



WE'RE ON IT



Softcat plc
Annual Report
and Accounts 2017

WE'RE ON IT...

Our aim is simple – to be the leading IT infrastructure provider in terms of employee engagement, customer satisfaction and shareholder return.

We live by our values and believe that a few simple truths about our business set us apart. They have helped us achieve 98% employee engagement, 99% customer satisfaction and 48 consecutive quarters of organic revenue and profit growth.



▶ Our people

.....

▶ Markets and offering

.....

▶ Vendor partnerships

.....

▶ Customer relationships

 See pages 12 to 19 for more details

Financial and operational highlights

Revenue £m

17	832.5
16	672.4
15	596.1
14	504.8
13	395.8

Gross profit £m

17	136.3
16	120.7
15	102.8
14	88.5
13	70.5

Operating profit £m

17	50.2
16	42.2
15	39.6
14	35.5
13	27.4

Adjusted operating profit £m¹

17	51.5
16	46.8
15	40.6
14	35.5
13	28.1

Customer numbers '000

17	13.0
16	12.2
15	11.4
14	10.7
13	9.8

Gross profit per customer £'000

17	10.5
16	9.9
15	9.0
14	8.3
13	7.2

- Revenue growth: 24%
- Operating profit growth: 19%
- Adjusted operating profit growth: 10%¹
- Underlying adjusted operating profit growth: 16%²
- Cash conversion: 97%
- Growth achieved across all business lines and offices
- Employee engagement: 98%
- Customer satisfaction: 99%

Notes:

- Adjusted operating profit is operating profit before the impact of exceptional items and share-based payment charges.
- See pages 22 to 23 for more detail on underlying adjusted operating profit performance.

 See pages 20 and 21 for more information on our KPIs

This Annual Report contains forward-looking statements. These forward-looking statements are not guarantees of future performance. Rather, they are based on current views and assumptions and are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from any future results or developments expressed or implied from the forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement and, save to the extent required by the applicable law or regulation, we do not undertake any obligation to update or renew any forward-looking statement.

Strategic report

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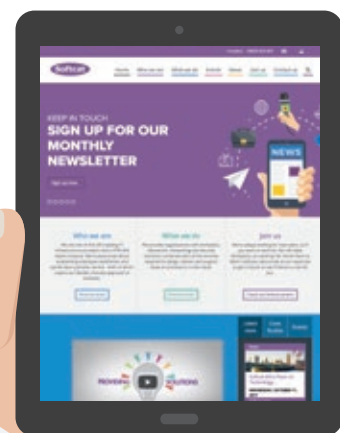
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To read more visit
www.softcat.com



WE ARE A RESELLER

There are many names for what we do and, while we do a lot of reselling, we also design, advise, consult, implement, manage and monitor. So, call us whatever you like: a reseller, a VAR, an IT solutions company, an IT infrastructure provider – we are all of those things.

What is important is that there will always be a need to help organisations and businesses procure and manage IT. We have made it our mission to do that better than anyone else.

OUR OFFERING

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

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.

 See pages 14 and 15 for more on our markets



Workplace technology



Networking and security



Cloud and datacentre

100%

UK focused

OUR TEAM

We believe that if people enjoy what they do they will do it better, so our culture is a vital ingredient to our success. It is the source of the outstanding service we deliver to customers.

 See pages 12 and 13 to read about our people

1,046

employees at 31 July 2017



AWARD-WINNING SERVICE



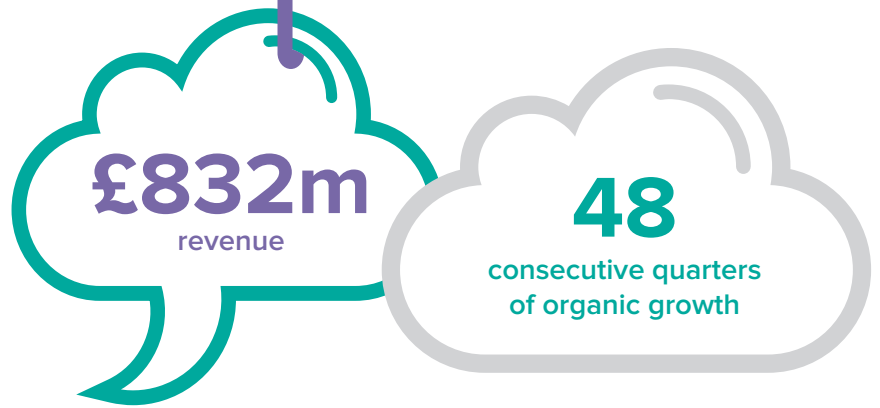
HPE
Partner of the Year
UK and Ireland



SOPHOS
Enterprise Partner of the Year
UK and Ireland



CISCO
EMEAR Partner of the Year
UK and Ireland



OUR VENDORS

We partner with more than 200 different hardware and software vendors to bring the latest and broadest range of technology to our customers, as well as numerous specialist service providers to augment the services provided by our in-house teams.

Vendor relationships are important to us and we strive to be their partner of choice.

See pages 16 and 17 for more on our partnerships

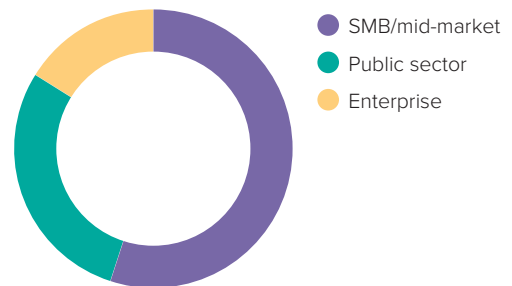


200+
vendors

OUR CUSTOMERS

The majority of our business comes from the small to medium-sized business segment, but public sector customers now account for more than 30% of revenue and continue to grow. We also have a significant number of large enterprise customers and are actively investing in our capability to serve very large accounts.

See pages 18 and 19 for more on our relationships



13,000
customers

mimecast

MIMECAST
Partner
of the Year



ADOBE
Partner
of the Year

veeam

VEEAM
SMB Partner
of the Year

snow

SNOW SOFTWARE
New Business
Partner of the Year

DELIVERING RESULTS FOR OUR SHAREHOLDERS



“

The Company has made significant investments in new sales, services and technical resource over the past two years.

Performance

I am pleased to report strong financial results from Softcat in 2017 against a background of mixed performance in the IT reseller market. Growth in gross profit, our primary measure of income, was 12.9% to £136.3m and adjusted operating profit increased by 10.1% to reach £51.5m. Revenue growth was especially strong at 23.8% with software, hardware and services all delivering double-digit growth. The Company has made significant investments in new sales, services and technical resource over the past two years and the return on those investments is evident in our performance. More information on how we performed can be found in the Chief Executive's Statement and Financial Review on pages 7 to 10 and 22 to 23.

Board

We announced in May 2017 that our Chief Executive, Martin Hellowell, had decided to step down once his successor is in place. Since the announcement, the Nomination Committee has been focussed on finding a successor with the appropriate energy and passion to drive the Company through its next stage of development. The search is progressing and, once his successor is in place, the Board intends to appoint Martin as Non-Executive Chairman at which time I will retire from the Board. I am confident that these plans will ensure a very orderly transition in due course. Details of the search are set out on page 43.

I would like to thank Martin for the exemplary leadership role he has played in driving the business forward over the past eleven years. Softcat has achieved exceptional growth during Martin's tenure. The start of Martin's tenure as Chairman will open a new chapter and I am very confident that the Company will perform strongly in the years ahead. The Board's focus will be on supporting both Martin and the new Chief Executive in their new roles for the benefit of the Company and shareholders alike. For my own part, it has been a privilege to chair Softcat through its IPO in 2015.

Shareholder returns

Our dividend policy remains a progressive one 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.

We recommend a final dividend of 6.1p, taking the total dividend to 9p per ordinary share. In addition, we recommend a special dividend of 13.5p per ordinary share is paid at the same time as the final dividend. Shareholders will be asked to approve the final and special dividends at the AGM on 8 December 2017.

Looking ahead

People and succession planning will remain one of the Board's key priorities, alongside the development of strategy and its execution. Much of our focus will be on supporting the leadership team through the next chapter of growth for the benefit of our customers, employees and shareholders.

Notwithstanding the uncertainties surrounding Brexit, the business is in a confident mood and its relentless focus on customer service and employee engagement provides good grounds for optimism going forward.

Our success this year would not have been possible without the passion and commitment of our outstanding employees. On behalf of the Board, I would like to thank everyone across the Company for their contribution in making this a successful year for Softcat. I have always found our people to be committed, positive and dedicated to our customers. Each and every one shows huge pride in working for this unique business, and I would like to extend our gratitude to them all.

A handwritten signature in black ink that reads "Brian Wallace".

Brian Wallace

Chairman

18 October 2017

FANTASTIC PEOPLE DELIVERING OUTSTANDING CUSTOMER SERVICE

We employ bright, highly motivated people who care about the organisation they work for. They deliver for customers, year after year.

WE RECRUIT AND TRAIN GREAT PEOPLE WITH HIGH POTENTIAL

We work with universities and schools 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.

6,500+
applications



WE INCENTIVISE AND ENGAGE OUR PEOPLE TO PERFORM

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

98%
employee satisfaction



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 seven 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

13.0

2016: 12.2

Gross profit per customer
£'000

10.5

2016: 9.9

WHAT SETS US APART

See pages 12 to 19 to read more



Our people



Markets and offering



Vendor partnerships



Customer relationships

WE HAVE A SIMPLE FORMULA FOR GROWTH

Business can be complicated; we strive to make it less so.

OUR GOAL:

To be the leading IT infrastructure provider in terms of employee engagement, customer satisfaction and shareholder return.



SELL MORE TO EXISTING CUSTOMERS

The opportunity to help customers with an increasing range of technology choices has never been greater.



WIN NEW CUSTOMERS

In 2017 customer numbers grew organically for the tenth year in succession, but we still only serve around one in five from our target markets.



DEVELOP OFFERING

Our ability to develop new capabilities and quickly form strong relationships with innovative vendors is second to none.



BUILD SCALE

An expanding branch network, growing recruitment capacity and flourishing service capability position us well for sustainable growth.



OUR COMPANY WORD OF THE YEAR FOR 2018 IS OPPORTUNITY



“

I'm delighted by how the Company has performed in 2017, and our momentum into the new financial year is strong.

Overall how would you describe the performance of the Company last year?

I think we had a very satisfactory financial year 2017 and I am pleased with the outcome.

Revenue growth was really strong at 24%. I'm always most interested in our gross profit growth and that was equally pleasing for me, being up 13% despite last year containing a one-off benefit that we knew would not repeat. So, excluding that, in underlying terms growth in gross profit was 16%. Our growth would indicate that once again we have taken further market share in our sector.

The gross profit growth resulted in 10% adjusted EBIT growth (16% underlying, i.e. excluding the 2016 one-off procurement-related profit benefit), while we continue to invest in new capabilities. That, combined with another year of strong cash generation, resulted in the special dividend we've proposed alongside these results.

But time doesn't stand still and we are now focused on the opportunity to do it all again in 2018.

Did any technology area or business line particularly stand out for you in 2017?

All our major business lines showed good growth in the year. Our security and services businesses were perhaps the two standout performers, delivering very strong growth.

Our security business has been one of our key strengths for many years now. We saw strong underlying growth in this area, which was further assisted by purchases related to organisations preparing themselves for General Data Protection Regulation ('GDPR') compliance, which will be enforced from 25 May 2018. This is a significant challenge for the majority of our customers and there is a lot more work required in this area, which is therefore a good opportunity for us moving forward. General security risks continue to grow in complexity and frequency and are now a major boardroom priority, highlighted by high profile events like the WannaCry attacks. Softcat was particularly proactive in advising and assisting customers on these types of threats.

We have invested significantly in our own services capability and we continue to work with a number of third party organisations to complement our internal offering. Particularly in areas such as hybrid cloud migration and mobility, in many cases customers are looking to Softcat to provide a complete solution rather than trying to stitch various technology components together themselves. We completed a large number of projects in these areas using tried and tested expertise and templates.



13,000

12,200 customers in FY16

£10.5k

£9.9k GP per customer in FY16

You have six branches now; how did they each perform?

Yes, that's right; we have branches in Marlow, London, Manchester, Leeds, Glasgow and Bristol but have also recently announced that we intend to open a seventh location on the South Coast in the first half of this new financial year.

All existing branches met expectations and achieved positive growth. For me the standout performers were Manchester and London. We very much enjoyed our first full financial year in Scotland and are delighted with the number of new Scottish customers who are trading with Softcat since we became established there.

What about the markets you serve?

The SMB and mid-market remains our largest segment and, despite our market leadership position, continues to grow very nicely from a very large base. Our public sector business saw very strong growth again this year and the enterprise segment also outpaced overall Company growth and it's pleasing to see us tapping into that opportunity. The vast majority of our business is in the UK but we assist an increasing number of our customers with their requirements outside the UK.

How have you performed against your business model this year?

In essence, our business model begins by recruiting large numbers of new employees into the organisation to help support and further augment our growth. Most sales people join straight from university or at early stages of their career. This has been supplemented by a successful apprenticeship scheme which has been recognised with a number of awards this year. We take more experienced people into the organisation for other positions, notably in services. Finding the right people to join the Company is never easy and perhaps our biggest challenge as a business, but we had another excellent year of recruiting excellent new talent into the organisation.

Once in the organisation, we strive to be a great place to work and to fully motivate our employees. While we are well known for this and have received many accolades over the years, we are far from complacent and as the business gets bigger the employee engagement challenge doesn't become any easier. Last year in our annual employee engagement survey we recorded our highest ever employee net promoter scores and our score for personal morale was exceptionally high, and opportunities for training and development is our most improved area over the last five years.

If we employ the right people and they are fully engaged with the business, we believe our employees will provide exceptional customer service. We believe this is the key to our success and providing exceptional service is at the very heart of our model. Again, we aren't perfect and know that while once again our customer satisfaction survey produced outstanding results and our customers continued to increase the amount of business they do with Softcat, we can still get better and we are very much "on it", which was our Company phrase of the year in 2017 and is the theme of this Annual Report.

Which accolades and milestones of note have you received this year?

I was delighted Softcat was named as the overall largest Microsoft licensing partner in the UK and we also received awards from a number of other vendors. These include Partner of the Year awards from HPE, Mimecast, Veeam and others.

What is your latest view on cloud and how it is affecting you?

It is a very consistent view with what we have been saying for the last five years and there are several levels to this.

We see an increasing proportion of our software licensing business transition to a cloud-based platform. For example we may previously have sold Microsoft licensing agreements for Office which were installed by customers on their sites. Today, many customers are choosing to consume Office from the cloud with Office 365.



99%
customer
satisfaction rating


In terms of customers running their own legacy applications many have come to the conclusion that they should continue running on their own infrastructure, while a preference is often given to consuming new applications from the cloud. This results in the majority of our customers favouring some form of hybrid IT, using some combination of their own infrastructure and the cloud.

Some customers may effectively outsource the management and possibly ownership of that infrastructure to a third party. This is often known as the private cloud and a small part of Softcat's business is running private cloud environments for our customers.

For reasons of control, security, cost and the difficulty of porting legacy applications to the cloud, customers' own infrastructure and private cloud infrastructure still has its place. Indeed we have seen several instances of customers moving back from the public cloud to the private cloud environment. Overall, however, we see a continuing trend from customers to transition towards the public cloud for an increasing number of workloads. Softcat has subsequently grown a strong Microsoft Azure business over recent years and is working with a number of customers on the Amazon AWS platform.



WE'RE ON IT



Strong performance from our new offerings such as managed print and contractual support services.

Consequently Softcat sees a growing opportunity to develop our services and support business by helping customers migrate to a hybrid and public cloud environment. We can then work with customers to support and manage those environments. This is effectively an opportunity to augment our already very large subscription licensing business, a part of the business we've been well known for throughout our history and received many plaudits for.

The move to the cloud reduces the hardware opportunity as customers need fewer servers and storage as a result. But this impact shouldn't be overly exaggerated as these transitions always take longer than anyone predicts and the requirement for computer and storage capacity continue to increase exponentially as data volumes further expand, and with new waves of technology such as artificial intelligence this will further accelerate.

As a Company which has evolved from the software world, we still have a relatively low market share in the datacentre infrastructure business. By helping customers intelligently migrate to the hybrid cloud world and by taking share from our competition, we believe that we can continue to grow our business in this segment despite the changing market. That's exactly what we did very successfully in the last financial year.

In terms of what you do, what do you want to be famous for?

We define our business into three broad categories – workplace technology, which is all the standard technology on or around a customer's desk; networking and security; and cloud and datacentre. All areas are affording us plenty of opportunity and we continue to expand our offering in each. In the workspace area our managed print offering has gained significant traction. Last year we expanded our range of extended support services particularly in the networking area and this has added considerable incremental business and profitability for the Company.

In particular, we want to be the best in cloud and traditional subscription software. We want to be the go-to security company in the market and the partner of choice for cloud and datacentre. There's plenty to do but we're well on our way.

And your transition to Chairman? How is that going and when will the new Chief Executive be announced?

I haven't started transitioning to the role of Chairman and I am still fully focused and totally committed to being Chief Executive of Softcat until a new Chief Executive is on board and in place. That will take the time it takes and we are not working to any set deadline. That said, the search for the new Chief Executive is progressing. I am delighted with the way the organisation has responded to the proposed change, fully embracing the continuity provided by my transition to the Chairman role and the opportunity to kick on under new leadership.

I very much look forward to passing the baton of leading Softcat to my successor and to my continued involvement as Chairman.

How do you see the opportunity ahead?

While we have performed well for many years now and have enjoyed 48 quarters of top-line and bottom-line growth, the opportunity ahead of us feels larger than ever. If you just take the list of the top 100 VARs in the UK and put our turnover against the aggregated total, that gives us c.6.5% market share. And there's a lot more than 100 VARs out there. So that gives us at least 93.5% of the market still to go for. Our sales force strength and the breadth and depth of our capability have never been better and there's great momentum in the Company. Despite questions around the economy, our exit from the EU and public sector policy, the market for what we do feels quite buoyant. We're lucky to have a very broad portfolio and our customer-centricity and flexibility allow us to move quickly to the areas in the market where there is most demand, which makes us far less vulnerable to more challenging technology segments.

