Softcat

Softcat plc Annual Report and Accounts 2022

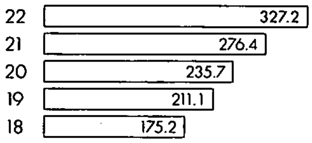
Softcat plc company registration number: 02174990

COMMUNITY AT THE HEART OF EVERYTHING WE DO

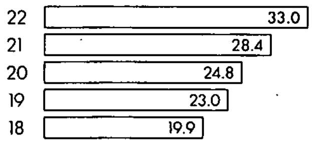
This year an internal project team undertook a review of Softcat's values to ensure that they were still relevant to our business and employees. Having refreshed the descriptors of the existing four values, Intelligence, Responsibility, Fun and Passion, we felt that our commitment to Softcat's various communities wasn't reflected strongly enough in the existing values. This led us to introduce a fifth value, Community. As we wanted to embed the new value in our employees' minds, we also decided to make 'Community' our word of the year. To us, 'Community' means that we believe in the power of people, encouraging collaboration to provide support and positively contribute to our internal and external communities.

Financial highlights

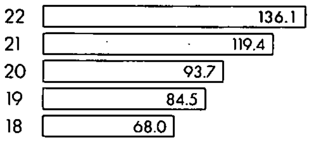
Gross profit £m



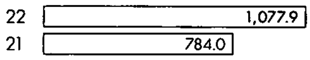
Gross profit per customer £'000[2]



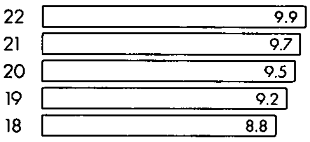
Operating profit £m



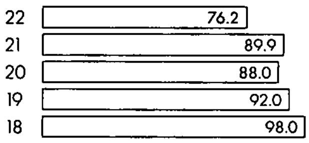
Revenue £m[1]



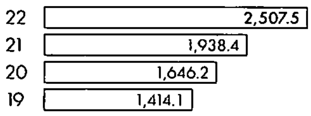
Customer base '000[2]



Cash conversion %[3]



Gross invoiced income £m[3]

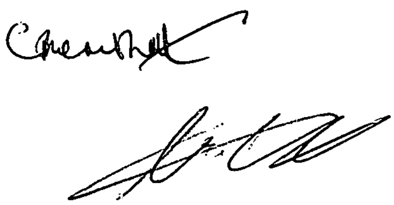


Operational highlights

- Revenue growth: 37%
- Gross profit growth: 18%
- Operating profit growth: 14%
- Cash conversion: 76%
- Employee engagement: 90%
- Customer satisfaction: 94%
- Customer base up by: 200
- Gross profit per customer growth: 16%

1. The prior year comparatives have been restated in line with the change in accounting policy for the IFRS IC agenda decision – IFRS 15 Revenue from Contracts with Customers, treatment of Software revenue as agent revenue. For further information, see note 1.5 to the financial statements. As a result, revenue is only available on a comparable basis for 2021 and 2022.
2. Customer base is defined as the number of customers who have transacted with Softcat in both of the preceding twelve-month periods.
3. Gross invoiced income (GII) and cash conversion are alternative performance measures. Please see page 33 for further definitions and reconciliations.

Pages 1 to 64 form the Strategic Report of Softcat plc for the financial year ended 31 July 2022. The Strategic Report has been approved by the Board of Softcat plc and signed on behalf of the Board by Graeme Watt, CEO, and Graham Charlton, CFO.



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For more information visit:
www.softcat.com

A CLEAR DIRECTION

Our strategy is simple, putting both our employees and customers at the heart of everything we do.

Our purpose

Our purpose is to help customers use technology to succeed, by putting our employees first.

Our vision

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

Strategy

Acquire more customers.

Sell more to existing customers.

Read more on pages 28 and 29

Enabled by our...

People and culture.

Read more on page 38

Ease of doing business.

Read more on page 10

Addressable market expansion.

Read more on page 22

Guided by our values

Fun | **Responsibility** | **Community** | **Intelligence** | **Passion**

Read more on page 8

WHY INVEST IN SOFTCAT?

We help commercial and public sector organisations design, procure, implement and manage the right IT solutions to match their needs. We set ourselves out from our peers as the solutions provider of choice through our unique culture. By providing the best IT solutions, we provide the underpinnings to the modern, digital economy. The sector has seen substantial growth and we think there is so much more to come.

1 We advise, design, procure, implement and manage technology for our customers

We work with all of the leading global technology manufacturers to provide our customers with the broadest possible choice of IT infrastructure solutions to suit their needs. This includes software licensing, workplace technology, networking, security, cloud and datacentre. We do all of this through our own teams of account managers augmented by numerous specialist service partners.

Read more on page 5 and pages 24 to 27

400+
vendors and partners

2 Proven customer excellence

We provide much the same technology as our competitors. What makes us different is the passion and dedication of our people to supporting our customers across this offering.

Read more on pages 24 to 27

94%
customer satisfaction

3 A dedicated and passionate team

We believe that if people enjoy what they do, and care about the company they work for, they will do it better. Our culture is the vital ingredient to providing outstanding service to our customers.

Read more on page 8

90%
employee engagement

4 Market-leading growth and financial strength

We have delivered 17 consecutive years of gross invoiced income and profit growth, all of which has been organic. The business has no debt and a strong track record of cash generation.

Read more on pages 16 to 19 and pages 30 to 33

23%
compound annual growth rate in GII over the last ten years

5 Large and growing addressable market

We estimate our UK addressable market is around £53bn in 2022. According to Gartner (a leading research firm), this is forecast to grow at 8% p.a. through to 2025. As the largest VAR in the UK we have just under a 5% market share, giving us the opportunity to continue to deliver market-leading growth..

Read more on pages 22 to 26

4.7%
estimated share of addressable market in FY2022

WORKING AS A COMMUNITY

Our goal is to be the leading IT infrastructure solutions provider in terms of employee engagement, customer satisfaction and shareholder returns. Success will create opportunities for our people and drive growth for our customers and partners.

Where we operate

UK
Ireland
Netherlands
United States of America
Hong Kong
Singapore
Australia

94%
customer satisfaction

9,922
customer base

1,921
people

Our sustainable and responsible approach

We recognise we are part of each community in which we operate and we are proud of the strong partnerships we build with our stakeholders. We continue to make a meaningful commitment to long-term sustainability and to reducing our environmental impact.

Read more on our approach to stakeholders on pages 34 to 37 and on our progress to build a more sustainable business on pages 43 to 58

400+
vendors

Our offering

We support commercial and public sector organisations to design, procure, implement and manage their digital infrastructure. Our continuing success puts us in the privileged position to invest in new capabilities in exciting and emerging areas of technology, organised around three key customer priorities:

Hybrid infrastructure

Designing, implementing and supporting a mix of private and public cloud, optimised for individual customer needs.

Cyber security

Providing assessment services as well as implementing and managing solutions to stay one step ahead.

Digital workspace

Designing and implementing the tools and applications to deliver agile, collaborative and highly productive business environments.

Read more on pages 25 and 26

Our vendors

We're proud to collaborate and work closely with all the biggest global technology vendors, as well as emerging innovators, to deliver the broadest possible choice for our customers.

COMMUNITY

Softcat was founded to be a place where people enjoy coming to work. The values we hold today remain grounded in that vision and create a unique culture which forms the basis of our success.

Our four values have served us well and driven our success and engagement: Intelligence, Responsibility, Fun and Passion. Softcat is known for how we look after our people, both for the opportunities they are given at work but also, importantly, for allowing them to bring their whole selves to work. So, after a review we felt that our commitment to diversity and inclusion wasn't reflected strongly enough our values. This led us to introduce a fifth value, Community, which was our word of the year.

Tech Starter

Our Women Tech Starter programme is part of our Supporting Women in Business community network. The Tech Starer programme was launched to encourage women to take roles in more technical positions following a career break. The programme is designed to help build up skills and qualifications that may have been put on hold. It allows us to tap into a pool of talent who have the right skills, but need the opportunity to put them back into practice. We know that flexibility is also important and so the role is designed with that in mind. We have recently recruited our third cohort, bringing the total participants to 18 women.

Seven networks. One community.

Supporting Women in Business ('SWIB')

SWIB is Softcat's longest standing network. It improves confidence in women, recognises their equality with men and raises awareness of women in the business. SWIB also works with Softcat's senior management to understand how they can support on retention and progression of women in Softcat.

Ethnic and Cultural Diversity Network

The Ethnic and Cultural Diversity Network celebrates, educates and collaborates on topics and important cultural events relating to our culturally diverse community at Softcat.

Pride Network

Our Pride Network creates a supportive and inclusive work environment for all sexual orientations, gender identities and marginalised or under-represented LGBTQ+ groups.

Family Network

The Family Network ensures that, as an organisation, we focus on creating a culture that our employees can balance family commitments with work responsibilities.

EDN Network

EDN stands for 'Empowering Disability and Neurodiversity'. Our network aims to empower and support our members and colleagues through education and awareness of disabilities that are both visible and hidden. We are a Disability Confident employer as a result of the progress we have made in such a short period of time.

Faith Network

The Faith Network ensures that we live out Softcat's commitment to our employees in bringing their whole self to work, by creating a safe space and place to support anyone practising their religion.

Armed Forces Network

Veterans are an important part of our present and future because they fight for our right to freedom. We recognise the importance of that commitment but also to embrace the skills our veterans can bring to the workplace – bravery, strength and hard work. Our network supports those who identify with a military life.

Our seven diversity networks have one common thread. They are all in place to support our employees from minority groups by ensuring they can be themselves at work. Each network has a team of leaders who drive the purpose, activities and progress of the diversity initiatives within their network.

Our diversity and inclusion communities provide a safe space for our employees to come together and celebrate what makes us unique. They promote a culture of acceptance, inclusion and belonging, where our differences are celebrated. Community networks are open to those that identify within the network as well as allies looking to provide support and educate themselves. Involvement is flexible with members dedicating as much or as little time as they like in supporting, attending meetings and working on initiatives.

Our communities are good for business

We believe our commitment to our communities has tangible benefits both for our business, our strategy and our industry:

Employees

- Competition for the best talent is intense and our inclusive approach helps to attract, retain and motivate the very best workforce.
- Our communities create new opportunities, particularly in demographic areas which are under-represented in the IT industry.
- Our approach to diversity and inclusion advances opportunities to more employees.

Customers

- More of our customers and prospective customers are asking us to demonstrate that we have good corporate values. This is becoming more important as customers seek to work with partners who have a good reputation and do what is right.
- Our diverse workforce more effectively serves the market in which it operates and helps to drive growth.

Industry and partnerships

- Our communities network aims to strengthen our position in the industry and share our efforts to make a difference across the IT sector. The industry is changing for the better due to our efforts – but there is still a long way to go. We take the time to idea-share and look at how we can collaborate better together, not just for Softcat but for the industry.
- Our communities network also helps to build on our competence in inclusive behaviours with customers, suppliers and partners. We have signed pledges to commit to making progress and we share this work with anyone who wants to connect and evolve.

"I thought the role was perfect as it offered training and reskilling in a supported environment. I saw how Softcat really cares about its employees and diversity and inclusion and realised this was a company I wanted to be a part of."

Nina Webhra
Softcat Technology Onboarding Manager and Tech Starter programme participant

CULTURE

Culture, expertise and passion

At Softcat, our goal is to be the leading IT infrastructure solutions provider in terms of employee engagement, customer satisfaction and shareholder returns. Success will create opportunities for our people and drive growth for our customers and partners.

Our values

Softcat was founded almost 30 years ago as more than just an IT reseller. Our founder, Peter Kelly, wanted Softcat to be a place where people enjoy coming to work. And that ethos is still very much alive today. Our five values combine to create a unique culture that forms the basis of all our ongoing success. Our values help define us and are:

- **Fun** – we don't take ourselves too seriously and allow people to be their true selves at work
- **Responsibility** – our actions, attitude and choices matter – for our people, our customers, our supply chain and our environment
- **Community** – we want our people to feel valued, respected and supported by a culture that recognises their unique set of skills and perspectives
- **Intelligence** – we empower our people to use their initiative, expertise and best judgement
- **Passion** – conviction, commitment and hard work are some of the most important traits we look for

Fun

Responsibility

Community

Intelligence

Passion

Happy employees = happy customers

An exceptional level of customer service is a top priority for Softcat. To achieve that, we put our people first by supporting them and investing in their futures through various programmes and opportunities. We also source talented individuals who will live and breathe our core values and help us move forward as a business. Employee satisfaction is something we're proud of at Softcat, with our survey sitting at 90%. Not only that, but we regularly ask managers to give us feedback on how things are going at Softcat and we are delighted that they tell us they have a high level of confidence in the senior leadership team, whose job is to run the business.

We need a bigger trophy cabinet

We may have already mentioned that we're proud of our culture. But to be recognised externally is incredible. Over the last twelve months we've ascended to eighth place in the Great Place to Work/Best Workplaces – Super Large category and achieved fourth place in the UK's Best Workplaces for Women 2022 – Super Large category. We've received a Glassdoor Excellence in Employee Wellbeing Award, the CRN's Best Company to Work for – £101m+ category and its Over and Above Award, recognising us as the No.1 value-added reseller, not to mention dozens of awards given to us by the incredible vendors we partner with.

"

The story of Softcat is remarkable, from humble beginnings with phone calls out of a garden shed to today's position as the UK's leading value-added reseller with offices all over the country. This is an incredible milestone, and if there's one thing that has stayed key to us all this time, it would be the unique culture we have. The culture is one where we are ferociously people- and customer-led and it is core to our performance. I would like to thank not only our customers, service partners and vendors for trusting in us, but every single Softcat employee over the entire history of the Company for the amazing dedication and commitment they have given throughout to get us to this leadership ranking each and every day."

Graeme Watt
Chief Executive Officer

COMMITMENT

Our extensive range of solutions and services helps our customers deliver a consistent and secure workplace for their users, across all devices in multiple locations.

We've been able to help customers in the UK and Ireland seamlessly transition to hybrid working while maintaining their business operations. We've also expanded our multinational operations to better assist our customers with global reach so they can make these transitions, while still helping to meet their IT needs, regardless of the geographical area they operate in.

The right partner

Our scope stretches far beyond selling IT products. We pride ourselves on building, implementing and managing IT solutions that help our customers to succeed. We provide independent design and intelligent recommendations that allow our customers to solve challenges and capitalise on new opportunities.

Our wide and varied customer base makes us a prime technology partner. We work with commercial and public sector organisations, both their domestic and multinational operations, encompassing mid-market and enterprise across a range of verticals, local and central Government, blue light, education, healthcare and more.

Long-term sustainable growth

Our desire to deliver excellent, long-standing solutions for our customers derives from our culture and values. Bringing all of that together supports our strategy towards long-term sustainable growth:

- We deliver intelligent, industry-leading IT services: as the market and the needs of our customers evolve, we strive to stay at pace. Our extensive portfolio of services and IT professionals are always on hand for any stage in our customer's journeys: whether that's discovery, design, delivery or operation.
- More than 300 dedicated service professionals: we've adapted and restructured to create one integrated team of agile and committed service developers, highly experienced consultants and designers, expert support analysts, and dedicated customer and partner managers. They are what truly creates a unique and trusted service for our customers, helping them meet their challenges head on, no matter what sector they operate in.
- A reliable, high quality partner network: we stay in the know with more than 400 vendors and partners to make sure that our solutions are the very best they can be. They help us continuously gain new insight and intelligence to pass on to our customers as the market evolves.
- Quality service, quality standards: we've set high standards for ourselves and for our service provision. We don't just mark our own homework or rely on our own intuition, we carry internationally recognised standards including: ISO 27001 (Information Security), ISO 9001 (Quality), ISO 22301 (Business Continuity) and ISO 20000 (Service Management).

Enabling a consistent strategy

Putting our people at the heart of everything we do ensures that business is always personal. Our commitment to listen, learn and provide allows us to offer the very best technology solutions and services. They enable our customers to benefit from outstanding digital experiences that are fit for purpose, secure and forward thinking. We have a robust framework which ensures we deliver the outcomes our customers want every single time.

Our Voice of the Customer Programme gives us key insights into our customers' wants and needs that underpin our strategy and allow us to continuously develop and improve the service we provide for our customers. It subsequently drives the ongoing investment in people and specialist resources needed to deliver on our customer promise.

Across Softcat, the knowledge and expertise of our people also allows us to better understand our customers and the industries they operate within. This is why we focus on developing, attracting and retaining the best talent so we can collaborate across industries. During the last twelve months, we have also deepened our commitment and action on inclusion and sustainability – topics that are important to our leadership team as well as our staff, customers and partners.

COMMUNITY AT THE HEART OF WHAT WE DO

"

Having completed our succession plans for the Chair and CEO, I am confident that I am leaving Softcat with inspirational and excellent leadership."

Martin Hellawell
Non-Executive Chair

I am pleased to report on another highly successful financial year for the Company

Gross invoiced income was up 29%, gross profit was up 18% and operating profit performance was up 14%. Our strong performance has once again proved our resilience in the face of significant economic challenges. I am delighted with the performance of the team and the business through such an extraordinary period, and I thank our CEO Graeme Watt, his leadership team and every employee for the remarkable job they have done throughout this year, for rising to the challenges and for keeping their focus – you really delivered once again.

Of course there have been and there continue to be significant challenges. Wage inflation partly due to the cost-of-living increases and partly due to the scarcity of labour in the market has been significant and this represents by far our largest cost in the business. As expected, as we thankfully return to the new normal, significant costs such as travel and employee events come back into the business. Inflation, particularly in energy costs, brings further pressures to the cost of running our Company.

Software is our largest category of business so we have been less affected than some, but we have not been immune to the supply chain challenges facing the technology industry. The economic outlook is uncertain, and it seems highly likely that many customers will face significant challenges in the period ahead.

But you know what, despite all of that I remain as confident in the Company's future prospects as ever.

Challenging times focus our customers on becoming increasingly efficient and seeking what competitive edge they can obtain. Most fully subscribe to the fact that much of this is driven through technology investment and standing still or reducing technology spend will drive companies backwards when they desperately need to go forward. The Softcat offering has been transformed over the last decade and our ability to really help customers with these challenges gets significantly stronger each year.

In challenging times, Softcat, aided by an enviable balance sheet, an excellent reputation in the market and our market position puts us in a very strong position to continue, and indeed accelerate, market share gains as weaker competitors reduce investment to survive.

The Company is in rude health with continuous investment in people, systems and customer and partner relationships reaping their rewards. Anecdotally, I was particularly pleased to see that the performance of our most recent intakes over the last year have been the highest recorded in the Company's history.

In summary, there are challenges but with an addressable market that continues to grow, Softcat's opportunity to outpace that market growth by taking further market share gains and the Company being in better shape than it ever has been, there are many grounds for optimism.

Current Board composition

At the beginning of the year the Board consisted of Graeme Watt, CEO; Graham Charlton, CFO; Karen Slatford, Senior Independent Director and Chair of the Remuneration and Nomination Committees; Robyn Perriss, Chair of the Audit Committee; Vin Murria, the Designated Director for Workforce Engagement; and me as Chair of the Board.

This is a relatively small board for the size of the organisation and the Board had previously discussed the potential benefits of adding a further Non-Executive Director, if that person would add further significant value to the Board's effectiveness, skillset and expertise and would be a good fit. Following a search process, it was clear that Lynne Weedall certainly met all the requirements and the Board was delighted to welcome her as a new addition in May.

Lynne has insights from her executive career together with significant experience gained on the boards of listed companies, and this will further strengthen our Board. In particular, given the massive importance we put on people and the Softcat culture and the importance of its continued evolution, a seasoned professional who has dedicated their career to this at a number of very large organisations was notable by their absence on the Softcat Board.

Lynne became Chair of the Remuneration Committee on appointment, taking over from Karen Slatford, a change which more effectively rebalances the workload on the Board, as Karen is also Chair of the Nomination Committee. I'd like to thank Karen for chairing the Remuneration Committee so professionally and effectively since 2019.

Our deliberations on Board changes have been made thinking about the right person for the job. But in addition to that, we realise that diversity in its widest sense can only improve how the Board operates. Our Board now consists of seven Directors and with four of them women, we have for the first time a women majority on our Board. The addition of Lynne has further strengthened our mix of personality types, backgrounds, types of experience, areas of interest and focus. I see very clear benefits of that degree of diversity in the ways we think and work together.

Sustainability has always been a key topic for Softcat particularly in recent years and significant time has been dedicated to it on the main Board agenda. Recognising the ever-increasing importance of the topic and responding to shareholder feedback, the Company has created a dedicated Sustainability Committee. This is now chaired by Vin Murria who now chairs the separate workforce engagement and the Sustainability Committee under a widened ESG Board remit. Vin is a force of nature and an outstanding contributor to the Board and, despite her other ventures, always dedicates more time and effort to the Softcat Board than could be possibly expected. We are mindful that her nine-year term will be reached in November 2024.

Board effectiveness and engagement

The Board function is taken very seriously at Softcat. The members of the Board have tremendous experience and are of the very highest quality. Each is highly engaged as a Board member and is passionate about the Company and its future. Each goes well beyond their job specification and commits significant time and effort on Company matters in their respective areas between Board meetings. I feel very privileged to have run this Board and thank each Board member for their extraordinary contribution.

Whilst readily accepting the importance of governance, we try to focus Board meetings on topics where the Executive team may benefit from the Board's challenge and wider experience. The Board strives to be a benefit to the Executive team, not a chore or a tick box exercise. We also see the importance of not nit-picking or finding fault for the sake of it and rather focus on encouraging and helping the Executive team.

The Board strives to recognise and understand the various stakeholders of the business to help inform the Board debate. Board meetings continue to include regular interactions directly with customers, partners and most importantly employees from all levels including all-employee sessions with members of the Non-Executive Board.

The investor voice is an integral part of the Board function. All interaction between the Executive team and investors is reported to the Board including the independent feedback reports from investors following the two annual roadshows. In addition as Chair I contact our top 50 shareholders and the proxy advisory agencies, encouraging engagement with either me or, if needed, one of our Non-Executive Board members. These sessions cover Board matters, governance and stewardship and are valuable towards achieving a better understanding of mutual objectives. In particular this year's engagements have been very useful to consult on Board succession matters. We are proposing a new Remuneration Policy this year, and although the changes to the Policy are minor (see the Remuneration Committee report on pages 98 to 127), we have consulted with our largest shareholders.

Board effectiveness and engagement continued

During the course of the second half of the financial year we used an external company to conduct our Board effectiveness review (please see the Governance Report, pages 74 and 75). In summary, we have:

- a well-functioning, dedicated Board with a good mix of skills and breadth of contribution from all members;
- good working relationships between Non-Executive Directors and Executives with the right level of challenge and support;
- an inclusive and open culture, well aligned to that of the business; and
- strong Board leadership with good support from the Company Secretariat.

Useful pointers to how we may want to tweak the Board going forward included an increased focus on technology evolution and the opportunities and threats these may present to the Company and our offering. While no immediate need was identified, the continued requirement to identify potential Board members to further strengthen the Board was highlighted.

Future Board composition

Substantial thought, work and consultation have gone into succession planning this year, culminating in our announcement on 12 July 2022 that from 1 August 2023, Graham Charlton will become the CEO of Softcat. On the same day, Graeme Watt will succeed me as Non-Executive Chair. In parallel we have engaged with a search firm to recruit a replacement CFO. As you will see from the report from the Nomination Committee (see pages 90 to 95), these changes have given the Committee a lot to think about and work through during the year and beyond and more details about the succession planning processes followed are in that report.

In our regular succession planning reviews, Graham has for some time been considered a very strong candidate to succeed as CEO and he has for a while confirmed his interest in the role. During his seven years so far as CFO, Graham has developed a deep understanding of the business and in what makes Softcat successful, not least our culture, which he has championed since joining. The Board believes Graham is an outstanding individual and the right person to lead the business successfully through the next stage of its growth.

For a number of years, the Board has maintained a good focus on longer-term succession planning, conscious also that my nine-year term under the rules of the UK Corporate Governance Code comes to an end in 2024. Graeme had made the Board aware recently that he was contemplating retirement as a full time Executive and he had expressed an interest in being considered as my successor.

The Board considered alternative potential candidates from the existing Board and externally. In-depth industry experience, public company experience, cultural fit and availability were all seen as key attributes and very much in the interest of our shareholders. No alternative candidate came anywhere close to Graeme against these criteria.

The Board was unanimous that Graeme's deep knowledge of the business, Softcat's culture and its markets made him the ideal candidate to support the interests of all our stakeholders. This move has been carefully considered by the Board, which acknowledges that the appointment of the CEO into the role of the Chair is not in line with the recommendations of the UK Corporate Governance Code. However, the Board has a very clear and successful operating model as hopefully demonstrated during my time as Chair – the CEO is clearly 'the boss' of the Company and it is the Chair's job to make sure the Board is effective. This will not change.

A number of shareholders were, within the limits of information that may be disclosed, consulted about these potential changes, notably through the Chair engagement programme and broad support was received.

Dividend

The Board has reviewed Softcat's dividend policy and it remains unchanged. 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 16.6p per ordinary share, taking the total dividend to 23.9p per ordinary share. In addition, we recommend a special dividend of 12.6p 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 13 December 2022. Further details of our dividend and distributions policy can be found on page 76.

Sustainability

The importance of sustainability to our key stakeholders continues to increase. Our customers, shareholders and employees think and talk about it far more than ever. It is clear they are becoming more engaged and that climate change is taking on a greater sense of urgency. We are making good steps with our approach to environmental matters and there is a deeply held belief on the Board that this is the right thing to do.

We have achieved the first of our key three targets to be carbon neutral (scopes 1 and 2) by 2022, and we are making progress towards using 100% renewable energy by 2024 and to achieving a carbon net zero supply chain by 2040.

Our near- and long-term sustainability targets have been submitted to the Science Based Targets initiative ('SBTi') and approved, with an aim to reach zero emissions ten years ahead of the deadline set by the Government. Softcat became the first IT company in Europe to have its net zero targets approved by the SBTi. As already mentioned, during the year we established a Sustainability Committee of the Board and this will provide oversight on the effectiveness of our sustainability strategy and the progress being made through various initiatives.

We are helping our customers to understand better and measure their carbon footprint as this is an important first step to help them reduce their emissions. This is a major initiative for the Company, representing significant investment for the Company and one the Board has been fully involved in at every step. More about this can be found on page 55.

For the longer term, we are working hard with our vendors to understand their plans to reduce carbon emissions and to work with them where we can to help them achieve that. This is a major undertaking and requires the sustained desire of the whole IT industry for many years to come to make a collective change for the good.

There are some things that we can and are doing now or in the short term which bring prompt benefit such as switching our offices to renewable energy. I was also delighted to see the introduction of a salary sacrifice programme for employees to lease electric vehicles in a tax efficient way. We have also recently made a commitment to exchange our corporate fleet from internal combustion vehicles to electric vehicles. These are practical demonstrations of what we can do to reduce our everyday impact on the environment and have been welcomed by the Board.

We have made a commitment to the Task Force on Climate-related Financial Disclosures and you will see the progress made since last year in our Sustainability Report (on pages 43 to 58).

I am extremely encouraged by Softcat's focus on sustainability. We have become an evangelist for sustainability within and outside of our industry and this has been widely recognised, for example we were named as winner of CRN's Tech Impact Awards 2021 – Sustainable Reseller of the Year.

While I fully understand the need to plan and measure, to support and adhere to standards, quite honestly there is too much of that going on for my liking. Action is more important. The big wins for Softcat will come from influencing our customers and suppliers. This is harder to measure but I am increasingly encouraged by our ability to play a leading role in influencing the wider supply chain in the future.

Employees

As we have always said, Softcat does not make anything. I could be creative but in traditional terms at least, we have no IP to speak of. Our product is literally our people. Excellent numbers are the result of excellent people, great teamwork and strong leadership. Once again, I am indebted to the employees of Softcat for their outstanding work and dedication.

As well as all the normal challenges including a year of strong growth, the team has endured a significant system change which in my experience no matter how well executed will always cause considerable extra work and sometimes frustration. Attrition in the first half, in line with the 'great resignation' was greater than we anticipated and the recruitment market has been very tough. This places extra strain on existing staff. The team has rallied around and delivered once again.

As covered in this report employee satisfaction remains very high. I've also been very pleased to see a large improvement in recruitment in the second half and more importantly a significant reduction in attrition.

The Company has seen the largest increase in pay levels, particularly at entry level, I think in our history and the Board has been supportive and encouraging of these necessary actions from which we are already seeing the benefits.

We're finding our rhythm with the new hybrid working environment and once again seeing the benefits of greater face-to-face interaction and group activity. This will also help facilitate our community, charity and volunteer programmes which are now well established in the Company and very much part of who we are and want to be.

Much of UK corporate diversity has focused on gender diversity. We continue to remain very focused on activities in this area and continue to make slow but steady progress in some of our statistics with 33% of our workforce now being female compared to 29% five years ago. While I would say this wouldn't I, the progress in mentality shift and cultural shift is, in my opinion, far greater. Diversity matters to us. It matters to our values and it also matters to the future success of the business. It's become a wide ranging topic at Softcat with workstreams and employee groups covering areas such as ethnicity, disability, sexuality, neurodiversity, faith and social mobility. A good example of this is signing up to the Social Mobility Pledge. This includes reaching out to schools or colleges to provide coaching through quality careers advice, recruitment support and mentoring to people from disadvantaged backgrounds or circumstances.

The increase in understanding, awareness, compassion and the desire to have a truly diverse workplace is something of which I think the team should be very proud.

It's a personal matter but as a small anecdote, counting Mollie Wallace as a colleague over the last six years, a wonderful, neurodiverse employee at Softcat and witnessing the incredible positive influence she has had on the Softcat team, has been a highlight of my Softcat tenure.

Pre-close statement

The highlights have been many since I started working with the Company in 2005 and officially joined in February 2006. In FY2005 we achieved an operating profit of £1.1m compared to the £136.1m we report on for this financial year. We've come a long way, particularly since I stepped down as CEO!

Whilst I'm proud of the growth we have accomplished and the way the business has continually adapted to keep thriving, I'm even prouder of the things that haven't changed. Our culture and values have remained largely the same, and our employees have always had a passion for serving our customers, and keeping our Company a fun, humble, vibrant and caring place to work. It is this culture and values which made Softcat a success and it is this which will drive the business forward in the future.

Having completed our succession plans for the Chair and CEO, I am also confident that I am leaving Softcat with inspirational and excellent leadership.

So for the last time in a Softcat Annual Report please let me thank the fantastic Softcat Board and employees for their dedication, support and camaraderie; our wonderful customers for their loyalty and for their guidance on how to serve them better; our partners for their backing right from the early days; and our investors for their support and guidance.

This isn't quite a goodbye; I've still got a few months left!

Thank you.

Martin Hellawell
Non-Executive Chair
24 October 2022

INVESTING TO DELIVER FUTURE GROWTH

"

I am pleased to report on our 2022 results, which represent another record achievement for our business. Thanks to the hard work and dedication of our entire team, we have now achieved 68 successive quarters of organic year over year income and profit growth."

Graeme Watt
Chief Executive Officer

I am pleased to report on our 2022 results, which represent another record achievement for our business. Thanks to the hard work and dedication of our entire team, we have now achieved 68 successive quarters of organic year over year income and profit growth. Our focus on being the best-place to work and delivering outstanding customer service continues to serve us well.

Our strong and unique culture enabled us to manage the challenges of the pandemic and we emerged in an even stronger competitive position continuing to grow faster than the market. Our sales growth was delivered right across the board with double digit growth in all segments and technologies as we continued to manage hardware supply chain constraints.

We made excellent progress selling deeper into existing customers and saw gross profit per customer improve by 16.1%, while also attracting new customers, driving 2.1% growth in our overall customer base.

Our people continue to be the primary focus of our investments. Despite the tough talent market, we were able to grow headcount by 14.3% and, since year end, this has grown further to 2,060 which sets us up to drive future success by continuing to take share of a growing market. We do this by providing the broadest portfolio of leading-edge technology solutions and services, listening to our customers, and leveraging the largest commercial team in our space in the UK market.

I am delighted that the Company is again able to recommend the payment of a special dividend this year.

Thank you to all those with whom we enjoy a partnership, and, of course, a huge thank you to the Softcat team for your amazing energy, ambition, execution and dedication to each other and our customers. During the challenges of the pandemic the business didn't miss a heartbeat thanks to your passion and the care you took to look after everyone around you.

Sales Strategy

Our sales strategy remains reassuringly consistent and straight forward as we look to drive greater share of wallet in existing customers and acquire new customers. Our gross invoiced income performance was broad-based again last year, growing by 29.4% and reflecting significant market share gains. All of our key sales segments grew revenue by more than 15% and we were delighted to be awarded CRN's Public Sector VAR of the Year for the third year running. Market data from Context, an industry research body, suggests we outgrew the market by over three times.

We were able to effectively navigate the ongoing hardware supply chain challenges throughout the year. More recently there is some evidence that the supply chain situation is improving, at least for end user devices although shortages on some storage and networking hardware lines look set to continue well into the new year.

Gross profit growth was also very strong at 18.4% and we were pleased to convert 41.6% of our gross profit to operating profit. This conversion was a little ahead of our expectations and operating profit growth overall stood at 14.0%.

We are a customer-led organisation and continue to listen to feedback and adjust our portfolio of technology and services accordingly. Our annual customer engagement survey, completed by a larger set of customers than ever before, delivered very positive results with an NPS of 55 (2021: 59) and demonstrating improvements in every category. This was despite the backdrop of industry-wide supply chain challenges and the implementation of our own new finance system.

We have the largest commercial team in the UK market and continue to invest heavily in both salespeople and supporting roles. We are always looking at ways to improve and have a number of initiatives in play including 'Elevate', our new sales training and development programme. We are also looking at ways we can use internal and external data to augment sales activities and accelerate sales and the acquisition of new customers.

Customer number growth was 2.1% and we continue to leverage the insights from engagements across our nearly 10,000-strong customer base to deliver high quality solutions and drive further investment and support from our vendor partners. Gross profit per customer, one of our most important metrics, grew by 16.1% in the year as we continued to focus on delivering high quality service and solutions for both existing and new customers. We remain very excited about the opportunity we have in our core markets for further share gains, and in 2023 we will open a further office in Newcastle which will offer career development opportunities for some of our people, extend our recruitment reach and bring us closer to local customers.

We are very pleased with the progress we have been making on our multi-national business, where we look to support the international needs of our UK and Irish customers. Our opening of a series of international branches, including an office in the US, are entirely customer-led and have augmented our sales growth by driving wallet share gains with existing customers and attracting new ones.

Our business is broad-based from both a technology and customer vertical perspective which provides resilience to any pockets of weakness in demand. Our market-leading organic growth enables continued investment and this strength relative to our competition brings opportunities to hire new talent and expertise as well as gain customers. We have less than 5% of a growing market and continue to be excited by the opportunity ahead.

We have seen similar patterns in our customers' consumption from the previous year. They continue to invest in IT infrastructure to support their growth ambitions and to remain competitive and productive. Their need to be secure, support their flexible working policies and deliver on and off-premises storage and compute solutions to their businesses are greater than ever. Customers continue to invest in digital transformations, and we are seeing increasing needs for connectivity, collaboration, IT asset management and cloud adoption.

We recognise that the UK economy is currently experiencing significant volatility and uncertainty, particularly in relation to interest rates and foreign currency exchange. These factors have the potential to impact our trading and operational activity, but our experience suggests demand for IT infrastructure is robust even in extreme circumstances. The breadth of our solutions and services means we are very well placed to deliver on our customers' needs in such changing and challenging times.

People and Culture

Our culture remains as strong as ever and we emerged from the pandemic in very positive fashion. We have transitioned well into the world of flexible working and have empowered our people to do the right thing for themselves personally and for our business. We have created a good rhythm of balancing remote and office working whilst maintaining the highest levels of internal and external customer service levels. We remain focused on giving our new employees the best possible start to their Softcat career and continue to prioritise the importance of face-to-face customer and vendor interactions. Our word of the year for the new financial year is 'Connect' and getting our people together with each other, our vendors, customers and other partners remains a fundamental element of building successful relationships.

In a really tough talent market, we continued to be resolutely focused on investing in and growing our employee base and, as a result, were able to increase headcount by 14.3%. For the new financial year we announced a series of fixed pay adjustments and provided a clearer link between pay, responsibility, and career progression in sales. We are pleased with the profoundly positive impact these changes have already made to recruitment and retention.

Our learning and development initiatives continue to bear fruit and we are delighted with the number of employees going through our various programmes including the Sales Development Programme, the Specialist Acceleration Programme, our Tech Starter programme and various management modules.

We are delighted to have recently held our first face-to-face Kick Off event for three years which was a great success and very motivating for the 1,900 employees that attended. We are also looking forward to the re-instatement of our Partner Forum and Charity Ball events later in the year.

Our annual employee satisfaction poll is the most important survey in any given year. Being the best possible place to work is very important to us to attract great talent into the business, to retain that same talent as they grow and develop and to always provide an outstanding customer service. We are pleased to report our employee NPS at 52 as surveyed in October 2021 (FY2021: 58), clearly demonstrating that despite our growth we continue to maintain our strong culture and have a highly motivated and engaged workforce. Our employees reported that they were particularly happy with the culture, our approach to remote working, wellbeing and our community network groups.

As announced on 12th July 2022, I will be stepping up to the Chair role at the end of the current financial year and Graham Charlton will become CEO. These changes, effective 1st August 2023, are a result of a considered selection process and represent the orderly execution of a carefully developed succession plan. We have also begun a process to appoint a new CFO and a clear transition plan is in place to ensure there is no disruption to the leadership and running of the business.

Ease of doing business

During the year we successfully implemented a new finance system which gives us a platform to deliver further growth, be more productive and provides a basis upon which to implement a strategy for the digital age, to support our customers with new offerings and to address the challenges of adopting multi-cloud and consumption-based technology.

We will also aim to capitalise on the new data storage and management infrastructure, created alongside the development of the finance system, to augment our sales capabilities. Further system developments are also planned, including a major upgrade of our service management system which is likely to begin in the second half.

Addressable market

We are very pleased to have opened a small US office in Arlington, Virginia. The team there is focused on delivering local sales and support to customers with whom we have a relationship in the UK and Ireland. As well as delivering more business to existing customers, we think that over time we will be able to attract new UK and Irish customers who have needs in North America as well as take on North American customers with international operations. This presence in the US will enable us to better understand that market, providing insights that will benefit our wider operations and inform future strategy.

We will continue to monitor inorganic expansion opportunities too, both the possibility of entering a new market or to add emerging capabilities in our core domestic UK market.

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We were delighted to have recently held our first face to face Kick Off event for three years which was a great success and very motivating for the 1,900 employees that attended."

Diversity, Inclusion and Sustainability

Our word of the year was community, and it has been really pleasing to see so many employees getting involved in our, now seven, community network groups. We have made further progress this year with over 1,000 employees participating in our Allyship programme and we were very pleased to be ranked 4th in the UK's Great Places to Work for Women. From a gender diversity perspective, we are getting very close to our first stage target of 35% women in the business, well ahead of schedule, and we would be very pleased to raise this bar to a new target next year. We continue to work hard to achieve greater diversity in our leadership team and are aiming for this to be representative of the Company as a whole.

Despite being unable to hold our annual Charity Ball again in 2022, we were delighted that our teams across the Company were able to raise more than £96,000 for charitable causes.

With carbon reduction high on our agenda, Softcat has made environmental sustainability a core element of our business strategy. We are committed to helping develop a more efficient industry, pledging to become carbon net-zero across scopes 1,2 and operational scope 3 by 2030 and have a net-zero value circle by 2040.

We have been pleased with the initial adoption of Enexo, our in-house developed carbon emissions reporting platform, which launched this year and enables organisations to quantify, monitor and plan reduction strategies for their emissions. We now have over 150 users from 120 customers and partners taking advantage of the value this platform offers. We are delighted that the Science Based Targets initiative (SBTi) has officially approved our targets to take urgent climate action and contribute to halting the rise in global temperatures. We are the first IT company in Europe to receive this and one of only 35 companies in the world to have their net-zero targets approved by the SBTi. This is a significant achievement especially as only six companies, across all sectors, in the UK have had their targets approved. Finally, we were awarded the Tech Sustainability Partner of the Year at both of the two recent main industry awards: CRN (for the second year in a row) and Candefero (on an EMEA-wide basis), recognising the industry leadership we are generating in this space. In addition, we continue to work towards full compliance with new TCFD disclosures.

Outlook

The Company is in as strong a competitive position as ever heading into the new financial year and we expect to continue to deliver double-digit gross profit growth and deliver market share gains.

Demand has remained strong and customer behaviour across all segments is normal. That said, the comparative first half period to January 2022 was exceptional and, as highlighted at the time, benefitted from a very high volume of business from our largest customer. In addition, COVID-19 delayed the resumption of internal events and travel to see customers until March 2022, while this new year has seen the Company award significantly higher pay increases across all departments, including an increase to the starting salaries of new sales recruits to reflect market conditions. We have also increased the rate of recruitment into the Company as we remain focused on the enormous and growing opportunity the IT infrastructure market presents.

We are confident that operating profit for the year will be in line with expectations and at levels similar to 2022, but the factors mentioned above mean cost growth is likely to outstrip gross profit growth in the first half.

To date, and throughout previous periods of market upheaval and uncertainty (including COVID-19), customer demand has been robust and growing but we nevertheless plan carefully for all possible scenarios. Our business model has significant agility; approximately 35% of our operating cost base is made up of sales commissions that naturally flex in a linear fashion with gross profit, while hiring plans are reviewed on a weekly basis to react to market dynamics. Our balance sheet remains strong, and the Company carries no external bank debt. Consequently, we are confident that the business is in a very strong position to continue to outperform the market.

Graeme Watt
Chief Executive Officer
24 October 2022

OUR COMPETITIVE EDGE

Our people are bright, motivated, driven and enthusiastic. Most importantly they care about the Company they work for and the customers they serve.

Resources and relationships

1 Our people

Our people are the keystone of our competitive edge. Their passion, intelligence, sense of fun and commitment to the long-term success of our customers is what really makes us stand out from the crowd.

To read more see pages 38 to 42

2 Our market opportunity and offerings

Despite 17 years of unbroken, organic growth, a 4.7% share of our addressable market affords us huge potential for further growth. Our success continues to fuel reinvestment into our technical capabilities, which we add to relentlessly year after year. As a result, we have one of the broadest and deepest technical offerings in the market, positioning us as the partner of choice for even the biggest and most complex solutions.

To read more see pages 22 to 27

3 Our customers

The longevity of our customer relationships is a direct product of the trust they place in our people and the value we deliver from our technical capabilities. During the past 17 years of consecutive organic growth the number of customers and the average gross profit per customers have both more than trebled.

To read more see pages 22 to 27

4 Our vendor partnerships

Technology vendors face intense competition and need partners that can accurately, reliably and credibly represent their products and services to tens of thousands of target organisations in the UK and Ireland. With our scale and expertise, we offer unrivalled access for both global and local partners to UK and Irish customers. This reach is being further expanded through investment in our multinational branch network.

To read more see pages 22 to 27

5 Our financial strength

In a world of risk and leverage, we are proud to be a bit different. We have never had any debt and maintain a strong balance sheet providing strategic agility. We have a highly liquid business model and can comfortably fund both a progressive dividend policy and long-term organic business investment.

To read more see pages 32 to 33

The value we create for stakeholders

Customers

94%

customer satisfaction

Shareholders

17

years of consecutive organic profit growth

People

90%

employee engagement

How we deliver

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.

We incentivise and engage our people to perform

We create a great place to work where people are recognised and rewarded for success. We are known for our unique culture and it is without doubt the basis of our success.

We deliver outstanding customer service

Only great people who are highly motivated and care about the business they work for can provide truly outstanding levels of customer service over the long term. We try to couple that with a world-class set of technical capabilities and believe the results speak for themselves.

We win new customers and sell more to existing customers

Winning a new customer is just the very start of the journey; our real aim is to nurture a relationship carefully over many years. If we can prove our worth by never letting a customer down, trust builds and everyone wins.

Addressable market expansion

We have a strong track record of developing new revenue streams and are fast to move as the market evolves. Despite our success to date, it's hard to foresee a time when there won't still be huge opportunity for growth.

Underpinned by our values

Fun Responsibility Community Intelligence Passion

Read more on pages 8 and 9

OUR ADDRESSABLE MARKET CONTINUES TO EXPAND

As our addressable market continues to expand, we continue to invest and plan for the best opportunities to further grow our business.

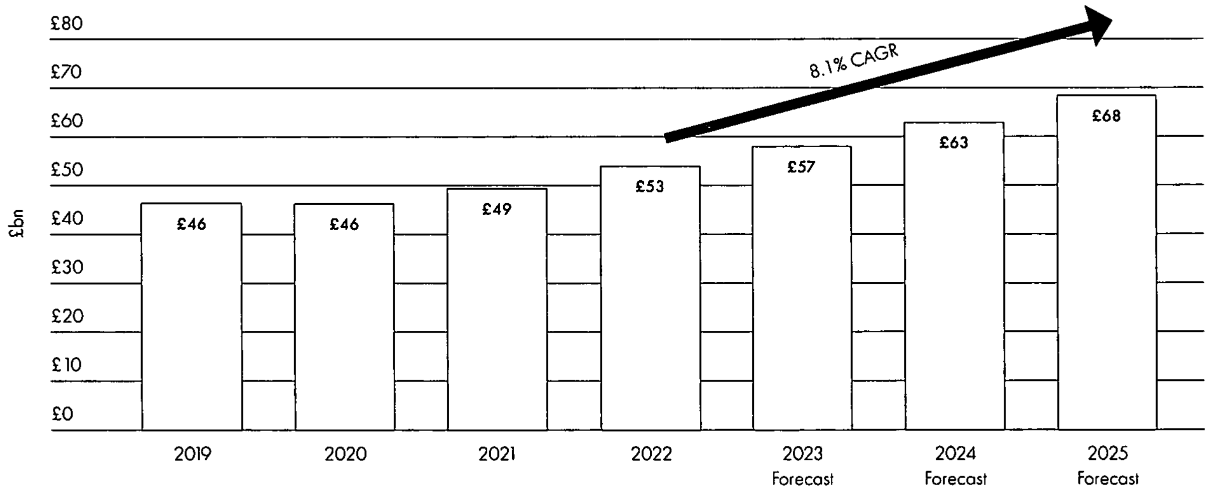
Gartner (a leading research firm) estimates that the non-consumer UK IT market is worth £124bn in 2022. Company analysis of this and other sources, such as the CRN Top VARs report, suggests that our addressable market in the UK and Ireland is worth around £53bn. This gives us an approximate market share of 4.7%, up from 3.0% in 2019. Our current customer base of 9,922 represents around 20% of the addressable universe, with whom we have an estimated average of 20% to 25% share of IT infrastructure spend.

Industry commentators predict more market growth in the years ahead, with Gartner forecasting that the non-consumer UK IT market will grow to £155bn in 2025 – a three-year compound annual growth rate (CAGR) of 7.8%. The areas addressable by us are forecast to grow slightly faster with a three-year CAGR of 8.1% taking our addressable market to £68bn in 2025.

Our proven model of building customer trust over the long term gives us the confidence that Softcat has a future organic growth opportunity best measured in decades rather than years. To capitalise on this opportunity we continue to invest significantly in new resources to expand our geographic presence and increase our capacity for training and development, as well as adding new specialist and technical skills to the team. As technology evolves over time, it is a strategic imperative that we continue to add complementary offerings to remain relevant to our customers and partners.

Our opportunity is greater than just the UK and we now provide our services across a multinational landscape. We also prepared diligently for the UK's exit from the EU and now see an opportunity to provide our services across a multinational landscape, encompassing the US, the Far East as well as Europe. We have made strong progress in building a team in the US and our branches in the Netherlands, Hong Kong, Singapore and Australia enable us to support UK customers in their overseas operations.

Softcat addressable market



(Source: Gartner IT. Spending Forecast, 3Q22 Update)

In the current challenging macro-economic environment, technology will be integral to enabling businesses to regain, maintain or improve their efficiency and profitability. Organisations across corporate and public sectors will need to further adapt their infrastructure models to deliver enhanced employee and customer experiences and drive productivity and efficiency improvements whilst protecting their data. These drivers and trends play straight into our diverse range of solutions including managed, professional and support services, cloud, datacentre, infrastructure, security and digital workspace solutions from hardware, peripherals and software licensing.

To meet the needs of these organisations, we have continued to invest heavily in our tools and technical offering. In the face of economic uncertainty, we have taken very deliberate steps to maintain our investments at a rate at least equivalent to the previous five years. Our cloud proposition is being enhanced through significant initiatives with both Microsoft Azure and Amazon Web Services (AWS), and we continue to build our security services practice as well.

"

Many UK business are still laggards compared to global benchmarks on Digital Process adoption... most of the UK is still paying catch-up, with 'upgrade' IT budgets instead of 'transformational' ones'. This provides a longer runway of growth in the UK..."

(Source: Peel Hunt)

"

69% of organisations are leveraging a partner for moving enterprise workloads."

(Source: Flexera State of the Cloud report)

Today, we do not sell directly to organisations in countries outside the UK and Ireland but this is a further opportunity for us. We have now recruited a Corporate Development Manager to look in a systematic way at the opportunities for non-organic expansion outside of the UK. We are in the early stages of our thinking and no decisions have been made.

With our focus firmly on the long-term opportunity, we have maintained double-digit headcount growth, encompassing increases across all areas of the business including sales, specialists, support, technical and business operations. Our customers and partners can expect more of the same from us in 2022 and beyond.

GROWING OUR OFFERING IN AN EXPANDING MARKET

A structurally growing market

For our customers going through digital transformations, IT is increasingly moving from a back-office cost to be managed to a key enabler of their operational and strategic objectives. Digital transformation is on many organisations' minds. Moving to the hybrid cloud, being flexible on ways of working and enhancing security have all gone up on their priority list, and Softcat recognises that. The ways a company or public sector body engages with its employees, customers and partners increasingly rely on IT that enhances interactions.

As Microsoft Chair and CEO Satya Nadella told investors in January 2022: "We are living through a generational shift in our economy and society as digital technology as a percentage of global GDP continues to increase." This is backed up by Gartner forecasting that UK non-consumer IT spend will grow by 7.7% from 2022 to 2025, far faster than forecasts for UK GDP growth.

As a result, IT departments in our customers have never been more central to their organisation's operational and strategic success. At the same time the range of products and services available has never been as wide and complexity is increasing.

Our customers need help to understand their options. We support these needs by providing independent recommendations, and architecting, procuring, implementing and managing their IT solutions.

