriting Agreement dated 13 November 2015 and deed polls of election entered into prior to the IPO Those restrictions were set out in detail in the Prospectus at IPO and, subject to customary exceptions, the following restrictions were still in place at year end

- each Director (and each of his or her family members and each trustee of a trust, the beneficiary of which is a Director and/or a family member of a Director) undertook not to sell any further ordinary shares, other than at IPO, for a period of 365 days after the date of the IPO
- each 'selling shareholder', other than the 'core selling shareholders' (as such term is defined in the IPO prospectus), who was an employee of the Company and who had a holding of ordinary shares of 0 5% or more of the Company's issued share capital in each case as at the date of the IPO Prospectus undertook not to sell any further ordinary shares, other than at IPO, for a period of 365 days after the date of the IPO and
- certain 'non-selling shareholders' undertook not to sell any ordinary shares for a period of either 180 or 365 days after the date of the IPO

There are no further restrictions on the transfer or limitations on the holding of ordinary shares and no requirements to obtain approval prior to any transfers other than certain restrictions which may from time to time be imposed by laws and regulations (for example insider trading laws) and pursuant to the Market Abuse Regulation and the Company's own rules whereby Directors and certain employees of the Company require the approval of the Company to deal in the ordinary shares and pursuant to the Articles where there is default in supplying the Company with information concerning interests in the Company's ordinary shares There are no special control rights in relation to the Company's ordinary shares

There are no agreements between holders of securities that are known to the Company which may result in restrictions on the transfer of securities or on voting rights

Substantial shareholders

The substantial shareholdings in the table below represent those interests notified to the Company as at 31 July 2016 in accordance with the Disclosure Guidance and Transparency Rules of the UK Listing Authority, and those holdings may have changed since notification to the Company

	As a 31 July 2016		As at 19 October 2016	
	Ordinary shares	Voting rights	Ordinary shares	Voting rights
John Nash[1]	13,318,364	6 75%	13,318,364	6 75%
FMR LLC	13,571 106	6 87%	16,029 079	8 11%
Martin Hellawell[1]	14 784 399	7 49%	14,784 399	7 49%
Peter Kelly[1]	64,976,058	32 91%	64,976,058	32 91%

Note

1 The ordinary shares held by Peter Kelly Martin Hellawell and John Nash include shares held beneficially via various entities or connected persons

Principal shareholder and Relationship Agreement

In accordance with Listing Rule 9 8 4R (14) the Company has set out below a statement describing the Relationship Agreement entered into by the Company with its principal shareholder (the 'Relationship Agreement') As at 19 October 2016 Peter Kelly the founder of Softcat plc held 32 91% of the issued ordinary share capital of the Company

On 13 November 2015, the Company and Peter Kelly entered into the Relationship Agreement The principal purpose of the Relationship Agreement is to ensure that the Company will be capable of carrying on its business independently of Peter Kelly and certain persons deemed to be connected with him ('Connected Persons)

Pursuant to the Relationship Agreement Peter Kelly *inter alia*,

- shall procure that all transactions agreements or arrangements entered into between the Company and Peter Kelly (or any of his Connected Persons) are conducted on an arm's length basis on normal commercial terms and in accordance with the related party transaction rules set out in Chapter 11 of the Listing Rules and Peter Kelly shall abstain from voting on any resolution to which LR 11 1 7R(4) of the Listing Rules applies relating to a transaction with Peter Kelly (or any of his Connected Persons) as the related party
- shall (and shall procure that each of his Connected Persons shall) (i) not take any actions that would reasonably be expected to have the effect of preventing the Company from complying with its obligations under the Listing Rules or be prejudicial to the Company's status as a listed company or the Company's eligibility for listing, (ii) not propose or procure the proposal of a shareholder resolution that would circumvent or appear to circumvent the proper application of the Listing Rules, and (iii) not exercise his voting rights or other rights to procure any amendment to the Articles which would be contrary to the maintenance of the Company's independence, including its ability to operate and make decisions independently from Peter Kelly, or otherwise inconsistent with the provisions of the Relationship Agreement
- has agreed that for a period of two years from 18 November 2015, he shall not be entitled to operate, establish or acquire an undertaking which constitutes a competing business and
- has agreed that for a period of two years from 18 November 2015, he shall not (and shall procure that each of his Connected Persons shall not) solicit or encourage for service or employment any of the executive directors or members of senior management

Furthermore, the Company and Peter Kelly have agreed that for so long as Peter Kelly (together with any of his Connected Persons) holds 10 per cent of the Company s issued share capital, he shall be entitled to appoint one non-executive director of the Company, although no such director has been appointed as at the date of this Annual Report

The Relationship Agreement will remain in effect for so long as (a) Peter Kelly (and/or any of his Connected Persons) holds at least 10 per cent of the Company s issued share capital and (b) the ordinary shares are admitted to the premium listing segment of the Official List maintained by the Financial Conduct Authority

The Company has and in so far as it is aware, Peter Kelly and his Connected Persons have complied with the independence provisions set out in the Relationship Agreement from the date of the agreement

Risk regarding financial instruments

The financial risk management objectives and policies are disclosed in note 20 to the financial statements on pages 91 to 92

Research and development

The Company did not carry out any research and development activities during the year (2015 none)

Political donations

The Company did not make any political donations during the period (2015 £nil)

A resolution to authorise the Company to make political payments up to £50 000 has been included for shareholder consideration in the Notice of AGM The Company does not intend to make any payments to political organisations or to incur other political expenditure, however this resolution has been proposed to ensure that the Company has authority under the wide definition used in the Companies Act 2006 of matters constituting political donations

Greenhouse gas emissions

Information relating to the Company's greenhouse gas emissions is detailed on page 26 of the Corporate Social Responsibility Report

Corporate social responsibility

Details on our commitment to corporate social responsibility can be found on pages 26 to 27 of the Strategic Report

Equality and diversity

The Company operates an equal opportunities policy which endeavours to treat individuals fairly and not to discriminate on the basis of gender, disability race, national or ethnic origin, sexual orientation or marital status Applications for employment are fully considered on their merits, and employees are given appropriate training and equal opportunities for career development and promotion

The Company is committed to ensuring that adequate policies and procedures are in place to enable disabled applicants to receive training to perform safely and effectively and to provide development opportunities to ensure they reach their full potential Where an individual becomes disabled during the course of their employment with the Company, the Company will seek to provide, wherever possible, continued employment on normal terms and conditions Adjustments will be made to the environment and duties or alternatively suitable new roles within the Company will be secured with additional training where necessary

Details of the Company's gender breakdown are given in the Corporate Social Responsibility Report on page 27

The Company places considerable value on the involvement of its employees and continues to keep them informed on matters affecting them as employees This is undertaken through a variety of methods including, but not limited to, weekly all-Company meetings, team briefings Company days email and the intranet At team meetings, managers are responsible for ensuring that information sharing discussion and feedback take place on a regular basis As a result of these meetings management can communicate the financial and economic factors affecting the Company and ensure that the views of employees are taken into account in Company decisions which are likely to affect their interests

Post balance sheet events

Dividend

The Board recommends a final dividend of 3 6p per ordinary share and a special dividend of 14 2p per ordinary share to be paid on 16 December 2016 to all ordinary shareholders who were on the register of members at the close of business on 18 November 2016 Shareholders will be asked to approve the final and special dividends at the AGM on 8 December 2016

The Company's dividend policy is detailed in the Chairman's statement on page 5

Requirements of the Listing Rules

The following table provides references to where the information required by the Listing Rule 9 8 4R is disclosed

Listing Rule requirement	Location in Annual Report
A statement of the amount of interest capitalised during the period under review and details of any related tax relief	Not applicable
Information required in relation to the publication of unaudited financial information	Not applicable
Details of any long-term incentive schemes	Directors Remuneration Report, page 47
Details of any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company	Not applicable
Details of any non-pre-emptive issues of equity for cash	Directors' Report, page 63
Details of any non-pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking	No such share allotments
Details of parent participation in a placing by a listed subsidiary	Not applicable
Details of any contract of significance in which a Director is or was materially interested	Not applicable
Details of any contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder	Not applicable
Details of waiver of dividends by a shareholder	Not applicable
Board statement in respect of Relationship Agreement with the controlling shareholder	Directors Report page 64

