

Pegasystems Limited

Annual Report and Financial Statements

For the year ended 31 December 2023

Registered number 02883981

MONDAY



ADC8BSMP

A10

23/09/2024

#47

COMPANIES HOUSE

**Annual Report and Financial Statements
for the year ended 31 December 2023**

Contents

Page:

2	Strategic report
10	Directors' report
17	Independent auditor's report
21	Statement of comprehensive income
22	Statement of financial position
23	Statement of changes in equity
24-40	Notes to the financial statements

Directors

Efstathios Kouninis

Kenneth Stillwell

David Wells

Registered office

3rd Floor, 23 Forbury Road, Reading, RG1 3JH

Company number

02883981

Auditor

Deloitte LLP, Bristol, United Kingdom

Pegasystems Limited

**Strategic Report
for the year ended 31 December 2023**

The directors present their Strategic Report for Pegasystems Limited (“the company”) for the year ended 31 December 2023.

Section 172 Statement

The directors of the company must act in accordance with the duties detailed in section 172 of the Companies Act 2006 which is summarised as follows:

A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- a. The likely consequences of any decision in the long term;
- b. The interest of the company’s employees;
- c. The need to foster the company’s relationships with all stakeholders, including customers, suppliers and others;
- d. The impact of the company’s operations on the community and the environment;
- e. The desirability of the company maintaining a reputation for high standards of business conduct; and
- f. The need to act fairly as between members of the company.

Pega develop, market, license, host, and support enterprise software that helps organizations build agility into their business so they can adapt to change. With the world increasingly in flux, Pegasystems globally and its employees have rallied around regional and global issues to develop solutions and drive positive results for its clients, partners, communities, and each other. The 2023 Pega Impact Report [https://
https://www.pega.com/insights/resources/2023-pega-impact-report](https://www.pega.com/insights/resources/2023-pega-impact-report) highlights how our global teams are focused on more efficient and sustainable business operations - how we are building and supporting diverse teams who can challenge each other to think differently and solve problems in new ways; how we are ensuring our people and communities have the support and resources they need to feel secure and thrive; and the strong governance we have in place to keep our business focused on what matters.

Engaging with our stakeholders helps us stay connected to what really matters - the world and people around us. To maintain trust and act in the long-term interest of our stakeholders, we aim to strike a balance between meeting the expectations of our investors and clients and doing our part to address the challenges facing our people, our communities, and the environment. Clients, investors, employees, partners, suppliers, and communities make up our key stakeholders at Pega.

The managers, team leaders, specific department heads maintain regular communication with the parent company to keep them updated on progress, challenges, and achievements and effective communication is a two-way process, so encourage the parent company to provide feedback and address any concerns they may have. This can be done through regular meetings, status reports, or any other agreed-upon communication methods.

Pegasystems Limited

Strategic Report

for the year ended 31 December 2023 (continued)

Employees

Pegasystems is a global group characterized by individual and cultural diversity and therefore shared value systems are particularly important. There are six values at the core of Pegasystems' culture. Pegasystems' employees must strive to be Innovative, Inclusive, Passionate, Engaging, Genuine and Adaptable. These values embody what Pegasystems stands for and how it does business. Furthermore, the group recognises and promotes five success behaviors – Excellence with a Sense of Urgency, Collaboration with Alignment, Accountability with Transparency, Learning with Empathy, and Engaged Enterprise Leadership - which employees are expected to practice in performing their roles and in executing their responsibilities to customers. These values and success behaviors, when coupled with Pegasystems' vision 'to change the way the world builds software', underpin group strategy and guide the local directors in making decisions and conducting business.

Pegasystems is committed to ethical and legal conduct. Pegasystems strives to foster a culture where employees can perform at the highest levels, are empowered to make good and ethical decisions, and never to compromise their personal integrity or the integrity of Pegasystems for business gains. The Pegasystems' Code of Conduct explains the role that each employee has in creating the business culture and emphasizes the ethical and legal standards that all Pegasystems personnel are expected to observe when dealing with Pegasystems, their colleagues, customers, partners, suppliers, and others. This Code applies to all officers, full and part-time employees, interns, natural persons retained as independent consultants and members of the board of directors of Pegasystems and its subsidiaries worldwide.

It is the duty of Pegasystems' managers to incorporate the Code of Conduct in employee training. Every new employee should be given the opportunity to read and discuss the Code. Pegasystems regularly conducts training, in e-learning format, and provides information and group-wide briefings to support the Code of Conduct.

As part of their induction directors are provided with information on their duties. It is expected that the directors recognize that they must fulfil their duties through a governance framework that delegates day to day decision making to them and the employees of the company, through a formalized delegation of authority.

All Pegasystems employees are invited to participate in periodic employee engagement surveys, the results of which are reviewed by the directors together with identified key focus areas and action items on Culture, Career and Performance to reinforce the company's values and ensure the culture is aligned with the strategic needs of the business.

Strong governance comes from the top. Accountability at Pega flows from the Board of Directors (Board) and executive leadership and is integral to the culture of the organization. The Board and senior leadership team set the tone for our business actions, ensuring Pega holds itself accountable to the highest ethical standards. The Board is responsible for establishing broad corporate policies and reviewing our overall performance. Its primary mandate is to oversee the management of Pega and, in so doing, serve the best interests of the company and its shareholders.

Further details on Pegasystems' corporate governance policies and the Code of Conduct can be found at <https://www.pega.com/about/leadership>

Pegasystems Limited

Strategic Report

for the year ended 31 December 2023 (continued)

Clients

Our mission at Pega is to ‘crush complexity’ so our clients can better focus their time on what really matters to them: the things that move their enterprise forward. Pega delivers innovative software that helps enterprises solve problems fast and transform for tomorrow. Pega's AI-powered decisioning and workflow automation allows customers to maximize value, simplify service and boost efficiency. Pega is deeply committed to positive outcomes for its clients and in building long-lasting customer relationships.

Partners

Under its Partner Program, Pega works with a global community of experts to provide flexible resources and industry knowledge, and hands-on technical skills, to help clients get the business outcomes they need, quickly. Pega invests heavily in training provision, marketing tools and resources as well as technical, sales and pre-sales enablement, to support its Partners and enable them to succeed in every opportunity.

Suppliers

Pega seeks to receive competitive and advantageous terms from suppliers through a thorough and transparent procurement process, whilst also ensuring vendor compliance with Pega's legal, ethics, and information security policies.

Pegasystems Limited endeavors to adhere to supplier payment terms and reports on payment practices and performance through the Department for Business, Energy & Industrial Strategy (BEIS) digital service.

Communities

Pega strives to be a responsible corporate citizen and active contributor in the global communities where our employees, clients, and partners live and work. Pega's deep commitment to our communities is brought to life through our global social impact program, Pega Cares. We support local and global non-profit organizations that align with our focus areas: women and girls in technology, youth education and development, and environmental sustainability. We are proud to partner with non-profit organizations and programs around the world that promote opportunity, equitable participation, and better outcomes for all. Refer Director's report for more details on environmental matters.

Business Overview

We develop, market, license, host, and support enterprise software that helps organizations build agility into their business so they can adapt to change. Our powerful low-code platform for workflow automation and artificial intelligence-powered decisioning enables the world's leading brands and government agencies to hyper-personalize customer experiences, streamline customer service, and automate mission-critical business processes and workflows. With Pega, our clients can leverage our intelligent technology and scalable architecture to accelerate their digital transformation. In addition, our client success teams, world-class partners, and clients leverage our Pega Express™ methodology to design and deploy mission-critical applications quickly and collaboratively.