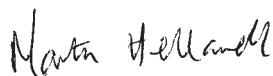
The opportunity is there for the taking but we are well aware that only constant hard work, hunger and excellent execution will allow us to take it.

We can extend that opportunity by considering further geographical expansion both locally and internationally and by considering acquisitions. We will continue, as we always have done, to consider both extremely carefully and cautiously.

I would like to thank our employees for taking the opportunity last year and for all their tremendous support, commitment, hard work and camaraderie during 2017 and over my last eleven years with Softcat. I would also like to thank our very valued customers, who continue to be a pleasure to work with and who keep pushing us on to ever greater things. And finally I would like to thank our business partners, who continue to give Softcat a tremendous amount of support for which we are extremely grateful.

And to close, Martin, how has financial year 2018 started for you?

Our financial year starts on 1 August and as I write this we are approximately ten weeks into the new year. It's very early days and there is still all to play for but we are where we would like to be at this stage.



Martin Hellawell
Chief Executive
18 October 2017



WHAT SETS US APART



Our people

 See pages 12 to 13 for more information

Markets and offering

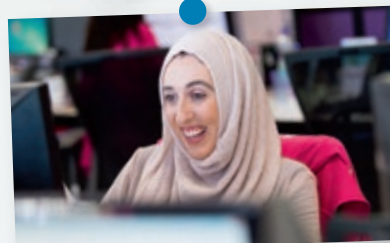
 See pages 14 to 15 for more information

Vendor partnerships

 See pages 16 to 17 for more information

Customer relationships

 See pages 18 to 19 for more information



Our people

MADE OF THE RIGHT STUFF

We believe that Softcat employees are the best in the industry. They are bright and motivated and they care.

THE SOFTCAT DNA

We care passionately about two things – outstanding employee satisfaction and world-class customer service. We believe the former drives the latter and this vision has been cemented firmly within our Company for the past 24 years.



Our Company values are captured in four key words:



PASSIONATE

We are positive and enthusiastic and we want to do an outstanding job for customers and partners, delivering world-class levels of service. We always strive to improve, there is never room for any complacency, and every individual is passionate about their part in making Softcat a great place to work for everyone.



INTELLIGENT

We run our business intelligently and look to continuously improve it for the good of employees, customers and shareholders alike. We strive to keep the business as simple as possible, valuing flexibility, and we encourage people to take initiative, challenge how we do things and promote smart ideas, no matter how big or small.



FUN

We promote a positive, optimistic and energising environment where our employees can come to work and enjoy it. We want our customers to enjoy working with our company and our diverse personalities and individuals. We celebrate success, we value humility, and we respect and embrace the fact that individuals have different ideas of fun and fulfilment.



RESPONSIBLE

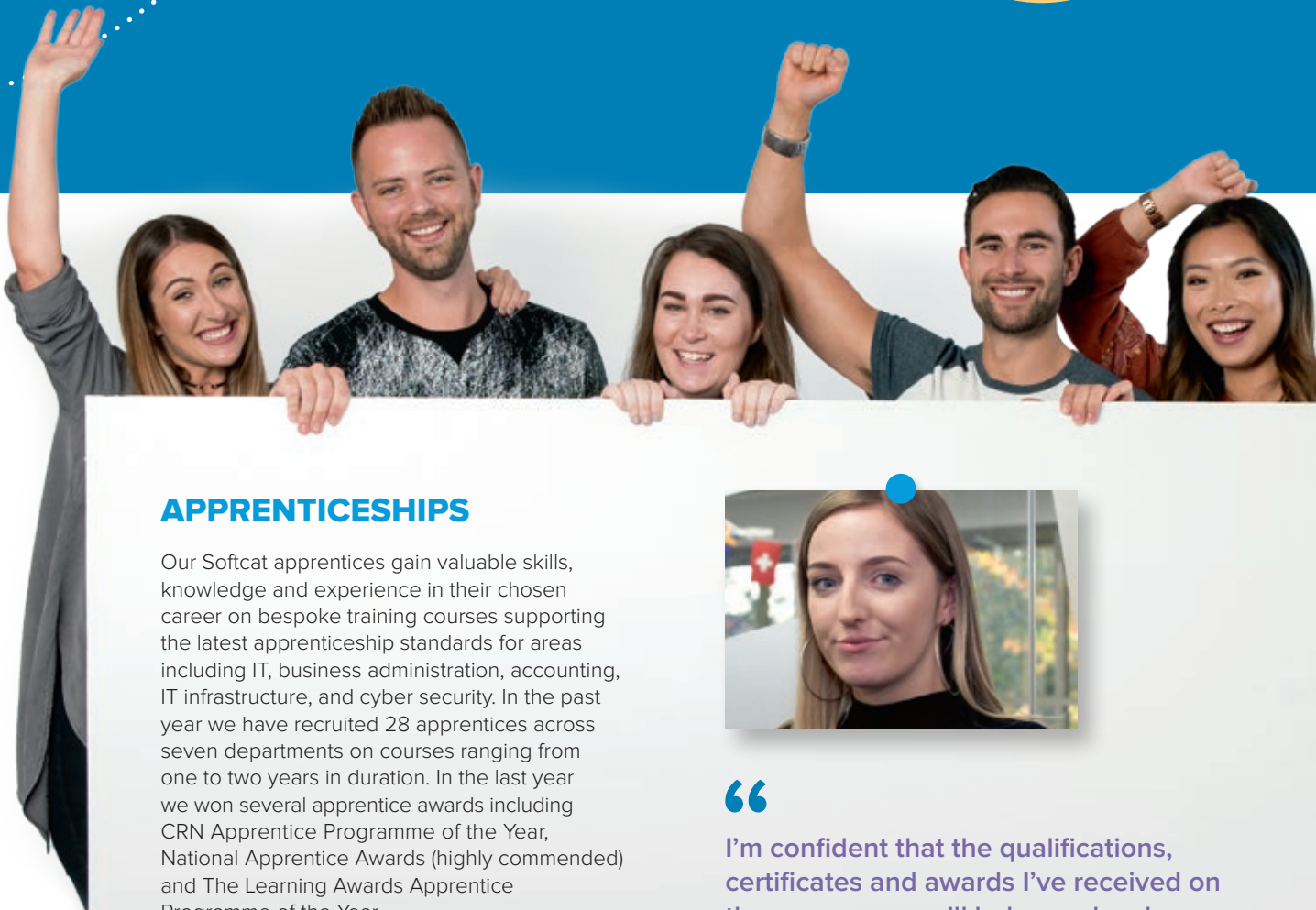
We conduct our business with a strong code of ethics and demand honesty and integrity. We take social responsibility seriously, particularly charitable activity. We embrace and strive for diversity in gender, ethnicity, religion, sexuality and special needs; every part of society is equally welcome, and as a community we look after each other, particularly in times of need and difficulty.

We recognise the achievements of all and are keen to give praise both informally and formally through company awards. This effort has culminated in a number of awards including a top ten place in the Great Place to Work Institute's Best Workplace in the UK 2017.



WE'RE ON IT

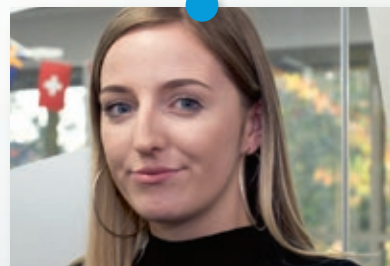
Strong employee engagement scores and we continue to be ranked as one of the UK's best places to work.



APPRENTICESHIPS

Our Softcat apprentices gain valuable skills, knowledge and experience in their chosen career on bespoke training courses supporting the latest apprenticeship standards for areas including IT, business administration, accounting, IT infrastructure, and cyber security. In the past year we have recruited 28 apprentices across seven departments on courses ranging from one to two years in duration. In the last year we won several apprentice awards including CRN Apprentice Programme of the Year, National Apprentice Awards (highly commended) and The Learning Awards Apprentice Programme of the Year.

Read more about our apprenticeships
www.softcat.com/join-us



“

I'm confident that the qualifications, certificates and awards I've received on the programme will help me develop my career as an account manager, as well as an apprentice manager in the future.”

Morgan O'Sullivan
 Corporate Sales Apprentice

Our markets and offering

EXPERTISE THAT IS BROAD, DEEP AND CURRENT

Technology has never been more important to businesses.

As the world becomes more connected and more digital, organisations need help more than ever to understand the possibilities, negotiate the market and manage the risk of technological change. Customers tell us that they need our help in modernising their infrastructure and understanding how the cloud can help them; in doing a better job of delivering devices, applications and services to their increasingly mobile

users; in improving their security in a world where more devices every week are connected to their network; and in improving their understanding of what data they hold and where – and making that data work for them. Every customer has digital aspirations and by getting these things right we can help them achieve those goals.

Our offerings are driven by...

The move to cloud and subscription

Data privacy legislation – GDPR

Preparing for digitalisation

User demands for mobility and modern workplace experience

Maximising the business value of data

The increasing threat landscape





...delivered through

■ Datacentre and cloud

▲ Networking and security

● Workplace technology

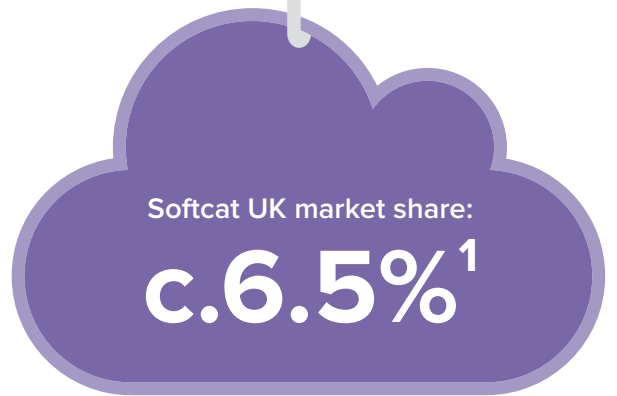


HOT INDUSTRY THEMES	SOFTWARE	HARDWARE
 <p>CLOUD AND THE DISTRIBUTED DATA CENTRE</p>	<ul style="list-style-type: none"> ■ Infrastructure automation and private cloud ■ Public and hybrid 	<ul style="list-style-type: none"> ■ Flash and hybrid storage ■ Converged and hyperconverged infrastructure ▲ Next gen and software-defined networking ■ Edge computing
 <p>MOBILITY AND END-USER COMPUTING</p>	<ul style="list-style-type: none"> ● VDI and application delivery ▲ Identity and access management ▲ Device management and security 	<ul style="list-style-type: none"> ● Windows 10 and multi-form factor devices
 <p>SECURITY IN AN OPEN AND CONNECTED WORLD</p>	<ul style="list-style-type: none"> ▲ Machine-learning-based endpoint protection ▲ Encryption ▲ Security event and information management 	<ul style="list-style-type: none"> ▲ Firewalls
 <p>DATA – WHAT, WHERE AND HOW TO MAKE SENSE OF IT</p>	<ul style="list-style-type: none"> ■ Analytics ● Visualisation 	<ul style="list-style-type: none"> ■ Object and cloud storage

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

WE'RE ON IT

Strong performance with growth continuing to outstrip the sector.



1. Source: Company information and CRN Top 100 VARS 2016.

SERVICES

- Cloud adoption services
- Backup and disaster recovery as a service
- ▲ Cloud connectivity and security
- Workplace strategy services
- Office 365 migration
- ▲ Security assessment services
- Data assessment services

Our offerings are delivered to...

- Public sector
- Central government
- Mid-market
- Service providers
- SMB
- Enterprise
- Lower enterprise
- Micro-market



Our vendor partnerships

MAKING 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.



“

Cylance and Softcat share a mission to cut through the noise and confusion of the security landscape, delivering innovative and highly effective technologies that truly protect customers' systems.”

Didi Dayton
VP of WW Channels
Cylance



MAKING THE RIGHT PARTNERSHIPS

Softcat works with a long list of well-known partners but also forms close bonds with up and coming vendors. We are led by the needs of our customers and form the partnerships they require from us. We are constantly on the lookout for exciting emerging players. In reality, we work with thousands of different vendors from titans of the industry such as Microsoft and HP to emerging technologies such as Nutanix and Cylance. We take our responsibilities to partners very seriously and are proud of the myriad awards recognising the value of the work we do for them.

200+
vendors

WE'RE ON IT

Investment in our sales force, services capability and technical expertise.



Our customer relationships

CREATING COMPETITIVE ADVANTAGE

If there's one single reason why Softcat has delivered such strong growth over such a long period of time, it's the strength of our customer relationships.

DELIVERING THE BEST SERVICE

The range of technology offered by Softcat is broad and deep, better than most and as good as any. But what really sets us apart is the passion, intelligence and integrity with which our people serve their customers. Customers know that when they need something from Softcat, we're on it!

CASE STUDY

THE NATIONAL GALLERY



The challenge:

The National Gallery needed a new printing, photocopying and scanning system due to the multiple problems that they were experiencing with their existing setup. Printing is a large part of the gallery's business and as such the gallery was looking for a partner which could provide a solution which solved their problems as well as ensuring only minimal disruption.

The gallery's existing system also had serious security issues. There was no way for users to track their documents once they were sent to the printer, and no way to guarantee that documents would not get lost in the system.

Solution highlights:

Softcat listened to the challenges that the National Gallery was facing and suggested solving these issues with a Softcat managed print service. The first stage of this was for Softcat to perform an audit on the current printing estate at the gallery to assess exactly how the current system was being used. Softcat found that the gallery was printing over 100,000 pages a month, a lot more than the customer had thought. From this it was clear that the gallery needed a system which would allow it to more accurately monitor its printer usage.

- Hugely improved printing security
- Large reduction in help desk requests for printers
- Dedicated project manager to assist with implementation
- Continued support from Softcat

“

When I started with Softcat eleven years ago I set about discovering what the Company was already good at. I spoke to loads of customers and the message was clear: they valued the relationship, passion and intelligence of our people. I've never forgotten that and it remains the basis of our model to this day.”

Martin Hellawell
Chief Executive



HOW DO CUSTOMERS RATE OUR SERVICE?

99%+
satisfaction rating



SUMMARY RESULTS AND KPIs

The financial and non-financial key performance indicators shown below demonstrate the Company's progress against strategic goals and delivery of financial performance and shareholder value. These metrics are referred to throughout this report and each is discussed in more detail within the Financial Review on pages 22 and 23.

FINANCIAL

Revenue £m

17	832.5
16	672.4
15	596.1

Strategic link



Comments

- Revenue includes all income from the resale of third party software, hardware and services, as well as the sale of the Company's own services.

Gross profit £m

17	136.3
16	120.7
15	102.8

Strategic link



Comments

- Gross profit comprises revenue net of third party product costs, supplier rebates and certain internal direct costs.

Operating profit £m

17	50.2
16	42.2
15	39.6

Comments

- Operating profit comprises gross profit net administrative expenses.

Adjusted operating profit £m

17	51.5
16	46.8
15	40.6

Comments

- Adjusted operating profit is defined as operating profit before the impact of exceptional items and share-based payment charges. Refer to page 72.
- Growth in adjusted operating profit is the primary measure for delivery of financial returns from our growth strategy.

Link to Directors' remuneration

- Adjusted operating profit is the sole KPI of reference for the Executive Directors' bonus, reflecting its central role in measuring the delivery of in-year shareholder value.

Basic earnings per share p

17	20.4
16	16.9
15	16.3

Comments

- Basic earnings per share ('EPS') is defined as profit after tax divided by the number of shares in issue at the balance sheet date.

Link to Directors' remuneration

- Basic EPS forms 50% of the weighting of the Executive Directors' LTIP targets.
- Delivery of EPS growth will also contribute indirectly to share price performance, an important element in total shareholder return ('TSR'). TSR also forms 50% of the weighting of the LTIP targets.

Cash conversion %

17	97
16	85
15	132

Comments

- Cash conversion is defined as operating cash flow before tax but after capital expenditure, as a percentage of operating profit.
- The five-year average for cash conversion is in excess of 90%, reflecting the highly liquid nature of the business operations and a disciplined approach to working capital management.

NON-FINANCIAL

Employee engagement score %

17	98
16	96
15	98

Strategic link



Comments

- The employee engagement score is derived from responses to an annual survey of all staff.
- Enthusiastic, motivated people are at the core of the Softcat business model and customer proposition.

Customer satisfaction %

17	99
16	99
15	99

Strategic link



Comments

- 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 2017 the survey had 1,199 respondents (2016: 1,078).
- Maintenance of a very high result in this metric is central to our business model.

Strategic link:

- Sell more to existing customers
- Win new customers
- Develop offering
- Build scale

Gross profit per customer £'000

17	10.5
16	9.9
15	9.0

Strategic link



Comments

- Gross profit per customer is defined as gross profit divided by the number of customers.
- New customers are included in the calculation and tend to create dilution of the metric.
- The growth in this metric therefore demonstrates the high value of ever deepening long-term relationships, and the Company's ability to sell an increasing range of technologies based on trusted partner status.

Customer numbers '000

17	13.0
16	12.2
15	11.4

Strategic link



Comments

- Customer numbers are defined as the total number of unique entities that traded with Softcat during the period.
- Growth in this metric demonstrates the ability of the sales force to win new customers while also retaining existing relationships.
- Growth in customer numbers therefore underpins future growth as well as contributing to in-year performance.

Read more in our financial review overleaf

DELIVERING GROWTH AND INVESTING IN NEW CAPABILITIES



£51.5m

Adjusted operating profit

23.8%

Revenue growth

“

Our financial goals are focused on the delivery of sustainable, profitable growth and cash conversion to drive superior long-term shareholder return.

Revenue and gross profit

Revenue growth was very strong at 23.8%, rising to £832.5m (2016: £672.4m). This reflects good progress across all customer segments with public sector business once again expanding fastest and rising as a proportion of total income to 31% (2016: 29%). Public sector revenue performance was boosted by the signing of a large central government, low margin deal during the first half worth up to £40m over three years, with £14m of income booked during 2017. Revenue growth was also very strong across the corporate sector by virtue of both new customer wins and cross-selling new products to existing customers.

Revenue mix across technology categories (software, hardware and services) was largely unchanged. Services expanded slightly as a proportion of the total to 15.6% (2016: 15.1%) due to good growth from both the expansion of in-house professional service capacity as well as the introduction of new vendor support services.