Auditor

Ernst & Young LLP ('EY') has signified its willingness to continue in office as auditor to the Company and the Company is satisfied that EY is independent and that there are adequate safeguards in place to safeguard its objectivity A resolution to reappoint EY as the Company's auditor will be proposed at the 2016 AGM

Statement of Directors' responsibilities in relation to the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

The Directors are required to prepare financial statements for each financial year in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss of the Company, so far as concerns members of the Company for the financial year In preparing those financial statements the Directors are required to

- select and apply accounting policies in accordance with IAS 8,
- present information including accounting policies, in a manner that provides relevant, reliable comparable and understandable information and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

The Directors are responsible for keeping adequate accounting records which are sufficient to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Fair and balanced reporting

Having taken advice from the Audit Committee, the Board considers the Annual Report and Accounts, taken as a whole is fair balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position and performance business model and strategy

Responsibility statement pursuant to FCA's Disclosure Guidance and Transparency Rule 4 ('DTR 4')

Each Director of the Company (whose names and functions appear on pages 30 to 31) confirms that (solely for the purpose of DTR 4) to the best of his or her knowledge

- the financial statements in this document, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company, and
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces

Disclosure of information to the auditor

The Directors in office at the time of approval of the Directors Report are listed on page 62 and have each confirmed that

- so far as he or she is aware, there is no relevant audit information of which the Company s auditor is unaware and
- he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any such relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 27 The financial position of the Company, its cash flows and liquidity position are described in the Financial Review on pages 22 to 23 In addition, note 20 to the financial statements include the Company's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements

Viability statement

In accordance with provision C 2 2 of the 2014 revision of the Code the Board has assessed the prospects of the Company over a longer period than the twelve months that has in practice been the focus of the going concern' provision

The Board conducted the review for a three-year period, corresponding with the period covered by its strategic level three-year plan process These forecasts are updated on an annual basis and reflect the Company's policy of growth Increased customer offerings and available internal and financial resources without the need for external funding They consider profits cash flows, funding requirements and other key financial ratios over the period as well as the desired minimum cash float

The principal risks are set out on pages 24 to 25 and the most relevant potential impact of these risks on viability was considered to be

- a substantial and sustained decrease in revenue resulting from a loss of Softcat culture or Inability to satisfy customer needs,
- a substantial fall in achievable gross margins resulting from margin pressure associated with a fall in levels of customer service
- a significant reduction in rebate income and
- an ongoing increase in the working capital cycle

The Board overlaid the potential impact of the principal risks which could affect the financial position in 'severe but plausible' scenarios onto the three-year forecasts and concluded that the business would remain viable As part of this they performed sensitivity analyses that flexed to the forecasts including reduced income, profitability and increased working capital cycle, both individually and in unison to reflect these severe but plausible scenarios

Based on the results of the procedures outlined above the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of assessment

Annual General Meeting

The Company's first AGM since IPO will take place on 8 December 2016 at the Company's registered office Softcat plc Fieldhouse Lane, Marlow, Buckinghamshire SL7 1LW Subject to any restrictions set out in this section on a show of hands every holder of ordinary shares who is present in person or by proxy at a general meeting had one vote on each resolution and, on a poll, every holder of ordinary shares who is present in person or by proxy has one vote on each resolution for every ordinary share of which he/she is the registered holder A proxy will have one vote against a resolution on a show of hands in certain circumstances specified in the Articles The Notice of AGM specifies deadlines for exercising voting rights The Notice of AGM can be found in the Investor relations section of the Company's website, www softcat com, and is being posted at the same time as this Annual Report The Notice of AGM sets out the business of the meeting and provides explanatory notes on all resolutions Separate resolutions are proposed in respect of each substantive issue

A holder of ordinary shares may vote personally or by proxy at a general meeting Any form of proxy must be delivered to the Company not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote (for this purpose, the Directors may specify that no account shall be taken of any part of a day that is not a working day) A corporation which is a holder of ordinary shares in the Company may authorise such persons as it thinks fit to act as its representatives at any general meeting of the Company

No holder of ordinary shares shall be entitled to attend or vote, either personally or by proxy at a general meeting in respect of any ordinary share if any call or other sum presently payable to the Company in respect of such ordinary share remains unpaid or in certain other circumstances specified in the Articles where there is default in supplying the Company with information concerning interests in the Company's ordinary shares

The AGM is the Company's principal forum for communication with private shareholders In addition to the formal business, there will be a presentation by the CEO on the performance of the Company and its future development The Chairman of the Board and the Chairmen of the Committees, together with the Directors, will be available to answer shareholders' questions at the meeting

The Directors' Report has been approved by the Board of Directors and is signed on its behalf by

Graham Charlton
Chief Financial Officer
19 October 2016

INDEPENDENT AUDITOR'S REPORT
to the members of Softcat plc

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the Company s affairs as at 31 July 2016 and of its profit for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB) as adopted by the European Union, and
- have been prepared in accordance with the requirements of the UK Companies Act 2006

What we have audited
We have audited Softcat plc's financial statements which comprise

Statement of Profit or Loss and Other Comprehensive Income
Statement of Financial Position
Statement of Changes in Equity
Statement of Cash Flows
Related notes 1 to 26 to the financial statements

The financial reporting framework that has been applied in the preparation of the Company s financial statements is applicable law and IFRSs as issued by the IASB and adopted by the European Union

Overview of our audit approach

Risks of material misstatement	• Inappropriate revenue recognition misstatement of revenue recognised at or near year-end • Rebates misstatement of the year end rebate accrual to understate cost of sales and overstate gross profit
Audit scope	• The Company performs all transaction processing and financial statement preparation centrally in the UK Our audit procedures cover a single set of accounts and our audit scope covers 100% of revenue profit and balance sheet items by way of full scope procedures
Materiality	• Materiality of £2 3m which represents 5% of profit before tax and exceptional items

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy the allocation of resources in the audit and the direction of the efforts of the audit team In addressing these risks we have performed the procedures below, which were designed in the context of the financial statements as a whole and consequently we do not express an opinion on these individual areas

Inappropriate revenue recognition misstatement of revenue recognised at or near year end	**Supporting references in the Annual Report and Accounts**
During the year the Company recognised revenue of £672m (2015 £596m) We focused on this due to the susceptibility of this account to manual override related to year end adjustments and journals posted	The Audit Committee Report (pages 36 to 39), Accounting Policies (pages 78 to 79), and Note 2 of the Company Financial Statements (page 82)

Summary of the nature of the risk	Our response to the risk	Our conclusion to the Audit Committee
• Revenue is a key value driver for the business as a whole and is one of the key performance indicators used to measure the value of the business • The Company may at times be under pressure to meet ambitious growth targets and analyst expectations as a newly listed entity • Certain compensation incentives are based on quarterly and annual revenue targets, creating a risk of revenue and gross margin misstatements which may involve management override • Management's process for accounting for certain revenue transactions, particularly those at or near the year end is manual and therefore susceptible to management override	• To gain assurance that the requirements for revenue recognition have been met during the period we tested the two-way correlation between revenue and trade receivables and three-way correlation between revenue, trade receivables and cash We also tested other revenue and receivables transactions that didn't conform to our expectations of typical revenues postings, • We performed substantive testing on a sample of deferred revenue transactions to obtain assurance over the completeness and existence of the year end deferred revenue balance, • We tested revenue cut-off by obtaining and testing management's sales cut-off analysis and independently testing transactions therein on a sample basis, • To address the risk of management override, we tested manual journal entries recorded at or near year end and credit notes issued subsequent to the year end, and • We made inquiries of certain sales personnel and management as to their awareness of sales and discounting practices that may indicate the existence of side agreements which could impact revenue recognised during the account period	We concluded that revenue is materially correct and has been recognised in accordance with company policy and IFRSs

