ICTS INTERNATIONAL N.V.
Amstelveen

ANNUAL REPORT 2021

CONTENTS

DIRECTORS' REPORT

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The directors hereby present the 2021 Annual Report for ICTS International N.V. and its subsidiaries.

Operations

ICTS International N.V. was registered at the Department of Justice in Amstelveen, Netherlands on October 9, 1992. ICTS International N.V. and Subsidiaries (collectively referred to as "ICTS" or "Company") operate in three reportable segments:

a) Corporate;
b) Aviation security and other aviation services; and
c) Authentication technology.

The corporate segment does not generate revenue and contains primarily non-operational expenses. The airport security and other aviation services business provide security and other services to airlines and airport authorities, predominantly in Europe and the United States of America. The authentication technology segment provides authentication security services to financial and other institutions, predominantly in the United States of America.

Legal structure and major shareholders

The following table sets forth certain information regarding ownership of the Company's Common Shares as of December 31, 2021 with respect to:

Each person who is known by the Company to own beneficially more than 5% of the Company's outstanding Common Shares.

Name shareholders holding five percent or more	Percent of Amount Beneficially Owned (a)	Common shares Outstanding (a)
MacPherson Trust and its beneficiaries (b)	62.6%	23,418,861
Menachem J. Atzmon	13.0%	4,850,000
Igal Tabori	5.3%	2,002,483
All officers and directors as a group, the MacPherson Trust (9 persons) and its Ultimate Beneficial Owners	84.1%	31,480,721

(a) The amounts include common shares owned by each of the above, directly or indirectly.

(b) 1. The MacPherson Trust ("Trust") was created for the benefit of the family of Mr. Menachem J. Atzmon. The Trust owns Spencer Corporation, Limited, which holds together with the Trust and its beneficiaries approximately 62.6% of the issued and outstanding Common Shares. Mr. Atzmon disclaims any beneficial interest in the MacPherson Trust. Spencer Corporation Limited and the MacPherson Trust and its beneficiaries together with Mr. Atzmon are able to appoint all the directors of ICTS and control the affairs of ICTS.

2. As of December 31, 2021 the Company has convertible notes payable to a related party in the total amount of $1.2 million, convertible at a rate of $0.40 per share. The calculation above does not take into consideration the conversion of convertible notes.

Market developments

Airport Security and Other Aviation Services Segment

Increase in revenue from airport security and other aviation services from $222.7 million in 2020 to $253.7 million in 2021 relates to the partial recovery of the aviation industry from the COVID-19 crisis in 2021.

The Company's income from the airport security and other aviation services was $21.6 million in 2021 compared to $6.1 million in 2020. The main reasons for the difference between 2021 and 2020 are:

a) in 2021 and 2020 the segment received financial and payroll support from the Dutch government of €14.9 million and €17.6 million ($16.9 million and $21.6 million as of December 31, 2021 and 2020), respectively, which was recorded as reduction of expenses.
b) In 2021 and 2020 the segment received payroll support from the United States of America government of $15.9 million and $13.7 million, respectively, which $16.9 million and $12.7 million, respectively, was recorded as reduction of expenses, and
c) partial recovery of the aviation industry in 2021 which increased the demand for our services and accordingly, the profitability.

Authentication Technology Segment

Revenue in 2021 from the authentication technology segment was $71.2 million compared to $25.8 million in 2020. The segment continued to increase its revenue from existing customers in addition to new ones. The profit from this segment amounted $21.4 million in 2021 compared to $3.2 million in 2020. Increase in profitability in 2021 was achieved following the material increase in revenue. The Company has increased also its R&D and SG&A expenses during the year in order to develop additional products and in order to increase its revenue.

Liquidity and Capital Resources

The Company's most significant expenditures consist of payroll, related costs, professional fees and interest. The Company has historically financed such expenditures through cash flows from operations, funding received from lines of credit, loans with lenders in Europe, the United States of America and borrowings from a convertible note arrangement with a related party.

As of December 31, 2021 and 2020, the Company had cash, cash equivalents and restricted cash of $103.7 million and $61.4 million, respectively. As of December 31, 2021 and 2020, restricted cash were $14.7 million and $9.0 million which consist of collateral for our letters of credit, derivative instruments and restricted bank accounts in the Netherlands, which are restricted for payments to local tax authorities.

As of December 31, 2021 and 2020, the Company had a working capital of $113.7 million and $57.2 million, respectively and shareholders' deficit of $5.8 million and $30.5 million, respectively. During the years ended December 31, 2021, the Company incurred net income (loss) of $41.3 million, and cash flows provided by (used in) operating activities of $53.4 million.

As of December 31, 2020, the Company had a line of credit in the Netherlands up to €12 million, which expired in March 2021, although it actually continued until May 2021 (except the line of credit for guarantees of €2.5 million which expired on March 2022) and additional line of credit in the United States of America up to $10 million, which expired in October 2021. The only line of credit the company has is in Sweden up to 4,000 SEK ($0.4 million as of December 31, 2021).

In October 2020, the Company extended the agreement with the entity related to the main shareholder to extend the period of the notes until January 2022. The maximum amount of the notes will be $3.0 million, excluding interest, out of this amount $1.2 million are convertible into the Company's shares at a price of $0.4 per share. In December 2021 the agreement was extended until January 2024 and the maximum amount was reduced to $2.0 million. Interest rate was reduced to 2.5%.

The Company's business plan, projects profit from operations in 2022, including the governmental assistance that was approved by the Dutch government until March 2022. The COVID-19 outbreak developed rapidly in 2021 and 2020, with a significant number of infections. The Company is dependent mostly in Europe and the United States of America for its business on the airline industry. In addition, ICTS is an employee intensive company. The Company's business plan depends on the COVID-19 developments in the foreseen future and the recovery of the airline industry.

The decisions taken by various governments have affected economic activity and the Company's business as following:

- Decrease of travel by flights, reducing the demand for services the Company provide as part of its airport security and other aviation services. As a result, our cumulative revenues of the airport security and other aviation services are lower compared to the period before the COVID-19 outbreak. Those revenues for the years ended December 31, 2021, 2020 and 2019 were $253.6 million, $222.7 million and $309.5 million, respectively.

- Governments in some of the countries in which we operate have announced the implementation of government assistance measures, which mitigated the negative impact of the COVID-19 outbreak on our results and liquidity. In the United States of America, the government has approved in 2021 and 2020 a payroll support of $15.9 and $13.7 million respectively, to the American subsidiary of the Company. In the Netherlands, the government has approved a financial assistance of €18.1 and €17.6 million ($20.6 and $21.6 million as of December 31, 2021 and 2020) and additional assistance up to €4.6 million for the period January through March 2022. In Germany, the Company's employees are eligible for payroll support up to 60% of the employee's payroll (on individual basis) in case the employees meet the support plan requirements. The Company pays to its German employees their full salary and the Company is being reimbursed by the German government for the payroll support amount. The Company has applied for this support starting April 2020. These available governmental support plans might be extended and/or changed according to the future COVID-19 developments although, currently, the Company does not expect those measures to be renewed or extended.

- In the Netherlands wage tax, social security and VAT payments for the period March 2020 until September 2021 were postponed and will have to be paid in 60 installments, starting March 2023, except for VAT payments starting October 2022. As of December 31, 2021 and 2020, the Company accumulated debt of €33.5 million and €20.8 million ($38.0 million and $25.5 million as of December 31, 2021 and 2020), respectively, to the Dutch tax authorities. In Germany, the government postponed the payments of the VAT for the period February through April, 2020. The Company accumulated €5.5 million ($6.7 million as of December 31, 2020) which was paid during the year 2021.

- Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the Company might experience negative results and liquidity restrains. The exact impact on our activities in the remainder of 2022 and thereafter cannot be predicted.