Gross profit grew strongly, up 12.9% to £136.3m (2016: £120.7m). Prior year gross profit includes the impact of £3.4m non-recurring procurement savings within cost of sales. Excluding this impact, gross profit grew in 2017 by 16.2% (2016: 14.1%). This acceleration in underlying growth reflects further gains in market share and pleasing returns on investment in sales and technical capabilities over the past 18 months.

Gross profit margin was down during the year from 18.0% to 16.4% due to the following key factors:

- non-recurring impact of procurement savings in 2016 (0.5% pts);
- large low margin central government contract in H1 2017 (0.3% pts);
- partial impact on Softcat margin from currency-induced vendor price rises (0.5% pts); and
- other (0.3% pts).

Customer KPIs

Customer numbers were up 6.0% to 13.0k (2016: 12.2k) reflecting the continued efforts of both new hires and existing account managers to expand our reach.

Perhaps even more pleasing, gross profit per customer rose 6.5% (2016: 9.2%), or 9.6% (2016: 6.2%) on an underlying basis (excluding the 2016 procurement benefit). This acceleration in underlying gross profit per customer growth bears close correlation with the Company's ability to cross-sell new product lines to existing customers and increase share of wallet.



Revenue remains well dispersed across the customer base, with the largest customer accounting for less than 2% of total income.

Operating profit

Operating profit of £50.2m (2016: £42.2m) is 18.9% up due to both the growth in adjusted operating profit (see below) and the exceptional costs in the prior year related to the IPO.

Adjusted operating profit and operating margin

Adjusted operating profit increased by 10.1% to £51.5m. Excluding the impact of the 2016 procurement upside, adjusted operating profit grew by 16.4% referred to as underlying adjusted operating profit growth. 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.

On an underlying basis, and despite these investments, the margin of adjusted operating profit to gross profit increased marginally from 37.7% to 37.8%.

Adjusted operating profit margin to sales of 6.2% (2016: 7.0%) fell on the back of the gross margin reduction, detailed above.

Corporation tax charge

The effective tax rate for 2017 fell to 20.3% (2016: 21.8%), due mainly to the absence from the current period of the non-deductible expenses related to the IPO recognised in 2016.

Cash and balance sheet

Cash conversion (defined on page 20) was again strong at 97.2% (2016: 85.5%), reflecting the ongoing close management of working capital balances as the business continues to grow.

The broad composition of the balance sheet is unchanged, reflecting the simple and efficient business model. The value of stock is minimal due to the close operational partnership with distributors and the value of inventory recognised at year end mainly reflects goods in transit.

The Company's closing cash balance of £61.6m was only slightly down on the prior year figure of £62.4m, having been replenished by the results of operations following the payment of £40.9m dividends during the year.

Dividend

A final dividend of 6.1p per share has been recommended by the Directors and if approved by shareholders will be paid on 15 December 2017. The record date will be 3 November and the shares will trade ex-dividend on 2 November.

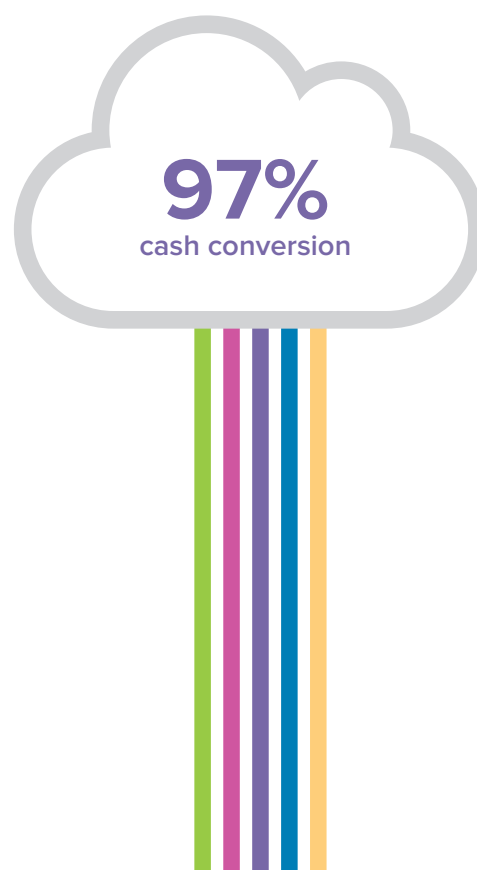
In line with the Company's stated intention to return excess cash to shareholders over time, a further special dividend payment of 13.5p per share has been proposed. If approved by shareholders at the Company's AGM this would also be paid alongside the final dividend in December 2017, and would bring total cash returned to shareholders in the two years since IPO to £83m.

Graham Charlton

Chief Financial Officer

18 October 2017

 See pages 20 and 21 to read more on our KPIs



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 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. Our risk profile remained stable during the year, with no changes from FY16. An outsourced 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.





The impact of Brexit

The ongoing process and negotiations to deliver the result of the 2016 referendum and take Britain out of the EU ('Brexit') has increased the level of macroeconomic uncertainty. However, at the present time the Board does not consider Brexit to be a principal risk to the business model, but will continue to monitor and reevaluate this risk as necessary.

Principal risks and uncertainties

BUSINESS STRATEGY		OPERATIONAL
Risk	Risk	Risk
Customer dissatisfaction	Failure to evolve our technology offering with changing customer needs	Cyber and data security
Change from 2016	Change from 2016	Change from 2016
— No change	— No change	— No change
Potential impacts	Potential impacts	Potential impacts
<ul style="list-style-type: none"> • Reputational damage • Loss of competitive advantage 	<ul style="list-style-type: none"> • Loss of customers • Reduced profit per customer 	<ul style="list-style-type: none"> • Inability to deliver customer services • Reputational damage • Financial loss
Management and mitigation	Management and mitigation	Management and mitigation
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Company-wide information security policy • Appropriate induction and training procedures for all staff • External penetration testing programme undertaken • ISO 27001 accreditation
Link to strategy	Link to strategy	Link to strategy
		

Strategy link:  Sell more to existing customers  Win new customers  Develop offering  Scale platform

OPERATIONAL		FINANCIAL		PEOPLE	
Risk		Risk		Risk	
Business interruption		Profit margin pressure including rebates		Culture change	
				Poor leadership	
Change from 2016		Change from 2016		Change from 2016	
— No change		— No change		— No change	
Potential impacts		Potential impacts		Potential impacts	
<ul style="list-style-type: none"> • Customer dissatisfaction • Business interruption • Reputational damage • Financial loss 		<ul style="list-style-type: none"> • Reduced margins 		<ul style="list-style-type: none"> • Reduced staff engagement • Negative impact on customer service 	
				<ul style="list-style-type: none"> • Lack of strategic direction • Deteriorating vendor relationships • Reduced staff engagement 	
Management and mitigation		Management and mitigation		Management and mitigation	
<ul style="list-style-type: none"> • Operation of backup operations centre and datacentre platforms • Established processes to deal with incident management, change of control, etc. • Continued investment in operations centre management and other resources • Ongoing upgrades to network • Regular testing of disaster recovery plans 		<ul style="list-style-type: none"> • 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 		<ul style="list-style-type: none"> • 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 	
				<ul style="list-style-type: none"> • Succession planning process • Experienced and broad senior management team 	
Link to strategy		Link to strategy		Link to strategy	
					
					

HIGHLY SUPPORTIVE ENVIRONMENT

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

CHARITIES

Supporting charities and raising money for such causes is an integral part of life at Softcat. We have a designated charities team which has been formally operating for almost a decade. Charities are chosen by our employees and, where possible, for causes staff have existing relationships with or are closely connected to or affected by. We strive to get as many people involved in our charity work as possible, employees as well as customers and suppliers, in order to fulfil what we see as a central part of our corporate responsibility. We believe it is important to promote awareness of worthy causes, as well as hardship, and to show how individuals and teams may come together to do something notable for the greater good.

Softcat's charity work to date has helped to raise over £1.7m, as well as providing assistance for our chosen charities. In 2017 alone, Company and employee initiatives have enabled us to raise £210,000. As a Company, we have also benefited from these programmes as they continue to help increase employee engagement, satisfaction and development through the endless activities our employees lead, encouraged and supported by the Company.

We support a large array of charities, large and small, national and local. Tuberos Sclerosis Association, The Prince's Trust, Comic Relief and Children in Need have all benefited from our charitable activities to date.



For the last five years we have worked particularly closely with Dreams Come True, raising a total of £1.2m over this timeframe. We are very proud to have helped children and young people with serious or life-limiting conditions fulfil their dreams. This year, Softcat has also supported Wycombe Homeless Connection. In addition, we support focus events for organisations such as Comic Relief, for which we have acted as a contact centre for the last four years, on top of other fundraising activities for this cause.

These events promote team building and unity within Softcat, alongside the primary goal of helping those less fortunate than ourselves.



30
charities have received donations of over £1,000

ENVIRONMENT

In each of the Softcat offices we have a group of volunteers who care for the environment; we call them the Green Team. The Green Team works together to raise employee awareness around environmental issues.

Decisions at Softcat are influenced by our care and passion for the environment. We use video conferencing whenever possible to reduce travel. If employees need to travel, Softcat offers eco-friendlier travel options including a cycle to work scheme or the use of one of our low emission pool cars. All of our offices are also within one mile of a train station so employees can use public transport.

Around the office the Green Team has been making positive environmental changes. In the current financial year we have installed a new managed print solution reducing waste. This has saved 50,165 sheets of paper or the equivalent of three trees. The managed print solution also recycles used ink cartridges increasing our impressive recycling portfolio of paper, cans, plastic, obsolete computer equipment and food waste, which we compost at our Marlow office. Softcat offices use energy-saving technology, such as energy-efficient lighting which automatically shuts off when not being used and thin clients rather than energy-hungry desktops. All our offices are ISO 14001 and ISO 50001 certified.

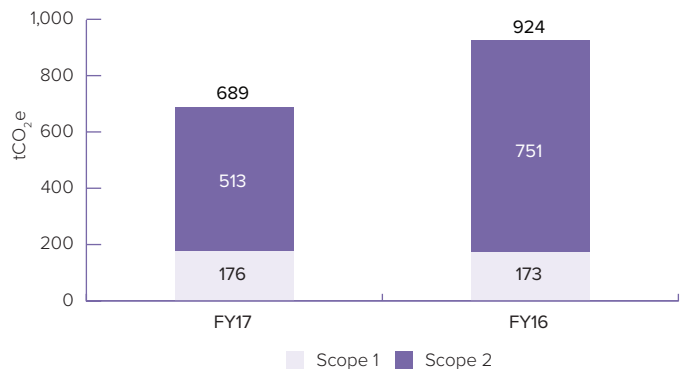


GHG emissions

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 in boilers we control.
- Scope 2: Comprises our electricity consumption in leased and owned buildings.

GHG emissions



Softcat intensity measurements

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 22.4% reduction per employee.

tCO ₂ e	2017	2016
tCO ₂ e/£m	0.83	1.05
tCO ₂ e/employees	0.67	1.37

PEOPLE

We are extremely passionate about employee satisfaction and endeavour to provide a supportive and encouraging working environment for all employees across all of our offices. The Company provides an extensive array of benefits including weekly on-site doctor visits, a Share Incentive Plan ("SIP"), as well as many social and sporting activities. Likewise, we believe in the importance of inspiring our employees to give their best; therefore, everyone is given the chance to qualify for our amazing incentives. We believe hard work should reap extra rewards. Additionally, Softcat strives to support employees in all aspects of life, both inside and outside of the workplace.

Softcat provides exceptional and ongoing training and development opportunities. We have developed bespoke training for many roles to help employees to identify and realise their aspirations, to provide our staff with opportunities to enhance their skills and advance their qualifications. Furthermore, we have strong

feedback mechanisms in place for employees on their performance, as well as frequent communication between employees and the senior team.

Our recognition as the Great Place to Work 'Best Large Workplace' 2017 is an achievement that demonstrates what a unique place Softcat is to work.

We are mindful that human rights risks can arise within our business and supply chain, including labour risks, unsafe work place conditions and bribery and corruption. Our code of conduct, which is applicable to all employees and those who work for or on behalf of Softcat, sets out the standard of behaviour expected in relation to human rights risks, bribery and raising concerns through the whistleblowing process. We have also published a Modern Slavery Statement which is available on our website, softcat.com.



1,000+
employees



GREAT PLACE TO WORK
UK's Best Large
Workplaces 2017

Gender breakdown

Softcat is an equal opportunities employer and we are committed to equality and diversity.

A breakdown of the Board, senior management and all employees is shown below:

	2017				2016			
	Number ¹		%		Number ¹		%	
	Male	Female	Male	Female	Male	Female	Male	Female
Directors	5	1	83	17	5	1	83	17
Senior managers	13	0	100	0	10	1	91	9
Total permanent employees	739	307	71	29	649	278	70	30

Note:

1. At 31 July 2017 and 31 July 2016.

We remain committed to gender diversity and to providing equal opportunities by recruiting and promoting staff on the basis of their experience, skills, attitude and qualifications. Additionally, we acknowledge the recommendation from the Hampton-Alexander Review targeting 33% representation of women on FTSE 350 boards by 2020. Softcat recognises the benefits to be gained 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, will enable the Company to maintain its competitive advantage.

We recognise that gender diversity within the IT industry, and in particular sales within IT, has not been ideal historically, and this is indeed reflected in our numbers above. We are therefore especially focused on working with the industry to improve this position and ensure that Softcat is not missing valuable sources of talent.



CORPORATE GOVERNANCE

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- 38 Audit Committee report
- 42 Nomination Committee report
- 45 Remuneration Committee report
- 60 Directors' report



Compliance with the UK Corporate Governance Code

We have structured this year's report in the following way, based upon the principles set out in the UK Corporate Governance Code.

Leadership

The Board has clear divisions of responsibility and is collectively responsible for the long-term success of Softcat.

 [See page 32 for more information](#)


Effectiveness

We evaluate the balance of experience, skills, knowledge and independence of the Board to ensure we are effective.

 [See page 35 for more information](#)

Accountability

We present a fair, balanced and understandable assessment of Softcat's position and prospects. Our decisions are discussed within the context of the risks involved.

 [See page 38 for more information](#)

Relations with shareholders

Strong relationships with our shareholders are crucial for the Company's success.

 [See page 37 for more information](#)

Remuneration

Director remuneration is set to promote the long-term success of Softcat.

 [See page 45 for more information](#)





“

I am pleased to confirm that your Company has complied in full with the 2016 UK Corporate Governance Code.

Brian Wallace, Chairman

Dear shareholder

I am pleased to confirm that your Company has complied in full with the principles and provisions of the 2016 UK Corporate Governance Code (the “Code”) during the year.

2017 has been a very busy year for the Company. We are pleased that the Company continued to perform well with strong profit growth and cash generation. In his overview, our Chief Executive, Martin Hellawell, explains both the reasons for this outperformance and also the actions that the leadership team is taking to capitalise on the opportunities ahead.

Changes to the Board

We announced in May 2017 that Martin had decided to step down as Chief Executive once his successor is in place. Following that announcement the Nomination Committee initiated a search for a new Chief Executive which is ongoing. Once his successor is in place, the Board intends to appoint Martin as Non-Executive Chairman and I will retire from the Board. Details of the search are set out on page 43. Martin will not be independent on appointment as Chairman. When deciding on his appointment, the Board recognised that the Code states that the Chairman should on appointment meet the independence criteria set out in the Code and that ordinarily the Chief Executive should not go on to be the Chairman. The Board’s intention to appoint Martin as Non-Executive Chairman was discussed at that time with a number of the Company’s largest shareholders.

I would like to thank my colleagues on the Board for their continued support, commitment, challenge and passion for our business.

Board effectiveness

I am in frequent and open contact with Martin and the rest of the Board, and I aim to ensure that at all times the Board fully understands how the business is operating and any risks or challenges in our future. Our programme of Board visits to Softcat regional offices has continued in 2017, including visits to our London and Bristol offices. These visits help to enhance

the Board’s understanding of business operations as well as providing an opportunity for Directors to have an open question and answer session with employees. This has been particularly helpful this year as it has allowed us a clear view of how well our strategy is translating into the day-to-day activities of the business as a whole.

On 10 July 2017, I held my annual scheduled meeting with the Non-Executive Directors without the executive management present. Our discussions focused on succession planning and Board composition and, linked to that, the culture of the Board and our priorities for 2018.

We evaluated the performance of the Board for the first time this year. I led the process which is described on page 36. I am pleased to report that the outcome of the evaluation was positive and confirmed that the Board and Committees are operating effectively. Particular strengths identified were the relationship between Directors and senior management, the quality of information supplied to the Board and the open and constructive atmosphere in Board meetings.

Risk management

Risk management and in particular the principal risks faced by the Company are key elements of the Board’s ongoing agenda. Our IT governance and security was strengthened during the year following a thorough risk assessment of information security. Details of our principal risks and uncertainties and how we manage and mitigate these risks are set out on pages 24 and 25.

Listening to our shareholders

Effective communication with our shareholders is fundamental to our success. We strive to communicate our strategy and activities clearly to all our shareholders. We also welcome active engagement with all of our shareholders to answer their questions and receive their feedback. Further details of our approach to shareholder engagement can be found on page 37.

Brian Wallace
Non-Executive Chairman
18 October 2017

LEADERSHIP

Our business is led by our Board of Directors. Biographical details of the Directors as at 18 October 2017 are as follows:

Tenure of Directors

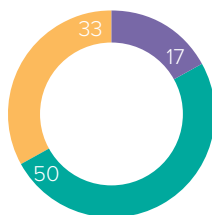
Director	Tenure
M J Hellawell	11 yrs 7 mths
B Wallace	4 yrs 5 mths
G L Charlton	2 yrs 7 mths
L Ginsberg	2 yrs 1 mth
V Murria	1 yr 11 mths
P Ventress	2 yrs

Directors' experience



- Finance
- Marketing
- Operations
- Management
- Technology

Board composition (%)



- Chairman (independent on appointment)
- Independent Non-Executive Directors
- Executive Directors

Key

- Ⓐ Audit Committee
- Ⓔ Nomination Committee
- Ⓖ Remuneration Committee
- Ⓓ Disclosure Committee
- Chairman



BRIAN WALLACE NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE BOARD

Appointed to the Board
8 May 2013 (and became
Chairman on 1 August 2014)

Committee membership

Ⓔ Ⓓ

Key strengths

- Executive board experience with a number of FTSE 100 and FTSE 250 companies
- Strong commercial skills
- Experience of running businesses in various different industries
- Wealth of financial and risk knowledge

Current external commitments

Chairman of Travelodge.