Rebates misstatement of the year end rebate accrual to understate cost of sales and overstate gross profit	**Supporting references in the Annual Report and Accounts**
We focused on this due to the inherent estimation subjectivity of the rebates receivable accrual based on the varying types of rebate arrangement terms the manual processing required, as well as the potential for management override of controls	The Audit Committee Report (pages 36 to 39) Accounting Policies (page 79) and Note 11 of the Company Financial Statements (page 86)

Summary of the nature of the risk	Our response to the risk	Our conclusion to the audit committee
• The rebate process is manual and is considered complex due to the various types of contracts and contract terms, • While most rebates are agreed with the supplier and paid during the year there is inherent estimation required to determine the year end rebate accrual when confirmation has not been received from the supplier	• We tested management's controls around the rebate process which include verification of amounts reported by suppliers calculation of the rebate receivable accrual, and a retrospective review of cash received against amounts accrued, • We tested the year end rebate receivable and transactions from throughout the year by vouching a sample of transactions to third-party source documentation and cash receipts • We challenged management's methodology for calculating the year end rebate receivable, including vouching accrual rates to individual rebate partner agreements	We concluded that the rebate receivable is materially correct and has been recognised in accordance with Company policy and IFRSs

INDEPENDENT AUDITOR'S REPORT CONTINUED
to the members of Softcat plc

The scope of our audit
The Company has business operations in various locations throughout the UK however, all transaction processing and financial statement preparation occurs centrally at the Company's headquarters in Marlow Additionally as the Company prepares only one set of statutory accounts our audit is of one UK statutory entity that covers 100% of revenue profit and balance sheet items by way of full scope procedures

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements Materiality provides a basis for determining the nature and extent of our audit procedures

We determined materiality for the Company to be £2 3m, calculated as 5% of normalised pre-tax earnings which is calculated by adding back exceptional items related primarily to the Company's initial public offering in November 2015 For the fiscal 2015 audit, we determined materiality for the Company to be £1 9m calculated as 5% of profit before tax and without adding back exceptional items, which were immaterial in the prior year We believe that profit before tax and after adding back exceptional items provides us with a consistent year-on-year basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity Detailed audit procedures are performed on material non-recurring items

Starting basis	• Profit before tax – £42 4m
Adjustments	• Adjusted to add back exceptional items (before tax) of £3 7m
Materiality	• Adjusted profit before tax multiplied by 5%, giving materiality of £2 3m

During the course of our audit we reassessed initial materiality and the only change in final materiality was to reflect the actual reported performance of the Company in the year

Performance materiality
The application of materiality at the individual account or balance level It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2015 50%) of our planning materiality, namely £1 1m (2015 £1m) We have set performance materiality at this percentage in order that the total amount of uncorrected and undetected misstatements does not exceed our planning materiality of £2 3m for the financial statements as a whole

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0 1m (2015 £0 1m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds We did not increase our reporting threshold following the increase in final materiality

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and other relevant qualitative considerations in forming our opinion

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 66, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report is made solely to the Company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report or for the opinions we have formed

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- The information given in the Strategic Report and the Directors Report is consistent with the Company s financial statements, and
- The section of the Directors' Remuneration Report that is described as being audited has been properly prepared in accordance with the basis of preparation as described therein

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the Annual Report is • Materially inconsistent with the information in the audited financial statements, or • Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit or • Otherwise misleading In particular we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the Annual Report and Accounts taken as a whole is fair balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy, and whether the Annual Report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed	We have no exceptions to report
Companies Act 2006 reporting	We are required to report to you if in our opinion • Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us, or • The parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or • Certain disclosures of Directors' remuneration specified by law are not made, or • We have not received all the information and explanations we require for our audit	We have no exceptions to report
Listing Rules review requirements	We are required to review • The Directors statement in relation to going concern, set out on page 66, and longer-term viability, set out on page 67 and • The part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review	We have no exceptions to report

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Softcat plc

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to • The Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity including those that would threaten its business model future performance, solvency or liquidity, • The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated, • The Directors statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity s ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements, and • The Directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions	We have nothing material to add or to draw attention to

Karl Havers
for and on behalf of Ernst & Young LLP,
London
19 October 2016

Notes

1 The maintenance and integrity of the Softcat plc website is the responsibility of the Directors the work carried out by the auditor does not involve consideration of these matters and accordingly the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 July 2016

	Notes	2016 £ 000	2015 £ 000
Revenue	2	672 351	596 084
Cost of sales		(551,634)	(493,309)
Gross profit		120 717	102 775
Administrative expenses		(78 527)	(63,193)
Operating profit	3	42,190	39 582
Adjusted operating profit		46 751	40,586
Exceptional items	4	(3 673)	(999)
Share based payment charge	24	(888)	(5)
Finance income	5	213	195
Profit before tax		42 403	39 777
Income tax expense	6	(9,245)	(8 660)
Profit for the year and total comprehensive income for the year		33 158	31 117
Profit attributable to			
Owners of the Company		33,158	31 117
Earnings per ordinary share (pence)			
Basic	17	16 9	16 3
Diluted	17	16 9	16 0
Adjusted earnings per ordinary share (pence)			
Basic	17	19 2	16 7
Diluted	17	19 1	16 5

The Statement of Profit or Loss and Other Comprehensive Income has been prepared on the basis that all operations are continuing operations

Financial statements

STATEMENT OF FINANCIAL POSITION

As at 31 July 2016

	Notes	2016 £ 000	2015 £ 000
Non-current assets			
Property, plant and equipment	8	6 391	6,997
Intangible assets	9	667	458
Deferred tax asset	14	426	678
		7 484	8 133
Current assets			
Inventories	10	4,611	2 652
Trade and other receivables	11	132 787	121,952
Cash and cash equivalents	13	62 361	74,642
		199 759	199,246
Total assets		207,243	207 379
Current liabilities			
Trade and other payables	12	(115,527)	(108,053)
Income tax payable		(4,352)	(3 510)
		(119 879)	(111,563)
Net assets		87,364	95 816
Equity			
Issued share capital	16	99	98
Share premium account		4 454	3 942
Other reserves		(3 531)	(3,994)
Retained earnings		86 342	95,770
Total equity		87,364	95,816

These financial statements were approved by the Board of Directors and authorised for issue on 19 October 2016

On behalf of the Board

Martin Hellawell

Martin Hellawell
Chief Executive Officer

Graham Charlton
Chief Financial Officer

Softcat plc Company registration number 02174990

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2016

Equity attributable to owners of the Company

	Share capital £ 000	Share premium account £ 000	Reserve for own shares £ 000	Retained earnings £ 000	Total £ 000
Balance at 1 August 2015	98	3 942	(3,994)	95,770	95,816
Total comprehensive income for the year	—	—	—	33,158	33 158
Share-based payment transactions	—	—	—	572	572
Dividends paid	—	—	—	(43 453)	(43 453)
Shares issued in the year	1	512	—	—	513
Tax adjustments	—	—	—	295	295
Own share movement during the year	—	—	463	—	463
Balance at 31 July 2016	99	4,454	(3,531)	86,342	87,364
Balance at 1 August 2014	95	2,865	(1 469)	70,808	72 299
Total comprehensive income for the year	—	—	—	31 117	31 117
Share based payment transactions	—	—	—	5	5
Dividends paid	—	—	—	(7 298)	(7,298)
Shares issued in the year	3	1,077	—	—	1 080
Tax adjustments	—	—	—	1,234	1,234
Own share movement during the year	—	—	(2,525)	(96)	(2,621)
Balance at 31 July 2015	98	3 942	(3,994)	95 770	95 816

The share capital and share premium accounts represent the nominal value and premium arising on the issue of equity shares

The reserve for own shares relates to ordinary shares owned by an Employee Benefit Trust and a Share Incentive Plan Trust During the year ended 31 July 2016, 4,237,740 share options (2015 5,504,380) were exercised Proceeds of £976,328 (2015 £1,038 749) were realised from the exercise of these share options

As at 31 July 2016, the Employee Benefit Trust owned nil ordinary shares (2015 2,538 520) and the Share Incentive Plan Trust owned 787064 ordinary shares (2015 nil)