Cash Flow over the year

<u>Cash flow from operating activities</u>
Our cash flows from operating activities vary significantly from year to year, depending on our operating results, timing of cash receipts and disbursements on accounts receivable, accounts payable, accrued expenses and other current liabilities.

Net cash provided by operating activities for the year ended December 31, 2021 was $53.4 million. This provided cash resulted primarily from net income for the year of $41.3 million offset by an increase in accounts receivables of $23.3 million following the aviation industry recovery and the increase in revenues of the authentication technology segment. In addition there was an increase of $17.2 million in other liabilities, following the postponement of wage tax and other payments to the Dutch government as part of the governmental assistance in the Netherlands. Corporate income tax payable increased by $5.7 million following the increase in the Company's profitability, especially in locations without tax losses from previous years that could offset the tax liabilities, accrued expenses and other liabilities increased by $9.4 million due to increase in payroll and related costs following the partial recovery in the Company's operations. The VAT payable decreased by $4.8 million following repayment of VAT debt in Germany from previous year. The Company's accounts payable increased by $2.3 million with an offset of $2.2 million cash received from a related party. A non-cash charge of $2.1 million for depreciation and amortization was recognized in 2021.

<u>Cash flow from investment activities</u>
Net cash used in investing activities for the year ended December 31, 2021 was $2.4 million and consisted primarily of capital expenditures of $1.4 million and capitalization of software costs of $1.0 million.

<u>Cash flow from financing activities</u>
Net cash used in financing activities for the year ended December 31, 2021 was $7.2 million which consisted of repayments under the lines of credit.

Risk Factors

You should carefully consider the risks described below regarding the business and the ownership of our shares. If any of the risks are realized, our business, financial condition or results of operations could be adversely affected, and the price of our common stock could decline significantly.

<u>*COVID-19*</u>
In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses, including the Company's. It is not possible for the Company to predict the duration and its effects on the future business or results of operations. Some governmental authorities-imposed restrictions on non-essential activities, businesses suspended travel and popular leisure destinations temporarily closed to visitors. These conditions have impacted the Company's business operations and revenue, as seen with decrease in demand of airport services among the airlines or airports as a result of decline in travel and reduced or cancelled flights, and adversely affect the Company's business. The Company expects the pandemic to continue having an impact on revenue volume during 2022; however, the extent of the impact is uncertain and is largely dependent on the duration of the pandemic. As a result, the Company is taking actions to identify additional sources of liquidity and reduce or defer costs thereby maximizing working capital and increasing

financial flexibility. These actions include the reduction of expenses by furloughing a significant portion of the Company's workforce and matching the hours worked to the current demand of airport services and the submission of an applications for financial assistance under the different governments support plans to be used for the continuation of payment of employee wages, salaries and benefits.

Labor concerns

Several of our subsidiaries operate in many different jurisdictions in Europe, the United States of America and Asia and are therefore subject to the different labor laws of such jurisdictions. Any changes in such laws, as an example, the establishment or change of minimum wages, could have an adverse effect on the business of the Company.

In addition, some of our employees are covered by collective bargaining agreements with unions. Such collective agreement detail, inter alia, financial and non-financial entitlements to our employees that effect our financial results. Relationship with unions, including work stoppages or changes in work rules, could have an adverse impact on our financial results.

In some jurisdictions and subject to legislation related to employees' entitlements during sickness period, increase in employees' sick rate could have an adverse impact on our financial results. Lack of manpower and/or employees' turnover may lead to additional costs, as an example, recruitment and training cost, and therefore, increase in employees' turnover rate could have an adverse impact on our financial results.

If any of such changes and/or circumstances have a financial impact on the Company and the Company is not able to fully adjust its fees for its services to accommodate such changes and/or circumstances, of which there is no assurance, there could be a material adverse effect on our business.

Further, escalating costs of providing employee benefits and other labor issues may lead to labor disputes and disruption of our business.

Potential liability claims

From time to time lawsuits have been commenced against the Company or its subsidiaries, usually claiming injury or damage to property. In addition, labor related issues, as an example, employee dismissal, may lead to labor disputes. Most of these claims are covered by insurance. In the event such claims are not covered by the insurance, there could be an adverse impact on the Company.

Our contracts with airports or airlines may be canceled or not renewed

Our revenues are primarily provided from services pursuant to contracts, which are cancellable on short notice at any time, with or without cause. We cannot assure you that existing clients will decide not to terminate our contracts or fail to renew a contract. In some jurisdictions and operations, contracts are subject to a tender detailing, inter alia, participation terms, cap pricing and award criteria. In addition, consolidation in the airline industry could also result in a loss of customers. Any such termination, failure to renew a contract with us and/or failure in tenders, could have a material adverse effect on our results of operations and financial condition. If our relationships with our major customers are impaired, then there may be a material adverse effect on our results of operations and financial condition. Our major customers include airports in Europe and major airlines servicing the United States of America. The aviation industry might encounter difficulties and this may have a material adverse impact on our business.

Terrorism, war or risk of war

Our business is affected by numerous factors outside of our control, such as terrorist attacks and acts of war. Future terrorist attacks against the countries where the Company has a presence, rumors or threats of war, actual conflicts involving those countries or their allies, or military or trade disruptions affecting customers may materially adversely affect operations. Our facilities, and equipment could be direct targets or indirect casualties of terrorist attacks and acts of war. Strategic targets such as high-technology aviation security assets, passenger terminals or aircrafts may be at greater risk of future terrorist attacks than other targets. It is possible that any, or a combination, of these occurrences could have a material impact on the business of the Company, on cash flows, results of operations, financial condition, business reputation, claims etc. In addition, insurance premiums for some or all of our current coverages could increase dramatically, or certain coverages may not be available to us in the future.

Losses from operations

The Company incurred net income (loss) of $37.3 million and $4.0 million in 2021 and 2020 respectively. The 2021 and 2020 profits include special grants provided by different governments as COVID-19 assistance to the company. The Company had a shareholders' deficit of $3.8 million and $29.8 million as of December 31, 2021 and 2020, respectively. If we are unable to obtain new service contracts, increase revenues, increase profitability and reduce the Company's shareholders deficit, our financial condition and results of operations might be affected and our share price may decline.

Loans from third parties

Our financing activities have consisted of loans from banks and other third parties. There is no assurance that those third parties will continue providing loans to the Company and even if loans are made, there is no assurance that the terms will be favorable to the Company. In 2021 bank loans in the Netherlands and the United States of America expired and there is no assurance the Company will be able to obtain new credit lines in the future in order to finance extension of its operations

Key personnel

Our success largely depends on the services of our senior management and executive personnel. The loss of the services of one or more of such key personnel could have an adverse impact on our operations. Our success is also dependent upon our ability to hire and retain additional qualified executive personnel. We cannot assure you that we will be able to attract, assimilate and retain personnel with the attributes necessary to execute our strategy. We cannot assure you that one or more of our executives will not leave our employment and either work for a competitor or otherwise compete with us.

Development of new technology

As part of our technology business strategy, we develop technological solutions and systems for financial and other industries and seek other revenue producing business and business opportunities. We cannot assure you that we will be able to develop new systems or develop systems that are commercially viable. Our success in developing and marketing our systems will also depend on our ability to adapt to rapid technology changes in the industry and to integrate such changes into our systems. We cannot assure you that we will be successful in our attempts to change or implement our business strategy. We may not have the expertise to be successful in developing our business in areas that are not related to the security industry. We compete in a highly competitive industry and our competitors may be more successful in developing new technology and achieving market acceptance of their products.