Pegasystems Limited

Strategic Report

for the year ended 31 December 2023 (continued)

Our target clients are Global 2000 organizations and government agencies that require solutions to distinguish themselves in the markets they serve. Our solutions achieve and facilitate differentiation by increasing business agility, driving growth, improving productivity, attracting and retaining customers, and reducing risk. Along with our partners, we deliver solutions tailored to the specific industry needs of our clients.

We have substantially completed our transition to a more subscription-based business model, in which clients have the right to access our software in a hosted environment or use downloaded software for a specified subscription period. The shift of our clients' preference to subscription-based offerings requires a scalable organization and a considerable investment of technical, financial, legal, managerial, and sales resources.

Continued growth of our subscription-based offerings will depend on our ability to continue to:

- innovate and include new functionality and improve the usability of our products in a manner that addresses our clients' needs and requirements; and
- optimally price our products considering marketplace conditions, competition, our costs, and client demand.

Our cloud-based subscription model also requires that we rely on third parties to host our software for our clients. We incur significant recurring third-party hosting expenses to deliver our Pega Cloud offering that we do not incur for our perpetual and term license products.

These expenses may cause the gross margin we realize from our Pega Cloud sales to be lower than the gross margin we realize from our perpetual and term license products. If we are unable to meet these challenges effectively, our operating results and financial condition could be materially adversely affected.

Pegasystems Limited

Strategic Report

for the year ended 31 December 2023 (continued)

Appian Corp. v. Pegasystems Inc. & Youyong Zou

As previously reported, the Pegasystems Inc., ("Parent Company") is a defendant in litigation brought by Appian in the Circuit Court of Fairfax County, Virginia (the "Court") titled *Appian Corp. v. Pegasystems Inc. & Youyong Zou*, No. 2020-07216 (Fairfax Cty. Ct.). On May 9, 2022, the jury rendered its verdict finding that the Company had misappropriated one or more of Appian's trade secrets, that the Company had violated the Virginia Computer Crimes Act, and that the trade secret misappropriation was willful and malicious. The jury awarded damages of \$2,036,860,045 for trade secret misappropriation and \$1.00 for violating the Virginia Computer Crimes Act. On September 15, 2022, the circuit court of Fairfax County entered judgment of \$2,060,479,287, consisting of the damages previously awarded by the jury plus attorneys' fees and costs, and stating that the judgment is subject to post-judgment interest at a rate of 6.0% per annum, from the date of the jury verdict (May 9, 2022) as to the amount of the jury verdict and from September 15, 2022 as to the amount of the award of attorneys' fees and costs. On September 15, 2022, the Parent Company filed a notice of appeal from the judgment. On September 29, 2022, the circuit court of Fairfax County approved a \$25,000,000 letter of credit obtained by the Parent Company to secure the judgment and entered an order suspending the judgment during the pendency of the Company's appeal.

Appellate briefing in the Court of Appeals of Virginia is completed. A panel of the Court of Appeals of Virginia heard oral arguments on November 15, 2023, and on July 30, 2024, a panel of the Court of Appeals of Virginia delivered its written opinion in the appeal by Pegasystems of the prior decision of the Circuit Court of Fairfax County, Virginia in the case titled *Appian Corp. v. Pegasystems Inc. and Youyong Zou*. The Court of Appeals of Virginia reversed the judgement as to the VUTSA claims on multiple grounds and remanded for new trial. Although it is not possible to predict timing, the entirety of the appeals process could potentially take years to complete. The Parent Company continues to believe that it did not misappropriate any alleged trade secrets and that its sales of the Parent Company's products at issue were not caused by, or the result of, any alleged misappropriation of trade secrets. The Parent Company is unable to reasonably estimate possible damages because of, among other things, uncertainty as to the outcome of appellate proceedings and/or any potential new trial resulting from the appellate proceedings.

The Parent Company strongly disagrees with the claims and the verdict, and believes the verdict is not supported by the facts of the case or the law and is the result of significant error. The Parent Company plans to pursue its post-trial remedies to have the verdict set aside. The Parent Company believes it has meritorious defenses and will vigorously pursue appeal of the trial court's findings, with the appeals process potentially taking several years. No judgment would be payable until this process has been concluded. Pegasystems Inc has the financial strength to pay a judgment if it ever becomes necessary.

This verdict has no impact on Pega's products or on what the group can sell and service. Therefore, the directors of Pegasystems Limited have no reason to believe that the current or future operation of the UK-registered business is in jeopardy.

Further commentary is available on the Pega website <https://www.pegacom/appian-lawsuit-statement>

Pegasystems Limited**Strategic Report**

for the year ended 31 December 2023 (continued)

Key Performance Indicators (“KPIs”)

The board monitors progress on the overall group strategy and the individual strategic elements by reference to KPIs. The performance during the year, together with the historical trend data, is set out in the table below.

The largest component of the company’s operating expenses is employment costs, not just for the UK organisation, but for staff employed in EMEA and APJ, whose costs are recharged under service support agreements (SSA’s).

	2023	2022
	£m	£m
Turnover (see note {a} below)	411	329
Turnover increase/(decrease) %	25%	10%
Operating Profit/(Loss) (see note {b})	25	(8)
Net Profit Margin (see note {c})	5%	(3)%
Employee Headcount	336	431
UK Employment Cost as % of Revenue	19%	23%
Service Support Fees as % of Revenue (see note {b})	41%	55%

{a} Turnover (see note 3) - the substantial completion of the Cloud Transition has resulted in increased turnover growth higher than in 2023.

- The increase in Pega Cloud revenue in 2023 was primarily due to the growth of the hosted client base as our clients continued to expand their use of Pega Cloud.
- The increase in maintenance revenue in 2023 was primarily due to continued demand for our subscription license offerings, which are sold with maintenance committed for the full term of the subscription license
- The increase in subscription license revenue in 2023 was primarily due to high renewal activity, resulting in an increase in license deliveries.

{b} Operating Profit - the gain in 2023 is attributable to both higher revenue and some stabilization, reduction in operating expenses levels.

- The recharge of internal development costs (IDC) under the cost-share agreement (CSA) agreement for sharing costs of development of one or more intangibles in proportion to the participants’ shares of reasonably anticipated benefits (or “RAB”) with Pegasystems Inc, increased by £45.98m from 2022 to 2023. During previous year ended 31 December 2022, the Company recalculated the 2019 Reasonably Anticipated Benefits (‘RAB’) share utilizing 2020 and 2021 actuals and confirmed that its divergence from the 2019 Original RAB Share and therefore the adjustment of (£34m) made to the IDC in previous year.
- Recharges of costs under SSA’s with Pega operating units across EMEA and APJ decreased by £10.98m from 2022 to 2023.
- Staff employment costs increased by 4% {£3.01m}, due to increase in remuneration levels and redundancy payment. This followed a group-wide review of staff compensation.
- The increase in foreign currency transaction loss of £ 4.55m in 2023 was primarily due to the impact of fluctuations in foreign currency exchange rates associated with foreign currency-denominated cash and receivables held by Company.

{c} Net Profit Margin - Increase due to the operating gain which is already discussed in note {a} and {b} above.

Pegasystems Limited

Strategic Report

for the year ended 31 December 2023 (continued)

Principal Risks and Uncertainties

The company competes in the BPM, CRM, Case Management and Decision Management software markets and faces a number of risks and uncertainties. The following section sets out the principal risks the company is exposed to and the company's approach to mitigating those risks.

Global Economy

The continued uncertainties in the global economy may negatively impact our sales to, and the collection of receivables from our clients.