Previous roles

In his executive career, Brian was group finance director at Ladbrokes plc. Prior to this 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 First Group plc, Scottish and Newcastle plc, Hays plc, Camelot Entertainments plc and the Miller Group.



MARTIN HELLAWELL CHIEF EXECUTIVE

Appointed to the Board
24 March 2006

Committee membership

Ⓓ

Key strengths

- Over eleven years' experience at the Company, with a detailed understanding of all operations
- Significant experience within the IT industry
- Developing people and teams to be successful
- Strategy and development execution

Current external commitments

None.

Previous roles

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 Canals.com Limited as an independent consultant. Martin started his career at Miles 33, a software solutions provider for the publishing industry.



GRAHAM CHARLTON
CHIEF FINANCIAL OFFICER

Appointed to the Board
19 March 2015

Committee membership

(D)

Key strengths

- Strong financial and commercial skills
- Extensive experience in both financial and general management
- Significant experience of financing and capital raising

Current external commitments

None.

Previous roles

Graham previously spent four years as finance director at comparethemarket.com. 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.



LEE GINSBERG
SENIOR INDEPENDENT
DIRECTOR

Appointed to the Board
16 September 2015

Committee membership

(A) (N) (R)

Key strengths

- Extensive board experience
- Substantial financial and general management experience working in listed companies
- Wealth of financial and risk knowledge

Current external commitments

Non-executive director at Mothercare plc and Trinity Mirror plc, senior independent director at On The Beach Group plc, deputy chairman and senior independent director at Patisserie Valerie Holdings plc and non-executive chairman at Oriole Restaurants Limited.

Previous roles

Lee 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 qualified as a Chartered Accountant at Price Waterhouse.



VIN MURRIA
INDEPENDENT
NON-EXECUTIVE DIRECTOR

Appointed to the Board
3 November 2015

Committee membership

(A) (N) (R)

Key strengths

- A seasoned and successful entrepreneur with extensive board experience
- A strong background in technology-based businesses coupled with a strong network
- Well-developed strategic and commercial skills

Current external commitments

Non-executive director at ZPG Plc and Sophos Group plc and a partner at Elderstreet Investments.

Previous roles

Prior to joining Softcat, Vin spent seven years as the founder and chief executive at Advanced Computer Software plc prior to its acquisition by Vista Equity Partners in 2015, and five years as chief executive 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 and Greenko plc and chief operating officer at Kewill Systems plc.



PETER VENTRESS
INDEPENDENT
NON EXECUTIVE DIRECTOR

Appointed to the Board
1 October 2015

Committee membership

(A) (N) (R)

Key strengths

- Broad international chief executive experience
- Experienced B2B leader
- Strong leadership skills developed across different cultures and industries
- Well-developed strategic and commercial skills

Current external commitments

Chairman of Galliford Try plc and non-executive director of BBA Aviation plc and Staples Solutions B.V.

Previous roles

Peter spent five years as chief executive of Berendsen plc. Prior to this he held several senior executive roles including international president at Staples Inc., chief executive 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.

LEADERSHIP CONTINUED

OUR GOVERNANCE FRAMEWORK



OUR BOARD

ROLE AND RESPONSIBILITIES

The Board is collectively responsible for the oversight and success of our business. There is a clear division of responsibilities between the Chairman (who leads the Board) and the Chief Executive (who leads the business). The Board:

- sets strategy to deliver value to shareholders and stakeholders;
- monitors management activity and performance against targets;
- provides constructive challenge to management;
- sets parameters for promoting and deepening the interest of shareholders; and
- monitors succession planning.

MATTERS RESERVED FOR THE BOARD'S DECISION

- Softcat strategy, business objectives and annual budgets.
- Annual and half-year results.
- Material acquisitions, disposals and contracts.
- Major changes to internal controls, risk management or financial reporting policies and procedures.
- Determining risk appetite.
- Changes to capital, corporate or management structure.
- Succession planning for the Board and senior management.

Matters reserved can be found at softcat.com/investors.

AUDIT COMMITTEE

Provision of effective governance over:

- the appropriateness of the Company's financial reporting;
- the performance of both the internal audit function and the external auditor; and
- the Company's system of internal control including risk management and compliance activities.

[See page 38 for more information](#)

NOMINATION COMMITTEE

- Evaluates Board composition and ensures Board diversity and a balance of skills.
- Reviews Executive succession plans to maintain continuity of skilled resource.
- Oversees the performance evaluation of the Board, its Committees and individual Directors.

[See page 42 for more information](#)

REMUNERATION COMMITTEE

- Sets, reviews and recommends the policy on remuneration of the Chairman, Executives and senior management team.
- Monitors the implementation of the remuneration policy.

[See page 45 for more information](#)

EXECUTIVE LEADERSHIP TEAM

- Focuses on strategy implementation, financial and competitive performance, commercial developments, below Board-level succession planning and organisational development.

DISCLOSURE COMMITTEE

- Oversees the accuracy and timeliness of Softcat disclosures including disclosures made in Softcat's half and full year results.

Board and Committee meeting attendance

The Board met nine times during the year at a number of the Company's different offices across the country including a strategy meeting in February 2017. In line with the Company's philosophy to be open and transparent and to engage fully with its employees, the Board has also held question and answer sessions with and received presentations from the leadership team at each office location visited. The Company held three meetings of the Audit Committee, seven meetings of the Remuneration Committee and five meetings of the Nomination Committee.

Name	Board	Audit Committee	Remuneration Committee	Nomination Committee
B Wallace ¹	●●●●●●●●●●	—	—	●●●●●
M J Hellawell	●●●●●●●●●●	—	—	—
G L Charlton	●●●●●●●●●●	—	—	—
L Ginsberg	●●●●●●●●●●	●●●	●●●●●●●●●●	●●●●●
P Ventress	●●●●●●●●●●	●●●	●●●●●●●●●●	●●●●●
V Murria	●●●●●●●●●●	●●●	●●●●●●●●●●	●●●●●

● Attended ● Did not attend

1. Brian Wallace was unable to attend two Board meetings and a Nomination Committee meeting during the year due to him undergoing medical treatment. Lee Ginsberg chaired these meetings in his absence.

EFFECTIVENESS

WHAT THE BOARD DID THIS YEAR



STRATEGY

The development and implementation of Softcat's strategy has been a key focus for the Board during the year. This has been covered in a number of ways including:

- general updates from the CEO;
- specific strategy review discussions with the Board in February 2017; and
- presentations from members of the management team on strategy implementation in their business line.



See page 6 for more information



PERFORMANCE MONITORING

- Reviewed monthly reports on performance against budget and forecast.
- Reviewed reports on the financial position of the Company including treasury management.
- Reviewed regular reports from the Chairmen of the Audit, Remuneration and Nomination Committees.
- Approved the year-end and half-year results.



SHAREHOLDER ENGAGEMENT

- Discussed feedback from investors' and analysts' meetings following the release of our annual and half-year announcements and meetings with existing and potential shareholders.
- Received regular updates from stockbrokers and PR advisers on the market perception of Softcat.
- The Board's intention to appoint Martin Hellawell as Non-Executive Chairman was discussed with a number of the Company's largest shareholders and shareholder feedback provided to the Board.
- Reviewed the proxy voting figures and met with investors at the 2016 AGM.



See page 37 for more information



PEOPLE, VISION AND VALUES

- Received regular updates on people and HR matters.
- Considered the results of the annual employee survey and the quarterly management surveys.
- Met management teams and employees in our London and Bristol offices.
- Met all new members of the senior management team.



See pages 28 and 29 for more information



GOVERNANCE AND RISK

- Reviewed reports on governance and legal issues, including developments in EU audit legislation, inside information and disclosure obligations under the EU Market Abuse Regulations, Modern Slavery Act disclosure requirements, succession planning and Executive remuneration.
- Regularly reviewed the Company's principal risks.
- Received regular accounting and regulatory updates from EY, Softcat's external auditor.
- Received annual Director share dealing training.



OTHER

- Approved the 2017 Annual Report and Accounts.
- Approved the 2017 Notice of AGM.
- Received and reviewed monthly shareholders' analysis reports.

EFFECTIVENESS CONTINUED

BOARD EVALUATION 2017

The Board recognises that it continually needs to monitor and improve its performance. This is achieved through annual performance evaluation, full induction of new Board members and ongoing Board development activities.

This year, the Board carried out an internal evaluation of its performance, its Committees and individual Directors. An external evaluation of the Board's performance will be conducted in 2018.

1

STAGE 1

COMPREHENSIVE QUESTIONNAIRE

Each Director completed a confidential online questionnaire, designed by the Company Secretary. Each Board Committee undertook a specific self-assessment questionnaire. The process was overseen by the Nomination Committee, assisted by the Company Secretary.

2

STAGE 2

EVALUATION

The Chairman reviewed the Directors' contributions and the Senior Independent Director led the review of the performance of the Chairman.

3

STAGE 3

REPORTING AND DISCUSSION WITH THE CHAIRMAN AND THE BOARD

A report was prepared based on the completed questionnaires. The Chairman led the discussion of the report with the Nomination Committee and the Board at its meeting in July 2017.

Conclusions from the 2017 review

The conclusions of this year's review have been positive and have confirmed that the Board and its Committees operate effectively and that each Director contributes to the overall effectiveness and success of the Company.

The main points arising from this year's review included:

- **Strategy:** The Company's strategy was rated highly. Continued support would be given to the CEO and senior management team to seamlessly execute our strategy particularly in view of the upcoming changes to the Board.
- **Risk:** Whilst the Board noted the progress which had been made in developing the Company's risk management process, it was agreed that this process would continue to be developed, overseen by the Audit Committee.

- **Board changes and succession:** The Board would continue to support the further development of talent and succession planning. Directors would also continue to take the opportunity to regularly meet with the broader management team.
- **Shareholder views:** The Board would continue to develop its approach to its interaction with the Company's shareholders.

The Board will address these matters during the 2018 financial year and will report on progress in our 2018 Annual Report.

Board development

The Chairman is responsible for ensuring that all Non-Executive Directors receive ongoing training and development. Our Non-Executive Directors are conscious of the need to keep themselves properly briefed and informed about current issues.

Topics covered at sessions attended by our Directors during the year included cyber security, bribery and ethics update, modern slavery and share dealing rules. Specific and tailored updates, delivered by the Company's external auditor, were also provided to the members of our Audit Committee during the year covering key themes surrounding financial and narrative reporting, and accounting and auditing standards.

Regular updates on regulatory and legislative developments are provided to the Board by the Company Secretary.

There is a procedure to enable Directors to take independent legal and/or financial advice at the Company's expense, managed by the Company Secretary. No such independent advice was sought in 2017.

The Company Secretary also:

- assists the Chairman by organising induction and training programmes and ensuring that all Directors have full and timely access to all relevant information;
- ensures that the correct Board procedures are followed; and
- advises the Board on corporate governance matters.

The removal of the Company Secretary is a matter for the Board as a whole.

RELATIONS WITH SHAREHOLDERS



LISTENING TO OUR SHAREHOLDERS

We are committed to proactive and constructive engagement with shareholders and recognise the important and valuable role that shareholders play in safeguarding the Company's governance. The Board received regular updates during the year on the views of our shareholders through briefings and reports from our interaction with shareholders and from our brokers.

In the event that shareholders have any concerns, which the normal channels of communication to the Chief Executive or the Chief Financial Officer have failed to resolve or for which contact is inappropriate, our Chairman or Senior

Independent Director are available to address them. Both make themselves available, when requested, for meetings with shareholders on issues relating to the Company's governance and strategy.

The Board's intention to appoint Martin Hellawell as Non-Executive Chairman was discussed with a number of the Company's largest shareholders and shareholder feedback provided to the Board. The Board and Committees also receive correspondence from shareholders, institutional investors and proxy voting agencies, typically in the lead up to the AGM.

ANALYST AND INVESTOR MEETINGS AND PRESENTATIONS

We hold analyst and investor meetings and presentations following the release of our annual and half-year announcements. We aim to ensure that all questions are comprehensively dealt with at these meetings. We also ensure that the presentations are available on our website.

OTHER SHAREHOLDER MEETINGS

Throughout the year, numerous meetings and conference calls were held with existing and potential shareholders. These meetings were attended by either the Chief Executive or the Chief Financial Officer or sometimes both. The meetings focus primarily on trading operations and the implementation of our business strategy. Any significant views expressed are recorded and reported to the Board to keep them up to date with shareholder and investor sentiment.

ANNUAL GENERAL MEETING

The 2017 Annual General Meeting will be held on 8 December at Softcat plc, Fieldhouse Lane, Marlow SL7 1LW. Details of the meeting and the resolutions to be proposed are set out in the Notice of AGM which is available to download on our website (www.softcat.com/investors). The Annual General Meeting gives shareholders, in particular our private shareholders, an opportunity to hear about the general development of the business and to ask questions to the Board.

Board development continued

As there have been no new appointments to the Board during the year, we have not had to deliver an induction programme. Our approach to induction, led by the Chairman with support from the Company Secretary, remains to ensure that we provide a comprehensive introduction to Softcat as a whole, focusing on the practical delivery of information rather than just supplying reading materials and providing new Directors with the opportunity to meet with the Company's key stakeholders.

A full and tailored induction is being developed for the new Chief Executive. Full details of this induction will be disclosed in our 2018 Annual Report.

Independence and conflicts

The Board, excluding me as Chairman, is currently comprised of three Independent Non-Executive Directors and two Executive Directors and we therefore comply with the independence requirements of the UK Corporate Governance

Code. The independence of our Non-Executive Directors is reviewed annually by the Nomination Committee (described in the Nomination Committee's report on page 44). Their independence could be impinged where a Director has a conflict of interest, and the Board therefore operates procedures to identify and manage situations where such a conflict could arise. An element of the procedure operates to restrict a Director from voting on any matter in which they have a material personal interest unless the Board unanimously decides otherwise, and where necessary, Directors are required to absent themselves from a meeting of the Board while such matters are being discussed.

During the year, all Directors confirmed (as they are required to do annually) that they have been able to allocate sufficient time to discharge their responsibilities effectively. Directors are also required to notify me and the Board of any alterations to their external commitments that arise during the year with an indication of the time commitment involved.

ACCOUNTABILITY



“

The Committee continued to oversee the Company’s financial reporting, internal control and risk management and compliance processes during the year.

Lee Ginsberg,
Chairman of the Audit Committee

Members

L Ginsberg (Chairman)
P Ventress
V Murria

Attendance of the Audit Committee

Name	Committee attendance 2017
L Ginsberg	● ● ●
P Ventress	● ● ●
V Murria	● ● ●
Total meetings held	● ● ●

● Attended ● Did not attend

Key objectives

The provision of effective governance over the appropriateness of the Company’s financial reporting, the performance of both the internal audit function and the external auditor and oversight over the Company’s system of internal control.

Responsibilities

The Board has approved terms of reference for the Committee which are available at softcat.com/investors. These provided the framework for the Committee’s work in the year and can be summarised as providing oversight of the:

- appropriateness of the Company’s external financial reporting;
- relationship with, and performance of, the external auditor;
- Company’s system of internal control, including risk management framework and the work of the internal audit function; and
- Company’s system of compliance activities.

Membership

The membership of the Committee has been selected with the aim of providing the range of financial and commercial expertise necessary to meet its responsibilities. Given my experience, I continue to be designated as the financial expert on the Committee for the purposes of the UK Corporate Governance Code. In order to ensure that the Committee continues to have experience and knowledge relevant to the sector in which Softcat operates, all of the Non-Executive Directors receive regular updates on business, regulatory, financial reporting and accounting matters. An independent evaluation of the Committee’s performance will also be carried out every three years, with the first evaluation in 2018. There were no changes to the membership of the Committee during the year, all of whom are Non-Executive Directors of the Company.

How the Committee operates

The Committee met three times during the year and each meeting had full attendance. Meetings of the Committee generally take place on the same day as the Board meeting to maximise the efficiency of interaction with the Board and I report to the Board, as a separate agenda item, on the activity of the Committee and matters of particular relevance to the Board in the conduct of its work.

The external auditor, Ernst & Young LLP ('EY'), is invited to each meeting together with the Chairman, the Chief Executive, the Chief Financial Officer and the Company Secretary.

The Committee also meets separately with each of EY and the Chief Financial Officer without others being present.

Financial reporting

The Committee's primary responsibility in relation to the Company's financial reporting is to review with both management and the external auditor the appropriateness of the half-year and annual financial statements concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- material areas in which significant judgements have been applied or where significant issues have been discussed with the external auditor;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements, including the 2016 UK Corporate Governance Code;
- any correspondence from regulators in relation to our financial reporting; and

Significant judgements and issues

The significant areas of focus considered and actions taken by the Committee in relation to the 2017 Annual Report are outlined below.

We discussed these with the external auditor during the year and, where appropriate, these have been addressed as areas of audit focus as outlined in the Independent Auditors Report on pages 66 to 71.

Matter considered	Action
Inappropriate revenue recognition: misstatement of revenue recognised at or near year end	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 Chief Financial Officer. The Committee has concluded that the timing of recognition is in line with current IFRS requirements.
Misstatement of rebate income	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. Rebates, and the process to accrue rebates, have been the subject of internal audit review during the year. The Committee is satisfied with the Company's ability to accurately record rebates earned within the financial period.

- an assessment of whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. This assessment forms the basis of the advice given to the Board to assist them in making the statement required by the 2016 UK Corporate Governance Code.

Accounting policies and practices

The Committee received reports from management in relation to the identification of critical accounting judgements and key sources of estimation uncertainty, significant accounting policies and proposed disclosure of these in the 2017 Annual Report. The disclosures also addressed IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases, both of which may have an effect on the Company's accounting when adopted.

Following discussions with management and the external auditor, the Committee approved these critical accounting judgements, significant accounting policies and disclosures which are set out in note 1 "Basis of preparation" to the financial statements.

Regulators and our financial reporting

The FRC's Audit Quality Review team ('AQR') carried out a review of the audit of our financial reporting for 2016 financial year. The AQR engaged with the Committee during the review process. There were no significant findings resulting from the review.