As our vendors' products and services evolve so too we need to evolve. We continually invest in our own capabilities both by training up our staff and strategically recruiting external expertise so that we can take new products and services to our customers and remain relevant in solving the challenges they are facing.

“

We are living through a generational shift in our economy and society as digital technology as a percentage of global GDP continues to increase."

Satya Nadella
Microsoft Chair and CEO
January 2022

Expanding our Community

In 2023, Softcat will be branching out into a new city for the first time in four years; this time in Newcastle. The opening of our Newcastle office aligns with Softcat's strategy to support new customers and enhance the capabilities of our existing customers, by providing a local service and a multinational portfolio of products, solutions and services. Newcastle also offers a rich talent pool through its local universities and colleges. Investing in people and talent will always play a key part in Softcat's continued growth.

Our customers supported by our people

We are passionate about deepening our engagement with our customers to develop long-term valuable and sustainable relationships. We train our Sales Account Managers to build trust over time, by doing what we say we will and responding positively when something goes wrong. As our Sales Account Managers identify opportunities, they will bring in vendor and technology experts to provide guidance, design, procurement advice or service options to support their customers. Over time, customers do not have one relationship with their Sales Account Manager at Softcat but multiple relationships with us across all areas of IT infrastructure.

Our annual customer experience survey is a key check and balance that informs our strategy. It drives the ongoing investment in people and specialist resources needed to deliver on our customer promise. Customer satisfaction is one of Softcat's key performance indicators (see pages 30 to 31).

More than eight in ten members of the Softcat team face directly into customers in one manner or another, including Account Managers, Sales Specialists, Technical Design, Professional Consultants, Managed Services and our Customer Experience Team, where Customer Success Managers work alongside Service Delivery teams to ensure that complex solutions are integrated and delivered to the highest quality.

We focus on developing, attracting and retaining the best talent, increasing our expertise so that we can better understand the environments and industries that our customers operate in. This helps us collaborate across industries and share best practice and innovation to ensure we deliver the best experience for our customers and the challenges they face. We also believe in putting the right people in place and investing in them over the long term. We are continuing to develop our agenda across issues like inclusion and sustainability – topics that are important to our leadership team as well as our staff, customers and partners.

"

Organisations are focused on switching off 'emergency' digital transformation mode and turning on smarter digital transformation, setting a clear and concise roadmap for the deployment of new technologies. This will help them to remain agile in the face of new headwinds."

Chief Commercial Officer, Softcat

The IT landscape is ever changing

The market has seen increased focus on technologies like sustainability, cloud and 'as a service' solutions – which ultimately means that decision makers have more agency on choosing solutions that are cost effective. We base our key IT priorities around these market opportunities; they include digital workspace, hybrid infrastructure and cyber security. We focus on these areas to make sure we are prepared for everything our customers could need and can discover value-add opportunities for the bespoke solutions we design, deliver and operate.

Digital workspace

With a people-first approach, we improve experiences, create choice and enable outcomes by securely connecting people, data, apps and devices. We consider the key aspects that underpin a successful digital workspace strategy: workstyle flexibility, choice and creating collaborative workspaces to enable enhanced productivity and a happier workforce.

"

The SD-WAN market is forecast to double between 2021–2026

(Source: 650 Group)

Hybrid infrastructure

Whether it is public, private or multi-cloud, what counts is delivering and maintaining the optimal combination of technology for each customer's unique situation. Softcat as a cloud aggregator can design, deliver and operate a range of effective environments. Across data assurance, through management and monitoring, to connectivity and security, we design the public, private and hybrid cloud solutions that deliver the optimal estate.

Organisations are now using an average of

3.7 public clouds; and

4.9 private clouds

(Source: Flexera State of the Cloud Report)

Cyber security

Protecting data, networks and systems is a critical issue for the industry. Almost every business relies on the confidentiality, integrity and availability of its data. Protecting information needs to be at the heart of an organisation's security planning. As cyber security evolves, we build, implement and maintain ongoing programmes to proactively reduce risk for our customers.

67%

of UK and Ireland Chief Information Officers are looking to increase their spending on Cyber Security in 2022. Nil are looking to cut spending.

(Source: 2022 Gartner CIO and Technology Executive Survey)

Our customers' top five IT priorities

1. Cyber security
2. Devices
3. End point management
4. IT asset and service management
5. Networking

(Source: Softcat 2022 customer experience survey)

OUR VENDOR PARTNERS

Partnering for success

We pride ourselves on partnering with a portfolio of world-class IT vendors – holding top level accreditations with each. We work closely with these industry leaders on a shared goal: delivering the best solutions or services for our customers. Our vendor agnostic approach helps us to meet the requirements of our customers. It also means we are able to offer an extensive range of products and bespoke solutions with maximum value, alongside in-depth technical expertise.

We value our vendor partnerships and are committed to continuously improving and evolving our partner strategy. This commitment has been reflected in the long list of partner awards we have received year after year. By continuously listening and asking questions of our customers we are able to evolve and improve our partner strategy.

Some awards we have won:

Some of our vendors

ACQUIRE MORE CUSTOMERS

In 2022 customer numbers grew organically for the 15th year in a row, but we still only serve around one in five from our target market.

Progress in 2022

Our customer base grew by 2.1% during the year, with success across each of our key segments: mid-market, enterprise and public sector.

Future focus

Our customer base was 9,922 in 2022, which only reflects approximately 20% of the addressable market. We will continue to target new accounts through further investment in our Sales team.

KPIs

- Customer base increased by 2.1% to 9,922
- 94% customer satisfaction

CASE STUDY: STRATEGY IN ACTION

Berry Bros. & Rudd

Berry Bros. & Rudd ('BB&R') are Britain's oldest wine and spirit merchant, stocking over 4,000 wines. Still located at No.3 St James's Street, London where the business began in 1698, it now has operations in the UK, Japan, Hong Kong and Singapore and employs more than 300 members of staff.

Softcat began working with BB&R to help them migrate their out-dated IT provision to a more resilient hosted service. Inevitably, as BB&R has grown its business, it has recognised the increasing advantages of cloud-based services. Softcat has been on hand to replace their existing on-premises legacy infrastructure, enhance resilience and IT capabilities, enable scaling to cope with increased demand from business expansion and facilitate migration to true hybrid/multi-cloud environments.

What were the benefits?

- An end-to-end managed infrastructure service.
- The consolidation of disparate IT systems into a high-performing, multi-platform provision.
- Enhanced resiliency and redundancy through hosted WAN and backup services.
- Ongoing support and close collaboration.

"Softcat delivers on what it promises. Softcat has supported BB&R's ambitions and helped guide its IT strategy, investments and development. The account management provides advice that's always on point and informed by deep sectoral knowledge – and Softcat genuinely gives the impression that it wants to help. Softcat understands BB&R's business philosophy and has helped create the platforms it needs to face the future with confidence."

Paul Slade
Infrastructure Manager at Berry Bros. & Rudd

SELL MORE TO EXISTING CUSTOMERS

The opportunity to help customers navigate a complex array of technology choices has never been greater.

Progress in 2022

Cross-sell programmes and training have delivered significant results over the last few years and we continue to see existing customers spend more with us across more business lines than ever before.

Future focus

Future growth in business line penetration and gross profit per customer is targeted for 2023 as we continue to roll out account planning, deploy new product and service offerings, continue developing multinational sales capabilities and invest in additional headcount.

KPIs

- Gross profit per customer increased by 16% during the year
- 94% customer satisfaction

CASE STUDY: STRATEGY IN ACTION

NHS Digital

As a long-standing partner of NHS Digital, Softcat was brought in to help their Cloud Centre of Excellence ('CCoE') mitigate the complex costs associated with adopting cloud-based solutions across an organisation as large as the NHS. Softcat has a strong track record of providing high quality cloud-focused solutions. Softcat's specialists worked closely with the NHS Digital team to ensure the correct configuration, understand the data being produced and use it to highlight where cost and operational efficiencies could be achieved.

What were the benefits?

- Significantly simplified billing.
- Real-world, timely information to facilitate informed decision making.
- Opportunity to rationalise unused assets, reduce ongoing costs and secure discounts on future provision.
- Monthly cost savings of 25%.

"We're a relatively small team and the ongoing support Softcat provided made all the difference. Where we had limited knowledge, Softcat provided the expertise. That ongoing support helped to generate highly valuable data to facilitate trend analysis, identify where cost savings could be made and highlight opportunities for operational optimisation across more than 70 business units. All in all, the solution represents a one-time hit that's brought much needed clarity to our cloud operations. Softcat has been there to underpin our own due diligence and provide the rock-solid data that enables us to monitor usage and spend, challenge invoices and drive down costs."

IT Team Member,
NHS Digital

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 further discussed in more detail within the Chief Financial Officer's Review on pages 32 and 33.

Financial

Revenue £m[1]

22	1,077.9
21	784.0

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

22	327.2
21	276.4
20	235.7
19	211.1

Strategic link

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

Operating profit £m

22	136.1
21	119.4
20	93.7
19	84.5

Strategic link

Comments
- Operating profit comprises gross profit net of administrative expenses.

Link to Directors' remuneration[3]
- For 2022 operating profit accounts for 80% of the weighting for the Executive Directors' annual bonus, reflecting an important role in measuring the delivery of in-year shareholder value.

Gross invoiced income £m[2]

22	2,507.5
21	1,938.4
20	1,646.2
19	1,414.1

Comments
- Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued items.

Basic earnings per share p

22	55.5
21	48.4
20	38.2
19	34.6

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[3]
- Basic EPS is a performance measure in the targets for the Executive Directors' Long Term Incentive Plan ('LTIP').
- Delivery of EPS growth will also contribute indirectly to share price performance, and the ability to pay dividends, both important elements in total shareholder return ('TSR'). TSR is also a performance measure of the LTIP.

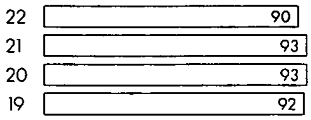
Cash conversion %[2]

22	76.2
21	89.9
20	88.0
19	92.0

Comments
- Cash conversion is defined as cash generated from operations but after capital expenditure, as a percentage of operating profit.
- The five-year average for cash conversion is 88%, reflecting the highly liquid nature of the business operations and a disciplined approach to working capital management.
- The reduction on prior year reflects a transient expansion in year-end trade receivables following the implementation in the fourth quarter of a new finance system.

Non-financial

Employee engagement score %



Strategic link

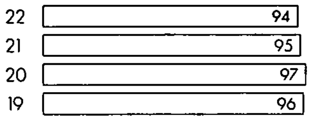
Comments

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

Link to Directors' remuneration[3]

- Actions overseen by the Executive Directors to maintain strong employee engagement account for 20% of the weighting (along with customer satisfaction) for the Executive Directors' annual bonus, reflecting the importance of a well-engaged workforce to Softcat's overall success.

Customer satisfaction %



Strategic link

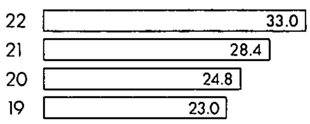
Comments

- 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 2022 the survey had 1,870 respondents (2021: 1,248).

Link to Directors' remuneration[3]

- Actions overseen by the Executive Directors to maintain strong customer satisfaction account for 20% of the weighting (along with employee engagement) for the Executive Directors' annual bonus, reflecting the importance of customers, who are at the core of Softcat's strategy.

Gross profit per customer £'000

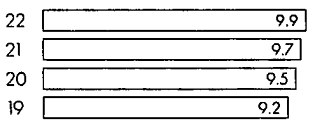


Strategic link

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 a dilution of the metric, but to a similar degree from one financial year to another.
- The growth in this metric therefore demonstrates the value created by ever-deepening long-term relationships, and the Company's ability to sell an increasing range of technologies based upon genuine trust and loyalty.

Customer base '000



Strategic link

Comments

- Customer base is defined as the number of customers who have transacted with Softcat in both of the preceding twelve-month periods.
- Growth in this metric demonstrates the ability of the sales force to win new customers while also retaining existing relationships.
- Important for in-year performance but also underpins future growth.

Link to strategy:

Acquire more customers

Sell more to existing customers

People and culture

Ease of doing business

Addressable market expansion

1. The prior year comparatives have been restated in line with the change in accounting policy for the IFRS IC agenda decision – IFRS 15 Revenue from Contracts with Customers, treatment of Software revenue as agent revenue. For further information, see note 1.5 to the financial statements. As a result, revenue is only available on a comparable basis for 2021 and 2022.
2. Gross invoiced income ('GII') and cash conversion are alternative performance measures. Please see page 33 for further definitions and reconciliations.
3. For more information on the remuneration of the Executive Directors, please see the Annual Report on Remuneration on pages 98 to 112.

Read more in our Chief Financial Officer's Review; see pages 32 and 33

DELIVERING GROWTH AND INVESTMENT

"

Overall performance was once again very well diversified, with each area of technology and each customer segment delivering growth in both GII and gross profit."

Graeme Charlton
Chief Financial Officer

Financial summary (restated)	FY2022	FY2021[1]	Growth
Revenue	**£1,077.9m**	£784.0m	37.5%
Revenue split			
Software	**£150.0m**	£128.4m	16.8%
Hardware	**£797.9m**	£556.5m	43.4%
Services	**£130.0m**	£99.1m	31.2%
Gross invoiced income ('GII')	**£2,507.5m**	£1,938.4m	29.4%
GII split			
Software	**£1,365.3m**	£1,109.2m	23.1%
Hardware	**£810.2m**	£566.3m	43.1%
Services	**£332.0m**	£262.9m	26.2%
Gross profit (GP)	**£327.2m**	£276.4m	18.4%
Gross profit margin	**30.4%**	35.2%	(4.8)% pts
Operating profit	**£136.1m**	£119.4m	14.0%
Operating profit margin	**12.6%**	15.2%	(2.6)% pts
Gross profit per customer[2]	**£33,000**	£28,400	16.1%
Customer base[3]	**9.9k**	9.7k	2.1%
Cash conversion	**76.2%**	89.9%	(13.7)% pts

1. The prior year financial comparatives have been restated where relevant in line with the change in accounting policy – IFRS 15 Revenue from Contracts with Customers, treatment of Software revenue as agent revenue. Further information can be found in Note 1.5.
2. Gross profit per customer is defined as GP divided by the customer base.
3. Customer base is defined as the number of customers who have transacted with Softcat in both of the preceding twelve-month periods.

Gross profit, revenue and gross invoiced income

Gross profit (GP), our primary measure of income, grew by 18.4% to £327.2m, reflecting strong growth in both the first and second halves of the financial year. Customer demand was robust and consistent, with double-digit gross invoiced income (GII) and GP growth generated across each of software, hardware and services.

Revenue was up 37.5% due to a strong performance across all areas of technology, with each of software, hardware and services growing in excess of 15%. The application of IFRS 15 to revenue was amended during the year in response to a clarification issued by the IFRS Interpretation Committee. This is detailed in note 2 but, in summary involves a switch from recognising some elements of software income on a gross basis as if Softcat were principal in the transaction, to recognising all software income streams on a net basis with Softcat acting as an agent to the transaction. As a result, revenue figures for 2021 have been restated in line with this new treatment.

We continue to report GII, which is unaffected, alongside revenue as taken together this allows a fuller understanding of commercial profit margins and cash flow dynamics.

GII grew by 29.4%, ahead of the 18.4% expansion in GP due mainly to a series of large, low-margin hardware projects completed with a major customer. Hardware comprised 32.3% of total GII, up from 29.2% in the prior year.

Overall performance was once again very well diversified, with each area of technology and each customer segment delivering growth in both GII and GP. The large hardware projects with the major customer comprised mainly datacentre projects, but we saw very strong performance across the customer base in networking, security and workplace technologies too. Double-digit growth was delivered in both GII and GP from the public sector, enterprise and mid-market customer segments. Growth was strongest in mid-market which comprised 46.6% GII in the period, up from 43.3% in the prior year. Growth in GII from enterprise customers was 27.2% and public sector delivered 19.4% growth in GII for the second year in a row; a very similar rate of expansion to that seen in the prior year.

Customer KPIs

During the year average GP per customer grew by 16.1% to £33.0k (2021: £28.4k) and the customer base increased to 9,922, up 2.1% on the prior year.

Despite this further strong progress and being confirmed as the largest reseller in the UK by CRN, our industry remains highly fragmented. Our latest estimates, based on multiple industry sources including CRN and Gartner, suggest we have less than a five percent share of total addressable market value. This comprises a trading relationship with c.20% of potential customers with whom we have an average share of wallet of c.20% – 25%. As a result, we continue to have a fantastic opportunity for future growth by continuing to concentrate on our simple strategy of seeking to sell deeper into existing accounts by building trust and loyalty over time, while gradually expanding our customer base year on year.

Operating profitability and investment in future growth

Total operating costs for the year were up 21.7% reflecting headcount growth of 14.3% and the return of events and travel costs during the second half of the year. The post-pandemic restart of these activities is a significant boost to our operations, comprising as they do a material element of our business culture and enabling us to deepen our interaction with customers.

Headcount growth of 14.3% reflects our ongoing investment across all areas of the business, both in building scale and capacity to our sales operations as well as expanding our technical capabilities. We continue to recruit contemporary skills across the full range of infrastructure specialisms, including for example security and cloud services.

As a result of our headcount investment and the return of events and travel costs our operating to GP margin fell slightly year on year to 41.6% (2021: 43.2%). This is expected to reduce again in the year ahead reflecting the annualisation of the headcount investment and the normalisation of event related costs in the first half. This is expected to then increase in H2 following the anniversary of the end of lockdown restrictions in March 2023.

Corporation tax charge

The effective tax rate for 2022 was 18.9% (2021: 19.2%), reflecting a stable UK statutory rate of 19.0% in both years, together with the relatively marginal impact of non-deductible expenses and share-based payment transactions. Our tax strategy continues to be focused on paying the right amount of tax in the right jurisdiction, at the right time.

Cash and balance sheet

Cash conversion, defined as cash flow from operations before tax but after capital expenditure, as a percentage of operating profit, was 76.2% (2021: 89.9%). The reduction on prior year reflects a transient expansion in year-end trade receivables following the implementation in the fourth quarter of a new finance system.

Whilst successful, the system implementation created some temporary disruption to collection procedures, but this is expected to return to normal during the first half of the new year with collections already strengthening in August and September.

Dividend

A final ordinary dividend of 16.6p per share has been recommended by the Directors and if approved by shareholders will be paid on 19 December 2022. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 11 November 2022. Shares in the Company will be quoted ex-dividend on 10 November 2022. The last day for dividend reinvestment plan ('DRIP') elections to be received is 28 November 2022.

In line with the Company's stated intention to return excess cash to shareholders a further special dividend payment of 12.6p has been proposed. This has been calculated to increase the minimum cash holding of the business from £45m to £60m and is due to the significant increase in GII since this was last adjusted in 2020. If approved this will also be paid on 19 December 2022 alongside the final ordinary dividend. This will bring the total amount returned to shareholders since becoming a public company to £401.2m.

Alternative Performance Measures

The Company uses two non-Generally Accepted Accounting Practice (non-GAAP) financial measures in addition to those reported in accordance with IFRS. The Directors believe that these non-GAAP measures, set out below, assist in providing additional useful information on the underlying trends, sales performance and position of the Company.

Consequently, non-GAAP measures are used by the Directors and management for performance analysis, planning and reporting and have remained consistent with the prior year. These non-GAAP measures comprise gross invoiced income (or 'GII') and cash conversion.

1. **Gross invoiced income** is a measure which correlates closely to the cash received by the business and therefore aids the users understanding of working capital movements in the statement of financial position and the relationship to sales performance and the mix of products sold. Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued revenue as reported in the IFRS measure. A reconciliation of IFRS Revenue to gross invoiced income is provided within note 2 of the financial statements.
2. **Cash conversion ratio** is cash flow from operations, net of capital expenditure, as a percentage of operating profit. A reconciliation to the adjusted measure for cash conversion is provided below:

	2022 £'000	2021 £'000
Cash generated from operations	**108,988**	113,797
Purchase of property, plant and equipment	**(1,890)**	(2,265)
Purchase of intangible assets	**(3,334)**	(4,199)
Cash generated from operations, net of capital expenditure	**103,764**	107,333
Operating profit	**136,145**	119,416
Cash conversion ratio	**76.2%**	89.9%

Graham Charlton
Chief Financial Officer
24 October 2022

CONSIDERING ALL OF OUR STAKEHOLDERS

This section describes how the Directors take into account stakeholders and other matters in carrying out their duties and the impact on decision making. The Board considers regular and effective engagement with Softcat's stakeholders to be fundamental to our success.

We define our key stakeholders as individuals or groups who have an interest in, or are affected by, the activities of our business. The Board believes a good understanding of our key stakeholders and their needs is essential to deliver sustainable value creation over the long term, bringing benefits to our shareholders and stakeholders.

Director responsibilities

Our Directors are fully aware of their responsibilities under Section 172(1) of the Companies Act 2006 (the 'Act') and take their responsibilities seriously. The Board considers that, in its decisions and actions taken, it has acted in a way that would promote the success of the Company for the benefit of its members as a whole, whilst having regard to stakeholders and matters set out in Section 172(1) (a–f) of the Act. The Directors' responsibilities under Section 172 are rooted in our Company's culture, our values and particularly our purpose: 'we help customers use technology to succeed, by putting our employees first'.

Our key stakeholders

The Board has identified Softcat's key stakeholders to be our employees, customers, suppliers and vendors, investors, and the environment and communities in which we operate. The potential impact of the Company's operations on each of our stakeholders is an important consideration for the Board. The Board has approved a framework of key topics which ensures that regular updates are received and discussed by the Board regarding each stakeholder group. This ensures the Board is well informed and able to make appropriate considerations when deciding Softcat's strategy and other business decisions.

The following table sets out how our stakeholders have been engaged with, how relationships with stakeholder groups are monitored, and how their interests have influenced decisions made by the Board.

> Read more elsewhere in this Strategic Report, our Social Value Report on 38 to 42, our report on TCFD and Sustainability on pages 43 to 58 and our Corporate Governance section on pages 65 to 135

Our key stakeholders

Employees

Our employees are at the heart of our business and help to drive Softcat's continued success

Customers

Understanding the needs of our customers in order to build enduring relationships is critical to Softcat's strategy

Suppliers and vendors

Softcat's strong relationships with our suppliers and vendors help us provide the best solutions and support for our employees and customers

Investors

Investors are the owners of the Company and have made a financial commitment in the success of Softcat

Communities and the environment

We recognise we are part of each community in which we operate and it is vital to make a meaningful commitment to long-term sustainability

Employees

Our employees are at the heart of our business and help to drive Softcat's continued success.

How we engaged and monitored

- The Board approves a framework of meetings which includes regular scheduled visits to our offices. This was interrupted by COVID-19 lockdown restrictions and included the cancellation of a Board visit to our new office in Birmingham.
- Our annual employee engagement survey, the results of which are reported to the Board, with an action plan to tackle the issues raised. Results are compared against last year's equivalent questions to track progress. Quarterly surveys are also discussed with the Board on the performance and engagement by our most senior managers.
- Virtual all-hands meetings are held to update employees on the business. This includes opportunities for employees to ask questions to Directors and senior management. Feedback on these meetings is provided by the CEO to the Board.
- Vin Murria, our Designated Non-Executive Director for Workforce Engagement, led two employee forums alongside her fellow Non-Executive Directors in the Birmingham and London offices. The minutes and actions taken from each forum were reported to the Board, and relevant feedback was provided to senior management as necessary.
- Internal communications, such as weekly 'Love' emails, detailing initiatives, recognising accomplishments and raising awareness of key matters in the Company.
- Employees took part in an ESG materiality assessment, which included both a survey and interviews, to better understand which ESG issues matter most to them.
- Feedback on employee pay is collated through a variety of sources, including through the employee engagement survey and exit interviews. The Board received regular updates on employee attrition levels and on pay conditions.

Key topics of engagement

- Arrangements for hybrid working and office culture
- Pay and reward structures
- General wellbeing and job satisfaction, including recognition of achievements
- Sustainability
- Diversity and inclusion

Outcomes

The Board reviewed, approved or endorsed outcomes, including:

- Approving an updated forward schedule of Board meetings to reinstate a full Board visit to the Birmingham office, which was held during the year.
- Given the importance of employee engagement to the success of Softcat's strategy, the Remuneration Committee of the Board agreed to change the performance metrics of the Executive Directors' annual bonus plan to include actions taken by management to maintain good employee engagement (see pages 98 to 112 of the Annual Report on Remuneration).
- The Sustainability Committee considered the outcomes of the ESG materiality assessment, which included responses from employees. The outputs from the materiality assessment helped to shape the forward agenda for the Sustainability Committee.
- We invested in improvements to our internal IT infrastructure (the cost of which is included in the annual budget approved by the Board), bettering the user experience for our employees.
- A review of salaries for certain roles was undertaken and endorsed by the Board. See case study below.

CASE STUDY:

Employees: pay and progression review

At Softcat, our employees are at the centre of what we do. The Board understands that to continue to generate long-term, sustainable value for our stakeholders, Softcat must ensure that our employees continue to feel happy and motivated and therefore want to stay at Softcat. Not only is this crucial for maintaining long-term relationships with our customers and our suppliers, but having a reputation as a good place to work is key for attracting the best talent.

Softcat continued to grow its headcount during the COVID-19 pandemic, however, like in many companies, Softcat saw an increase in the rate of attrition in the first half of the year. The Board was eager to understand the underlying cause and management presented a full review, collating data from our annual employee engagement survey, and from exit interviews developed to better capture information from leavers.

Softcat's Chief People Officer and Head of Recruitment discussed the results of the review with the Board, reporting that remuneration in certain roles and internal progression were areas that required attention. The Board discussed a fully costed strategy to better align certain roles' pay structures to the market through a larger than usual adjustment and to improve incentives for internal progression.

The plan was announced to employees through an All Hands meeting, and we have since seen improvements in our attrition rates. Not only does this help with current employee happiness, which directly correlates to retaining talent, but it helps attract good talent. The Board continues to receive updates on attrition and recruitment, specifically on retention statistics and factors, in addition to existing updates on employee satisfaction, conditions and pay.

Customers

Understanding the needs of our customers in order to build enduring relationships is critical to Softcat's strategy.

How we engaged and monitored

- Our annual customer experience survey, sent out to customers, requests honest feedback, the results of which are reported to the Board against the results of the previous year to track progress.
- Interaction between our Sustainability Team and our customers regarding what they want to see from us in terms of products and services provided from a sustainability perspective. Any major feedback from these interactions is discussed with the Sustainability Committee of the Board.
- Customers also took part in our ESG materiality assessment.
- The Board asked management to provide a demonstration of eCat, Softcat's online platform for customers to make purchases. This supported a better understanding of the customers' views and experience.
- Direct engagement between the Board and key customers of Softcat.

Key topics of engagement

- Understanding actions necessary for increasing customer satisfaction
- Softcat's sales model
- Technology propositions for customers
- Understanding customers' IT priorities and main challenges
- Sustainability

Outcomes

The Board reviewed, approved or endorsed outcomes, including:

- A comprehensive action plan, developed from the feedback received through the annual customer experience survey, to further improve customer satisfaction.
- Arranging further direct engagements between the Board and our customers into the Board's annual cycle.
- Support for the next stages of development for the eCat platform to further strengthen engagement with our customers.
- Given the importance of customer satisfaction to the success of Softcat's strategy, the Remuneration Committee of the Board agreed to change the performance metrics of the Executive Directors' annual bonus plan to include actions taken by management to maintain good customer satisfaction (see pages 98 to 112 of the Annual Report on Remuneration).
- The Board approved the development of our Enexo platform. This will help our customers better understand and manage their carbon footprint.

Suppliers and vendors

Softcat's strong relationships with its suppliers and vendors help us provide the best solutions and support for our employees and customers.

How we engaged and monitored

- Direct engagements between the Executive Directors and key vendors. Regular updates at Board meetings from the CEO.
- Our dedicated internal 'Vendor Alliance Teams' manage and maintain Softcat's relationships with key vendors.
- In order to make sure we understood the ESG issues which matter to suppliers and vendors, the Sustainability Committee had oversight of an ESG materiality assessment which included suppliers and vendors.
- Our Sustainability Team has continued its engagement work to better understand the sustainability commitments and net zero targets of our major suppliers and vendors. This is part of a Board-approved target to achieve a carbon net zero supply chain by 2040 (see page 53 for more information).

Key topics of engagement

- Sustainability of products and services, and future goals and commitments
- Board reports which provide vendor updates
- Performance of payment practices for our suppliers

Outcomes

The Board reviewed, approved or endorsed outcomes, including:

- Sustainability measures and activities with vendors.
- The Board requested updates on how we will maintain improved performance to pay more of our suppliers in a timely manner. Through ongoing changes in procedures and systems, management demonstrated to the Board that payment times to suppliers continued to improve.
- Given the importance of reducing our impact on the environment to the success of Softcat's strategy, the Remuneration Committee of the Board has agreed from FY2023 to add a new performance metric to the Executive Directors' annual bonus plan. This will now include actions taken by management to promote environmental sustainability (see pages 98 to 112 of the Annual Report on Remuneration).

Investors

Investors are the owners of the Company and have made a financial commitment in the success of Softcat.

How we engaged and monitored

- The CFO and CEO regularly engage with major shareholders and analysts in respect of Company performance.
- The Company Chair undertook his annual engagement programme with major shareholders, discussing governance and sustainability matters, feedback from which was discussed by the Board.
- Shareholder analysis is presented at each Board meeting to inform the Directors on key shareholder movements and trends.
- The Chair of the Remuneration Committee engaged with major shareholders regarding the Remuneration Policy to be proposed at the 2022 AGM, set out on pages 113 to 127 of this report.
- The Chair of the Audit Committee reached out to major shareholders on Softcat's annual audit plan.

Key topics of engagement

- Strategy
- Company performance
- Corporate governance
- Executive Director remuneration
- Sustainability

Outcomes

The Board reviewed, approved or endorsed outcomes, including:

- Feedback from investors/analysts on Company performance and on our strategy.
- A better understanding of investor expectations in respect of corporate governance.
- Consideration of the views of major shareholders prior to finalising our review of the proposed 2022 Remuneration Policy.
- Additional disclosures in the Annual Report to support our investors' understanding of the business.

Communities and the environment

We recognise we are part of each community in which we operate, and it is vital to make a meaningful commitment to long-term sustainability.

How we engaged and monitored

- Softcat's sustainability strategy, progress and performance were regularly monitored at Board level.
- Our Charity Team, which reports to members of the Senior Leadership Team, has strong connections with local and national charities and also engages with our employees.
- Through our sustainability governance framework, we have initiatives and localised Green Teams to support environmental activities.
- We maintain dialogues with local institutions, such as schools and colleges, to understand how we can help them and how we can encourage students to join Softcat's apprenticeship scheme.

Key topics of engagement

- Softcat's sustainability strategy and goals
- Selection of charities our employees wish to support
- How Softcat can best help local communities and groups

Outcomes

The Board reviewed, approved or endorsed outcomes, including:

- The establishment of a Sustainability Committee, with delegated responsibility for setting Softcat's sustainability strategy, monitoring Softcat's performance against its emissions targets and for oversight of sustainability initiatives and activities.
- The Board approved the development of our Enexo platform, (see page 55).
- Softcat signed up to the Social Mobility Pledge, further demonstrating our commitment to being a purpose- and people-led company by boosting opportunities in the communities in which we operate.
- Given the importance of reducing our impact on the environment to the success of Softcat's strategy, the Remuneration Committee of the Board has agreed from FY2023 to add a new performance metric to the Executive Directors' annual bonus plan. This will now include actions taken by management to promote environmental sustainability (see pages 98 to 112 of the Annual Report on Remuneration).

INVESTING FOR OUR SUSTAINABLE FUTURE

At Softcat we continue to invest and build to make our business responsible and sustainable. We believe this will be an important part of our long-term success. This report covers our approach to good corporate responsibility and sustainability.

Highlights

- Near-term and net zero carbon targets approved by SBTi
- Enexo platform launched to help customers better understand their carbon footprint
- Established the Sustainability Committee of the Board
- Joined the Social Mobility Pledge
- Record number of apprentices hired
- Highly rated again by Glassdoor and by UK's Best Workplaces
- Various community and charitable activities
- Flourishing Softcat Communities network
- Around half of our employees have taken our Allyship programme on diversity and inclusion

Our people

Diversity as at 31 July

Gender breakdown

Board of Directors

2022	2021	2020	2019
Female: 57%	Female: 50%	Female: 50%	Female: 33%
Male: 43%	Male: 50%	Male: 50%	Male: 67%

Senior Leadership Team

2022	2021	2020	2019
Female: 22%	Female: 20%	Female: 20%	Female: 8%
Male: 78%	Male: 80%	Male: 80%	Male: 92%

Total permanent employees

2022	2021	2020	2019
Female: 33%	Female: 33%	Female: 30%	Female: 30%
Male: 67%	Male: 67%	Male: 70%	Male: 70%

Ethnicity breakdown

Total permanent employees

2022	2021
Ethnic: 15%	Ethnic: 13%
White British and White Other: 85%	White British and White Other: 87%

Great Place to Work

People

From a people perspective, the last twelve months at Softcat have been focused on growth. Growth in headcount, skills, development opportunities and career paths. We've hired a record-breaking 628 new starters, an increase of 48% on the previous year. We also hired more apprentices than ever before, and this will be increasing even further next year. Transforming our sales career paths and progression opportunities have helped our employees have a clearer picture of their future at Softcat, hopefully leading to a long-term positive impact on retention. 37 of our high potential employees took part in leadership development programmes this year, developing their existing skills and adding new competencies to help them realise their career ambitions.

Our employees tell us in our regular surveys that career progression is of utmost importance to them and with that in mind, we are now running a career progression workshop giving hints and tips to employees about how they can develop themselves at Softcat. PathFinder was also launched in September 2021 to provide an internal tool for employees to access career guidance and internal job opportunities.

PathFinder

1,921

employees as at 31 July 2022

Reward and recognition

Reward and recognition are vital to our success at Softcat, and this year has been no different. A larger than average pay rise was awarded, substantial increases were made to basic salaries in some areas, and external benchmarking was conducted across the board to ensure competitive packages. With our sustainability commitments in mind, we have also launched a service in the UK allowing employees to lease electric cars and we will continue to promote the new benefit over the coming year.

On our recognition platform, Spotlight, we introduced the ability to recognise employees for their behaviour against our values. This helps to further cement the importance of the values in our employees' minds.

Creating an inclusive workplace

We have seen our diversity and inclusion ('D&I') initiatives continue to evolve, strengthen and make a difference to our employees over the last year. Our final network launched in September 2021: Empowering Disability and Neurodivergence. We are delighted that our seven D&I networks now cover most of our minority groups and our employees tell us that they feel represented, empowered and listened to. For more information on our D&I networks, please see pages 6 and 7. Furthermore, our Allyship programme continues to raise awareness throughout the organisation of how to support and respect each other's differences, with approximately 50% of the Company undertaking the course so far.

> "Softcat is one of the rare corporations that takes its commitment to people seriously... there is consistent and wide-ranging discussion that is aimed at making everyone feel heard and leaving nobody behind."

Response from the annual employee engagement survey

At the CRN Women & Diversity in Channel Awards 2022, Softcat has secured a record 31 places on the shortlist, made up of 27 individual nominees and four Company awards.

We continue our efforts to improve our diversity, realising that it may take some time before the diversity of our workforce fully matches that of the outside world. For gender diversity, at 33%, there has been no change in respect of overall percentage of women in our workforce, but we did recruit 207 women in the 2022 financial year and women in management roles has improved by 6% to 31%. We are continuing with programmes which support our efforts on gender diversity, for example our Tech Starter programme for women who have had significant career breaks.

Our efforts to increase employee representation from the ethnic community have continued. There has been a small increase in ethnic diversity, with employees from a ethnic background now accounting for just under 15% of the workforce. For prospective employees, we have introduced a new system to improve our ability to draw insights on the number of employees from a minority ethnic background at each key stage of the recruitment process. This gives us a good starting point to look deeper into the roles/interview feedback of those candidates to see if there are any themes we should address. We continue to voluntarily publish an ethnic minority pay gap in conjunction with our gender pay gap.

Women now make up the majority of our Board, including important roles such as chairs of the Nomination Committee, Remuneration Committee, Audit Committee and the Sustainability Committee. Our Senior Independent Director and our Designated Director for Workforce Engagement are both women. The composition of our Board meets the recommendations set by FTSE Women Leaders (formerly the Hampton-Alexander review) and by the Parker Review Committee.

Great Place to Work continued

TC4RE

One of our proudest achievements this year has been the growth of Technology Channel for Racial Equality ('TC4RE'). As a founding member, Softcat has played a huge part in getting this group up and running and encouraging more organisations to join. We have participated in several videos, podcasts, panels, and Q&A and education sessions with other companies in our industry. All with the aim of improving racial equality within the IT channel.

Social mobility

This year has seen a focus on social mobility, with a desire to increase the number of candidates, and ultimately employees, who come from a lower socio-economic background. To that end, we introduced our first formal work experience programme. Working closely with two local schools to our Manchester and Marlow offices, who we identified as having a large proportion of students with this background, we invited ten students to work with us for a week, learning about the IT industry, receiving training in CV writing and interview skills and also having lunch and a Q&A with our CEO, Graeme Watt.

Softcat recently signed the Social Mobility Pledge, joining hundreds of well-known organisations committed to social mobility. The pledge encompasses three main areas: outreach, access and recruitment. We are already underway with our plans to meet the criteria for the pledge.

Awards and accolades

This year we were delighted to rank incredibly highly in the prestigious Great Place to Work awards. Highlights were being ranked first for the UK's Best Workplaces in Tech 2021 (Super Large), third for the UK's Best Workplaces for Wellbeing 2022 (Super Large) and fourth for the UK's Best Workplaces for Women 2022 (Super Large).

Our Glassdoor reviews continue to be exceptionally high with a 99% approval rating of our CEO, Graeme Watt, and 82% of current and former employees recommending us as a great place to work. Both Great Places to Work and Glassdoor mean the most to us because the responses come directly from people who have worked at Softcat.

Our responsibilities

Charity, community, volunteering and contribution to society

Softcat strives to be an ethical and responsible workplace, supporting all of our stakeholders. Our dedicated Charity Team is responsible for managing fundraising at Softcat with each office having input and representation. We recognise the importance of giving back to the communities in which we operate and strive to provide continuing support. This financial year our staff helped to raise over £96,000 and our charity work has helped to raise over £2.7m to date.

£2.7m

in charitable donations to date

Softcat's annual Charity Ball was traditionally the major contributor in our annual fundraising, which was not possible given the impacts and concerns around COVID-19 again this year. However, we did not let this impact our fundraising spirit. Volunteering activities were tailored to reflect our hybrid working policy, with a mixture of remote and in office fundraising events being held. We supported an array of local, national and international charities including The Disasters Emergencies Committee, Macmillan Cancer Support, Alzheimer's Society, Social Bite, Movember and Children in Need.

To enable our employees to take full advantage of their two volunteering days a year, and maximise their impact, we merged our Fundraising and Volunteering networks into one community of like-minded Softcatters – Love2Give.

Love2Give is a resource employees can use to support the same good causes and projects, together. Activities have included coffee mornings, charity football matches, food collections, taking part in the annual CRN Fight Night, and the 'Break the Cycle' bike ride from Glasgow to Edinburgh to name a few – we certainly feel that we are making a difference for the better.

This year we gave our customers even more reason to engage with our annual customer satisfaction survey, by offering a charitable donation for each response. Each customer was given the opportunity to select from a range of charities selected by our internal networks: The Albert Kennedy Trust was selected by our Pride Network. Other charities included Mind, The Brain Charity, Nafsiyat, SSAFA and Refuge. Nearly £9,000 was donated.

The conflict in Ukraine struck a chord with many at Softcat, so we were happy to provide some practical help. During the year, we made a donation of 18 laptops to families who had fled Ukraine. Our Love2Give network also came together to target fundraising activities to raise money for the Disasters Emergency Committee, who bring together 15 leading charities to help people overseas during times of crises, by rapidly deploying funds and aid to people who need it.

Softcat's strong financial performance also contributes to the UK economy. In 2022, our total tax contribution to the UK economy was £150.9m (2021: £141.8m). This includes corporation tax, payroll taxes, VAT and other business rates and taxes.

Our tax contribution

2022	**2021**
£150.9m	£141.8m
Corporation tax: £25.3m	Corporation tax: £22.5m
Employment taxes: £52.0m	Employment taxes: £45.2m
VAT: £71.8m	VAT: £71.4m
Other rates/taxes: £1.8m	Other rates/taxes: £2.7m

Ethical behaviour

We do not currently operate a specific human rights policy. Our policies and Employee Handbook (which is our Code of Conduct) already operate within a framework to comply with relevant laws, to behave in an ethical manner and to respect the rights of our employees and other stakeholders in the business. Most of our business is focused in the UK and in jurisdictions where human rights are generally well observed.

We are conscious human rights risks exist within our business and supply chain, including labour risk, unsafe workplace conditions and bribery and corruption. We therefore continue to be compliant with the annual reporting requirements contained within Section 54 of the Modern Slavery Act 2015, being a relevant commercial organisation as defined by Section 54, and produced an updated Modern Slavery Statement this year, which is available on our website. We also provide additional disclosures as required in respect of modern slavery and other matters in respect of corporate responsibility when bidding for large Public Sector contracts.

£34,000+

raised by Softcat and Mimecast teams in the 2021 'Break the Cycle' Challenge, in support of Social Bite's fight to end homelessness.

Our responsibilities continued

Ethical behaviour continued

Softcat is aware that fraud is a growing threat which can have a considerable impact both for our business and for our stakeholders. We realise a key part of good anti-fraud management comes from increasing awareness of the types of frauds which might be perpetrated, so during the year we have rolled out compulsory refresher training for all employees on fraud awareness in order to protect our business and important stakeholders such as our customers.

We also operate a Speak Up hotline for all employees to widen employees' channels of raising any issues they may encounter. This provides our employees with an externally provided, secure and confidential channel to voice issues, in addition to internal channels already available. We also operate an anti-bribery, corruption and tax evasion policy, which is regularly reviewed by management to ensure it is comprehensive. Employee training is provided where appropriate. The anti-bribery, corruption and tax evasion policy provides that we take a zero-tolerance approach to bribery, corruption and tax evasion and that we are committed to acting professionally, fairly and with integrity in all our dealings. The policy also sets out the types of behaviour which are unacceptable in the conduct of business and procedures to prevent bribery, corruption and tax evasion.

We also operate a register which requires all employees to seek approval from their line manager and to disclose any gifts or hospitality received or given which is valued over the applicable disclosure threshold. Guidance on accepting or giving gifts and hospitality is contained in the anti-bribery, corruption and tax evasion policy and the gifts and hospitality register is reviewed by management.

Underpinning our approach to ethical behaviour is our Employee Handbook (which is our Code of Conduct), which is applicable to all employees and to those who work for or on behalf of Softcat. The Employee Handbook sets out the expected standard of behaviour.

Softcat publishes twice-yearly details of its payment practices to its trade suppliers. This is reviewed by the Board during the year as part of the Directors' wider responsibilities to consider how Softcat impacts on its key stakeholders. We take these responsibilities seriously and the Board noted during the year that management had maintained improvements in respect of invoices paid within agreed terms.

The Company adopts an open and honest relationship when dealing with Government agencies. For example, during the year the Board approved an update to Softcat's tax strategy, which is published on our website (www.softcat.com/corporate-responsibility). The tax strategy includes an outline of our approach to dealing with HMRC and confirms that Softcat's primary tax objective is to ensure that it pays the right amount of tax, in the right jurisdiction, at the right time, as dictated by legislation.

Environment, climate change and Task Force on Climate-related Financial Disclosures ('TCFD')

We continue to make progress in respect of climate change and sustainability, as explained below.

Introduction

This section explains our approach to sustainability and includes the disclosures required under TCFD and other disclosure obligations in respect of sustainability.

We believe we can be a successful business and do good to protect our people and the planet for future generations to come. We are motivated to drive change within our own organisation whilst working with our partners, our supply chain, and supporting our customers on their socially responsible journey through the technology solutions we provide. The Board takes ultimate responsibility for Softcat's sustainability and we have established a Sustainability Committee to provide a more focused Board-level oversight on this aspect of our business. The Board is fully committed to Softcat's responsibilities to the environment.

Key sustainability highlights and progress

- Softcat's net zero targets have been approved by the Science Based Targets initiative ('SBTi'). Softcat was the first IT company in Europe to receive this.
- We are making progress towards full compliance with the Task Force on Climate-related Financial Disclosures ('TCFD').
- We continue to make good progress on our key commitments to take action on CO_2.
- Softcat was the winner of the Sustainable Reseller of the Year award at the CRN Tech Impact Awards 2021.

To find out more about what we are doing on sustainability, please see our website at www.softcat.com/about-us/sustainability. This can also be viewed by scanning the QR code with your tablet or smartphone.

In order to make sure we are considering the right aspects, we started our journey by identifying the most relevant areas of the United Nations Sustainable Development Goals for our business. These areas have not changed since last year and remain an important underpin to our approach on climate change and wider corporate responsibility:

Achieve gender equality and empower all women to achieve their goals.

Ensure sustainable consumption and production patterns.

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Take urgent action to combat climate change and impact.

Reduce inequality within and among countries.

Strengthen the means of implementation and revitalise the global partnership for sustainable development.

Environment, climate change and Task Force on Climate-related Financial Disclosures ('TCFD') continued

Action on climate change

We recognise that climate change is having an impact on our planet and that we have a role to play to mitigate our contribution to that impact. The Board also recognises that climate change has potential business and financial impacts as well as opportunities for Softcat and it is its responsibility to lessen and take advantage of these, respectively.

We are taking steps to make our business more resilient to climate change. Over the financial year, we have made important progress against the ambitious environmental targets we set in 2020, and we received approval from the Science Based Targets initiative for the plans that back up our targets (see below).

The Board fully supports the adoption of the Task Force on Climate-related Financial Disclosures ('TCFD') as it considers that TCFD will help organisations and Softcat's stakeholders to focus their efforts and ambitions towards achieving net zero.

Softcat is a constituent of the FTSE4Good Index Series – an index of companies that demonstrates strong environmental, social and governance practices, measured against globally recognised standards.

Enhancing our understanding of the climate-related risks facing us and the opportunities that may be available to Softcat was a focus for this year.

To progress our TCFD journey, we undertook an assessment of our climate-related financial risks and performed a qualitative potential impact assessment on our business, details of which are provided on the following page.

The following disclosures are aligned to the four TCFD-supporting recommended disclosures: governance, strategy, risk-management, and metrics and targets. We have provided a summary of our compliance against the recommended disclosures below with a reference table detailing where you can find the disclosures.

As we learn more about climate science and projections become clearer, we will continue to refine our approach to identifying, assessing and managing our climate-related financial risks and opportunities. For our 2023 Annual Report and Accounts we will disclose in full against the TCFD regulations as required by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022.

TCFD cross-reference and compliance table

In meeting the requirements of Listing Rule 9.8.6R in respect of TCFD in this Annual Report, we have concluded that:

- we fully comply with recommended disclosures 1, 2, 6, 8 and 10; and
- we partially comply with recommended disclosures 3, 4, 5, 7, 9 and 11.

In the table below we cross-refer to where the disclosures are located in this Annual Report or provide reason for non-compliance. We plan to achieve full compliance during FY2023.

TCFD pillar	TCFD recommended disclosures	Cross-reference (within this Annual Report) or reason for non-compliance	Comments and next steps
Governance	1) Board oversight of climate-related risks and opportunities.	(Pages 46 to 47) **Compliant**	The Sustainability Committee monitors climate-related risks, opportunities and disclosures and reports into the Board.
Governance	2) Management's role in assessing and managing climate-related risks and opportunities.	(Pages 46 to 47) **Compliant**	We will continue to develop the roles and responsibilities on the management of climate-related issues across Softcat.
Strategy	3) Climate-related risks and opportunities the organisation has identified over the short, medium and long term.	(Page 48) **Partially compliant** – we have completed a scenario analysis in respect of climate change risks and opportunities.	In FY2023, we will undertake a financial impact assessment of our climate-related risks and opportunities, to improve our understanding.
Strategy	4) Impact of climate-related risks and opportunities on the business, strategy and financial planning.	(Pages 48 to 51) **Partially compliant** – through our climate scenario analysis, no major or catastrophic net risk exposures were identified in the short-term time horizon assessed.	In FY2023, we will further integrate climate-related planning into our key strategic planning. For example, we will consider the impact on climate through our annual Board Strategy Review and when the Board updates its Three Year Plan.
Strategy	5) Resilience of strategy, taking into consideration different future climate scenarios.	(Pages 48 to 51) **Partially compliant** – through our climate scenario analysis of risks and mitigating actions and potential opportunities, we believe our business is resilient in the short-term time horizon assessed.	In FY2023, we will further review and report on how climate change may impact our strategy.
Risk management	6) Processes for identifying and assessing climate-related risks.	(Page 52) **Compliant**	As we look to continue our growth, evolve our offerings and work with our supply chain, we will increase our level of knowledge on climate-related risks.
Risk management	7) Processes for managing climate-related risks.	(Page 52) **Partially compliant** – we explain in our assessment of climate-related risks mitigating actions which we can take or have taken. We are yet to complete how climate-related risks will impact our materiality determinations.	In FY2023, we will undertake a financial impact assessment of our climate-related risks and opportunities, to improve our understanding.
Risk management	8) Processes for identifying, assessing and managing climate-related risks integrated into the organisation's overall risk management.	(Page 52) **Compliant**	We will continue to monitor and manage our climate-related risks and ensure that each risk is monitored and managed appropriately.

Environment, climate change and Task Force on Climate-related Financial Disclosures ('TCFD') continued

TCFD cross-reference and compliance table continued

TCFD pillar	TCFD recommended disclosures	Cross-reference (within this Annual Report) or reason for non-compliance	Comments and next steps
Metrics and targets	9) Metrics used to assess climate-related risks and opportunities.	(Pages 52 to 54) **Partially compliant** – we have not yet fully set opportunity metrics related to low carbon products and services.	In FY2023, we will continue the process of developing climate-related performance metrics. In FY2023, the annual bonus plan for Executive Directors will include a non-financial element in respect of the achievement of key steps towards our climate change strategy.
Metrics and targets	10) Scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas emissions, and the related risks.	(Pages 52 to 54) **Compliant**	We disclose for the first time in this Annual Report our scope 3 emissions. Softcat's net zero targets have been approved by the SBTi, using our FY2021 emissions as our baseline year.
Metrics and targets	11) Targets used to manage climate-related risks and opportunities and performance against targets.	(Pages 52 to 54) **Partially compliant** – our net zero targets have been approved by the SBTi. However, we have not yet fully set opportunity metrics related to low carbon products and services.	In FY2023, we will continue the process of developing climate-related performance metrics. We will regularly monitor progress towards our targets.