Acquiring or investing in other businesses

From time to time, the Company may seek to acquire or invest in other business, which may or may not be related to the business of the Company. No assurance can be given that the Company will acquire or invest in any companies. If the Company decides to acquire or invest, no assurance can be given that such acquisition or investment will be successful.

Cyber Security Measures

We rely on computer systems and information technology in our business and have established security programs for protection. We might be the target of attempted cyber and other security threats and despite our security measures, our systems might be vulnerable to interruption or damage from computer hackings, viruses, worms or other destructive or disruptive software, process breakdowns, denial of service attacks, social engineering or other malicious activities or any combination of the foregoing. We must continuously monitor and develop our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events, that could have a security impact. Insider or employee cyber and security threats are increasingly a concern for all companies, including ours. It is not possible to determine the cost to the Company in the event of a cyber security incident as that will depend on the size and nature of the incident. For more information see the subsequent events in the financial statements for additional information on the 2022 cyber security incident.

Competition

Competition in the aviation security and aviation related services industry as well as in the technology industry is intense. Many of our competitors have greater financial, technical and marketing resources. Our competitors might develop and market alternative systems and technologies that may have greater functionality or be more cost effective than the services we provide or the systems that we develop. If our competitors develop such systems we may not be able to successfully market our systems. Even if we are able to develop systems with greater functionality, which are more cost effective than those developed by our competitors, we may not be able to achieve market acceptance of our systems.

Operations in international environments risk

The Company is currently engaged in direct operations in numerous countries and is therefore subject to risks associated with international operations (including economic and/or political instability, conflict and trade restrictions). Such risks can cause the Company to have significant difficulties in connection with the sale or provision of its services in international markets and have a material impact on the Company's consolidated financial position, results of operations and cash flows.

Governmental regulation

Industries on which we operate, are subject to extensive governmental regulation, the impact of which is difficult to predict. The Aviation and Transportation Security Act (the “Security Act”) has had a significant negative impact on our aviation security business in the USA. In addition, our ability to successfully market new systems will be dependent upon government regulations over which we have no control. Any existing or new regulation may cause us to incur increased expenses or impose substantial liability upon us. The likelihood of such new legislation is difficult to predict.

Legislation designed to protect privacy rights

From time to time, personal identity databases and technologies utilizing such databases have been the focus of organizations and individuals seeking to curtail or eliminate the use of personal identity information technologies on the grounds that personal information and these technologies may be used to diminish personal privacy rights. In the event that such initiatives result in restrictive legislation, the market for our products may be adversely affected. In addition, in the event that the Company fails as a result of legislation designed to protect privacy rights, the market for our products may be adversely affected.

Licenses for operations

A license to operate is required from the airport authority in the airports in which we currently operate. The loss of, or failure to obtain, a license to operate in one or more of such airports could result in the loss of, or the inability to compete for, contracts in the airports in which we have licenses.

Poor economic conditions

Poor economic conditions could adversely affect our business. Deterioration in the global economic environment may result in decreased demand for our services. Weakening economic conditions could also affect our customers, which may result in redirection of their request for our services.

Currency risk

A substantial portion of our revenue is generated in foreign countries. We generally retain our income in local currency at the location the funds are received. Since our financial statements are presented in United States dollars, any significant fluctuation in the currency exchange rate between such currency and the United States dollar would affect our results of operations and financial condition.

Inflation risk

Following the high inflation rates in the USA and Europe, the company might be requested to increase the salary of its employees. There is no assurance that the company will be fully compensated by it's customers for those increases.

Limitations in price share

The market price of our common stock may from time to time be significantly affected by a large number of factors, including, among others, variations in our operating results, the depth and liquidity of the trading market for our shares, and differences between actual results of operations and the results anticipated by investors and securities analysts. Many of the factors which affect the market price of our common stock are outside of our control and may not even be directly related to us. The market price of our common stock may be volatile, which may make it more difficult for you to resell your shares when you want at prices you find attractive.

Main shareholders

As of December, 2022, the MacPherson Trust, its beneficiaries and Mr. M.J. Atzmon, own or control together approximately 75.6% of our issued and outstanding common stock (excluding conversion rights). As a result of such ownership and conversion rights, the MacPherson Trust and its beneficiaries together with Mr. Atzmon are able to significantly influence and / or control all matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. Such concentration may also have the effect of delaying or preventing a change in control. Mr. Atzmon, the Chairman of the Supervisory Board, disclaims any benefit or interest in the MacPherson Trust. Their interests could conflict with yours. In addition, significant sales of shares held by them could have a negative effect on our stock price.

Dividends

We do not expect to pay any cash dividends on our common stock in the foreseeable future.

Quantitative and qualitative disclosure about market risk

Foreign Currency Exchange Risk - applies to our operations outside the USA. In 2021, approximately 29% of the Company’s revenues were derived in the United States of America, and approximately 71% was derived in Europe and the Far East. The Company is subject to market risks associated with foreign currency exchange rate fluctuations. We utilize some derivative instruments to manage the exposure to currency risk relating salaries in Israel. As such, significant foreign currency exchange rate fluctuations can have a material impact of the Company’s financial position, results of operations, and cash flows.

Interest Rate Risk - We are subject to changes in interest rates based on Federal Reserve actions and general market conditions. The Company does not utilize derivative instruments to manage its exposure to interest rate risk. An increase of 1% in the interest rate would have increased the Company's interest expense for bank loans, convertible notes payable to a related party and other parties, by approximately $0.1 million in the year ended December 31, 2021.

Movements of investments in 2021

In December 2021, the Company invested an amount of $18 thousand in Silver Circle One, a capital fund which aims to invest in private emerging companies with focus on consumer, commerce and technology companies. The Company committed to invest up to $0.1 million on the pool. As Silver Circle One is a private, closely held fund, there is no active market for this investment. Therefore the Company measures the investment at cost minus impairment.

In December 2021, the Company invested an amount of $50 thousand in Justt Fintech Ltd ("Justt"), a company incorporated in Israel. As of December 31, 2021, the investment represented less than 1% of the issued and outstanding share capital of Justt Fintech Ltd. Justt is a technology company which fully automated chargeback disputes on behalf of online merchants. As Justt is a private, closely held company, there is no active market for this investment. Therefore, the Company measures the investment at cost minus impairment.

Research and Development Costs
Research and development costs were $12.1 million or 3.7% of revenue, compared to $6.5 million or 2.6% of revenue in 2020. As the authentication technology segment continues to increase its sales, developments and activities, the Company continued to increase the number of employees in its Research and Development department, resulting mostly in increase of the R&D payroll costs. In addition, the Company increased its efforts to develop additional products in this segment.

Organisation

Employees
As of December 31, 2021, the Company has 6,290 employees, of which 4,698 employees are located in Europe, Far East and Israel and 1,592 are located in the United States of America.

Legal Proceedings
The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. These claims are primarily related to grievances filed by current and former employees for unfair labor practices or discrimination, and for passenger aviation claims. Management recognizes a liability for any matter when the likelihood of an unfavorable outcome is deemed to be probable and the amount is able to be reasonably estimated. Management has concluded that such claims, in the aggregate, would not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Inquiry Proceedings
On June 24, 2021 a minority shareholder of the Company initiated inquiry proceedings before the Enterprise Chamber of the Amsterdam Court of Appeal (the "Court") which is a specialized court dedicated to resolving corporate disputes. The shareholder has requested the Court to appoint an investigator on behalf of the Court in accordance with Dutch law, to investigate certain activities of the Company that have been previously disclosed by the Company in its periodic filings with the SEC for the fiscal years ended December 31, 2020 and 2019. The shareholder has not requested the Court to
order preliminary relief, but has requested the Court to order the registrant to pay the costs of the proceedings.