STATEMENT OF CASH FLOWS

For the year ended 31 July 2016

	Notes	2016 £ 000	2015 £ 000
Net cash generated from operating activities	18	29 925	47 411
Investing activities			
Finance income	5	213	195
Purchase of property, plant and equipment	8	(1,190)	(2,217)
Purchase of intangible assets	9	(536)	(288)
Proceeds from asset disposals		11	4
Net cash used in investing activities		(1 502)	(2 306)
Financing activities			
Issue of share capital		513	977
Deferred purchase share proceeds		1,773	676
Dividends paid	7	(43 453)	(7,311)
Own share transactions	16	463	(2 525)
Net cash used in financing activities		(40,704)	(8,183)
Net (decrease)/increase in cash and cash equivalents		(12 281)	36,922
Cash and cash equivalents at beginning of year	13	74,642	37,720
Cash and cash equivalents at end of year	13	62 361	74 642

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2016

1 Accounting policies

1 1 Corporate information

The financial statements of Softcat plc for the year ended 31 July 2016 were authorised for issue in accordance with a resolution of the Directors on 19 October 2016 Softcat plc is a public limited company incorporated and domiciled in the United Kingdom and whose shares are publicly traded The registered office is Solar House, Fieldhouse Lane, Marlow Buckinghamshire in the United Kingdom

The principal activity of the Company continued to be that of a value-added IT reseller and IT infrastructure solutions provider to the corporate and public sector markets

1 2 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS) as issued by the International Accounting Standards Board ('IASB') and as adopted by the EU ('Adopted IFRS') and the International Financial Reporting Interpretations Committee ('IFRIC') interpretations and in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS

These financial statements have been prepared under the historical cost convention and are presented in the Company's presentational and functional currency of Pounds Sterling and all values are rounded to the nearest thousand ('£'000'), except when otherwise stated

The Company applied all standards and interpretations issued by the IASB that were effective as of 31 July 2016 The accounting policies set out below have unless otherwise stated been applied consistently to all periods presented in these financial statements

Going concern

For reasons noted on page 66 the financial information has been prepared on the going concern basis, which assumes that the Company will continue to be able to meet its liabilities as they fall due for the foreseeable future being a period of at least twelve months from the date of signing these financial statements At the date of approving the financial statements, the Directors are not aware of any circumstances that could lead to the Company being unable to settle commitments as they fall due during the twelve months from the date of signing these financial statements

1 3 Critical accounting judgements and key sources of estimation uncertainty

When applying the Company's accounting policies management must make a number of key judgements involving estimates and assumptions concerning the future These estimates and judgements are based on factors considered to be relevant including historical experience that may differ significantly from the actual outcome The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include

Revenue cut off

The Company's management information systems are configured to recognise revenue upon notification of dispatch from the supplier or distributor which in instances especially regarding physical shipments may not be aligned to when the risks and rewards of ownership have been transferred Under IFRS the point of recognition on physical shipments should be aligned to the date of delivery, not dispatch Management therefore performs an exercise to capture items that may have been dispatched from distributor but not delivered in the financial year, and subsequently defers the recognition of revenue into the following year The exercise applied includes several assumptions which management believes are reasonable, in order to identify items that fit the criteria for deferral Separately management reviews individual large deals on a case by case basis which reduces the opportunity for error

1 4 Adoption of new and revised standards

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

- IFRS 15 Revenue from Contracts with Customers see below
- IFRS 9 Financial Instruments
- IFRS 2 (Amendments) Share-based Payments
- IAS 12 (Amendments) Recognition of Deferred Tax Assets for Unrealised Losses
- IAS 7 (Amendments) Statement of Cash Flows
- IFRS 16 Leases
- Annual Improvements (2012–2014 Cycle)
- IAS 16 and IAS 38 (Amendment) Clarification of Acceptable Methods of Depreciation and Amortisation

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2016

1 Accounting policies continued

1 4 Adoption of new and revised standards continued

IFRS 15 Revenue from Contracts with Customers

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Company, except for

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer The new revenue standard will supersede all current revenue recognition requirements under IFRS Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018 Early adoption is permitted

IFRS 15 may have an impact on the Company's revenue recognition policies and disclosures, however, until management's detailed review has been completed it is not practicable to provide details of the impact that its adoption will have on the Company s financial statements

IFRS 16 Leases

Replacing IAS 17, IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019 IFRS 16 specifies how to recognise, measure, present and disclose leases The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the exception of those with a lease term of less than twelve months or the underlying asset has a low value

Softcat is a lessee on lease arrangements for all its offices with the exception of its head office in Marlow, for which it owns the freehold These leases typically have a five-year lease term and therefore it is expected that following adoption of IFRS 16, Softcat would recognise both an asset and a liability on its Statement of Financial Position relating to these leases

1 5 Revenue recognition

Revenue from the sale of goods is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured Revenue is measured at the fair value of the consideration received or receivable taking into account contractually defined terms of payment and excluding taxes and duty The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent The following specific recognition criteria must also be met before revenue is recognised

Sale of goods

The Company sells hardware and software that is sourced from and delivered by a number of suppliers Revenue from the sale of these goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer usually on delivery of the goods

The Company has primary responsibility for the acceptability of goods sold, is exposed to inventory risk during the delivery period, establishes the selling price itself and bears the customer's credit risk It is therefore considered to be acting as principal in these sales and revenue is measured using the price charged to the customer, excluding sales tax

Provision of services

The Company also provides datacentre, cloud and software services Revenue in respect of these services is recognised when the service has been satisfactorily completed or in line with the stage of completed work It is measured at either the sales prices excluding sales taxes, or by reference to the costs incurred as a proportion of the total estimated costs of the contract

In addition, the Company sells services provided by third parties Revenue for services provided by third parties is recognised at the point of sale to the customer as the Company has no ongoing obligations The Company establishes the selling price and is exposed to customer credit risk on this revenue and therefore considers itself to be acting as principal, measuring revenue as the price charged to the customer, excluding sales tax

Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate ('EIR') applicable EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability Interest income is included in finance income in the income statement

1 Accounting policies continued

1 6 Cost of sales

The Company recognises cost of sales at the point in which it recognises revenue as explained above Cost of sales predominantly relates to the cost of goods and services purchased from suppliers and then sold to customers In addition to these costs the following elements are also included within cost of sales

Rebates

Included within cost of sales are rebates received from commercial partners Further details are provided on rebates in 1 7, below

Managed service infrastructure costs

The Company operates its own network operating centre which facilitates the selling of Softcat hosted managed services The costs of maintaining this ability include, but are not limited to, the rental of space in data warehouses, energy and licensing costs These costs represent the cost of sale of selling hosted managed service solutions and are included within cost of sales

Marketing costs and related credits

The Company carries out numerous training programmes, activities and schemes that aim to educate its sale force and internally promote the products the business resells These activities are often funded by the Company's partners Both the cost of the programmes borne by the Company and the credits received, where applicable, are included within cost of sales

Settlement discounts

Through the normal course of business the Company receives credits from distributors and suppliers for the prompt settlement of invoices Softcat recognises these discounts in cost of sales as they are recognised as a reduction in the cost of goods sold

1 7 Rebates

Rebates from suppliers are accounted for in the period in which they are earned and are based on commercial agreements with suppliers Rebates earned are mainly sales volume related and are generally short term in nature with rebate earned but not yet received typically relating to the preceding quarter's trading Rebate income is recognised in cost of sales in the Statement of Profit or Loss and Other Comprehensive Income and rebate earned but not yet received is included within accrued income in the Statement of Financial Position

1 8 Property, plant and equipment

Property, plant and equipment other than freehold land is stated at cost net of accumulated depreciation and/or impairment losses if any If the costs of certain components of an item of property, plant and equipment are significant in relation to the total cost of the item, they are accounted for and depreciated separately Depreciation is provided at rates calculated to write off the cost of each asset over its expected useful life, as follows

Freehold buildings	50 years straight line
Building improvements	remaining period of lease – ten years straight line
Computer equipment	three–five years straight line
Fixtures fittings and equipment	six years straight line
Motor vehicles	three years straight line

Land is not depreciated

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement when the asset is derecognised