Governance

Sustainability is an important issue at Softcat and is discussed both by management and the Board. The Board retains ultimate responsibility and accountability for the oversight of the Company's strategy, approach and compliance in respect of sustainability and climate change, including the approval of material environmental targets. During the financial year, the Board established a Sustainability Committee as a committee of the Board. The Sustainability Committee meets twice per year and is chaired by Vin Murria, having recently taken over from Graham Charlton, the CFO. The Sustainability Committee is responsible for, on behalf of the Board, setting the sustainability strategy of Softcat, including goals, targets and objectives and it monitors management's performance against these. Monitoring and reviewing the effectiveness of management's processes for identifying and assessing climate-related risks and opportunities and management's responses to such risks and opportunities has also been delegated to the Committee. A report from the Sustainability Committee is provided on page 96.

To successfully manage sustainability and implement associated initiatives effectively, Softcat has created a tiered governance approach. This ensures that all areas of sustainability get the right levels of focus throughout the business, including both the effective monitoring of climate-related risks and taking advantage of climate-related opportunities.

This approach has been designed to focus on what is required to support Softcat, its supply chain and its customers on our vision.

Graham Charlton is the Executive lead for sustainability and he is supported by various managers and employees. In particular, the Business Development Director (who is a member of the Senior Leadership Team) provides Executive-level support on strategy and direction. Both Graham and the Business Development Director are supported by a small Sustainability Team, which has the full time responsibility for the day-to-day implementation of sustainability initiatives.

The Sustainability Team works in collaboration with other teams as necessary to ensure the effectiveness of the climate-related risk assessment process and to explore any opportunities. Once identified, the team works together to organise initiatives and actions to mitigate these risks and to further explore opportunities, involving other stakeholders in the business where necessary.

The business also retains relevant ISO accreditations to support its approach to environmental matters and Softcat holds both ISO 14001 (Environmental Management) and ISO 50001 (Energy Management) accreditations. The ISO standards are internationally recognised and help Softcat to improve its environmental performance through more efficient use of resources, reduction of waste and an improved energy management system.

Sustainability governance structure

Board

Overall strategic direction

Sustainability Committee **(see page 96)**

Board-delegated responsibility for oversight of sustainability strategy and policy	Board-delegated responsibility for monitoring climate-related risks, opportunities and targets	Oversight of key climate-related compliance and disclosures

Sustainability Leadership Team

Comprises the CFO, Business Development Director, Sustainability Lead and Company Secretary	Responsible for providing Executive-level direction and support on climate-related risks, opportunities, targets and compliance

Sustainability Delivery Team

Comprises the Sustainability Leadership Team plus selected senior representatives responsible for key climate-related stakeholder management	Responsible for operational management of key environmental targets and engagement with stakeholders	Responsible for operational requirements from a sustainability perspective

Green Teams

Comprises a Green Team Executive Committee and local Green Teams	Responsible for local delivery of environmental initiatives	Raises awareness and champions the importance of environmental issues

“

To me, sustainability within Softcat is multifaceted. It means supporting our customers to make greener choices within their organisations, whilst also working to reduce our own environmental impact as a business as well as individuals.”

Kerry Kelly
Green Team Member

Environment, climate change and Task Force on Climate-related Disclosures ('TCFD') continued

Strategy

Softcat's purpose is to help customers use technology to succeed, by putting our employees first. Our overarching strategy is to sell more to our existing customers and to grow our customer base. As an IT reseller, we do not manufacture products. Our strategic exposure to climate-related risks and opportunities is through our ability to procure goods and services from our vendors and add value as our employees apply their IT expertise to provide services, products and support for our customers. To enable Softcat to keep delivering value for its stakeholders, our strategy must be sustainable, which is why we consider sustainability to be an important element of the way our business operates.

We have developed a framework for sustainability which defines our approach, guides our actions and supports the steps we take to mitigate the impacts of climate change:

Softcat's framework for sustainability

Softcat

Making sustainability a core element to its business and embedding it in Softcat's future. Softcat will support all of its priority goals and continue to drive and develop a more efficient and reduced carbon industry.

Supply chain

Softcat will work with its partners, suppliers and vendors to ensure they are working to Softcat's values and doing what they can do to enable, deliver and support a sustainable supply chain.

Solutions

Softcat will review services and solutions offered to its customers. Softcat will enable its employees to create and deliver sustainable products to assist its customers on their own sustainability journey.

We have taken steps to put our strategy and framework into effect, including:

- We have set environmental targets and have developed action plans to achieve them.
- We are working closely with our key stakeholders, particularly:
  - vendors and our supply chain, to help us both reduce our environmental footprint;
  - customers, using our knowledge and solutions to help customers take a more environmentally responsible approach to how they use IT; and
  - employees, to reduce our environmental impact through our operations.

We do not envisage that adaptation and transition to a lower carbon world will require a fundamental shift to the way in which we do our business or a major change to our business model (which is shown on pages 20 to 21), nor do we envisage that we will need to make major divestments, acquisitions or other significant capital allocation decisions (including access to capital or financing, if required) to take climate change into consideration. In FY2023, we will undertake a financial impact assessment of our climate-related risks and opportunities, to further improve our understanding of any inputs into the annual operating budget approved by the Board or other longer-term financial plans approved by the Board. We expect to make relatively minor changes in expenditure; for example, we are replacing over time our internal combustion car fleet for electric vehicles.

Climate-based scenario analysis

In 2022, we strengthened our approach to align with TCFD recommendations. The first step was to develop a robust climate scenario analysis to assess potential impacts and opportunities for Softcat against possible climate futures. We assessed three different climate scenarios, set by the latest science and known as Representative Concentration Pathways ('RCPs'). RCPs are used by the Intergovernmental Panel on Climate Change to illustrate future concentrations of greenhouse gases in the atmosphere. The climate scenarios we used were:

Low emission scenario (RCP 2.6)	A predicted global temperature increase between 1.5°C and 1.7°C by 2100, compared to pre-industrial levels. This would bring the world in line with the Paris Agreement of 1.5°C. This is commonly referred to as the best-case and most ambitious scenario.
Medium emission scenario (RCP 4.5)	A predicted global temperature increase between 1.7°C and 3.2°C, in line with current climate change policies, pledges and commitments. If the world continues on its current trajectory, this is seen as the most likely scenario.
High emission scenario (RCP 8.5)	A global temperature increase between 3.2°C and 5.4°C, where carbon emissions continue growing unmitigated. With no mitigation, this is deemed the worst-case scenario.

We selected the UK as the location for our assessment due to its significance for our operations and our revenue (representing over 95% of both headcount and revenue). Most of our key vendors also have operations in the UK. We conducted the analysis across three time horizons: short term (2022 to 2030), medium term (2030 to 2040) and long term (2040 to 2050).

Consistent with TCFD, our assessment covered the following:

- **Physical risks:** resulting from climate change events and changes in weather. These can be acute (event-driven) or chronic (long-term shifts).
- **Transition risks:** associated with the implications from the measures taken to reach a low carbon economy. These can be policy and legal, technology, market and reputation.
- **Opportunities:** realised capitalisation of benefits upon the low carbon market and technological drivers. These can be from resource efficiencies, energy sources, new products or services, markets and resilience.

Climate-related risks and opportunities

Through the application of our risk management approach, we summarise below the most relevant climate-related risks and opportunities. These are in respect of the three emission scenarios and the three time horizons as set out above. Through our initial analysis, no major or catastrophic net risk exposures were identified in the short-term time horizon assessed. We believe there are opportunities, which we continue to explore and develop:

Risks

Physical risk category	Identified risk	Current or future control measure
Acute	Increased frequency and intensity of extreme rainfall and weather events could disrupt Softcat's supply chain, operations and services.	Most of our vendors (see page 27) are major international businesses, which have the resilience and investment to mitigate the future risk of climate-related risks to their organisation. We work with a wide breadth of technology partners to reduce concentration risks. Alternative workplaces for employees are available if needed to avoid low lying areas. **Link to principal risk:** we have robust plans to combat the risk of business interruption (see page 62).
Chronic	Sea level rise resulting in disruption to freshwater systems in the south-east and low lying coastal areas of the UK could disrupt Softcat's operations or damage infrastructure.	

Environment, climate change and Task Force on Climate-related Financial Disclosures ('TCFD') continued

Climate-related risks and opportunities continued

Risks continued

Transition risk category	Identified risk	Current or future control measure
Policy and legal	Increasing policies and regulations could place new requirements on Softcat, such as enhanced emissions reporting regulations and carbon taxes that present the risk of fines, reputational damage and loss of business partnerships.	Management regularly reviews the impact of changes in legislation, taxes, etc. and oversees initiatives to ensure compliance. The Sustainability Committee has oversight in respect of sustainability reporting and progress towards our emissions targets. **Link to principal risk:** N/A
Technology	Insufficient transition to using low carbon technology in Softcat's operations may increase operational costs and reputational damage.	We have signed up to the SBTi and have a goal to achieve 100% renewable energy by 2024. We are actively developing our net zero delivery plan. **Link to principal risk:** N/A
Market	Suppliers being unable to transition to a low carbon economy at the same pace as Softcat, making Softcat unable to achieve its net zero goal and commitments.	We are working with our supply chain and with the wider IT industry as part of our framework for sustainability. We understand many of their goals to achieve net zero and these will be reflected in our target to achieve a carbon net zero supply chain by 2040. **Link to principal risks:** we have robust plans to combat the risk of business interruption and against a failure to evolve our technology offering with changing customer needs (see page 62).
	Risks associated with not having a carbon-literate workforce able to promote low carbon technology to our customers could generate lower customer satisfaction engagement.	We are developing further sustainability and carbon training and awareness internally. **Link to principal risk:** we have robust plans against a failure to evolve our technology offering with changing customer needs (see page 62).
	Our global supply chain would be affected due to physical risks occurring in other regions, generating supply chain disruptions and delays in procurement.	We work with a wide breadth of technology partners to reduce concentration risks. **Link to principal risks:** we have robust plans to combat the risk of business interruption and against a failure to evolve our technology offering with changing customer needs (see page 62).
Reputation	Negative perceptions from stakeholders, including customers, potential investors and existing shareholders, as a result of failure to embed sustainability into the business or take action on climate change.	We have developed and are communicating a clear climate change strategy and our targets to reduce carbon emissions. **Link to principal risk:** we have robust plans against a failure to evolve our technology offering with changing customer needs (see page 62).

Opportunities

Category	Identified opportunity	Potential impact
Market and reputation	Demand for energy efficient and sustainable IT solutions	We expect growth in demand for more energy-efficient and sustainable IT solutions. This presents opportunities for us, as our customers will require support to implement and manage technology solutions. Taking advantage of this opportunity will also mitigate the risk of failing to evolve our technology offering with changing customer needs. We have strong relationships with many IT vendors and we are well positioned to support our customers. We leverages our expertise through our Solutions service. This allows customers to maximise the use and lifespan of an asset and to support the circular economy through recycling, refurbishing and reuse. Softcat will continue to develop its Solutions service to support growing demand.
	Increased customer emphasis on social values	We are seeing more customers place greater emphasis on working with suppliers which have strong social values, including sustainability. Some Public Sector contracts provide for a framework which assesses the social value credentials of the prospective supplier. Our approach to sustainability will provide a greater opportunity to be considered as a partner to such customers.
	Helping our customers understand their carbon emissions	Softcat has launched Enexo (see page 55), a new cloud-based sustainability platform that gives UK organisations accurate carbon emissions intelligence. This can support our customers' journey to net zero and deepen our relationship with our customers.
	Attracting and retaining talent	The market for good talent remains highly competitive. Ensuring we have a credible approach to sustainability, a strong sustainability brand and a good reputation provides a competitive edge to attract and retain talent. We are proactive in our support for employees to benefit from environmental initiatives, such as: • local Green Teams throughout the business; • the provision of a tax efficient salary sacrifice scheme to enable employees to lease electric vehicles for their use; and • flexible hybrid working, allowing employees to work some days at home, thus reducing carbon emissions arising from commuting.
Resource efficiency	Investing in more sustainable technology to improve Softcat's day-to-day operations, such as utilising green energy tariffs and office equipment.	Most of our offices already use energy-efficient products but this will be kept under review for further opportunities. We aim to decrease energy consumption where possible and reduce emissions through the consumption of energy.

Our approach to risk management is set out on pages 59 to 64. Through our regular risk assessments, new risks, including emerging climate-related issues, will be identified and assessed for materiality. There is a Board-approved definition for material emerging risks and a process is in place which requires the CFO to escalate promptly any such risk to the attention of the Board. Following our assessment of climate risk to Softcat, we are confident that our business strategies are resilient against the physical impacts of climate change, due to the nature of our business operations and the breadth of global technology vendors with which we work. In the coming years, we will further test the resilience of our business strategies against climate-related transition risks to ensure Softcat remains resilient.

Environment, climate change and Task Force on Climate-related Financial Disclosures ('TCFD') continued

Risk management

We recognise that climate change may have an impact on our strategy and operations. It also provides us with opportunities to help our customers to reduce their environmental impact and for Softcat to differentiate its offerings compared to our competitors. Climate change is already a component of the failure to evolve our offering risk with regard to the products and services our customers consume and how they might be affected by the drive towards carbon neutrality (see our principal risks and uncertainties on pages 62 to 63). We also have robust plans to mitigate the impact of business interruption.

This year, we have made progress in our approach to assessing and disclosing climate change risks and opportunities that could pose a financial impact to the business. We have incorporated the identification and assessment of climate-related risks into our overarching corporate risk management framework by adapting our current corporate risk framework to account for climate risk and then use this methodology to identify climate-related risks through a risk identification workshop. The workshop was attended by senior managers in the business, including the CFO, Business Development Director and Sustainability Lead. The Internal Audit Manager (who is responsible for day-to-day management of the corporate risk register) also attended the workshop to ensure alignment of the approach between climate change risks and corporate risks. A summary of the climate change risk framework and climate change risks and opportunities was reviewed by the Sustainability Committee, which has oversight for the climate change risk management framework. Additional assurances on the effectiveness of controls around the climate change risk management framework may be requested by the Audit Committee, as part of its responsibility for reviewing the overall effectiveness of key controls.

Our climate-related risks and opportunities and their associated business impacts are captured within our internal climate change risk and opportunities register. The register provides a coherent framework to identify, assess, manage and monitor the impacts of climate change on our business. We identify current or future mitigation measures and controls for the risks in order to reduce the impact and likelihood of each arising. In FY2023, we will deepen our understanding of the potential financial implications of our commitment to transition to a low carbon world by undertaking financial risk analyses of the key climate-related risks we have identified.

Our primary business is an IT reseller and the majority of our business is conducted in the UK and Ireland. We do not manufacture goods and we have no production facilities such as factories. Given the nature, locations and operation of our business, we believe that the direct impact of climate change on Softcat will be low. Our current view is that we do not believe we are materially exposed to climate change as a business and that these risks do not represent a material threat to our strategy, long-term viability, liquidity or ability to operate. Furthermore, none of the actions taken so far (or currently planned) to reduce our environmental impact have resulted in a significant financial impact on our business. Through our risk management process, we will continue to assess likely effects that climate change may have on our business, to ensure our current assumptions remain valid. To the extent that we do identify material risks, these will be modelled into our scenario analysis for longer-term viability assessment and disclosed in future Annual Reports. The Board is comfortable that climate change has not had a material effect on our accounting judgements and estimates this financial year and has determined that it has had no material impact on our asset and liability valuations for the financial year. The impact of climate change risks is not currently considered by the Board as a key source of estimation uncertainty.

At Softcat, we are also conscious that there are 'emerging trends' that we do not currently expect to impact the business within our associated time horizons. Therefore, within the register, we have identified emerging trends that may impact the business in future, and we will maintain a watching brief to track risks which may become of significance.

Metrics and targets

The Board of Softcat has approved three key target commitments and the Sustainability Committee regularly monitors progress. Our metrics are our CO_2 emissions and these are assessed through the intensity measurements set out on page 58. The Sustainability Committee has also endorsed the CO_2 reduction targets approved by the SBTi. Achieving these key targets forms the focus of our sustainability initiatives:

- to use carbon offsetting to operate as a carbon neutral business (by 2022) and to use other activities to reduce emissions;
- to use where possible green/renewable energy across all office locations (by 2024);
- to work with our supply chain to ensure that it is committed to becoming carbon net zero (by 2040); and
- SBTi has approved Softcat's targets to reduce greenhouse gas ('GHG') emissions by 45% by 2030 for scopes 1, 2 and 3 and to reduce GHG emissions by 90% by 2040. Both targets use FY2021 emissions (see page 58) as our base year.

We are committed to improving the measurement of our carbon footprint and are taking steps to make these more robust. We are an organisation with a relatively low scope 1 and 2 emissions footprint and, as such, we understand that in order to transition to a low carbon future, an important aspect will be more work with our supply chain and customers to help lower the carbon footprint on scope 3 emissions. This year, we have also quantified and disclosed our scope 3 emissions footprint for the first time. Our emissions are disclosed on page 58.

Given the nature of our business, water and land use are not material metrics. Progress on initiatives to reduce energy consumption are shown on page 57.

Progress on our targets on CO_2

Softcat has made commitments and goals on its environmental impact in the business and its supply chain. As mentioned above, the Board approved a target over the longer term to become a net zero carbon business and this will be achieved primarily by completing three key stages. Below is a summary of the targets and the progress being made:

Timing	Goal	Summary and progress update
2022	Carbon neutral	Softcat will use offsetting schemes to help offset its scope 1 and scope 2 emissions. We will also offset selected scope 3 emissions and will continue to reduce GHG emissions produced. **Complete**
2024	100% renewable energy	Softcat will use, where possible, green/renewable energy across all office locations. Using renewable energy will reduce scope 2 emissions and reduce the environmental impact of energy used in the business. 70% of Softcat locations are now using certified green energy, with more to follow. In FY2022, this target was expanded to include changing Softcat's pool car fleet from internal combustion to electric vehicles. **Work in progress**
2040	Carbon net zero supply chain	Softcat will work with its supply chain to ensure that it is committed to becoming carbon net zero. Good progress continues with our vendors. Softcat has also received high recognition from some leading market vendors and sustainability organisations. **Work in progress**

On the journey to reduce emissions, Softcat is committed and has signed up to the SBTi. This will commit the business to reduce its GHG emissions in line with the Paris Agreement. Under the SBTi, businesses are encouraged to commit to setting targets in line with a 1.5°C reduction and to achieve net zero emissions across their value chain by 2050. In FY2022, Softcat became the first IT company in Europe to have its targets on climate action approved by the SBTi. The targets approved cover emissions for scopes 1, 2 and 3.

Our target to become carbon net zero by 2040 is ambitious and is ten years ahead of the targets set by the UK Government. Softcat has therefore developed a carbon reduction plan to support the achievement of the targets approved by the SBTi. This includes ten high level steps in the next ten years (our '10 in 10') which will help us reduce our emissions. We will communicate our key steps to our customers, our suppliers and Softcat employees improve their awareness of actions and targets to reduce emissions.

“

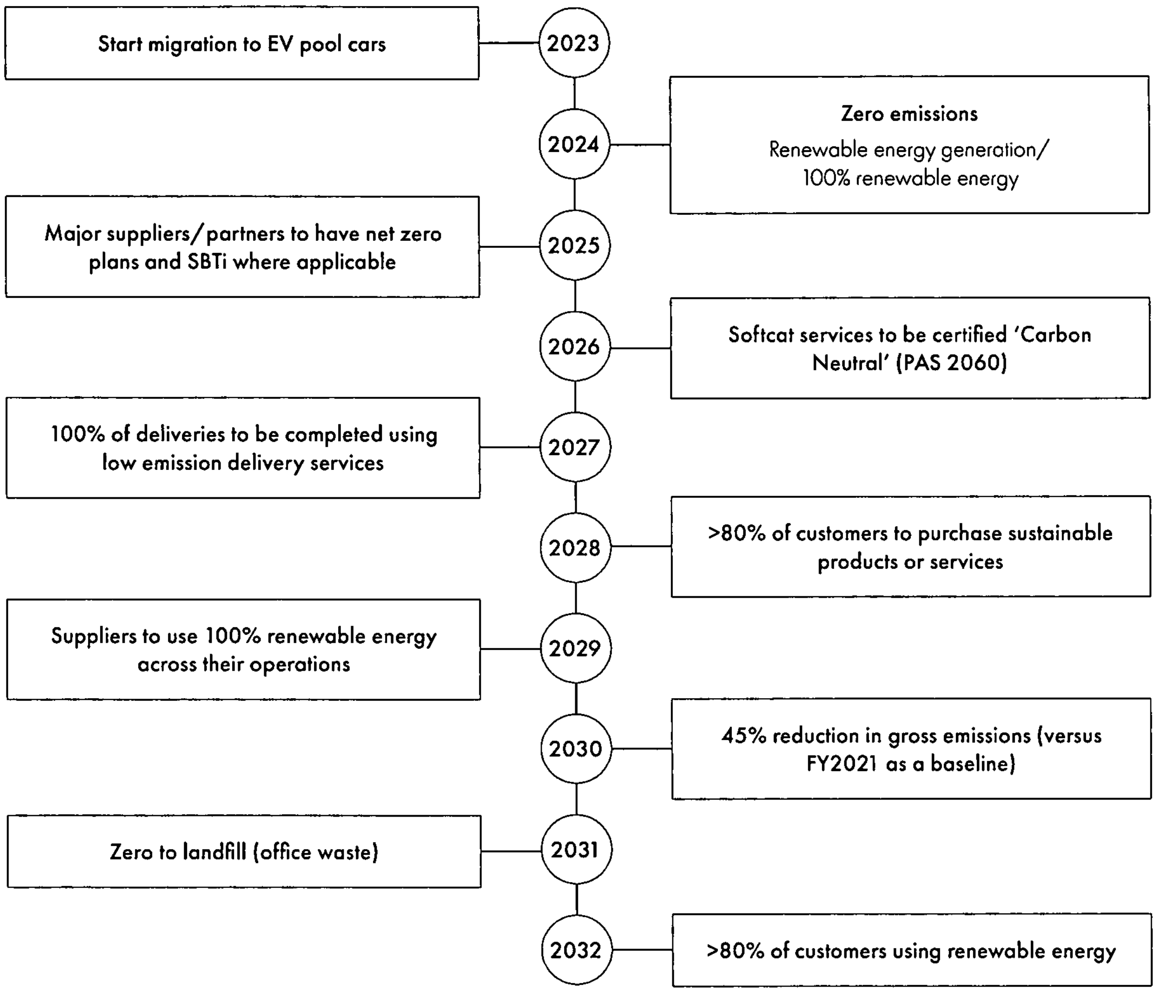
It is fantastic that we have officially had our climate change targets approved by SBTi. This keeps us laser-focused and motivated to drive change in our own organisation and work with our partners, supply chain and customers on their social responsibility journey through the technology we provide."

Graeme Watt
Chief Executive Officer

Environment, climate change and Task Force on Climate-related Financial Disclosures ('TCFD') continued

Metrics and targets continued

OUR 10 IN 10



Remuneration

For FY2023, the Remuneration Committee has determined that remuneration practices for the Executive Directors shall for the first time include an assessment of performance against some of our key environmental targets and actions. This will be included in the annual bonus plan for Executive Directors for FY2023. No change in Remuneration Policy is required for these changes and achievement against the environmental targets and actions will be disclosed in the 2023 Annual Report on Remuneration. Please see pages 98 to 112 for further information about executive remuneration practices.

Internal carbon prices

We have not introduced internal carbon prices and the matter will be kept under review in FY2023 by management.

Working with our stakeholders

Partnerships

To help us achieve our net zero targets we are working closely with the key parts of our supply chain, vendors and other industry and business forums. We continue to make good progress. Our vendors have continued their dedication to sustainability and are making major commitments towards tackling climate change. We are working with our vendors to ensure they understand Softcat's commitments and to ensure that Softcat understands their sustainability journeys. For example, we have improved our understanding of our vendors':

- progress to reduce energy usage during manufacturing;
- use of renewable energy;
- use of sustainable packaging materials; and
- approach to extend the life expectancy of devices.

Our work with industry and business forums raises the profile and importance of reducing carbon emissions. It also supports better collaboration and improved disclosures to allow stakeholders to better understand how they can play their part in the journey to net zero. Below are some of our important partnerships.

Softcat is a signatory of the UN Sustainable Development Goals ('SDGs'). The SDGs are a collection of 17 interlinked global goals designed to be a 'blueprint to achieve a better and more sustainable future for all'.	Softcat is accredited with key internationally recognised environmental standards. ISO 14001 sets out the requirements for an environmental management system. It helps organisations improve their environmental performance through more efficient use of resources and reduction of waste. ISO 50001 specifies the requirements for establishing, implementing, maintaining and improving an energy management system.
Softcat is a member of Support the Goals, an initiative to rate and recognise businesses that support the UN Global Goals. The key aims of the initiative are to raise awareness of the Global Goals in the business community, and promote a structured approach to planning, target setting and reporting in respect of the goals.	Techies Go Green is a recently established forum driving and supporting sustainability across the technology industry. Softcat is a member and we participate in the steering committee to support its development and direction.
Softcat has approved near and long-term science-based emissions reductions targets with the SBTi.	Softcat is a member of TechUK, the UK's technology trade association. It champions technology's role in preparing and empowering the UK for what comes next, delivering a better future for people, society, the economy and the planet.

Customers

Softcat does not manufacture physical goods and most of Softcat's reportable emissions are in respect of scope 3, which includes the supply of goods and services in our supply chain and on to customers. Softcat therefore makes an active contribution to help its customers understand and reduce their environmental impact. During the year, Softcat launched Enexo, which aims to help other organisations in the UK tackle climate change. The sustainability platform allows a UK organisation to measure, manage and help to reduce its carbon emissions and is already being used by many of Softcat's customers. The platform draws on data from approximately 12 million points of records and leverages on Softcat's own experience in reducing carbon in its business. Enexo also enables organisations to benchmark their emissions against other organisations and to review data and actionable information. This will help users to plan their net zero journey, explore emission reduction mitigations across their supply chain and to comply with public reporting requirements.

Environment, climate change and Task Force on Climate-Related Financial Disclosures ('TCFD') continued

Customers continued

Softcat leverages its expertise in IT through its Solutions services to help our customers be more sustainable. Our comprehensive approach to customer support underpins key drivers of future sustainability – maintain, refurbish and reuse. Softcat's sustainable solutions offer value when providing solutions to customers, allowing customers to maximise the use of an asset and to support the circular economy through recycling, as well as ensuring the customers' supply chains are as efficient as possible.

Making it sustainable for our customers

Pre-supply

Mission:
Ensure our customers understand their IT estate's carbon footprint.

Opportunity and deliverables:
- IT sustainability assessment
- Consultancy/pre-sales
- Enexo

Supply chain

Mission:
Supply sustainable solutions and services to assist our customers on their sustainable journey.

Opportunity and deliverables:
- Sustainable products
- Sustainable services
- Supply chain/logistics

Post-supply

Mission:
Offer sustainable maintenance, management and retirement services to our customers.

Opportunity and deliverables:
- Support services (TPM)
- Device lifecycle management
- Supply chain services

Softcat will continue to develop solutions in line with vendor offerings and new sustainable developments. This will include:

- from FY2023 improving training across our Sales teams to provide more help to customers when they make sustainable choices;
- promoting greater use of sustainable products and services to our customers;
- helping our customers to understand more sustainable solutions, for example greater adoption of cloud services if appropriate; and
- further promotion of refurbished items.

Employees

Our employees have a major role to play in the success of our response to the climate risks and opportunities. Management has acknowledged that more work is required across the workforce to improve the awareness of climate-related issues. In particular, we will need to make it easier for employees to engage with our key stakeholders when selling or procuring products and services. Softcat will be concentrating on ensuring that all employees across all areas of the business understand the different elements of sustainability and what they can do to not only become more sustainable in their own and professional lives, but how they can use products and solutions offered by Softcat and its suppliers to assist them on their own digital sustainability journeys. This will be a focal point for development over the next year.

To find out more about what we are doing on sustainability, please see our website at www.softcat.com/about-us/sustainability. This can also be viewed by scanning the QR code with your tablet or smartphone.

Softcat has 'Green Teams' in place in its offices, which are great at helping to drive awareness and innovative ideas and co-ordinating events. The employees who form the Green Teams volunteer their time to support Softcat and communities in the battle against climate change. The Green Teams meet regularly to discuss the latest sustainability news, developments and to arrange Softcat initiatives. The highlight of the Green Teams' year is 'Green Week', where Green Teams hold various activities to celebrate 'World Environmental Day' and to help drive better awareness across the business.

Environmental initiatives

There will always be ways we can play our part towards a more sustainable world and we are running a number of activities to improve our environmental footprint, as highlighted below. We are pleased that some of these are complete, whilst others are still in progress.

Activity	Progress
Reduction in printing across all offices using printing software solutions	●●●●●
Reduce energy consumption through new, efficient, lighting and technology, throughout all offices	●●●●●
Electric vehicle chargers at Marlow HQ for use of staff, visitors and pool cars	●●●●●
Single use plastic cups and cutlery removed from all offices	●●●●●
Secure WEEE/recycling of internal IT when no longer required	●●●●●
Investment in new collaboration solutions across all offices to reduce internal business travel	●●●●●
Carbon Disclosure Project disclosure for FY2021 (including all scopes)	●●●●●
Hybrid working policy introduced so that employees can work remotely reducing employee commuting by approximately 40% ISO 14001	●●●●●
Environmental Management: ISO 50001 Energy Management	●●●●●
Commitment to 1.5°C science-based target	●●●●●
Installation of power meters across all Softcat offices to get accurate power usage data to support reduction plans	●●●●●
Direct delivery to customers from Softcat's suppliers with no middle management which results in minimal logistics emissions	●●●●●
Promotion of remote professional services engagements where possible to reduce business travel. Softcat will plant a tree or a hedge for each remote engagement taken. Softcat planted over 3,500 trees or hedges for the remote engagements delivered in FY2022	●●●●●
Certified green energy to be used across all Softcat office locations	●●●○○
Replacement of existing pool car fleet with electric vehicles where possible	●●●○○
Supply Chain Review, including all vendors, suppliers and partners	●●○○○
Reduction in business travel (client and supplier meetings)	●●○○○
Integration of a Biodiversity Conservation Project	●●○○○
Softcat 'Sustainability/Responsibility Framework'	●○○○○

Key: ○ To be progressed ● Goal complete

Regulatory disclosures

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.
- Scope 3: comprises all indirect emissions (not included in scope 2) that occur across our value and supply chain.

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 also present, for additional information, our emissions relative to our turnover. In FY2022 there was an increase in these figures and further commentary on these changes is provided on the following page.

Environment, climate change and Task Force on Climate-related Disclosures ('TCFD') continued

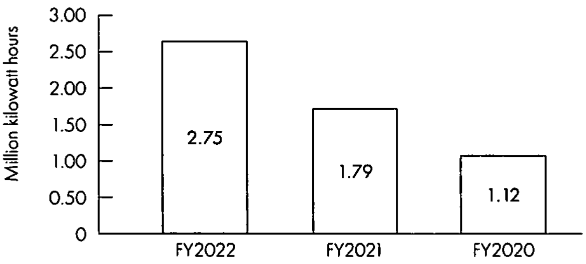
Regulatory disclosures continued

Softcat intensity measurements continued

	FY2022	FY2021	FY2020	FY2019
tCO_2e/£m	**0.21**	0.20	0.30	0.51
tCO_2e/employee	**0.28**	0.23	0.22	0.39

Energy consumption and energy efficiency

This disclosure is made in accordance with The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, which requires certain companies to report on energy consumption and efficiency.



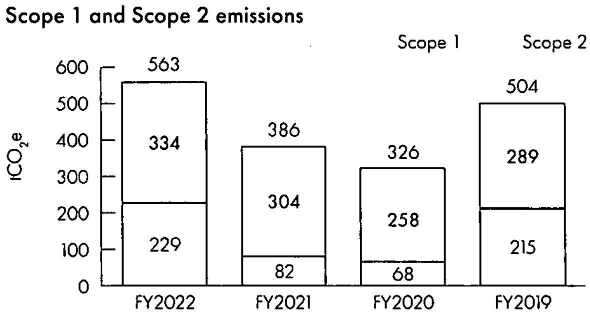
The above figure relates to Softcat plc, which was a single entity company as at 31 July 2022. It consists of the aggregate of the annual quantity of energy: (i) consumed from activities; and (ii) consumed resulting from the purchase of electricity or certain other energy products. The figure was calculated following UK Government Environmental Reporting Guidelines including Streamlined Energy and Carbon Reporting guidance (March 2019).

The aggregate number of energy consumed in FY2022 includes 0.1m kilowatt hours in respect of the office in Ireland and the remaining portion relates to energy consumed in the UK. This Annual Report describes elsewhere measures taken to increase energy efficiency. The increased figures for FY2022 reflect more employees returning to the office to work following the lifting of remaining restrictions on COVID-19, increased office space and also ongoing growth in headcount.

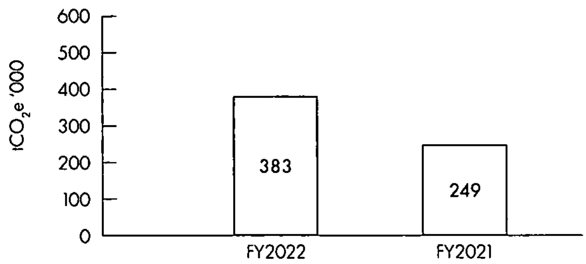
GHG emissions

GHG emissions are calculated using methods contained in the GHG Protocol Corporate Accounting and Reporting Standard using UK Government greenhouse gas reporting: conversion factors 2022.

Scope 1 and Scope 2 emissions



Scope 3 emissions



Softcat has seen an increase in emissions across all scopes in FY2022 compared to FY2021. The increase in scope 1 and 2 emissions in part reflects more employees returning to the office to work following the lifting of remaining restrictions on COVID-19, increased office space and also ongoing growth in headcount. Softcat has also been improving the accuracy of data collated which also contributed to the reported rise in scope 1 and 2 emissions. Scope 3 figures for FY2022 show an increase primarily due to increased revenue from the sale of hardware compared to FY2021. Business travel also increased during FY2022, which also contributed to the increase in scope 3 emissions.

Waste management and water are included within our emissions calculations. Given the nature and operation of our business, we do not consider impacts relating to biodiversity and use of land to be material.

Use of carbon offsetting

Whilst on our journey to net zero and our commitment to science-based targets, Softcat is working with its accredited offsetting partners to offset its scope 1 and scope 2 emissions and its operational scope 3 emissions (including waste, business travel and employee commuting). We use carbon credit approved offsetting schemes, in which we make financial contributions to the equivalent of the emissions to be offset. All of Softcat's scope 1, scope 2 and operational scope 3 emissions for FY2021 have been offset and will be offset for FY2022.

We use a mixture of initiatives to offset our emissions and all offsetting meets the Verified Carbon Standard ('VCS') for reducing emissions from deforestation and degradation. In the UK, trees are typically planted across school grounds, parks, farms, woodlands and other biodiversity sites, providing wildlife habitats and often bringing educational and community benefits.

RISK MANAGEMENT

Our approach

The Board has overall responsibility for ensuring that risk is managed appropriately in the Company. Risk assessment and reporting are designed to provide the Board with a Company-wide view of the key risks faced by the business. From this process, the Board has identified the key 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.

Risk appetite

Consideration of risk is set against the backdrop of the Company's 'risk appetite', which the Board considers and approved during the year. Our risk appetite is the level of risk that we are willing to accept in the pursuit of a specific objective or strategy and is set based on Softcat's values, strategy and ability to absorb risk. Our approach to risk appetite continues to evolve and mature in order to manage and monitor our risk exposure more effectively. Following review by management and the Audit Committee, risk appetites are now defined for each key category of risks. Our risk appetite ratings are defined as follows:

- **Low:** We aim to mitigate these risks to the fullest extent possible
- **Balanced:** We accept broadly predictable risks where there are business benefits of carrying that risk
- **High:** We seek out opportunities with attractive potential upsides, take considered risks and manage the consequences

Assessing key risks against our risk appetite also provides the opportunity to identify where our current risk appetite may be different to our target risk appetite and for management to consider the actions required to achieve the target appetite. Senior management is responsible for operating the business within the risk appetite approved by the Board. The Company operates a cautious approach to risk and in general its risk appetite is relatively low. However, we also have a strong desire to grow our technical capabilities, our customer base and our income. As a result, we rely on our open culture to empower our employees to develop the business and will review individual opportunities as they arise. In situations where our financial and/or reputational exposure is limited or can be mitigated, our appetite for risk in order to achieve strategic growth may be higher. The Company's risk appetite has remained unchanged since last year.

Risk identification and monitoring

Risks are identified in the business through a variety of methods, including twice-yearly formal assessments conducted by the Internal Audit Manager with various senior managers in the business. Assessments consider current risks which could hinder the achievement of our strategic objectives and whether the steps to mitigate them remain effective. Emerging risks which have the potential in the future to create threats are also considered. The outputs of the assessments are captured in an updated risk register which considers the gross risk (the potential impact without mitigating controls), mitigating controls and the net risk (the potential impact after mitigating controls have been applied). The updated risk register is discussed and reviewed with the Audit Committee. This process provides an effective combined 'bottom-up' and 'top-down' approach to ensure risks have been considered from different perspectives. The risk register is reviewed periodically to ensure that it remains current as the business and its markets evolve and that identified remedial actions are progressed. Consideration of the risk profile is also factored into strategic planning and annual budgeting.

Ownership for each risk is assigned to a senior manager 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.

Climate change

In our consideration of emerging risks, climate change continues as an area requiring greater analysis. During the year, we started a formal assessment of the potential impact of climate change to our business and supply chain. Our analysis will support more comprehensive evaluation and reporting in line with the approach of the Task Force on Climate-related Financial Disclosures ('TCFD').

Please see our report on TCFD and Sustainability on pages 43 to 58. Climate change is already a component of the failure to evolve our offering risk with regard to the products and services our customers consume and how they might be affected by the drive towards carbon neutrality. We also have robust business interruption plans in the event of a disruption to our business. Our initial analysis suggests that no other climate change-related risk is a principal risk which needs to be incorporated into the list of principal risks shown.

Risk identification and monitoring continued

Senior managers also take responsibility for ensuring appropriate mitigation for risks which might emerge or accelerate with little or no warning and for ensuring that employees play an active part in protecting our business from risk. For example, during the year, all employees undertook refreshed training to improve awareness of fraud.

The Company's internal control framework is based on a three lines of defence model. The first line of defence comprises operational management, which is responsible for the direct management of risk. This includes ensuring appropriate mitigating controls are in place and that they are operating effectively. The second line of defence is made up of the Company's internal compliance and oversight functions such as Company Secretariat, Finance and Legal. The third line includes both internal and external audit reporting to the Audit Committee. The Internal Audit Manager enhances the effectiveness of the three lines of defence, particularly on the monitoring of risks and completion of remedial actions to improve the control environment.

The Audit Committee is responsible for reviewing the effectiveness of the risk management functions and receives assurances on the effectiveness of key controls in the business. The Audit Committee also reviews the Viability Statement (see below), which considers the potential impact over the longer term of some of the key risk factors. The Audit Committee receives reports from management and from internal audit on key areas of risk and control and challenges management on the timelines and effectiveness of corrective action. The Audit Committee also considers the findings and recommendations of the external auditor with regard to financial controls.

Key risks

Set out on the pages 62 and 63 is the Board's view of key risks currently facing the Company, along with commentary on how this might impact progress against our strategic goals. We provide a view on the change in risk compared to the prior year's assessment. There is a Board-approved definition for material emerging risks and a process is in place which requires the CFO to escalate promptly any such risk to the attention of the Board. No new principal risks were identified during the 2022 financial year. Issues associated with each of the key risks below have been discussed and reviewed by the Board or relevant Committee on a regular basis, for example the Board/relevant Committee have discussed updates on cyber security, the impact of the conflict in Ukraine, customer satisfaction and changes in Softcat's leadership team. During the year the Board also considered other emerging external matters, such as the possible impacts of the increase in the rate of inflation and the cost of living.

Some of the key risks are also reflected in the scenario planning as part of the Company's assessment of viability over the longer term. Please see the Viability Statement on page 64 for further details.

An explanation of how the Company manages financial risks is provided in note 21 to the financial statements. An explanation of the Company's approach to critical accounting judgements and key sources of estimation uncertainty is also provided in note 1 to the financial statements.

Risk management framework

STRATEGIC GOVERNANCE

BOARD

Audit Committee	Remuneration Committee	Nomination Committee	Sustainability Committee
Operational and financial governance	First line of defence	Second line of defence	Third line of defence
Senior management team	Operational management	Central support functions	Audit and risk function (including internal audit, risk management and external advisers)

Risk categories and time horizons

We identify our current key risks under the below categories. The effective operation of each of these categories forms a major underpin for our key performance indicators (see pages 30 and 31).

Business strategy	Operational	Financial	People
Risks which have the potential to impede the achievement of our strategic goals or impact our business model.	Risks that could impact day-to-day operations and prevent business-as-usual activities. This includes external macro-economic and geo-political events.	Risks that could impact the profitability or financial viability of the Company or increase economic exposure.	Risks that could impact our ability to attract, retain and motivate the very best employees.

The principal risks currently identified could occur either in the short term or over the longer term. The mitigating actions reflect steps already being taken to manage the risks.

Principal risks and uncertainties

Business strategy

Customer dissatisfaction

Change from 2021

No change

Target risk appetite: low

Potential impacts
- Reputational damage
- Loss of competitive advantage

Management and mitigation
- Graduate training programme
- Ongoing vendor training for sales staff
- Annual customer survey with detailed follow-up on negative responses
- Process for escalating cases of dissatisfaction to Chief Revenue Officer ('CRO') and CEO

Link to strategy

Failure to evolve our technology offering with changing customer needs

Change from 2021

No change

Target risk appetite: low

Potential impacts
- Loss of customers
- Reduced profit per customer

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

Link to strategy

Operational

Cyber and data security, including data protection and regulation

Change from 2021

No change

Target risk appetite: low/ balanced

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

Management and mitigation
- Company-wide information security policy
- Appropriate induction and training procedures for all staff
- External penetration testing programme undertaken
- ISO 27001 accreditation
- In-house technical expertise
- All employees issued with corporate devices with standardised access monitoring and controls

Link to strategy

Business interruption

Change from 2021

No change

Target risk appetite: low

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

Management and mitigation
- Roll-out of a new ERP finance system to support growth and ease of doing business
- Operation of backup operations centre and datacentre platforms
- Established and documented 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 and business continuity plans

Link to strategy

Link to strategy:

Acquire more customers
(see page 28)

Sell more to existing customers
(see page 29)

People and culture
(see pages 38 to 42)

Ease of doing business
(see pages 10 to 11)

Addressable market expansion
(see pages 22 to 26)

Operational continued

Macro-economic factors including the conflict in Ukraine, inflationary pressures, interest and foreign currency volatility

Change from 2021

Slight increase (due to ongoing external factors outside of the Company's control)

Target risk appetite: balanced

Potential impacts
- Short-term supply chain disruption
- Reduced margins
- Reduced customer demand
- Reduced profit per customer
- Higher operating costs
- Customer insolvencies and cash collection challenges

Management and mitigation
- Close dialogue with supply chain partners
- Customer-centric culture
- Breadth of proposition and customer base
- Additional customer credit review processes introduced
- Focus and resources allocated to cash collection procedures
- Customer base is well diversified in terms of both revenue concentration but also public and commercial sector exposure
- Operating costs are budgeted and reviewed regularly

Link to strategy

Financial

Profit margin pressure including rebates

Change from 2021

No change

Target risk appetite: balanced

Potential impacts
- Reduced margins

Management and mitigation
- Ongoing training to 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, but only minority, element of total operating profits

Link to strategy

People

Culture change.

Change from 2021

No change

Target risk appetite: low

Potential impacts
- Reduced staff engagement
- Negative impact on customer service
- Loss of talent

Management and mitigation
- Culture embedded in the organisation over a long history
- Branch structure with empowered local management
- Quarterly staff satisfaction survey with feedback acted upon
- Regular staff events and incentives
- Enhanced internal communication processes and events

Link to strategy

Poor leadership

Change from 2021

No change

Target risk appetite: low

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

Management and mitigation
- Succession planning process
- Experienced and broad senior management team

Link to strategy

Viability statement

In accordance with the UK Corporate Governance Code, the Directors have assessed the viability of the Company over a three-year period to 31 July 2025, which is a longer period than the twelve-month outlook required in adopting the going concern basis of accounting. This assessment period remains appropriate given the timescale of the Company's planning and investment cycle. The Directors confirm that they have performed a robust assessment of the principal risks facing the Company as detailed on pages 59 to 63, including those that will threaten its business model, future performance and solvency or liquidity.

The Company's GII has grown on average 21% in the last three years. This has been achieved by gaining market share through increasing the number of customers as well as increasing spend per customer year on year. Against a backdrop of a global pandemic, increasing energy costs and global macro-economic turbulence, the Company has enjoyed a large degree of resilience to challenging conditions, evidenced by an increase in gross profit of 18% in FY2022, a year of significant uncertainty, lockdowns and the formal adoption of remote working. The year-to-date trading to the end of September 2022 shows growth in line with the base case forecast.

As of September 2022, the principal challenges to short term business performance are the expected downturn in the UK economy, resulting from higher broad-based inflation and increasing interest rates which affect both our direct customers and limit the discretionary spend of the end users of their products and services. The business continues to be affected by hardware supply issues, resulting from the global semi-conductor shortage, although this is forecast to improve and is isolated to a select few vendors. Higher than normal risk of credit losses remains, with those who were temporarily supported through COVID-19 government schemes such as furlough, now facing further challenges through higher energy costs, staff costs and a fall in demand from customers. These factors have been assessed within the Company risk review and discussed within the Strategic Report.

The assessment of the Company's viability considers severe but plausible scenarios aligned to the principal risks and uncertainties set out on pages 62 to 63, and the assessment was based on the severe but plausible scenario set out in our going concern assessment. The realisation of these risks, to the extent modelled, is considered remote. The testing continues to go above and beyond the impacts seen to date from the COVID-19 pandemic.

The degree of severity applied in the viability scenarios was based on management's experience and knowledge of the industry to determine plausible changes in assumptions. The most relevant potential impact of the key risks on viability are:

- a substantial and sustained shortfall in revenue and gross invoiced income compared to the budget and strategic three-year plan resulting from a significant and extended downturn in the UK economy and resulting fall in spend, paired with a worsening of supply chain shortages;
- a fall in achievable gross margins resulting from margin pressure associated with lower demand and increased competition for the remaining business;
- significantly increased levels of bad debt losses in the first year of the modelled period, to coincide with the fallout from COVID-19 together with the challenges of higher inflation, interest rates and less discretionary spend for consumers; and
- an ongoing increase in the working capital cycle, specifically driven by a delay in customer payments versus historical levels.

The following stress testing over a three-year period has been performed (i) against the budget approved by the Board for the 2023 financial year; and (ii) against the remaining two financial years (i.e. 2024 and 2025) of the three-year plan:

- an average 7.5% year-on-year reduction, compared to the original budget and three-year strategic plan, in revenue and gross invoiced income;
- reduced gross profit margins of 1%;
- savings in discretionary areas of spend;
- bad debt write offs of £5m above budgeted levels in FY2023, FY2024 and FY2025; and
- extending the length of debtor days by two days in each of the three years (thus negatively impacting working capital).

The Company benefits from a flexible business model with a high proportion of costs linked to performance, such as commission, no warehousing of unsold products and a low operating cost base, consisting of mostly staff costs. On top of the natural reduction in some of these outflows as profitability reduces, management could, if necessary, take mitigating actions (for example, the ability to adjust the level of discretionary special dividend) providing opportunities for the business to make further decisions on the cost base of the business. Despite the minimum desired cash position being achieved in the severe but plausible model through a reduction in planned special dividends, the following options also exist for management:

- reduced salary costs, through recruitment restrictions on new heads and not replacing leavers;
- no interim dividend in H2 of FY2023 or thereafter;
- savings in discretionary areas of spend;
- delay payments to suppliers foregoing early settlement payments; and
- short-term supplier payment management.

The Company operates a flexible model in a resilient industry that incorporates an increasing level of non-discretionary spend from UK corporates as IT has become vital to establish competitive advantage in an increasingly digital age. In Public Sector, a fast-growing area of the business, spending has also continued to be strong as investment in IT continues apace in order to provide the best level of service to the public.

Financially, significant free cash flow generation and the strength of the Company's balance sheet provide comfort around the ability to absorb the impact of the stress tests outlined above.

Confirmation of viability

Based on the analysis, 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 their assessment.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

We have structured this year's report in the following way, primarily based upon the principles set out in the 2018 UK Corporate Governance Code.

Board leadership and Company purpose

The Board is responsible for establishing Softcat's purpose, engaging and building strong relationships with our shareholders and stakeholders, and promoting the long-term success of Softcat.

Read more on pages 66 to 69

Division of responsibilities

The Board has clear divisions of responsibilities and promotes a culture of openness and debate.

Read more on pages 70 and 71

Composition, succession and evaluation

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

Read more on pages 74 to 75 and pages 90 to 95

Audit, risk and internal control

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.

Read more on pages 80 to 89

Remuneration

Director remuneration is designed to support Softcat's strategy, purpose and values, and promote the long-term success of the Company.

Read more on pages 98 to 127

Sustainability

During the year the Board established a Sustainability Committee to sharpen our focus on our sustainability strategy, targets and progress towards a lower carbon business.

Read more on pages 96 and 97

In this section:

> "The outcome of our first externally conducted Board evaluation since 2019 was reassuring, as it concluded that your Board continues to work effectively."
>
> **Martin Hellawell**
> Non-Executive Chair

INTRODUCTION TO GOVERNANCE

Dear shareholder

The 2018 UK Corporate Governance Code (the 'Code') (a copy of which is available at www.frc.org.uk) is applicable to Softcat for the financial year ended 31 July 2022.

I am pleased to confirm that your Company has complied with the principles and provisions of the Code during the year with one exception. In respect of Provision 9 of the Code, I was not independent on my appointment as Chair in April 2018. When deciding on my appointment the Board recognised that the Code states that the chair should on appointment meet the independence criteria and that ordinarily the chief executive should not go on to be the chair of the same company.