On June 24th, 2022, the Court rendered its judgment after reviewing all filings and a court hearing. The Court accepted ICTS's defense on all items except two and appointed an inquirer to examine the two items. The two items are: The conversion of loans in 2019 from a related party at a share price of $0.40 and the issuance of shares to directors and certain employees in 2019 at a share price of $0.40.

In 2017, the company invested $3,500 in White Line B.V., a limited Company incorporated in the Netherlands, representing 10% of the issued and outstanding share capital of White Line B.V. The Company had an agreement with an entity related to its main shareholder, according to which, if the value of this investment decreased, the related party entity has guaranteed to repurchase this full investment in minimum amount of $3,500. In December 2018, the related party entity purchased the full investment from the Company for $3,500. In 2021, the Company has a dispute with White Line B.V. as certain items disclosed in White Line B.V. financials appeared questionable. As the economical ownership is not within the Company any more, the Company has no financial exposure on this dispute. In November 2022 the appeal court rejected the requested of the company to provide additional information.

Climate change regulation

Our business is not affected directly or indirectly in any way by existing and pending, local, state, regional, federal or international legal requirements and agreements related to climate change.

Well-balance between men and women in management board

On the basis of the "Wet Bestuur en Toezicht" (Code on Management and Supervision) the group needs to comply with the articles 2: 166 and 2: 276 of the Dutch Civil Code which include requirements for the well-balanced spread of the management board. As a result at least 30% of the available seats should be occupied by women. ICTS had two management board members, who are men. Next to the board level initiatives we promote well-balanced gender diversity in senior management positions.

Board practices

We have a Supervisory Board and a Management Board. The Supervisory Board has the primary responsibility for supervising the policies of the Management Board and the general course of corporate affairs and recommending the adoption of the annual financial statements of ICTS by its shareholders. The Management Board is responsible for the day-to-day operations of ICTS. Members of the Supervisory Board and the Management Board are appointed by the shareholders for a term of one year. Non-executive officers are appointed by and serve at the satisfaction of the Management Board.

The members of the Supervisory Board as of December 31, 2021 and the initial year they joined the Supervisory Board are as follows: Menachem Atzmon (1999), Ron Atzmon (2018), Gil Atzmon (2018), David W. Sass (2002), Philip M. Getter (2003), Gordon Hausmann (2005) and Gail F. Lieberman (2010).

The Audit Committee consists of Philip M. Getter, Chairman, Gail F. Lieberman and Gordon Hausmann, all of whom are independent. Mr. Getter and Ms. Lieberman have financial expertise. The audit committee evaluates ICTS's accounting policies and practices and financial reporting and internal control structures, selects independent auditors to audit the Company's financial statements and confers with the auditors and the officers. The Audit Committee has an Operating Charter as well. We do not have a Nominating Committee. The members of the Audit Committee and Compensation Committee are all independent and were never officers or employees of the Company.

The Supervisory Board of the Company has adopted a Code of Ethics for principal Executive Officers, Directors and senior financial officers.

The Articles of Association of ICTS require at least one member of both the Management Board and the Supervisory Board, but do not specify a maximum number of members for such boards. The general meeting of shareholders determines the exact number of members of both the Management Board and the Supervisory Board. Under the laws of the Netherlands and the Articles of Association, each member of the Supervisory Board and Management Board holds office until such member's resignation, death or removal, with or without cause, by the shareholders.

Background and compensation philosophy
Our Compensation Committee consists of Gail Lieberman, Chairman and Gordon Hausmann, all independent directors. The Compensation Committee and, prior to its establishment our Supervisory Board of Directors determined the compensation to be paid to our executive officers based on our financial and operating performance and prospects, the level of compensation paid to similarly situated executives in comparably sized companies, and contributions made by the officers to our success. Each of the named officers will be measured by a series of performance criteria by the Supervisory Board of directors, or the compensation committee on a yearly basis. Such criteria will be set forth based on certain objective parameters such as job characteristics, required professionalism, management skills, interpersonal skills, related experience, personal performance and overall corporate performance.

Our Supervisory Board of Directors and Compensation Committee have not adopted or established a formal policy or procedure for determining the amount of compensation paid to our executive officers. The Compensation Committee makes an independent evaluation of appropriate compensation of key employees, with input from management. The Compensation

Our compensation program for our executive officers and all other employees is designed such that it will not incentivize unnecessary risk-taking. The base salary component of our compensation program is a fixed amount and does not depend on performance. Our cash incentive program takes into account multiple metrics, thus diversifying the risk associated with any single performance metric, and we believe it does not incentivize our executive officers to focus exclusively on short-term outcomes. Our equity awards are limited by the terms of our equity plans to a fixed maximum specified in the plan, and are subject to vesting to align the long-term interests of our executive officers with those of our stockholders.

We provide our executive officers with a base salary and certain bonuses and commissions as well as equity awards in some cases to compensate them for services rendered during the year. The Compensation Committee determines the composition and amount of director and key employee compensation. When the annual award consists of equity purchases, it is only permitted at a price equal or above market.

Market developments and outlook 2022

I-SEC Group
Our current key markets are Germany, The Netherlands, and Spain. Our growth ambition includes a strong position on the cargo security market.

As we are a manpower company, the workforce and employment will develop in line with the volume of the businesses. We keep on being active on all business lines and keep on exploring profitable new
markets around the globe, either by ourselves or via mergers and acquisitions

Aftermath of Corona
Although we are positive about 2022, we expect the year ahead less positive than 2021 due to the yet
residual effect of Covid-19; the finalization of governmental support programs; the impact from the war
in Ukraine on the global economy; higher than usual inflation worldwide and the shortage of personnel

across the globe. Connected to this, we see that traveling by air has materially increased in the last few months creating constraints to fulfil the demand at the moment, which could limit the possibilities to further growth.

Based on our latest estimate for 2022 we believe the Group will grow its revenues compared to Last Year with a positive and reasonable EBITDA.

Our cash position stays strong, as repayment of accumulated tax debts (€33.5m) will not commence
before the autumn of 2022, in 60 monthly instalments.

<u>Huntleigh</u>
Huntleigh is operating in the United States of America and provides mostly aviation related services to airlines and airports. Unfortunately Huntleigh revenues decreased materially following the Corona from $55,5 million in 2019 to $28,2 million in 2020. We see recovery in the aviation market but the combination of the new corona variants and the fact that in the labor market in the US there is a shortage of manpower, recovery is expected to be slow. The Company has received governmental assistance during the years 2021 and 2020 which helped the company to maintain its operations, however that assistance was not prolonged further. Huntleigh's cash balances are enough to maintain the current operations at the foreseeable period.

<u>AU10TIX</u>
In 2021 AU10TIX has continued to grow and increased materially its revenue due to additional services provided to its existing and new clients. The Company has increased its R&D expenses as its looking to extend the products and services it currently provides to its customers. In general, AU10TIX is a growing company and also the number of employees has been growing. In 2022 the revenue and profitability went down materially as big part of the customers belong to the crypto industry which was materially harmed in 2022. The Company expects AU10TIX to continue its growth in the following years. However, AU10TIX revenue might still be affected by future developments of the Corona situation and the financial crisis as the demand for the services by certain customers might be affected according to global and local effects.

Schiphol, December xx, 2022

On behalf of ICTS International N.V.