The Committee is committed to improving the effectiveness and clarity of the Company's corporate reporting and has continued to encourage management to consider, and adopt where appropriate, initiatives by regulatory bodies which would enhance our reporting.

ACCOUNTABILITY CONTINUED

Other matters

The Committee also undertook a range of further activities in relation to the Company's accounting and external reporting in the year:

Recent accounting developments

The Committee received regular reporting from management on the Company's implementation of the following accounting standards:

- The new revenue recognition standard – IFRS 15 Revenue from Contracts with Customers – which would be effective for FY19.
- The new lease accounting standard – IFRS 16 Leases – which would be effective for FY20 and requires lessees to recognise assets and liabilities for most leases.

Fair, balanced and understandable

The processes and controls that underpin the Committee's assessment of whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy include ensuring that:

- all contributors are fully briefed on the fair, balanced and understandable requirement;
- an experienced core team is responsible for the co-ordination of content submissions, verification, detailed review and challenge;
- senior management confirms that the content in respect of their areas of responsibility is considered to be fair, balanced and understandable; and
- the Committee receives an early draft of the Annual Report to enable timely review and comment.

These processes allowed us to provide positive assurance to the Board to assist them in making the statement required by the 2016 UK Corporate Governance Code.

Going concern and viability statement

The Committee received a report on the Company's viability statement. 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 65. It was agreed that three years continued to 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.

External audit

The Committee has primary responsibility for overseeing the relationship with, and performance of, the external auditor. This includes making the recommendation on the appointment, reappointment and removal of the external auditor, assessing their independence on an ongoing basis and for negotiating the audit fee.

Auditor appointment

EY was appointed as the Company's external auditor in July 2013 following an audit tender. The Company will be required to put the external audit contract out to tender by 2023. In addition, EY will be required to rotate the audit partner responsible for the Company audit every five years and, as a result, the current lead audit partner will be required to change in 2018. Dave Hales replaces Karl Havers as the lead audit partner for the financial year commencing 1 August 2017.

The Committee continues to review the auditor appointment and the need to tender the audit, ensuring the Company's compliance with reforms of the audit market by the UK Competition and Markets Authority. Accordingly, the Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review. For the financial year ending 31 July 2018, the Committee has recommended to the Board that EY be reappointed under the current external audit contract and the Directors will be proposing the reappointment of EY at the Annual General Meeting in December 2017.

Audit risk

At the start of the audit cycle we received from EY a detailed audit plan identifying their audit scope, planning materiality and their assessment of key risks.

The audit risk identification process is considered a key factor in the overall effectiveness of the external audit process, and the key risks for the 2017 financial year were as follows:

- inappropriate revenue recognition; and
- misstatement of rebate income.

These risks are regularly reviewed by the Committee to ensure the external auditor's areas of audit focus remain appropriate.

Working with the auditor

We hold private meetings with the external auditor to provide additional opportunity for open dialogue and feedback from the Committee and the auditor without management being present.

Matters typically discussed include the external auditor's assessment of business risks, the transparency and openness of interactions with management, confirmation that there has been no restriction in scope placed on them by management, the independence of their audit and how they have exercised professional scepticism. I also met with the external lead audit partner outside the formal Committee process.

Effectiveness of the external audit process

The Committee reviewed the quality of the external audit throughout the year and considered the performance of EY, taking into account the Committee's own assessment, the conclusions of the FRC's AQR team (mentioned on page 39) and the firm-wide audit quality inspection report issued by the FRC in June 2017.

Based on this review, the Committee concluded that there had been appropriate focus and challenge on the primary areas of audit focus from EY.

Independence and objectivity

The Committee has a policy governing the engagement of the external auditor to provide non-audit services. This precludes EY from providing certain services. The policy can be found at softcat.com/investors.

For certain specific permitted services, the Committee has preapproved that EY can be engaged by management, subject to the policies set out above, and subject to a total 10% of the current external audit fee on an annual basis.

For all other services or those permitted services that exceed these specified fee limits, I, as Chairman, or in my absence another Committee member, can preapprove permitted services.

The Committee also received confirmation from EY that there are no relationships between the Company and EY that may have a bearing on their independence.

For the 2017 financial year, the Committee considered the ongoing fee proposal and, following the receipt of formal assurance that their fees were appropriate for the scope of the work required, agreed a charge from EY and related member firms of £190,000 for statutory audit services.

In addition to the statutory audit fee, EY and related member firms charged the Company £20,000 for audit-related services primarily in connection with the review of the Company's IFRS 15 assessment and related disclosures. Further details of the fees paid, for audit and non-audit services, to EY for the 2017 and 2016 financial years can be found in note 3 to the financial statements.

Internal control and risk management

The Committee has the primary responsibility for the oversight of the Company's system of internal control, including the risk management framework and the work of the internal audit function.

Assessment of the Company's system of internal control, including the risk management framework

The Company's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Committee. Our activity here was driven primarily by the Company's assessment of its principal risks and uncertainties, as set out on pages 24 to 25.

The Company has in place an internal control environment to protect the business from the material risks which have been identified. Management is responsible for establishing and maintaining adequate internal controls over financial reporting and we have responsibility for ensuring the effectiveness of these controls.

The Committee has completed its review of the effectiveness of the Company's system of internal control, including risk management, during the year and up to the date of this Annual Report, in accordance with the requirements of the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the FRC.

We confirm that no significant failings or weaknesses were identified in the review for the 2017 financial year and allowed us to provide positive assurance to the Board to assist them in making the statements required by the 2016 UK Corporate Governance Code. Where areas for improvement were identified, processes are in place to ensure that the necessary action is taken and that progress is monitored.

Internal audit

Monitoring and review of the scope, extent and effectiveness of the activity of Grant Thornton LLP ('Grant Thornton'), the Company's internal auditor, is regularly considered by the Committee. We approve the annual audit plan prior to the start of each financial year and receive updates from Grant Thornton on audit activities, progress against the approved audit plan, the results of any unsatisfactory audits and the action plans to address these areas.



Lee Ginsberg
Chairman of the Audit Committee

18 October 2017

Chief Executive succession

In light of Martin Hellawell's decision to step down as Chief Executive and take on the role of Non-Executive Chairman, the Committee considered the skills and experience desired in his successor and prepared a candidate profile. The Committee appointed an independent search and selection agency, Odgers Berndtson ('Odgers'), to assist in the search for suitable candidates. Odgers had no prior connection with the Company.

The criteria for the selection of the new Chief Executive included:

- leadership of a business of scale;

- a track record of driving strategic growth; and
- an understanding and appreciation of the Company's culture and values.

The search is ongoing with potential candidates being presented to the Committee for their consideration. A further announcement on this appointment will be made in due course.

CHAIRMAN SUCCESSION: STATEMENT FROM LEE GINSBERG

As the Senior Independent Director I led the process of appointing a new Non-Executive Chairman.

The criteria set by the Board for the role of Chairman included:

- a strong commitment to shareholder value creation;
- the ability to command the respect of the Board, shareholders, employees and other key stakeholders, including an ability to work effectively with the new Chief Executive; and
- a deep knowledge of the IT and reseller sector.

It was clear to the Board that Martin Hellawell is the outstanding candidate for the role. Martin, who is very highly regarded in our sector, will continue to give the Company the benefit of his experience and expertise during this period of change.

The Board is confident that the transition of roles by both Martin and the new Chief Executive, once appointed, will be effective and that the Chief Executive/Chairman relationship will thrive under the new arrangements.

Under Martin's tenure Softcat has consistently delivered strong results and he has built a business which is in robust shape with great people and a highly motivated corporate culture that celebrates success and drives our growth.

The Board recognises that the UK Corporate Governance Code states that, ordinarily, the chief executive should not go on to be the chairman, but that if it does decide to appoint the chief executive as chairman, then the Board should consult shareholders. The decision to appoint Martin as Non-Executive Chairman has been discussed with a number of the Company's largest shareholders and reflects the Board's strong view that, in addition to the leadership role Martin has played in driving the business forward, he also enjoys an outstanding reputation in the sector and has well-developed relationships built over many years and it is in the interest of the Company and its shareholders to continue to benefit from these attributes going forward.

In light of the above, no use was made by the Committee of an external search agency or open advertising for the appointment of the Chairman.

EFFECTIVENESS CONTINUED

Assessment of the independence of the Non-Executive Directors

The Committee and the Board are satisfied that the external commitments of its Chairman and other Non-Executive Directors (set out on pages 32 and 33) do not conflict with their duties and commitments as Directors of the Company. Our Directors must:

- report any changes to their commitments to the Board;
- notify the Company of actual or potential conflicts or a change in circumstances relating to an existing authorisation; and
- complete an annual conflicts questionnaire.

Any conflicts identified are considered and, as appropriate, authorised by the Board.

All Directors will retire from the Board and submit themselves for election or re-election at the AGM.

The Committee reviewed the independence of all the Non-Executive Directors. All Non-Executive Directors are considered independent and their contributions continue to be effective. They have all submitted themselves for re-election at the 2017 AGM.

The Executive Directors' service contracts and Non-Executive Directors' appointment letters are available for inspection at our registered office and at our AGM.

Board evaluation

The Committee oversaw the internal evaluation of the Board and Committees. A description of the evaluation is set out on page 36.

Succession planning

The Committee received presentations on succession planning for senior management throughout the year from the Chief Executive. The Committee will keep succession planning under review and monitor the progress and success of the development plans which have been established for relevant employees with a particular focus on ensuring over time all senior management positions have at least one internal successor.

The Committee also monitors a schedule on the length of tenure of the Chairman and Non-Executive Directors and the mix and skills of the Directors.

Diversity

The Company acknowledges the importance of diversity and inclusion to the effective functioning of the Board. This includes diversity of skills and experience, age, gender, disability, sexual orientation, cultural background and belief. Currently, 17% of our Board roles are held by women. The Board aims to have 33% of Board positions held by women by the end of 2020. We also endeavour to only use the services of executive search firms which have signed up to the Voluntary Code of Conduct on Gender Diversity.

Diversity extends beyond the boardroom. The Board supports management in its efforts to build a diverse organisation.



Brian Wallace

Chairman of the Nomination Committee

18 October 2017

REMUNERATION COMMITTEE REPORT CHAIRMAN'S ANNUAL STATEMENT



“
The Committee continued to ensure that decisions made during the year reflected our policy, Company performance and external considerations.

Peter Ventress,
Chairman of the Remuneration Committee

Members of the Remuneration Committee

- P Ventress (Chairman)
- L Ginsberg
- V Murria

Attendance of the Remuneration Committee

Name	Committee attendance 2017
P Ventress	●●●●●●●●
L Ginsberg	●●●●●●●●
V Murria	●●●●●●●●
Total meetings held	●●●●●●●●

● Attended ● Did not attend

Structure of the report

- Annual Statement (pages 45 to 46)
- Directors' Remuneration Report 'at a glance' (pages 47 to 53)
- Annual Report on Remuneration (pages 54 to 59)

Dear shareholder

This year, the business has made significant progress with our key strategic goals and initiatives as well as delivering strong financial performance. We have made significant investments in new sales, services and technical resource over the past 24 months and the return on those investments is evident in the strong performance over the year.

The business continues to evolve and develop as a listed company. As part of that evolution, in May 2017, Martin Hellawell announced his decision to step down as Chief Executive once his successor is in place. Martin has led Softcat for the past eleven years and has made a significant contribution to the development and success of Softcat.

Since the announcement, the Nomination Committee has worked to find a successor to Martin who can drive the Company through its next period of development with the energy and passion that Martin showed during his time with Softcat.

Once his successor is in place, the Board intends to appoint Martin as Non-Executive Chairman. Brian Wallace, currently the Non-Executive Chairman, would then retire from the Board.

The remuneration changes that accompany the changes to the Board are set out in this letter and also in detail on pages 49 to 50.

This report lays out the core principles of our Directors' Remuneration Policy and our practice over the past year. I trust we have done this with the transparency and clarity that aid your understanding of both our intent and our activity.

REMUNERATION COMMITTEE REPORT CHAIRMAN'S ANNUAL STATEMENT CONTINUED

Company highlights for the 2017 financial year

It has been another strong year for the Company in the context of an uncertain economic environment. The key highlights were:

- Revenue growth: 24%
- Gross profit growth: 13%
- Adjusted operating profit growth: 10%
- Employee engagement: 98%
- Customer satisfaction: 99%

The continued effectiveness of the senior management team in implementing the Company's strategy has been substantiated in the actual level of achievement of the Company's KPIs (outlined on pages 20 to 21), in particular our strong performance against our operating profit targets which resulted in 100% of the maximum bonuses being earned by the Executive Directors.

What have we done during the year

- On stepping down as Chief Executive, Martin will receive no termination payments from the Company. However, under the terms of the existing Long Term Incentive Plan and Softcat's policy around loss of office, he will be treated as a good leaver (further details are provided on page 49).
- We have reviewed the base salary of our Chief Financial Officer, Graham Charlton. Graham joined Softcat in 2015 to support the Company on its journey as a listed organisation. His base salary level was set at the lower end of the range of the other FTSE 250 Chief Financial Officers to reflect his tenure and experience in the role.

The Remuneration Committee committed to reviewing Graham's salary position year on year to ensure his total remuneration opportunity moves towards a market-competitive level as he develops in the role. Last year his salary increase was 3%, in line with the rises provided to all employees of Softcat. However, with Graham's development as a FTSE 250 Chief Financial Officer and the enhanced role and responsibility he will take in working with the new Chief Executive to drive the next phase of development of the business, the Committee has decided to increase his salary to £200,000 to apply for the 2018 financial year. The new salary remains below the median levels for Chief Financial Officer roles in the FTSE 250.

- The Committee also reviewed the base salary of our incumbent Chief Executive, Martin Hellawell, and decided to increase his salary by 3% in line with the rises provided to all employees of Softcat.
- Reviewed the fees for the Non-Executive Directors (see pages 50 and 59).
- Reviewed the performance against our FY17 annual bonus for the Executive Directors, which was 100% of their maximum opportunity, equating to 200% of salary for the Chief Executive

and 120% of salary for the Chief Financial Officer. The payouts reflect strong performance of the Company over the year. Further detail of the annual bonus is provided on page 48.

- Reviewed the performance targets for the 2017 LTIP award and made awards under LTIP for the Executive Directors, Executive Leadership Team and selected senior managers. Grant levels are consistent with our normal award policy. Further details are provided on pages 49 and 55.

In conclusion

Our goal as a Remuneration Committee last year was to formulate a Remuneration Policy and strategy which delivers sustainable, value-creating growth and performance for the business and rewards management accordingly. The Policy we put forward at last year's AGM received over 99% support, for which I would like to thank shareholders.

Even though there was strong support for the Remuneration Policy, the Committee will continue to review the Policy annually to ensure that it still meets our goals. We believe the Policy continues to be fit for purpose and therefore it will remain unchanged this year.

The Annual Report on Remuneration (pages 54 to 59) together with this letter will be subject to an advisory shareholder vote at the forthcoming AGM on 8 December 2017. It details decisions and actions taken by the Committee based on the performance of the Company and remuneration outcomes.

Our goal has been to be thoughtful and clear in the layout of the report and I look forward to receiving your support for the resolution seeking approval of the Annual Report on Remuneration at our forthcoming AGM.

I welcome any feedback from the Company's shareholders.



Peter Ventress
Chairman of the Remuneration Committee
18 October 2017

Notes:

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 17 June 2016) (the 'Code') and the Listing Rules. The report consists of two sections:

- the Annual Statement by the Remuneration Committee Chairman and associated 'at a glance' section, containing a summary of our approved Remuneration Policy; 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 2017 financial year.

The Chairman's Annual Statement and the Annual Report on Remuneration will be subject to an advisory vote at the AGM.

PART A – AT A GLANCE

INTRODUCTION

In this section, we set out our Remuneration Policy, its link to corporate strategic objectives and the performance and remuneration outcomes for the 2017 financial year.

Our Remuneration Policy and its link to our Company strategy

The Company's strategy is laid out on page 6.

Ensuring the alignment of the proposed Remuneration Policy to the Company strategy was key for the Remuneration Committee in developing the proposed Policy below in conjunction with our core principles of remuneration.

Our core principles of remuneration:

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

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.

Remuneration Policy (from the date of shareholder approval)	Strategic priorities				Equity ownership and retention of shares	Retain and reward Executive team to deliver the strategy
	Generate sector-leading value for shareholders	Growth in profit from existing customers	Win new customers			
Annual bonus The maximum bonus (including any part of the bonus deferred into an Annual Bonus Plan (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 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 2017 the performance conditions for awards are equally weighted between: <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> • Chief Executive: 200% of salary • Chief Financial Officer: 150% of salary 				✓		

PART A – AT A GLANCE CONTINUED

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') in developing our Remuneration Policy and was delighted to receive 99.6% of votes for from our shareholders at our 2016 AGM.

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 was followed in the development of our Policy.

The remuneration strategy of the Company has been designed to ensure all employees share in its success. This is facilitated through the annual bonus and LTIP for Executive Directors and for some members of the senior team and the SIP for all employees. The table below shows how our incentive schemes support the Company strategy.

Plan	Purpose	Eligibility	Strategic objectives				
			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, Senior Executives and Senior Managers	✓	✓	✓	✓	✓

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 the 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.

How we performed during the 2017 financial year

In respect of FY17, the bonus awards payable to Executive Directors were agreed by the Committee having carefully reviewed the Company's results. The performance measures and targets under the Annual and Deferred Bonus Plan for the 2017 financial year and the extent to which they were satisfied is set out below:

Performance condition	Performance period	Threshold	Target	Maximum	Actual	Actual as a % of maximum opportunity	Annual bonus payout	
							Martin Hellawell	Graham Charlton
Adjusted operating profit¹	FY17	£45.4m	£48.1m	£50.5m	£51.5m	100%	£515,000	£210,120

Note:

1. Adjusted operating profit is defined as operating profit before exceptional items and share-based payment charges.

No discretion was exercised by the Committee in relation to the outcome of the annual bonus awards. The FY17 bonus will be paid two-thirds in cash and one-third in deferred shares.

Long-term incentives awarded in FY17

On 8 December 2016 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 Hellowell	200	176,129	08/12/16
Graham Charlton	200	119,767	08/12/16

50% of the award will be subject to the Company's relative TSR performance against the FTSE 250 (excluding real estate and investment trusts) over a three-year performance period and the remaining 50% will be subject to the adjusted EPS at the end of the period. Further details are on page 55.