Our sales to, and the collection of receivables from, our clients may be impacted by adverse changes in global economic conditions. The U.S. and other key international economies have experienced cyclical downturns from time to time, during which economic activity has been impacted by falling demand for goods and services, inflation, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity, and foreign exchange markets, bankruptcies, and economic uncertainty. These changes in global economic conditions could impact the ability and willingness of our clients to make investments in technology, which in turn may delay or reduce the purchases of our software and services. These factors could also impact the ability and willingness of these clients to pay their trade obligations and honor their contractual commitments. These clients may also become subject to increasingly restrictive regulatory requirements, which could limit or delay their ability to proceed with technology purchases and may result in longer sales cycles, increased price competition, and reductions in sales of our products and services. The financial uncertainties facing many of our clients and the industries in which they operate could negatively impact our business, operating results, and financial condition.

Commercial Risk

The markets the company operates within are intensely competitive, rapidly changing, and highly fragmented, as current competitors expand their product offerings and new companies enter the market. Competitors vary in size and in the scope and breadth of the products and services offered.

These expected results are subject to risks and uncertainties, including without limitation the following:

- (a) demand for Pegasystems' software may decline, causing a decline in demand for the company's services;
- (b) the company may not be successful in delivering services that satisfy customer requirements, which could result in decreased customer demand or claims by customers for refunds or credits; and
- (c) other companies are capable of providing services to licensees of Pegasystems software and these companies may be successful in increasing their market share at the expense of the company.

Market acceptance of our subscription-based offerings will depend on our ability to continue to innovate and include new functionality and improve the usability of our products in a manner that addresses our clients' needs and requirements; and optimally price our products considering marketplace conditions, competition, our costs, and client demand.

In order to remain competitive, to retain existing customers and attract new ones, Pegasystems Limited continuously strives to enhance current products, address any product defects or errors, acquire, or develop, and introduce new products that meet client needs, keep pace with technology and regulatory changes, respond to competitive products, and achieve market acceptance.

Pegasystems Limited

Strategic Report

for the year ended 31 December 2023 (continued)

Human Resources

The company is aware that its performance is only as good as the people it employs. The company therefore attempts to have policies in place to attract, retain and motivate its employees to help achieve its business objectives. Refer to Section 172 Statement above on more details on employees' engagement.

War in Ukraine

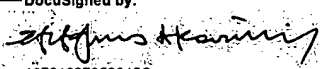
Pegasystems Limited has very few customers in Ukraine, Russia, and Belarus, but its direct financial exposure under current contracts is not material.

In 2021, before Russia's invasion of Ukraine, a business decision was made to stop pursuing new clients in Russia and to close the local office (a subsidiary of Pegasystems Inc). For the year ended 31 December 2023 and upto till date of signing of financial statements, total revenue from clients located in Ukraine, Russia, and Belarus was less than £200K. However, the ultimate impact of Russia's invasion of Ukraine on the business will depend on future developments, including any prolongation or escalation of the conflict, the impact on our people, partners, clients, and vendors in neighboring countries, and the impact on the global economy, all of which are uncertain and unpredictable.

Charitable Donations

The company made charitable donations of £1,553 during the year 2023 (2022: £8,184).

Approved by the Board and signed on its behalf by:

DocuSigned by:


16791237853845C...
Efstathios Kouninis

Director

20 September 2024

Pegasystems Limited**Directors' report
for the year ended 31 December 2023**

The directors present their report together with the financial statements and auditor's report, for the year ended 31 December 2023.

Principal Activities and Business Review

The principal activity of the company ("Pegasystems Limited") is the provision of software, consulting, technical support and related services. Its parent company, Pegasystems Inc., is a recognised global leader in the markets for customer engagement and digital process automation software.

Financial Risk Management

The company is exposed to a number of financial risks, including liquidity risk, credit risk and currency risk. It is company policy that no speculative trading in financial instruments shall be undertaken.

Liquidity and Cash flow Risks

The company manages liquidity and cash flow risks by retaining sufficient cash to ensure it has adequate funds available for operations. The company would have access to additional funding from its parent if required.

Credit risk

Credit risk arises when customers fail to discharge their obligations thus causing the company a financial loss. The company's credit control policies are aimed at minimising such losses and deferred payment terms are only granted to customers who demonstrate appropriate payment history and satisfy credit-worthiness checks.

Currency Risk

The company invoices its customers in several currencies, but predominantly GBP, EUR, USD and AUD. The company is invoiced, by associated group companies under service support contracts, for fees in numerous currencies. Therefore, there is a risk of exchange losses being incurred on revenue when Sterling appreciates in value, and on operating costs when Sterling depreciates. However, currency risk and risk mitigation measures are carefully considered when customer contracts are drawn up and when inter-company recharging arrangements are put in place. The group treasury function manages the company's foreign currency bank balances to mitigate the risks of exchange losses on monetary assets.

Energy Consumption & Carbon Emissions

Climate change is a critical, global issue. Its serious business implications concern us, our clients, and our partners. We have made it our business to better understand, measure, and manage our contributions to climate change as fully and responsibly as possible. We believe the action we are taking is good for the planet, for people, and for business. Pegasystems is managing its environmental impact strategy, and the execution of this, on a global basis, rather than through individual country initiatives. This is the most logical approach given shared global and regional resources, e.g., R&D facilities, and global workforce mobility.

Pegasystems LimitedDirectors' report
for the year ended 31 December 2023 (continued)

Pega's pathway to carbon neutrality is multifaceted. While we are at the beginning of this journey, we are focused on measuring, managing, and reporting our footprint, specifically focusing on:

- Expanding our tracking and management of energy consumption and emissions at all global offices and managed spaces
- Lowering energy consumption and associated carbon emissions throughout our operations
- Working with third parties to offset remaining carbon emissions, resulting in carbon neutrality in our eight largest Pega offices.
- Reporting environmental data to third parties, such as CDP and Ecovadis, a business sustainability rating company frequently consulted as a procurement tool by client organizations considering products and services.
- Finally, we support our clients through product innovation to help them better track and meet their emissions reduction goals, notably with our Pega Cloud® auto hibernation capability.

Signing on with SBTi

Pega joined the SBTi, a collaboration among CDP, the United Nations Global Compact, the World Resources Institute, and the Worldwide Fund for Nature. SBTi asks organizations to set targets for reducing their GHG emissions in accordance with the decarbonization goals of the Paris Agreement. Pega signed SBTi's commitment letter in 2023, promising to set a science-based GHG emissions reduction target to achieve net-zero emissions by 2040 or sooner, in alignment with SBTi's target-setting criteria. We are pleased to have developed our emissions target and submitted it for validation with SBTi. We look forward to sharing our goals and reduction roadmap once approved by SBTi.

In 2019, the Pegasystems group formed an ESG Committee to focus on the implementation of ESG programs. The Committee is comprised of senior leaders across various functions and geographies with expertise in a range of disciplines. It meets weekly to develop, drive, and oversee our ESG efforts. The group Chief Operating Officer and Chief Financial Officer, Chief People Officer, and General Counsel constitute the ESG leadership for the organization. This forum, through the ESG Committee, lays the strategic roadmap for various ESG initiatives. The Pegasystems group is committed to advancing its ESG governance. The Global Facilities and Real Estate team is responsible for the environmental aspects of the ESG program and monitors activities that impact climate related issues globally.

The Pegasystems group is committed to increasing transparency around its ESG practices, data, and impacts. Publishing the 2023 Pega Impact Report <https://www.pegasystems.com/insights/resources/2023-pegasystems-impact-report> is a crucial step towards that goal.