This is the fourth full year of my role as Chair and I consider my role to be very clear to myself, the Board, our shareholders and the employees of the organisation. We remain conscious that it is not seen as best practice for a former CEO to be chair of the same company. However, all of the Board have confirmed they believe this is working well and there remains a clear separation between the CEO and Chair. I am not involved in any operational matters other than acting as an occasional sounding board for Graeme Watt (our current CEO), a point I re-emphasise when I meet with the Company's shareholders on governance matters.

As I have said before Graeme is very clearly 'the boss' of the Company. The Board is grateful for the continued support shown by our shareholders, as evidenced at the last AGM, where shareholders voted 92.3% in favour for my reappointment.

As announced earlier this year and covered elsewhere in this Annual Report, I will step down from the Board on 31 July 2023 and Graeme Watt will succeed me as the Chair. The Board was unanimous that Graeme's deep knowledge of the business, Softcat's culture and its markets made him the ideal candidate to continue supporting the interests of all our stakeholders. This move has been very carefully considered by the Board, which acknowledges again that the appointment of the CEO into the role of the Chair is not in line with the recommendations of Provision 9 of the Code. However, the clear and successful operating model of the CEO running the Company (not the Chair) will continue when Graeme becomes the Chair. All of Graeme's Executive authorities and responsibilities will cease when he assumes the role of Chair. I believe we have broad support from our shareholders on our succession plans, which your Board believes to be in the best interests of its stakeholders. The Board will also benefit from an infusion of new thinking when Graham Charlton's replacement as CFO is appointed.

Your Board has a strong and effective system of governance and continues to demonstrate good leadership and oversight of its responsibilities. I firmly believe this will continue with the succession changes planned in 2023.

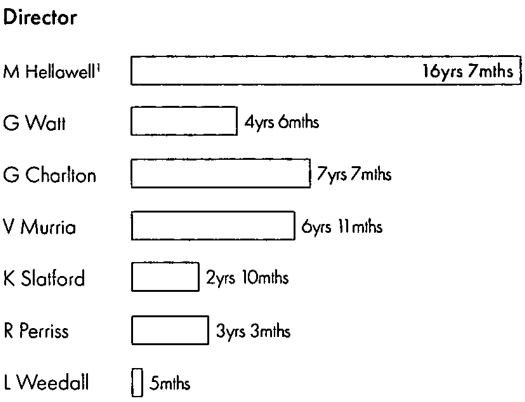
I was pleased with the Board's engagement with key stakeholders during the year which, thankfully, included many more face-to-face meetings than in the previous year following the relaxation of restrictions following the COVID-19 pandemic. The outcome of our first externally conducted Board evaluation since 2019 was reassuring, as it concluded that your Board continues to work effectively. I would like to thank my fellow Directors for their ongoing support.

The following reports explain how the Board and its Committees operate and explain some of the work they have undertaken during the year.

Martin Hellawell
Non-Executive Chair
24 October 2022

Board overview

Tenure of Directors



1. Includes six years and eleven months since Softcat was listed on the London Stock Exchange.

Directors' experience

Finance: 3

Marketing: 4

Operations: 7

Management: 7

Technology: 4

Board composition (%)

Chair: 14%

Independent Non-Executive Directors: 57%

Executive Directors: 29%

Board gender diversity (%)

Male: 43%

Female: 57%

Allocation of time

Corporate governance and investor relations: 24%

Financial performance: 21%

Risk: 12%

Strategy and operations: 43%

YOUR BOARD OF DIRECTORS

Our business is led by our Board of Directors. Biographical and other details of the Directors as at 24 October 2022 are as follows:

Committee key

A Audit Committee N Nomination Committee R Remuneration Committee D Disclosure Committee S Sustainability Committee ◯ Chair

Martin Hellawell

Non-Executive Chair

Appointed to the Board: 24 March 2006 (and became Chair on 1 April 2018)

N D S

Key strengths

- Over 16 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

Chair of Raspberry Pi Trading Limited. Non-Executive director of Team 17 Group plc and Chair of musicMagpie plc.

Previous roles

Martin held the positions of Managing Director and then Chief Executive of Softcat between 2005 and 2018, during which time he led the Company through a highly successful IPO.

Prior to Softcat, Martin spent 13 years at Computacenter plc, where he was responsible for the marketing function, ran Computacenter's French subsidiary and led acquisitions in the United Kingdom, Belgium and Germany. He was part of Computacenter's initial public offering team in 1998, ran operations, chaired Computacenter's international joint venture, ICG, and was chief operating officer of the dot-com spin-off Biomni Limited. Martin has also worked for Specialist Computer Centres PLC and for Canalys.com Limited as an independent consultant. Martin started his career at Miles 33, a software solutions provider for the publishing industry.

Graeme Watt

Chief Executive Officer

Appointed to the Board: 1 April 2018

D S

Key strengths

- Extensive knowledge of the sector, distribution and the reseller channel
- Strong commercial skills
- Business and system transformations
- Mergers and acquisition experience
- Strong leadership skills and delivery of growth in very sizeable business units
- Deep understanding of the Softcat business and culture
- Wealth of financial and risk knowledge

Current external commitments

None.

Previous roles

Graeme has over 30 years of experience in the IT distribution industry. Prior to joining Softcat in 2018, Graeme was most recently senior vice president EMEA, Advanced and Specialist Solutions, Tech Data Corporation ('Tech Data'), a position he held from March 2017. Prior to that, he was president for Avnet Technology Solutions, EMEA, for almost seven years and a member of Avnet's global executive committee. He previously spent six years at Bell Micro (as president of global distribution) and his earlier career included roles at Tech Data (president EMEA) and Computer 2000 (Managing Director UK & Ireland). Graeme is a qualified accountant (ICAEW).

Graham Charlton

Chief Financial Officer

Appointed to the Board: 19 March 2015

D S

Key strengths

- Strong leadership skills
- Strong financial and commercial skills
- Extensive experience in both financial and general management
- Deep understanding of the Softcat business and culture
- 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.

Vin Murria OBE

Independent Non-Executive Director and Designated NED for Workforce Engagement

Appointed to the Board:
3 November 2015

A N R (S)

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

Chair of AdvancedAdvT Limited, non-executive director at Bunzl plc and Silicon Valley Bank.

Previous roles

Prior to joining Softcat, Vin spent seven years as the founder and chief executive at Advanced Computer Software plc, before its acquisition by Vista Equity Partners in 2015, and five years as chief executive of Computer Software Group plc, before its acquisition by HG Capital and then Hellman & Friedman in 2007. Previously, Vin was a non-executive director at Sophos Group plc, Zoopla Plc, Chime Communications plc, MC Saatchi plc and DWF Group plc, and Chief Operating Officer at Kewill Systems plc.

Karen Slatford

Senior Independent Non-Executive Director

Appointed to the Board:
5 December 2019

A (N) R S

Key strengths

- Substantial global technology and business sector experience
- Significant experience of chair of the board and committee chair positions

Current external commitments

Chair of Molten Ventures plc and Non-Executive Director of Accesso Technology Group plc.

Previous roles

Having commenced her career at ICL, Karen worked at Hewlett Packard for 20 years, ultimately becoming Vice President and General Manager Worldwide Sales & Marketing for the Business Customer Organisation. Since then, Karen has held a number of non-executive appointments in a range of technology companies, most recently serving as Chair of The Foundry, a company specialising in developing software for the creative industries, as a non-executive director of Intelliflo, a SaaS-based financial services software company, and as a non-executive director at Micro Focus International plc.

Robyn Perriss

Independent Non-Executive Director

Appointed to the Board: 1 July 2019

(A) N R S

Key strengths

- Wealth of financial, risk and governance knowledge
- Significant investor relations and capital markets experience
- Extensive experience of strategic roles, particularly within a dynamic and fast-paced progressive environment

Current external commitments

Non-Executive Director at Next 15 Communications Group PLC and Dr. Martens plc.

Previous roles

Robyn was Finance Director at Rightmove plc, the UK's largest property portal, until 30 June 2019. Prior to being Finance Director at Rightmove, Robyn also held senior roles as Financial Controller and Company Secretary. Before joining Rightmove, Robyn was Group Financial Controller at the online media business Auto Trader.

She qualified as a Chartered Accountant in South Africa with KPMG and worked in both audit and transaction services.

Lynne Weedall

Independent Non-Executive Director

Appointed to the Board: 3 May 2022

A N (R) S

Key strengths

- Significant experience of senior positions in Human Resources
- Extensive experience as a non-executive director of listed companies

Current external commitments

Non-Executive Director at Dr. Martens plc and Greggs plc and Stagecoach Group Limited.

Previous roles

Previous senior executive positions include Group People & Culture Director of Selfridges Group, and Group Human Resources & Strategy Director of Carphone Warehouse. Previous non-executive roles include Treatt plc, William Hill plc and Greene King plc.

Division of responsibilities

OUR GOVERNANCE FRAMEWORK

Board meeting attendance

The Board met eight times during the year and met both physically and via video conference, following the applicable rules at the time in respect of the UK Government's COVID-19 guidance.

The Board is committed to fostering an open and transparent culture at Softcat and recognises the importance of regular engagements with employees as a part of this culture. This year, the Board was very pleased to be able to resume its usual practice of holding some of its meetings in different offices across the country. The Board took advantage of the opportunity to engage with employees, holding question and answer sessions in both the London and Birmingham offices.
Each session was led by Vin Murria (the Board's Designated Director for Workforce Engagement) and provided a valuable opportunity for the Board to better understand the matters of particular importance to each office, and for the employees to get to know the Directors, some of whom had not met the Board before.

The Company held four meetings of the Audit Committee, four meetings of the Remuneration Committee, seven meetings of the Nomination Committee and one meeting of the Sustainability Committee. Attendance for each Committee is shown in the respective Committee Report. Additionally, from time to time, authority will be delegated to a sub-committee of the Board or one of its Committees to authorise specific actions, for example the publication of a trading statement. Sub-committee meetings are held as and when they are necessary throughout the year.

Name	Board attendance 2022
M Hellawell	●●●●●●●●
G Watt	●●●●●●●●
G Charlton	●●●●●●●●
K Slatford	●●○●●●●●
V Murria	●●●●●●●●
R Perriss	●●●●●●●●
L Weedall	○○○○○●●●

● Attended ○ Did not attend ○ n/a

Karen Slatford was unable to attend one Board meeting due to illness.

Lynne Weedall joined the Board in May 2022. She attended all meetings during the financial year following her appointment.

Our Board

Matters reserved for the Board

The Board has a formal schedule of matters reserved for the Board's approval which is regularly reviewed and updated. Matters include:

- our strategy, business objectives and annual budgets to ensure we can deliver long-term value to our shareholders;
- annual and half-year results and our dividend policy;
- material acquisitions, disposals and contracts;
- major changes to internal controls, risk management or financial reporting policies and procedures;
- determining our risk appetite;
- oversight of strategic sustainability objectives;

Board Committees

Audit Committee

Provision of effective governance over:

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

Read more on pages 80 to 89

Disclosure Committee

- Supports the Board in overseeing the accuracy and timeliness of Softcat's formal business disclosures, including disclosures made in Softcat's half and full-year results.

Executive leadership

Senior Leadership Team

The SLT is led by the CEO and is responsible for leading the day-to-day operation of Softcat. The SLT focuses on:

- major changes to capital, corporate or management structure; and
- succession planning for the Board and senior management.

Matters reserved can be found at www.softcat.com/about-us/investor-centre/governance.

The Code expects certain roles of the Board to be clearly set out. The Board has a formal document outlining the key aspects of the role of the Chair, Chief Executive, Senior Independent Director ('SID'), Non-Executive Directors ('NEDs') and Designated Director for Workforce Engagement. This is regularly reviewed, and the current version can be found at https://www.softcat.com/about-us/investor-centre/governance.

Nomination Committee

- Evaluates Board composition and ensures Board diversity and a balance of skills.
- Reviews Executive succession plans, performance on diversity and plans to improve diversity in the business.
- Oversees the performance evaluation of the Board, its Committees and individual Directors.
- Reviews employee engagement and the culture within the business.

Read more on pages 90 to 95

Remuneration Committee

- Sets, reviews and recommends the policy on remuneration of the Chair, Executive Directors and Senior Leadership Team.
- Sets the pay of the Executive Directors and agrees their participation in bonus plans and share-based incentives.
- Sets a Remuneration Policy for approval by shareholders and then manages the implementation of the Policy.

Read more on pages 98 to 127

Sustainability Committee

- Sets and approves the sustainability strategy of the Company.
- Reviews performance against climate-related targets, goals and initiatives, and oversees compliance with climate-related regulations.
- Reviews the effectiveness of management's practices for identifying and monitoring climate-related risks and opportunities.
- Reviews other corporate responsibility issues as requested.

Read more on pages 96 to 97

- strategy implementation;
- operational, financial and competitive performance;
- commercial developments;
- succession planning below Board level;
- organisational development; and
- maintaining Softcat's culture.

WHAT THE BOARD DID THIS YEAR

Strategy

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

- recurring updates from the CEO;
- specific strategy review discussions with the Board and key senior management in February 2022; and
- discussion of critical items to support the growth of the business, such as the implementation of a new finance system and discussion with management on high level operational plans for the coming year.

Performance monitoring

The Board has a robust process in place for setting expectations and for regular monitoring of business performance. During the year this included:

- review and approval of a three-year plan at the same time as the strategy review in order to provide a comprehensive longer-term outlook. Forecasts in the three-year plan are subsequently refreshed as needed during the year;
- approval of an annual budget, followed by a report each month comparing performance against budget;
- consideration of year-end and half-year performance and subsequent review, approval and publication of the year-end and half-year results;
- setting of a dividend policy. Determining whether an interim dividend should be paid and proposals for a year-end dividend, after taking into account performance, the Company's financial situation and the needs of the business and any other relevant circumstances;
- discussion of the performance and resilience of the business against the background of certain IT component shortages in the market and macro-economic pressures; and
- an update from the Company's brokers on investor themes and equity market matters.

Stakeholder engagement

The Board knows the importance of being aware of the views of its key stakeholders. These include our shareholders, employees, customers and vendors. During the year we maintained our engagement with stakeholders, which included the following:

- the Board met with a major customer. The meeting was very helpful in gaining perspectives from outside the Board;
- the Board discussed sustainability with management, in particular performance against environmental targets and commitments, and the development of Softcat's plan submitted and approved by the Science Based Targets initiative;
- discussions with investors and analysts, including their feedback following meetings and after the release of our annual and half-year announcements. We maintain an investor relations programme of meetings with existing and potential shareholders;
- Vin Murria is Softcat's Designated Non-Executive Director for Workforce Engagement. She led, with the other Non-Executive Directors present, engagements with our employees at the London and Birmingham offices;
- reviewing the feedback from employee surveys. This includes regular surveys of the managers in the business and our annual all-employee survey to gauge the wellbeing and satisfaction of employees;
- the Chair undertook an investor engagement programme inviting engagement with our top 50 shareholders and with the key proxy advisory agencies, to further strengthen our mutual understanding of governance matters. Martin updated the Board regularly;
- the Remuneration Committee Chair engaged with our top shareholders on the revised Remuneration Policy, which will be proposed for shareholder approval at the 2022 Annual General Meeting (see pages 113 to 127);
- the Board reviewed the outcomes of Softcat's annual customer satisfaction survey and the actions to further improve engagement with customers; and
- the Audit Committee Chair reached out to our top shareholders for feedback on key areas of audit focus for the coming year.

Governance and risk

During the year the Board:

- increased its focus on environmental strategy, targets and performance by establishing a Sustainability Committee of the Board (see pages 96 to 97);
- approved the appointment of Lynne Weedall as Chair of the Remuneration Committee. This rebalanced the workload of the Non-Executive Directors as Karen Slatford was until that time Chair of both the Nomination Committee and the Remuneration Committee;
- monitored the longer-term impact post the COVID-19 pandemic and other macro-economic considerations, such as inflation, on the Company's performance and finances, and the economy more widely;
- reviewed reports on governance and legal issues, including developments in corporate governance, executive remuneration and sustainability;
- received feedback and comments on governance from major shareholders;
- performed a review of Board effectiveness, which was externally facilitated;
- reviewed the Company's risk appetite, principal risks and uncertainties;
- considered changes to the delegation of authorities to management and approved updated terms of reference for each Committee, in line with best market practice; and
- received regular governance and regulatory updates.

People, vision and values

During the year the Board:

- approved the Board succession changes which will take effect in 2023 and commenced the search for a new CFO;
- met with many of the members of the Senior Leadership Team ('SLT') and other senior managers in the business. The CEO provided regular updates to the Board on the SLT and any changes in key roles in the business;
- received regular updates on people and HR matters, including training and development, culture, levels of employee turnover and diversity and inclusion;
- considered the results of the annual employee survey and the quarterly management team surveys; and
- engaged with employees in our London and Birmingham offices.

Other

The Board has also:

- approved the 2022 Annual Report and Accounts;
- approved the 2022 Notice of AGM; and
- reviewed monthly reports which analysed key changes in our shareholder base.

COMPOSITION, SUCCESSION AND EVALUATION

Composition and succession

This is discussed in the report from the Nomination Committee on pages 90 to 95.

Board evaluation

> This is a Board that functions well, with a good mix of skills and personalities, and well defined roles between the NEDs and the Executives. The Board members are passionate about Softcat and engaged with the business."

Extract from the external evaluation report prepared by Russell Reynolds Associates

Board evaluation process

Each year the performance of the Board is assessed through an evaluation exercise. In accordance with the UK Corporate Governance Code, the process this year was conducted independently by an external company (the Board having last conducted an external evaluation in 2019). The Board appointed Russell Reynolds Associates ('RRA'), which has a well-established board evaluation team and service, to conduct the evaluation. RRA supported the Board in respect of the Board succession changes which will take place in 2023 and also assisted the Board in its recruitment of Lynne Weedall as a Non-Executive Director during the year. As a result of its work with the Board, RRA had developed a deep understanding in respect of the Board's composition, its target skillset, succession planning priorities and longer-term succession considerations. The Board considered that RRA would therefore be well placed to conduct the Board evaluation. Other than the foregoing, RRA has no other connections with Softcat.

The key stages of the process this year were:

Stage 1: Selection and appointment

The Company Secretary reviewed the capabilities of RRA to conduct the evaluation and discussed this with the Chair, who was satisfied with RRA's strong track record and experience. The Board approved the appointment of RRA to conduct the exercise. RRA discussed with the Chair and the Company Secretary a proposed approach and timing for the Board evaluation exercise. The Chair approved the approach on behalf of the Board.

Stage 2: Document review

RRA reviewed key documents to build on its knowledge of the operation and activities of the Board, including:

- Board and Committee papers and minutes covering the financial year; and
- governance documents such as Matters Reserved to the Board, the roles of the Board and the terms of reference for the Committees of the Board.

Stage 3: Observation

RRA observed in person the Board and Committee meetings in May 2022. This provided useful insight into the work, dynamics and culture of the Board and its Committees.

> There are good relationships between the Executive and Non-Executive teams. The NEDs view the Executive team as being of high quality, enjoy working with them, and feel they are listened to. The Executives feel appropriately challenged in the right areas by the Board and point to the value these discussions are adding to the business."

Extract from the external evaluation report prepared by Russell Reynolds Associates

Stage 4: Questionnaires and interviews

RRA sent an online questionnaire to each Director, asking them to provide their assessment on a number of critical areas in respect of the effectiveness of the Board. The areas included:

- oversight of strategy, risk, values and purpose;
- people and composition;
- Board leadership;
- structures and processes;
- use of Board Committees;
- Board culture; and
- further self-development of Directors.

RRA collated the questionnaire responses. RRA then interviewed each Director, selected Executives and the Company Secretary to validate and gain a better interpretation of the responses to the questionnaire.

Stage 5: Board report

RRA prepared a comprehensive report, with the individual responses of each Director anonymised. A draft of the report was discussed with the Chair and then distributed to the Board in July in advance of a Board meeting. RRA attended the Board meeting to present and discuss its findings and recommendations with the Board.

Stage 6: Action planning

An action plan was prepared to address points of recommended improvements. Progress will be tracked during the year.

Outcome

The outcome of the review was once again positive and concluded that the Board and its Committees continue to function well, consider the right issues and work in a transparent and constructive way. There was strong alignment between the Company's and the Board's values and culture. Some of the points made by RRA included:

- The Board functions well, with a good mix of skills and personalities, and well-defined roles between the Non-Executive Directors and the Executives.
- The Board members are passionate about Softcat and engaged with the business.
- Non-Executive Directors contribute openly and broadly across the range of issues.
- The Board has an inclusive and open culture, and all contributions are welcome and discussed by the Board.
- The Executive team appreciates the support and trust it is given by the Board.
- All Board members are well prepared for Board meetings and spend the necessary time to keep up with the business outside of the meetings.
- The Board leadership is very strong, with a Chair valued for his insights into the business and for his support of the broader management team. The Board has good support from the Company Secretary's team.

RRA's report included a rating out of five for each important area under review. No area scored less than 4.5 and the average score was 4.7 out of five. The Board is satisfied with this assessment.

Outputs and recommendations

The Board was pleased with the outcome of the independent Board evaluation, which reflects the Directors' commitment to the business, strong processes, and positive culture and attitudes for the successful operation of the Board. RRA has suggested some minor areas for improvement, which the Board has considered further. These improvement points include:

- further deepening the Non-Executive Directors' understanding of broader market trends, best practice, market risks and sustainability to further strengthen strategic oversight and risk oversight;
- additional considerations of complementary skills and experiences which will further strengthen the composition of the Board when considering the next appointment of Non-Executive Directors;
- considering ways to support deeper discussions on the most important topics, for example by holding additional Board dinners or a pre-Board discussion prior to the annual Board Strategy Review; and
- arranging Board discussions on the self-development points identified through RRA's questionnaire and interviews.

The Company Secretary has prepared an action plan based on the recommendations and the Board's discussions, which will be progressed and monitored. An update will be provided in next year's Annual Report.

Good progress had been made on the actions arising from the internal Board evaluation conducted in the previous year. This included:

- increasing the amount of direct feedback and engagement between employees and the Board;
- additional interaction with members of the Senior Leadership Team at Board meetings; and
- improving the format and overall usability of certain Board and Committee papers.

OPERATION OF THE BOARD

Workforce engagement

Vin Murria is the Board's Designated Director for Workforce Engagement. After a year of virtual engagements in 2021, Vin was very happy to be able to lead in-person engagements again during 2022. Engagements this year were held in Softcat's London and Birmingham offices, both of which were attended by the Non-Executive Directors. Various topics were discussed, including the Board's strategic outlook, the role of the Board, retention and recruitment of staff, work-life balance, progression and pay, and various commercial and operational matters. The discussions provided valuable insight and actions were taken following feedback where appropriate.

Dividend and distributions policy

The Board is responsible for:

- setting Softcat's dividend policy;
- deciding on the Company's capital structure; and
- approving any key decisions in respect of capital allocation.

In respect of dividends, the Board approves the interim dividend and recommends the final and any special dividend for shareholders' approval. Softcat's 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. In determining the level of dividend in any year in accordance with the policy, the Board also considers a number of other factors that influence the proposed dividend, which include but are not limited to:

- the level of available distributable reserves in the Company;
- future cash commitments and investment needed to sustain the long-term growth prospects of the business; and
- potential strategic opportunities.

Softcat's constitution does not limit or oblige the Company to any minimum or maximum dividend payments. However, no dividend may exceed the amount recommended by the Directors and all dividends shall be paid in accordance with any relevant legislation.

The Audit Committee on behalf of the Board reviews management's confirmation that the Company has sufficient distributable reserves before a dividend payment is made or proposed to shareholders. The Board then considers the Audit Committee's review as part of its process to approve or recommend dividends. Consideration is also made of the balance on the retained earnings reserve, which as at 31 July 2022 amounted to £202.5m (as disclosed in the Statement of financial position).

In addition to the reviews of distributable reserves prior to a dividend being paid or proposed, the Board regularly reviews the performance of the business, particularly in respect of cash flow, receivables and the minimum amount of cash required to operate the business. Since 2020, the Board has approved a minimum cash holding in the business of £45m. The Board has reviewed the matter and, given the continuing increase in the size and scale of the business, has agreed to increase this level to £60m. A special dividend is also proposed which has been calculated to take into account the increase in minimum cash holding in the business.

The Directors have proposed a final dividend and a special dividend for the financial year ended 31 July 2022. Further information in respect of the proposed dividends can be found on page 33. Softcat is well positioned to continue to fund its dividend which is well covered by the cash generated by the business. Details of the Company's viability and going concern can be found on page 64 and pages 133 and 134 respectively. Details of total dividend distributions for the financial year can be found in note 6 to the financial statements.

The Company intends to seek shareholders' approval at the 2022 AGM to permit the Directors, should they consider exercising the authority, to repurchase up to 10% of the ordinary issued share capital. The Directors have no current intention of exercising this authority, which is sought in the best interest of shareholders to allow the flexibility to react promptly where such market purchases may be desirable.

Board development and support

The Chair is responsible, with the assistance of the Company Secretary, for ensuring that all Non-Executive Directors receive ongoing training and development. All Directors are provided with frequent briefings of current and relevant issues and a twelve-month forward plan is maintained by the Company Secretary to ensure that emerging topics or repeat topics which require further debate by the Board can be effectively scheduled. Topics discussed during the year included updates on industry trends and competitor performance, corporate governance and audit reforms, and developments in sustainability and environmental reporting. The Board also receives updates on our public reporting commitments, such as gender pay gap reporting (and ethnic pay gap reporting, on which Softcat reports voluntarily), tax strategy, creditor payment practices and risks of modern slavery.

When a new Director has been appointed, it is important to accelerate their understanding of the business so the Director can maximise their contribution to the Board and fulfil their responsibilities and duties successfully and effectively. An extensive and tailored induction programme was conducted following the appointment of Lynne Weedall in May 2022. The programme included meetings with the Chair, the Chief Executive Officer, the Chief Financial Officer, members of the Senior Leadership Team and other key management, and representatives from the Company's Remuneration Committee advisers, PwC. The Company Secretary also highlighted key Board documents for Lynne to review, such as the Board's current annual Budget, Board Strategy Review and Three Year Plan. This helped to accelerate Lynne's understanding of the business.

All Directors have the opportunity to approach the Company Secretary (who acts as Secretary to the Board and all its Committees) for advice. The Company Secretary is appropriately qualified and highly experienced and is responsible for advising the Board on certain regulatory, legislative and governance matters and other ad hoc issues when required. Each Board meeting includes an update from the Company Secretary on any major developments of which the Board should be aware. The role of the Company Secretary also includes:

- informing the Board of their key obligations as Directors of a public listed company;
- assisting the Chair by organising induction and training programmes and ensuring that all Directors have full and timely access to all relevant information;
- developing the agenda for each meeting of the Board and its Committees for approval by the respective Chair;
- working with the Directors to develop the long-term agenda for the Board and its Committees to enable them to discharge their responsibilities effectively; and
- ensuring that the correct Board procedures are followed, in accordance with the Company's constitution, applicable legislation and good governance practice.

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

Role of the Non-Executive Directors

All of Softcat's Non-Executive Directors, including the Chair and SID, are required by their role to perform certain functions to improve the effectiveness of the Board. In particular they:

- constructively challenge and contribute to the development of strategy;
- offer additional perspectives, advice and strategic guidance;
- scrutinise the performance of management in meeting agreed goals and objectives;
- have oversight to ensure compliance with key listed company requirements;
- through the Audit Committee, satisfy themselves that financial information is accurate, and that internal controls and systems of risk management are robust;
- through the Remuneration Committee, take responsibility for determining appropriate levels of remuneration for senior executives;
- through the Nomination Committee, undertake the role of recommending the appointment and, where necessary, the removal of positions on the Board. Consideration is also given to diversity, succession planning, employee engagement (led by the Designated Director) and culture within the business; and
- through the Sustainability Committee, scrutinise management's activities and policies for pursuing Softcat's sustainability strategy and achieving its climate-related targets.

Organisation of Board meetings

The following are key features of how our Board and Committee meetings are organised to support the good governance of the business:

- Board meetings are scheduled to consider issues requiring Board oversight and adequate time for discussion of each agenda item is provided. Agendas are set to provide the Directors with opportunities to discuss the longer-term outlook of the business. Additional meetings are arranged when the need arises;
- an annual calendar of scheduled Board and Committee meetings is structured to allow the Board/Committees to review cyclical and ad hoc items, such as key projects;
- the Directors have access to key governance documents, such as the Matters Reserved to the Board, Terms of Reference for each Committee, and the Delegated Authorities Matrix;
- Non-Executive Board members make themselves available outside of scheduled meetings should the need occur. In particular, the Chairs of the standing committees often hold preliminary planning discussions with the Company Secretary, management or external advisers to a Committee prior to a meeting;

Organisation of Board meetings continued

- reporting packs are provided for each Board/Committee meeting, which are designed to be clear, analytical and concise. Papers are distributed and retained in an electronic system which is managed by the Company Secretary and this provides Directors with instant access to papers at any time;
- reporting packs are normally prepared and presented by the Executive Directors and other senior managers. Packs are distributed by the Company Secretary to the Board around five days in advance of Board or Committee meetings. This enables the reporting packs to be as up to date as possible whilst allowing sufficient time for their review in advance of the meeting. Verbal updates cover any subsequent material developments;
- a summary of the actions arising at Board and Committee meetings is circulated by the Company Secretary following each meeting. The Company Secretary then ensures progress is made in respect of each action;
- financial updates with commentary are distributed to the Board monthly. This gives the Directors the opportunity to review performance and any emerging issues in 'real time'. The financial updates include an assessment of performance against the annual Budget as approved by the Board, giving the Board additional analysis on developing Company trends;
- the development of strategy is led by the Executives with input, challenge, examination and ongoing testing from the Non-Executive Directors. A dedicated Board Strategy Review session is held annually; and
- Board discussions are held in an open and collaborative atmosphere of mutual respect allowing for questions, scrutiny and constructive challenge. This supports decisions on which the Board seeks a consensus.

Independence and conflicts

The Board, excluding the Chair, is currently comprised of four independent Non-Executive Directors and two Executive Directors and therefore complies with the independence requirements of the Code. Martin Hellawell was formerly the Chief Executive Officer before being appointed as Chair in April 2018. The Board considers for the purposes of the Code that he was not independent when he was appointed Chair and that he remains not independent.

The Company announced earlier in the year Board succession changes which will take effect on 1 August 2023. This included that Graeme Watt, the current Chief Executive Officer, will succeed Martin Hellawell as Chair. Given Graeme's current Executive role, for the purposes of the Code he will not be considered as independent when he succeeds Martin as Chair.

The independence of the Non-Executive Directors is reviewed annually by the Nomination Committee (described in the Nomination Committee Report on pages 90 to 95). 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. Board procedures operate to restrict a Director from voting on any matter in which they have a material personal interest, unless the Board unanimously decides otherwise. If 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 that they are able to allocate sufficient time to discharge their responsibilities effectively and all Directors continue to devote adequate time to their duties at Softcat. Directors are also required to notify the Board of any major changes to their external commitments that arise during the year with an indication of the time commitment involved.

RELATIONS WITH SHAREHOLDERS

Governance engagements

The Board maintains a proactive and constructive programme of engagement with its stakeholders and recognises within this the important and valuable role that shareholders play, as owners of the Company. Further information on the Board's engagement with its stakeholders is provided on pages 34 to 37.

For the fourth year, the Chair undertook an extensive engagement programme with the Company's largest shareholders on governance matters. Feedback from these sessions was reported back to the Board to make sure the Board fully understood the views of those shareholders and the Board discussed whether any actions should be taken as a result.

As part of an ongoing investor relations programme, there was extensive interaction with institutional shareholders and market analysts across the year. The Chief Financial Officer provides the Board with briefings and reports on these interactions and on any material changes in the shareholder base of the Company.

The Chair of the Remuneration Committee conducted a consultation with the Company's largest shareholders on minor changes to the Remuneration Policy which will be proposed at the AGM to be held in December 2022. Please see pages 113 to 127 for more information.

The Chairs of each of the Committees welcome the views and questions of shareholders at any time. Each of the Committee Chairs can be contacted via the Company Secretary at cosec@softcat.com.

In the event that shareholders have any concerns, which the normal channels of communication to the Chair or Chief Executive have failed to resolve or for which such contact is inappropriate, our Senior Independent Director or any independent Non-Executive Director is available (via cosec@softcat.com) to address such issues. The Board continues to make itself available, when requested, for meetings with shareholders on issues relating to the Company's governance and strategy.

Annual General Meeting

Due to the additional restrictions on gatherings put in place in response to the Omicron variant of COVID-19, and to protect the health and safety of our employees and Directors, shareholders were encouraged to appoint the Chair as their proxy and not attend the Company's 2021 Annual General Meeting ('AGM') in person. This did not affect the shareholders' right to attend, speak and vote at the meeting, if they still wished to do so. Shareholders were given the opportunity to submit questions to the Directors via email; however, no such questions were received from shareholders for the 2021 AGM.

> "The Board maintains a proactive and constructive programme of engagement with its stakeholders."

The 2022 AGM will be held on 13 December 2022 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/about-us/investor-centre/shareholder-information).

The AGM gives shareholders an opportunity to vote on key aspects of Softcat's business and to ask questions to the Directors. The opportunity to submit questions for the Directors via email will be given again for the 2022 AGM. Details of how to do this can be found in the Notice of AGM.

Shareholder meetings

Throughout the year, numerous meetings were held with existing and potential shareholders. These meetings were attended by either the Chief Executive or the Chief Financial Officer or sometimes both, with the support as needed of the Commercial Finance Director, who has responsibility for investor relations. The meetings focused primarily on trading performance and the implementation of our business strategy. Any significant views expressed by shareholders are recorded and reported to the Board to keep them up to date with investor sentiment. In line with the Market Abuse Regulation, strict protocols are observed to make sure that no unpublished price sensitive information is discussed during these meetings.

Results presentation and investor roadshows

The Chief Executive Officer and the Chief Financial Officer provide a briefing later in the day after the release of the full-year preliminary results and also of the half-year results. The briefing is primarily aimed at institutional holders and market analysts but all stakeholders, including employees, and all shareholders are welcome to access the briefing. Any supporting material for the briefing is published on Softcat's website and is accessible to all stakeholders and the public.

Following the release of our full-year preliminary results announcement and our half-year results, the Chief Executive and Chief Financial Officer undertake extensive investor engagement roadshows (which may be held in person or held virtually). Feedback from the roadshows and from reports by analysts, by industry experts and in the media are collated and shared with the Board to improve the Board's understanding of their views.

ACCOUNTABILITY

> “One of the key activities of the Committee was the audit tender process, with a significant proportion of time devoted to this process.”
>
> **Robyn Perriss**
> Chair of the Audit Committee

Members

R Perriss (Chair)
K Slatford
V Murria
L Weedall

Attendance of the Audit Committee

Name	Committee attendance 2022
R Perriss	●●●●
V Murria	●●●●
K Slatford[1]	●●○●
L Weedall[2]	○○○●
Total meetings held	●●●●

● Attended ○ Did not attend ○ n/a

1. Karen was unable to attend due to illness.
2. Lynne joined the Committee on 3 May 2022, when she joined the Company and attended the remaining Committee meeting for the financial year.

Allocation of time

Internal audit: 18%
External audit: 37%
Financial reporting: 20%
Risk and internal controls: 25%

Introduction

As Chair of the Audit Committee (the ‘Committee’), I am pleased to present the Committee’s report for the year ended 31 July 2022.

The Committee continues to fulfil a vital role in the Company’s governance framework, providing valuable independent challenge and oversight of the accounting, financial reporting and internal control processes, risk management, the internal audit function and the relationship with the external auditor. These pages outline how the Committee discharged the responsibilities delegated to it by the Board over the course of the year, the key issues it has considered during FY2022 and also areas of focus over the next financial year.

Ernst & Young LLP (‘EY’) has been Softcat’s external auditor since July 2013 and during FY2021 a decision was made to tender the external audit for the year ending 31 July 2023. Consequently one of the key activities of the Committee was the audit tender process, with a significant proportion of time devoted to this process. Following a very comprehensive, high quality and competitive tender process, the Committee has recommended the reappointment of EY as auditor to the Board at the 2022 AGM. Further details of the external audit tender process are set out on page 85.

Areas of focus in 2022 included:

- reviewing the appropriateness of our published half-year and full-year results;
- reviewing the application of financial reporting and governance standards;
- assessing the Company's Going Concern and Viability Statements;
- confirming that the Annual Report and Accounts is fair, balanced and understandable;
- receiving updates and exercising oversight in relation to the implementation of a new finance ERP system to support greater automation and further strengthen the financial control environment as the Company continues to scale;
- receiving regular updates in relation to IT systems and security;
- receiving and discussing internal audit reports on:
  - IT asset governance and user access management;
  - organisational fraud maturity;
  - in-flight and go/no go assurance updates in respect of the implementation of a new ERP finance system;
  - purchase to pay process;
  - commission calculation and process;
- ongoing monitoring of the status of the proposals for reforms issued by the Department for Business, Energy & Industrial Strategy ('BEIS') to improve trust in audit and corporate governance;
- reviewing the effectiveness of internal audit and internal controls, discussing the Company's risk appetite, principal risks and risk management and reviewing the Company's risk register;
- evaluating the effectiveness and independence of the external auditor; and
- discussing the external audit tender process and approving a proposal to recommend the reappointment of EY as the statutory auditor from FY2023.

Focus areas for 2023:

- ongoing monitoring of IT general controls and financial reporting controls within the new finance system;
- an assessment of the readiness to meet the final BEIS proposal outcomes announced in May 2022, including future actions and the development of an Audit and Assurance Policy;
- continued focus on cyber and IT security with a particular focus on our internal cloud security platforms and business continuity planning;
- ongoing maturation of our approach to defining our risk appetite; and
- smooth transition to working with a new lead partner of the external auditor, following the scheduled mandatory rotation of the current partner in accordance with audit regulations.

As noted above, in May 2022, Softcat went live with a new ERP finance system. Throughout the year the Committee and the Board have been kept abreast of the status of the project including key milestones and decision staging gates together with an appraisal of costs incurred on the project together with a consideration of accounting implications such as meeting the criteria for capitalisation and the appropriate useful economic life.

During the year, the Committee's core duties remained unchanged and the usual cadence of activities relating to risk, assurance and internal controls remained in place. The Committee has also carried out a review of the independence and effectiveness of EY as auditor and performed an internal questionnaire-based review of the effectiveness of the internal audit function.

With the assistance of management, the Committee has reviewed the content in the Annual Report and Accounts and believes that this explains our strategic objectives and is fair, balanced and understandable.

Whilst this Report of the Audit Committee contains some of the matters addressed during the year, it should be read in conjunction with the Independent Auditor's Report starting on page 136 and indeed the Softcat plc financial statements in general. This includes the significant accounting matters and issues in relation to the Company's financial statements that the Committee has assessed during the year, which can be found on page 83. This report explains why the issues were considered significant and further information can be found in the Auditor's Report from page 136 which covers its key audit matters.

If any shareholders would like to raise any matters with me in respect of the work of the Committee and our key focus areas for FY2023, I can be contacted via the Company Secretary at cosec@softcat.com. I will also be happy to answer any questions about the work of the Committee at the forthcoming AGM.

Robyn Perriss
Chair of the Audit Committee
24 October 2022

Responsibilities

The Committee's terms of reference are available at www.softcat.com/investors and in hard copy from the Company Secretary. These provide the framework for the Committee's work and can be summarised as providing oversight of:

- the appropriateness of the Company's external financial reporting;
- the relationship with, and performance of, the external auditor;
- the Company's system of internal control, including the risk management framework, key and emerging risks and the work of the internal audit function;
- appropriate controls to detect and prevent fraud; and
- the Company's system of compliance activities.

The terms of reference are reviewed at least annually and are updated as appropriate to ensure there is clarity on the expected duties of the Committee. A further review of the terms of reference will be conducted to reflect the final outcomes and Company implementation of BEIS' reforms on the audit market and corporate governance. In advance of the outcome of the reforms, the Committee has already approved an express clarification in its terms of reference in respect of the legality of dividend payments and that the Committee reviews that the Company has sufficient distributable reserves in respect of any proposal to pay a dividend.

A whistleblowing policy and procedure for colleagues to raise issues regarding possible improprieties in matters of financial reporting or other matters is in place and operated throughout the year.

The Company operates anti-bribery and corruption procedures which support compliance with the Bribery Act 2010, the Criminal Finances Act 2017 and certain equivalent legislation outside of the UK.

The Committee reviews the Company's published tax strategy and during the year considered and approved an updated version. The tax strategy is available on the Company's website at www.softcat.com/corporate-responsibility. The Committee also reviewed the Company's reporting in respect of payment practices to suppliers.

During the year the Committee assessed the adequacy of the existing fraud control framework and received reports from management in respect of fraud prevention and detection controls. Management has improved fraud awareness within the Company, including rolling out refreshed fraud awareness training for all employees. The Committee recognises this as an important area, given the evolving nature and increasing sophistication of fraud. The importance of strong controls over fraud was highlighted in the audit and governance reforms proposed by BEIS and this area will continue to be a key responsibility of the Committee as part of the safeguarding of the Company's assets.

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 and the requirements of the 2018 UK Corporate Governance Code (the 'Code'), which is applicable for the financial year ended 31 July 2022. Given my experience as a qualified Chartered Accountant and as a recent finance director of a listed UK company, I have been designated as the financial expert on the Committee for the purposes of the Code.

Vin Murria and Karen Slatford both have considerable sector experience, in accordance with Code provision 24. Furthermore, 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, governance and accounting matters. Biographies of the members of the Committee are shown on pages 68 and 69. Changes to the membership of the Committee during the year are shown on page 80. All members are independent Non-Executive Directors of the Company. The Company Secretary acts as Secretary to the Committee, supported by the Company Secretarial Assistant.

How the Committee operates

The Committee met formally four times during FY2022 and each meeting, other than the March meeting (for which Karen Slatford was unwell), 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. The Company Secretary maintains a twelve-month rolling plan to support an effective process which ensures the Committee reviews all required matters to effectively discharge its duties.

The external auditor, EY, is invited to each meeting together with the Company Chair, the Chief Executive, the Chief Financial Officer ('CFO'), the Company Secretary, the Group Financial Controller, the Internal Audit Manager, the Commercial Finance Director and Grant Thornton (which provides a co-sourced internal audit service to Softcat). This means that each member of the Board is present at Committee meetings. However, I shall, as needed, report to the Board as a separate agenda item on the activity of the Committee and matters of particular relevance to the Board regarding the conduct of the Committee's work. The Board as a whole regularly reviews the performance of the business via monthly reporting packs and a CFO's report at each Board meeting. This provides the Committee with a good ongoing understanding of the financial standing of the business which accumulates towards the formal half-year and full-year results.

The Committee sets time aside at the end of each meeting, in addition to on an ad hoc basis where necessary, to seek the views of the external auditor, in the absence of management. The Committee also meets separately with the internal auditor during the year and in between meetings the Committee Chair keeps in touch as needed with the CFO, other members of the management team, the internal audit function and the external auditor.

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;
- the impact of any material changes in accounting policies;
- 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 UK Corporate Governance Code;
- any correspondence from regulators in relation to our financial reporting; and
- assisting the Board in an assessment of whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and prospects, performance, business model and strategy. This assessment forms the basis of the advice given to the Board to assist it in making the statement required by the UK Corporate Governance Code.

Accounting policies and practices

The Committee received reports from management in relation to the identification of critical accounting judgements, key sources of estimation uncertainty, significant accounting policies and proposed disclosure of these in the 2022 Annual Report. The Committee's review of how management approached a change in the application of IFRS 15 is summarised on page 84 (a fuller description is provided in note 1 'Accounting policies' to the financial statements). There were no other new material changes to significant accounting policies adopted during the year.

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

Significant judgements and issues

An important part of the Committee's responsibilities is to assess key issues in respect of published financial statements and the Committee pays particular attention to any matters which it considers may affect the integrity of Softcat's financial statements, with a view to satisfying itself that each matter has been treated appropriately. The significant areas of focus considered, and the actions taken by the Committee, in relation to the 2022 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 Auditor's Report on pages 136 to 143.

Matter considered	Action
Going concern and viability	In respect of the financial statements for the year ended 2022, management prepared analysis modelling a variety of downside scenarios having regard to the principal risks faced by the business to assess the Company's viability and ability to continue as a going concern. The analysis including budgets for FY2023 and three-year cash projections were presented together with potential mitigating actions which could be taken in the event of one or more of the downside scenarios occurring. The Committee was satisfied with management's work and supported the conclusions reached in respect of the Company's going concern and longer-term viability (see pages 133 and 134 and page 64 respectively). The Committee will monitor developments in good practice under the BEIS reform proposals in respect of potential additional areas and risks on which companies will be expected to have due regard in future resilience statements.
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 the processes applied to accurately record revenue at period ends. The Committee also receives detailed monthly reporting on business performance which includes revenue recognition data and trends. The Committee or the Board discusses the performance and data trends as needed with the CFO. The Committee has concluded that the timing of revenue recognition is appropriate.
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. The Committee is satisfied with management's ability to accurately record rebates earned within the financial period.

Significant judgements and issues continued

Matter considered	Action
Application of IFRS 15	The Committee is aware that inappropriate application of IFRS 15 may result in erroneous presentation and disclosure of revenue and cost of sales. Management has taken appropriate action and performed detailed work to ensure that revenue is reported accurately on a principal or agent basis. Softcat evaluates each revenue stream against known indicators to determine disclosures and presentation. The indicators are reviewed quarterly and factor in product mix sold by Softcat. During the year, the IFRS Interpretation Committee ('IC') shared guidance on the "control" criteria which is used to determine whether companies should recognise revenue from the resale of standard software licences on a net basis under IFRS 15. Following this guidance, management presented an analysis to the Audit Committee of the impact of amending its judgement in the Company's accounts, including a restatement of the prior financial year. Management also presented a revised accounting policy which reflected the application of the IC's guidance. Please see note 1.5 to the financial statements for more information. EY has audited the disclosures of IFRS 15 and presented the results of their procedures to the Committee. The above provided the Committee with comfort that an appropriate approach continues to be taken on the presentation of revenue under IFRS 15, which also incorporates the new guidance from the IC.

Other matters

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

Fair, balanced and understandable

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

- all team members who provide a material contribution to drafting the Annual Report and Accounts are fully briefed by the Company Secretary 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;
- the Annual Report and Accounts follows a framework which supports the inclusion of key messaging, market and performance overviews, principal risks and other governance disclosures. Sufficient forward-looking information is provided and a balance is sought between describing potential challenges and opportunities;
- information in the different parts of the Annual Report and Accounts is consistent;
- the Annual Report and Accounts is written to avoid jargon where possible and is presented free of unnecessary clutter;
- senior management confirms that the content in respect of its areas of responsibility is considered to be fair, balanced and understandable;
- the Committee receives an early draft of the Annual Report and Accounts to enable timely review and comment; and
- the Committee receives a briefing from management which sets out the key themes and links in the Annual Report and Accounts which contribute to it being a fair, balanced and understandable document.

Following its review, the Committee is of the opinion that the 2022 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. This allows the Committee to provide positive assurance to the Board to assist it in making the statement required by the Code.

Going concern and viability statements

The Committee has reviewed the Company's ability to continue to operate as a going concern for the twelve-month period post the date of this report and the Company's assessment of viability over a period greater than twelve months. In assessing viability, the Committee has considered the Company's position presented in the budget and the three-year plan recently approved by the Board. The Committee also considered amongst other things a number of scenarios modelled by management, including a severe but plausible downside scenario and reverse stress tests carried out to assess the strength of the Company's liquidity position. The Committee has concluded that the assumptions and mitigating actions are appropriate. Further details are set out in the statements on page 64 and pages 133 and 134 of this Annual Report. The Committee confirms that, following review, it has recommended both statements for approval by the Board.

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 its independence on an ongoing basis and negotiating the audit fee. The Committee is also responsible for considering the most appropriate time and circumstances, observing applicable legislation, to conduct a tender for the external audit.

Audit engagement partner rotation

In accordance with the Auditing Practices Board's Ethical Standards, the term limit of an audit engagement partner is five years and David Hales will step down as our lead audit engagement partner following the conclusion of the FY2022 audit in October 2022. During the 2022 financial year, the Committee worked with EY to ensure a suitable handover process for the new audit engagement partner. EY confirmed and the Committee endorsed that Marcus Butler would take over as the new lead audit partner. EY confirmed that Marcus was independent from Softcat, with no known conflicts of interest. Marcus and David have been working to ensure a smooth transition. The Committee would like to thank David for his contribution during his time as audit engagement partner.

Audit tender

EY was appointed as the Company's auditor in July 2013. The 2014 Competition and Markets Authority Order requires Softcat to tender its external audit at least every ten years. In accordance with this requirement, we started planning a competitive tender process in 2021 and undertook the process during our 2022 financial year. The appointment will be effective for Softcat's 2023 financial year audit.

The process followed the FRC's guidance on audit tenders. The Audit Committee led the process with the assistance of a tender panel made up of the Committee Chair, Vin Murria (who is a Committee member), the CFO, the Company Secretary, the Financial Reporting Manager and other key stakeholders in the audit process.

October 2021

Timeline finalised by the Committee

Informal approaches and meetings with potential candidate audit firms

Candidate firms confirmed their independence and that they had no conflict of interest to potentially act as external auditor

November 2021

Request for proposal ('RFP') sent to four candidate firms, including a 'challenger' audit firm

Clear assessment criteria were subsequently established and communicated to the candidate firms ahead of submission date for the RFPs

December 2021

Company presentation day with the candidate firms. This provided a detailed overview of Softcat and an opportunity to meet with management

Population of a 'data room' with key relevant information for the candidate firms to consider for their audit proposals

January 2022

Detailed follow-up meetings held with the audit tender panel

Shortlisting of three candidate firms, including a 'challenger' firm, which were invited to tender

April 2022

Submission of proposals from two of the shortlisted candidate firms as one firm withdrew from the process

May 2022

Presentation of tender proposals by shortlisted candidate firms

Completion of a detailed scorecard on each candidate firm by each member of the tender panel

Tender panel discussed results and made a recommendation to the Audit Committee to reappoint EY, which was reviewed and supported by the Audit Committee. A recommendation to reappoint EY was made to the Board and approved

Conclusion and rationale

The members of the tender panel had scored each of the candidates' proposals independently, ensuring a fair and consistent review of each proposal. The tender panel then met to discuss the scores, share their views and further reflect on the proposals. Part of the consideration was given to the long-term nature of the audit relationship and the balance of the potential benefits of maintaining EY as auditor versus those of changing auditor.