Building improvements relate to expenditure on improving both leasehold property and the freehold property of Solar House in Marlow Improvements to Solar House are depreciated over a ten-year period, which represents their useful life Leasehold improvements are depreciated over their useful life which is the lesser of the remaining length of the lease or ten years

The residual values useful lives and methods of depreciation are reviewed for reasonableness at each financial year end and adjusted for prospectively if appropriate

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2016

1 Accounting policies continued

1 9 Intangible assets

Intangible assets are measured on initial recognition at cost Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any Intangible assets with a finite useful life are assessed for impairment whenever there is an indication that the intangible asset may be impaired Amortisation is provided for at rates calculated to write off the cost of each asset over its expected useful life as follows

Computer software	three–five years straight line

The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets The amortisation period and the amortisation method are reviewed at least at the end of each reporting period Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised

1 10 Leases

Rentals payable under operating leases are charged against income on a straight-line basis over the lease term even if payments are not made on such a basis Onerous property leases are provided for in the Statement of Financial Position and represent the present value of the onerous element of an operating lease This arises when the Company ceases to use premises and they are left vacant to the end of the lease

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease At inception or on reassessment of the arrangement that contains a lease the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values

1 11 Inventories

Inventories are valued at the lower of cost and net realisable value Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs to sell

Inventories are predominantly goods in transit and items for which a customer purchase order has been received but the goods have yet to be delivered to the customer

1 12 Financial instruments

Financial assets

The Company's financial assets include cash and cash equivalents and trade other receivables All financial assets are recognised when the Company becomes party to the contractual provisions of the instrument

i) Trade receivables

Trade receivables are recognised and carried at original invoice amount less provision for impairment

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables The amount of the provision is determined as the difference between the asset s carrying amount and the present value of estimated future cash flows and is recognised in the income statement in administrative expenses

ii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, call deposits and bank overdrafts

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into The Company s financial liabilities comprise trade and other payables All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method

i) Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method

1 13 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, call deposits and bank overdrafts

1 Accounting policies continued

1 14 Pensions

The pension costs charged in the financial statements represent the contributions payable by the Company during the year on the defined contribution pension scheme The assets of the scheme are held separately from those of the Company in an independently administered fund The amounts charged to the income statement represent the contributions payable to the scheme in respect of the accounting period and represents the full extent of the Company s liability

1 15 Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities

1 16 Current taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income

Current income tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Profit or Loss and Other Comprehensive Income Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate

1 17 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Pounds Sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction All differences are taken to the income statement

1 18 Share-based payments

During the year the Company operated the following equity-settled share option schemes

Company Share Option Plan ('CSOP')

The Company Share Option Plan provides share options for nominated employees The purchase price is set at a mid-market price on the date of grant The CSOP operates both approved and unapproved schemes with vesting dependent on continued employment with the Company Options typically vest between one and three years and lapse after ten years from the date of grant

The fair value of the CSOP options is estimated at the date of grant using the Black-Scholes model and is charged as an expense in the income statement over the vesting period with a corresponding increase in equity

Share Incentive Plan ('SIP')

The Company operates a Share Incentive Plan for employees who were awarded free shares following the initial public offering in November 2015 Shares were allocated to employees on the basis of length of service Free shares awarded to an employee under the SIP are subject to a holding period ending not earlier than the third anniversary and not later than the fifth anniversary of the date on which beneficial interest in the relevant ordinary shares is conferred by the SIP Trustee to the employee

The fair value of the SIP shares is determined by the share price at date of grant on 9 December 2015, and the number of shares expected to be transferred following the three-year vesting period The assumption used for expected leavers within three years from the date of award has been calculated with reference to historical employee retention rates The resulting fair value charge is charged as an expense in the income statement over the vesting period with a corresponding increase in equity

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2016

1 Accounting policies continued

1 18 Share-based payments continued

Long Term Incentive Plan ('LTIP')

Details in relation to the Softcat Long Term Incentive Plan 2015 awards to Executive Directors are included in the Directors' Remuneration Report on page 45

The awards will only vest and become exercisable upon achievement of performance targets, linked to earnings per share and total shareholder return, as well as being conditional upon continued employment with the Company The fair value is measured using a suitable valuation model where appropriate Non-market vesting conditions are taken into account by adjusting the number of LTIP shares expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of LTIP shares that will eventually vest Market vesting conditions are factored into the fair value of the LTIP shares granted The cumulative expense is not adjusted for failure to meet a market vesting condition The resulting fair value charge is charged as an expense in the income statement over the vesting period with a corresponding increase in equity

Employee Benefit Trust and SIP trust

The Company operates an Employee Benefit Trust and a SIP trust for the benefit of eligible employees The Company recognises the assets and liabilities of these trusts as its own until such assets held vest unconditionally with identified beneficiaries The Company meets all costs incurred by the trusts

1 19 Company accounts

Softcat plc is a single entity with no subsidiary undertakings The Employee Benefit and SIP trusts, which hold shares on behalf of employees, are not consolidated within the results of Softcat plc and instead are treated as extensions of the Company

1 20 Exceptional items

Items that are material in size and unusual in nature are included within operating profit and disclosed separately in the income statement The separate reporting of these items helps to provide a more accurate indication of the underlying business performance

2 Segmental information

The information reported to the Company's Chief Executive Officer who is considered to be the chief operating decision maker for the purposes of resource allocation and assessment of performance is based wholly on the overall activities of the Company The Company has therefore determined that it has only one reportable segment under IFRS 8 which is that of value-added IT reseller and IT infrastructure solutions provider' The Company's revenue and results and assets for this one reportable segment can be determined by reference to the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position An analysis of revenues by product which form one reportable segment, is set out below

Revenue by type	2016 £ 000	2015 £ 000
Software	319 978	287 469
Hardware	250 692	223 845
Services	101,681	84,770
	672 351	596,084

The total revenue for the Company for the year has been derived from its principal activity as an IT reseller Substantially all of this revenue relates to trading undertaken in the United Kingdom

3 Operating profit

Operating profit is stated after charging	2016 £'000	2015 £'000
Depreciation of tangible assets	1 796	1 794
Amortisation of intangible assets	327	353
Operating lease rentals	520	501
Foreign exchange loss	262	234
Exceptional items	3 673	999
Inventories expensed in the year	228,215	204,941
Auditor's remuneration		
Fees payable for the audit of the Company's annual accounts	150	45
Total for statutory audit services	150	45
Taxation advisory services	18	5
Other non-audit services	394	242
Total for non-audit services	412	247

Other non-audit services primarily represent professional fees related to the initial public offering

4 Exceptional items

	2016 £'000	2015 £'000
IPO costs	3 673	999

All IPO costs incurred directly relate to the Company's listing on the London Stock Exchange in November 2015

5 Finance income

	2016 £'000	2015 £'000
Bank interest	213	195

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2016

6 Income tax

The major components of the income tax expense for the years ended 31 July 2016 and 31 July 2015 are

	2016 £ 000	2015 £ 000
Statement of profit or loss		
Current income tax charge in the year	9,179	8,970
Adjustment in respect of current income tax in previous years	(7)	(6)
Total current income tax charge	9 172	8 964
Deferred tax		
Current year	153	(274)
Adjustment in respect of previous periods	(97)	(34)
Effect of changes in tax rates	17	4
Deferred tax charge	73	(304)
Total tax charge	9,245	8,660
Reconciliation of total tax charge		
Reconciliation of tax expense and accounting profit multiplied by the Company's domestic tax rate for 2016 and 2015		
Profit on ordinary activities before taxation	42,403	39,777
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 20 00% (2015 20 67%)	8 481	8,220
Effects of		
Non-deductible expenses	851	313
Adjustment to previous periods	(104)	(6)
Stock option differences	—	158
Deferred tax prior year adjustment	—	(34)
Deferred tax rate changes	17	9
	764	440
Income tax charge reported in the profit or loss	9 245	8 660

In the year ended 31 July 2016, £475,000 of current tax was credited to equity

Non-deductible expenses in the year predominantly relate to the legal and accountancy costs associated with the initial public offering

Changes affecting the future tax charge

In the FY15 Summer Budget the Chancellor announced a further reduction to the corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 These rates were substantively enacted at the balance sheet date

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date and therefore these have been measured at 19%