Pegasystems Limited

Directors' report
for the year ended 31 December 2023 (continued)

Streamlined emissions and carbon reporting (SECR) metrics for Pegasystems Limited, Reading, UK office

Energy Consumption Data (UK) kWh

	2023	2022	2021	Type of fuel
Scope 1	246,000	172,000	227,000	Fuel & steam
Scope 2	184,000	172,000	155,000	Purchased electricity
Total	430,000	344,000	382,000	

Intensity Ratio (Global) Total emissions/£ Revenue

Energy Emission Data (UK) Mtco2e

	2023	2022	2021	Type of emission	2023	2022	2021
Scope 1	45	31	43	only WFH	0.00	0.01	0.74
Scope 2	38	39	42				
Scope 3	45	83	138				
Total	128	153	223				

Scope 1 (direct emissions) includes emissions from diesel generator

Scope 2 (energy indirect emissions) includes emissions from purchased electricity

Scope 3 (other indirect emissions) includes emissions arising from employees working from home

Energy efficiency actions

- We have signed up and committed for science-based targets (SBTi) with target of net zero by 2040.
- We are committed to single use plastic elimination at all our global facilities and public disclosure of our emission data and details through Pega Impact Report, CDP & Ecovadis.
- In the year 2020 – we decided to reduce our energy consumption by 1% and water consumption by 2% annually till 2025. This year we signed a commitment to SBTi(Science Based Targets Initiative) with a roadmap to Netzero by 2040. We have sent in our targets for validation to them.

The mission methodology used is The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (Revised Edition).

For scope 2 we use the Location based methodology as we buy REC's for our consumption. We use GHG protocol methodology and EPA for emission factors.

Results and Dividends

The company's profit/(loss) for the year after taxation amounted to £20,157 thousands; (2022 - £(9,847) thousands). The directors do not recommend the payment of a dividend (2022 - Nil).

Pegasystems Limited

Directors' report
for the year ended 31 December 2023 (continued)

Employment Policies

Please refer to <https://www.pegasystems.com/about/careers/equal-employment-opportunity>

It is Pegasystems' policy to recruit, hire, train, promote, discipline, and compensate in all job classifications, without regard to race, colour, sex, religion, national origin, age, genetic information, disability, sexual orientation, gender identity, veteran status, or any other category protected by law.

Pega is committed to:

- Base employment decisions on the principles of Equal Employment Opportunity
- Ensure that all other people related actions, such as compensation, benefits, terminations, Company sponsored training, and educational assistance shall be administered without regard to race, colour, sex, religion, national origin, age, genetic information, disability, sexual orientation, gender identity, veteran status, or any other category protected by law.
- Ensure that promotion decisions will be made in accordance with the principles of Equal Employment Opportunity by imposing only valid requirements for promotional opportunities.
- Proactively ensure prevention and action to prevent harassment or intimidation of all employees.

Disability

Please refer to the statement above outlining Pega's Equal Employment Opportunity policy.

The recruitment, career development and training opportunities for disabled employees are reviewed regularly to ensure they both comply with local statutory requirements and are comparable to those of similar employers in the UK.

Employee Participation

The company recognises that organisations are most successful where management and staff share a common purpose, work in partnership and communicate openly.

Pega has a well-established Employee Stock Purchase Plan (ESPP) designed to encourage employees to purchase stock, and so share in the long-term success of the business. In addition, grants of Restricted Stock Units (RSU's) and stock options may be awarded on joining and at periodic intervals through an employee's career, in recognition of excellent performance.

Pegasystems Limited has a programme of international Company Calls, hosted by Board members, releasing information to employees on quarterly financial results and providing other business updates, in addition to responding to employees' questions submitted through the 'Building Bridges' portal. This is intended to provide employees with information on key decisions concerning business strategy and operations that will affect them, as well as to enable employees to provide feedback on recent initiatives and to highlight matters of concern to Board members.

Pega also has a programme of regional 'EMEA Team Time' monthly calls and e-mails and encourages employee participation and feedback, coordinated by the EMEA Communications team.

Employee participation is encouraged in various award schemes for recognition of outstanding performance and in contributing to charitable initiatives supported by the company.

Pegasystems Limited**Directors' report**for the year ended 31 December 2023 (continued)

Stakeholder engagement

Pegasystems Limited builds strong relationships and cultivate a strong working relationship with suppliers, customers and other key stakeholders based on trust, transparency, and open communication. The Company regularly communicate with them to discuss business needs, expectations, and any issues that may arise and product/service specifications, quality standards, delivery schedules, and any other relevant requirements to ensure they understand Company expectations. Encourage them to provide feedback on their experiences working with company. This can help identify areas for improvement and foster a collaborative partnership. The Company regularly review and evaluate engagement strategies to ensure they remain effective and align with the evolving needs of suppliers, customers, and other stakeholders.

Supplier Payment Policy

Pega seeks to ensure that for all supplier engagements there is clarity, transparency, and consensus in agreeing the terms of payment. Pega has a policy of prompt payment and has implemented internal processes and controls to effect this.

Pegasystems Limited is required to report on payment practices and performance to the Department of Business, Energy & Industry Strategy biannually. It is also required to demonstrate to its customers, particularly those in the government sector, that it adheres to prompt, fair and effective payment practices.

Future Developments

The directors aim to maintain the management policies which have resulted in the company's growth in previous years. The directors expect to see a continued growth in the company's UK results.

Directors

The directors of the company during the year and up to the date of signing of these financial statements unless stated otherwise were:

- Efstathios Kouninis
- Kenneth Stillwell
- David Wells

Qualifying Third Party Indemnity Provisions

A qualifying third-party provision as defined in section 232(2) of the Companies Act 2006 was in force for the benefit of each of the directors and the company secretary in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which directors may not have been indemnified, a directors' and officers' liability insurance policy were maintained by the Pegasystems Inc. group throughout the financial year for the benefit of the parent and all subsidiaries.

Pegasystems Limited

Directors' report
for the year ended 31 December 2023 (continued)

Going Concern

The business planning process provides outputs for detailed cash flow and liquidity reviews, to ensure that the Pegasystems, Inc. "Group" maintains adequate liquidity throughout the forecast periods including Pegasystems Limited. The prime output is a liquidity forecast which is prepared and updated on regular basis which highlights the extent of the Group's liquidity based on controlled cash flows and the headroom under the Group's undrawn revolving credit facility.

Furthermore, the directors of Pegasystems Inc have provided a letter of support to the directors of Pegasystems Limited to provide assurance of ongoing financial support for a period of no less than 12 months from the date of approval of these financial statements. Thus, the directors continue to adopt the going concern basis in preparing the annual financial statements.

Events After the Balance Sheet Date

There have been no significant events subsequent to the year ended 31 December 2023 requiring adjustment. However, the verdict of the US court case involving Pegasystems Inc, referred to under Business overview section of 'Strategic report' above, requires disclosure because of the scale of damages awarded, although disputed and reversed. The progress of the appeal will be monitored, and any potential financial impact will be assessed. Neither the duration of the appeal proceedings, nor any resulting financial consequences, are estimable at the present time. Pegasystems Limited, as the subsidiary of the litigant, is not directly affected by the legal dispute, but it is dependent on its parent for ongoing funding to maintain its status as a going concern.

Directors' Confirmations

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any 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 s418 of the Companies Act 2006.

Charitable Donations

Refer Strategic report section for charitable donations made during the year 2023..

Independent Auditor

A resolution to reappoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting.

Pegasystems Limited

Directors' report
for the year ended 31 December 2023 (continued)

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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:

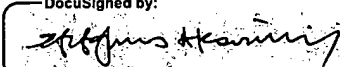
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board and signed on its behalf by:

DocuSigned by:

18794237853845C...
Efstathios Kouninis,
Director
20 September 2024

Pegasystems Limited

Independent auditor's report
for the year ended 31 December 2023

Independent auditor's report to the members of Pegasystems Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Pegasystems Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its Profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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 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 Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to 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.