Overall, the Committee was impressed by the high quality of the proposals put forward by each candidate firm, all of which demonstrated significant commitment to the tender process, and good understanding of key areas of risk and of Softcat's values and culture. All candidates had expressed a strong desire to be Softcat's auditor. The tender panel concluded that the advantages of EY's strong audit quality record, established positive relationship with and understanding of the business and performance as assessed on the scorecard were greater than the potential advantages of changing auditor.

A resolution proposing the appointment of EY as Softcat's auditor will be put to the shareholders at the 2022 Annual General Meeting.

Auditor appointment

Following the competitive tender process concluded in May 2022 described above, EY was retained as auditor effective from financial year 2023. A timeline setting out the tenure of EY as auditor and requirements on Softcat to next tender and change auditor is set out below:

Prior to July 2013
Rayner Essex LLP conducted the external audit immediately prior to FY2013

July 2013
EY appointed as auditor and conducted the external audit for FY2013

November 2015
Softcat becomes a publicly listed entity

October 2017
Mandatory change of EY lead audit partner

May 2022
EY reappointed as auditor, following competitive tender process

October 2022
Mandatory change of EY lead audit partner

By May 2032
Competitive tender, being ten years since last audit tender

By July 2033
Pursuant to legislation, mandatory audit firm rotation, being up to 20 years since appointment. Option, pursuant to transitional provisions, to extend this period to 2035, being 20 years since Softcat became a publicly listed company

The Committee will continue to review the auditor's appointment and the need to tender the audit, ensuring the Company's best interests are considered and ensuring compliance with the requirements of the UK Competition and Markets Authority. Accordingly, the Company confirms that it complied with the provisions of the Competition and Markets Authority's Order 2014 for the financial year under review. There are no contractual obligations restricting Softcat's choice of external auditor.

For the financial year ended 31 July 2022, the Committee has recommended to the Board that EY be reappointed under the current external audit contract and the Board has endorsed that recommendation. The Board has therefore proposed the reappointment of EY at the Annual General Meeting to be held in December 2022.

Audit risk

At the start of the audit cycle we received from EY a detailed audit plan identifying its audit scope, planning materiality and assessment of key audit 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 2022 financial year closely align to the significant judgements and issues above. The key risks identified included:

- inappropriate revenue recognition;
- presentation of revenue in respect of IFRS 15;
- misstatement of rebate income;
- a review of the operation of a new finance ERP system on financial reporting; and
- going concern and viability.

Should the need ever occur, the Committee has the authority to request for additional areas to be reviewed if it is deemed to be relevant for the integrity of Softcat's financial statements.

EY also outlined other areas of audit focus which included a combination of standing matters usually associated with an external audit each year and additional matters which reflect potential changes in Softcat's risk profile, such as exposure to climate change risk. Key audit risks are regularly reviewed by the Committee or the Board.

Working with the external auditor

The external auditor attended all Committee meetings in 2022 and received all Committee reading papers (other than papers in respect of the competitive audit tender) and minutes. After each Committee meeting, we hold a private meeting with the external auditor to provide additional opportunity for open dialogue and feedback from the Committee and the auditor without management being present. The external auditor has direct access to the Committee Chair to raise any concerns outside formal Committee meetings. Matters typically discussed include:

- auditor views on the resourcing of internal functions which are important to Softcat's control environment;
- 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 it by management; and
- the independence of its audit and how the auditor has exercised professional scepticism.

The Committee Chair, if appropriate, will discuss with management any actions arising from the private meetings with the external auditor.

Effectiveness of the external audit process

The Committee reviewed the quality of the external audit throughout the year and considered the performance of EY. The effectiveness of the external audit process is dependent on a number of factors. These include the quality, continuity, experience and training of audit personnel, business understanding, technical knowledge and the degree of rigour applied in the review processes of the work undertaken, communication of key accounting and audit judgements, together with appropriate audit risk identification at the start of the audit cycle. The Committee also took into account an assessment of the firm-wide Audit Quality Inspection ('AQI') report issued by the FRC in July 2022 together with EY's responses to that report. The Committee also noted the equivalent AQI reports issued in respect of the other audit firms which participated in the Company's tender for the external audit (see page 85).

Following the conclusion of the 2022 financial year, the Committee conducted an effectiveness evaluation of the external auditor. The evaluation was led by the Committee Chair and involved issuing a tailored evaluation questionnaire for completion by the Committee, by selected managers in the Finance team who regularly work with EY, and by Grant Thornton (as co-sourced internal auditor). The results of the survey were shared with the Committee and discussed. The feedback was positive overall, with the Committee noting comments about the working relationship and good engagement between the EY Team and those involved in the audit process, and the smooth and timely manner in which the audit was run. Some areas were highlighted as opportunities for improvements, such as the utilisation of technology within the audit process as the Company's control environment matures and greater functionality is utilised within the new ERP finance system. Further opportunities were also identified to improve the engagement between EY and the wider business. These areas will be further discussed with EY for implementation with the new audit lead partner. Based on the above, the Committee concluded that EY continued to perform their role well, there had been appropriate focus and challenge on the primary areas of audit focus from EY, and that the performance of EY remained effective.

During 2022, an Audit Quality Review Team from the FRC undertook an inspection of EY's audit of the Company's 2021 Financial Statements. As part of that process, the Committee Chair shared her and the Board's view of the quality of the EY audit. The Committee considered the final inspection report, which did not raise any significant findings, and discussed the results and agreed actions with the lead audit partner. The Committee agreed with the overall assessment, which was consistent with its own view of the quality and effectiveness of the external audit.

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 is reviewed annually and was last updated in 2021 (the Committee having agreed in 2022 that no changes were required). The latest version can be found on the Company's website at: www.softcat.com/about-us/investor-centre/governance. All non-audit services provided by the external auditor are reported to the Committee and a record is kept so that the total costs regarding non-audit work during a financial year are monitored.

For certain specific permitted services, the Committee has pre-approved that EY can be engaged by management, subject to the policy set out above, and subject to a total of 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 Committee Chair, or in my absence another Committee member, can pre-approve 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 its independence.

In respect of the audit of the 2022 financial statements, the Committee considered a fee proposal from EY and the Committee reviewed the quantum and rationale relating to increased costs for EY to undertake required audits. Audit fees had increased from the previous year, reflecting the ongoing growth of the Company. Following the receipt of formal assurance that its fees were appropriate for the scope of the work required, the Committee agreed a charge from EY of £545,000 for statutory audit services in respect of the Company's annual financial statements.

In addition to the above statutory audit fee, EY and related member firms charged the Company £132,500 for additional audit fees primarily in connection for the first year of auditing following the implementation of Softcat new finance ERP system, NetSuite. The Committee also agreed a fee of £40,000 in respect of EY's review of the 2022 half-year results, which was classified as a non-audit fee. Further details of the fees paid, for audit and non-audit services, to EY for the 2022 and 2021 financial years can be found in note 3 to the financial statements.

The Committee is aware of the requirements of the Statutory Auditors and Third Country Auditors Regulations 2016 (the '2016 Regulations'). The 2016 Regulations provide for a cap on non-audit services of a maximum of 70% of the average of the audit fees paid on a rolling three-year basis. In order to ensure this limit is not exceeded, the Company shall in usual circumstances seek that permitted non-audit fees shall not exceed 50% of the average audit fee over the three preceding financial years in each case. The three-year measurement period covers the 2020, 2021 and 2022 financial years and is 6.6%, which is considerably below the cap.

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 (see below). During the year the Committee closely monitored the Company's internal control and risk management systems and received regular reports from management and the Internal Audit Team covering the major risks and/or events faced by the business.

During the year, the Committee considered the proposals in the BEIS reforms on the audit market and on corporate governance, including proposals to further strengthen processes and disclosures on the effectiveness of a company's internal controls. The Committee is monitoring developments and considering its potential next steps. A further update will be provided in next year's Annual Report.

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 59 to 63.

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 the Committee has 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. As part of the financial year-end process, management presented to the Committee an overview of the existing control framework and it summarised the key controls in operation which underpinned the control environment during FY2022. Management has documented certain key controls, including IT general controls, overarching controls for the Finance department, financial management controls, audit risk financial reporting controls, and fraud management.

Management had considered the control environment and concluded that in its view the controls had been operating effectively throughout the year and, taken together, provided a high degree of assurance that the financial statements are free from material misstatement.

Through the processes outlined above, the Audit Committee has considered all significant aspects of the Company's risk management and internal control systems for the year and up to the date of this Annual Report, allowing it to provide positive assurance to the Board to assist it in making the statements required by the UK Corporate Governance Code. No significant failings or weaknesses were identified as a result of the review that may significantly impact the financial statements. However, had there been any such failings or weaknesses, the Committee and the Board confirm that necessary actions would have been taken to remedy them.

Internal audit

During the 2022 financial year, the Company had an internal audit function consisting of an internal audit manager (who joined Softcat during the year) and Grant Thornton LLP ('Grant Thornton'). The aim of the internal audit function is to provide independent and objective assurance on the adequacy and effectiveness of internal controls, risk management and governance processes. The appointment and removal of the internal audit function is a matter reserved to the Committee.

Monitoring and review of the scope, extent and effectiveness of the activity of the Company's internal audit function is regularly considered by the Committee. Management and the internal audit manager discuss with Grant Thornton the selection of appropriate areas and controls within the business for internal audit. This is then presented by Grant Thornton as a proposed annual internal audit plan prior to the start of each financial year. The audit plan is then reviewed and approved by the Committee. The Committee then receives updates from Grant Thornton/the internal audit manager on the audits and receives an audit report on each audit undertaken, which includes the results of their audits, recommendations for changes and management action plans to address any unsatisfactory audits or recommendations. The Committee also receives from the internal audit manager regular progress updates on previously undertaken audits in order to ensure those actions have been completed or closed.

The internal audit plan for 2022 covered a broad range of core financial and operational processes and controls, focusing on specific risk areas. Reviews were undertaken in the following areas:

- assurance in relation to the 'go-live' decision on the new ERP finance system: this was important given the significant investment cost and that it is viewed as a key platform to support Softcat's growth ambitions;
- IT governance and access management: this was important for Softcat's IT general controls maturity and to protect sensitive data and information;
- security against the risk of fraud: this was particularly relevant given the potential external prevalence for fraud and increasing sophistication of fraud attempts; and
- purchase to pay procedures: this was important following the change in Softcat's ERP finance system and associated revised procedures.

During the year the internal audit manager supported the strengthening of the Company's internal control environment. In particular, a more formal process to identify and document key controls is underway. This will further improve our assessment and assurance on the effectiveness of controls.

Approach to developing the 2023 internal audit plan and scheduled reviews

During the year Grant Thornton worked closely with management and the Audit Committee Chair on an internal audit plan for 2023. The plan was formulated considering an 'audit universe' which had been developed in prior years, with consideration of the important risks facing Softcat and the wider economic and regulatory climate. The internal audit plan also takes into account the potential impact of the BEIS consultation and proposed reforms on improving trust in audit and corporate governance and the emerging themes on enhanced governance and controls.

During 2023 reviews are planned in the following areas:

- Internal controls over financial reporting: the consultation and reforms proposed by BEIS (see above) include a strengthening of controls over financial reporting and enhanced reporting requirements in this regard. Management will be making plans to comply with the required changes. In preparation for the expected reforms, a review will be conducted to assess the current maturity of financial reporting processes and controls and to identify any material gaps/priority actions to further develop controls over financial reporting.
- Cloud adaptation internally and use of managed services: cloud usage is growing rapidly in Softcat. The audit will review and give assurance on governance and usage, to drive further improvements on the overall control environment.
- Business continuity and disaster recovery planning: part of Softcat's operational effectiveness is to ensure it has robust plans to operate the business in the event of a major disruption. The review will focus on Softcat's business continuity management and IT disaster recovery arrangements, against good practice.
- Third party risk management: Softcat relies on a number of IT third parties to deliver services to its employees and customers. The review will consider the resilience of the Company against incidents or problems at a critical third party supplier.

Effectiveness of the internal audit process

Both Grant Thornton and the internal audit manager have had access to the relevant documentation, premises, functions and employees to enable it to perform its activities. Grant Thornton is a major professional services firm with experience in consulting, assurance and audit and the relationship with the Audit Committee is led by an experienced partner of Grant Thornton.

Following the conclusion of the 2022 financial year, the Committee undertook a review of the effectiveness of Grant Thornton's role as part of the internal audit function. The evaluation was led by the Committee Chair and involved issuing tailored evaluation questionnaires for completion by Softcat management, who had worked with Grant Thornton on internal audits during the year. A separate questionnaire was completed by EY (as external auditor), the Committee and Softcat's internal audit manager. The results of the questionnaires were collated, reported to, and discussed by the Committee. The overall feedback was positive, concluding that Grant Thornton's work continues to strengthen the control environment in the business. Minor recommendations arose from the evaluation, including the provision of additional expertise within Grant Thornton to support internal audit reviews in respect of IT general controls. Implementation of the recommendations will be further discussed with Grant Thornton. Following the evaluation, the Committee concluded that Grant Thornton continue to perform well and remain effective.

Robyn Perriss
Chair of the Audit Committee
24 October 2022

EFFECTIVENESS

"The Board succession changes which will take place in 2023 reflect the Committee's longer-term succession planning considerations. These changes provide a firm foundation for an effective composition of the Board over the next few years."

Karen Slatford
Chair of the Nomination Committee

Members

K Slatford (Chair)
M Hellowell
R Perriss
L Weedall
V Murria

Attendance of the Nomination Committee

Name	Committee attendance 2022
K Slatford[1]	●○●●●●●
M Hellowell	●●●●●●●
R Perriss	●●●●●●●
L Weedall[2]	○○○○●●●
V Murria	●●●●●●●
Total meetings held	●●●●●●●

● Attended ○ Did not attend ○ n/a

1. Karen missed one Committee meeting due to illness.
2. Lynne joined the Board in May 2022 and she attended each meeting of the Committee following appointment.

Allocation of time

Board composition, skillset and experience: 22%

Succession planning: 40%

Culture and diversity: 26%

Corporate governance: 12%

Committee Chair's introduction

I am pleased to present this year's report from the Nomination Committee (the 'Committee'). This has been a busy and important year for the Committee, as I note the appointment of Lynne Weedall as a Non-Executive Director and also our significant announcement in July in respect of Board succession changes for the Chair, CEO and CFO. The Board succession changes which will take place in 2023 reflect the Committee's longer-term succession planning considerations, which were briefly mentioned in last year's report. These changes provide a firm foundation for effective composition of the Board over the next few years. More details are provided below, but I would like to register my thanks to the other Committee members for their additional time, commitment, support and contribution during the year.

In addition to considering the changes to the Board, the Committee also continued its other work. We have firmly established in the Committee's annual calendar a formal update and discussion on employee culture, which is in addition to the Committee's annual review of employee engagement. Diversity and inclusion also continue to receive a high level of attention by the Committee and I remain encouraged by the efforts and dedication across the business to continue making Softcat a more diverse and inclusive employer. As a Company, we acknowledge that further improvements are needed on gender and ethnic diversity in some roles and in management positions, and some progress is being made in this regard. As explained previously, this is a longer-term endeavour. More details on the above are in the report which follows and in the Sustainability section of this Annual Report.

Below Board level, during the year the Committee reviewed and discussed with the Executive Directors the succession plans for the Senior Leadership Team (the most senior level of management below the Board).

If any shareholders or proxy voting advisory agencies would like to raise any matters with me in respect of the Committee, I can be contacted via the Company Secretary at cosec@softcat.com.

Membership, meetings and operation of the Committee

The members of the Committee are set out above and all the members are Non-Executive Directors. The Committee is chaired by an independent Director. The biographies of the members of the Committee can be found on pages 68 and 69. The Chief Executive Officer, Chief Financial Officer, Chief People Officer and Head of Engagement, Diversity and Inclusion are invited to attend meetings where appropriate. The Committee met seven times during the year and meetings generally take place on the same day as the Board meeting to maximise the efficiency of interaction with the Board. If needed, the Committee Chair will report to the Board, as a separate agenda item, on the actions taken by the Committee. The Company Secretary acts as Secretary to the Committee.

The key responsibilities of the Committee are to advise on appointments to the Board, to review Board composition and to review succession planning both for the Board and senior management. The Committee also reviews and provides feedback on the initiatives to improve diversity and inclusion. Carrying out these responsibilities is critical to ensure the Board and wider business have plans in place to have the best available talent to drive the Company forward.

Any Director who intends to join the Board is required to disclose all significant outside commitments prior to appointment. On joining the Board, Non-Executive Directors receive a formal appointment letter, which, amongst other things, identifies the time commitment expected of them. Each Director continues to devote sufficient time to meet their Board responsibilities.

The Committee considered and recommended that each Director willing to stand for re-election be proposed for reappointment at the 2021 AGM. The Board endorsed all the appointment and reappointment recommendations of the Committee.

Key activities during the year

The calendar of activities below provides an overview of the key topics for the Committee during the year.

October 2021
- Update on Board composition
- Recommendation to reappoint Directors at the 2021 AGM
- Approval of the 2021 Nomination Committee Report

December 2021
- Review of the results of the annual employee satisfaction survey and planned actions
- Discussion on employee culture
- Discussion on diversity and inclusion
- Discussion on Board composition/Board succession planning

February 2022
- Discussion on Board composition/Board succession planning
- Discussion on appointment of a further Non-Executive Director

March 2022
- Discussion on Board composition/Board succession planning
- Non-Executive Director update, discussion and candidate proposal

May 2022
- Discussion on diversity and inclusion
- Discussion on Board composition/Board succession planning
- Update and discussion following Company Chair's individual reviews with Board members

July 2022 (two meetings)
- Recommended proposals for Board composition/ succession planning
- Discussion of a transition plan for the new CEO in 2023
- Update on recruitment for a new CFO
- Review and discussion of succession plans below Board level

Regular or standing items at each Committee meeting include:
- Approval of previous Committee meeting minutes and review of follow-up on outstanding actions
- Governance updates for Committee discussion or approval
- Review of and updates to the Committee's terms of reference

Board appointments

I am pleased with the progress made this year on the Board's composition and on its succession plans.

As mentioned in last year's report from the Committee, the Board had discussed the potential benefits of adding a further Non-Executive Director, if that person would add further significant value to the Board's effectiveness, skillset and expertise and be a good cultural fit. The Committee, on behalf of the Board, deliberated on this further and concluded that the Board would benefit from the additional role and a search commenced to select and appoint a further Non-Executive Director. The Committee considered the current composition, workload, expertise and skills of the Board, the Board's strategic priorities and the attributes best required to complement the Board. The Committee arranged for a detailed role description to be prepared and worked with an external executive search firm, Russell Reynolds Associates ('RRA') to identify suitable candidates. RRA also conducted the external evaluation of the Board's effectiveness this year (see pages 74 to 75) but apart from that RRA has no other business relationship with the Company. As the Committee remains committed to the Board having a diverse mix, we will usually only engage with search firms which have signed up to the relevant Voluntary Code of Conduct for Executive Search Firms on diversity and best practice. RRA subscribes to both the Standard and the Enhanced Voluntary Code of Conduct for Executive Search Firms. By using such firms the Committee can maximise the ability to consider a diverse range of suitable candidates.

RRA researched and identified potential candidates for the role and following initial interviews a shortlist was presented and discussed with the Committee. Further interviews were held with final candidates. At the conclusion of the process, it was agreed that Lynne Weedall was our preferred candidate because of her insights from her executive career and significant experience gained on the boards of other listed companies. Lynne was appointed to the Board as a Non-Executive Director with effect from 3 May 2022. I am delighted that she stepped in to become Chair of the Remuneration Committee.

As part of the appointment process, the Committee reviewed the positions of both Lynne Weedall and Robyn Perriss, who are both independent Non-Executive Directors of Dr. Martens plc. The Committee noted that neither Lynne nor Robyn are involved in executive duties at Dr. Martens and each have a similar obligation to be independent for Dr. Martens as they do for Softcat. Consequently, the Committee did not consider that their positions as independent Non-executive Directors of Softcat are adversely impacted by their roles on the board of Dr. Martens.

Lynne was provided with an extensive, full and tailored induction programme, prepared by the Company Secretary and overseen by the Company Chair. This included meeting members of the Senior Leadership Team, other senior managers in the business and PwC, the Remuneration Committee's external adviser. There was also a comprehensive handover from me (as the outgoing Remuneration Committee Chair) and a briefing from the Company Secretary so that Lynne could quickly assume the responsibilities of the Chair of the Remuneration Committee.

The Board, particularly after taking into account the appointment of Lynne Weedall, now has a stronger and more diverse range of skills, experience, mix of tenure, personalities and backgrounds. I believe that the composition works well and provides the right mix of challenge and support to the business.

Succession planning

As mentioned in last year's report, succession planning is very important to the Committee and for some time particular attention has been given to longer-term succession planning for the Chair, CEO and CFO.

In our regular succession planning reviews, Graham Charlton has been considered a very strong CEO candidate and during the year he confirmed his interest in the role to the Committee. During his seven years as CFO, Graham has developed a deep understanding of the business and in what makes Softcat successful, not least our culture, which he has championed since joining. As part the Committee's consideration of Graham, RRA prepared a detailed leadership development report which assessed whether he had the right attributes for the role of CEO. The report recommended Graham for the role. The Committee has also discussed with Graham his transition plan for moving to the role of CEO and particular areas of focus on which he will continue to build on when he assumes the role. The Committee recommended Graham's appointment to the Board as it believes Graham is the right person to lead the business successfully and through the next stage of its growth.

Martin Hellawell led Softcat in an executive capacity between 2006 and April 2018, when he stepped down as CEO to become the Non-Executive Chair. The Nomination Committee has regularly discussed longer-term succession planning for this role, given that under the rules of the UK Corporate Governance Code his nine-year term comes to an end in 2024. Graeme Watt, our current CEO, had made the Board aware recently that he was contemplating retirement as a full-time Executive and he had expressed an interest in being considered as Martin's successor. The Nomination Committee considered this, along with potential alternative options, and was unanimous that Graeme's deep knowledge of the business, Softcat's culture and its markets made him the ideal candidate to support the interests of all our stakeholders. The Nomination Committee therefore recommended to the Board that Graeme succeed Martin as Non-Executive Chair. The Board endorsed the recommendation, acknowledging that the appointment of the CEO into the role of the Chair is not in line with the recommendations of the UK Corporate Governance Code. More information about the Board's compliance with the UK Corporate Governance Code can be found on page 66.

A search for a CFO to succeed Graham Charlton is underway which considers external as well as internal candidates.

Following Lynne Weedall's appointment and the changes which will occur in 2023, the Board will have improved its overall succession planning and created a more robust and diverse mix of tenure on the Board. The Committee keeps an ongoing watch in respect of the tenures of the Non-Executive Directors and is keeping in mind that in 2024 we will reach the nine-year tenure in respect of Vin Murria. The Committee will continue to review the likely retirement dates and required skills on the Board as part of its longer-term succession planning and Board composition refreshment.

The Committee works with the Chief People Officer and the CEO and reviews annually the plans which are in place for orderly succession planning of our Senior Leadership Team ('SLT'). During the year there were a number of changes on the SLT and these were discussed either with the Committee or with the Board. We have a strong talent pipeline and our review also considers opportunities to develop a more diverse pipeline in leadership roles.

Board member review process

Martin Hellawell as Company Chair is responsible for conducting an annual review of the CEO and each Non-Executive Board member. The CEO performs a similar process with the CFO. The reviews gather additional feedback to support the good running of the Board. The Board also conducted an externally facilitated Board effectiveness review which resulted in a positive assessment of the Board's performance but equally some valuable pointers on how to make further improvements. More information on this year's effectiveness review can be found in the Governance Report on pages 74 to 75.

In my capacity as the Senior Independent Director, I led a meeting of the Non-Executive Directors, without the Company Chair present, to discuss the Company Chair's performance. The Non-Executive Directors confirmed that they continued to be happy with Martin's performance and remain fully supportive.

As a result of the above and following further consideration by the Committee, we have recommended to the Board that each Director be proposed for reappointment at the AGM to be held in December 2022.

Diversity and inclusion

The Board and the Committee devote significant time to the issue of diversity and inclusion in the Company and management realises the importance and benefits of creating a more diverse workforce at all levels in the Company. This continues to be a long-term endeavour and we recognise it as such.

The Committee is supportive of and recognises the importance of diversity and inclusion both for the effective functioning of the Board and more widely in the Company. The Board has a diverse range of experience by way of expertise and background. It recognises the benefits that different viewpoints can contribute to better decision making and the recent appointment of Lynne Weedall and the future appointment of a new CFO will make this stronger.

In February 2022, the annual report from the FTSE Women Leaders (which succeeded the Hampton-Alexander Review) was published. The annual report provides new recommended aspirational targets for gender diversity in FTSE 350 companies by the end of 2025:

FTSE Women Leaders: targets for FTSE 350 companies by the end of 2025	Current Softcat position
Boards of FTSE 350 companies to comprise at least 40% women.	Achieved. The Board of Softcat currently comprises 57% women.
FTSE 350 companies to have at least one woman in the chair or senior independent director role on the board, and/or one woman in the chief executive or finance director role in the company.	Achieved. The role of Senior Independent Director is currently held by a woman.
Leadership teams (as defined) of FTSE 350 companies to comprise at least 40% women.	Softcat is included in the annual report of FTSE Women Leaders published in February 2022, at which time Softcat reported women comprising 29.3% of leadership roles (as defined). We will continue our efforts to improve diversity in leadership roles.

I am pleased that Softcat already meets two of the above three new targets and the Committee notes the new target on leadership teams for FTSE 350 companies to achieve for 2025. As already noted, we recognise that more progress is needed in respect of the diversity of our leadership team and this has been discussed with the Committee. The Board currently meets the recommendation set by the Parker Review that boards should have at least one person of colour. Whilst the Board has reached some of the above targets, it is not the policy of the Committee to set a quota in terms of the gender or ethnic diversity mix on the Board or its Committees. Our policy, which we have implemented, is:

- the primary criterion for an appointment is that it is made on merit;
- the appointment achieves the best fit with the Board and its Committees; and
- to keep in mind the benefits of the Board and its Committees having a diverse range of skills, experience and professional backgrounds.

Diversity disclosures pursuant to Listing Rule 9.8.6R

In April 2022, the UK Financial Conduct Authority ('FCA') published its final rules to increase the disclosure of diversity on listed company boards and executive committees. This requires listed companies to disclose in a prescribed format information on the diversity of their board and executive committee. The Listing Rules (to which Softcat is subject) have been amended to require disclosure of the prescribed information and the new requirement applies to financial years beginning on or after 1 April 2022. The FCA has, however, asked listed companies to report earlier on a voluntarily basis. The below information has been disclosed on a voluntary basis.

The Listing Rules require listed companies to state whether they have met the certain targets on board diversity. The information in the table below is at 31 July 2022, which is the date selected as the reference date within the Company's accounting period. The targets set out in the Listing Rules are that:

- at least 40% of the individuals on its board of directors are women;
- at least one of the following senior positions on its board of directors is held by a woman:
  - the chair; or
  - the CEO; or
  - the CFO; or
  - the SID; and
- at least one individual on its board of directors is from a minority ethnic background.

As at the reference date, the Board of Softcat met all of the above targets.

Gender diversity reporting

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID, Chair)	Number in Executive management	Percentage of Executive management
Men	3	43%	3	8	80%
Women	4	57%	1	2	20%
Not specified/prefer not to say	–	–	–	–	–

Ethnic background diversity reporting

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID, Chair)	Number in Executive management	Percentage of Executive management
White British or other White (including minority White groups)	6	86%	4	9	90%
Mixed/multiple ethnic groups	–	–	–	–	–
Asian/Asian British	1	14%	–	–	–
Black/African/Caribbean/Black British	–	–	–	1	10%
Other ethnic group, including Arab	–	–	–	–	–

Note:

'Executive management' is defined above using the prescribed definition in the Listing Rules. This is defined as the most senior executive or managerial body below the Board, including the Company Secretary. At Softcat, this is the Senior Leadership Team ('SLT'), which has day-to-day responsibility for the operation of the business, and the Company Secretary. The SLT includes both Executive Directors.

Between 31 July and 24 October 2022, being the date at which this report is approved, there have been no changes in the composition of the Board. Each member of the Board or Executive management (as defined) has previously confirmed to the Human Resources team their gender and ethnic background and the above data has been collated from those records.

Inclusion

The Committee has also received briefings on the initiatives to improve inclusion in the business and the Company employs a dedicated manager to co-ordinate our diversity and inclusion efforts. The briefings received by the Committee included not only diversity regarding gender, but also on ethnicity, sexual orientation, disability, social mobility and updates on various inclusion activities such as supporting family wellbeing outside of work. More information about diversity and inclusion in the business can be found in the report on Social Value in this Annual Report on pages 38 to 42.

Assessment of the independence of the Non-Executive Directors

The Committee and the Board are satisfied that the external commitments of the Company Chair and the other Non-Executive Directors do not conflict with their duties and commitments as Directors of the Company. Our Directors must:

- report to the Board any material changes to their commitments;
- notify the Company Secretary 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. Each year the Committee reviews the independence of the Non-Executive Directors. All Non-Executive Directors, excluding the Company Chair, are currently considered independent.

Documents available for inspection

Non-Executive Directors are appointed for an initial three-year term, extendable by a further two additional three-year terms. The letters of appointment for Non-Executive Directors and the service contracts of the Executive Directors are available to shareholders for inspection at the Company's registered office during normal business hours. Letters of appointment and service contracts will be available for inspection at the 2022 AGM.

The formal responsibilities of the Committee are set out in terms of reference. During the year the Committee reviewed an update to the terms of reference, which was subsequently approved by the Board. The Committee's terms of reference are available at www.softcat.com/about-us/investor-centre/governance.

Karen Slatford
Chair of the Nomination Committee
24 October 2022

CORPORATE RESPONSIBILITY

"

In March 2022, the Board delegated authority to the Committee for the monitoring and oversight of sustainability matters at Softcat. This is a vital function, requiring specific dedication of time and effort at a Board level, and is a further demonstration of the Board's commitment to sustainability."

Vin Murria
Chair of the Sustainability Committee

Members

V Murria (Chair)	K Slatford
M Hellowell	R Perriss
G Watt	L Weedall
G Charlton	

Attendance of the Sustainability Committee

Name	Committee attendance 2022
V Murria	●
M Hellowell	●
G Watt	●
G Charlton	●
K Slatford[1]	O
R Perriss	●
L Weedall[2]	○
Total meetings held	●

● Attended O Did not attend ○ n/a

1. Karen was unable to attend due to illness.
2. Lynne joined the Board in May 2022, after the Committee meeting had taken place.

Allocation of time

Setting climate-related strategy: 22%

Reviewing climate-related disclosures: 17%

Climate-related governance, compliance and regulation: 44%

Monitoring climate-related performance against strategy: 17%

Introduction

As Chair of the Sustainability Committee (the 'Committee'), I am pleased to present the Committee's inaugural report, for the year ended 31 July 2022. In March 2022, the Board delegated authority to the Committee for the monitoring and oversight of sustainability matters at Softcat. This is a vital function, requiring specific dedication of time and effort at a Board level, and is a further demonstration of the Board's commitment to sustainability. This report outlines the key responsibilities of the Committee delegated to it by the Board, the work it has done over the 2022 financial year and the focus of the Committee going forward.

Membership, Committee Chair and operation of the Committee

The Committee is made up of all of the Directors at Softcat. During the year, our sustainability governance structure was developed to better support the business and to clarify responsibilities. Graham Charlton, the CFO, was originally appointed as Chair of the Committee. However, following further review, the Committee recommended in order to increase Board level oversight that a Non-Executive Director should assume the responsibility. The Board approved the Committee's recommendation. As Designated Non-Executive Director for Workforce Engagement, it is already my role to monitor, communicate with and engage with one of our key stakeholder groups, our employees. Our employees have an important part to play in the sustainability strategy of Softcat, so the Committee believed I should be appointed Chair as part of my wider oversight of ESG matters. I am delighted to accept this role and I would like to thank Graham for his part in establishing the Committee and its main areas of focus.

Graham retains the Executive lead at Softcat for sustainability. We have a dedicated internal resource for sustainability at Softcat, including our Sustainability Lead. The Business Development Director, who is a member of the Senior Leadership Team, also has sustainability in his brief. Both the Sustainability Lead and the Business Development Director attend the meetings of the Committee.

The Committee met once during the financial year, with its inaugural meeting in March 2022. However, two meetings each year (March and September) are held. Meeting frequency will be reviewed to ensure sufficient oversight is maintained by the Committee. Meetings are scheduled to generally take place on the same day as the Board meeting to maximise the efficiency of interaction with the Board. If needed, the Committee Chair will report to the Board, as a separate agenda item, on the actions taken by the Committee. The Company Secretary acts as Secretary to the Committee, supported by the Company Secretarial Assistant.

The Committee's key responsibilities

The key responsibilities of the Committee are:

- setting the sustainability strategy of Softcat;
- oversight and monitoring of the performance of the Company against its sustainability-related goals and targets;
- monitoring the effectiveness of management's processes for identifying and assessing climate-related risks and opportunities;
- reviewing our formal public disclosures relating to sustainability; and
- oversight of other areas of corporate social responsibility, as requested by the Board.

For more on the Committee's responsibilities, the Committee's terms of reference are available on our website, at: www.softcat.com/about-us/investor-centre/governance.

For further details on Softcat's approach to sustainability, please see pages 43 to 58 of this report and our website at www.softcat.com/about-us/sustainability.

If any shareholders would like to raise any matters with me in respect of the work of the Committee, I can be contacted via the Company Secretary at cosec@softcat.com. I will also be happy to answer any questions about the work of the Committee at the forthcoming AGM.

Vin Murria
Chair of the Sustainability Committee
24 October 2022

Corporate governance

Areas of focus in 2022 included:

The Committee decided that Softcat's response to climate change, and our strategy for reducing our emissions, should remain its primary focus. This is reflected in the following areas covered during 2022:

- establishing the primary areas of focus of the Committee through a forward agenda and formal terms of reference;
- monitoring the Company's progress against its climate-related targets and goals, and the appropriateness of these;
- overseeing management's progression on the Task Force on Climate-related Financial Disclosures ('TCFD') compliance and development of internal processes. This included the creation of new climate-related risk and opportunities registers, informed through a climate scenario risk assessment, and consideration of the steps needed to integrate climate-related risks into Softcat's day-to-day risk management framework;
- review of sustainability-related disclosures, including the regulatory emissions disclosures;
- considering management's plan to take advantage of climate-related opportunities and integrate these into Softcat's strategy, such as through Softcat's Enexo platform (see page 55 for more details); and
- horizon scanning for future compliance regulations, obligations and best practice trends.

Areas of focus in 2023:

We expect that the focus of the Committee will remain on climate change related matters in 2023. However, this will be kept under review and will be amended, where necessary, to include other areas of corporate responsibility to ensure the Committee retains adequate oversight of matters which are important to Softcat and its stakeholders. I anticipate in 2023 the Committee will focus on:

- progress against our key sustainability targets;
- further integration of Softcat's sustainability strategy into its overall strategy;
- oversight of the next stages for the development of our Enexo platform;
- the progression of outputs from an ESG materiality assessment performed in 2022;
- monitoring preparedness for full compliance with TCFD; and
- reviewing Softcat's level of readiness and approach for forthcoming disclosure standards, such as the International Sustainability Standards Board's disclosure standards.

LETTER FROM THE CHAIR OF THE REMUNERATION COMMITTEE

> The Committee concluded that the existing Remuneration Policy was broadly fit for purpose, operated well with sufficient flexibility for future growth and was aligned to Softcat's strategy... the changes proposed to the Policy are relatively minor..."
>
> **Lynne Weedall**
> Chair of the Remuneration Committee

Members

L Weedall (Chair)
K Slatford
R Perriss
V Murria

Attendance of the Remuneration Committee

Name	Committee attendance 2022
L Weedall[1]	○●●●
K Slatford	●●●●
V Murria	●●●●
R Perriss	●●●●
Total meetings held	●●●●

● Attended ○ Did not attend ○ n/a

1. Lynne joined the Board in May 2022 and attended all Committee meetings during the financial year after her appointment.

Allocation of time

Workforce remuneration and conditions: 33%

Executive remuneration: 21%

Remuneration market practice and developments: 21%

Corporate governance: 25%

Dear shareholder

I am very pleased to present this report as Chair of Softcat's Remuneration Committee (the 'Committee'). This is my first report on remuneration since I joined the Board of Softcat in May 2022. I would like to thank Karen Slatford, who stepped down as Committee Chair, for chairing the Committee so effectively and for her help whilst I transitioned into this role. I would like to thank the other Committee members for their support and contributions this year.

Business performance

The Company continued to perform well during the year. There was double-digit growth in gross profit and operating profit. Operational performance was also excellent and we have continued to invest for future growth. You will see our performance and progress explained in more detail in the Strategic Report but I would like to pick out some key achievements, which are a continuing credit to the business and its leadership:

- Revenue growth: 37%
- Gross profit growth: 18%
- Operating profit growth: 14%
- Employee engagement: 90%
- Customer satisfaction: 94%

In addition to strong financial performance, good employee engagement and customer satisfaction are vital to Softcat. This is closely aligned to our strategy to acquire more customers and to sell more to existing customers. It also encapsulates our corporate purpose: "to help customers use technology to succeed, by putting our employees first". We can preserve our competitive edge by having happy employees and satisfied customers and this is reflected in our approach to remuneration for the Executive Directors. Further details on our key performance indicators ('KPIs') and the importance of each KPI can be found on pages 30 and 31.

Proposed Remuneration Policy (the 'Policy')

A revised proposed Policy will be put to shareholders for binding approval at the Annual General Meeting ('AGM') to be held in December 2022. Our current Policy was approved by shareholders at the 2019 AGM with a vote of 98.6%, which is a high level of support. Our current Policy had already incorporated the recommendations and good points of practice set out in the 2018 UK Corporate Governance Code (the 'Code'). The Committee wishes to ensure that any changes do not move the Policy significantly away from one which has gained such widespread support from shareholders. During the year, the Committee reviewed the current Policy and considered in advance the approach it would adopt. The key components were:

- a further review of how well the Policy was aligned to the UK Corporate Governance Code and any recent changes in good remuneration practice;
- the ongoing growth of the Company, particularly as Softcat matures from when it listed on the London Stock Exchange in 2015;
- how well the Policy aligns with Company strategy;
- whether the Policy continues to effectively attract, retain and motivate executive talent; and
- the high level of shareholder support for the current Policy.

The above parameters allowed the Committee to ensure that any changes were considered holistically and a comprehensive review was undertaken. Following review, the Committee concluded that the existing Policy was broadly fit for purpose, operated well with sufficient flexibility for future growth and was aligned to Softcat's strategy. The Committee also concluded that the Policy was generally aligned well to the UK Corporate Governance Code and to the expectations of most investors. That being the case, the changes proposed to the Policy are relatively minor and designed to further increase the alignment of the Policy to the UK Corporate Governance Code and to reflect current market practice. Key changes proposed are:

- we will increase the post-cessation shareholding requirement to 100% of the in-role requirement for two years post-cessation. The current Policy provides for a post-cessation holding requirement of 100% in year one and then 50% in year two;
- we will make minor amendments to the Policy (and any associated Plan Rules in respect of the LTIP and the annual bonus plan) to extend the malus and clawback event triggers to fully align it to recent guidance issued by the UK Financial Reporting Council ('FRC'). Malus and clawback triggers will be extended to include events relating to corporate failure;
- in respect of awards under our Long Term Incentive Plan ('LTIP'), minor amendments will be made to further clarify the minimum weighting of financial metrics and applicable measures; and
- the Company has recently introduced a salary sacrifice programme for employees (which would result in a benefit in kind arising) which allows the leasing of electric vehicles for employees' personal and business use, commuting, etc. Given this aligns well with our objectives to reduce environmental impact, the Committee plans to make this programme available for all Directors, including Non-Executive Directors. The Policy will be amended accordingly.

The Committee believes that the proposed minor amendments to the Policy ensures that our remuneration arrangements remain fit for purpose and maintains strong alignment of shareholders and our management team as they strive to continue driving the business forward. We have consulted with our largest shareholders and with certain proxy advisory agencies and obtained significant shareholder support in respect of our proposed Remuneration Policy. I trust that we will have your support on the shareholder resolution at our 2022 AGM.

Remuneration outcomes during the year

Our Board succession plans for 2023 are covered elsewhere in this Annual Report. From a remuneration perspective, both our current and proposed Remuneration Policies provide an effective framework for the Board changes and for orderly succession plans generally.

During the year, the Board/relevant Board Committee regularly reviewed Softcat's financial and operational performance. We confirmed in trading updates during the year that:

- the Company performed well during the year and has once again delivered double-digit year-on-year growth in gross invoiced income, gross profit and operating profit. Profit growth was ahead of expectations;
- investment in our growth strategy has continued, including strong increases in headcount; and
- employees had responded well following the removal of certain COVID-19 restrictions. The Company had reverted to a hybrid working policy and our employees were enjoying being back together in the office. Following an employee engagement survey, our employee net promoter score remained at the consistently high levels. Softcat was ranked third for wellbeing by the Great Place to Work Institute.

Main activities during FY2022

October 2021

- Review of Remuneration Policy
- Review and approval of the 2021 Remuneration Report
- Update on gender pay gap and ethnic pay gap performance and reporting
- Consideration and approval of grants of LTIPs to Executive Directors for FY2022 and other share-based awards to senior managers below Board level
- Review and determination of vesting outcomes for LTIPs granted in 2018
- Review of impact of share-based awards on shareholder dilution
- Review and approval of the annual bonuses awarded to Executive Directors and Senior Leadership Team ('SLT') members for FY2021
- Consideration of the annual bonus arrangements for the Executive Directors and SLT members for FY2022
- Review of achievement against share ownership targets for the Executive Directors

May 2022

- Review and discussion on remuneration benchmarking for the SLT
- Review of fees for Non-Executive Directors and the Chair and associated market practice
- Update on workforce pay and conditions and discussion of Company-wide pay review
- Interim update report on performance of annual bonus plan and outstanding LTIPs
- Discussion of executive remuneration and approval of changes for FY2022
- Review of Remuneration Policy to be proposed at the AGM in 2022

July 2022 (two meetings)

- Review of remuneration aspects of proposed changes on the Board (retirement and appointment of the CEO and of the Chair)
- Assessment against customer satisfaction and employee engagement actions which form part of the FY2022 annual bonus plan for the CEO and CFO
- Update on workforce remuneration, including salary reviews and bonuses below Board level
- Consideration of proposed approach and timing in respect of annual bonus and LTIP awards for FY2022
- Update on Remuneration Policy to be proposed at the AGM in 2022
- Review of remuneration trends and remuneration-related corporate governance developments for listed companies
- Discussion on all-employee share schemes

Regular or standing items at each Committee meeting include:

- Approval of previous Committee meeting minutes and review of follow-up on outstanding actions
- Governance updates for Committee discussion or approval
- Review of and updates to the Committee's terms of reference
- Review of the outcomes of shareholder voting on the Remuneration Report

The Company Secretary also prepares a twelve-month rolling plan for the Committee so that matters can be planned and considered over the longer term.

Remuneration outcomes during the year continued

The Board/relevant Board Committee also regularly reviewed key areas of employee/customer engagement, including:

- the outcomes of our annual customer experience survey and our employee engagement survey, together with actions to further maintain engagement;
- a quarterly survey from managers in respect of each member of the SLT and the key operational functions in the business; and
- workforce engagement sessions.

The strong financial performance and maintenance of excellent relations with employees and customers are reflected in a strong achievement of many of the Company's KPIs (outlined on pages 30 and 31) and resulted in the following for the annual bonus plan for FY2022:

- financial metrics (operating profit) account for 80% of the annual bonus for FY2022. Operating profit achieved exceeded the maximum target set by the Committee, leading to 100% of the maximum annual bonus being earned by the Executive Directors; and
- non-financial metrics account for 20% of the annual bonus for FY2022 and the focus for FY2022 was on customer and employee satisfaction. The Committee assessed actions taken by management during the year and on the consistently high overall satisfaction/engagement scores. Following review, the Committee concluded that 80% of the maximum annual bonus had been achieved by the Executive Directors.

Good performance has been sustained and during the financial year the LTIP awards granted in November 2018 to Graham Charlton and to Graeme Watt vested. The Committee assessed the vesting outcomes for the LTIPs and concluded that maximum metrics of total shareholder return ('TSR') and earnings per share ('EPS') had been attained. The LTIP awards therefore vested in full.

During the year the Committee concluded that all long-term incentive and annual bonus outcomes were appropriate and no discretion was exercised to amend any remuneration outcomes for the Executive Directors. This conclusion was reached after taking into account relevant matters, such as the performance of the business and the alignment between the Executive Directors and the wider workforce in respect of annual variable pay for the year. In particular the Committee carefully reviewed the outcomes in light of share price performance in the year, noting the fall from an historic high point earlier in the financial year. It is the Committee's view that this reduction in share price is primarily due to the changing valuation of technology stocks in the market and not due to any management action. The Committee firmly believes that the financial and operational performance delivered in the year, as well as the overall investor experience over a number of years, represent exceptional management performance and therefore that the proposed incentive outcomes are appropriate.

In respect of LTIPs, the Committee approved a grant in respect of FY2023 to the Executive Directors (see page 107). The Committee considered the fall in the Company's share price as noted above and for the same reasons concluded that it would not be appropriate to reduce the usual award of 150% of salary, but it will review at vest whether there have been any windfall gains. The LTIPs granted in 2019 are due to vest in late 2022. Based on current performance, I would expect the LTIPs, when they vest, to exceed the threshold performance conditions (EPS and TSR), which were set and announced at the time of grant. In respect of all LTIPs, the Committee will as usual determine the extent to which the performance conditions have been met, along with any other relevant matter, before formally concluding on the vesting outcome.

Changes in executive remuneration for FY2023

As can be seen from the activities during 2022, the Committee reviewed executive remuneration and agreed the implementation of the changes below, all of which are within our existing and proposed Remuneration Policies. Further details are provided in the Annual Report on Remuneration.

Each year management consider whether to award rises in basic pay across the workforce, in order to maintain the competitiveness of our rewards. We reviewed market practice and discussed with management about the pay and conditions across the Company. The Committee agreed a rise of 5% for each of the CEO and CFO, which was in line with the standard pay rises but lower than rises for many employees in Sales and other roles.

In July 2022, Softcat announced changes to the Board which will take place in August 2023. This included the retirement of Graeme Watt as CEO, at which time he will succeed Martin Hellawell as Non-Executive Chair. The Remuneration Committee confirmed that Graeme will be treated as a good leaver and further details on the specific treatment of his remuneration in respect of his forthcoming retirement as CEO are contained on page 108 of the Annual Report on Remuneration. In addition we announced that Graham Charlton will be promoted to CEO, effective 1 August 2023. The Remuneration Committee will determine Graham's salary on appointment at that time.

Wider workforce context

Having a dedicated and passionate team and providing excellent customer service is core to what we do at Softcat and this helps to drive our exceptional performance. We believe it is right to recognise and reward our employees through fair remuneration.

We also believe it is important to understand the views of employees over a wide range of issues, including remuneration. We continued to receive regular updates on remuneration across the workforce to ensure the Committee's deliberations were well informed. This included actions taken by management to ensure our rewards remained competitive and additional considerations by management on the challenges facing many people on the cost of living crisis. The Committee was pleased to hear of the steps taken by management to address both points. Please see page 35 for a case study on how management approached pay reviews for employees this year.

We have taken the opportunity to engage directly with employees over a number of matters, including on our approach to executive remuneration. Please see page 111 for more details.

What we have done during the year

The calendar activities (see page 100) summarise the areas of focus and actions for the Committee during the 2022 financial year, all of which were within the framework of the current Remuneration Policy.

In conclusion

The Committee has been focused on ensuring that our remuneration arrangements remain fit for purpose for the future and aimed at ensuring alignment of both shareholders and our management team as they strive to continue driving the business forward. We have consulted with our largest shareholders and with certain proxy advisory agencies and obtained significant shareholder support in respect of the key elements of our proposed Remuneration Policy.

The Annual Report on Remuneration (pages 105 to 112) together with this letter will be subject to an advisory shareholder vote at the forthcoming AGM on 13 December 2022. The revised Remuneration Policy (pages 113 to 127) will be subject to a binding vote at the AGM. I trust that we will have your support on the resolutions at our AGM. If shareholders do wish to discuss any issues about executive remuneration, I can be contacted via the Company Secretary at cosec@softcat.com.

Lynne Weedall
Chair of the Remuneration Committee
24 October 2022

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 and the provisions of the current Corporate Governance Code and the Listing Rules. The report consists of three sections:

- the Annual Statement by the Remuneration Committee Chair;
- the Annual Report on Remuneration, incorporating:
  - an 'at a glance' section summarising our Remuneration Policy;
  - details of payments made to the Directors and details of the link between Company performance and remuneration for the 2022 financial year; and
- the Directors' Remuneration Policy.

The Chair's Annual Statement and the Annual Report on Remuneration will be subject to an advisory shareholder vote at the AGM to be held on 13 December 2022 ('AGM'). The Directors' Remuneration Policy will be subject to a binding shareholder vote at the AGM. If approved, the Policy will formally supersede the previous Policy with immediate effect.

PART A – AT A GLANCE

Introduction

In this section, we set out a summary of our performance and remuneration outcomes for the 2022 financial year and a summary of how we intend to implement our proposed Remuneration Policy for the 2023 financial year. As stated in the letter from the Chair of the Remuneration Committee, we are proposing to make minimal changes to our current Remuneration Policy. Our proposed Remuneration Policy is included in full in Part C (pages 113 to 127).

How we performed during the 2022 financial year ('FY2022') (audited)

In respect of FY2022, the bonus awards payable to Executive Directors were agreed by the Committee having carefully reviewed:

- Financial performance (80% weighting): the Committee considered the Company's year-end results and any relevant associated factors in respect of underlying performance.
- Non-financial performance (20% weighting): the Committee considered progress against key actions in respect of employee engagement and customer satisfaction and noted the ongoing strong overall engagement/satisfaction scores.