A. Raich Managing director	R. Shaked Managing director

CONSOLIDATED FINANCIAL STATEMENTS 2021

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2021

(after appropriation of results)

		31 December 2021		31 December 2020	
		$	$	$	$
ASSETS					
Fixed assets					
Intangible fixed assets	(1)		1,571,203		1,009,882
Tangible fixed assets	(2)				
Other fixed assets			4,217,865		4,720,694
Financial fixed assets	(3)				
Investments in other parties		2,004,243		1,950,100	
Other receivables		3,485,081		3,152,075	
			5,489,324		5,102,175
Current assets					
Receivables, prepayments and accrued income	(4)				
Trade receivables		43,340,035		21,469,812	
Taxes and social securities		810,617		948,027	
Other receivables and accrued income		27,034,940		32,028,892	
			71,185,592		54,446,731
Cash and cash equivalents	(5)		103,688,584		61,350,217
			186,152,568		126,629,699

		31 December 2021		31 December 2020	
		$	$	$	$
LIABILITIES					
Group equity	(6)				
Group equity of ICTS International N.V.		-3,816,135		-29,774,447	
(Redeemable) Non-controlling interests in subsidiaries		90,279,251		73,807,414	
			86,463,116		44,032,967
Provisions	(7)		1,801,956		-
Non-current liabilities	(8)				
Convertible notes, payable to related party		1,191,537		1,200,000	
Other debt		38,067,355		25,684,877	
			39,258,892		26,884,877
Current liabilities	(9)				
Interest-bearing loans and borrowings		198,859		8,103,682	
Trade creditors		5,857,084		3,715,345	
Taxes and social securities		21,547,331		23,052,537	
Other liabilities, accruals		31,025,330		20,840,291	
			58,628,604		55,711,855
			186,152,568		126,629,699

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

		2021		2020	
		$	$	$	$
NET TURNOVER	(10,11)	325,361,746		249,128,568	
Cost of revenues	(12)	216,296,027		202,803,967	
GROSS MARGIN			109,065,719		46,324,601
EXPENSES					
Selling expenses	(13)	3,259,814		1,522,507	
General & Administrative expenses	(14)	51,834,829		37,962,400	
			55,094,643		39,484,907
OPERATING RESULT			53,971,076		6,839,694
Changes in value of financial assets and of securities	(15)	455,618		-	
Interest and similar expenses	(16)	-1,242,995		-1,236,809	
FINANCIAL INCOME AND EXPENSES			-787,377		-1,236,809
RESULT FROM NORMAL OPERATIONS BEFORE TAX			53,183,699		5,602,885
Tax on result	(17)		-9,219,267		-590,907
RESULT FROM NORMAL OPERATIONS AFTER TAX			43,964,432		5,011,978
Minority interest	(18)		-6,675,064		-999,024
RESULT AFTER TAX			37,289,368		4,012,954

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

The cash flow statement has been prepared using the indirect method.

	2021		2020	
	$	$	$	$
Cash flow from operating activities				
Operating result	53,971,076		6,839,694	
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Amortisation and depreciation	2,401,190		2,325,854	
Movement in provisions	1,801,956		-	
Movements in working capital				
Movement of accounts receivable	-21,870,223		1,308,153	
Movement of short-term debt to finance companies (excluding short-term part of long-term debt)	-1,234,328		-8,195,818	
Movement of creditors subledger	2,141,739		-2,093,027	
Movement of taxation and social security contributions	10,947,344		31,961,354	
Movement of other liabilities	-		-1,121,076	
Movement of accruals and deferred income	15,178,991		-6,928,754	
Cash flow from operating activities		63,337,745		24,096,380
Interest paid	-1,242,995		-1,236,809	
Corporate income tax	-636,624		-590,907	
Changes in value of financial assets and of securities	455,618		-	
Minority interest	-6,675,064		-999,024	
		-8,099,065		-2,826,740
Cash flow from operating activities		55,238,680		21,269,640
Cash flow from investing activities				
Investments in intangible fixed assets	-1,643,671		-1,101,972	
Investments in tangible fixed assets	-1,681,014		-2,487,310	
Investmenst in other related parties	-54,143		-150,000	
Disposal of intangible fixed assets	402,938		-	
Disposal of tangible fixed assets	4,875		757,782	
Changes in other receivables	-333,006		-12,518	
Cash flow from investing activities		-3,304,021		-2,994,018
Cash flow from financing activities				
Repayment of loans	-333,006		-2,338,395	
Receivables (repayments) of convertible notes payable to a related party	-8,463		1,200,000	
Borrowings (repayments) under lines of credit, net	-7,904,823		-12,541,960	
Cash flow from financing activities		-8,246,292		-13,680,355
Exchange and conversion differences		-1,350,000		1,594,000
		42,338,367		6,189,267

Compilation cash

	2021		2020	
	$	$	$	$
Compilation cash at 1 January		61,350,217		55,160,950
Movement of cash and cash equivalents		42,338,367		6,189,267
Cash and cash equivalents at 31 December		103,688,584		61,350,217

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS AT DECEMBER 31, 2021

	2021		2020	
	$	$	$	$
SHARE GROUP RESULT AFTER TAX		37,289,368		4,012,954
Translation adjustments		1,607,000		101,169
Total result of the legal entity		38,896,368		4,114,123

The revaluation is recognized in the income statement on completion of the transaction; The amount of the realized revaluation is also part of the consolidated result presented to this legal entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL NOTES

Activities

ICTS International N.V. (“ICTS”) was registered at the Department of Justice in Amstelveen, Netherlands on October 9, 1992. ICTS and subsidiaries (collectively referred to as “ICTS” or the "Company") operate in three reportable segments:

(a) corporate;
(b) airport security and other aviation services; and
(c) authentication technology.

The corporate segment does not generate revenue and contains primarily non-operational expenses. The airport security and other aviation services segment provides security and other services to airlines and airport authorities, predominantly in Europe and the United States of America. The authentication technology segment provide authentication services to financial and other institutions, predominantly in the United States of America and Europe.

ICTS International N.V. is traded on the OTC QB Stock Market's National Market System, USA, under the symbol "ICTSF". For further information, we refer to the Form-20-F, which is kept at the office of the Company and can be viewed also at the company's website and at the SEC website.

Reporting period

These financial statements cover the period 1 January 2021 until 31 December 2021.

Liquidity and financial condition

As of December 31, 2021 and 2020, the Company has a working capital of $xxx and $60,678 and shareholders deficit of $xxx and $29,774, respectively. During the years ended December 31, 2021 and 2020, the Company incurred income (loss) from continuing operations of $xxx and $4,013 respectively.

The Company had a line of credit in the Netherlands up to €12,000 ($14,742 as of December 31, 2021), which expired in March 2021 and additional line of credit in the United States of America up to $10,000, which expired in October 2021. Additionally, the Company has a note up to a maximum amount of $3 million with a related party that matures on January 1, 2022.
In October 2020, the Company extended the agreement with the entity related to the main shareholder to extend the period of the notes until January 2022. The maximum amount of the notes will be $3.0 million, excluding interest, out of this amount $1.2 million are convertible into the Company’s shares at a price of $0.4 per share. In December 2021 the agreement was extended until January 2024 and the maximum amount was reduced to $2.0 million. Interest rate was reduced to 2.5%. r December 2021 extended till January 1, 2024 with a reduced maximum amount up to $2 million). The Company anticipates that it will not need its lines of credit for 12 months from issuance of these financial statements.

The Company’s business plan, projects profit from operations in 2022, including the governmental assistance that was approved by the Dutch government until March 2022. The COVID-19 outbreak developed rapidly in 2021 and 2020, with a significant number of infections. The Company is dependent mostly in Europe and the United States of America for its business on the airline industry. In addition, ICTS is an employee intensive company. The Company’s business plan depends on the COVID-19 developments in the foreseen future and the recovery of the airline industry.

The decisions taken by various governments have affected economic activity and the Company’s business as following:

- Decrease of travel by flights, reducing the demand for services the Company provide as part of its airport security and other aviation services. As a result, our cumulative revenues of the airport security and other aviation services are lower compared to the period before the COVID-19 outbreak. Those revenues for the years ended December 31, 2021, 2020 and 2019 were $253.6 million, $222.7 million and $309.5 million, respectively.