Single figure remuneration for our Executive Directors

The tables below set out the single total figure of remuneration and breakdown for each Executive Director in respect of FY17.

Executive Director	Salary	Taxable benefit	Bonus	Pension	SIP	Other	Total
Martin Hellowell (CEO)	£257,500	£2,408	£515,000	—	—	—	£744,908
Graham Charlton (CFO)	£175,100	£954	£210,120	£5,253	—	—	£391,427

Remuneration changes for the Board

When Martin Hellowell steps down from his role as Chief Executive and takes on the role of Non-Executive Chairman, he will receive no termination payments from the Company on his cessation of employment as the Chief Executive. However, under the terms of the existing LTIP and Softcat's policy around loss of office, as a good leaver he will receive the following:

Plan	Outstanding awards	Committee determination
LTIP	2016 176,129	Martin Hellowell will be treated as a good leaver under the terms of the LTIP on stepping down from his role as Chief Executive.
	2015 208,333	As a good leaver his award will be pro-rated to the amount of the vesting period completed on this date of cessation as Chief Executive. The final payout will be based on Softcat's achievement of the LTIP performance conditions at the end of the three-year performance period.

The table above shows the awards he currently holds under the LTIP. The awards outstanding (including any proration for time served) on his transition to Chairman will be set out in the 2018 Annual Report.

PART A – AT A GLANCE CONTINUED

Remuneration changes for the Board continued

The Remuneration Committee reviewed Martin's salary as Chief Executive and decided to increase his salary by 3% in line with the rises provided to all employees of Softcat.

As outlined on page 46, the Remuneration Committee reviewed Graham's salary position to reflect his development as a FTSE 250 Chief Financial Officer. The Committee has decided to increase his salary to £200,000 to apply for the 2018 financial year. The increase reflects his development as a FTSE 250 Chief Financial Officer and the enhanced role and responsibility he will take on working with the new Chief Executive. The new salary remains below the median levels for Chief Financial Officer roles in the FTSE 250.

The fees for the Chairman and Non-Executive Directors were reviewed and they will increase by 3% in line with increases in the overall employee population.

Equity exposure of the Executive Directors

It is a core focus in our Remuneration Policy to encourage Executive Directors to acquire and build up shareholding in the Company, in order to align their interests with those of the Company's shareholders. The following table sets out all subsisting interests in the equity of the Company held by the Executive Directors at 31 July 2017.

The Chief Executive's shareholdings are substantially in excess of the Company's minimum shareholding requirement of 200% of base salary. The Chief Financial Officer, who joined the Company in March 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.

	Shareholding requirement (% of salary)	Beneficially owned shares	Value of beneficially owned shares (% of salary) ¹	Value of unvested/unexercised awards ² (% of salary)
Martin Hellowell	200	14,784,399	22,966	599%
Graham Charlton	150	1,198	3	598%

Notes:

1. This is based on a closing share price of £4 at 31 July 2017 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 Hellowell (208,333 shares) and Graham Charlton (141,666 shares) – and in December 2016 – Martin Hellowell (176,129 shares) and Graham Charlton (119,767 shares) – based on share price as at 31 July 2017.

The number of shares of the Company in which current Directors had a beneficial interest as at 31 July 2017 is set out in detail on page 56.

Remuneration Policy table summary

In accordance with the remuneration reporting regulations, the Directors' Remuneration Policy (the 'Policy') summarised below was approved at the AGM on 8 December 2016, and will apply for a period of three years from the date of approval.

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 in which we compete for talent.

The implementation of the Policy for the 2018 financial year is outlined on page 59.

Remuneration Policy table summary continued

Element of remuneration	Operation						
Salary	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>In general, salary increases for Executive Directors will be in line with the increase for employees.</p> <p>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.</p>						
Benefits	<p>The Executive Directors receive private health insurance, life insurance and death-in-service benefit.</p> <p>Additional benefits may be offered, such as relocation allowances on recruitment.</p> <p>The maximum will be set at the cost of providing the benefits described.</p>						
Pensions	<p>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.</p>						
Annual and Deferred Bonus Plan (the 'Bonus Plan')	<p>The Remuneration Committee will determine the maximum annual participation in the Annual Bonus Plan for each year, which will not exceed 200% of salary.</p> <p>The maximum value of deferred shares is up to 50% of the bonus earned, which vest after a minimum deferral period of three years based on continued employment.</p>						
Long Term Incentive Plan ('LTIP')	<p>LTIP maximum grant is 200% of salary p.a. (250% in exceptional circumstances).</p> <p>The Committee considers and sets the performance measures and targets for each LTIP award. See page 55 for the performance conditions of the grant made in the year.</p> <p>The LTIP contains clawback and malus provisions.</p>						
Share Incentive Plan ('SIP')	<p>The Company operates an SIP and Sharesave Plan in which the Executive Directors are eligible to participate (which is in line with HMRC legislation and is open to all eligible staff) to encourage all employees to become shareholders in the Company and thereby align their interests with shareholders.</p>						
Minimum shareholding requirement	<p>The following table sets out the minimum shareholding requirements:</p> <table border="1"> <thead> <tr> <th>Role</th> <th>Shareholding requirement (% of salary)</th> </tr> </thead> <tbody> <tr> <td>Chief Executive</td> <td>200</td> </tr> <tr> <td>Chief Financial Officer</td> <td>150</td> </tr> </tbody> </table> <p>The Committee retains the discretion to increase the shareholding requirements.</p>	Role	Shareholding requirement (% of salary)	Chief Executive	200	Chief Financial Officer	150
Role	Shareholding requirement (% of salary)						
Chief Executive	200						
Chief Financial Officer	150						
Non-Executive Director and Chairman fees	<p>The Board is responsible for setting the remuneration of the Non-Executive Directors. The Remuneration Committee is responsible for setting the Chairman's fees.</p> <p>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.</p> <p>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.</p> <p>Non-Executive Directors and the Chairman do not participate in any variable remuneration or benefits arrangements.</p> <p>The Company will pay reasonable expenses incurred and may settle any tax incurred in relation to these.</p>						

There are no changes to the approved Directors' Remuneration Policy. The full Policy was approved by shareholders on 8 December 2016 and is available to view in full on the Company's website at softcat.com/investors.

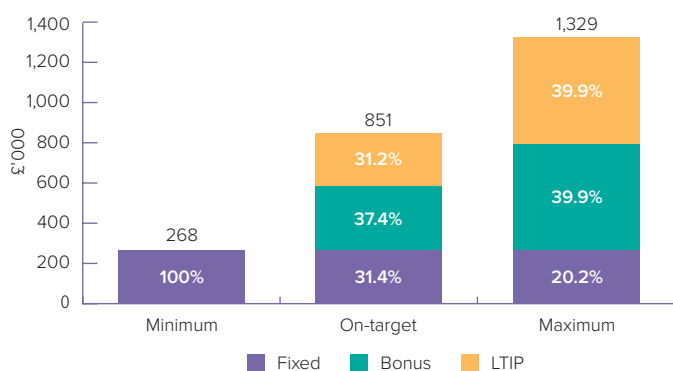
The implementation of the Policy for the 2018 financial year is outlined on page 59.

PART A – AT A GLANCE CONTINUED

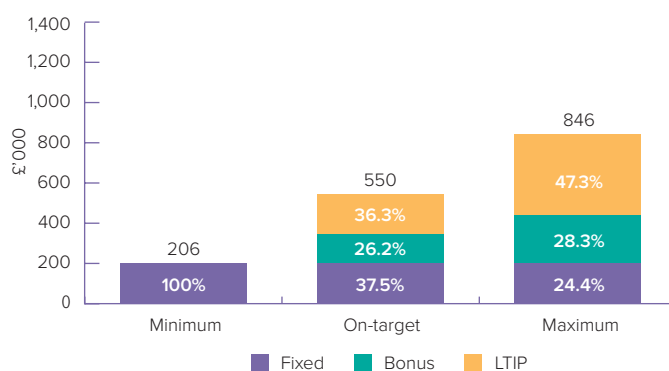
Illustrations of the application of the Remuneration Policy

The charts below illustrate the remuneration that would be paid to each of the Executive Directors for the 2018 financial year 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 (Martin Hellawell)



Chief Financial Officer (Graham Charlton)



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

Element	Description	Minimum	Target	Maximum
Fixed¹	Salary, benefits and pension	Included	Included	Included
Annual bonus²	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^{2,3}	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 2017 benefits payments and pension values as per the single figure table. The actual benefits and pension contributions for 2018 will only be known at the end of the financial year.
2. 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.
3. Participation in the SIP has been excluded given the relative size of the opportunity levels.

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:

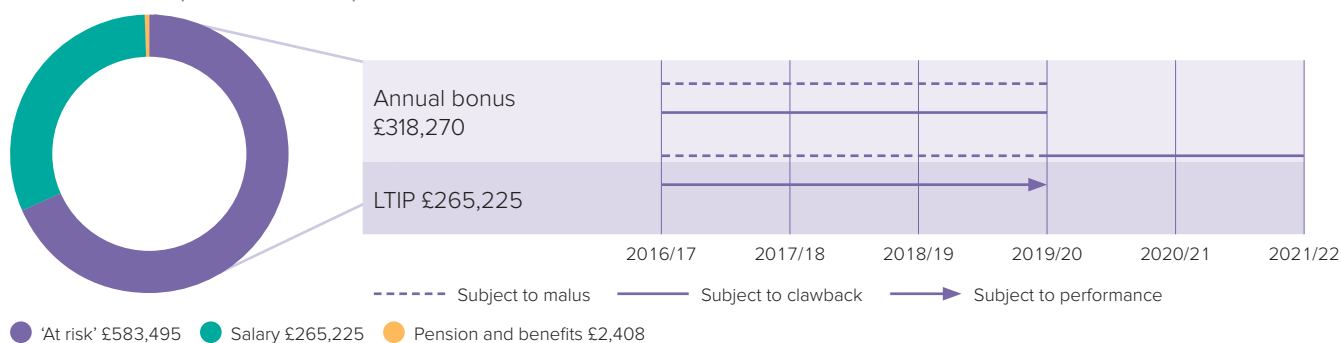
- payment is subject to continuing employment for a period (deferred shares and LTIP awards); or
- performance conditions have to still be satisfied (LTIP awards); or
- elements are subject to clawback or malus for a period over which the Company can recover sums paid or withhold vesting.

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.

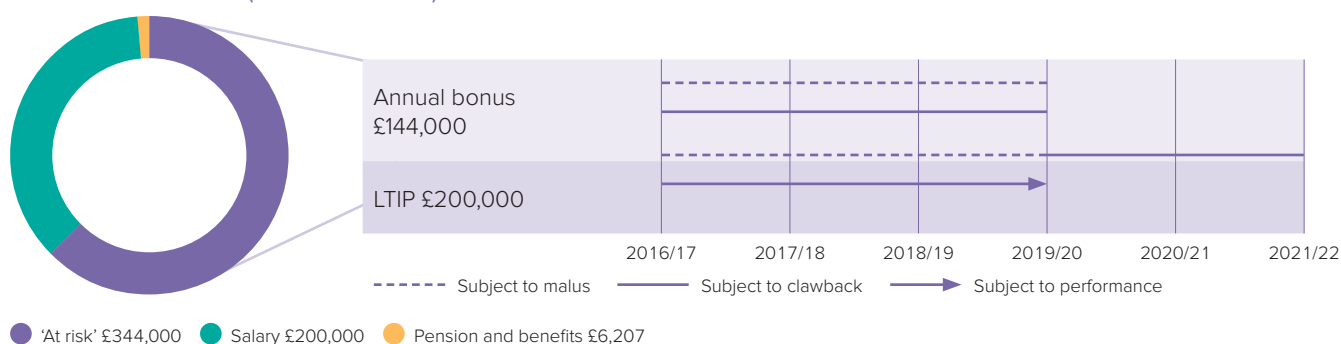
Illustrations of the application of the Remuneration Policy continued

Pay at risk continued

Chief Executive (Martin Hellawell)



Chief Financial Officer (Graham Charlton)



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

Executive Directors	Name	Date of service contract	Nature of contract	Notice periods		Compensation provisions for early termination
				From Company	From Director	
	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 August 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 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 FY17 and FY16.

Executive Director £'000	Salary		Taxable benefits ¹		Bonus ²		LTIP ³		Pension		SIP		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Martin Hellawell ⁴ (CEO)	257.5	227.7	2.4	0.8	515.0	330.0	—	—	—	—	—	3.6	—	—	774.9	562.1
Graham Charlton (CFO)	175.1	164.8	1.0	0.3	210.1	175.0	—	—	5.3	4.9	—	0.9	—	268.2 ⁵	391.4	614.1

Notes:

- See section below setting out details of the benefits provided.
- Details of the bonus targets, their level of satisfaction and the resulting bonus earned in FY17 are set out on page 48.
- The first grant of LTIP awards made in December 2015 will vest in December 2018. The second grant of LTIP awards made in December 2016 will vest in December 2019.
- Salary of £168,920 prior to IPO date (November 2015) and £250,000 following the IPO to the end of FY16.
- 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.

Non-Executive Directors (audited)

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

Non-Executive Director	2017 fees	2016 fees ¹	Roles
Brian Wallace	103,000	100,000	Independent Non-Executive Chairman
Lee Ginsberg	61,800	55,000	Senior Independent Non-Executive Director Chairman of the Audit Committee
Vin Murria	46,350	33,750	Non-Executive Director
Peter Ventress	56,650	45,830	Non-Executive Director Chairman of the Remuneration Committee

Notes:

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

Taxable benefits

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

2017 annual bonus outcomes

In respect of 2017, the bonus awards payable to Executive Directors were agreed by the Committee, having carefully reviewed the Company's results. The annual bonus structure operating in 2018 is outlined on page 59.

Details of the targets used to determine bonuses in respect of FY17 and the extent to which they were satisfied are shown in the table on page 48. These figures are included in the single figure table.

Long-term incentives awarded

Awards under the Company's LTIP made in FY17 are shown in the table on page 49.

The awards were subject to the following performance conditions:

Measure	Weighting	Details
Adjusted EPS	50%	<ul style="list-style-type: none"> 20% vesting of this element for absolute EPS at end of performance period of 20.6p (FY16: 18.7p) Full vesting for 23.7p (FY16: 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%	<ul style="list-style-type: none"> 30% vesting for median performance against the comparators Full vesting for upper quartile performance Straight-line vesting between these points

The EPS targets were set following the end of the 2016 financial year based on an assessment of the business.

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 FY17, Martin Hellowell 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.

The Directors have an entitlement to purchase partnership shares under the SIP. Graham Charlton purchased 528 partnership shares during the year in addition to the receipt of free shares below. The total SIP holdings are provided on page 56 as part of the Directors' share interests table.

Executive Director	Free shares awarded in FY16	Award date	Market price on award date	Lapsed during period
Martin Hellowell	1,204	11/12/15	£3.00	—
Graham Charlton	301	11/12/15	£3.00	—

There were no free shares awarded in FY17.

Payments to past Directors/payments for loss of office

There were no payments in the financial year.

PART B – ANNUAL REPORT ON REMUNERATION CONTINUED

Statement of Directors' shareholding and share interests

Director	Shareholding requirement (% of salary)	Current shareholding (% of salary) ¹	Shares held directly		Other shares held		Options			Shareholding requirement met?
			Beneficially owned	Deferred shares not subject to performance conditions	LTIP interests subject to performance conditions	Interests in unvested SIP shares ³	Vested and unexercised	Unvested	Exercised	
Executive Directors										
Martin Hellawell ⁴	200	22,966	14,784,399	—	384,462	1,204	—	—	—	Yes
Graham Charlton	150	3	1,310 ²	—	261,433	301	—	—	—	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	295,397	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. This is based on a closing share price of £4 at 31 July 2017 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. There have been no further changes to the interests of the other Directors.
2. Investment in partnership shares under the SIP. Graham Charlton has purchased 112 partnership shares since the year end and the date of this report.
3. Interests of free shares under the SIP.
4. Includes ordinary shares held by, or in trust for, Martin Hellawell and/or his family members.

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.

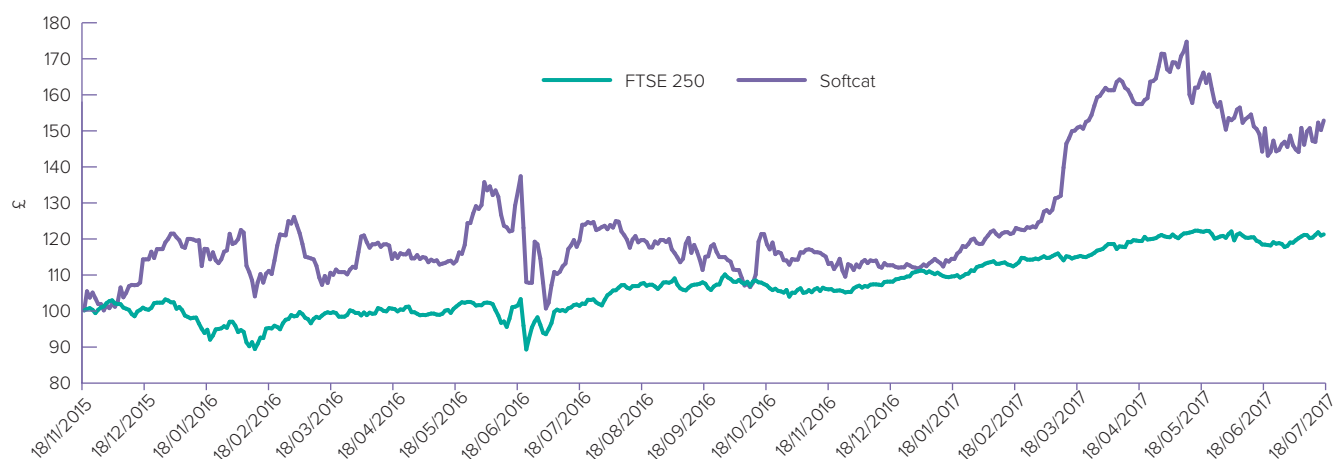
Comparison of overall performance and pay

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 2017.