The performance measures and targets under the Annual and Deferred Bonus Plan for FY2022 and the extent to which they were satisfied are set out below:

Performance condition	Weighting	Threshold	Target	Maximum	Actual	Actual as a % of maximum opportunity	Annual bonus payout Graeme Watt	Annual bonus payout Graham Charlton
Operating profit	80%	£108.1m	£120.1m	£132.1m	£136.1m	100%	£630,175	£420,117
Employee engagement and customer satisfaction	20%		See below			80%	£126,035	£84,023
Overall outcome						96%	£756,210	£504,140

Employee engagement and customer satisfaction

Priorities	Achievements and outcome
Employee engagement Maintain focus on employee engagement	• Management sought regular employee feedback with 1x annual engagement survey, 4x quarterly management surveys and 2x employee pulse surveys conducted during FY2022. The results of each survey were discussed with the Board/the Nomination Committee, together with management's plans which addressed all areas of concern. • A 13-point action plan was created and followed up from the annual survey results. • Overall employee engagement achieved remained high at 90%. • Our employee net promoter score achieved is +52 which is excellent and above market norms. • Excellent external rankings for workplace environment: 8th place in the Great Place to Work/Best Workplaces – Super Large category; 4th place in the UK's Best Workplaces for Women 2022 – Super Large category; Glassdoor Excellence in Employee Wellbeing Award; CRN's Best Company to Work for – £101m+ category.
Improve feedback relating to flexible working and pay	• Management focused on the approach to hybrid working, particularly on employees maintaining strong connections with their colleagues and preserving our unique culture, which is a vital differentiator for our success. Target of 80% satisfaction rate was overachieved with a result of 85%. • Following a detailed review of pay in the workforce, pay rises considerably higher than in previous years were announced by the CEO and CFO for many roles. This received favourable feedback from employees. Employee attrition levels are being monitored and have reduced.

Priorities	Achievements and outcome
Customer satisfaction	
Continued attention on customer excellence	• Management implemented its most extensive ever annual customer experience survey (1,870 respondents in FY2022, compared to 1,248 in FY2021) to engage with more of our customers than ever before. • Strong and consistent levels of customer satisfaction achieved at 94%. • Our customer net promoter score achieved is +55 which is excellent and above market norms. • A detailed improvement action plan arising from the FY2021 survey was discussed with the Board and then implemented. An action plan arising from the FY2022 survey is underway. • An internal training programme (the Voice of the Customer) was developed and rolled out to improve customer insights into their wants and needs. This enhances a key part of our strategy to sell more to existing customers.
Prioritise improvements in customer experience	• Deep dives undertaken to further understand customer feedback and expectations on eCat (our portal for customers to place orders, which accounts for a significant number of customer transactions). Tools were rolled out for customer feedback to be received in real time, to more promptly respond to customer needs and make faster improvements to the portal. Management gave a demonstration of eCat to the Board, which showcased improvements made to enhance the user experience. • Key areas of improvement in our customer Managed Services offering were identified and implemented. This has already resulted in improvements in associated customer satisfaction scores. • Refresher training successfully rolled out and undertaken by over 99% of employees on use of the corporate phone system, to improve the customer experience when they call Softcat. • Revised customer excellence training programme rolled out to ensure we maintain a high level of customer experience at each stage of the customer journey.

No discretion was exercised by the Committee in relation to the outcome of the annual bonus awards. In respect of the bonus payout up to 100% of salary, two-thirds will be paid in cash and one-third will be paid by way of deferred shares. In respect of the bonus payout above 100% of salary, all of this shall be by way of deferred shares.

Long-term incentives awarded in FY2022 (audited)

On 30 November 2021 the following annual awards of nil-cost options under the Company's Long Term Incentive Plan ('LTIP') were made to the CEO and CFO:

Executive Director	LTIP award (% of salary)	LTIP award (shares)	Award date	Share price[1]
Graeme Watt	150	42,282	30/11/21	£18.63
Graham Charlton	150	28,188	30/11/21	£18.63

Note:
1. The share price used to determine the award was calculated by reference to the prevailing market price of an ordinary share on the business day prior to the award.

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 adjusted EPS targets at the end of the period. Further details are on page 106.

Single figure remuneration for our Executive Directors

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of FY2022.

	Salary	Taxable benefit	Pension	**Total fixed**	Bonus[1]	LTIP[2]	**Total variable**	**Total**
Graeme Watt (CEO)[3]	£525,146	£4,604	£26,257	**£556,007**	£756,210	£1,554,917	**£2,311,917**	**£2,867,134**
Graham Charlton (CFO)[4]	£350,097	£4,604	£23,236	**£377,937**	£504,140	£1,036,592	**£1,540,732**	**£1,918,669**

Notes:

1. In respect of performance up 100% of salary, two-thirds of the annual bonus earned will be paid in cash and one-third will be deferred into shares (by way of nil-cost options). In respect of performance above 100% of salary, all of the annual bonus earned will be deferred into shares (by way of nil-cost options).
2. LTIP awards made on 21 November 2018 to Graham Charlton and to Graeme Watt vested during FY2022. The award was calculated by reference to a share price of £6.00, which was the prevailing market price of an ordinary share on the business day preceding the grant. Details of the performance condition (relative TSR and EPS targets) were disclosed in an announcement to the London Stock Exchange at the time of grant.
3. As a result of full achievement of the performance criteria, nil-cost options over 75,000 shares vested and were subsequently exercised by Graeme during FY2022. The share price at the date of vesting (22 November 2021, being the next business day following the third anniversary of the grant) was £19.22 and the LTIP value shown above reflects this. The total value shown above comprises £1,441,500 (the value of the award at vesting) plus a dividend equivalent of £113,417. The value of the LTIP that is attributable to share price appreciation between grant and vest is £991,500.
4. As a result of full achievement of the performance criteria, nil-cost options over 50,000 shares vested and were subsequently exercised by Graham during FY2022. The share price at the date of vesting (22 November 2021, being the next business day following the third anniversary of the grant) was £19.22 and the LTIP value shown above reflects this. The total value shown above comprises £961,000 (the value of the award at vesting) plus a dividend equivalent of £75,592. The value of the LTIP that is attributable to share price appreciation between grant and vest is £661,000.

Summary of implementation of Policy for 2022/23

A full statement of implementation can be found on page 112. In summary only limited changes are being proposed.

There have been no changes to incentive quantum for either Executive Director, with minor changes to measures:

- For the Annual Bonus, the measures remain 80% based on Operating Profit and 20% based on ESG. The assessment of ESG for 2022/23 will incorporate sustainability in addition to employee and customer objectives.
- For the LTIP, metrics in respect of EPS and TSR will be retained. Following review by the Committee, the weighting between TSR and EPS in respect of the award to Executive Directors in FY2023 will be slightly changed to 60% EPS and 40% TSR (FY2022 grant 50% EPS and 50% TSR). The Committee believes this change will further encourage the Executive Directors to focus on the achievement of superior earnings over the longer term. The EPS targets in respect of the FY2023 grant take into account the announcement by the Government in October 2022 which confirmed that there will be an increase in corporation tax to 25% from April 2023. The Committee will consider using its discretion to adjust the EPS targets if there is a further change in the rate of corporation tax.

During the year, the Committee was briefed on the pay reviews and on proposed average increases for the general workforce. In respect of the Executive Directors, the Committee agreed an increase of 5% in the basic pay for the Executive Directors with effect from 1 August 2022. This level reflects a standard pay rise for employees, but is below the level of pay rise received for much of the workforce.

In respect of the Company's Chair, the Committee conducted a market review which concluded that the Chair's fee was materially below the lower quartile for the FTSE 250. Given the evolution and growth of Softcat as well as the high level of contribution and effectiveness of the Chair, the Committee approved an increase in the Chair's fee to £200,000 with effect from 1 August 2022. The Committee noted that this places the Chair's fee slightly above the FTSE 250 lower quartile benchmark but still considerably below the median benchmark, despite Softcat being one of the largest companies within the FTSE 250.

The Board (excluding the Non-Executive Directors) is responsible for determining the fees payable to the Non-Executive Directors ('NED'). Effective 1 August 2022 fee increases were approved in order to better reflect the time commitment and market rate for these roles.

Further details are provided on page 112.

PART B – ANNUAL REPORT ON REMUNERATION

Single total figure of remuneration (audited)

Executive Directors (audited)

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of FY2022 and FY2021.

Salary[1]		Taxable benefits[1,4]		Pension[1,2]		Total fixed		Bonus[3,5]		LTIP[3]		Total variable		Total	
2022 £'000	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Graeme Watt (CEO)															
525.1	477.4	**4.6**	4.1	**26.3**	23.9	**556.0**	505.4	**756.7**	716.1	**1,554.9**	1,366.6	**2,311.6**	2,082.7	**2,867.1**	2,588.1
Graham Charlton (CFO)															
350.1	318.3	**4.6**	4.1	**23.2**	15.9	**377.9**	338.3	**504.1**	477.4	**1,036.6**	923.2	**1,540.7**	1,400.6	**1,918.6**	1,738.9

Notes:
1. Fixed pay consists of salary, taxable benefits and pensions as set out above.
2. Graham Charlton receives 5% in pension contribution/cash allowance in line with employees; during FY2022 an overpayment exceeded this value against his FY2022 salary by £5,731. For FY2023 his pension contribution/cash allowance will be adjusted to correct this and ensure that over FY2022 and FY2023 this meets 5% of his salary during those periods.
3. Variable pay consists of bonus and LTIP as set out above. Further details on the LTIPs which vested and were exercised by Graham and by Graeme during the year are provided in the section 'Single figure remuneration for our Executive Directors' above.
4. See section below setting out details of the benefits provided.
5. Details of the bonus targets, their level of satisfaction and the resulting bonus earned in FY2022 are set out on page 102 to 103.

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	2021 fees	**2022 fees**	Roles
Martin Hellawell[1]	£157,944	**£162,903**	Non-Executive Chair
Karen Slatford[2]	£71,301	**£78,819**	Senior Independent Director and Chair of the Nomination Committee
Vin Murria[3]	£68,525	**£63,759**	Independent Non-Executive Director, Designated Director for Workforce Engagement and Chair of the Sustainability Committee
Lynne Weedall[4]	–	**£15,698**	Independent Non-Executive Director and Chair of the Remuneration Committee
Robyn Perriss	£61,902	**£63,759**	Independent Non-Executive Director and Chair of the Audit Committee

Notes:
1. As previously reported, the Remuneration Committee exercised its discretion to allow Martin to continue to receive his health benefits as Chair. The cost of providing this cover during FY2022 and other P11D benefits was £3,768 (2021: £3,444) and is included in the figure for Martin's fees above.
2. In respect of 2021, the fees for Karen Slatford are pro-rated with effect from the respective date of appointment as Chair of the Nomination Committee. In respect of 2022 the fees for Karen are pro-rated with effect from the respective date she stepped down as Chair of the Remuneration Committee.
3. In respect of 2021, the fees for Vin Murria are pro-rated with effect from the respective date she stepped down as Chair of the Nomination Committee.
4. Lynne joined the Board in May 2022.

Taxable benefits

Benefits in the year for the Executive Directors comprised health benefits such as private health insurance, health cash plan, critical illness, income protection, dental and life cover. Figures are reported where appropriate.

2022 annual bonus outcomes

In respect of 2022, the bonus awards payable to Executive Directors were agreed by the Committee, having carefully reviewed:

- Financial performance (80% weighting): the Committee considered the Company's year-end results and any relevant associated factors in respect of underlying performance.
- Non-financial performance (20% weighting): the Committee considered progress against key actions in respect of employee engagement and customer satisfaction and noted the ongoing strong overall engagement/satisfaction scores.

The annual bonus structure operating for 2023 is explained on pages 104 and 112.

Details of the targets used to determine bonuses in respect of FY2022 and the extent to which they were satisfied are shown on pages 102 to 103. These figures are included in the single figure table.

Long-term incentives awarded and vested

Awarded in FY2022 (audited)

On 30 November 2021 the following annual awards of nil-cost options under the Company's Long Term Incentive Plan ('LTIP') were made to the CEO and CFO:

Executive Director	LTIP award (% of salary)	LTIP award (shares)	Award date	Share price[1]
Graeme Watt	150	42,282	30/11/21	£18.63
Graham Charlton	150	28,188	30/11/21	£18.63

Note:
1. The share price used to determine the award was calculated by reference to the prevailing market price of an ordinary share on the business day prior to the award.

50% of the award is subject to the Company's relative TSR performance against the FTSE 250 (excluding real estate and investment trusts) over a three-year performance period to the end of FY24 and the remaining 50% subject to adjusted EPS targets at the end of the period. These conditions are set out below:

Measure	Weighting	Details
Adjusted EPS	50%	• Nil vesting of this element for adjusted EPS at end of performance period of less than 49.5p • 20% vesting (threshold) for achieving 49.5p • 67% vesting for achieving 53.8p • Full vesting for achieving 59.4p or above • Straight-line vesting between 20% and 67% and between 67% and full vesting
Relative TSR – assessed against the constituents of the FTSE 250 (excluding real estate and equity investment trusts)	50%	• Nil vesting for below median performance against the comparators • 30% vesting (threshold) for median performance • Full vesting for upper quartile performance • Straight-line vesting between threshold and full vesting

The EPS targets were set following the end of the 2021 financial year based on an assessment of the business and were included in the 2021 Annual Report on Remuneration. The adjusted basic earnings per share for the purposes of the LTIP performance measure is calculated as basic earnings per share in accordance with IAS 33, adjusted for exceptional items as determined by the Committee.

Vested in FY2022 (audited)

Awards under the Company's LTIP granted in November 2018 to Graham Charlton and to Graeme Watt vested and were exercised by Graham and Graeme in FY2022. Options over 50,000 shares were granted to Graham and options over 75,000 shares were granted to Graeme. Vesting of the awards was subject to the following performance conditions (which were disclosed at the time of grant):

Measure	Weighting	Details
Adjusted EPS	50%	• No vesting of this element for adjusted EPS at end of performance period of below 29.3p • 20% vesting (threshold) for achieving 29.3p • Full vesting for achieving 35.7p or above • Straight-line vesting between threshold and full vesting
Relative TSR – assessed against the constituents of the FTSE 250 (excluding real estate and equity investment trusts)	50%	• No vesting for below median performance against the comparators • 30% vesting (threshold) for median performance • Full vesting for upper quartile performance • Straight-line vesting between threshold and full vesting

EPS for FY2021 was 48.4p per share and upper quartile performance was achieved in respect of the TSR. Following formal review by the Committee, the Committee confirmed that full vesting had been achieved in respect of both EPS and TSR. Further details on the LTIPs which vested are provided in the tables in respect of single figure remuneration.

To be awarded in FY2023

Vesting of the awards will be subject to the following performance conditions:

Measure	Weighting	Details
Adjusted EPS	60%	• No vesting of this element for adjusted EPS at end of performance period of below 55.8p • 20% vesting of this element for adjusted EPS at end of performance period of 55.8p • 67% vesting of this element for adjusted EPS at end of performance period of 59.6p • Full vesting for 67.0p • Straight-line vesting between 20% and 67% and between 67% and full vesting
Relative TSR – assessed against the constituents of the FTSE 250 (excluding real estate and equity investment trusts)	40%	• No vesting for below median performance against the comparators • 30% vesting (threshold) for median performance • Full vesting for upper quartile performance • Straight-line vesting between threshold and full vesting

Pension entitlements (audited)

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 FY2022, both Graham Charlton and Graeme Watt were entitled to 5% of salary either as an employer pension contribution into the defined contribution scheme or as a pension cash allowance. This is in line with employer pension contributions available for the general workforce.

None of the Directors receive an entitlement under a defined benefit plan.

Share Incentive Plan ('SIP')

There were no free shares awarded in FY2022 (FY2021: nil). Free shares were awarded under the SIP on 11 December 2015, and became free of any restrictions on the fifth anniversary following the award. Graham was awarded 301 free shares in 2015, which he retained.

The Executive Directors have an entitlement to purchase partnership shares under the SIP. Graham Charlton and Graeme Watt purchased 121 and 124 partnership shares respectively during the year. The total SIP holdings are provided on page 108 as part of the Directors' share interests table.

Payments to past Directors/payments for loss of office (audited)

There were no payments for loss of office made to Directors in the year.

In July 2022, Softcat announced changes to the Board which will take place in August 2023. This included the retirement of Graeme Watt as CEO, at which time he will succeed Martin Hellawell as the Non-Executive Chair. The Committee has confirmed that Graeme will be treated as a good leaver under the terms of the Remuneration Policy and associated plan rules. All remuneration terms and payments are in line with both the current and the proposed Remuneration Policy. Below are the key elements of Graeme's remuneration arrangements in respect of his retirement as CEO:

- Loss of office: on stepping down as CEO, Graeme will receive no termination payments from the Company.
- Base pay: this will be paid until the date of retirement. Graeme's service agreement provides for twelve months' notice, which will be deemed as served.
- Pension contributions or allowance: this will be paid until the date of retirement.
- Existing LTIPs: these will pro-rated from the date of grant to the date of retirement. They will vest on the original vesting dates and be subject to applicable performance conditions.
- Grant of LTIPs expected in November 2022: Graeme will be eligible to participate in this grant. The LTIP will be pro-rated as per the above.
- Deferred bonus shares: these will vest in full on their original respective vesting dates. Deferred awards are not subject to performance conditions.
- Annual bonus plan: full participation in the FY2022 and FY2023 annual bonus plans.
- Benefits: the Committee has exercised its discretion and permitted Graeme to retain whilst he is Chair the following benefits currently being provided to him: life assurance, private medical insurance, health cash plan, dental plan, income protection and critical illness cover.

Statement of Directors' shareholding and share interests (audited)

				Other shares held		Options			
Director	Shareholding requirement (% of salary)[1]	Current shareholding (% of salary)[2]	Beneficially owned[3]	LTIP interests subject to performance conditions	Deferred shares not subject to performance conditions	Vested and unexercised	Unvested	Exercised	Shareholding requirement met?
Executive Directors									
Graeme Watt	200	283	78,670[3]	124,783	53,940[4]	–	–	–	Yes
Graham Charlton	200	528	113,947[3]	83,188	35,960[4]	–	–	–	Yes
Non-Executive Directors									
Martin Hellawell[5]	n/a	n/a	4,201,857	n/a	n/a	n/a	n/a	n/a	n/a
Karen Slatford	n/a	n/a	–	n/a	n/a	n/a	n/a	n/a	n/a
Vin Murria	n/a	n/a	165,397	n/a	n/a	n/a	n/a	n/a	n/a
Lynne Weedall	n/a	n/a	1,300	n/a	n/a	n/a	n/a	n/a	n/a
Robyn Perriss	n/a	n/a	15,000	n/a	n/a	n/a	n/a	n/a	n/a

Notes:

1. The Committee has adopted formal shareholding guidelines that will encourage the Executive Directors to build up, over a five-year period, and then subsequently hold, a shareholding equivalent to at least 200% of base salary. The shareholding requirement is calculated as follows:
   - Shares owned by the Executive Director (and their associates) count towards the ownership target.
   - Shares which have vested, but which remain subject to a holding period and/or clawback, count towards the ownership target.
   - Unvested shares, which are not subject to a further performance condition, count towards the ownership target on a net of tax basis. This includes deferred awards under the annual bonus plan.
   - Unvested awards and unexercised options which have performance conditions attached do not count towards the ownership target.
2. This is based on a closing share price of £13.95 on 29 July 2022 (being the last business day before 31 July 2022) and the year-end salaries of the Executive Directors. The calculation includes the value of 'Deferred shares not subject to performance conditions' on a net of tax basis, based on the tax rates applicable on 31 July 2022. Values are not calculated for Non-Executive Directors as they are not subject to shareholding requirements.
3. This includes investment in partnership shares under the SIP. Graeme and Graham have each purchased 35 partnership shares between the year end and the date of this report, which is not included above.
4. This is in respect of previous awards of nil-cost options granted under the Deferred Share Bonus Plan.
5. Includes ordinary shares held by, or in trust for, Martin and/or his family members.

Fees retained for external non-executive directorships by Executive Directors

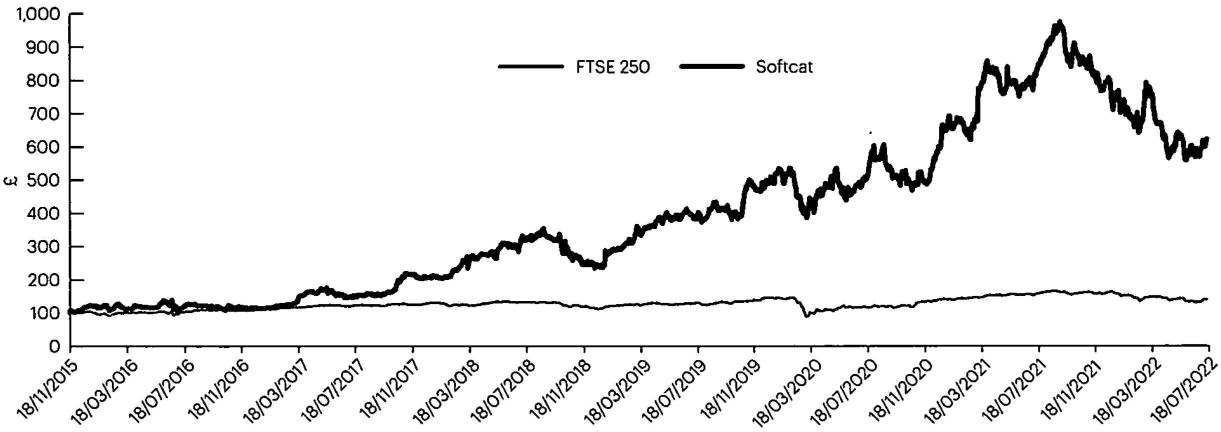
Executive Directors may hold positions in other companies as Non-Executive Directors and retain the fees. Graeme and Graham currently hold no such external directorships.

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 2022.

Total shareholder return



Chief Executive's historical remuneration

The table below sets out the relative importance of spend on pay in the 2022 financial year. All figures provided are taken from the relevant Company accounts.

Chief Executive		2022	2021	2020	2019	2018	2017	2016	2015
G Watt	Total single figure	**£2,867,134**	£2,588,093	£991,372	£919,518	£305,539	–	–	–
M Hellawell[1]		–	–	–	–	£532,716	£774,908	£562,117	£335,762
G Watt	Annual bonus payment level achieved (% of maximum opportunity)	**96**	100	72	100	100	–	–	–
M Hellawell[1]		–	–	–	–	100	100	99	72
G Watt	LTIP vesting level achieved (% of maximum opportunity)	**100**	100	n/a	n/a	n/a	n/a	n/a	n/a
M Hellawell[1]		**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Note:

1. Martin stepped down from his role as Chief Executive on 31 March 2018 and Graeme joined as Chief Executive on 1 April 2018. The single figure includes remuneration paid for the role as Chief Executive during the financial year.

Relative importance of the spend on pay

The table below sets out the relative importance of spend on pay in the 2022 financial year. All figures provided are taken from the relevant Company accounts.

	Disbursements from profit in 2022 financial year	Disbursements from profit in 2021 financial year
Profit distributed by way of dividend	**£84.0m**	£60.8m
Total tax contributions[1]	**£41.9m**	£36.4m
Overall spend on pay, including Executive Directors	**£148.3m**	£127.8m

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.

Corporate governance

Change in the Directors' remuneration compared with employees

The table below sets out the annual change in Directors' remuneration from the previous year compared to the average annual change in remuneration for all other employees. The notes beneath this table describe how we have calculated the year-on-year change.

	% increase/(decrease) in remuneration in 2020 compared with remuneration in 2019			% increase/(decrease) in remuneration in 2021 compared with remuneration in 2020			**% increase/(decrease) in remuneration in 2022 compared with remuneration in 2021**		
	Salary or fees	Bonus[2]	Benefits[3]	Salary or fees	Bonus[2]	Benefits[3]	**Salary or fees**	**Bonus[2]**	**Benefits[3]**
Graeme Watt[1]	3%	12%	0%	3%	43%	37%	**10%**	**6%**	**12%**
Graham Charlton[1]	3%	12%	(9)%	3%	43%	37%	**10%**	**6%**	**12%**
Martin Hellawell	3%	0%	1%	0%	0%	1%	**5%**	**0%**	**9%**
Vin Murria[4]	23%	0%	0%	4%	0%	0%	**(7)%**	**0%**	**0%**
Robyn Perriss	0%	0%	0%	3%	0%	0%	**3%**	**0%**	**0%**
Karen Slatford[5]	n/a	n/a	n/a	6%	0%	0%	**11%**	**0%**	**0%**
Lynne Weedall[6]	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**	**n/a**	**n/a**
All employees[7]	5%	(14)%	(14)%	3%	12%	1%	**5%**	**7%**	**34%**

Notes:

1. For the Directors, the percentage change reflects the figures set out in the single figure table on page 105. Figures are on an annualised basis where the Director joined or left during the year.
2. Excludes commissions for employees.
3. Includes private medical insurance only for employees.
4. In respect of 2020/21, Vin Murria stepped down as Chair of the Nomination Committee during the year. Fees receivable for these duties were in addition to the fees payable as a Non-Executive Director.
5. In respect of 2020/21, Karen Slatford was appointed as Chair of the Nomination Committee during the year. Fees receivable for these duties were in addition to the fees payable as a Non-Executive Director. In respect of 2021/22, Karen stepped down as Chair of the Remuneration Committee during the year.
6. Lynne Weedall joined the Board of Softcat in May 2022.
7. For employees, figures represent Softcat plc, which is a single entity company. Details are in respect of the average percentage change in respect of the remuneration of employees on a full-time equivalent basis. In order to make the comparisons meaningful, the average percentage change in respect of each of salary, bonus and benefits for employees is a per capita figure. The increase in bonus is due mostly to improved performance versus targets for senior management when compared to the prior year. The benefits values have fluctuated due to change in premiums.

CEO pay ratios

The UK Government requires certain companies with over 250 employees to disclose annually the ratio of their CEO's single figure total remuneration to that of the UK workforce. CEO pay ratio data is presented below for 2022, with comparative figures for 2019 to 2021, which were disclosed in previous Directors' Remuneration Reports. The data shows how the CEO's single figure remuneration for 2022 (as taken from the single figure remuneration table) compares to equivalent single figure remuneration for full-time equivalent UK employees, ranked at the 25th, 50th and 75th percentiles.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2022	**Option A**	**100:1**	**64:1**	**36:1**
2021	Option A	89:1	57:1	32:1
2020	Option A	33:1	21:1	12:1
2019	Option A	35:1	22:1	12:1

The Government's methodology of Option 'A' has been used to calculate the remuneration of 1,882 employees (FY2021: 1,655) who were employed on the assessment date of 31 July for each respective financial year. All individuals in employment at this date were included in the calculation, with applicable components of individual remuneration annualised for employees not employed for the full twelve months. This option was selected given as it was considered to be the most efficient and robust approach in respect of gathering the required data and in particular was considered to be the most accurate way of identifying the best equivalents of the 25th, 50th and 75th percentiles.

We calculated our total remuneration for full-time equivalent employees to include:

- annual salary and allowances;
- annual bonus earnings (for the period relating to the respective financial year);
- gains realised from exercising awards granted under the SIP or LTIP share plans; and
- the value of taxable benefits (including pension contributions).

The above ratio increased from 2021 reflecting LTIP awards which vested and were exercised during each period. The value of each LTIP when it was exercised is included in the single remuneration figure for the year. The ratio further increased in 2022, reflecting the increased value of the LTIP exercised due to a growth in the Company's share price and in part a 10% increase in the CEO's base pay, which was fully disclosed in last year's Annual Report on Remuneration. The Committee believes that the median pay ratio is consistent with the Company's pay, reward and progression policies.

Pay in respect of the CEO and UK workforce is shown in the table below.

	CEO	All employees		
	(See single figure table, page 105)	25th percentile	Median	75th percentile
2022 salary	£525,146	£21,228	£25,159	£36,945
2022 total pay	£2,867,134	£28,574	£44,594	£79,816

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. 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 attends meetings. The Chief Executive Officer, the Chief Financial Officer, the Chief People Officer and the Reward, Payroll & HR Operations Manager attend by invitation and when appropriate.

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 and the level of employer pension contribution. During the year the Committee received updates on pay and benefits across the general workforce. The Committee also reviews and approves the remuneration structure for the management-level tier below the Executive Directors and the proposed framework for annual pay rises and uses this information to ensure consistency of approach.

The Company does not use remuneration comparison measurements. A formal Employee Forum has been established within the business where staff can raise any issue they feel to be relevant with the Designated Non-Executive Director for Workforce Engagement (Vin Murria). There are also regular employee engagement meetings led by the CEO and CFO.

The Committee Chair (assisted by the Chief People Officer and the Company Secretary) has directly engaged with a small group of employee representatives to explain Softcat's executive remuneration policy and how it aligns with wider Company pay policy. During the engagement session, the Committee Chair explained the purpose and work of the Committee and the key decisions which were made during the year. The employee representatives asked questions about executive remuneration and how it aligns to pay elsewhere in the Company and also provided feedback on pay in certain other roles in the business and were provided with responses. The engagement provided useful feedback and further assurance to the Committee that executive remuneration is considered to be well-aligned with the Company's wider philosophy on pay, particularly in respect of the importance of setting appropriate benchmarks for fixed pay and on the importance of variable pay as an incentive to drive stretching performance. The Committee believes there is strong alignment between executive pay, wider workforce pay, the Company's culture and strategy.

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 was appointed by the Committee following IPO in November 2015. 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. Fees of £90,000 (excluding VAT) (2021: £87,750) 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 at the 2019 AGM and the advisory vote on the Annual Report on Remuneration at the 2021 AGM.

	Votes for	%	Votes against	%	Votes withheld
Directors' Remuneration Policy (2019 AGM)	161,238,582	98.60	2,296,086	1.40	109
Annual Report on Remuneration (2021 AGM)	169,210,527	97.36	4,591,454	2.64	9,561

Statement of implementation of the Remuneration Policy in the 2022 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. In respect of the implementation in 2022/23 below, a revised Remuneration Policy will be proposed at the 2022 AGM and where applicable the implementation will be subject to the new Remuneration Policy being approved by shareholders.

	Implementation in 2022/23	What was implemented in 2021/22
Base salary	**For FY2023, base salaries for the CEO and CFO will be £551,403 and £367,602.** **The above increases represent a rise of 5%, which was the standard pay rise for employees but lower than pay rises for much of the workforce.**	CEO: £525,146. CFO: £350,097.
Pension	**No change.**	5% of salary.
Benefits	**All Directors, including Non-Executive Directors, will be entitled to participate in the Company salary sacrifice scheme for electric vehicles for personal use and commuting.**	No change.
Annual bonus plan ('ABP') • Cash • Deferred share award	**For FY2023 the annual bonus measure will retain 80% based on Operating Profit and 20% based on robust ESG goals. In addition to customer and employee satisfaction, sustainability measures will be added.**	Maximum opportunity: 150% of salary for CEO and CFO. Measures: 80% Operating Profit, 20% ESG (based on customer and employee satisfaction goals).
LTIP	**FY2023 LTIP awards:** • **150% of salary for CEO and CFO** • **Measures against TSR (40%) and EPS (60%)** • **Targets shown on pages 106 to 107**	FY2022 LTIP awards: • 150% of salary for CEO and CFO. • Measures against TSR (50%) and EPS (50%). • Targets are shown on pages 106 to 107
Shareholding requirements	**No change.**	200% of salary for CEO and CFO.
Chair and Non-Executive fees	**Chair fee: £200,000.** **Board fee: £60,000.** **Senior Independent Director fee: £13,500.** **Committee Chair fee (per Committee): £15,000.** **Fee for the Designated Director for Workforce Engagement (which includes Chair of the Sustainability Committee): £15,000.**	Chair fee: £159,135. Board fee: £52,167. Senior Independent Director fee: £5,796. Committee Chair fee (per Committee) and fee for the Designated Director for Workforce Engagement: £11,592.

Lynne Weedall
Chair of the Remuneration Committee
24 October 2022

PART C – DIRECTORS' REMUNERATION POLICY

Introduction

In accordance with the remuneration reporting regulations, the Directors' Remuneration Policy (the 'Policy') as set out below will become formally effective at the AGM on 13 December 2022, subject to shareholder approval, and will apply for a period of three years from the date of approval unless a new Policy is approved by the Company's shareholders prior to expiry.

The Company's core principles of remuneration are:

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

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

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

The Remuneration Committee is comprised of independent Non-Executive Directors. The Committee operates within terms of reference which:

- authorise it to review and implement the Policy; and
- provide a framework to avoid conflicts of interest.

Our Remuneration Policy and its link to our Company strategy

The Company's strategy is laid out on page 28 and 29.

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

	Strategic priorities				
Remuneration Policy (from the date of shareholder approval)	Generate sector-leading value for shareholders	Growth in profit from existing customers	Win new customers	Equity ownership and retention of shares	Retain and reward Executive team to deliver the strategy
Annual bonus • The maximum bonus (including any part of the bonus deferred into an ABP award) deliverable under the ABP will not exceed 200% of a participant's annual base salary.	✓ **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.	✓	✓	✓	✓
	Non-financial measures The Committee also believes in the importance of wider non-financial metrics to measure the success of a business, including the use of environmental, social and governance ('ESG') measures. The Committee will consider appropriate measures linked to strategic priorities.	✓	✓	✓	✓
LTIP Maximum annual award is normally 200% of salary. Awards will vest at the end of three years. For FY2022 the performance conditions for awards were equally weighted between: • adjusted earnings per share ('EPS') growth; and • comparative total shareholder return ('TSR'). For FY2023, awards will be weighted 60% EPS and 40% TSR.	✓ **EPS and TSR** The success in maximising profit growth will be measured through the long-term EPS growth targeted by the LTIP. In addition, sustained value generation will be reflected in the share price of the Company, which will be measured through the Company's TSR performance under the LTIP.	✓ **TSR** The generation of profit growth targeted by the annual bonus will help enhance the value of the Company, which will be measured through the success of the Company's TSR performance against its comparators (a performance condition under the LTIP).	✓ **EPS** An incentive to grow this market in the longer term is provided through EPS growth targeted by the LTIP. The success of this element of the strategy should be reflected in long-term TSR performance.	✓	✓
Share Incentive Plan ('SIP')				✓	✓
Minimum shareholding requirements • Chief Executive Officer: 200% of salary. • Chief Financial Officer: 200% of salary.				✓	

Alignment with provision 40 of the UK Corporate Governance Code

As part of its review of the proposed Policy and remuneration practices, the Committee has considered the factors set out in provision 40 of the UK Corporate Governance Code (the 'Code'). In the Committee's view, the proposed Policy addresses those factors as set out below:

Provision 40 element	How our Remuneration Policy aligns
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	Our Policy is simple, designed to support long-term, sustainable performance and aligned to our strategy. It clearly sets out the performance conditions that will be used for the annual bonus and the LTIP, as well as the maximum potential value of the elements of remuneration and the areas in which discretion can be applied. Achievement against performance conditions is fully disclosed. Our Policy is in line with UK corporate governance good practice, which makes it understandable to our key stakeholders. This also promotes effective stakeholder engagement.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Our executive remuneration structure comprises fixed and variable remuneration through the use of market standard annual bonus and LTIP structures. The performance conditions for variable elements are clearly communicated to stakeholders and understood by the executive participants. Our executive reward structures are clearly aligned to the delivery of key strategic indicators of success and this helps to ensure simplicity. In respect of variable remuneration, we keep this simple by operating just one plan for our short-term incentive (annual bonus plan) and one plan for longer-term performance (LTIP).
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	The majority of our Executive Directors' total remuneration is focused on the long term and provided in Softcat shares (through our LTIP and through the deferred share element of the annual bonus plan). Rewards are aligned to our strategy and are designed for Executive Directors to drive the right behaviours for both the Company and its shareholders. We operate minimum shareholding requirements for Executive Directors whilst they are in employment and for two years post-vesting. Executive Directors must also retain shares (net of sales for taxes and costs) arising from the exercise of an LTIP for two years. These measures ensure a strong alignment between Executive Directors and shareholders and discourage unnecessary risk taking by Executive Directors. Significant rewards on the long-term element can only be achieved if there is sustained performance. Our Remuneration Policy explains, where appropriate, defined limits on the maximum awards which can be earned. The Committee retains discretion to override formulaic outcomes, if appropriate, on variable remuneration. Malus and clawback provisions are included in both the annual bonus plan and in the LTIP.
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	Our Policy sets out, where applicable, the maximum potential value for each element of remuneration. Our Policy also explains the use of any discretion. The potential total remuneration outcomes can be assessed from this and we include both in our Policy and in each Annual Report on Remuneration illustrations of the application of our Policy. We observe in our share plans the dilution limits set by the Investment Association (10% in any rolling ten-year period and for executive share plans 5% in any rolling ten-year period).
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	Remuneration is appropriately balanced between fixed and variable pay and the annual bonus and LTIP reward the successful implementation of our strategy over the short and long term. Stretching targets ensure payments are only made for strong corporate performance and for the successful execution of our strategy, providing a direct link between Company performance and individual rewards. The Committee has discretion to override formulaic outcomes to ensure that remuneration always reflects overall performance.
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy.	Executive rewards are aligned to our strategy and are designed for Executive Directors to drive the right behaviours for both the Company and its shareholders. The performance measures used by the Committee are designed to help underpin our culture and strategy. The weighting towards long-term remuneration emphasises the importance of strong performance over the longer term. Our annual bonus plan includes non-financial metrics which support our values and culture on how we do business and this will help us to maintain a competitive advantage.

Remuneration Policy table

Remuneration Policy aim

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

Element of remuneration	How it supports the Company's short and long-term strategic objectives	Operation
Salary **Changes from previous policy:** none.	Provides a base level of remuneration to support recruitment and retention of Executive Directors with the necessary experience and expertise to deliver the Company's strategy.	An Executive Director's basic salary is set on appointment and reviewed annually or when there is a change in position or responsibility. When determining an appropriate level of salary, the Committee considers: • remuneration practices within the Company; • the general performance of the Company; • salaries within the ranges paid by the companies in the comparator group used for remuneration benchmarking; • any change in scope, role and responsibilities; and • the economic environment. Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.
Benefits **Changes from previous policy:** following introduction of a salary sacrifice programme for employees to lease electric vehicles, this Policy specifies that Directors can participate.	Provides a benefits package in line with practice relative to its comparator group to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Company's strategy.	The Executive Directors receive benefits which include, but are not limited to, private health insurance, life insurance and death in service benefit. The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Company strategy. Additional benefits may therefore be offered, such as relocation allowances on recruitment. The maximum will be set at the cost of providing the benefits described. Non-Executive Directors may participate in benefit programmes available to employees which have the purpose of reducing environmental emissions.
Pensions **Changes from previous policy:** none.	Provides a pension provision in line with practice to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Company's strategy.	Pension arrangements are provided in line with practice to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Company's strategy. The Company operates a defined contribution ('DC') scheme. The Executive Directors are entitled to receive a maximum employer contribution into the DC scheme or a salary supplement in lieu of pension which is in line with the employer contribution for the wider workforce. New joiners will receive a pension contribution in line with the wider workforce. The current level is 5% of basic salary per annum. Increases will only be in line with employer pension contribution in the wider workforce, but shall not exceed 10% within the period of this Policy.

Maximum opportunity

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

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

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

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

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

See description of benefits in previous column.

The maximum contribution into the defined contribution plan or a salary supplement in lieu of pension will be in line with the wider workforce. This ensures that Softcat's approach is fully in line with corporate governance expectations and shareholder sentiment to align Executives' pension with the wider workforce.

Remuneration Policy table continued

Element of remuneration	How it supports the Company's short and long-term strategic objectives	Operation
Annual and Deferred Share Bonus Plan (the 'Bonus Plan') **Changes from previous policy:** malus/clawback triggers extended.	The Bonus Plan provides a significant incentive to the Executive Directors linked to achievement in delivering goals that are closely aligned with the Company's strategy and the creation of value for shareholders. In particular, the Bonus Plan supports the Company's objectives, allowing the setting of annual targets based on the business strategy at the time, meaning that a wider range of performance metrics can be used that are relevant and achievable. The Committee operates deferral for part of the annual bonus earned in shares under the Bonus Plan. The advantage of deferral is: • increased alignment between Executives and shareholders created through deferral and the increased equity stake of management in the Company; and • amounts deferred in shares are subject to a Director's continuing employment, which provides an effective lock-in.	The maximum bonus (including any part of the bonus deferred into share awards) deliverable under the Bonus Plan will be up to 200% of a participant's annual base salary. The Board will determine the bonus to be delivered following the end of the relevant financial year. The Company will set out, in the section headed Implementation of Remuneration Policy, in the following financial year, the nature of the targets and their weighting for each year. Details of the performance conditions, targets and their level of satisfaction for the year being reported on will be set out in the Annual Report on Remuneration. The annual bonus will be paid in cash and deferred shares. A minimum level of deferral into shares of one-third will apply for the first 100% of salary awarded as a bonus. Any bonus awarded above 100% of salary will be deferred into shares. Deferred bonus share awards vest: • after a minimum deferral period of three years, during which no performance conditions will apply; and • subject to the participant's continued employment at the end of the deferral period unless he/she is a good leaver. The Committee may award dividend equivalents on those shares to plan participants to the extent that they vest. The Committee will apply a two-year post-cessation shareholding requirement for all deferred share awards granted after 5 December 2019 which vest under the Bonus Plan (see 'Minimum shareholding requirement' below).
Long Term Incentive Plan ('LTIP') **Changes from previous policy:** malus/clawback triggers extended.	The purpose of the LTIP is to incentivise and reward Executive Directors in relation to long-term performance and achievement of Company strategy. This will better align Executive Directors' interests with the long-term interests of the Company and act as a retention mechanism. The use of comparative TSR measures the success of the implementation of the Company's strategy in delivering an above-market level of return. The use of EPS ensures Executive Directors are focused on long-term financial performance to ensure this flows through to long-term sustainable EPS growth.	Awards are granted annually to Executive Directors in the form of a conditional share award, nil-cost option or restricted share award. Awards will vest at the end of a three-year period subject to: • the Executive Director's continued employment at the date of vesting; and • satisfaction of the performance conditions. The Committee may award dividend equivalents on awards to the extent that these vest. Awards are subject to a mandatory two-year post-vesting holding period. The total time period between award and release of shares is therefore five years. The Committee will apply a two-year post-cessation shareholding requirement for all awards granted after 5 December 2019 which vest under the LTIP (see 'Minimum shareholding requirement' below).

Maximum opportunity	Performance metrics
For FY2023 the maximum opportunity will be 150% of salary. Percentage of bonus maximum earned for levels of performance: Below threshold: 0%. Threshold: 20%. Maximum: 100%.	An award under the Bonus Plan is subject to satisfying financial and strategic/operational performance/personal performance conditions and targets measured over a period of one financial year. A minimum of 50% of the bonus shall be based on financial performance measures. Measures and weightings will be disclosed in the Annual Report on Remuneration for the year ahead. The Committee is of the opinion that given the commercial sensitivity arising in relation to the detailed targets used for the annual bonus, disclosing precise targets for the Bonus Plan in advance would not be in shareholders' interests. Targets and performance achieved will be published at the end of the performance period so shareholders can fully assess the basis for any payouts under the Bonus Plan. In exceptional circumstances the Committee retains the discretion to: • change the performance measures and targets and the weighting attached to the performance measures and targets partway through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; and • make downward or upward adjustments to the amount of bonus earned resulting from the application of the performance measures, if the Committee believes that the bonus outcomes are not a fair and accurate reflection of business performance. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report. The Bonus Plan contains clawback and malus provisions.
Normal maximum value of up to 200% of salary p.a. based on the market value at the date of grant set in accordance with the rules of the LTIP. In exceptional circumstances the Committee may grant an award with a maximum of up to 250% of salary. Across the LTIP award metrics up to 25% of the award will vest for threshold performance. 100% of the award will vest for maximum performance.	The performance conditions for the 2022 LTIP awards are earnings per share ('EPS') growth and relative total shareholder return ('TSR'). At least 50% of the LTIP will be based on financial metrics. The Committee may change the balance of the measures, or use different measures for subsequent awards, as appropriate. No material change will be made to the type of performance conditions without prior shareholder consultation. Details of the performance conditions for each award will be disclosed in the Annual Report on Remuneration for the year ahead. In exceptional circumstances the Committee retains the discretion to: • vary, substitute or waive the performance conditions applying to LTIP awards if the Board considers it appropriate and the new performance conditions are deemed reasonable and are not materially less difficult to satisfy than the original conditions; and • make downward or upward adjustments to the amount vesting under the LTIP resulting from the application of the performance measures if the Committee believes that the outcomes are not a fair and accurate reflection of business performance. Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Remuneration Report. The LTIP contains clawback and malus provisions.

Remuneration Policy table continued

Element of remuneration	How it supports the Company's short and long-term strategic objectives	Operation
All employee share plans **Changes from previous policy:** none.	Softcat currently operates a SIP. The SIP is an all-employee share ownership plan which has been designed to encourage all eligible employees to become shareholders in the Company and thereby align their interests with shareholders.	The Company operates a SIP in which the Executive Directors are eligible to participate (which is in line with HMRC legislation and is open to all eligible staff). The Executive Directors will also be eligible to participate in any other all-employee arrangement implemented by the Company, on the same terms as other employees.

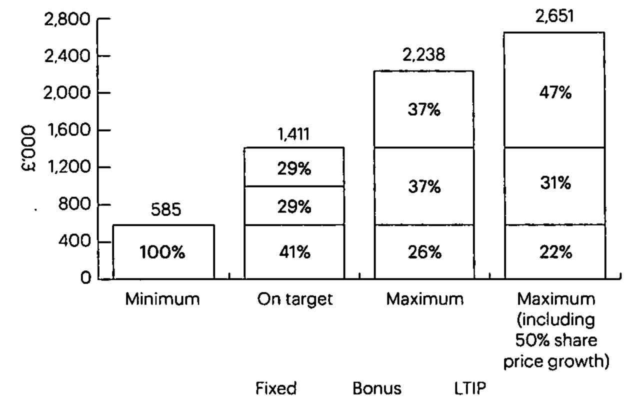
Element of remuneration	How it supports the Company's short and long-term strategic objectives
Minimum shareholding requirement **Changes from previous policy:** increase in in-role requirement for CFO from 150% to 200%. Increase in post-cessation requirement from 50% to 100% of in-role requirement in year two.	The Committee has adopted formal shareholding guidelines that will encourage the Executive Directors to build up, over a five-year period, and then subsequently hold, a shareholding equivalent to a percentage of base salary. Executive Directors shall retain all vested share-based awards (net of taxes and brokerage costs) as part of the build-up towards their respective target. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned. A post-cessation shareholding requirement will operate. Executives must hold 100% of their shareholding requirement for two years post-cessation. This is applicable to share awards granted after 5 December 2019 which vest under the Bonus Plan and the LTIP. An Executive Director's attainment against their respective requirement will be disclosed each year in the Annual Report on Remuneration.

Illustrations of the application of the Remuneration Policy

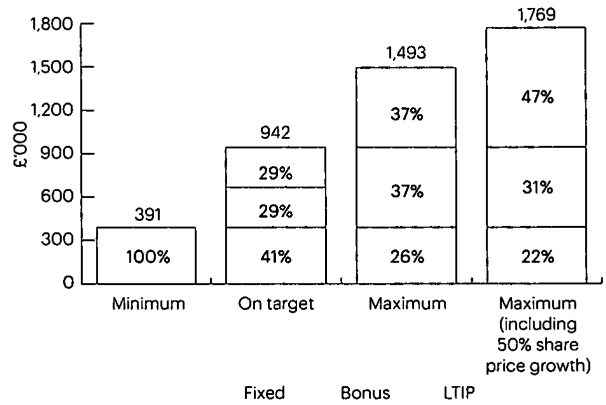
The charts below illustrate the remuneration that would be paid to each of the Executive Directors, for the 2023 financial year, under three different performance scenarios: (i) minimum; (ii) on target; and (iii) maximum. The elements of remuneration have been categorised into three components: (i) fixed; (ii) annual bonus (deferred bonus); and (iii) LTIP.

In line with the regulations on policy scenarios, we have also included an additional reference point to show indicative share price growth of 50% over three years (being the performance period of the LTIP) at maximum.

Chief Executive Officer (Graeme Watt)



Chief Financial Officer (Graham Charlton)



Maximum opportunity	Performance metrics
The maximums set by legislation from time to time.	The Company, in accordance with the legislation, may impose objective conditions on participation in the SIP for employees.

Maximum opportunity

The following table sets out the minimum shareholding requirements:

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

The Committee retains the discretion to increase the shareholding requirements.

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

Element	Description	Minimum	Target	Maximum	Maximum including 50% share price growth
Fixed[1]	Salary, benefits and pension	Included	Included	Included	Included
Annual bonus[2]	Annual bonus (including deferred shares) Maximum opportunity of 150% of salary for the CEO and for the CFO	No annual variable	50% of the maximum bonus	100% of the maximum bonus	100% of the maximum bonus
LTIP[2,3]	Award under the LTIP Maximum annual award of 150% of salary	No multiple-year variable	50% of the maximum award	100% of the maximum award	100% of the maximum award plus 50% share price growth

Notes:

1. Based on FY2022 benefits payments and pension values as per the single figure table. The actual benefits and pension contributions for FY2023 will only be known at the end of the financial year. Basic pay reflects a 5% increase awarded for FY2023.
2. See page 105 for the single figure table and the accompanying notes. Share price growth has been included in the final illustration in accordance with required regulations. 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.

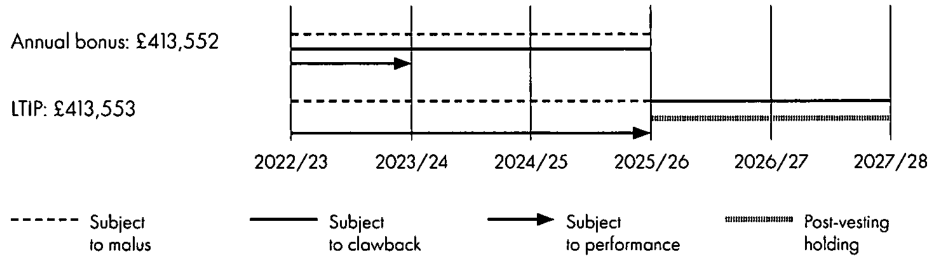
Pay at risk

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 (annual bonus plan and LTIP awards); or
- elements are subject to clawback or malus for a period over which the Company can recover sums paid or withhold vesting. Further details of what triggers clawback or malus are set out below.

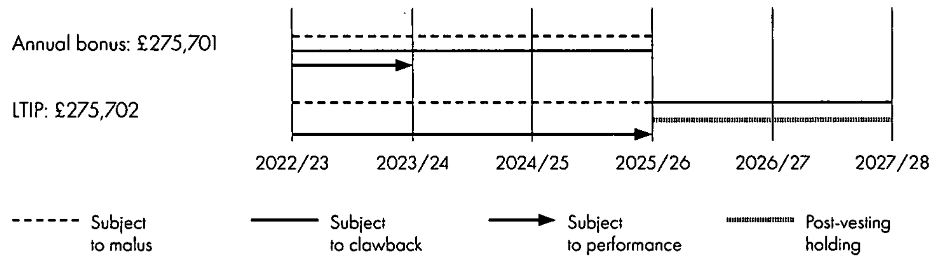
Figures have been calculated based on target performance. The charts have been based on the same assumptions as set out above for the illustrations of the application of the Remuneration Policy.