7 Dividends

	2016 £ 000	2015 £ 000
Declared and paid during the year, prior to IPO and share reorganisation		
Ordinary dividend on ordinary shares	36,765	6 622
Ordinary dividend on 'MR' shares	864	240
Ordinary dividend on 'A ordinary shares	2,469	449
	40 098	7 311
Declared and paid during the year, post IPO and share reorganisation		
Ordinary dividend on ordinary shares	3,355	—
	43 453	7,311
Adjustment in respect of prior period	—	(13)
	43,453	7,298

The dividends paid in the six months ended 31 January 2016 were paid prior to the reorganisation of share capital, see note 16, and therefore are shown as dividends split between the pre-reorganisation share classes

An interim dividend of 1 70p per share, amounting to a total dividend of £3 36m was paid on 29 April 2016 to those on the share register on 1 April 2016

The Board recommends a final dividend of 3 6p per ordinary share and a special dividend of 14 2p per ordinary share to be paid on 16 December 2016 to all ordinary shareholders who were on the register of members at the close of business on 18 November 2016 Shareholders will be asked to approve the final and special dividends at the AGM on 8 December 2016

8 Property, plant and equipment

	Freehold land and buildings £ 000	Building improvements £ 000	Computer equipment £ 000	Fixtures fittings and equipment £ 000	Motor vehicles £ 000	Total £ 000
Cost						
At 1 August 2014	2,649	1 465	4 839	824	180	9,957
Additions	—	283	1,700	166	68	2 217
Disposals	—	(20)	—	(45)	(14)	(79)
At 31 July 2015	2 649	1,728	6,539	945	234	12 095
Additions	—	198	768	190	34	1,190
Disposals	—	—	—	—	—	—
At 31 July 2016	2 649	1 926	7,307	1 135	268	13,285
Depreciation						
At 1 August 2014	50	237	2,613	334	116	3,350
On disposals	—	(4)	—	(28)	(14)	(46)
Charge for the year	25	168	1 412	148	41	1 794
At 31 July 2015	75	401	4 025	454	143	5,098
On disposals	—	—	—	—	—	—
Charge for the year	25	261	1 287	170	53	1,796
At 31 July 2016	100	662	5 312	624	196	6 894
Net book value						
At 31 July 2016	2 549	1,264	1,995	511	72	6,391
At 31 July 2015	2,574	1,327	2 514	491	91	6,997

Freehold land amounting to £1 4m (2015 £1 4m) has not been depreciated

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2016

9 Intangible assets

	Computer software £ 000
Cost	
At 1 August 2014	888
Additions	288
At 31 July 2015	1,176
Additions	536
At 31 July 2016	1,712
Amortisation	
At 1 August 2014	365
Charge for the year	353
At 31 July 2015	718
Charge for the year	327
At 31 July 2016	1 045
Net book value	
At 31 July 2016	667
At 31 July 2015	458

The amortisation of intangible assets is included in administrative expenses within the income statement See note 3

Intangible assets, consisting entirely of non-integral computer software assets, are amortised over their estimated useful lives of three to five years

10 Inventories

	2016 £ 000	2015 £ 000
Finished goods and goods for resale	4 611	2 652

The amount of any write down of inventory recognised as an expense in the year was £nil (2015 £nil)

11 Trade and other receivables

	2016 £ 000	2015 £ 000
Trade and other receivables	123 833	112,943
Provision against receivables	(1,265)	(1 008)
Net trade receivables	122,568	111,935
Called up share capital not paid	—	1,783
Other debtors	59	49
Prepayments	4,764	3 785
Accrued income	5,396	4,400
	132,787	121,952

Trade receivables do not carry interest The average credit period on sale of goods is 44 days (2015 46 days)

11 Trade and other receivables continued

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value

The ageing profile of trade receivables was as follows

	2016 £ 000	Related provision £ 000	Net £ 000	2015 £ 000	Related provision £ 000	Net £ 000
Current	88,326	(434)	87,892	74,892	(187)	74,705
1–30 days	27,831	(142)	27 689	30 236	(76)	30,160
31–60 days	5,175	(68)	5 107	4 046	(38)	4,008
61–90 days	1,521	(45)	1,476	2,057	(9)	2,048
Over 90 days	980	(576)	404	1 712	(698)	1,014
Total due	123,833	(1,265)	122,568	112,943	(1 008)	111,935

The Company provides against its trade receivables where there are serious doubts and objective evidence as to future recoverability based on prior experience on assessment of the current economic climate and on the length of time that the receivable has been overdue Further details on how the Company manages its credit risk can be found in note 20

Movement in the provision for trade receivables was as follows

	2016 £ 000	2015 £ 000
Balance at beginning of year	1 008	1 674
Increase for trade receivables regarded as potentially uncollectable	1,223	472
Decrease in provision for trade receivables recovered, or written off, during the year	(966)	(1,138)
Balance at end of year	1,265	1 008

See note 20 for details on how the Company approaches its exposure to credit risk

The Company does not hold collateral as security

12 Trade and other payables

	2016 £ 000	2015 £ 000
Trade payables	67 759	71,213
Other taxes and social security	11 778	9,209
Accruals	24,000	23,361
Deferred income	11,990	4 270
	115,527	108,053

The Directors consider that the carrying amount of trade and other payables approximates to their fair value

The average credit period taken for trade purchases is 30 days (2015 35 days)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2016

13 Cash at bank and in hand

	2016 £000	2015 £000
Cash at bank and in hand	62,361	74 642

Cash and cash equivalents comprise cash at bank and cash in hand Cash at bank earns interest at floating rates based on daily bank deposit rates All cash held is accessible and is not restricted for any period of time

14 Deferred tax

The deferred tax asset is made up as follows

	2016 £000	2015 £000
Accelerated capital allowances	44	90
Share-based payments	(214)	(625)
Other timing differences	(256)	(143)
Net deferred tax assets	(426)	(678)

	2016 £000	2015 £000
Reconciliation of deferred tax asset		
Balance at 31 July 2015 (PY 31 July 2014)	(678)	(535)
Adjustment in respect of previous years	(97)	(33)
Profit and loss account	169	(271)
Charge to equity	180	161
Balance at 31 July 2016 (PY 31 July 2015)	(426)	(678)

The Company recognises all deferred tax movements in the year within the income statement, except for £180,000 (2015 £161,000) charged to equity in relation to deferred tax movements on share based payments

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority

15 Pension and other post-retirement benefit commitments

Defined contribution pension scheme

The Company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the Company in an independently administered fund The pension cost charge represents contributions payable by the Company to the fund At the year end pension contributions of £124,759 (2015 £183,604) were outstanding

	2016 £000	2015 £000
Contributions payable by the Company for the year	657	554

16 Share capital

	2015 £ 000
Authorised	
Pre-reorganisation	
Ordinary shares of 1p each	112
'MR' shares of 1p each	2
'A' ordinary shares of 1p each	6
	120

Limits on authorised share capital were removed on re-registration as a public limited company

	2016 £ 000	2015 £ 000
Allotted and called up		
Pre-reorganisation		
Ordinary shares of 1p each		90
'MR' shares of 1p each		2
'A' ordinary shares of 1p each		6
		98
Post-reorganisation		
Ordinary shares of 0 05p each	99	
Deferred shares[1] of 0 01p each	—	
	99	

Note

1 At 31 July 2016 deferred shares had an aggregate nominal value of £189 33

Share reorganisation

On 12 November 2015, pursuant to special resolutions of the Company and conditional upon admission to the official list of the FCA (which took place on 18 November 2015), it was resolved that

- 188,500 MR' shares of £0 01 each be redesignated as ordinary shares of £0 01 each and their rights varied accordingly
- 588,322 'A ordinary shares of £0 01 each be redesignated as ordinary shares of £0 01 each and their rights varied accordingly,
- 18,933 'A' ordinary shares of £0 01 each be redesignated as deferred shares of £0 01 each and
- each ordinary share of £0 01 be sub-divided into 20 ordinary shares of £0 0005 each