- Governments in some of the countries in which we operate have announced the implementation of government assistance measures, which mitigated the negative impact of the COVID-19 outbreak on our results and liquidity. In the United States of America, the government has approved in 2021 and 2020 a payroll support of $15.9 and $13.7 million respectively, to the American subsidiary of the Company. In the Netherlands, the government has approved a financial assistance of €18.1 and €17.6 million ($20.6 and $21.6 million as of December 31, 2021 and 2020) and additional assistance up to €4.6 million for the period January through March 2022. In Germany, the Company’s employees are eligible for payroll support up to 60% of the employee’s payroll (on individual basis) in case the employees meet the support plan requirements. The Company pays to its German employees their full salary and the Company is being reimbursed by the German government for the payroll support amount. The Company has applied for this support starting April 2020. These available governmental support plans might be renewed and/or changed according to the future COVID-19 developments although, currently, the Company does not expect those measures to be renewed or extended.

- In the Netherlands wage tax, social security and VAT payments for the period March 2020 until September 2021 were postponed and will have to be paid in 60 installments, starting March 2023, except for VAT payments starting October 2022. As of December 31, 2021 and 2020, the Company accumulated debt of €33.5 million and €20.8 million ($38.0 million and $25.5 million as of December 31, 2021 and 2020), respectively, to the Dutch tax authorities. In Germany, the government postponed the payments of the VAT for the period February through April, 2020. The Company accumulated €5.5 million ($6.7 million as of December 31, 2020) which was paid during the year 2021.

- Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the Company might experience negative results and liquidity restrains. The exact impact on our activities in the remainder of 2022 and thereafter cannot be predicted.

The Company’s business plan, together with the expected governmental support projects income from operations, compliance with all financial covenants, positive cash flows from operations and no external borrowings for operations. There can be no assurance that management will be successful in achieving its business plan.

Based upon the items mentioned before the board of the company have a reasonable expectation that the Group has adequate resources to continue in operational existence and meet its liabilities for the foreseeable future. For this reason the directors consider it appropriate and have confidence to adopt the going concern basis in preparing the (consolidated) financial statements.

Registered office, legal form and registration number at the chamber of commerce

The registered and actual address of ICTS International N.V. is Walaardt Sacréstraat 425-5, Schiphol-Oost, the Netherlands, from where the company carries out its principal activities, with the trade name ICTS International ("ICTS" or "The company"). The company is registered at the chamber of commerce under number 33279300.

Operational leasing

The company may have lease contracts whereby a large part of the risks and rewards associated with ownership are not for the benefit of nor incurred by the company. The lease contracts are recognised as operational leasing. Lease payments are recorded on a straight-line basis, taking into account reimbursements received from the lessor, in the income statement for the duration of the contract.

Estimates

The preparation of the financial statements requires the management to form opinions and to make estimates and assumptions that influence the amounts disclosed in the financial statements. Actual results may differ from these estimates. The estimates and the underlying assumptions are constantly assessed. Revisions of estimates are recognised in the period in which the estimate is revised and in future periods for which the revision has consequences.

If it is necessary to provide the insight required Section 2:362, paragraph 1 of the Dutch Civil Code, the nature of these estimates and judgments, including the associated assumptions, is included in the notes to the relevant items.

The following accounting policies are in the opinion of management the most critical for the purpose of presenting the financial position and require estimates and assumptions:
- Valuation of intangible fixed assets;
- Valuation of other fixed operating assets;
- Valuation of deferred tax assets;
- Provision for doubtfull accounts receivables;
- Provision for legal proceedings and restructuring; and
- Provision for settlements regarding COVID related government grants.

Change in accounting policies

Up till the financial statements 2020 the income statement was prepared and presented by nature. An income statement by nature is one in which expenses are disclosed according to catergories they are spent on, such as staffing costs depreciation, employee benefit etc. However, based on the activities of the entity and how they are monitored by it's management a presentation based on model by function is more appropriate.

As per 2021 the client introduced Model F (functional model. An income statement by function is the one in which expenses are disclosed according to different functions they are spent on (costs of revenues, selling expenses and administrative expenses).The introduction of this model led to a reclass in the comparative figures between the functional expenses prestend as cost of revenues, selling expenses and the general & administrative expenses.

However, the change in accounting policy did not had any impact on the company's equity as per December 31, 2021, its result of the financial year 2021 and the related cashflow.

Group structure

List of participating interests

ICTS International N.V. in Amstelveen is the head of a group of legal entities. The overview of the data as required in accordance with Articles 2:379 and 2:414 of the Dutch Civil Code as of December 31, 2021 is included below:

Name, statutory registered office	Share in issued capital
	%
I-SEC Global Security B.V. which holds the shares of: Amsterdam, the Netherlands	100.00
I-SEC International Security B.V. which holds the shares of: Amsterdam, the Netherlands	100.00
I-SEC Benelux Holdings B.V. Amsterdam, the Netherlands	100.00
I-SEC Nederland B.V. Amsterdam, the Netherlands	100.00
I-SEC Nederland Security B.V. Amsterdam, the Netherlands	100.00
I-SEC Tech B.V. Amsterdam, the Netherlands	100.00
I-SEC German Holdings B.V.* which holds the shares of: Amsterdam, the Netherlands	100.00
I-SEC Security Services GmbH Oberursel, Germany	100.00
I-SEC German Aviation Holdings 1 B.V. which holds the shares of: Amsterdam, the Netherlands	100.00
I-SEC Verwaltungs SE Frankfurt am Main, Germany	100.00
I-SEC Deutsche Luftsicherheit SE & Co. KG Frankfurt am Main, Germany	100.00
I-SEC German Special Operations B.V. Amsterdam, the Netherlands	100.00
I-SEC Spain Holdings B.V. which holds the shares of: Amsterdam, the Netherlands	100.00
I-SEC Spain Services Management SL Barcelona, Spain	100.00
I-SEC Spain Security Management SL Barcelona, Spain	100.00
I-SEC Aviation Security SL Barcelona, Spain	100.00
I-SEC Nordic Holdings B.V. which holds the shares of: Amsterdam, the Netherlands	100.00
I-SEC Denmark Aviation Security AS Kastrup, Denmark	100.00

I-SEC Norway Aviation Security AS Oslo, Norway	100.00
I-SEC Finland Aviation Security Oy Helsinki, Finland	100.00
I-SEC Sweden Aviation Security AB which holds the shares of: Stockholm, Sweden	100.00
Quality Detection Dogs Sweden AB Stockholm, Sweden	51.00
I-SEC Italia S.R.L. which holds the shares of: Milan, Italy	100.00
I-SEC Italia Services S.R.L. Milan, Italy	100.00
I-SEC Japan KK Narita, Japan	100.00
I-SEC UK (inactive) London, United Kingdom	100.00
Freezone I-SEC Korea Inc. Seoul, South Korea	100.00
ICTS USA Inc. which holds the shares of: New York, USA	100.00
Huntleigh Corporation Inc. Missouri, USA	100.00
Aviation Mobility Solutions Inc. Dallas, USA	100.00
AU10TIX Technologies B.V. which holds the shares of: Amsterdam, the Netherlands	68.69
AU10TIX Limited which holds the shares of: Nicosia, Cyprus	100.00
AU10TIX B.V. which holds the shares of: Amsterdam, The Netherlands	100.00
AU10TIX Ltd. which holds the shares of: Hod Hasharon, Israel	100.00
AU10TIX Services Inc. Texas, USA	100.00
TSAS Ltd (inactive) Hod Hasharon, Israel	100.00

* I-SEC German Holding B.V. is a limited partner (100%) of I-SEC Deutsche Luftsicherheit SE&Co.KG and I-SEC Verwaltungs SE is a general partner (0%) of I-SEC Deutsche Luftsicherheit SE&Co.KG.