Chief Executive Officer (Graeme Watt)



'At risk': £827,105
Salary: £551,403
Pension and benefits: £32,174

Chief Financial Officer (Graham Charlton)



'At risk': £551,403
Salary: £367,602
Pension and benefits: £22,984

Malus and clawback

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

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

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

- the discovery that the assessment of any performance target or condition in respect of a bonus award or LTIP award was based on error, or inaccurate or misleading information; and/or
- the discovery that any information used to determine the number of ordinary shares subject to a bonus award or LTIP award was based on error, or inaccurate or misleading information; and/or
- the action or conduct of a holder of a bonus award or LTIP award which, in the reasonable opinion of the Board, amounts to fraud or gross misconduct; and/or
- events or behaviour of a holder of a bonus award or LTIP award leading to the censure of the Company by a regulatory authority or having a significant detrimental impact on the reputation of the Company, provided that the Board is satisfied that the relevant holder of a bonus award or LTIP award was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to him or her; and/or
- the Company, or entities representing a material proportion of the Group, becomes insolvent or otherwise suffers a corporate failure.

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

The rules of the plans will be amended to include an event of insolvency or a corporate failure. The Committee believes otherwise that the rules of the plans provide sufficient powers to enforce malus and clawback where required.

Discretion

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

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

It is the Committee's intention that any outstanding commitments made in line with its policies prior to admission to the London Stock Exchange in 2015 will be honoured, even if satisfaction of such commitments may be inconsistent with policy.

Recruitment policy

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

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

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

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

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

Payment for loss of office

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

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

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

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

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

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

Change of control

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

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

Non-Executive Director remuneration

Element of remuneration	How it supports the Company's short and long-term strategic objectives	Operation	Opportunity	Performance metrics
Non-Executive Director and Chair fees **Changes from previous policy:** none.	Provides a level of fees to support recruitment and retention of Non-Executive Directors and a Chair with the necessary experience to advise and assist with establishing and monitoring the Company's strategic objectives.	The Board is responsible for setting the remuneration of the Non-Executive Directors. The Remuneration Committee is responsible for setting the Chair's fees. Non-Executive Directors are paid an annual fee and additional fees for chairing Committees. The Chair does not receive any additional fees for membership of Committees. A fee is also paid to the Designated Non-Executive Director responsible for wider workforce engagement. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. Fees are set at broadly the median of the comparator group. Non-Executive Directors and the Chair do not participate in any variable remuneration. Non-Executive Directors and the Chair do not participate in benefits arrangements, with the exception of benefit programmes available to employees which have the purpose of reducing environmental emissions.	The fees for Non-Executive Directors and the Chair are set at broadly the median of an appropriate comparator group. In general, the level of fee increase for the Non-Executive Directors and the Chair will be set taking account of any change in responsibility and will take into account the general rise in salaries across the UK workforce. The Company will pay reasonable expenses incurred by the Non-Executive Directors and the Chair and may settle any tax incurred in relation to these.	None.

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

Executive Directors

Name	Date of service contract	Nature of contract	Notice periods From Company	From Director	Compensation provisions for early termination
Graeme Watt	1 April 2018	Rolling	Twelve months	Twelve months	None
Graham Charlton	11 July 2022	Rolling	Twelve months	Twelve months	None

Non-Executive Directors

Name	Date of letter of appointment
Martin Hellawell	1 April 2018
Robyn Perriss	21 May 2019
Vin Murria	3 November 2015
Karen Slatford	22 October 2019
Lynne Weedall	21 March 2022

Note:
Graham Charlton's original service contract was revised and amended during the year to reflect changes in legislation since his original contract was signed and also to provide more consistency with Graeme Watt's service contract.

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 Chair) 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.

Statement of considerations of employment conditions elsewhere in the Company

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

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

For all employees, the Company operates a SIP. Under the SIP, eligible employees will have the opportunity to purchase shares in the Company subject to certain restrictions.

The Company does not use remuneration comparison measurements. The Board has designated a Non-Executive Director responsible for general workforce engagement. The Chair of the Remuneration Committee has directly engaged with a group of employee representatives to explain how executive remuneration aligns with wider Company pay policy. The engagement provided useful feedback and further assurance to the Committee that executive remuneration is considered to be well-aligned with the Company's wider philosophy on pay, particularly in respect of the importance of setting appropriate benchmarks for fixed pay and on the importance of variable pay as an incentive to drive stretching performance. The Committee believes there is strong alignment between executive pay, wider workforce pay, the Company's culture and strategy.

In setting and operating the Policy, the pay and conditions of other employees of the Company are taken into account, including any base salary increases awarded and any changes in pension and benefits. 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. The Committee is also informed of the proposed remuneration of Softcat's Company Secretary.

Link to objectives

The following table demonstrates how key objectives are reflected consistently in plans operating at various levels within the Company and how our incentive schemes support the Company strategy.

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

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 and the level of employer pension contribution. During the year the Committee received updates on pay and benefits across the general workforce. The Committee also reviews and approves the remuneration structure for the management-level tier below the Executive Directors and the proposed framework for annual pay rises and uses this information to ensure consistency of approach.

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.

This year the Committee has consulted with major shareholders in advance of the new Remuneration Policy which will be proposed at the Company's 2022 AGM. We have obtained significant shareholder support as a result of the consultations. The Committee also consulted with certain proxy voting advisory bodies, including the Investment Association ('IA') and the Institutional Shareholder Services ('ISS').

The Committee explained the rationale for the changes to the Remuneration Policy and invited comments. Responses were provided for any question from those with whom the Committee consulted.

Shareholder support remains strong for the remuneration practices of the Company. The Remuneration Policy received 98.6% votes in favour at the 2019 AGM. The advisory vote for the Annual Report on Remuneration at the 2021 AGM received 97.4% votes in favour. The Committee is grateful for the continuing support of shareholders.

Historical awards

All historical awards that were granted under any current or previous bonus or share schemes operated by the Company, and which remain outstanding, remain eligible to vest on the basis of their original award terms.

Policy on external appointments

Executive Directors are permitted to accept appropriate outside non-executive director appointments so long as the overall commitment is compatible with their duties as Executive Directors and is not thought to interfere with the business of the Company. Any fees received in respect of these appointments are retained directly by the relevant Executive Director.

Lynne Weedall
Chair of the Remuneration Committee

24 October 2022

The following is the report of the Directors of the Company for the financial year ended 31 July 2022.

Non-Financial Reporting Directive

In accordance with Sections 414CA and 414CB of the Companies Act 2006, the following chart summarises where you can find further information in this Annual Report on each of the key areas of disclosure that these sections require.

Environmental, social and employee-related matters	• This year we have provided further disclosure on Softcat's environmental commitments, including reporting on the Task Force on Climate-related Financial Disclosures ('TCFD'). Our Green Teams continue to raise awareness of the importance of environmental issues through their activities. • Our positive and inclusive culture, as well as good employee engagement, are integral to Softcat's success. Both the Board and management understand this and a considerable amount of time is spent ensuring these are maintained. • We discuss each of these areas in the report on Social Value and in the report on TCFD and Sustainability on pages 38 to 58. Please also see the Governance Report on pages 70 to 79.
Human rights and anti-bribery-related matters	• Human rights abuse and modern slavery risks are not considered a material issue for the Company. • We operate anti-bribery procedures which support compliance with the UK Bribery Act and other legislation. • We discuss each of these areas in the report on Social Value on pages 38 to 42 and in the Governance Report on pages 70 to 79.
Diversity policy and approach	• We continue to put great importance on the positive benefits that diversity of gender, ethnicity, experience, background and viewpoints can bring to the business. • We support numerous initiatives to help improve diversity and inclusion. Progress on these is monitored by both senior management and the Board. The Board acknowledges there is more we need to do to improve diversity in areas of our business and we will continue with our efforts. • We discuss some of the actions taken in response to employee engagement in the Section 172 Statement on pages 34 to 37 of this report, and our approach to diversity in the report on Social Value on pages 38 to 42, in the Chair's Statement on pages 12 to 15 and in the Nomination Committee Report on pages 90 to 95.
Business model, policies, principal risks and KPIs	• We operate a business model which includes non-financial inputs and outputs. Our business model is underpinned by our straightforward strategy. • Risks, including financial and non-financial risks, are monitored by management and by the Audit Committee. The Audit Committee also considers the key internal controls for the business. • The Board regularly reviews both financial and non-financial KPIs, which are relevant for monitoring the performance of the business and have a clear link to delivering against our strategy. We disclose performance against our key KPIs. • We discuss our business model on pages 20 and 21 and key risks on pages 59 to 63 and selected KPIs are reported on pages 30 and 31. Our strategy is discussed in various places in the Strategic Report, including pages 28 and 29.

Directors' Report

The Directors present their report for the year to 31 July 2022.

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

For the purposes of compliance with Disclosure Guidance and Transparency Rules ('DTR') DTR 4.1.5 R (2) and DTR 4.1.8 R, the required content of the 'Management Report' can be found in the Strategic Report and this Directors' Report. 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 page 66 of this report;
- statement explaining how the Directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the Company during the financial year – refer to pages 34 to 37 of this report;
- strategy and relevant future developments – refer to pages 22 to 26 and pages 28 to 29 of the Strategic Report; and
- financial risk management objectives and policies – refer to the 'Risk Management' section included in the Strategic Report on pages 59 to 64 and note 21 to the financial statements.

The information in respect of the Non-Financial Reporting Directive appearing in this Directors' Report is also incorporated by reference as required in the Strategic Report.

Directors of the Company

The following Directors have held office since 1 August 2021:

Name	Position	Date of appointment
M Hellawell	Chair	Appointed as a Director on 24 March 2006 and Chair on 1 April 2018
G Watt	Chief Executive	Appointed 1 April 2018
G Charlton	Chief Financial Officer	Appointed 19 March 2015
V Murria	Independent Non-Executive Director	Appointed 3 November 2015
K Slatford	Independent Non-Executive Director	Appointed 5 December 2019
R Perriss	Independent Non-Executive Director	Appointed 1 July 2019
L Weedall	Independent Non-Executive Director	Appointed 3 May 2022

Biographies of the Directors as at 24 October 2022 can be found on pages 68 and 69.

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 2022 are disclosed in the Remuneration Report on page 108. The Remuneration Report also sets out details of any changes in those interests between the year end and up to the date of this report.

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 (the 'Code').

In accordance with the Code, at the 2022 AGM each Director will stand for election or 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 2022 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 2022 was 199,354,076 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 a Share Incentive Plan Trust ('SIP Trust') for the benefit of employees and former employees of the Company. As at 31 July 2022, the SIP Trust held 187,771 shares (2021: 214,622) awarded to employees as part of the free share award, subject to service conditions. A further 353,586 shares (2021: 346,958) were held on behalf of employees who have taken part in the Company's voluntary partnership share purchase programme. The SIP Trust also held 51,007 unallocated shares (2021: 51,007).

During the year ended 31 July 2022, share options were exercised pursuant to the Long Term Incentive Plan and the Annual and Deferred Bonus Plan, resulting in the additional listing and allotment of 312,266 new ordinary shares.

Holders of ordinary shares are entitled to attend and speak at general meetings of the Company, and 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 17 to the financial statements.

The Company passed the following resolutions on 15 December 2021:

- an ordinary resolution providing the Directors with authority to:
  - (i) allot ordinary shares up to a maximum nominal amount of £33,175, 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 £66,350 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 the Directors with authority to:
  - (i) allot shares or sell treasury shares for cash up to a maximum nominal amount of £4,976; and
  - (ii) allot shares or sell treasury shares for cash up to a maximum nominal amount of £4,976, in connection with an acquisition or other capital investment;
- otherwise than to existing shareholders pro-rata to their shareholding; and
- a special resolution providing the Directors with authority to make market purchases of up to 19,905,081 of the Company's ordinary shares.

These authorities are due to expire at the Company's AGM to be held on 13 December 2022 and proposals for the renewal of the authority to allot ordinary shares and to make market purchases of the Company's own ordinary shares are set out in the Notice of the Annual General Meeting. The Directors have no current intention of exercising the authority in respect of the purchase of the Company's own shares, which is sought in the best interests of shareholders to allow the flexibility to react promptly where such market purchases may be desirable.

There are no 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); 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 2022 in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, and those holdings may have changed since notification to the Company.

	As at 31 July 2022		As at 24 October 2022	
	Ordinary shares	**Voting rights**	Ordinary shares	Voting rights
Peter Kelly[1]	**64,976,058**	**32.6%**	64,976,058	32.6%
Mawer Investment Management Limited	**9,946,370**	**5.0%**	9,946,370	5.0%
John Nash[1]	**7,244,714**	**3.6%**	7,244,714	3.6%

Note:

1. The ordinary shares held by Peter Kelly 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 24 October 2022, Peter Kelly, the founder of Softcat plc, held 32.6% 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; and
- 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.

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 21 to the financial statements.

Research and development

The Company did not carry out any research and development activities during the year (2021: none).

Political donations

The Company did not make any political donations during the year (2021: £Nil).

A resolution to authorise the Company to make political payments up to an aggregate amount of £100,000 has been included for shareholder consideration in the Notice of AGM for 2022. 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 and energy consumption

Information relating to the following is detailed in the report on TCFD and Sustainability, on pages 43 to 58 of the Strategic Report:

- greenhouse gas emissions; and
- energy consumption and energy efficiency.

Corporate social responsibility

Details on our commitment to corporate social responsibility can be found in the report on Social Value on pages 38 to 42 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 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 and ethnicity breakdown are given in the report on Social Value on page 38.

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, regular Company meetings, team briefings, Company days, emails and the intranet. Vin Murria serves as the Designated Non-Executive Director for Workforce Engagement.

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 ordinary dividend of 16.6p per ordinary share and a special dividend of 12.6p per ordinary share to be paid on 19 December 2022 to all ordinary shareholders who were on the register of members at the close of business on 11 November 2022. Shareholders will be asked to approve the final and special dividends at the AGM on 13 December 2022.

The Company's dividend and distributions policy is detailed in the Governance Report on page 76.

Requirements of the Listing Rules

The following table provides references to where the information required by 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 and Directors' interests.	Directors' Remuneration Report, pages 98 to 127
Details of any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company.	Directors' Remuneration Report, pages 98 to 127
Details of any non-pre-emptive issues of equity for cash.	Directors' Report, page 130
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 131

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 2022 AGM.

Branches

The Company operates branches in Australia, the United States of America, the Netherlands, Singapore, Hong Kong and Ireland.

Going concern

Overview

In considering the going concern basis for preparing the financial statements, the Directors consider the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position, which are all set out in the Strategic Report (see pages 1 to 64) and Chief Financial Officer's review sections (see pages 32 to 33) of this Annual Report. Given the current macro-economic environment and considering the latest guidance issued by the FRC the Directors have undertaken a fully comprehensive going concern review.

The Company has modelled three scenarios in its assessment of going concern. These are:

- the base case;
- the severe but plausible case; and
- the reverse stress test case.

Further details, including the analysis performed and conclusion reached, are set out below.

The Directors have reviewed detailed financial forecasts for a 13-month period from the date of this report (the going concern period) until 30 November 2023. All the forecasts reflect the payment of the FY2022 dividend of £58.2m which will be paid in December 2022 subject to approval at the AGM.

The Company operates in a resilient industry. Our UK Corporate customer base spend is increasingly non-discretionary as IT continues to be vital to gain competitive advantage in an increasingly digital age. Public Sector, a large and fast-growing area of the business, continues to invest in technology to provide efficient services to the public and this has continued apace despite the pandemic and recent turbulence in the UK economy. The Company strategy remains unchanged and will continue to focus on increasing the customer base and spend per customer during the going concern period.

Liquidity and financing position

At 31 July 2022, the Company held instantly accessible cash and cash equivalents of £97.3m, while net current assets were £190.7m. Note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management and its exposures to credit risk and liquidity risk. Operational cash flow forecasts for the going concern period are sufficient to support the business with the £60m cash floor set by the Board not being breached.

There is a sufficient level of liquidity headroom post mitigation across the going concern forecast period in base and severe but plausible scenarios considered and outlined in more detail below.

Challenging economic environment

Management have, in all three scenarios, considered the principal challenges to short term business performance which are expected to be:

- an economic downturn in the UK economy, aided by high broad-based inflation and increasing interest rates;
- continued impact of hardware supply constraints, resulting from the global semi-conductor shortage, although this is forecast to improve and is isolated to a select few vendors; and
- higher risk of credit losses.

Despite the impact of Omicron and further lockdown period on the year just finished, the Company has traded well, delivering double-digit year-on-year growth. The Board continue to monitor the global and national economic environment and organise operations accordingly.

Base case

The base case, which was approved by the Board in October 2022, takes into account the FY2023 budget process which includes estimated growth and increased costs across the going concern period and is consistent with the actual trading experience through to September 2022. The key inputs and assumptions in the base case include:

- continued revenue growth in line with historic rates;
- rebate income continues to be received in proportion to cost of sales as in FY2022;
- employee commission is incurred in line with the gross margin; and
- increased levels of cost to reflect continued investment in our people, the businesses IT infrastructure as well as a return of travel and staff entertainment costs more in line with pre-COVID levels than we have seen in the past twelve months.

The Company has taken a measured approach to the base case and has balanced the expected trading conditions with available opportunities in an increasingly resilient area of customer spend, which is supported by the current financial position. In making our forecasts we balanced our customer needs alongside employee welfare. We have in place a hybrid working model with a balance of remote working and return to the office, which has not had a noticeable impact on the operational performance of the Company. Year to date trading to the end of September 2022 is consistent with the base case forecast.

Severe but plausible case

Given the current economic challenges facing our customer base and supply chain, we have modelled a severe but plausible scenario. In this case we have modelled a decline in revenue, versus the base case, which is below any historic trend and more severe than experienced during the height of the pandemic. Further impacts of this scenario, such as reduced margins and greater credit losses, have also been considered.

The key inputs and assumptions include:

- an average 7.5% reduction in revenue, compared to the base case;
- reduced gross profit margins of 1% in the period;
- additional bad debt write offs of £5m across the forecast period;
- extending the debtor days from historic levels achieved and no change to historic supplier payment days;
- paying a reduced interim dividend in line with lower profitability but still within the range set out in the dividend policy; and
- both commission cost and rebate income adjusted downwards in line with reduced profitability and cost of sales, but at the same percentage rates as in the base case.

Going concern continued

Severe but plausible case continued

The purpose of this scenario was to consider if there was a significant risk that the Company would move to being cash negative in any of the months in the going concern period. Even at these lower levels of activity, which the Directors believe is a highly unlikely outcome, the Company continues to be profitable, and maintains a positive cash balance at all times. Despite this, management have modelled further cost saving and working capital action (see mitigating actions) that will enable the Company to mitigate the impact of reduced cash generation further and achieve the Board's desired minimum cash position, should this scenario occur. The Directors are confident that they can implement these actions if required.

Mitigating actions

There are several potential management actions that have not been included in the severe but plausible forecast and it is estimated that the total cash impact of these actions is in excess of a £18m cost reduction on an annualised basis and additional annual working capital savings of £30m, before considering the cost of delivering them and the point at time at which they were delivered. The actions which if implemented would offset the reduced activity:

- bonus costs scaled back in line with performance;
- no interim dividend in H2 of FY2023;
- savings in discretionary areas of spend;
- delayed payment to suppliers foregoing early settlement discount; and
- short term supplier payment management.

The mitigations are deemed achievable and reasonable as the Company benefits from a flexible business model with a high proportion of costs linked to performance.

Reverse stress test

The Directors have performed a reverse stress test exercise to see how extreme conditions would need to be for the Company to become cash negative within a twelve-month period. The conditions go significantly further than the severe but plausible scenario and reflect a scenario that the business consider remote. The four combined stresses modelled are as follows:

1. reduction of 15% in gross invoiced income, compared to the base case;
2. reduced achievable gross margin by 3%;
3. additional bad debt write offs of £10m per year across the forecast period; and
4. extending the debtor days by three days from historic levels achieved and no change to historic supplier payment days.

All four inputs are greater than the business has ever experienced in its history. In the modelled scenario, prior to mitigations, the business could become cash negative within twelve months.

Whilst the Board considers such a scenario to be extremely remote a programme of further actions to mitigate the impact, in excess of those set out above, would be actioned should the likelihood of such a scenario increase. The Board considers the forecasts and assumptions used in the reverse stress test, as well as the event that could lead to it, to be extremely remote.

Going concern conclusion

Based on the forecast and the scenarios modelled, together with the performance of the Company to date, the Directors consider that the Company has significant liquidity headroom to continue in operational existence for the thirteen-month period from the date of this report (the going concern period) until 30 November 2023. Accordingly, at the October 2022 Board meeting, the Directors concluded from this analysis it was appropriate to continue to adopt the going concern basis in preparing the financial statements. Should the impact of these conditions be even more prolonged or severe than currently forecast by the Directors under the severe but plausible case scenario, the Company would need to implement additional operational or financial measures.

Disclosure of information to the auditor

The Directors in office at the time of approval of the Directors' Report are listed on pages 68 to 69 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.

Annual General Meeting

The Company's 2022 AGM will take place on 13 December 2022 at the Company's registered office: Softcat plc, Fieldhouse Lane, Marlow, Buckinghamshire SL7 1LW.

The Chair of the AGM intends for a poll to be called in respect of each of the resolutions to be voted on at the 2022 AGM. In the event of 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 in the event of 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 Centre 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 usually 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 results of each of the resolutions to be voted on at the 2022 AGM will be published to the London Stock Exchange and will be available on the Company's website.

The AGM is the Company's principal forum for communication with private shareholders and the Directors recognise its important role. The Chair of the Board and the Chairs of the Committees, together with the other Directors, will be available to answer shareholders' questions at the meeting. Additionally, shareholders will be given the opportunity to submit questions via email, to the Directors, ahead of the meeting. Questions may be submitted to cosec@softcat.com or by letter addressed to the Company Secretary at the Company's registered office. Questions should be received up to 24 hours in advance of the meeting and a response will be provided. Further information and requirements can be found within the Notice of 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 United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company's financial statements in accordance with UK-adopted international accounting standards ('IFRSs'). 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 and of the profit or loss of the Company for that period.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- 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 Company's financial position and financial performance;
- state that UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the 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 that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. 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.

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Fair and balanced reporting

Having taken advice from the Audit Committee, the Board considers that 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 68 to 69) confirms that (solely for the purpose of DTR 4) to the best of his or her knowledge:

- the financial statements, prepared in accordance with UK-adopted international accounting standards give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Annual Report, including the Strategic Report, includes 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 they face; and
- they consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

The responsibility statement has been approved by the Board of Directors and is signed on its behalf by:

Graeme Watt
Chief Executive Officer
24 October 2022

Graham Charlton
Chief Financial Officer
24 October 2022

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

Luke Thomas
Company Secretary
24 October 2022

To the members of Softcat plc

Opinion

We have audited the financial statements of Softcat plc for the year ended 31 July 2022 which comprise the Statement of profit or loss and other comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 July 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Independence

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.

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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- understanding management's process and controls related to the assessment of going concern including discussion with management to assess whether all key factors were taken into account;
- checking the arithmetical accuracy of the cash flow forecast models and assessing the Company's historical forecasting accuracy;
- obtaining management's going concern models which included a base case, a severe yet plausible downside cash flow scenario, and a reverse stress test covering the going concern assessment period to 30 November 2023. These forecasts include an assessment of available cash balances given the Company has no external debt arrangements as well as understanding how the impact of the ongoing macro-economic uncertainty had been reflected in the forecasts;
- considering the downside scenarios, including the reverse stress case, identified by management, independently assessing whether there are any other scenarios which should be considered, and assessing the quantum of the impact on the available cash flows of the downside scenarios in the going concern period;
- challenging management's assumptions within the cash flow forecasts in relation to the forecast growth rates, inflation and working capital in the going concern period, including searching for sources of contradictory evidence in our assessment of management's forecasting, such as assessing historical budgeting accuracy and comparing the forecast with analyst expectations. Due to uncertainty in the wider economic markets, we have focused our work on further sensitivities to the severe but plausible scenario and whether the reverse stress test scenario is considered remote;
- assessing the adequacy of the going concern assessment period until 30 November 2023, considering whether any events or conditions foreseeable after the period indicated a longer review period would be appropriate;
- inquired of management as to their knowledge of events or conditions beyond the period of their assessment that may cast significant doubt on the entity's ability to continue as a going concern;
- comparing management's forecasts to actual results through the subsequent events period and performing enquiries to the date of this report; and
- assessing if the going concern disclosures in the financial statements are appropriate and in accordance with the revised ISA (UK) 570 going concern standard.

Our key observations

- The Directors' assessment is that Softcat plc, on a standalone basis, has sufficient liquidity and headroom in cash throughout the going concern period to 30 November 2023. Management's reverse stress testing demonstrated a 18% reduction in gross profit compared to prior year (prior to mitigations) would be required to eliminate cash held, which is more than the impact of all of management's downside scenarios combined.

  We have not identified any material climate-related risks that should be incorporated into Softcat plc's forecasts to 30 November 2023.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the period to 30 November 2023.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Overstatement of performance through the misstatement of revenue recognised at or near year end • IFRS 15 presentation of revenue in respect of principal versus agent • Misstatement of rebate income to overstate reported results at or near year end
Materiality	• Overall materiality of £6.5m which represents 5% of profit before tax

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the UK-based audit engagement team.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact Softcat plc. The Company has determined that the most significant future impacts from climate change on its operations will be from business interruption driven by extreme climate or failure to evolve technology product offerings in line with consumer and investor demands. These are explained on pages 49 to 50 in the required Task Force for Climate related Financial Disclosures and on page 62 in the principal risks and uncertainties, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained in note 1, the impact of climate change is not considered to have a material impact at this time. Governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of UK adopted International Accounting Standards ('IFRS').

Our audit effort in considering climate change was focused on evaluating management's assessment of the impact of climate risk, physical and transition, and ensuring that the effects of climate risks disclosed on pages 49 to 50 do not gave a material impact on the financial statements. We also challenged the Directors' considerations of climate change in their assessment of going concern and viability and associated disclosures.

Whilst the Company has stated its commitment to the aspirations of the Paris Agreement to achieve net zero emissions by 2050, the Company is currently unable to determine the full future economic impact on their business model, operational plans and customers to achieve this and therefore as set out above the potential impacts are not fully incorporated in these financial statements.

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.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Overstatement of performance through the misstatement of revenue recognised at or near year end During the year the Company recognised revenue of £1,077.9m (2021: £784.0m). Refer to the Audit Committee Report (pages 80 to 89); Accounting policies (pages 148 to 159); and note 2 of the Company Financial Statements (page 159 to 160). • Management's process for accounting for certain revenue transactions, particularly the review process at year end to record revenue in the appropriate period, is mostly manual and therefore susceptible to error (either deliberate or without intent). The accounting is made more challenging due to the reliance on suppliers to notify the Company of delivery, and for international shipments which results in a longer delivery lead time needing to be built into the assumptions utilised by management. There is a risk that revenue is recognised prematurely or fictitiously. • Certain compensation incentives are based on quarterly and annual gross margin targets, creating a risk of revenue misstatement through management override via top side revenue journals with no associated cost or revenue recognised in the incorrect period prematurely.	We performed the following procedures: • Performed walkthroughs within the new ERP system to understand key changes in the revenue recognition process. We amended our audit strategy to reflect changes in the process for accounting for unbilled receivables and deferred income. • Updated our understanding of management's cut off assessment, including the delivery lead time assumptions utilised, which we validated to historic averages. • Tested revenue cut off by obtaining management's sales cut off assessment and independently testing a sample of transactions therein by vouching to invoices and proof of delivery. • Tested unbilled receivables by obtaining management's analysis and independently testing transactions therein by vouching to invoices and proof of delivery. • Tested an independent sample of transactions invoiced in the two weeks either side of the year end. We stratified the population between revenue type and selected our sample based on the following criteria: – key items based on a quantitative threshold or specific qualitative factors; and – statistical sample of items invoiced within the seven days prior to the balance sheet date, which we considered to be of higher risk based on average delivery lead times. • We tested our sample by vouching to invoices and proof of delivery, to confirm these had been recorded in the correct period. • To address the risk of management override - we tested a sample of journal entries recorded at or near year end as well as top-side adjustments by verifying to appropriate supporting documentation. • Tested a statistical sample of sales transactions deferred at the year end. We recalculated the split of revenue recognised and the deferred elements based on a review of the supporting documentation to obtain assurance over the recognition of revenue. We also selected a sample of invoices from billing data and assessed whether the revenue was appropriately recognised or deferred, based on completion of the performance obligation. • Analysed sales related journal entry data to track sales from revenue through to accounts receivable through to cash collection using data analytics tools. We used this analysis to validate the appropriateness of transaction flows and tested a sample of transactions to determine if the journals accurately reflected the substance of transactions recorded.	We concluded that the revenue recognised at or near year end was properly accounted for and that revenue has appropriately been recognised in accordance with IFRS. We concluded that management's disclosures in relation to revenue, including disclosed accounting policies and those relating to key critical accounting judgements, to be appropriate. We did not identify any issues over revenue cut-off as a result of the new ERP system implemented in the current period. As part of our procedures, we noted no indication of deliberate or other manipulation of revenue cut-off or management override.

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
IFRS 15 Presentation of revenue in respect of principal vs agent During the year the Company recognised revenue of £1,077.9m (2021: £784.0m). Refer to the Audit Committee Report (pages 80 to 89); Accounting policies Accounting policies (pages 148 to 159); and note 2 of the Company Financial Statements (page pages 159 to 160). There is a risk that the reported revenue may be incorrectly presented on a gross basis as a result of the incorrect assessment of whether the Company has control over the products or services sold and consequently if the Company is principal or agent in its arrangements with customers. As products and services offered continually evolve the assessment of control needs to be revisited on an ongoing basis. The nature of the current systems is to process all revenue streams gross, and a manual adjustment is made by management at year end to record revenue on a net basis where Softcat is the agent in the arrangement.	We performed the following procedures: • Performed incremental walkthroughs within the new ERP system to understand key changes in the revenue recognition process. There were no significant changes driven by the change in system that affected our planned audit procedures. • Updated our understanding of management's judgement over the classification of transactions between gross and net presentation, specifically in relation to the change in accounting policy for software revenue following responses made by the IFRS Interpretations Committee in relation to revenue recognition from the resale of software licenses. Our procedures with respect to the change in accounting policy included: – obtaining and reviewing management's paper to the audit committee, including involvement of internal IFRS technical reviewers; and – benchmarking the conclusions reached to publicly available information for comparative companies that have already communicated a change in accounting policy. • Assessed management's judgement made for any significant new product types by independently assessing the nature of such products and meeting with key members of the sales and solutions teams to develop an understanding of Softcat's responsibilities in relation to the sale. We challenged whether Softcat has primary responsibility for fulfilling the promise of the goods or service and whether Softcat is exposed to inventory risk during the delivery period, in order to help ascertain the exercise of control of goods prior to their delivery, and ultimately concluded if the principal (gross) or agent (net) treatment applied was appropriate according to the criteria set out within IFRS 15 and management's revised accounting policies. • Tested a sample of transactions across the year to determine the Company's control over the product or service including: – Verified the product type to external sources, such as supplier websites, and met with key members of the sales and solutions teams to develop an understanding of Softcat's responsibilities in relation to the sale. For each sample selected we challenged whether Softcat has primary responsibility for fulfilling the promise of the goods or service and whether Softcat is exposed to inventory risk during the delivery. – Corroborated the related cost for each sample item to supporting purchase invoices. – Assessed if principal (gross) or agent (net) treatment should be applied and compared this to management's conclusion to determine if this was appropriate according to the criteria set out within IFRS 15. • Reperformed management's calculation of the adjustment to record revenue on a net basis, including reperforming management's calculation of the prior period revenue net down to confirm the impact of the restatement of prior period comparatives. • Tested that the methodology utilised to calculate the adjusted performance measure (APM) 'gross invoiced income' is consistent with the FY2021 financial statements and in accordance the definition of the APM disclosed in the financial statements. We assessed management's rationale for including the APM and ensured that the amount reported is reconciled to reported revenue.	We concluded that the judgements made by management are consistent with the level of control we have observed, the presentation and disclosure of revenue is materially correct, and has been recognised in accordance IFRS. We concluded that management's disclosures in relation to revenue, including disclosed accounting policies and those relating to key critical accounting judgements, to be appropriate. We concluded that management's rationale for including the APM to be reasonable. The disclosures in respect of the APM is appropriate and is correctly reconciled to revenue. We conclude the disclosures made in the accounts, including the use of APMs, to be fair, balances and understandable. We did not identify any issues over presentation of revenue as a result of the new ERP system implemented in the current period.

Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Misstatement of rebate income to overstate reported results at or near year end Accrued rebate income at 31 July 2022 amounts to £10.5m (2021: £8.2m). Refer to the Audit Committee Report (pages 80 to 89); Accounting policies (pages 148 to 159); and note 11 of the Company Financial Statements (page 165). Rebates are recorded through a primarily manual process. While most rebates are agreed with the supplier and received during the year, there is an opportunity to misstate results through adjustments to the balance sheet receivable.	We performed the following procedures: • Performed walkthroughs within the new ERP system to understand key changes in the rebate process. There were no significant changes driven by the change in system that affected our planned audit procedures. • Obtained confirmations from a sample of sales personnel to confirm no rebate agreements outside of standard practice. • Tested the year end accrued income by confirming a sample of rebates due from suppliers to third party source documentation. • Analysed the rebate receivable by vendor and compared the largest vendor level balances (making up 92% of the balance) against the 31 July 2021 comparative to identify unusual movements that are not in line with our expectation or understanding of the business. Performed analysis to understand the drivers of increases or decreases in the underlying balances. • Assessed the cash conversion of rebates accrued at the year end and tested a sample to subsequent receipts. • Tested a sample of rebate transactions recorded in the statement of profit and loss throughout the year and obtained underlying support to consider whether the transactions have been recorded in the correct period.	We concluded that the rebate receivable and corresponding income are materially correct and have been recognised in accordance with IFRS. We concluded that management's disclosures in relation to accrued income, including disclosed accounting policies, to be appropriate. We did not identify any issues over accrued income as a result of the new ERP system implemented in the current period. As part of our procedures, we noted no indication of deliberate or other manipulation of accrued income or management override.

Our application of materiality

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

Materiality

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

We determined materiality for the Company to be £6.5m (2021: £6.0m), which is 5% (2021: 5%) of profit before tax. We believe that profit before tax provides us with the most appropriate basis as it drives shareholder returns and is a key measure of Company performance.

During the course of our audit, we did not amend our initial materiality.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2021: 75%) of our planning materiality, namely £3.2m (2021: £4.4m). We have set performance materiality at this percentage, decreasing from the prior year, to reflect the heightened risk of misstatement arising as a result of the transition of the primary ERP system and related process and controls during the period.

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 £0.3m (2021: £0.3m), 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 evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 135, including the Strategic report set out on pages 1 to 65 and the Corporate governance report set out on pages 70 to 79, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Opinions 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the 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 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 135;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on page 64;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 133;
- Directors' statement on fair, balanced and understandable set out on page 135;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 59;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 59; and
- the section describing the work of the audit committee set out on page 80.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 135, 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- 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, the Companies Act 2006 and the UK Corporate Governance Code 2018), relevant tax compliance regulations in the UK, relevant employment law in the UK and Data Protection Act 2018. 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.
- We understood how Softcat plc is complying with those frameworks by making inquiries 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 from 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 propensity to influence 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. The key audit matters section above addresses procedures performed in areas where we have concluded the risks of material misstatement are highest (including where due to the risk of fraud). In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code 2018.
- 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.

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

Other matters we are required to address

- Following the recommendation from the audit committee, we were re-appointed by the Company on 15 December 2021 to audit the financial statements for the year ending 31 July 2022. During the year the Company undertook a formal competitive tender process. Following completion of such process, Ernst & Young LLP was recommended by the chair to the Audit Committee to continue as the external auditor with effect for the financial year ending 31 July 2023. This recommendation was approved by the Board on 18 May 2022, subject to approval by shareholders at the Company's 2022 Annual General Meeting.

  The period of total uninterrupted engagement including previous renewals and reappointments is ten years, covering the years ending 2013 to 2022.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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.

Ernst & Young LLP

David Hales (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 October 2022

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 July 2022

	Notes	2022 £'000	2021[1] £'000
Revenue	2	**1,077,946**	784,049
Cost of sales		**(750,736)**	(507,691)
Gross profit		**327,210**	276,358
Administrative expenses		**(191,065)**	(156,942)
Operating profit	3	**136,145**	119,416
Finance income	4	**252**	28
Finance cost	4	**(253)**	(477)
Profit before tax		**136,144**	118,967
Income tax expense	5	**(25,739)**	(22,782)
Profit for the year		**110,405**	96,185
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Foreign exchange differences on translation of foreign branches		**3,562**	–
Total other comprehensive income		**3,562**	–
Total comprehensive income for the year		**113,967**	96,185
Profit attributable to:			
Owners of the Company		**110,405**	96,185
Total comprehensive income attributable to:			
Owners of the Company		**113,967**	96,185
Earnings per ordinary share (p)			
Basic	18	**55.5**	48.4
Diluted	18	**55.3**	48.2

Note:

1. The prior year comparatives have been restated in line with the change in accounting policy for the IFRS IC agenda decision – IFRS 15 Revenue from Contracts with Customers, treatment of Software revenue as agent revenue. For further information, see Note 1.5.

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 2022

	Notes	2022 £'000	2021 £'000
Non-current assets			
Property, plant and equipment	7	**11,270**	11,753
Right-of-use assets	8	**6,162**	7,022
Intangible assets	9	**7,978**	5,202
Deferred tax asset	15	**2,508**	3,149
		27,918	27,126
Current assets			
Inventories	10	**5,104**	38,411
Trade and other receivables	11	**541,424**	329,666
Income tax receivable		**296**	432
Cash and cash equivalents	14	**97,316**	101,724
		644,140	470,233
Total assets		**672,058**	497,359
Current liabilities			
Trade and other payables	12	**(419,108)**	(293,528)
Contract liabilities	13	**(31,564)**	(12,759)
Income tax payable		**—**	—
Lease liabilities	8	**(2,716)**	(2,598)
		(453,388)	(308,885)
Non-current liabilities			
Contract liabilities	13	**(3,620)**	(3,626)
Lease liabilities	8	**(3,950)**	(5,704)
		(7,570)	(9,330)
Total liabilities		**(460,958)**	(318,215)
Net assets		**211,100**	179,144
Equity			
Issued share capital	17	**100**	100
Share premium account		**4,979**	4,979
Reserves for own shares		**—**	—
Foreign exchange translation reserve		**3,562**	—
Retained earnings		**202,459**	174,065
Total equity		**211,100**	179,144

These financial statements were approved by the Board of Directors and authorised for issue on 24 October 2022.

On behalf of the Board

Graeme Watt
Chief Executive Officer

Graham Charlton
Chief Financial Officer

Softcat plc company registration number: 02174990

Financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2022

Equity attributable to owners of the Company

	Share capital £'000	Share premium account £'000	Foreign exchange translation reserve £'000	Reserves for own shares £'000	Retained earnings £'000	Total £'000
Balance at 1 August 2020	100	4,979	–	–	135,668	140,747
Total comprehensive income for the year	–	–	–	–	96,185	96,185
Share-based payment transactions	–	–	–	–	2,267	2,267
Dividends paid	–	–	–	–	(60,815)	(60,815)
Shares issued in the year	–	–	–	–	–	–
Dividend equivalents paid	–	–	–	–	(196)	(196)
Tax adjustments	–	–	–	–	1,117	1,117
Other	–	–	–	–	(161)	(161)
Balance at 31 July 2021	100	4,979	–	–	174,065	179,144
Profit for the period	–	–	–	–	110,405	110,405
Impact of foreign exchange on reserves	–	–	3,562	–	–	3,562
Total comprehensive income for the year	–	–	3,562	–	110,405	113,967
Share-based payment transactions	–	–	–	–	2,541	2,541
Dividends paid	–	–	–	–	(84,020)	(84,020)
Shares issued in the year	–	–	–	–	(215)	(215)
Dividend equivalents paid	–	–	–	–	(214)	(214)
Tax adjustments	–	–	–	–	(317)	(317)
Balance at 31 July 2022	**100**	**4,979**	**3,562**	**–**	**202,459**	**211,100**

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 refers to ordinary shares held by a Share Incentive Plan ('SIP') Trust.

During the year ended 31 July 2022, 305,266 share options (2021: 362,639) were exercised and new shares were issued to satisfy this exercise. Proceeds of £Nil (2021: £Nil) were realised from the exercise of these share options.

As at 31 July 2022, the SIP Trust held 187,771 shares (2021: 218,258) awarded to employees as part of the free share award, subject to service conditions. A further 353,797 shares (2021: 348,779) were held on behalf of employees who have taken part in the Company's voluntary partnership share purchase programme. The SIP also held 51,007 unallocated shares (2021: 51,007).

STATEMENT OF CASH FLOWS

For the year ended 31 July 2022

	Notes	2022 £'000	2021 £'000
Net cash generated from operating activities	19	**83,644**	91,252
Investing activities			
Finance income	4	**252**	28
Purchase of property, plant and equipment	7	**(1,890)**	(2,265)
Purchase of intangible assets	9	**(3,334)**	(4,199)
Net cash used in investing activities		**(4,972)**	(6,436)
Financing activities			
Issue of share capital		**–**	–
Dividends paid	6	**(84,020)**	(60,815)
Payment of principal portion of lease liabilities	8	**(2,369)**	(2,125)
Payment of interest portion of lease liabilities	4,8	**(253)**	(291)
Net cash used in financing activities		**(86,642)**	(63,231)
Net (decrease)/increase in cash and cash equivalents		**(7,970)**	21,585
Cash and cash equivalents at beginning of year	14	**101,724**	80,139
Exchange gains/(losses) on cash and cash equivalents		**3,562**	–
Cash and cash equivalents at end of year	14	**97,316**	101,724

1 Accounting policies

1.1 Corporate information

The financial statements of Softcat plc for the year ended 31 July 2022 were authorised for issue in accordance with a resolution of the Directors on 24 October 2022. 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 UK-adopted international accounting standards (IFRS) in accordance with the requirements of the Companies Act 2006. IFRS includes the application of International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and the IFRS Interpretations Committee ('IFRIC') interpretations.

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 at 1 August 2021. The accounting policies set out below have, unless otherwise stated (see 1.4 and 1.5 below), been applied consistently to all periods presented in these financial statements.

The potential climate change-related risks and opportunities to which the Company is exposed, as identified by management, are disclosed in the Company's TCFD disclosures on pages 49 to 51. Management has assessed the potential financial impacts relating to the identified risks and exercised judgement in concluding that there are no further material financial impacts of the Company's climate-related risks and opportunities on the financial statements. These judgements will be kept under review by management as the future impacts of climate change depend on environmental, regulatory and other factors outside of the Company's control which are not all currently known.

Going concern

Overview

In considering the going concern basis for preparing the financial statements, the Directors consider the Company's objectives and strategy, its principal risks and uncertainties in achieving its objectives and its review of business performance and financial position, which are all set out in the Strategic Report (see pages 1 to 64) and Chief Financial Officer's review sections (see pages 32 and 33) of this Annual Report. Given the current macro-economic environment and considering the latest guidance issued by the FRC the Directors have undertaken a fully comprehensive going concern review.

The Company has modelled three scenarios in its assessment of going concern. These are:

- the base case;
- the severe but plausible case; and
- the reverse stress test case.

Further details, including the analysis performed and conclusion reached, are set out below.

The Directors have reviewed detailed financial forecasts for a thirteen-month period from the date of this report (the going concern period) until 30 November 2023. All the forecasts reflect the payment of the FY2022 dividend of £58.2m which will be paid in December 2022 subject to approval at the AGM.

The Company operates in a resilient industry. Our UK Corporate customer base spend is increasingly non-discretionary as IT continues to be vital to gain competitive advantage in an increasingly digital age. Public Sector, a large and fast-growing area of the business, continues to invest in technology to provide efficient services to the public and this has continued apace despite the pandemic and recent turbulence in the UK economy. The Company strategy remains unchanged and will continue to focus on increasing the customer base and spend per customer during the going concern period.

Liquidity and financing position

At 31 July 2022, the Company held instantly accessible cash and cash equivalents of £97.3m, while net current assets were £190.7m. note 21 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management and its exposures to credit risk and liquidity risk. Operational cash flow forecasts for the going concern period are sufficient to support the business with the £60m cash floor set by the Board not being breached.

There is a sufficient level of liquidity headroom post mitigation across the going concern forecast period in base and severe but plausible scenarios considered and outlined in more detail below.

Challenging economic environment

Management have, in all three scenarios, considered the principal challenges to short term business performance which are expected to be:

- An economic downturn in the UK economy, aided by high broad-based inflation and increasing interest rates;

1 Accounting policies continued
1.2 Basis of preparation continued
Going concern continued
Challenging economic environment continued

- Continued impact of hardware supply constraints, resulting from the global semi-conductor shortage, although this is forecast to improve and is isolated to a select few vendors; and
- Higher risk of credit losses.

Despite the impact of Omicron and further lockdown period on the year just finished, the Company has traded well, delivering double-digit year-on-year growth. The Board continue to monitor the global and national economic environment and organise operations accordingly.

Base case

The base case, which was approved by the Board in October 2022, takes into account the FY2023 budget process which includes estimated growth and increased costs across the going concern period and is consistent with the actual trading experience through to September 2022. The key inputs and assumptions in the base case include:

- continued revenue growth in line with historic rates;
- rebate income continues to be received in proportion to cost of sales as in FY2022;
- employee commission is incurred in line with the gross margin; and
- increased levels of cost to reflect continued investment in our people, the businesses IT infrastructure as well as a return of travel and staff entertainment costs more in line with pre-covid levels than we have seen in the past twelve months.

The Company has taken a measured approach to the base case and has balanced the expected trading conditions with available opportunities in an increasingly resilient area of customer spend, which is supported by the current financial position. In making our forecasts we balanced our customer needs alongside employee welfare. We have in place a hybrid working model with a balance of remote working and return to the office, which has not had a noticeable impact on the operational performance of the Company. Year to date trading to the end of September 2022 is consistent with the base case forecast.

Severe but plausible case

Given the current economic challenges facing our customer base and supply chain, we have modelled a severe but plausible scenario. In this case we have modelled a decline in revenue, versus the base case, which is below any historic trend and more severe than experienced during the height of the pandemic. Further impacts of this scenario, such as reduced margins and greater credit losses, have also been considered.

The key inputs and assumptions include:

- an average 7.5% reduction in revenue, compared to the base case;
- reduced gross profit margins of 1% in the period;
- additional bad debt write offs of £5m across the forecast period;
- extending the debtor days from historic levels achieved and no change to historic supplier payment days;
- paying a reduced interim dividend in line with lower profitability but still within the range set out in the dividend policy; and
- both commission cost and rebate income adjusted downwards in line with reduced profitability and cost of sales, but at the same percentage rates as in the base case.

The purpose of this scenario was to consider if there was a significant risk that the Company would move to being cash negative in any of the months in the going concern period. Even at these lower levels of activity, which the Directors believe is a highly unlikely outcome, the Company continues to be profitable, and the Company would still have sufficient cash reserves to meet the Board's minimum requirements. Despite this, management have modelled further cost saving and working capital action (see mitigating actions) that will enable the Company to mitigate the impact of reduced cash generation further, should this scenario occur. The Directors are confident that they can implement these actions if required.

Mitigating actions

There are several potential management actions that have not been included in the severe but plausible forecast and it is estimated that the total cash impact of these actions is in excess of a £18m cost reduction on an annualised basis and additional annual working capital savings of £30m, before considering the cost of delivering them and the point at time at which they were delivered. The actions which if implemented would offset the reduced activity:

- bonus costs scaled back in line with performance;
- no interim dividend in H2 of FY2023;
- savings in discretionary areas of spend;

1 Accounting policies continued

1.2 Basis of preparation continued

Going concern continued

Mitigating actions continued

- delayed payment to suppliers foregoing early settlement discount; and
- short term supplier payment management.

The mitigations are deemed achievable and reasonable as the Company benefits from a flexible business model with a high proportion of costs linked to performance.

Reverse stress test

The Directors have performed a reverse stress test exercise to see how extreme conditions would need to be for the Company to become cash negative within a twelve-month period. The conditions go significantly further than the severe but plausible scenario and reflect a scenario that the business consider remote. The four combined stresses modelled are as follows:

1. reduction of 15% in gross invoiced income, compared to the base case;
2. reduced achievable gross margin by 3%;
3. additional bad debt write offs of £10m per year across the forecast period; and
4. extending the debtor days by three days from historic levels achieved and no change to historic supplier payment days.

All four inputs are greater than the business has ever experienced in its history. In the modelled scenario, prior to mitigations, the business could become cash negative within twelve months.

Whilst the Board considers such a scenario to be extremely remote a programme of further actions to mitigate the impact, in excess of those set out above, would be actioned should the likelihood of such a scenario increase. The Board considers the forecasts and assumptions used in the reverse stress test, as well as the event that could lead to it, to be extremely remote.

Going concern conclusion

Based on the forecast and the scenarios modelled, together with the performance of the Company to date, the Directors consider that the Company has significant liquidity headroom to continue in operational existence for the thirteen-month period from the date of this report (the going concern period) until 30 November 2023. Accordingly, at the October 2022 Board meeting, the Directors concluded from this analysis it was appropriate to continue to adopt the going concern basis in preparing the financial statements. The ongoing impacts of COVID-19, the current economic environment and the cost of living crisis continue to impact both customers and suppliers and create market uncertainty. Should the impact of these conditions be even more prolonged or severe than currently forecast by the Directors under the severe but plausible case scenario, the Company would need to implement additional operational or financial measures.

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 control has been transferred to the customer and the performance obligation has been met by the Company. Management therefore performs an exercise to capture items that may have been dispatched from the distributor but not delivered in the financial year, and subsequently defers the recognition of revenue and associated cost into the following year. This gives rise to a deferred income, which is recognised as a contract liability, and associated inventory in the Statement of financial position. The exercise applied includes assumptions, which management believes are reasonable, in order to identify items that fit the criteria for deferral. Separately, management reviews individual large transactions on a case-by-case basis, which reduces the opportunity for error.

The key judgements that are made in the cut-off process are as follows:

- When identifying transactions to review in the cut-off process, management limits the review period to a fixed number of days before and after the period end and validates the date of dispatch.
- Management incorporates a one-day shipment delay assumption onto the sale of hardware items to reflect the time taken between vendor shipment and customer delivery. Management further assess a five day risk window for international hardware shipments.