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 a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, 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 our report, we do not express any form of assurance conclusion thereon.

Pegasystems LimitedIndependent auditor's report
for the year ended 31 December 2023 (continued)

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 this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act 2006 and UK Corporation tax laws and pensions legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These included UK Health and Safety legislation, UK Anti Bribery and Corruption Act, and UK Anti Money Laundering and Terrorist Financing regulations, UK Data Protection legislation, and UK's environmental reporting regulations.

Pegasystems Limited**Independent auditor's report
for the year ended 31 December 2023 (continued)**

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

- Occurrence and accuracy of license revenue – There is a risk that the Company may improperly allocate arrangement consideration between license revenue and services revenue in the statement of operations, and incorrectly identify distinct performance obligations, in order to meet expectations of analysts related to license sales. A sample of contracts has been obtained and the revenue recognized has been recalculated based on the obligations and deliverables stated in the contract and whether the performance obligation has been fully delivered, partially delivered, or not delivered.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and internal legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements**Opinions on other matters prescribed by the Companies Act 2006**

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

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

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 any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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 are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Pegasystems Limited

Independent auditor's report
for the year ended 31 December 2023 (continued)

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.



Andrew Woodhead FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cardiff, United Kingdom
September 20, 2024

Statement of comprehensive income
for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Turnover	3	410,918	328,902
Depreciation and amortization	4	—	(41)
Staff costs	5	(79,503)	(76,490)
Other operating charges		(306,043)	(260,286)
Operating profit/(loss)	4	25,372	(7,915)
Interest receivable and other income		476	2,784
Interest payable and other expenses		(2,004)	(13)
Profit/(loss) before taxation		23,844	(5,144)
Tax on profit /loss	6	(3,687)	(4,703)
Profit/(loss) for the financial year		20,157	(9,847)

All amounts relate to continuing activities.

All recognised losses in the current and prior year are included in the profit and loss account. There is no other comprehensive income and therefore nothing to note on this.

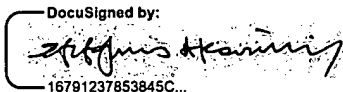
Pegasystems LimitedStatement of financial position
as at 31 December 2023

	Note	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Fixed assets					
Tangible fixed assets	11		-		-
Investments in subsidiaries	9		15,870		18,555
Other investments	10		1,968		1,984
Intangible assets	8		-		-
			<u>17,838</u>		<u>20,539</u>
Current assets					
Debtors					
due within one year	12	159,919		213,788	
due after one year	12	16,987		18,037	
Cash at bank and in hand		<u>77,754</u>		<u>17,801</u>	
		<u>254,660</u>		<u>249,626</u>	
Creditors: amounts falling due within one year	13	<u>(206,525)</u>		<u>(223,818)</u>	
Net current assets/(liabilities)			<u>48,135</u>		<u>25,808</u>
Total assets less current liabilities			<u>65,973</u>		<u>46,347</u>
Creditors: amounts falling due after one year	14		<u>(1,771)</u>		<u>(2,487)</u>
Net assets/(liabilities)			<u>64,202</u>		<u>43,860</u>
Capital and reserves					
Called-up share capital	16		1		1
Share premium account	17		169,833		169,648
Profit and loss account			<u>(105,632)</u>		<u>(125,789)</u>
Equity shareholders' funds			<u>64,202</u>		<u>43,860</u>

The notes on pages 24 to 40 are an integral part of these financial statements.

The financial statements of Pegasystems Limited, registration number 02883981, were approved by the Board of Directors and authorised for issue on its behalf by:

Efstathios Kouninis
Director
20 September 2024

DocuSigned by:

16791237853845C...

Pegasystems LimitedStatement of changes in equity
for the year ended 31 December 2023

	Note	Called-up Share Capital £'000	Share Premium Account £'000	Profit & Loss Account £'000	Total £'000
At 1 January 2022		1	169,648	(115,942)	53,707
Loss for the financial year being total comprehensive loss		—	—	(9,847)	(9,847)
At 1 January 2023		1	169,648	(125,789)	43,860
Additional paid in share capital	17	—	185	—	185
Profit for the financial year being total comprehensive income		—	—	20,157	20,157
At 31 December 2023		1	169,833	(105,632)	64,202

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023

1. Principal accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and to the preceding year

General information

Pegasystems Limited is a private company limited by shares and incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales (02883981).

The registered office and principal place of business is Third Floor, 23 Forbury Road, Reading, Berkshire RG1 3JH.

The financial accounts are presented in Sterling which is the functional currency of the company.

a) Basis of accounting

The principal activities of the company and the nature of its operations are set out in the Strategic Report.

The financial statements have been prepared under the historical cost convention except venture investments which are fair valued and in accordance with Financial Reporting Standard 102 (FRS 102) the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland, and the Companies Act 2006.

The following principal accounting policies have been applied.

b) Financial reporting standard 102 – reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”: The Company is a qualifying entity, since its parent Company, Pegasystems Inc., prepares publicly available consolidated financial statements that are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and Pegasystems Limited is included in the consolidation.

- The requirements of Section 7 Statement of Cash Flows and paragraph 3.17(d).
- The requirements of paragraphs 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b), 11.48(c), 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27, 12.29(a), 12.29(b), 12.29A and 12.30 provided disclosures equivalent to those required by this FRS are included in the consolidated financial statements of the group in which the entity is consolidated.
- The requirement of paragraph 33.7.

The information is included in the consolidated financial statements of Pegasystems Inc. as at 31 December 2023. These financial statements can be obtained from One Main Street, Cambridge, MA 02142, USA.

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

Going concern

The business planning process provides outputs for detailed cash flow and liquidity reviews, to ensure that the (Pegasystems, Inc. "Group") maintains adequate liquidity throughout the forecast periods including Pegasystems Limited. The prime output is a liquidity forecast which is prepared and updated on regular basis which highlights the extent of the Group's liquidity based on controlled cash flows and the headroom under the Group's undrawn revolving credit facility.

Furthermore, the directors of Pegasystems Inc have provided a letter of support to the directors of Pegasystems Limited to provide assurance of ongoing financial support for a period of no less than 12 months from the date of approval of these financial statements. Thus, the directors continue to adopt the going concern basis in preparing the annual financial statements.

Consolidation

The company is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent (disclosed in note 20). These financial statements therefore present information about the company as an individual undertaking and not about its group. Under section 401(2)(f) the company is required to file a copy of the group accounts at Companies House.

Tangible Assets

Tangible fixed assets are stated at cost, net of depreciation. Depreciation is provided on cost, less estimated residual value, in equal annual installments over the estimated useful lives of the assets. Depreciation is calculated on a straight line basis. The rates of depreciation are as follows:

Leasehold improvements	Over the term of the lease
Computer equipment	33% per annum
Furniture	20% per annum

Purchased goodwill

Goodwill arising on the acquisition of a company's trade and assets is the difference between the fair value of the consideration paid and the fair value of the net assets acquired. It is capitalised and amortized on a straight line basis through the statement of comprehensive income over the directors' estimate of its useful economic life, being ten years.

Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full year following acquisition;
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Investments

Investments in non-derivative instruments which are equity of the issuer, for example non-convertible preference shares, are measured at fair value with changes recognised in profit or loss, unless fair value cannot be measured reliably, in which case they are measured at cost less impairment.

Investments in subsidiaries are stated at cost less any provision for impairment in value.

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

An assessment is conducted at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Revenue recognition

Turnover represents amounts recognised on products sold and services provided, net of distributor discounts and value added tax.

Revenue is derived from the sale of software licenses, maintenance and support, professional services and training.