Employee Benefit Trust

In the period from 1 August 2015 to 12 November 2015 4 237,740 share options were exercised with 2,538,520 shares satisfied from existing shares held in the EBT The value of shares exercised, and satisfied by the EBT, was £463 280

Share Incentive Plan Trust

Following both the above reorganisation and initial public offering 629 883 free shares were issued to employees in a share issue for nil consideration These shares are held in the SIP Trust until the performance conditions are met which require the employee to remain an employee for a period of three years from issue The SIP Trust also holds shares on behalf of employees who have chosen to participate in the voluntary partnership share purchase programme as part of the SIP

5 000 shares issued on 8 December 2014 under the Deferred Purchase Scheme and subsequently forfeited on 31 August 2015 were cancelled during the year

No issued ordinary shares of 0 0005p each were unpaid at 31 July 2016 (2015 5,060,000 unpaid)

All ordinary shares rank pari passu in all respects

NOTES TO THE FINANCIAL STATEMENTS CONTINUED
For the year ended 31 July 2016

17 Earnings per share

	2016 Pence	2015 Pence
Earnings per share		
Basic	16 9	16 3
Diluted	16 9	16 0
Adjusted earnings per share		
Basic	19 2	16 7
Diluted	19 1	16 5

The calculation of the basic and adjusted earnings per share and diluted earnings per share is based on the following data

	2016 £ 000	2015 £ 000
Earnings		
Earnings for the purposes of earnings per share being profit for the year	33,158	31,117
Adjusted earnings		
Profit for the year	33,158	31 117
Exceptional costs	3,673	999
Share-based payment charge	888	5
Tax effect of adjusting items	(97)	(57)
Earnings for the purposes of adjusted earnings per share	37,622	32,064

The weighted average number of shares is given below

	2016 000	2015 000
Number of shares used for basic earnings per share	196,040	191,540
Number of shares deemed to be issued at nil consideration following exercise of share options	696	3,228
Number of shares used for diluted earnings per share	196 736	194,768

Adjusted earnings per share represents basic earnings per share adjusted for the impact of non-recurring items and share-based payment expense The Board uses this measure as it believes it is more representative of underlying performance

18 Notes to the Statement of Cash Flows

Reconciliation of operating profit to net cash inflow from operating activities

	2016 £ 000	2015 £ 000
Operating profit	42,190	39 582
Depreciation of property plant and equipment	1 796	1,794
Amortisation of intangibles	327	353
(Gain)/loss on disposal of fixed assets	(9)	28
Cost of equity-settled employee share schemes	572	5
Operating cash flow before movements in working capital	44,876	41 762
(Increase)/decrease in inventory	(1,961)	1,830
Increase in debtors	(12 608)	(22,425)
Increase in creditors	7,474	33,563
Cash generated from operations	37,781	54,730
Income taxes paid	(7 856)	(7 319)
Net cash from operating activities	29 925	47 411

19 Financial commitments

Operating leases

At 31 July 2016 operating leases represent short-term leases for office space in Marlow, London, Manchester, Bristol, Leeds and Glasgow

Future minimum rentals payable under non-cancellable operating leases for office buildings are as follows

	Office buildings	
	2016 £ 000	2015 £ 000
Operating lease payments due		
Within one year	585	597
Between two and five years	868	1 282
In over five years	—	—
	1,453	1,879

20 Financial instruments and financial risk management

The Company's principal financial liabilities comprise trade and other payables The primary purpose of these financial liabilities is to finance the Company's operations The Company has trade and other receivables and cash that derive directly from its operations

Financial assets

The financial assets of the Company were as follows

	2016 £ 000	2015 £ 000
Cash at bank and in hand	62 361	74,642
Trade and other receivables	132 787	121,952
	195 148	196 594

The Directors consider that the carrying amount for all financial assets approximates to their fair value

Financial liabilities

The financial liabilities of the Company were as follows

	2016 £ 000	2015 £ 000
Trade payables	(67,759)	(71 213)
Accruals	(24,000)	(23,361)
	(91,759)	(94,574)

The Directors consider that the carrying amount for all financial liabilities approximates to their fair value

Financial risk management

The Company is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk The Company's senior management oversees the management of these risks and ensures that the Company's financial risk taking is governed by appropriate policies and procedures and that financial risks are identified measured and managed in accordance with Company policies and Company risk appetite

The Board of Directors reviews and agrees the policies for managing each of these risks which are summarised below

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates At the year end the Company has no borrowings and therefore the exposure to interest rate risk is limited to the rates received as interest income on cash deposits The Company accepts the risk of losing interest on deposits due to interest rate reductions Due to the limited exposure to interest rate risk no sensitivity analysis has been prepared

Foreign currency risk

The Company is exposed to foreign currency risk when dealing with customers and suppliers who wish to be billed in a currency other than Pounds Sterling As the vast majority of transactions are with UK customers and are denominated in Pounds Sterling, the Directors consider this foreign currency risk to be small and do not hedge this risk due to the limited exposure The level of foreign currency transactions is monitored closely to ensure that the level of exposure is manageable Due to the limited exposure to currency risk no sensitivity analysis has been prepared

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2016

20 Financial instruments and financial risk management continued

Financial risk management continued

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities including deposits with banks and financial institutions

Trade receivables

Credit risk from trade receivables is managed in accordance with the Company's established policy, procedures and control relating to customer credit risk management A customer s credit quality is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment

Outstanding customer receivables are regularly monitored At 31 July 2016, the Company had 871 accounts (2015 853) that owed the Company more than £25 000 each These accounts accounted for approximately 14% (2015 14%) of total customers and 82% (2015 81%) of the total value of amounts receivable There were 250 customers (2015 218 customers) with balances greater than £100,000 accounting for just over 4% (2015 4%) of the total number of receivable accounts and 58% (2015 54%) of the total value of amounts receivable

The requirement for impairment is analysed at each reporting date The calculation is based on actual incurred historical data The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets The Company does not hold collateral as security The Company evaluates the concentration of risk with respect to trade receivables as low as there is limited reliance on single or a few, customers, instead, sales are typically small in size but large in volume as are the number of customers This is illustrated by the fact that no more than 3% of receivables are due from any one customer at the year end

Financial instruments and cash deposits

Credit risk from cash balances with banks and financial institutions is managed in accordance with Company policy The Company has significant cash reserves which are accessible immediately and without restriction Credit risk with respect to cash deposits is managed by carefully selecting the institutions with which cash is deposited and spreading its deposits across more than one such institution to ease concentration risk

Liquidity risk

The Company generates positive cash flows from operating activities and these fund short-term working capital requirements The Company aims to maintain significant cash reserves and none of its cash reserves are subject to restrictions Access to cash is not restricted and could all be drawn upon immediately if so required The Board carefully monitors the levels of cash deposits and is comfortable that for normal operating requirements no external borrowings are currently required

The following table details the Company's remaining contractual maturity for its financial liabilities based on undiscounted contractual payments

	Within 1 year £ 000	1 to 2 years £ 000	2 to 5 years £ 000	Over 5 years £ 000	Total £ 000
2016					
Trade payables	(67,759)	—	—	—	(67,759)
Accruals	(24 000)	—	—	—	(24 000)
	(91,759)	—	—	—	(91 759)
2015					
Trade payables	(71,213)	—	—	—	(71 213)
Accruals	(23 361)	—	—	—	(23,361)
	(94,574)	—	—	—	(94,574)

In both the current year and the prior year, materially all of the financial liabilities above have a contractual settlement date of between zero and three months

Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while also maximising the operating potential of the business The capital structure of the Company consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Company Statement of Changes in Equity The Company is not subject to externally imposed capital requirements

21 Capital commitments

At 31 July 2016 the Company had £nil capital commitments (2015 £nil)

22 Directors' remuneration

	2016 £ 000	2015 £ 000
Remuneration for qualifying services	1 277	1,179
Company pension contributions to defined contribution schemes	6	42
	1 283	1 221

During the year ended 31 July 2016 the Directors of the Company were awarded a total of 350 000 LTIP shares (2015 £nil) at an average exercise price of £nil (2015 £nil) and 1,505 free shares (2015 nil) at a market price of £3 00 (2015 £nil) No further share options were issued to Directors (2015 200 000) In the year ended 31 July 2016 the Directors of the Company exercised 200 000 (2015 300 000) share options with an exercise price of £1 06 (2015 £0 30) and forfeited 944,280 options (2015 nil) with an exercise price of £1 06 (2015 £nil)