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

1 Accounting policies continued

1.3 Critical accounting judgements and key sources of estimation uncertainty continued

Principal versus agent

Significant judgement is required in determining whether the Company is acting as principal, reporting revenue on a gross basis, or agent, reporting revenue on a net basis. Softcat evaluates each revenue stream against the following indicators when determining whether it is acting as principal or agent in a transaction: (i) primary responsibility for fulfilling the promise to provide the specified goods or service, (ii) inventory risk before the specified good or service has been transferred to a customer and (iii) discretion in establishing the price for the specified good or service. Certain revenue streams present a more balanced judgement than others when assessed against the above criteria and the conclusion may be reliant on the weighting applied to the responses to these criteria. When applying the weighting and concluding on whether principal or agent treatment is appropriate, the Company exercises significant levels of judgement due to the balanced nature of the assessment. The specific judgements made for each revenue category are discussed in the accounting policy for revenue as disclosed below.

Determining the lease term of contracts with renewal and termination options

Softcat determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. Softcat has several property leases that include termination options and Softcat applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, that Softcat considers all relevant factors that create an economic incentive to exercise either the renewal or termination option. Factors in considering extension or termination options include, but are not limited to, capacity constraints and growth plans, budgets and forecasts, trading relationships as well as current state of the property. After the commencement date, Softcat reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not exercise the relevant option available.

1.4 Adoption of new and revised standards

There have been no new standards effective in the period to 31 July 2022, that materially affect Softcat other than the accounting policy change in note 1.5. The standards in issues but not yet effective at the reporting date are not expected to materially affect Softcat.

1.5 Changes to Accounting Policies

The following changes in accounting policies are effective in the year to 31 July 2022. Other than those mentioned below, there are no further changes to accounting policies applicable in the period.

Change in Accounting Policy – IFRS 15

The IFRS Interpretation Committee (IC) recently concluded on a response to an industry request to clarify whether a company should recognise revenue from the resale of standard software licenses on a gross or net basis under IFRS 15 – Revenue from Contracts with Customers. The fact pattern provided to the IC was very similar to that faced by the Company when transacting software sales with customers. Whilst not providing a direct clarification on the topic, as they stated that the specifics of each case may vary and must be analysed in detail, the IC provided further guidance on the 'control' criteria which is used to determine whether revenue is recognised on a principal or agent basis. The staff paper, the published discussions within the IFRS IC and the ultimate decision indicate, in management's view, support of revenue recognition on a net basis.

Prior to this conclusion, Softcat recognised cloud-hosted and security software revenue on a 'net' basis, together with other lines of business where its role is considered more aligned to that of a billing agent or introducer. The remaining software lines of business were recorded on a 'gross' basis. However, this gross conclusion required significant judgement and consisted of elements that were indicative of either net or agent treatment with the ultimate conclusion being dependent on an assessment of the relative weighting of the various factors.

The guidance provided by the IC set out the following factors that previously aided the principal conclusion for software, specifically:

- The removal of pre-sales advice as an explicit or implicit promise in a contract. Softcat did not previously consider pre-sales advice as a separate performance obligation but factored these services into the consideration of control of licenses.
- In the case of software products, there is no inventory risk before the customer is provided with the licences, the risk arises after that point until the customer accepts the licences.
- In the case of software products, the software manufacturer is responsible for the software's functionality, in addition to issuing and activating the licenses, and is therefore responsible in those respects for fulfilling the promise to provide the licenses to the customer.

As a result of this guidance in favour of agent, the Company has amended its finely balanced judgement in favour of principal (and gross) presentation and concluded, considering the facts presented, that an accounting policy change in favour of agent (and net) presentation should be adopted for all software products that were previously recorded as principal and presented gross.

As prescribed in IAS 8, the business has applied this accounting policy change retrospectively, so the prior year and current year are presented consistently.

The impact of this change in accounting policy on the prior year financial statements is as follows;

- revenue and cost of sales would decrease by a further £372.6m on top of the current IFRS 15 software adjustment net down; and
- gross profit, operating profit, and profit before and after taxes will be unchanged in all periods. The Statement of financial position, Statement of cash flows and the Statement of changes in equity also remain unchanged.

1 Accounting policies continued

1.5 Changes to Accounting Policies continued

Change in Accounting Policy – IFRS 15 continued

Year ended 31 July 2021	Revenue as reported IFRS 15 £'000	Increase in net down £'000	Revised revenue £'000
Software revenue	501,058	(372,618)	128,440

	31 July 2021 as originally presented £'000	Impact of change in policy £'000	31 July 2021 as restated £'000
Revenue	1,156,667	(372,618)	784,049
Cost of sales	(880,309)	372,618	(507,691)
Gross profit	276,358	–	276,358
Administrative expenses	(156,942)	–	(156,942)
Operating profit	119,416	–	119,416
Finance income	28	–	28
Finance cost	(477)	–	(477)
Profit before tax	118,967	–	118,967
Income tax expense	(22,782)	–	(22,782)
Profit and total comprehensive income for the year	96,185	–	96,185
Profit attributable to:			
Owners of the Company	96,185	–	96,185

1.6 Revenue recognition

Revenue is recognised based on the completion of performance obligations at the transaction price allocated to the performance obligation. The transaction price is determined by the price specified in the underlying contract or order. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. No discounts, loyalty points or returns are offered to customers. All performance obligations are separately listed as individual items on the order and the price is allocated on this basis. A performance obligation is satisfied when control of the promised good or service is transferred to the customer. The following indicators are used by the Company in determining when control has passed to the customer:

(i) the Company has a right to payment for the product or service;

(ii) the customer has legal title to the product;

(iii) the Company has transferred physical possession of the product to the customer;

(iv) the customer has the significant risks and rewards of ownership of the product; and

(v) the customer has accepted the product.

Principal versus agent

The Company evaluates the following indicators amongst others when determining whether it is acting as a principal or agent in the transaction and recording revenue on a gross, or net, basis:

(i) the Company is primarily responsible for fulfilling the promise to provide the specified goods or service;

(ii) the Company has inventory risk before the specified good or service has been transferred to a customer; and

(iii) the Company has discretion in establishing the price for the specified good or service.

Hardware revenue

The Company sells hardware that is sourced from and delivered by multiple vendors and distributors. Revenues from sales of hardware products are recognised on a gross basis as the Company is acting as a principal in these transactions, with the gross value of the consideration from the customer recorded as revenue. The Company is acting as principal as it has primary responsibility for the acceptability of goods sold following the provision of consulting services which are not considered to be separately identifiable. Costs relating to the provision of consulting services are expensed as incurred. Softcat is also exposed to inventory risk during the delivery period and establishes the selling price itself. Revenue from the sale of these goods is recognised when the control has passed to the buyer, therefore the Company has satisfied its performance obligation. In line with industry standard terms, payment is generally due 30 days after invoice date.

Vendors typically provide standard warranties on most of the hardware products the Company sells. These manufacturer warranties are assurance-type warranties and are not considered separate performance obligations. The warranties are not sold separately and only provide assurance that products will conform with the manufacturer's specifications.

1 Accounting policies continued

1.6 Revenue recognition continued

Principal versus agent continued

Software revenue

Revenue from software licence sales is recognised on a net basis as the Company is acting as an agent in these transactions at the point the software licence is delivered to the customer. The Company is deemed to be acting as agent in these transactions as these products are intangible, customer specific and in most cases sent directly to customers by the vendor electronically, removing inventory risk for the Company, prior to delivery. Despite the ability to set pricing, the lack of inventory risk and the vendor having primary responsibility for the product meeting customer specifications, through largely standardised products, underline that these sales should be recorded as agent.

The revenue associated with the license sale is recognised upon the transfer of the license to the customer. At this point Softcat has satisfied its performance obligations. Payment is generally due 30 days from invoice date.

The Company sells cloud computing solutions which include Software as a Service ('SaaS'). SaaS solutions utilise third party partners to offer the Company's customers access to software in the cloud that enhances office productivity, provides security or assists in collaboration. As the Company has satisfied its performance obligations by arranging the transfer of the licensing to the customer, revenue is recognised in full at that point on a net basis as the Company is acting as an agent in the transaction, with an invoice subsequently raised. Payment is generally due within 30 days from invoice date.

The Company sells, for a single vendor, access to corporate enterprise agreements which is a certain licensing programme for customers who are eligible. For these transactions the Company introduces the customer to the vendor who then fulfils the sale, including transfer of licensing, invoicing and cash collection, without further involvement of the Company. In return for this introduction the vendor compensates the Company with a fee as the Company has satisfied its performance obligations at the point of initial transaction being completed between the vendor and the customer. This fee is recognised net as the Company is acting as an agent in these transactions. Payment is generally due within 30 days of the initial transaction between the vendor and the customer.

Service revenue

Softcat sells professional services days which are fulfilled by either Softcat's own internal team of consultants or by consultants provided by third parties. The Company recognises the revenue on these transactions, irrespective of whether they are fulfilled internally or externally, when confirmation has been received from the customer that the work has been satisfactorily completed. In most cases there is a short timeframe between a customer order and subsequent delivery of the sold service days. As such, the Company does not recognise revenue on a percentage completion basis as this would not have a material impact.

On very rare occasions the Company will sell professional service days which cover an extended period. For these transactions, management assesses the individual contract and, if required, recognises the revenue over time according to the output method. Softcat recognises revenue on the basis of direct measurements of the value to the customer which for professional days would be days completed as a percentage of total days. Revenue is recognised on a gross basis; the Company is deemed to be acting as principal in these transactions as it is responsible for selecting the external party, where relevant, for the acceptability of the services and for determining the price charged to the customer.

The Company also provides hosted managed services to its customers offering Infrastructure as a Service ('IAAS') and managed print services among others. The Company hosts these services using internal resources and recognises revenue on a straight-line basis over the contractual service period. The Company recognises the respective revenue on a gross basis as the Company is acting as a principal in the transaction as it has both managerial involvement and effective control over the services being provided throughout the contract period.

Softcat also sells extended or enhanced warranty products provided by third parties. These warranties are sold separately to hardware and provide the customer with a service in addition to assurance that the product will function as expected. For these enhanced warranty products, the Company is arranging for those services to be provided by the third party over an extended period and therefore is acting as an agent in the transaction and records revenue on a net basis at the point of sale. Revenue from such services is recognised in full at the point of service commencement as the Company has no ongoing obligation in relation to delivery of the underlying service.

Payments for these goods are generally received on industry standard terms of 30 days from the date of invoice.

Public sector partner business revenue

The Company transacts with several partners in the public sector where the partner is responsible for the solution and customer relationship. These transactions incorporate the provision of hardware, software or services to the end customer. For this business, the Company's responsibilities of invoicing and cash collection are more aligned to those of an agent and therefore this business is recognised as agent and presented net of cost of sales.

Revenue is recognised in full on satisfactory completion of the work by the partner, as this is the point the Company has satisfied its performance obligations. Payment is generally due within 30 days from completion of the work.

1 Accounting policies continued

1.6 Revenue recognition continued

Principal versus agent continued

Deferred costs

IFRS 15 requires certain costs to fulfil a contract to be recognised as a separate asset. These deferred costs are deferred until the performance obligation to which they relate has been met. Deferred costs are measured at the purchase price of the associated goods or services received. Deferred costs are released from the Statement of financial position in line with the recognition of revenue on the specific transaction. There are no significant or material judgements made by management in the measurement or recognition of these deferred costs, as costs are matched to an associated sale and the period of deferral is typically short.

Commissions have been incurred in respect of contracts whereby the performance obligation has not yet been satisfied, however, the Company has applied the practical expedient and recognised the commission as an expense when incurred given that the period over which the commission would have been recognised is less than a year.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which Softcat has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before Softcat transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier). This occurs infrequently and is usually to support the wishes of the customer who sometimes may prefer to provide funds upfront which can then be allocated to future orders. Contract liabilities are recognised as revenue when Softcat performs obligations under the contract. Further details of contract balances are provided in note 13.

1.7 Cost of sales

The Company recognises cost of sales at the point at which it recognises revenue as explained above. Cost of sales predominantly relate to the cost of goods or 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 1.8, 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 capability 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.

Funded training costs

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. The costs of these activities are recognised within cost of sales.

Early 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.

1.8 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. Other forms of rebate received from commercial partners include income from training provided to staff. 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.

1.9 Interest income

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

1 Accounting policies continued

1.10 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	fifty years straight line
Building improvements	remaining period of lease – ten years straight line
Computer equipment	three to 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.

1.11 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 to fifteen years straight line

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use it;
- there is an ability to use the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

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.

1.12 Leases

A lease is a contract or part of a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company's leases, which predominantly relate to property leases, are recognised in line with IFRS 16.

The leases policy under IFRS 16 is as follows:

i) Right-of-use assets

Softcat recognises right-of use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

1 Accounting policies continued

1.12 Leases continued

i) Right-of-use assets continued

Property lease assets	three to ten years straight line

The right-of-use assets are also subject to impairment reviews.

ii) Lease liabilities

At the commencement date of the lease, Softcat recognises lease liabilities measured at the present value of lease payments to be made over the lease term adjusted for any termination options. The lease payments include fixed payments, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Payments to be made under the reasonably certain extension option are also included.

In calculating the present value of the lease payments, Softcat uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments from a change in index or rate, or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low value assets

Softcat applies the short-term lease recognition exemption to any short-term leases it enters into (i.e. those leases that have a lease term of twelve months or less from the commencement date and do not contain a purchase option). Softcat also applies the lease of low-value assets recognition exemption to leases that are considered to be low value and under £5,000. Lease payments on low-value assets and short-term leases are recognised as an expense on a straight-line basis over the lease term.

1.13 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 include goods in transit and other products ordered to fulfil customer orders where the right of ownership is yet to transfer.

1.14 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 measured at the transaction price less allowance for expected credit losses. Trade receivables do not carry interest.

The simplified approach on expected credit losses (ECL's) for trade receivables and contractual assets has been used as there is not a significant financing component to these assets. In accordance with the simplified approach for impairment of trade receivables and accrued income under IFRS 9, the loss allowance for trade receivables is always measured at an amount equal to lifetime expected credit losses and includes a forward-looking element as well as an assessment based on history and experience. Factors considered when assessing the expected credit losses include prior experience, specific customer credit ratings, communication quality, industry factors and the current economic climate.

Due to the size of the receivables ledger and the volume of smaller balances, it is not possible to review all balances individually and therefore a portion of the ledger is reviewed collectively and provided for as such. More material or higher risk balances are reviewed individually looking at specific circumstances including payment history, the forecast of economic conditions in the sector the customer operates in, communication quality and responsiveness, to determine future expected credit losses, and are provided for individually with respect to the perceived level of risk. In addition, any entities that are in administration or have been passed to debt collection are provided for individually.

Unbilled receivables are recognised when a contract results in completion of a performance obligation in advance of the customer being invoiced.

ii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, call deposits and bank overdrafts. Cash and cash equivalent balances have a maturity of three months or less and are subject to an insignificant level of risk to change in value.

iii) Accrued income

Accrued income predominantly relates to supplier rebates and is recognised according to both rebate agreements and supplier spend in the financial year.

As accrued income has a contractual right to receive cash, it is a financial asset and therefore also subject to loss allowances under IFRS 9. The loss allowance for accrued income is measured at an amount equal to lifetime expected credit losses and includes a forward-looking element as well as an assessment based on history and experience. Factors considered when assessing the expected credit losses include prior experience, supplier credit ratings, communication quality, industry norms and the current economic climate.

1 Accounting policies continued

1.14 Financial instruments continued

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.

Derecognised financial instruments

For a small number of customers, Softcat acts as intermediary to provide financing arrangements between the customer and a third-party financing provider. Following the delivery of the goods or services, which represents our performance obligation in full, Softcat receives settlement of the customer invoice, by the third-party financing company. Receivables are derecognised only when Softcat has transferred the receivable, meaning that it has retained the contractual rights to the cash flows, but has assumed an obligation to pay those cash flows to the finance provider, in the case where all three of the following conditions are met:

- Softcat has no obligation to pay amounts to the finance provider unless it collects equivalent amounts from the receivable;
- Softcat is prohibited from selling or pledging the receivable; and
- Softcat has an obligation to remit the cash received without material delay.

The transfer described above qualifies for derecognition as Softcat has transferred substantially all the risks and rewards of ownership of the receivable. Its only continuing involvement following delivery is to act as agent in the receipt and transfer of cash payments and, in line with the derecognition criteria set out above, the customer receivable is derecognised. Softcat does not retain or regain ownership of any assets at the end of these arrangements and the finance provider takes on the credit risk of future cash flows from the customer.

Cash flows in respect of these arrangements are recognised within cash generated from operations and typically result in a £Nil impact given that the Company acts as agent in the receipt and transfer of cash payments.

1.15 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.

1.16 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.

For deferred tax on leases, Softcat has applied the initial recognition exception under IAS 12. Under the general approach of IAS 12, the depreciation of the right-of-use asset is regarded as reducing the temporary difference that arose on initial recognition of the asset, and therefore gives rise to no tax effect. However, the accretion of the finance costs on the liability gives rise to an additional deductible temporary difference arising after initial recognition of the liability, requiring recognition of a deferred tax asset. This gives rise to an immaterial deferred tax asset for the years ended 31 July 2021 and 31 July 2022.

1 Accounting policies continued

1.17 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. Softcat applies judgement in identifying uncertainties over income tax treatments and considered whether it has any uncertain tax positions and determined that it is highly probable that its tax treatments will be accepted by the taxation authorities. Where it is not probable that an uncertain tax treatment will be accepted the most likely amount or expected amount is recognised depending on which method better predicts the resolution of the uncertainty.

1.18 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.

The assets and liabilities of foreign operations are translated into Pounds Sterling at the rates of exchange ruling at the balance sheet date. Income and expense items are translated using average exchange rates, which approximate to actual rates, for the relevant accounting period. Exchange differences arising, if any, are classified as other comprehensive income and recognised in the foreign exchange translation reserve in the statement of financial position.

1.19 Share-based payments

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

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 minimum holding period of three years following 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 was determined by the share price at date of grant, on 9 December 2015. A fair value charge was recognised as an expense in the income statement over the vesting period with a corresponding increase in equity. The charge was recognised only on the expected number of shares to vest. The assumption used for expected leavers within three years from the date of award was calculated with reference to historical employee retention rates.

In addition, the Company's voluntary partnership share purchase programme, which is open to all eligible employees, is administered through the SIP. Through this programme, employees have the option to purchase shares from their gross income, the cost of which is not borne by the Company.

Long Term Incentive Plan ('LTIP')

Details in relation to the Softcat LTIP awards to Executive Directors are included in the Directors' Remuneration Report on page 103.

LTIP 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. Employer's national insurance contributions are payable, on exercise, on the market value of the award and are accrued for within the share-based payments expense in the Statement of profit or loss and other comprehensive income.

Deferred shares

One-third of the Executive Directors' annual bonus up to 100% of salary is paid in deferred shares and any bonus above 100% of salary is paid in deferred shares. The Company accrues for the cost of the non-cash bonus over a four-year period, including the year in which the bonus targets are assessed and the following three-year vesting period. Employer's national insurance contributions are payable, on exercise, on the market value of the award and are accrued for within the share-based payments expense in the Statement of profit or loss and other comprehensive income.

SIP Trust

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

1 Accounting policies continued

1.20 Company accounts

Softcat plc is a single entity with no subsidiary undertakings. The SIP Trust, 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.

1.21 Adjusted Performance Measures

The Company uses two non-Generally Accepted Accounting Practice (non-GAAP) financial measures in addition to those reported in accordance with IFRS. The Directors believe that these non-GAAP measures, set out below, assist in providing additional useful information on the underlying trends, sales performance and position of the Company. Gross invoiced income is a measure which correlates closely to the cash received by the business and therefore aids the users understanding of working capital movements in the Statement of financial position and the relationship to sales performance and the mix of products sold.

Consequently, non-GAAP measures are used by the Directors and management for performance analysis, planning and reporting and have remained consistent with the prior year. These non-GAAP measures comprise of gross invoiced income and cash conversion.

Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued revenue as reported in the IFRS measure. A reconciliation of IFRS Revenue to Gross invoiced income is provided within note 2, Segmental information.

Cash conversion ratio comprises of cash flows from operations net of capital expenditure as a percentage of operating profit.

A reconciliation to the adjusted measure for cash conversion is provided below:

	2022 £'000	2021 £'000
Cash generated from operations	**108,988**	113,797
Purchase of property, plant and equipment	**(1,890)**	(2,265)
Purchase of intangible assets	**(3,334)**	(4,199)
Cash generated from operations, net of capital expenditure	**103,764**	107,333
Operating profit	**136,145**	119,416
Cash conversion ratio	**76.2%**	89.9%

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, 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:	2022 £'000	Restated 2021[1] £'000
Software	**150,000**	128,440
Hardware	**797,897**	556,472
Services	**130,049**	99,137
	1,077,946	784,049

Gross invoiced income by type:	2022 £'000	2021 £'000
Software	**1,365,343**	1,109,198
Hardware	**810,241**	566,305
Services	**331,953**	262,937
	2,507,537	1,938,440

Note:

1. The prior year comparatives have been restated in line with the change in accounting policy for the IFRS IC agenda decision – IFRS 15 Revenue from Contracts with Customers, treatment of software revenue as agent revenue. For further information, see note 1.5.

2 Segmental information continued

Revenue and gross invoiced income can also be disaggregated by type of business[2]:

Revenue by type of business:	2022 £'000	Restated 2021 £'000
Small and medium	**535,823**	471,076
Enterprise	**222,064**	164,468
Public sector	**320,059**	148,505
	1,077,946	784,049

Gross invoiced income by type of business:	2022 £'000	2021 £'000
Small and medium	**1,169,255**	839,398
Enterprise	**427,249**	336,013
Public sector	**911,033**	763,029
	2,507,537	1,938,440

Note:

2. Types of business are split by entity staff size. Small and medium business represents work forces of up to 2,000 seats. Enterprise is above 2,000 seats and public sector represents government and other public bodies.

Gross invoiced income reflects gross income billed to customers adjusted for deferred and accrued revenue items. Softcat continue to report gross invoiced income as an alternative financial KPI as this measure allows a consistent, year on year, understanding of gross income billed, business performance and position and correlates closely to working capital movements. The impact of IFRS 15 and principal versus agent consideration is an equal reduction to both revenue and cost of sales.

	2022 £'000	Restated 2021 £'000
Gross invoiced income	**2,507,537**	1,938,440
Income recognised as agent under IFRS 15	**(1,429,573)**	(1,154,391)
Revenue	**1,077,946**	784,049

The total revenue for the Company for the year has been derived from its principal activity as an IT reseller.

During the period there was one direct customer (FY2021: none) that individually accounted for greater than 10% of both the Company's total revenue and gross invoiced income, and a considerably lower proportion of Gross Profit. Gross invoiced income and revenue generated from this customer in FY2022 was £251.3m and £227.5m, respectively (FY2021 £80.3m and £74.2m). The revenues related to this direct customer were derived within the USA branch of the Company. Substantially all of the remaining trading of the Company is undertaken in the United Kingdom.

3 Operating profit

Operating profit is stated after charging:	2022 £'000	2021 £'000
Depreciation of property, plant and equipment	**2,373**	2,332
Depreciation of right-of-use assets	**1,594**	2,263
Amortisation of intangible assets	**558**	297
Low value asset and short-term lease expense	**32**	102
Foreign exchange gain/(loss)	**2,938**	(68)
Inventories expensed in the year	**705,539**	476,442
Movement in trade receivables provision as potentially uncollectable, recovered or written off during the year	**1,544**	552
Auditor's remuneration		
Fees payable for the audit of the Company's annual accounts	**545**	435
Additional fees payable for the audit of the Company's annual accounts	**133**	7
Total for statutory audit services	**678**	442
Fees payable for the half year review of the condensed financial statements	**40**	35
Total for non-audit-related services	**40**	35

For details on employee numbers and employee costs, please see note 24.

4 Finance income and finance cost

	2022 £'000	2021 £'000
Bank interest income	**60**	28
Interest on tax	**192**	(186)
Lease liability interest cost	**(253)**	(291)

5 Income tax

The major components of the income tax expense for the years ended 31 July 2022 and 31 July 2021 are:

	2022 £'000	2021 £'000
Statement of profit or loss		
Current income tax charge in the year	**25,979**	22,909
Adjustment in respect of current income tax of previous years	**52**	80
Foreign tax relief	**(2)**	(1)
Foreign tax suffered	**3**	1
Total current income tax charge	**26,032**	22,989
Deferred tax		
Current year	**(110)**	(303)
Adjustments in respect of prior periods	**7**	168
Effect of changes in tax rates	**(190)**	(72)
Deferred tax credit	**(293)**	(207)
Total tax charge	**25,739**	22,782
Reconciliation of total tax charge		
Reconciliation of tax expense and accounting profit multiplied by the Company's domestic tax rate for 2022 and 2021:		
Profit on ordinary activities before taxation	**136,144**	118,967
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19% (2021: 19%)	**25,867**	22,604
Effects of:		
Non-deductible expenses	**112**	118
Adjustment to previous periods	**59**	248
Effect of changes in tax rates	**(190)**	(72)
Effects of overseas tax rates	**1**	–
Share options	**(110)**	(92)
Other differences	**–**	(24)
	(128)	178
Income tax charge reported in profit or loss	**25,739**	22,782

In the year ended 31 July 2022, £616,745 (2021: £582,785) of current tax was credited to equity and £933,778 (2021: £534,278 credit) of deferred tax was debited to equity.

6 Dividends

	2022 £'000	2021 £'000
Declared and paid during the year		
Special dividend on ordinary shares (20.5p per share (2021: 7.6p))	**40,806**	15,100
Final dividend on ordinary shares (14.4p per share (2021: 16.6p))	**28,663**	32,981
Interim dividend on ordinary shares (7.3p per share (2021: 6.4p))	**14,551**	12,734
	84,020	60,815

A final dividend of 16.6p per share has been recommended by the Directors and if approved by shareholders will be paid on 19 December 2022. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 11 November 2022. Shares in the Company will be quoted ex-dividend on 10 November 2022. The dividend reinvestment plan ('DRIP') election date is 28 November 2022.

In line with the Company's stated intention to return excess cash to shareholders, a further special dividend payment of 12.6p has been proposed. If approved this will also be paid on 19 December 2022 alongside the final ordinary dividend.

The Board recommends the final and special dividend for shareholders' approval.

Softcat's 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. In determining the level of dividend in any year in accordance with the policy, the Board considers a number of other factors that influence the proposed dividend, which include but are not limited to:

- the level of available distributable reserves in the Company;
- future cash commitments and investment needs to sustain the long-term growth prospects of the business; and
- potential strategic opportunities.

Softcat's constitution does not limit or oblige the Company to any minimum or maximum dividend payments. However, no dividend may exceed the amount recommended by the Directors and all dividends shall be paid in accordance with any relevant legislation.

The Audit Committee on behalf of the Board reviews the distributable reserves of the Company as part of its half-year and full-year reviews. The Board then considers the Audit Committee's review as part of its process to approve or recommend dividends.

Softcat intends to continue to fund its dividends through the cash generated by the business. Details of the Company's continuing viability and going concern can be found on page 64 and pages 133 and 134 respectively.

7 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 2020	2,649	7,529	8,143	4,071	363	22,755
Additions	–	1,236	442	586	–	2,264
Disposals	–	(802)	(7,293)	(936)	(211)	(9,242)
At 31 July 2021	2,649	7,963	1,292	3,721	152	15,777
Additions	–	98	647	1,082	63	1,890
Disposals	–	–	–	–	–	–
At 31 July 2022	**2,649**	**8,060**	**1,940**	**4,803**	**215**	**17,667**
Depreciation						
At 1 August 2020	200	1,513	7,357	1,525	263	10,858
On disposals	–	(784)	(7,240)	(931)	(211)	(9,166)
Charge for the year	31	1,197	506	547	51	2,332
At 31 July 2021	231	1,926	623	1,141	102	4,024
On disposals	–	–	–	–	–	–
Charge for the year	25	1,149	512	642	45	2,373
At 31 July 2022	**256**	**3,075**	**1,135**	**1,783**	**148**	**6,397**
Net book value						
At 31 July 2022	**2,393**	**4,985**	**805**	**3,020**	**67**	**11,270**
At 31 July 2021	2,418	6,037	669	2,580	49	11,753

7 Property, plant and equipment continued

Freehold land amounting to £1.4m (2021: £1.4m) has not been depreciated.

No assets are subject to restrictions on title or are pledged as security for liabilities (2021: £Nil).

There is no material difference between the carrying and fair value of the underlying assets as at both 31 July 2022 and 31 July 2021.

8 Right-of-use assets and lease liabilities

Leases – as a lessee

Softcat has lease contracts for various offices across the country used for its operations. Property leases generally have lease terms of between three and ten years. A number of these contracts include extension and termination options which are discussed below.

Set out below are the carrying amounts of right-of-use assets recognised and movements during the year:

Property leases	2022 £'000	2021 £'000
Opening right-of-use asset as at 1 August	**7,022**	8,698
Lease additions and modifications	**734**	587
Depreciation	**(1,594)**	(2,263)
Closing right-of-use asset as at 31 July	**6,162**	7,022

The weighted average incremental borrowing rate as used for the period is 2.7%.

Set out below are the carrying amounts of lease liabilities included under current and non-current liabilities and the movements during the period:

Property leases	2022 £'000	2021 £'000
Opening lease liability as at 1 August	**8,302**	9,839
Lease additions and modifications	**734**	588
Accretion of interest	**253**	291
Payments	**(2,623)**	(2,416)
Closing lease liability as at 31 July	**6,666**	8,302
Split as:		
Short-term	**2,716**	2,598
Long-term	**3,950**	5,704

Lease modifications in the year were in respect of extension of specific lease terms of existing property leases.

Softcat had no variable leases expenses or income from sub-leases charged to the Statement of profit or loss and other comprehensive income, nor any sale and leaseback transactions.

Softcat has several lease contracts that include termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio to align to business needs. Management exercise significant judgement in determining whether these options are reasonably certain to be exercised.

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of termination options that are not included in lease term:

As at 31 July 2022	**Within five years £'000**	**More than five years £'000**	**Total £'000**
Termination options expected to be exercised	**4,376**	**1,279**	**5,655**

As at 31 July 2021	Within five years £'000	More than five years £'000	Total £'000
Termination options expected to be exercised	3,613	2,428	6,041

The total value of lease charges for low value and short-term leases to Statement of profit or loss and other comprehensive income for the year was £31,656 (2021: £101,617).

9 Intangible assets

	Software under development £'000	Computer software £'000	Total Intangibles £'000
Cost			
At 1 August 2020	906	2,540	3,446
Additions	3,927	272	4,199
Disposals	–	(1,924)	(1,924)
At 31 July 2021	4,833	888	5,721
Additions	3,195	139	3,334
Disposals	–	–	–
Reclassifications	(8,028)	8,028	–
At 31 July 2022	**–**	**9,055**	**9,055**
Amortisation			
At 1 August 2020	–	2,145	2,145
Charge for the year	–	297	297
Disposals	–	(1,923)	(1,923)
At 31 July 2021	–	519	519
Charge for the year	–	558	558
Disposals	–	–	–
At 31 July 2022	**–**	**1,077**	**1,077**
Net book value			
At 31 July 2022	**–**	**7,978**	**7,978**
At 31 July 2021	4,833	369	5,202

Software under development capitalised related to the new enterprise resource planning (ERP) system being designed and built internally. This was completed and put in to use in FY2022.

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

10 Inventories

	2022 £'000	2021 £'000
Finished goods and goods for resale	**5,104**	38,411

The decrease in stock is predominantly driven by stock in transit for a specific customer yet to be delivered as at the end of FY2021 as well as timing of the balance sheet date.

The amount of any write down of inventory recognised as an expense in the year was £Nil (2021: £Nil).

11 Trade and other receivables

	2022 £'000	2021 £'000
Trade and other receivables	**497,308**	300,058
Provision against receivables	**(4,958)**	(3,415)
Net trade receivables	**492,350**	296,643
Unbilled receivables	**26,192**	10,500
Prepayments	**4,338**	3,584
Accrued income	**10,534**	8,171
Deferred costs	**8,010**	10,768
	541,424	329,666

The provision against receivables follows the expected credit loss model under IFRS 9. 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:

	2022 £'000	Related provision £'000	Net £'000	2021 £'000	Related provision £'000	Net £'000
Current	**335,579**	**(3,453)**	**332,126**	232,372	(2,369)	230,003
0–30 days	**79,981**	**(622)**	**79,359**	46,370	(463)	45,907
31–60 days	**28,402**	**(227)**	**28,175**	12,775	(80)	12,695
61–90 days	**26,332**	**(43)**	**26,289**	4,780	(48)	4,732
Over 90 days	**27,014**	**(613)**	**26,401**	3,761	(455)	3,306
Total due	**497,308**	**(4,958)**	**492,350**	300,058	(3,415)	296,643

The Company provides against its trade receivables using the forward-looking expected credit loss model under IFRS 9. An impairment analysis is performed at each reporting date. Provisions against future recoverability are set to reflect probability-weighted outcomes, analysis of prior events, current conditions, including an assessment of COVID-19 related factors. Further details on how the Company manages its credit risk can be found in note 21. Movement in the provision for trade receivables was as follows:

	2022 £'000	2021 £'000
Balance at beginning of year	**3,415**	2,863
Increase for trade receivables regarded as potentially uncollectable	**4,206**	2,880
Decrease in provision for trade receivables recovered, or written off, during the year	**(2,663)**	(2,328)
Balance at end of year	**4,958**	3,415

Set out below is the information about the credit risk exposure on Softcat's trade receivables:

31 July 2022	**Current £'000**	**<30 days £'000**	**31–60 days £'000**	**61–90 days £'000**	**>91 days £'000**	**Total £'000**
Expected credit loss rate	**1.03%**	**0.78%**	**0.80%**	**0.16%**	**2.27%**	**1.00%**
Estimated total gross carrying amount at default	**335,579**	**79,981**	**28,402**	**26,332**	**27,014**	**497,309**
Expected credit loss	**(3,453)**	**(622)**	**(227)**	**(43)**	**(613)**	**(4,958)**

31 July 2021	Current £'000	<30 days £'000	31–60 days £'000	61–90 days £'000	>91 days £'000	Total £'000
Expected credit loss rate	1.02%	1.00%	0.63%	1.00%	12.10%	1.14%
Estimated total gross carrying amount at default	232,372	46,370	12,775	4,780	3,761	300,058
Expected credit loss	(2,369)	(463)	(80)	(48)	(455)	(3,415)

Whilst successful, the system implementation in the year created some temporary disruption to collection procedures, but this is expected to return to normal during the first half of the new year.

Unbilled receivables and accrued income have been reviewed by management and have been determined to have an immaterial impact on expected credit losses. The Company does not hold collateral as security.

As part of our assessment of expected credit losses, an assessment of specific potentially uncollectable debt as well as wider macroeconomic factors that may require a provision, is performed. See note 21 for details on how the Company approaches its exposure to credit risk.

12 Trade and other payables

	2022 £'000	2021 £'000
Trade payables	**280,769**	220,305
Other taxes and social security	**23,078**	12,378
Accruals	**115,261**	60,845
	419,108	293,528

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

13 Contract liabilities

	2022 £'000	2021 £'000
Deferred income	**35,184**	16,385

Deferred income is split as follows:

	2022 £'000	2021 £'000
Short term deferred income	**31,564**	12,759
Long term deferred income	**3,620**	3,626
	35,184	16,385

Contract balances

Deferred income includes short-term and long-term goods or services to be delivered to a customer by Softcat for which there is a contractual obligation arising from receipt of consideration or amounts due from the customer. The outstanding balances on these accounts has moved in line with the activity of the business and customer base. During the current year, £12.759m (2021: £13.929m) has been recognised in revenue resulting from these contract liabilities existing as at 31 July 2021. As at 31 July 2022, £31.558m remains on the Statement of financial position as a contract liability resulting from transactions arising from the year to 31 July 2022. Softcat expects that £31.564m of the balance as at 31 July 2022 will be released in the following year with the remainder released within 2–5 years of the end of the current year.

14 Cash and cash equivalents

	2022 £'000	2021 £'000
Cash at bank and in hand	**97,316**	101,724

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.

15 Deferred tax

The deferred tax asset is made up as follows:

	2022 £'000	2021 £'000
Accelerated capital allowances	**95**	120
Share-based payments	**1,442**	2,154
Other temporary differences	**971**	875
Deferred tax assets	**2,508**	3,149

	2022 £'000	2021 £'000
Reconciliation of deferred tax asset		
Balance at 31 July 2021 (PY: 31 July 2020)	**3,149**	2,408
Adjustment in respect of prior years	**(7)**	(236)
Profit and loss account	**300**	375
(Charge)/credit to equity	**(934)**	602
Balance at 31 July 2022 (PY: 31 July 2021)	**2,508**	3,149

15 Deferred tax continued

The Company recognises all deferred tax movements in the year within the income statement, except for £933,778 debited to equity (2021: £534,278 credit) 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.

	2022			2021		
	Income statement £'000	**SOCIE £'000**	**Total £'000**	Income statement £'000	SOCIE £'000	Total £'000
Current tax						
Movement in respect of prior years	**52**	**–**	**52**	80	–	80
Movement in respect of current year	**25,979**	**(617)**	**25,362**	22,909	(583)	22,326
Total current tax	**26,031**	**(617)**	**25,414**	22,989	(583)	22,406
Deferred tax						
Movement in respect of prior years	**7**	**–**	**7**	168	68	236
Movement in respect of current year:						
Share options	**(222)**	**934**	**712**	(151)	(602)	(753)
Fixed assets	**18**	**–**	**18**	(66)	–	(66)
Other temporary differences	**95**	**–**	**95**	(158)	–	(158)
Total deferred tax	**(293)**	**934**	**642**	(207)	(534)	(741)
Total tax	**25,739**	**317**	**26,056**	22,782	(1,117)	21,665

16 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 £570,782 (2021: £482,087) were outstanding.

	2022 £'000	2021 £'000
Contributions payable by the Company for the year	**2,813**	2,484

17 Share capital

Authorised share capital

In accordance with the Companies Act 2006, the Company no longer has an authorised share capital. The Company's Articles of Association have been amended to reflect this change.

	2022 £'000	2021 £'000
Allotted and called up		
199,354,076 (2021: 199,041,810) ordinary shares of 0.05p each	**100**	100
18,933 (2021: 18,933) deferred shares[1] of 1p each	**–**	–
	100	100

Note:

1. At 31 July 2022 deferred shares had an aggregate nominal value of £189.33 (2021: £189.33).

In the year ended 31 July 2022, 305,266 (2021: 362,639) new ordinary shares were issued to satisfy the exercise of share options and no ordinary shares (2021: nil) were issued to satisfy exercises under the deferred share bonus plan.

No issued ordinary shares of 0.05p each were unpaid at 31 July 2022 (2021: 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 2022 the SIP Trust returned £Nil (2021: £Nil) to the Company through share recycling.

18 Earnings per share

	2022 p	2021 p
Earnings per share		
Basic	55.5	48.4
Diluted	55.3	48.2

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

	2022 £'000	2021 £'000
Earnings		
Earnings for the purposes of earnings per share, being profit for the year	110,405	96,185

The weighted average number of shares is given below:

	2022 '000	2021 '000
Number of shares used for basic earnings per share	198,976	198,559
Number of shares deemed to be issued at nil consideration following exercise of share options	656	884
Number of shares used for diluted earnings per share	199,632	199,443

19 Notes to the Statement of cash flows

Reconciliation of operating profit to net cash inflow from operating activities

	2022 £'000	2021 £'000
Operating profit	136,145	119,416
Depreciation of property, plant and equipment	2,373	2,332
Depreciation of right-of-use assets	1,594	2,263
Amortisation of intangibles	558	297
Loss on disposal of fixed assets	—	76
Dividend equivalents paid	(215)	(196)
Cost of equity-settled employee share schemes	2,541	2,267
Operating cash flow before movements in working capital	142,996	126,455
Decrease/(increase) in inventory	33,307	(26,667)
Increase in trade and other receivables	(211,694)	(15,544)
Increase in trade and other payables and contract liabilities	144,379	29,553
Cash generated from operations	108,988	113,797
Income taxes paid	(25,344)	(22,545)
Net cash from operating activities	83,644	91,252

20 Financial commitments

Guarantees

As at the reporting date, Softcat plc has a class guarantee facility of £Nil (2021: £2,000,000) with HSBC UK Bank plc.

21 Financial instruments and financial risk management

The Company's principal financial liabilities comprise trade and other payables and lease liabilities. 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:

	2022 £'000	2021 £'000
Cash at bank and in hand	**97,316**	101,724
Trade and other receivables	**529,076**	315,313
	626,392	417,037

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

In respect of assets and liabilities that should be derecognised as at 31 July 2022, there remained a receivable of £627,779 (2021: £369,200 payable) on the Statement of financial position. The receivable recognised at the 31 July 2022 was due to timing differences between the transfer of cash that spanned the year end date.

Financial liabilities

The financial liabilities of the Company were as follows:

	2022 £'000	2021 £'000
Trade payables	**(280,769)**	(220,305)
Accruals	**(115,261)**	(60,845)
Lease liabilities	**(6,666)**	(8,302)
	(402,696)	(289,452)

The Directors consider that the carrying amount of financial liabilities (excluding lease 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. During the year, no external debt was required and no facilities were entered in to.

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 the limited exposure to interest rate risk no sensitivity analysis has been prepared.

Foreign currency risk

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

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.

21 Financial instruments and financial risk management continued

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 2022, the Company had 2,173 customer accounts (2021: 1,623) that owed the Company more than £25,000 each. These accounts accounted for approximately 20% (2021: 17%) of total customers and 92% (2021: 98%) of the total value of amounts receivable. There were 841 customers (2021: 562 customers) with balances greater than £100,000 accounting for just over 8% (2021: 6%) of the total number of receivable accounts and 79% (2021: 81%) of the total value of amounts receivable.

The Company continues to monitor the impact of COVID-19 on its customer base and how that is managed through the provision of credit, payment terms and the expected credit loss provision against trade receivables. We monitor the impact of COVID-19 as well as the Ukraine conflict and current UK economic uncertainty. The receivables balance remains well diversified and individual customers typically represent a very small proportion of the outstanding balance. In this regard, we consider the provision for expected credit losses to be appropriate.

The requirement for impairment is analysed at each reporting date. The calculation is based on actual incurred historical data and expected credit losses. 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 has evaluated the concentration of risk with respect to trade receivables, as there is limited reliance on single, or few customers; instead, sales are typically small in size but large in volume as are the number of customers, the Company considers concentration risk to be low. This is reflected by the fact that as at 31 July 2022, no more than 3% (2021: 7%) of receivables are due from any one customer.

The Company provides against its trade receivables using the forward-looking expected credit loss model under IFRS 9.

Financial instruments and cash deposits

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

Liquidity risk

The Company generates positive cash flows from operating activities and these fund short-term working capital requirements. The Company aims to maintain significant cash reserves and none of its cash reserves are subject to restrictions. Access to cash is not restricted and all cash balances could be drawn upon immediately if 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
2022					
Trade payables	**(280,769)**	**–**	**–**	**–**	**(280,769)**
Accruals	**(115,261)**	**–**	**–**	**–**	**(115,261)**
Lease liabilities	**(2,716)**	**(1,829)**	**(1,722)**	**(1,098)**	**(7,365)**
	(398,746)	**(1,829)**	**(1,722)**	**(1,098)**	**(403,395)**
2021					
Trade payables	(220,305)	–	–	–	(220,305)
Accruals	(60,845)	–	–	–	(60,845)
Lease liabilities	(2,598)	(2,502)	(2,681)	(1,497)	(9,278)
	(283,748)	(2,502)	(2,681)	(1,497)	(290,428)

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

21 Financial instruments and financial risk management continued

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.

22 Capital commitments

At 31 July 2022 the Company had £Nil capital commitments (2021: £Nil).

23 Directors' remuneration

	2022 £'000	2021 £'000
Remuneration for qualifying services	**2,619**	2,358
Company pension contributions to defined contribution schemes	**15**	3
	2,634	2,361

During the year ended 31 July 2022 the Directors of the Company were awarded a total of 70,470 LTIP shares (2021: 67,466) at an average exercise price of £Nil (2021: £Nil) and 35,590 shares (2021: 22,830) under the Deferred Share Bonus Plan.

The number of Directors for whom retirement benefits are accruing under defined contribution schemes amounted to one (2021: one). The number of Directors who are entitled to receive shares under long-term incentive schemes during the year was two (2021: two).

Gains on share options exercised in the year were £2,612,553 (2021: £2,300,922).

Share-based payment charges include £983,983 (2021: £1,019,135) in respect of Directors.

For further information on Directors remuneration, please also see pages 98 to 112.

24 Employees

Number of employees

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

	2022 Number	2021 Number
Sales	**1,141**	1,068
Services	**332**	286
Administration	**323**	282
	1,796	1,636

Employment costs

	2022 £'000	2021 £'000
Salaries, commissions and bonus	**131,296**	110,470
Social security costs	**16,205**	14,862
Other pension costs	**2,813**	2,484
Employment costs – subtotal	**105,314**	127,816
Share option charge	**2,541**	2,267
Total employment costs including share option charge	**152,855**	130,083

25 Share option schemes

The Company operates a Long Term Incentive Plan ('LTIP') for Executive Directors and senior management and a Share Incentive Plan ('SIP') for all employees.

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

	2022 **£'000**	2021 £'000
LTIP	**2,541**	2,267
Share option charge	**2,541**	2,267
Employer's national insurance contributions payable on all plans	**220**	1,468
Share option charge including Employer's national insurance	**2,761**	3,735

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.

LTIP

The LTIP provides share awards to Executive Directors and senior management.

Executive Directors

Details in relation to the Softcat LTIP awards to Executive Directors are included in the Directors' Remuneration Report on page 106.

During the year 70,470 (2021: 67,466) share awards related to LTIP schemes were issued to two Executive Directors at nil exercise price with a performance period of three years. The fair value of these awards was £980,942 (2021: £497,224). Performance conditions 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 to reach the below fair value:

	31 July 2022		31 July 2021	
	EPS	**TSR**	EPS	TSR
Proportion of LTIP award	**50%**	**50%**	50%	50%
Share price at grant date (£)	**18.63**	**18.63**	11.46	11.46
Weighted average exercise price at grant date	**—**	**—**	—	—
Risk-free interest rate	**0.10%**	**0.10%**	0.10%	0.10%
Expected volatility	**51%**	**51%**	55%	55%
Dividend yield	**—%**	**—%**	3%	3%
Performance period (years)	**3**	**3**	3	3
Fair value (£)	**18.63**	**9.22**	7.94	6.80

Expected volatility has been determined using historical data reflecting share price movements covering the audited financial year.

During the year 125,000 (2021: 140,938) LTIP options were exercised with an average weighted share price at the date of exercise of £18.45 (2021: £14.86).

Deferred Share Bonus Plan

One-third of the Executive Directors' annual bonus up to 100% of salary is paid in deferred shares and any bonus above 100% of salary is paid in deferred shares. In the year 35,590 (2021: 22,830) deferred shares relating to the 2019 Deferred Share Bonus Plan were issued to two Executive Directors with a £Nil exercise price and a further vesting period of three years. The fair value is calculated using the share price on the date of grant and the number of shares awarded. The fair value of deferred shares issued in the year is £663,063 (2021: £262,548).

During the year 16,596 (2021: 18,177) options arising from deferred share bonus plans were exercised with an average weighted share price at the date of exercise of £18.47 (2021: £11.37).

25 Share option schemes continued

LTIP continued

Executive Directors continued

Senior management

An award of 121,508 (2021: 164,245) 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. The fair value of these awards was £2,037,325 (2021: £1,692,545). As the exercise price of the options awarded in the year was £Nil, the charge has been calculated by multiplying the number of shares issued by the share price on the date of grant, adjusted for an expected forfeiture rate. The share price is the fair value of the equity instrument granted, which was £18.63 (2021: £11.45) at grant date. The resultant fair value is then recognised over the performance period.

During the year 51,032 shares (2021: 17,467) were forfeited as members of senior management left the business prior to completion of the vesting period.

The weighted average remaining contractual life under exercise period of all LTIP awards is 8.05 years (2021: 8.08 years).

Share Incentive Plan

The Company awarded free shares to its employees 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 were subject to a minimum holding period of three years.

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

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

As at 31 July 2022 the SIP Trust held 592,575 (2021: 618,044) ordinary shares in the Company. The market value of the shares held by the SIP Trust as at 31 July 2022 was £8.3m (2021: £11.9m).

The weighted average remaining contractual life of share-based payment arrangements at the year end was 3.36 years (2021: 4.36 years).

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 31 July 2022**	Weighted average exercise price £	No. of shares as at 31 July 2021
Outstanding at 1 August	—	**1,098,374**	–	1,330,096
Granted during the year	—	**232,832**	–	254,541
Forfeited during the year	—	**(51,032)**	–	(17,467)
Exercised during the year	—	**(353,153)**	–	(468,796)
Outstanding at 31 July		**927,021**		1,098,374
Exercisable at 31 July		**251,268**		264,291

The fair value of share-based payment arrangements granted in the year was £3,747,316 (2021: £2,452,317), relating entirely to Long Term Incentive Plan awards.

The weighted average remaining contractual life of share-based payment arrangements at the year end was 7.21 years (2021: 7.25 years).

26 Post balance sheet events

Dividend

A final dividend of 16.6p per share has been recommended by the Directors and if approved by shareholders will be paid on 19 December 2022. The final ordinary dividend will be payable to shareholders whose names are on the register at the close of business on 11 November 2022. Shares in the Company will be quoted ex-dividend on 10 November 2022. The dividend reinvestment plan ('DRIP') election date is 28 November 2022.

In line with the Company's stated intention to return excess cash to shareholders, a further special dividend payment of 12.6p has been proposed. If approved this will also be paid on 19 December 2022 alongside the final ordinary dividend.

27 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.

	2022 £'000	2021 £'000
Short-term employee benefits	**3,061**	2,758
Post-employment benefits	**23**	19
	3,084	2,777

Key management personnel received a total of 117,228 share awards (2021: 99,902) at a weighted average exercise price of £Nil (2021: £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 £1,083,687 (2021: £1,049,849) in respect of key management personnel.

Dividends to Directors

	2022 £'000	2021 £'000
M Hellawell	**1,773**	1,555
G Watt	**18**	–
G Charlton	**37**	17
R Perriss	**6**	5
V Murria	**70**	51
K Slatford	**–**	–
L Weedall	**–**	–
	1,904	1,628

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