Comparison of overall performance and pay continued

Total shareholder return



Chief Executive's historical remuneration

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

Chief Executive	2017	2016	2015
Total single figure	£774,908	£562,117	£335,762
Annual bonus payment level achieved (% of maximum opportunity)	100	99	72
LTIP vesting level achieved (% of maximum opportunity) ¹	n/a	n/a	n/a

Notes:

1. 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 2017 financial year. All figures provided are taken from the relevant Company accounts.

	Disbursements from profit in 2017 financial year	Disbursements from profit in 2016 financial year
Profit distributed by way of dividend	£40.9m	£43.5m
Total tax contributions ¹	£17.4m	£16.7m
Overall spend on pay, including Executive Directors	£67.9m	£59.3m

Note:

1. Includes corporation tax and employer's National Insurance contributions. The total tax contributions have been included because of the size of the contributions in comparison to other payments.

PART B – ANNUAL REPORT ON REMUNERATION CONTINUED

Change in the Chief Executive's remuneration compared with employees

	% increase/(decrease) in remuneration in 2017 compared with remuneration in 2016	
	CEO	Employees
Salary	3%	3%
Bonus ¹	56%	20%
Taxable benefits ²	212%	33%

Notes:

1. Excludes commissions.
2. Includes private medical insurance only.

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, softcat.com/investors, 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 and the Chief Financial Officer attend by invitation on occasion.

Advisers to the Remuneration Committee

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 £40,000 (2016: £15,000) were provided to PwC during the year in respect of remuneration advice received.

Statement of voting at general meeting

The table below shows the binding vote approving the Directors' Remuneration Policy and the advisory vote on the Annual Report on Remuneration at the AGM held on 8 December 2016.

	Votes for	%	Votes against	%	Votes withheld
Directors' Remuneration Policy	133,263,599	99.56	591,311	0.44	5,788,068
Annual Report on Remuneration	133,762,756	99.94	78,859	0.06	5,801,363

Statement of implementation of the Remuneration Policy in the 2018 financial year

The Remuneration Committee has reviewed and considered the key components of remuneration to ensure that the Remuneration Policy (summarised below) is fit for purpose, continues to drive success within the remuneration framework and meets the shareholder and governance expectations of a FTSE 250 company.

	What was implemented in 2016/2017	Implementation in 2017/2018
Base salary	For 2017, base salaries for the CEO and the CFO were £257,500 and £175,100 respectively. This is a rise from the previous year of 3%.	For 2018, base salaries for the CEO and the CFO will be £265,225 and £200,000 respectively. This is a rise from the previous year of 3% and 14% respectively.
Pension	Martin Hellawell did not receive any pension entitlements and Graham Charlton received 3% of salary employer pension contributions into the defined contribution scheme.	No change.
Benefits	Benefits in the year comprised private medical insurance.	No change.
Annual Bonus Plan ('ABP')	The Committee can determine the proportion of the bonus earned under the ABP that is provided as an award of deferred shares.	No change in the annual bonus opportunities or deferral mechanics.
<ul style="list-style-type: none"> • Cash • Deferred share award 	For 2017, the maximum bonus opportunities for the CEO and the CFO was 200% and 120% of salary respectively. The level of deferral in shares was one-third of the bonus earned.	No change in the annual bonus performance measures.
LTIP	<p>The performance conditions for LTIP awards was equally weighted between earnings per share ('EPS') growth and comparative total shareholder return ('TSR') assessed over a three-year performance period.</p> <p>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.</p> <p>In 2017, the maximum annual LTIP award of 200% of salary was awarded to the CEO and the CFO.</p>	<p>2017 LTIP awards:</p> <ul style="list-style-type: none"> • No change in the LTIP grant levels. • No change to the performance measures or their weighting – 50% EPS growth and 50% relative TSR. • The relative TSR comparator group and the vesting schedule for this element will remain unchanged from the 2015 award. • The Committee will review the EPS performance target range in light of the Company's strategic plan over the next period. Taking into account these factors the Committee will set the EPS range for the 2017 LTIP grant at challenging levels over the next period. The targets will be communicated on grant.
Chairman and Non-Executive fees	<p>Chairman fees: £103,000</p> <p>Board fee: £46,350</p> <p>Senior Independent Director: £5,000</p> <p>Committee Chairmanship (per Committee): £10,000</p>	<p>Chairman fees: £106,090</p> <p>Board fee: £47,741</p> <p>Senior Independent Director: £5,000</p> <p>Committee Chairmanship (per Committee): £10,000</p> <p>The NED annual fees for the 2018 financial year represent a rise from the previous year of 3%, consistent with the base salary increase for the overall employee population.</p>



Peter Ventress

Chairman of the Remuneration Committee

18 October 2017

The Directors present their report for the year to 31 July 2017.

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 30 to 59 of this report;
- strategy and relevant future developments – refer to pages 6 to 10 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 2016:

Name	Position	Date of appointment
M J Hellawell	Chief Executive	Appointed 24 March 2006
B Wallace	Chairman	Appointed 8 May 2013
G L Charlton	Chief Financial Officer	Appointed 19 March 2015
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

Directors' biographies can be found on pages 32 to 33.

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 2017 are disclosed in the Remuneration Report on page 56. The Remuneration Report also sets out details of any changes in those interests between the year end and 18 October 2017.

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 2016 (the 'Code'), at the 2017 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 2017 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.

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.

Share capital and control

The Company's ordinary issued share capital as at 31 July 2017 was 197,606,143 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. At 31 July 2017, the EBT holds nil ordinary shares and the SIP Trust holds 777,234 ordinary shares in the Company.

During the year ended 31 July 2017, share options were exercised pursuant to the Company Share Option Plan, resulting in the additional listing and allotment of 200,000 new ordinary shares.

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 8 December 2016:

- An ordinary resolution providing the Directors with authority to:
 - (i) allot ordinary shares up to a maximum nominal amount of £32,901.02, 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 £65,802.04 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.

- Special resolutions providing Directors with authority to:
 - (i) allot shares or sell treasury shares for cash up to a maximum nominal amount of £4,935.15;
 - (ii) allot shares or sell the treasury shares for cash up to a maximum nominal amount of £4,935.15, in connection with an acquisition or other capital investment otherwise than to existing shareholders pro rata to their shareholding.

These authorities are due to expire at the Company's AGM to be held on 8 December 2017 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 2017 AGM.

The ordinary shares are freely transferable. Lock-up arrangements pursuant to the Underwriting Agreement dated 13 November 2015 and deed polls of election entered into prior to the IPO placing the following restrictions expired during the year:

- 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 2017 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 at 31 July 2017		As at 18 October 2017	
	Ordinary shares	Voting rights	Ordinary shares	Voting rights
Woodford Investment Management Limited	9,727,827	4.9%	10,252,827	5.19%
Mawer Investment Management Limited	12,804,337	6.5%	12,968,421	6.56%
John Nash ¹	13,318,364	6.75%	13,318,364	6.75%
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 18 October 2017, 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% 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% 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 90 to 92.

Research and development

The Company did not carry out any research and development activities during the year (2016: none).

Political donations

The Company did not make any political donations during the period (2016: £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 27 of the Corporate Social Responsibility Report.

Corporate social responsibility

Details on our commitment to corporate social responsibility can be found on pages 26 to 29 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 29.

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 6.1p per ordinary share and a special dividend of 13.5p per ordinary share to be paid on 15 December 2017 to all ordinary shareholders who were on the register of members at the close of business on 3 November 2017. Shareholders will be asked to approve the final and special dividends at the AGM on 8 December 2017.

The Company's dividend policy is detailed in the Chairman's Statement on page 4.

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, pages 49 and 55
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 61
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 62

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 2017 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;
- 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;
- make judgements and estimates that are reasonable and prudent;
- state that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Company's financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 32 to 33) 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 60 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 29. 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 includes 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 2016 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; 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 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 2017 AGM will take place on 8 December 2017 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 has 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 Chief Executive 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
18 October 2017

INDEPENDENT AUDITOR'S REPORT

to the members of Softcat plc

Opinion

In our opinion:

- Softcat plc's financial statements give a true and fair view of the state of the Company's affairs as at 31 July 2017 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

We have audited the financial statements of Softcat plc, which comprise:

Statement of Profit or Loss and Other Comprehensive Income for the year then ended

Statement of Financial Position as at 31 July 2017

Statement of Changes in Equity for the year then ended

Statement of Cash Flows for the year then ended

Related notes 1 to 26 to the financial statements, including a summary of significant accounting policies

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report (pages 24 to 25) that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation (page 24) 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 Directors' statement (pages 64 to 65) 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;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation (pages 64 to 65) 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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Softcat plc

Overview of our audit approach

Risks of material misstatement	<ul style="list-style-type: none"> Inappropriate revenue recognition: misstatement of revenue recognised at or near year end Rebates: misstatement of rebate income
Audit scope	<ul style="list-style-type: none"> The Company performs all transaction processing and financial statement preparation centrally in the UK and operates under one legal entity. 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	<ul style="list-style-type: none"> Materiality of £2.5m, which represents 5% of profit before tax

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Inappropriate revenue recognition: misstatement of revenue recognised at or near year end	Supporting references in the Annual Report and Accounts:
<p>During the year the Company recognised revenue of £832m (2016: £672m)</p> <p>We focused on this due to the susceptibility of this account to manual override related to year end adjustments and journals posted</p>	<p>The Audit Committee Report (pages 38 to 41); Accounting policies (pages 76 to 81); and Note 2 of the Company Financial statements (page 81).</p>

Summary of the nature of the risk	Our response to the risk	Key observations communicated to the Audit Committee
<ul style="list-style-type: none"> 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. When targets are exceeded there may be a risk that revenue is inappropriately deferred into the following fiscal year. Certain compensation incentives are based on quarterly and annual revenue targets, creating a risk of revenue and gross margin misstatement and management override. Management's process for accounting for certain revenue transactions, particularly those at or near the year end, is mostly manual and therefore susceptible to management override. 	<ul style="list-style-type: none"> 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 for the year. We also tested other revenue and receivables transactions that didn't conform to our expectation of typical revenue postings. We performed substantive testing on a sample of deferred revenue transactions taken from the year-end deferred revenue balance 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 a sample of manual journal entries recorded at or near year end and credit notes issued subsequent to the year end. 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. 	<p>We concluded that revenue is materially correct and has been recognised in accordance with Company policy and IFRSs.</p>

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Softcat plc

Key audit matters continued

Rebates: misstatement of rebate income		Supporting references in the Annual Report and Accounts:
<p>During the year the Company earned rebate income of £23.6m (2016: £20.1m)</p> <p>We focused on this due to the manual processing required, as well as the potential for management override of controls</p>		<p>The Audit Committee Report (pages 38 to 41); Accounting policies (pages 76 to 81); and Note 1.7 of the Company Financial statements (page 78).</p>
Summary of the nature of the risk	Our response to the risk	Key observations communicated to the Audit Committee
<ul style="list-style-type: none"> 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, due to a manual process there is a potential for management to override control. 	<ul style="list-style-type: none"> We tested management's controls around the rebate process, which covers verification of amounts reported by suppliers, accuracy of the calculated rebate receivable accrual, and a retrospective review of cash received against amounts accrued. We tested transactions from throughout the year and the year-end rebate receivable by vouching a sample of transactions to third party source documentation and cash receipts. We tested the rebate income received post year-end by confirming a sample of rebates to ensure they were accrued at the year end where appropriate. We challenged the Company's rebate accrual at year end, by assessing consistency of methodology applied with the prior year and throughout the period and classification of rebates. 	<p>We concluded that rebate income and rebate accrual is materially correct and has been recognised in accordance with Company policy and IFRSs.</p>

An overview of 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 operates under one legal entity, 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 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 £2.5m which is 5% of profit before tax. For the 2016 audit, we determined materiality for the Company to be £2.3m calculated as 5% of normalised profit before tax, which was calculated by adding back exceptional items related primarily to the Company's initial public offering in November 2015. There has been no equivalent items in the current year.

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.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Softcat plc

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 and the level of audit differences previously identified, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely £1.25m (2016: £1.1m). 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 £2.5m 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 (2016: £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.

Other information

The other information comprises the information included in the Annual Report (pages 1 to 65), including the Strategic Report set out on pages 1 to 29 and corporate governance set out on pages 30 to 65, other than the financial statements and our Auditor's Report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable (page 64)** – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting (pages 38 to 41)** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code (page 31)** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Softcat plc

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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 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.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 64, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The objectives of our audit in respect to fraud are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

INDEPENDENT AUDITOR'S REPORT CONTINUED

to the members of Softcat plc

Auditor's responsibilities for the audit of the financial statements continued

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those related to the reporting framework (IFRS as adopted by the EU, the Companies Act 2006 and Corporate Governance Code) and the relevant tax compliance regulations in the UK. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements, being the Listing Rules of the London Stock Exchange and the Bribery Act 2010.
- We understood how Softcat plc is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes, discussions with the Audit Committee and any correspondence received with regulatory bodies.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journal entries.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of board minutes to identify non-compliance with such laws and regulations, review of reporting to the Audit Committee on compliance with regulations and enquires of the Company Secretary and management.

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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Other matters we are required to address

Following the recommendation of the Audit Committee, we were appointed as auditors by the Board of Directors and signed an engagement letter on 9 March 2017. We were appointed by the Company at the AGM on 8 December 2016 to audit the financial statements for the year ending 31 July 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is five years, covering the years ending 31 July 2013 to 31 July 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.

The audit opinion is consistent with our report to the Audit Committee.

Karl Havers

for and on behalf of Ernst & Young LLP,

London

18 October 2017

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 2017

	Notes	2017 £'000	2016 £'000
Revenue	2	832,486	672,351
Cost of sales		(696,173)	(551,634)
Gross profit		136,313	120,717
Administrative expenses		(86,151)	(78,527)
Operating profit	3	50,162	42,190
Adjusted operating profit		51,464	46,751
Exceptional items	4	—	(3,673)
Share-based payment charge	24	(1,302)	(888)
Finance income	5	142	213
Profit before tax		50,304	42,403
Income tax expense	6	(10,196)	(9,245)
Profit for the year and total comprehensive income for the year		40,108	33,158
Profit attributable to:			
Owners of the Company		40,108	33,158
Earnings per ordinary share (pence)			
Basic	17	20.4	16.9
Diluted	17	20.2	16.9
Adjusted earnings per ordinary share (pence)			
Basic	17	21.0	19.2
Diluted	17	20.9	19.1

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

STATEMENT OF FINANCIAL POSITION

As at 31 July 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	8	5,579	6,391
Intangible assets	9	504	667
Deferred tax asset	14	895	426
		6,978	7,484
Current assets			
Inventories	10	6,975	4,611
Trade and other receivables	11	173,506	132,787
Cash and cash equivalents	13	61,643	62,361
		242,124	199,759
Total assets		249,102	207,243
Current liabilities			
Trade and other payables	12	(155,174)	(115,527)
Income tax payable		(5,510)	(4,352)
		(160,684)	(119,879)
Net assets		88,418	87,364
Equity			
Issued share capital	16	99	99
Share premium account		4,664	4,454
Other reserves		(3,214)	(3,531)
Retained earnings		86,869	86,342
Total equity		88,418	87,364

These financial statements were approved by the Board of Directors and authorised for issue on 18 October 2017.

On behalf of the Board



Martin Hellawell
Chief Executive



Graham Charlton
Chief Financial Officer

Softcat plc Company registration number: 02174990

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2017

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
Total comprehensive income for the year	—	—	—	40,108	40,108
Share-based payment transactions	—	—	—	1,070	1,070
Dividends paid	—	—	—	(40,904)	(40,904)
Shares issued in the year	—	210	—	—	210
Tax adjustments	—	—	—	253	253
Own share movement during the year	—	—	317	—	317
Balance at 31 July 2017	99	4,664	(3,214)	86,869	88,418

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 an SIP Trust. During the year ended 31 July 2017, 200,000 share options (2016: 4,237,740) were exercised. Proceeds of £210,000 (2016: £976,328) were realised from the exercise of these share options.

As at 31 July 2017, the Employee Benefit Trust owned nil ordinary shares (2016: nil) and the SIP Trust owned 777,234 ordinary shares (2016: 787,064).

STATEMENT OF CASH FLOWS

For the year ended 31 July 2017

	Notes	2017 £'000	2016 £'000
Net cash generated from operating activities	18	40,971	29,925
Investing activities			
Finance income	5	142	213
Purchase of property, plant and equipment	8	(945)	(1,190)
Purchase of intangible assets	9	(516)	(536)
Proceeds from asset disposals		7	11
Net cash used in investing activities		(1,312)	(1,502)
Financing activities			
Issue of share capital		210	513
Deferred purchase share proceeds		—	1,773
Dividends paid	7	(40,904)	(43,453)
Own share transactions	16	317	463
Net cash used in financing activities		(40,377)	(40,704)
Net decrease in cash and cash equivalents		(718)	(12,281)
Cash and cash equivalents at beginning of year	13	62,361	74,642
Cash and cash equivalents at end of year	13	61,643	62,361

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2017

1 Accounting policies

1.1 Corporate information

The financial statements of Softcat plc for the year ended 31 July 2017 were authorised for issue in accordance with a resolution of the Directors on 18 October 2017. 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 2017. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Going concern

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 7 (Amendments) Statement of Cash Flows
- IFRS 16 Leases, see below
- IFRIC 23 Uncertainty over Income Tax Treatments

1 Accounting policies continued

1.4 Adoption of new and revised standards continued

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 Revenue from Contracts with Customers

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.

The Company is in the process of analysing the impact of IFRS 15 on its reporting. This analysis has identified some discrete areas in which adjustments may be required to reporting under the principal versus agent assessment. This change is driven by the application of the control principle, where the business would need to establish 'control' of goods, whether hardware, software or services, prior to delivery to the customer. Application of the control principle and guidance in IFRS 15 may have an impact on the classification of principal versus agent which could result in the Company recognising certain revenue as net.

Management is still to formally conclude this treatment. The Company's IFRS 15 impact assessment and implementation work remains ongoing, alongside a quantification exercise which is expected to be finalised during the year ending 31 July 2018.

IFRS 16 Leases

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 where the underlying asset has a low value.

The Company is assessing the impact of this standard, which is effective from periods beginning 1 January 2019.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2017

1 Accounting policies continued

1.6 Cost of sales

The Company recognises cost of sales at the point at which it recognises revenue as explained above except for contracts which are recognised on a cost of completion percentage methodology. 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 sales 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 considered to be 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 rebates 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 rebates earned but not yet received are 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.