The number of Directors for whom retirement benefits are accruing under defined contribution schemes amounted to one (2015 two) The number of Directors who are entitled to receive shares under long-term incentive schemes during the year was two (2015 three)

Gains on share options exercised in the year were £268,200 (2015 £44 250)

Share based payment charges include £218 280 (2015 £3 104) in respect of Directors

Remuneration disclosed above includes the following amounts paid to the highest paid Director

	2016 £ 000	2015 £ 000
Remuneration for qualifying services	559	324
Company pension contributions to defined contribution schemes	—	38
	559	362

23 Employees

Number of employees

In the current year management has refined how employees are categorised, as shown below, to align to internal reporting Prior year numbers have been restated accordingly The average monthly number of employees (including Directors) during the year was

	2016 Number	2015 Number as restated
Sales	616	500
Services	114	97
Administration	143	125
	873	722

Employment costs

	2016 £ 000	2015 £ 000
Wages and salaries	26,906	21,289
Social security costs	6 467	5 200
Other pension costs	692	554
Share option charge	888	5
	34,953	27,048

Financial statements

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2016

24 Share option schemes

The Company operates a CSOP for nominated employees, and an LTIP for Executive Directors The Company also operates a SIP for employees who received free shares in the year and for those that have decided to participate in the partnership shares programme

The Company recognised the following expenses related to equity-settled share-based payment transactions

	2016 £ 000	2015 £ 000
CSOP	79	5
LTIP	199	—
SIP 'free shares' scheme	294	—
	572	5
Employer's National Insurance contributions payable on all schemes	316	—
	888	5

All options vest at the end of the vesting period relating to that option or on the occurrence of a contingent event This includes substantial sale or substantial business asset sale If the options remain unexercised after a period of ten years from the date of grant the options expire Furthermore, the vesting of these share options is dependent on continued employment

Following the public listing of shares in the Company, share options become readily convertible assets for which the Company is liable for employer's National Insurance contributions The Company accrues for National Insurance contributions on a straight-line basis from the date of award to the vesting date

Company Share Option Plan ('CSOP')

The CSOP provides share options for nominated employees The purchase price is set at a mid-market price on the date of grant This is an approved scheme and vesting is unconditional Options typically vest between one and three years and lapse after ten years from the date of grant Options are forfeited if the employee leaves the Company before the options vest

At 31 July 2016, share options outstanding under the CSOP were as follows

Option term (vesting date to expiry)	Exercise price	No of shares under options as at 31 July 2016	No of shares under options as at 31 July 2015
June 2008 to May 2016	£0 06	—	72 240
October 2009 to July 2016	£0 07	—	82,200
June 2013 to May 2021	£0 18	—	3 595,620
July 2016 to July 2024	£1 05	—	944 280
June 2017 to June 2024	£0 44	—	200,000
March 2017 to March 2025	£1 05	—	200 000
August 2016 to August 2025	£1 05	200 000	—
August 2017 to August 2025	£1 05	300 000	—
Total		500,000	5,094 340

All CSOP share options outstanding at the year end are in respect of unapproved schemes The fair value of the CSOP options granted was calculated using the Black-Scholes model, incorporating relevant assumptions for weighted average share price weighted average exercise price expected volatility, expected dividend yield, risk-free interest rate and share option term The resultant fair value was then spread over the relevant performance period for each tranche of share options The fair value of CSOP options granted in the year is measured by use of the Black-Scholes option pricing model using the following assumptions

	2016 CSOP
Share price	£1 06
Weighted average exercise price at grant date	£1 05
Expected dividend yield	4 71%
Risk-free interest rate	0 50%
Expected volatility	40 00%
Term	10 years

During the year 500,000 (2015 200,000) CSOP options were granted These shares had an exercise price of £1 05 at the date of grant, 25 August 2015, and a performance period of between one and two years

24 Share option schemes continued

Company Share Option Plan ('CSOP') continued

The expected life used in the model has been adjusted based on management s best estimate, for the effects of non-transferability, restrictions and behavioural considerations at the date of granting the options

Expected volatility was determined by calculating the historical volatility of the Company's share price over the term commensurate with the expected term immediately prior to the date of grant

Long Term Incentive Plan ('LTIP')

Details in relation to the Softcat Long Term Incentive Plan 2015 awards to Executive Directors are included in the Directors' Remuneration report on page 45 The awards will vest in 2018 upon achievement of certain performance targets and are conditional upon continued employment

During the year 350 000 (2015 nil) share options related to LTIP schemes were issued to two Executive Directors at nil exercise price with a performance period of three years The performance conditions on these awards include the Executive Director s continued employment at the date of vesting and satisfaction of the performance conditions which are linked to earnings per share and total shareholder return over the vesting period These shares have been valued at the market price at date of grant and management is comfortable that the value established is not materially different from a more complex approach Management assumes these LTIPs will vest in full with the charge to the income statement spread over the vesting period with a corresponding entry in equity

Share Incentive Plan ('SIP')

The Company operates a SIP for employees who were awarded free shares following the initial public offering in November 2015 Shares were allocated to employees on the basis of length of service Free shares awarded to an employee under the SIP are subject to a holding period ending not earlier than the third anniversary and not later than the fifth anniversary of the date on which beneficial interest in the relevant ordinary shares is conferred by the SIP Trustee to the employee

Historical employee attrition rates have been used to calculate the expected number of shares expected to vest The resulting income statement charge is spread over the three-year vesting period with a corresponding entry in equity

On 11 December 2015 629,883 (2015 nil) free shares were granted to employees In addition, all employees are eligible to participate in a voluntary partnership share purchase programme as part of the SIP

All share-based payment arrangements

The number and weighted average exercise price of share options for all share-based payment arrangements are as follows

	Weighted average exercise price	No of shares under options as at 31 July 2016	Weighted average exercise price	No of shares under options as at 31 July 2015
Outstanding at 1 August		5,094 340		10,486,400
Granted during the year	£0 34	1 567 562	£1 05	200,000
Forfeited during the year	£1 01	(994 979)	£0 11	(87,680)
Exercised during the year	£0 23	(4 237,740)	£0 19	(5 504 380)
Outstanding at 31 July		1,429 183		5,094,340
Exercisable at 31 July		—		3 750,060

The fair value of share options granted in the year was £2,441,725 (2015 £18,600) This is split between CSOP options granted of £89,750 (2015 £18,600), LTIP options of £980 000 (2015 £nil) and free shares granted of £1,371,975 (2015 £nil)

The weighted average remaining contractual life of share options at the year end was 6 43 years

Financial statements

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2016

25 Post balance sheet events

Dividend

The Board recommends a final dividend of 3 6p per ordinary share and a special dividend of 14 2p per ordinary share to be paid on 16 December 2016 to all ordinary shareholders who were on the register of members at the close of business on 18 November 2016 Shareholders will be asked to approve the final and special dividends at the AGM on 8 December 2016

26 Related party relationships and transactions

Transactions with key management personnel

The remuneration of key management personnel which consists of persons who have been deemed to be discharging managerial responsibilities, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures The definition of key management personnel has been refined in the current year, following the IPO, and the prior year figures have been restated accordingly

	2016 £ 000	2015 as restated £ 000
Short-term employee benefits	1,656	1 179
Post-employment benefits	40	42
	1,696	1 221

During the year ended 31 July 2016, key management personnel received a total of nil (2015 5,000) deferred purchase shares and were awarded a total of 350,000 share options (2015 200 000) at a weighted average exercise price of £nil (2015 £2118) All share options issued to key management personnel in the year were in the form of LTIP awards No LTIP awards were awarded in previous years

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel

Share-based payment charges include £220,989 (2015 £3,104) in respect of key management personnel

Dividends to Directors

	2016 £ 000	2015 £ 000
P D J Kelly	22 170	3 899
M J Hellawell	5,119	886
C Brown	426	74
B Wallace	190	11
	27 905	4,870

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