Contract assets are client-committed amounts for which revenue recognized exceeds the amount billed to the client, and billing is subject to conditions other than the passage of time, such as the completion of a related performance obligation.

Deferred revenue consists of billings and payments received in advance of revenue recognition.

Three basic criteria are applied to assess whether revenue should be recognised over a period of time.

- The customer receives and uses the benefits of the service at the same time as the company performs the service. Software maintenance and support and cloud subscription services fall within this category. Revenue is recognised evenly over the length of the contract based on percentage of completion. Revenue attributable to the unexpired portion of the contract is carried forward as deferred income and included within creditors.
- The product or the service has no alternative use other than its use by the customer, and there is an enforceable right to payment for work completed to date. Professional services are categorised as such, and revenue is recognised as consultancy hours are delivered or agreed project milestones are achieved.
- Control of the asset or assets being created passes to the customer as the business performs

If none of these criteria apply, revenue is recognised at a point in time, the point in time being determined by the following indicators:

- The company has a present right to payment for the goods or services
- The customer has legal title
- The company has transferred physical possession of the asset
- The customer has accepted the asset

Software license fees are recognised at the time of shipment if installation is considered perfunctory, or on acceptance of the software if installation is considered a significant element of the contract, depending on the specific terms of each agreement.

Maintenance revenues are determined on consistent pricing relationship as a percentage of the related license and observable in stand-alone renewal transactions and recognised over the term of maintenance period.

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

Cloud services revenues are determined on residual approach and recognised over the term of services. The Company utilizes the residual approach for software license and Pega Cloud performance obligations since the selling price is highly variable and the stand-alone selling price is not discernible from past transactions or other observable evidence. Periodically, the Company reevaluates whether the residual approach remains appropriate. As required, the Company evaluates its residual approach estimate compared to all available observable data before concluding the estimate represents its stand-alone selling price.

Consulting services revenues are determined on hourly rate for time and materials-based services in similar geographies and recognised on the basis of hours incurred to date (overtime).

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Taxation

Current tax is measured at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position date except that the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Foreign currency

- Functional and presentational currency - the company's functional and presentation currency is pound sterling.
- Transactions and balances - transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the rates ruling at that date. These translation differences are dealt with in the statement of comprehensive income.

Operating leases

Annual rentals are charged to the statement of comprehensive income on a straight-line basis over the period of the term of the lease even if payments are not made on such a basis.

Pension costs

Contributions to the company's defined contribution pension scheme are charged to the statement of comprehensive income in the period in which they become payable. The assets of the scheme are held separately in an independently administered fund.

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

Share-based payments

The company issues equity-settled payments to certain employees via issuance of equity instruments in the company's parent company, Pegasystems Inc. The company does not make share-based payments to any parties other than employees. Equity-settled share-based payments are measured at fair value using a Black-Scholes valuation model at the grant date. Key inputs used to estimate the fair value of stock options include the exercise price of the award, the expected post-vesting option life, the expected volatility of the stock over the option's expected term, the risk-free interest rate over the option's expected term, and the expected annual dividend yield. The fair value determined at the grant date of the equity-settled share-based payments is expensed under the rateable method, which treats each vesting tranche as if it were an individual grant.

Financial assets and liabilities

The Company's venture investments are recorded at fair value based on multiple valuation methods, including observable public companies and transaction prices and unobservable inputs, including the volatility, rights, and obligations of the securities the Company holds. Fair value is an exit price, representing the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants based on assumptions that market participants would use in pricing an asset or liability.

The carrying value of certain other financial instruments, including receivables and accounts payable, approximates fair value due to these items' relatively short maturities.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

Critical accounting judgement:

Critical judgements in applying the timing of revenue recognition – Our client contracts typically contain promises by us to provide multiple products and services. Specifically, contracts associated with Pega Platform sales and other software applications, sold as licenses to use functional intellectual property or as a cloud-based solution, typically include consulting services. Determining whether such products and services within a client contract are considered distinct performance obligations that should be accounted for separately requires significant judgment. Accordingly, we review client contracts to identify all separate promises to transfer goods and services that would be considered performance obligations. Judgment is also required in determining whether an option to acquire additional products and services within a client contract represents a material right that the client would not receive without entering into that contract.

A contract modification is a legally binding change to an existing contract's scope, price, or both. Contract modifications are reviewed to determine whether they should be accounted for as part of the original contract or as a separate contract. This determination requires significant judgment, which could impact the timing of revenue recognition. We typically account for contract modifications prospectively as a separate contract. The additional performance obligation(s) in our contract modifications are generally distinct and priced at their stand-alone selling price.

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

We allocate the transaction price to the distinct performance obligations, including options in contracts determined to represent a material right, based on each performance obligation's relative stand-alone selling price. Judgment is required in estimating stand-alone selling prices. We maximize the use of observable inputs by maintaining pricing analyses that consider our pricing policies, historical stand-alone sales when they exist, and historical renewal prices charged to clients. We have concluded that the stand-alone selling prices of certain performance obligations, specifically software licenses and Pega Cloud arrangements, are highly variable. In these instances, we estimate the stand-alone selling prices using the residual approach, determined based on the total transaction price minus the stand-alone selling price of other performance obligations promised in the contract. We update our stand-alone selling price analysis periodically, including a re-assessment of whether the residual approach used to determine the stand-alone selling prices for software licenses and Pega Cloud arrangements remains appropriate.

Changes in the assumptions or judgments used in determining the performance obligations in client contracts and stand-alone selling prices could significantly impact the timing and amount of revenue we report in a particular period.

Key sources of estimation uncertainty

Critical accounting estimates and assumptions – a management fee is charged by Pegasystems Inc to Pegasystems Limited to reflect both the business support given by the parent to its subsidiary and the proportion of shared group resources consumed by Pegasystems Limited. In order to determine a fair and reasonable basis for calculating the management fee, the Parent and Company engage external advisors (EY & Deloitte US) to help analyse the support services provided by corporate and operations groups at group level, and to assist in defining intercompany services and cost allocation processes that are consistent with the concept of arm's length pricing and reflective of the principles of US Treasury Regulation. 1.482, Organization for Economic Cooperation and Development Guidelines, and UK transfer pricing rules pursuant to Part 4 Taxation (International and Other Provisions) Act 2010. Whilst the objective analysis of facts underpins this exercise, a significant element of estimation and judgement is inevitable. By seeking external guidance, Pegasystems Inc and Pegasystems Limited seek to mitigate the risks of mis quantifying the data or making false assumptions, which could result in a material financial misstatement. The annual management fee for 2023 was £49.64m. A 1 percentage point change in the management fee would increase or decrease the management fee by £1.55m. As at 31 December 2023 £11.92m is payable towards management fee to Pegasystems Inc which is disclosed under note 13 under line item 'Amounts due to group undertakings – parent'.

3. Turnover

An analysis of turnover by geographical region (client location) is given below:

	2023	2022
	£'000	£'000
UK	121,736	93,494
Europe	180,313	149,144
Asia-Pacific	91,250	74,098
Americas	6,140	3,856
Africa & Middle East	11,479	8,310
	410,918	328,902

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

Turnover is derived as follows:

	2023	2022
	£'000	£'000
Licenses	98,133	47,104
Maintenance	80,430	76,313
Cloud services	162,004	127,935
Consultancy	69,497	76,135
Training	854	1,415
	410,918	328,902

Performance obligation for	When performance obligation is typically satisfied
Perpetual license	Upon transfer of control to the client, defined as when the client can use and benefit from the license (point in time)
Term license	Upon transfer of control to the client, defined as when the client can use and benefit from the license (point in time)
Maintenance	Ratably over the term of the maintenance (over time)
Pega cloud	Ratably over the term of the service (over time)
Consulting - time and materials	Based on hours incurred to date (over time)
Consulting - fixed price	Based on hours inclined as a percentage of total estimated hours (over time)

All the turnover is derived from the third parties.