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
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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 and 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. Trade receivables do not carry interest.

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. Trade payables due after one year are measured at amortised cost, using the effective interest rate method.

1.13 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 represent the full extent of the Company's liability.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2017

1 Accounting policies continued

1.14 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 on a net basis.

1.15 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.

1.16 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.

1.17 Share-based payments

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

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. 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 an 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.

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.

The Company's voluntary partnership share purchase programme, which is open to all employees is administered through the SIP.

1 Accounting policies continued

1.17 Share-based payments continued

Long Term Incentive Plan ('LTIP')

Details in relation to the Softcat Long Term Incentive Plan 2016 awards to Executive Directors are included in the Directors' Remuneration Report on page 49.

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 an 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.

1.18 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.

1.19 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, 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:	2017 £'000	2016 £'000
Software	414,781	319,978
Hardware	287,424	250,692
Services	130,281	101,681
	832,486	672,351

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2017

3 Operating profit

	2017 £'000	2016 as restated £'000
Operating profit is stated after charging:		
Depreciation of tangible assets	1,641	1,796
Amortisation of intangible assets	367	327
Operating lease rentals	618	520
Foreign exchange loss	87	262
Exceptional items	—	3,673
Inventories expensed in the year	241,410	212,068
Auditor's remuneration		
Fees payable for the audit of the Company's annual accounts	190	150
Fees payable for audit-related services	20	—
Total for statutory audit services	210	150
Taxation advisory services	—	18
Other non-audit services	—	394
Total for non-audit services	—	412

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

The prior year has been restated to align classifications with the current year.

4 Exceptional items

	2017 £'000	2016 £'000
IPO costs	—	3,673

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

5 Finance income

	2017 £'000	2016 £'000
Bank interest	142	213

6 Income tax

The major components of the income tax expense for the years ended 31 July 2017 and 31 July 2016 are:

	2017 £'000	2016 £'000
Statement of profit or loss		
Current income tax charge in the year	10,393	9,179
Adjustment in respect of current income tax of previous years	88	(7)
Total current income tax charge	10,481	9,172
Deferred tax		
Current year	(269)	153
Adjustment in respect of previous periods	(61)	(97)
Effect of changes in tax rates	45	17
Deferred tax (credit)/charge	(285)	73
Total tax charge	10,196	9,245
Reconciliation of total tax charge		
Reconciliation of tax expense and accounting profit multiplied by the Company's domestic tax rate for 2017 and 2016:		
Profit on ordinary activities before taxation	50,304	42,403
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19.67% (2016: 20.00%)	9,895	8,481
Effects of:		
Non-deductible expenses	229	851
Adjustment to previous periods	27	(104)
Effect of changes in tax rates	45	17
	301	764
Income tax charge reported in profit or loss	10,196	9,245

In the year ended 31 July 2017, £69,000 of current tax was credited to equity.

Changes affecting the future tax charge

The Finance Act 2015 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. The 19% rate has been utilised in the financial statements for the purposes of calculating deferred tax assets and liabilities (2016: 19%).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2017

7 Dividends

	2017 £'000	2016 £'000
Declared and paid during the year, prior to IPO and share reorganisation		
Ordinary dividend on ordinary shares		36,765
Ordinary dividend on 'MR' shares		864
Ordinary dividend on 'A' ordinary shares		2,469
		40,098
Declared and paid during the year, post IPO and share reorganisation		
Special dividend on ordinary shares (14.2p per share)	28,060	
Final dividend on ordinary shares (3.6p per share)	7,114	
Interim dividend on ordinary shares (2.9p per share (2016: 1.7p))	5,730	3,355
	40,904	3,355
	40,904	43,453

The dividends paid prior to the IPO in November 2015 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.

The Board recommends a final dividend of 6.1p per ordinary share and a special dividend of 13.5p per ordinary share to be paid on 15 December 2017 to all ordinary shareholders who were on the register of members at the close of business on 3 November 2017. Shareholders will be asked to approve the final and special dividends at the AGM on 8 December 2017.

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 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
Additions	—	260	455	196	34	945
Disposals	—	(113)	(68)	—	(71)	(252)
At 31 July 2017	2,649	2,073	7,694	1,331	231	13,978
Depreciation						
At 1 August 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
On disposals	—	(33)	(32)	—	(71)	(136)
Charge for the year	25	324	1,070	175	47	1,641
At 31 July 2017	125	953	6,350	799	172	8,399
Net book value						
At 31 July 2017	2,524	1,120	1,344	532	59	5,579
At 31 July 2016	2,549	1,264	1,995	511	72	6,391

Freehold land amounting to £1.4m (2016: £1.4m) has not been depreciated.

9 Intangible assets

	Computer software £'000
Cost	
At 1 August 2015	1,176
Additions	536
At 31 July 2016	1,712
Additions	516
Disposals	(355)
At 31 July 2017	1,873
Amortisation	
At 1 August 2015	718
Charge for the year	327
At 31 July 2016	1,045
Charge for the year	367
Disposals	(43)
At 31 July 2017	1,369
Net book value	
At 31 July 2017	504
At 31 July 2016	667

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

	2017 £'000	2016 £'000
Finished goods and goods for resale	6,975	4,611

The amount of any write down of inventory recognised as an expense in the year was £nil (2016: £nil).

11 Trade and other receivables

	2017 £'000	2016 £'000
Trade and other receivables	162,089	123,833
Provision against receivables	(1,263)	(1,265)
Net trade receivables	160,826	122,568
Other debtors	59	59
Prepayments	5,415	4,764
Accrued income	7,206	5,396
	173,506	132,787

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2017

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:

	2017 £'000	Related provision £'000	Net £'000	2016 £'000	Related provision £'000	Net £'000
Current	112,927	(396)	112,531	88,326	(434)	87,892
1–30 days	34,856	(149)	34,707	27,831	(142)	27,689
31–60 days	8,537	(90)	8,447	5,175	(68)	5,107
61–90 days	2,764	(172)	2,592	1,521	(45)	1,476
Over 90 days	3,005	(456)	2,549	980	(576)	404
Total due	162,089	(1,263)	160,826	123,833	(1,265)	122,568

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:

	2017 £'000	2016 £'000
Balance at beginning of year	1,265	1,008
Increase for trade receivables regarded as potentially uncollectable	1,231	1,223
Decrease in provision for trade receivables recovered, or written off, during the year	(1,233)	(966)
Balance at end of year	1,263	1,265

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

	2017 £'000	2016 £'000
Trade payables	100,312	67,759
Other taxes and social security	12,153	11,778
Accruals	28,708	24,000
Deferred income	14,001	11,990
	155,174	115,527

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

13 Cash at bank and in hand

	2017 £'000	2016 £'000
Cash at bank and in hand	61,643	62,361

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:

	2017 £'000	2016 £'000
Accelerated capital allowances	(11)	44
Share-based payments	(591)	(214)
Other timing differences	(293)	(256)
Deferred tax assets	(895)	(426)

	2017 £'000	2016 £'000
Reconciliation of deferred tax asset		
Balance at 31 July 2016 (PY: 31 July 2015)	(426)	(678)
Adjustment in respect of previous years	(61)	(97)
Profit and loss account	(224)	169
(Credit)/charge to equity	(184)	180
Balance at 31 July 2017 (PY: 31 July 2016)	(895)	(426)

The Company recognises all deferred tax movements in the year within the income statement, except for £183,789 (2016: (£180,000)) credited 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 £149,232 (2016: £124,759) were outstanding.

	2017 £'000	2016 £'000
Contributions payable by the Company for the year	812	657

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2017

16 Share capital

During the prior year the Company re-registered as a public limited company and restructured its share capital as detailed below. Share capital for the year ended 31 July 2015 is also shown below as this presents the pre-reorganisation share capital structure.

	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.

	2017 £'000	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	99	
Deferred shares ¹ of 1p each	—	—	
	99	99	

Note:

1. At 31 July 2017 deferred shares had an aggregate nominal value of £189.33 (2016: £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.

In the year ended 31 July 2017, 200,000 new ordinary shares were issued to satisfy the exercise of share options.

No issued ordinary shares of £0.0005 each were unpaid at 31 July 2017 (2016: nil unpaid).

All ordinary shares rank pari passu in all respects.

Deferred shares do not have rights to dividends and do not carry voting rights.

Own share transactions

In the year ended 31 July 2017 the SIP Trust returned £317,000 (2016: £nil) to the Company through share recycling. In the prior year own share transactions relate to option proceeds from employees where existing shares were used to satisfy these options.

17 Earnings per share

	2017 Pence	2016 Pence
Earnings per share		
Basic	20.4	16.9
Diluted	20.2	16.9
Adjusted earnings per share		
Basic	21.0	19.2
Diluted	20.9	19.1

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

	2017 £'000	2016 £'000
Earnings		
Earnings for the purposes of earnings per share being profit for the year	40,108	33,158
Adjusted earnings		
Profit for the year	40,108	33,158
Exceptional costs	—	3,673
Share-based payment charge	1,302	888
Tax effect of adjusting items	(47)	(97)
Earnings for the purposes of adjusted earnings per share	41,363	37,622

The weighted average number of shares is given below:

	2017 '000	2016 '000
Number of shares used for basic earnings per share	196,959	196,040
Number of shares deemed to be issued at nil consideration following exercise of share options	1,137	696
Number of shares used for diluted earnings per share	198,096	196,736

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

	2017 £'000	2016 £'000
Operating profit	50,162	42,190
Depreciation of property, plant and equipment	1,641	1,796
Amortisation of intangibles	367	327
Loss/(gain) on disposal of fixed assets	109	(9)
Loss/(gain) on disposal of intangible assets	312	—
Cost of equity-settled employee share schemes	1,070	572
Operating cash flow before movements in working capital	53,661	44,876
Increase in inventory	(2,364)	(1,961)
Increase in debtors	(40,719)	(12,608)
Increase in creditors	39,647	7,474
Cash generated from operations	50,225	37,781
Income taxes paid	(9,254)	(7,856)
Net cash from operating activities	40,971	29,925

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2017

19 Financial commitments

Operating leases

At 31 July 2017, 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	
	2017 £'000	2016 £'000
Operating lease payments due:		
Within one year	653	585
Between two and five years	801	868
	1,454	1,453

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's principal financial assets comprise trade and other receivables and cash that derive directly from its operations.

Financial assets

The financial assets of the Company were as follows:

	2017 £'000	2016 £'000
Cash at bank and in hand	61,643	62,361
Trade and other receivables	173,506	132,787
	235,149	195,148

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:

	2017 £'000	2016 £'000
Trade payables	(100,312)	(67,759)
Accruals	(28,708)	(24,000)
	(129,020)	(91,759)

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.

20 Financial instruments and financial risk management continued

Financial risk management continued

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.

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 2017, the Company had 1,013 accounts (2016: 871) that owed the Company more than £25,000 each. These accounts accounted for approximately 14% (2016: 14%) of total customers and 84% (2016: 82%) of the total value of amounts receivable. There were 297 customers (2016: 250 customers) with balances greater than £100,000 accounting for just over 4% (2016: 4%) of the total number of receivable accounts and 63% (2016: 58%) 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2017

20 Financial instruments and financial risk management continued

Financial risk management continued

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
2017					
Trade payables	(100,312)	—	—	—	(100,312)
Accruals	(28,708)	—	—	—	(28,078)
	(129,020)	—	—	—	(129,020)
2016					
Trade payables	(67,759)	—	—	—	(67,759)
Accruals	(24,000)	—	—	—	(24,000)
	(91,759)	—	—	—	(91,759)

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 2017 the Company had £nil capital commitments (2016: £nil).

22 Directors' remuneration

	2017 £'000	2016 £'000
Remuneration for qualifying services	1,418	1,277
Company pension contributions to defined contribution schemes	5	6
	1,423	1,283

During the year ended 31 July 2017 the Directors of the Company were awarded a total of 295,896 LTIP shares (2016: 350,000) at an average exercise price of £nil (2016: £nil).

The number of Directors for whom retirement benefits are accruing under defined contribution schemes amounted to one (2016: one). The number of Directors who are entitled to receive shares under long-term incentive schemes during the year was two (2016: two).

Gains on share options exercised in the year were £nil (2016: £268,200).

Share-based payment charges include £363,911 (2016: £218,280) in respect of Directors.

23 Employees

Number of employees

The average monthly number of employees (including Directors) during the year was:

	2017 Number	2016 Number
Sales	714	616
Services	147	114
Administration	166	143
	1,027	873

Employment costs

	2017 £'000	2016 as restated £'000
Wages and salaries	59,817	52,185
Social security costs	7,231	6,467
Other pension costs	813	692
Share option charge	1,070	572
	68,931	59,916

Employment costs in the prior year have been restated to align classifications with the current year.

24 Share option schemes

The Company operates a CSOP for nominated employees, and an LTIP for Executive Directors and Senior Management. The Company also operates a SIP for employees.

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

	2017 £'000	2016 £'000
CSOP	29	79
LTIP	584	199
SIP 'free shares' scheme	457	294
	1,070	572
Employer's National Insurance contributions payable on all schemes	232	316
	1,302	888

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2017

24 Share option schemes continued

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. 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 2017, share options outstanding under the CSOP were as follows:

Option term (vesting date to expiry)	Exercise price £	No. of shares under options as at	No. of shares under options as at
		31 July 2017	31 July 2016
August 2016 to August 2025	1.05	—	200,000
August 2017 to August 2025	1.05	300,000	300,000
Total		300,000	500,000

All CSOP share options outstanding at the year end are in respect of unapproved schemes. No CSOP options were granted in the year (2016: 500,000). The fair value of 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.

	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 200,000 (FY16: 4,237,740) CSOP options were exercised with an average weighted share price at the date of exercise of £4.09 (2016: £1.18). The weighted average remaining contractual life of outstanding CSOP options is 8.07 years.

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')

The LTIP provides share awards to Executive Directors and Senior Management.

Executive Directors

Details in relation to the Softcat Long Term Incentive Plan 2016 awards to Executive Directors are included in the Directors' Remuneration Report on page 49. The awards will vest in 2019 upon achievement of certain performance targets and are conditional upon continued employment.

24 Share option schemes continued

Long Term Incentive Plan ('LTIP') continued

Executive Directors continued

During the year 295,896 (2016: 350,000) share awards 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. The EPS linked element of the LTIPs awarded in the year were valued using the Black-Scholes model and a Monte-Carlo simulation was used for the TSR linked element of the award. The following assumptions were used:

	31 July 2017		31 July 2016	
	EPS	TSR	EPS	TSR
Proportion of LTIP award	50%	50%	50%	50%
Share price (£)	2.97	2.97	3.20	3.20
Weighted average exercise price at grant date (£)	0.00	0.00	0.00	0.00
Risk-free interest rate	0.5%	0.5%	0.5%	0.5%
Expected volatility	31%	n/a	26%	n/a
Performance period (years)	3	3	3	3

Senior Management

An award of 288,244 (2016: nil) shares was made to members of the Executive Leadership Team and other Senior Management in the year. These shares had an exercise price of £nil at the date of grant and a performance period of three years. As the exercise price of the options awarded in the year was £nil, fair value has been calculated by multiplying the number of share awards issued by the share price on the date of grant. The resultant fair value is then recognised over the performance period.

The weighted average remaining contractual life of all LTIP awards is 8.98 years

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.

No free shares were issued in the year under the SIP (2016: 629,883). In total, 63,712 free shares were forfeited in the year. The weighted average remaining contractual life of free shares is 1.36 years.

In addition, the Company's voluntary partnership share purchase programme, which is open to all employees, is administered through the SIP.

All share-based payment arrangements

The number and weighted average exercise price of all share-based payment arrangements (including LTIP) are as follows:

	Weighted average exercise price	No. of shares as at	Weighted average exercise price	No. of shares as at
	£	31 July 2017	£	31 July 2016
Outstanding at 1 August		1,429,183		5,094,340
Granted during the year	—	584,120	0.34	1,567,562
Forfeited during the year	—	(63,712)	1.01	(994,979)
Exercised during the year	1.05	(200,000)	0.23	(4,237,740)
Outstanding at 31 July		1,749,591		1,429,183
Exercisable at 31 July		—		—

The fair value of share-based payment arrangements granted in the year was £1,601,907 (2016: £2,441,725). This is split between CSOP options granted of £nil (2016: £89,750) and LTIP awards of £1,601,907 (2016: £980,000). No free share issues were granted in the year (2016: £1,371,975).

The weighted average remaining contractual life of share-based payment arrangements at the year end was 6.31 years.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2017

25 Post-balance sheet events

Dividend

The Board recommends a final dividend of 6.1p per ordinary share and a special dividend of 13.5p per ordinary share to be paid on 15 December 2017 to all ordinary shareholders who were on the register of members at the close of business on 3 November 2017. Shareholders will be asked to approve the final and special dividends at the AGM on 8 December 2017.

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.

	2017 £'000	2016 £'000
Short-term employee benefits	2,018	1,656
Post-employment benefits	11	40
	2,029	1,696

Key management personnel received a total of 334,275 share awards (2016: 350,000) at a weighted average exercise price of £nil (2016: £nil).

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 £394,292 (2016: £220,989) in respect of key management personnel.

Dividends to Directors

	2017 £'000	2016 £'000
M J Hellawell	3,060	5,119
G Charlton	—	—
B Wallace	178	190
V Murria	6	1
L Ginsberg	4	—
P Ventress	6	1
	3,254	5,311

Graham Charlton received dividends of £182 in the year ended 31 July 2017 (2016: £9). Lee Ginsberg received dividends of £354 in the year ended 31 July 2016.

Other transactions

During the year ended 31 July 2017, the Company recognised revenue of £135,112, at low margin, from a sale of hardware to an individual shareholder, who has significant influence over the Company by virtue of their shareholding. There were no outstanding balances at year end relating to this transaction.

COMPANY INFORMATION AND CONTACT DETAILS

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02174990

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Martin Hellowell (CEO)
Graham Charlton (CFO)
Lee Ginsberg (SID)
Peter Ventress (Independent NED)
Vin Murria (Independent NED)

Company Secretary

Winifred Chime

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**OPPORTUNITY
AHEAD...**

Our theme for 2017/18 is all about the **opportUNITY** ahead and how we can continue this going into the upcoming year.

We look forward to seeing you then!



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