Section 402, Book 2 of the Dutch Civil Code

Since the income statement for 2021 of ICTS International N.V. is included in the consolidated financial statements, an abridged income statement has been disclosed (in the company financial statements) in accordance with Section 402, Book 2 of the Dutch Civil Code.

Consolidation principles

Financial information relating to group companies and other legal entities which are controlled by ICTS International N.V. or where central management is conducted has been consolidated in the financial statements of ICTS International N.V. The consolidated financial statements have been prepared in accordance with the accounting principles for valuation and result determination of ICTS International N.V.

Financial information relating to the group companies and the other legal entities and companies included in the consolidation is fully included in the consolidated financial statements, eliminating the intercompany relationships and transactions. Third-party shares in equity and results of group companies are separately disclosed in the consolidated financial statements.

Financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences (the acquisition date) until the date that control ceases. At acquisition date the assets, provisions and liabilities are measured at fair values. Goodwill paid is capitalised, to which amortisation is charged based on the estimated useful life. The results of participating interests sold during the year are recognised until the moment of disposal.

The Company's interests in joint ventures are accounted for by proportionate consolidation. An entity qualifies as a joint venture if its participants exercise joint control under a collaborative agreement.

Related party transactions

All legal entities that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also entities which can control the Company are considered to be a related party. In addition, statutory directors, other key management of ICTS International N.V. or the ultimate parent company and close relatives are regarded as related parties. Transactions with related parties are included in the notes due to their sensitive nature. The nature, extent and other information is disclosed if this is necessary in order to provide the required insight.

Acquisition and disposal of group companies

Identifiable assets acquired and liabilities assumed in a business combination are recognised in the consolidated financial statements from the acquisition date, being the moment that control can be exercised over the acquired company.

The acquisition price consists of the cash consideration, or equivalent, agreed for acquiring the company plus any directly attributable expenses. If the acquisition price exceeds the net amount of the fair value of the identifiable assets and liabilities, the excess is capitalised as goodwill under intangible assets. If the acquisition price is lower than the net amount of the fair value of the identifiable assets and liabilities, the difference (i.e. negative goodwill) is disclosed under accruals and deferred income (refer to the respective note).

Entities continue to be consolidated until they are sold or being liquidated; they are deconsolidated from the date that control ceases and if they are classified as groups held-for-disposal.

GENERAL ACCOUNTING PRINCIPLES FOR THE PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

The consolidated annual accounts have been prepared in accordance with Title 9 Book 2 of the Dutch Civil Code and the guidelines of Dutch GAAP (Richtlijnen voor de Jaarverslaggeving).

The accounting principles applied to the valuation of assets and liabilities and the determination of results in these financial statements are based on the assumption of continuity of the company. Valuation of assets and liabilities and determination of the result takes place under the historical cost convention. Unless presented otherwise at the relevant principle for the specific balance sheet item, assets and liabilities are presented at nominal value.

Income and expenses are accounted for on accrual basis. Profit is only included when realized on the balance sheet date. Losses originating before the end of the financial year are taken into account if they have become known before preparation of the financial statements.

The income statement as presented is a mix between the categorial and functional model. This presentation form is considered to not detract in any way the necessary insight the annual accounts have to provide.

Comparative figures

Certain amounts have been reclassified in prior years balance sheets and statements of cash flows to conform with current period presentation. The reclassifications had no impact on the equity and year-end-result of the company.

Foreign currency

Items included in the financial statements of group companies are measured using the currency of the primary economic environment in which the respective group company operates (the functional currency). The consolidated financial statements are presented in US dollars, which is the functional and presentation currency of ICTS International N.V.

Transactions in foreign currencies are stated in the financial statements at the exchange rate of the functional currency on the transaction date or according to average exchange rate for the period.

Monetary assets and liabilities in foreign currencies are converted to the closing rate of the functional currency on the balance sheet date. The translation differences resulting from settlement and conversion are credited or charged to the income statement, unless hedge-accounting is applied.

Non-monetary assets valued at historical cost in a foreign currency are converted at the exchange rate on the transaction date.

Non-monetary assets valued at fair value in a foreign currency are converted at the exchange rate on the date on which the fair value was determined.

Translation differences on intragroup long-term loans that effectively constitute an increase or decrease in net investments in a foreign operation are directly recognised in equity as a component of the legal reserve for translation differences.

Translation differences on foreign currency loans contracted to finance a net investment in a foreign operation are recognised in the legal reserve for currency translation differences if and when such loans effectively hedge the exchange rate exposure on that net investment in a foreign operation.

Group companies

Assets and liabilities of consolidated subsidiaries with a functional currency different from the presentation currency are translated at the closing rate of exchange prevailing at the balance sheet date. Income and expenses of consolidated subsidiaries with a functional currency different from the presentation currency are translated at the average rate of exchange. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of these subsidiaries and translated at the closing rate. Any resulting exchange differences are taken directly to the legal reserve for translation differences within equity.

Financial instruments

Securities included in financial and current assets are stated at fair value, if these are related to securities held for trading or if they relate to equity instruments not held for trading, as well as derivatives of which the underlying object is listed on a stock exchange. All other on-balance financial instruments are carried at (amortised) cost.

Fair value of financial instruments
The fair values of accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses and other current liabilities, income taxes payable, VAT payable, notes payable-banks, long-term loan payable and loan payable to related party approximate their carrying values due to the short-term nature of the instruments. The carrying values of the other liabilities are not readily determinable because: (a) these instruments are not traded and, therefore, no quoted market prices exist upon which to base an estimate of fair value and (b) there were no readily determinable similar instruments on which to base an estimate of fair value.

Redeemable non-controlling interests

On July 3, 2019, AU10TIX entered into a Series A Preferred Subscription Agreement (the "Agreement") with TPG Lux 2018 SC I, S.a.r.l ("TPG"), according to which AU10TIX issued 3,000,000 Series A Preferred Shares ("Series A Shares") to TPG for a subscription price of US$60,000 in cash representing approximately 24% of the outstanding share capital of AU10TIX and 23.077% of the fully-diluted share capital of AU10TIX (see note 15). Transaction costs totaled $4,540 and were deducted from the redeemable non-controlling interests balance.

On November 7, 2019, AU10TIX entered into a Series A and Series A-1 Preferred Subscription Agreement with Oak HC/FT Partners II, L.P. ("Oak"), according to which AU10TIX issued 1,000,000 Series A Preferred Shares and 23,622 Series A-1 Preferred Shares ("Series A-1 Shares" and together with Series A Shares – "the Preferred Shares") to Oak for a subscription price of US$20,000 in cash representing approximately 7.401% of the outstanding share capital of AU10TIX and 7.143% of the fully-diluted share capital of AU10TIX. For accounting purposes, the investment was allocated to the Series A and Series A-1 Preferred Shares on a relative fair value basis: $19,537 and $461, respectively. Transaction costs totaled $1,513 and were deducted from the respective investment amounts.

Following the Oak investment, on November 7, 2019, TPG subscribed for 307,087 Series A-1 Shares at nominal value (US$0.001 per share) (“Bonus Issue Series A-1 Shares”) in order to preserve its 23.077% ownership interest in the fully diluted share capital of AU10TIX.