4. Operating Profit/(Loss)

	2023	2022
	£'000	£'000
This is arrived after charging/(crediting):		
Depreciation of tangible fixed assets	—	41
Staff costs	79,503	76,490
Sales support service fees	169,646	180,626
Auditor's remuneration:		
Audit of the financial statements of the company services	199	191
Taxation services	56	38
Foreign exchange (gain)/loss	4,548	(4,112)
Operating leases:		
Hire of land and buildings	992	903

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

5. Employees

Staff costs (including directors) consists of:

	2023	2022
	£'000	£'000
Wages and salaries	61,018	58,361
Social security costs	6,512	6,857
Other pension costs	2,398	2,560
Share-based payment costs	9,575	8,712
	79,503	76,490

The average monthly number of persons (including executive directors) employed during the year, split by activity, was:

	2023	2022
	No.	No.
Administration	32	51
Services	304	380
	336	431

One director received remuneration for their services to the company in the current year and prior year as follows:

	2023	2022
	£'000	£'000
Director's emoluments	368	253
Company contributions to pension scheme	11	11
	379	264

The other directors are remunerated through the parent company, and it is not practicable to apportion for services provided to this company.

The above amounts relate to the only, and therefore the highest paid, director. During the year this director also exercised Pegasystems Inc share options, granted to eligible employees under a group equity award scheme, the cost of which is recharged to Pegasystems Limited.

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

6. Tax charge/(credit) on gain/(loss)

	2023	2022
	£'000	£'000
<i>UK current tax</i>		
Current tax on profits/losses of the year	2,735	2,874
Total current tax	2,735	2,874
Foreign tax suffered	952	955
Total current tax	3,687	3,829
<i>Deferred tax</i>		
Origination and reversal of timing differences	-	664
Effect of change in tax rate	-	210
Total deferred tax	-	874
Tax charge/(credit) on loss	3,687	4,703

The standard rate of tax for the year, based on the standard rate of corporation tax, is 23.52% (2022 – 19%).

The actual tax charge for the current period differs from the standard rate for the reasons set out in the following reconciliation:

	2023	2022
	£'000	£'000
Profit /(Loss) before tax	25,833	(5,144)
Tax at 23.52% (2022 – 19%) thereon	6,076	(978)
Expenses not deductible for tax purposes	810	16
Income not taxable	-	(591)
Effects of group and/or other reliefs	134	535
Gains/ rollover relief etc	-	455
Effects of overseas tax rates	-	774
Tax rate changes	-	210
Share options	458	3,878
Deferred tax (not recognised) / recognised	(3,791)	(2,470)
Provision for tax on notional profit if basis of transfer pricing is revised	-	2,874
Current tax charge for the year	3,687	4,703

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate to reduce the rate to 17% from 1 April 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements. In November 2020, the Prime Minister announced that he intended to cancel the future reduction in corporation tax rate from 19% to 17%. Therefore the corporation tax rate remains at 19% after 1 April 2021. Legislation will be introduced in Finance Bill 2021 to set the charge to Corporation Tax and set the main rate at 19% for the financial year beginning 1 April 2022. As announced at Budget, legislation will also be introduced in Finance Bill 2021 to set the charge to Corporation Tax and set the main rate at 25% for the financial year beginning 1 April 2023.

7. Share-based payments

The company recognised share-based equity compensation expense for 2023 of £9.58 million (2022 of £8.71 million). All transactions are settled by the company with equity instruments of Pegasystems Inc. (the “parent company”), which an employee may convert to cash through a third party after settlement.

The parent company periodically grants stock options and restricted stock units (“RSUs”) for a fixed number of shares to employees and non-employee directors. Options are granted with an exercise price greater than or equal to the fair market value of the parent company’s common stock at the date of the grant and have a ten-year term. RSUs deliver to the recipient a right to receive a specified number of shares of the parent company’s common stock upon vesting. Unlike stock options, there is no cost to the employee at share issuance. The parent company values its RSUs at the fair value of its common stock on the grant date, which is the closing price of the common stock on the grant date less the present value of expected dividends during the vesting period, as the employee is not entitled to dividends during the requisite service period. The majority of the stock options and RSUs granted by the parent company generally vest over four years with 25% vesting after one year and the remaining vesting in equal quarterly installments over the remaining three years.

Employees may elect to receive 50% of their target incentive compensation under the parent company’s Corporate Incentive Compensation Plan (the “CICP”) in the form of RSUs instead of cash. If elected by an employee, the equity amount will be equal in value on the date of grant to 50% of his or her target incentive opportunity, based on the employee's base salary. The number of RSUs granted will be determined by dividing 50% of the employee's target incentive opportunity by 85% of the closing price of the parent company’s common stock on the grant date, less the present value of expected dividends during the vesting period. If elected, the award vests 100% on the Plan pay-out date of the following year for all participants. Vesting is conditional upon the performance conditions of the CICP and on continued employment; if threshold funding does not occur, the RSU will not vest. The parent company considers vesting to be probable on the grant date and recognises the associated stock-based compensation expense over the requisite service period beginning on the grant date and ending on the vesting date.

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

The following summarises the activity of the company's non-qualified stock options (NQ) for 2023:

	Number	Weighted average exercise price per share (\$)	Weighted average remaining contractual term in years
Outstanding at 1 January 2023	1,324,673	60.38	8.56
Granted	139,827	47.26	
Forfeited	(177,776)	57.55	
Exercised	(39,547)	29.28	
Lapsed	(25,964)	80.65	
Outstanding at 31 December 2023	1,221,213	59.86	7.79
Vested and expected to vest at 31 December 2023	1,043,034	59.83	7.69
Exercisable at 31 December 2023	499,353	66.50	6.72

The following summarises the activity of the company's restricted stock units (RSUs) for 2023:

	Number	Grant date Fair Value per share (\$)
Outstanding at 1 January 2023	201,219	87.77
Granted	119,241	45.82
Forfeited	(41,846)	72.71
Exercised	(67,915)	86.99
Outstanding at 31 December 2023	210,699	67.27
Expected to vest at 31 December 2023	157,085	65.13

The fair value of stock options is estimated using a Black-Scholes valuation model. Key inputs used to estimate the fair value of stock options include the exercise price of the award, the expected term of the option, the expected volatility of the parent company's common stock over the option's expected term, the risk-free interest rate over the option's expected term, and the parent company's expected annual dividend yield. The amount of share-based payment expense recognised during a period is based on the value of the awards that are ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeiture rates differ from those estimates. Ultimately, the company recognises the actual expense over the vesting period only for the shares that vest.

The fair value determined at the grant date of the equity-settled share-based payments is expensed under the rateable method, which treats each vesting tranche as if it were an individual grant. Estimates of fair value are not intended to predict actual future events or the value ultimately realised by persons who receive equity awards.

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

The weighted-average assumptions used in the Black-Scholes option pricing model are as follows:

	2023	2022
Expected volatility (1)	48.00 %	42.00 %
Expected term in years (2)	3.5	3.9
Interest rate (risk-free) (3)	4.19 %	3.41 %
Expected annual dividend yield (4)	0.14 %	0.13 %
Weighted average share price at grant date (\$)	47.26	49.27

1. The expected volatility for each grant is determined based on the average of historical weekly price changes of the parent company's common stock over a period of time which approximates to the expected option term.
2. The expected option term for each grant is determined based on the historical exercise behavior of employees and post-vesting employment termination behavior.
3. The risk-free interest rate for the expected term of the stock option is based on the yield of zero-coupon U.S. Treasury securities for a period that is commensurate with the expected option term at the time of grant.
4. The expected annual dividend yield is based on the weighted average of the dividend yield assumptions used for options granted during the applicable period.

8. Intangible Assets

	Purchased goodwill
	£'000
<i>Cost</i>	
At 1 January and 31 December 2023	700
<i>Amortisation</i>	
At 1 January and 31 December 2023	700
Net book value	-
At 1 January and 31 December 2023	-

9. Investments in subsidiaries

	Total
	£'000
<i>Cost and net book value</i>	
At 1 January 2023	18,555
Disposal of subsidiary during the year	(2,685)
At 31 December 2023	15,870

During the year the Company has dissolved Pegasystems Bilgi Teknolojileri AS, subsidiary in Turkey on August 21, 2023 and loss of £ 1,989K was recognised in Statement of Profit and Loss on dissolution on subsidiary.

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

Name	Country of incorporation	Class of share capital held	Proportion of shares held	Nature of business
<u>Pegasystems B.V.</u> Vinoly Building, 8 th Floor, Claude Debussylaan 20b, 1082 MD Amsterdam	Netherlands	Ordinary	100	Software & Services
<u>Pegasystems GmbH</u> Lehel Carré, Sternstrasse 5, 80538 München	Germany	Ordinary	100	Software & Services
<u>Pegasystems Pty Limited</u> Level 7, BT Tower, 1 Market Street, Sydney NSW 2000	Australia	Ordinary	100	Software & Services
<u>Pegasystems Software Limited</u> 3 rd Floor, 23 Forbury Road, Reading, Berkshire RG1 3JH	UK	Ordinary	100	Software & Services
<u>Pegasystems Bilgi Teknolojileri AS</u> (Refer note above) Palmiye Cad. B39A No 20, Gökusu Evleri Anadolü, Hisari Beykoz, Istanbul 34815	Turkey	Ordinary	100	Software & Services
<u>Pegasystems New Zealand Limited</u> Office 1508, Level 15, 171 Featherston St, Wellington 6011	New Zealand	Ordinary	100	Software & Services
<u>Pegasystems AB</u> Östermalmstorg 1, 4 th floor 114 42, Stockholm Sweden	Sweden	Ordinary	100	Software & Services

10. Other Investments

	Total
	£'000
<i>Cost and net book value</i>	
At 1 January 2023	1,984
Fair value decrease	(16)
At 31 December 2023	1,968

As part of the 'Pega Ventures' strategic initiative to invest capital and resources in partner enterprises, in 2020 Pegasystems Limited entered into agreement to acquire shareholding in Adqura Limited over a three-year term.

The investments are revalued in accordance with the accounting policy set out in Note 1

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

11. Tangible Fixed Assets

	Leasehold Improvements	Computer Equipment	Furniture	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2023	1,679	194	96	1,969
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2023	1,679	194	96	1,969
Accumulated depreciation				
At 1 January 2023	1,679	194	96	1,969
Charge for the year	-	-	-	-
Disposals	-	-	-	-
At 31 December 2023	1,679	194	96	1,969
Net book value				
At 31 December 2023	-	-	-	-
At 31 December 2022	-	-	-	-

12. Debtors

	2023	2022
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	104,743	95,435
Amounts owed by group undertakings – parent	579	49,858
Amounts owed by group undertakings – subsidiaries	22,887	51,458
Prepayments	232	1,545
Accrued income	27,048	8,716
Other current assets	4,430	6,776
	159,919	213,788

Inter-company amounts are non-interest bearing, unsecured and repayable on demand.

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

Amounts falling due after one year:

	2023	2022
	£'000	£'000
Deferred contract-related costs	11,507	12,931
Contract assets	5,480	5,106
	<u>16,987</u>	<u>18,037</u>

13. Creditors: amounts falling due within one year

	2023	2022
	£'000	£'000
Trade creditors	531	689
Amounts due to group undertakings – parent	31,810	32,626
Amounts due to group undertakings – subsidiaries	39,949	72,705
Taxes and social security	6,398	5,099
Corporation tax	16,625	13,890
Accruals	9,750	9,251
Deferred revenue	101,462	89,558
	<u>206,525</u>	<u>223,818</u>

Inter-company amounts are non-interest bearing, unsecured and repayable on demand.

14. Creditors: amounts falling due after one year

	2023	2022
	£'000	£'000
Deferred rent	831	904
Deferred revenue	940	1,583
	<u>1,771</u>	<u>2,487</u>

15. Deferred taxation asset

	2023	2022
	£'000	£'000
At 1 January	-	874
Adjustment in respect of prior years	-	-
Deferred tax charge to statement of comprehensive income for the period	-	874
At 31 December	<u>-</u>	<u>-</u>

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

The deferred tax asset consists of:

	2023	2022
	£'000	£'000
Fixed asset timing differences	-	-
Short-term timing differences	-	-
Recoverable within 12 months	-	-

As at 31 December 2023, the Company has unrecognized deferred tax asset due to uncertainty over the generation of future taxable profits in the company of £38,952k (31 December 2022: £43,941k) primarily due to trade losses.

16. Called-up share capital

	2023	2022
	£	£
Allotted, issued and fully paid:		
1,006 (2022: 1006) ordinary shares of £1 each	1,006	1,006

17. Share premium

	2023	2022
	£'000	£'000
At 1 January	169,648	169,648
Additional paid in capital (Refer note below)	185	-
At 31 December	169,833	169,648

During the current year, Pegasystems Limited capitalized the intercompany payable from Pegasystems AB, Sweden. In this process, Pegasystems AB, Sweden transferred its intercompany receivable to Pegasystems, Inc. Pegasystems, Inc. then subscribed for shares in Pegasystems Limited, with a value of £185K, leaving the share subscription outstanding to be settled against the receivable. Pegasystems Limited will be considered to have satisfied its intercompany payable with an amount equivalent to the fair market value (FMV) of the stock issued to Pegasystems, Inc.

Pegasystems Limited

Notes forming part of the financial statements
for the year ended 31 December 2023 (continued)

18. Financial commitments

The company has total commitments under non-cancellable operating leases as follows:

	2023	2022
	£'000	£'000
Within one year	745	745
Within two to five years	2,798	2,798
Exceeding five years	2,191	2,936
	<u>5,734</u>	<u>6,479</u>

19. Related party transactions

The company has taken advantage of the exemption provided by FRS 102, section 33, where subsidiary undertakings (of which 100% of the voting rights are controlled within the group) are exempt from the need to disclose transactions with other group companies where the ultimate parent publishes its consolidated financial statements.

20. Ultimate parent company and controlling party

The company is a majority-owned subsidiary of Pegasystems Inc. At the year-end, the ultimate parent undertaking and controlling party is Pegasystems Inc., registered at One Main Street, Cambridge, MA, 02142, a company incorporated in US which prepares consolidated financial statements. Pegasystems Inc. is the largest and smallest group for which financial statements are prepared.

Consolidated financial statements of the Pegasystems Inc. group can be obtained from One Main Street, Cambridge, MA 02142, USA.

21. Significant post-balance sheet events

There have been no significant events subsequent to the year ended 31 December 2023 requiring adjustment. However, the verdict of the US court case involving Pegasystems Inc, referred to under Business overview section of 'Strategic report' above, requires disclosure because of the scale of damages awarded, although disputed and reversed. The progress of the appeal will be monitored, and any potential financial impact will be assessed. Neither the duration of the appeal proceedings, nor any resulting financial consequences, are estimable at the present time. Pegasystems Limited, as the subsidiary of the litigant, is not directly affected by the legal dispute, but it is dependent on its parent for ongoing funding to maintain its status as a going concern.