The Preferred Shares Rights

Liquidation Preference: The holders of Series A Shares (“Series A Holders”) are entitled to a liquidation preference upon the occurrence of a sale, initial public offering (“IPO”), merger, consolidation, reorganization, winding-up, dissolution or liquidation of AU10TIX, pursuant to which the Series A Holders are entitled, on the occurrence of such event and in priority to the ordinary shares, to receive the greater of: (a) an amount equal to the initial subscription price for the Series A Shares, plus all accrued but unpaid dividends in respect of the Series A Shares, less all dividends previously paid on the Series A Shares, and (b) the proceeds distributable in respect of the Series A Shares had they been converted into ordinary shares. The initial subscription price for the Series A Shares (and calculations derived therefrom) are subject to customary adjustments as set forth in the agreements executed in connection with the Sale.

Conversion Rights: The Series A Shares are subject to conversion into ordinary shares of AU10TIX: (a) on the written request by any Series A Shareholder; and (b) immediately prior to a qualifying IPO of AU10TIX (being an IPO where the net aggregate gross proceeds to AU10TIX exceed US$75 million and where the subscription price per share paid by the public is not less than 150% of the initial subscription price paid for the Series A Shares).

Pursuant to these conversion arrangements, the Series A Shares will convert into ordinary shares on a 1:1 basis (subject to certain agreed upon adjustments).

Anti-Dilution Protection: The Shareholders Agreements contain customary broad-based weighted average anti-dilution protection whereby, if further shares are issued by AU10TIX at a price per new security that is less than the initial subscription price paid for the Series A Shares, then the Series A Holders shall be entitled to receive additional Series A Shares (at no further cost) on a weighted-average basis, reflecting the value of equity in AU10TIX as determined based on the subscription price paid in the new issue of securities.

Pre-emption Rights: The Shareholders Agreements contain a restriction on issuing any securities ranking senior to or on party with the Series A Shares for as long as TPG and/or any subsequent investor holds at least one third of the overall number of Series A Shares in issue as at the date of completion of the Sale. In addition, each shareholder holding in excess of 3% of the shares of AU10TIX has the right to participate in any new issuance of securities by the AU10TIX, subject to customary exceptions.

Exit Rights: At any time from and after the fifth (5th) anniversary of completion of the issuance, upon written request by TPG, AU10TIX is required to use reasonable endeavors to facilitate the sale by TPG of the Preferred Shares (or, following conversion, ordinary shares) to a third party at a price in excess of 150% of the initial subscription price paid for the Series A Shares and subject to a right of first refusal in favor of AU10TIX. In the event that, three (3) months thereafter, a sale of the Preferred Shares held by TPG has not been consummated, upon written request by TPG, AU10TIX is required to facilitate a sale of AU10TIX within six (6) months after such written request, and thereafter, TPG has the right to require AU10TIX to facilitate a sale or IPO of AU10TIX. On the exercise of such rights, each other shareholder (including AU10TIX) is required to cooperate with TPG regarding such sale or IPO and TPG has the right to exercise drag rights over the shares held by other shareholders in order to facilitate such exit event.

The Exit Right is part of the issuance of the Series A Shares, and was not entered into separately from the transaction that created the non-controlling interests. The Exit Right is not legally detachable from the non-controlling interests because it is non-transferrable (i.e., the instrument cannot be transferred without the underlying preferred shares). Thus, the Exit Right would not be separately exercisable from the non-controlling interests shares because the non-controlling interests shares will be settled when the Exit Right is exercised. As a result, the Exit Right would be considered embedded in the Series A Shares held by TPG.

Shares of redeemable convertible preferred stock are not mandatorily or currently redeemable. However, the Exit Right would constitute a contingent redemption event that is outside of AU10TIX's control. As such, Series A Shares have been presented outside of permanent equity as redeemable non-controlling interests. AU10TIX has adjusted the carrying value of the redeemable non-controlling interests to adjust for the non-controlling interests share in AU10TIX's profits and Other Comprehensive Income (Loss). AU10TIX has not adjusted the carrying values of the redeemable non-controlling interests to the deemed liquidation values of such shares since a liquidation event was not probable at any of the balance sheet dates. Subsequent adjustments to increase or decrease the carrying values to the ultimate liquidation values will be made only if and when it becomes probable that such a liquidation event will occur.

The Series A-1 Preferred Shares do not entitle their holders to any liquidation or exit rights as the Series A Preferred Shares, and therefore are classified within permanent equity, as non-controlling interests.

The anti-dilution provisions cited above have not been bifurcated from the host contract since they are to be settled into AU10TIX's non-traded shares, thus the "net settlement" criteria is not met.

On June 28, 2021, TPG, Oak, GF GW LLC ("GF") and AU10TIX, entered into a Sale and Purchase Agreement (the "SPA"), pursuant to which Oak and GF purchased preferred shares in AU10TIX from TPG. In connection with the SPA, (i) such parties and ICTS entered into an amended and restated shareholders agreement (the "SHA") and an amended and restated registration rights agreement (the "RRA") and (ii) AU10TIX's Articles of Association (the "Articles") were amended by a deed of amendment (the "Deed of Amendment").

Pursuant to the SPA, Oak purchased 755,906 AU10TIX Series A Preferred shares from TPG and GF purchased 1,511,811 AU10TIX Series A Preferred Shares from TPG. In connection with such purchases, all outstanding AU10TIX's Series A Preferred Shares and Series A-1 Preferred Shares were re-designated as New Series A Preferred Shares and the Ordinary Shares owned by ICTS were re-designated as Class B Ordinary Shares, as described below.

In consideration of the benefits to Oak increasing its shareholding and GF becoming a shareholder, AU10TIX provided certain customary warranties to Oak and GF concerning AU10TIX and its business. In addition, AU10TIX agreed to be primarily liable to Oak and GF for any breaches by TPG of its customary fundamental warranties given to Oak and GF (including that TPG owns AU10TIX Series A Preferred Shares being sold to Oak and GF); provided, that, TPG has agreed to indemnify and hold AU10TIX harmless for any losses incurred by AU10TIX in relation to such fundamental warranties given by TPG.

Following the completion of the sales and purchases contemplated by the SPA on June 28, 2021: (i) ICTS owns 68.69% of the outstanding share capital of AU10TIX in the form of Class B Ordinary Shares; (ii) Oak owns 12.87% of the outstanding share capital of AU10TIX in the form of New Series A Preferred Shares; (iii) GF owned 10.93% of the outstanding share capital of AU10TIX in the form of New Series A Preferred Shares; and (iv) TPG owns 7.51% of the outstanding share capital of AU10TIX in the form of New Series A Preferred Shares. In addition, AU10TIX may issue up to 500,000 Class A Ordinary Shares under its existing employee stock option plan.

The SHA and the Articles (as amended by the Deed of Amendment) provide for the following material matters in respect of the rights attaching to the New Series A Preferred Shares and the Ordinary Shares and the ongoing governance of AU10TIX:

General: The New Series A Preferred Shares are entitled to one vote per share and rank equally with the Ordinary Shares in regards to dividends. The Ordinary Shares are divided into two classes: Class A Ordinary Shares and Class B Ordinary Shares, which rank equally as to dividends. The Class A Ordinary Shares are entitled to one vote per share. The Class B Ordinary Shares are entitled to three votes per share and may only be held by ICTS and its permitted transferees.

Liquidation Preference: the holders of New Series A Preferred Shares (“Series A Holders”) are entitled to a liquidation preference upon the occurrence of a (i) sale, initial public offering, which term includes certain business combinations with a SPAC (an “IPO”), merger, consolidation or reorganization, which results in change of control of AU10TIX, and (ii) winding-up, dissolution or liquidation of AU10TIX, pursuant to which the Series A Holders are entitled, on the occurrence of such event and in priority to the Ordinary Shares, to receive the greater of: (a) US$26.4583 per share, subject to adjustments for certain events affecting the capital of AU10TIX (the “Starting Price”) plus all accrued but unpaid dividends in respect of the New Series A Preferred Shares, less all dividends previously paid on the New Series A Preferred Shares, and (b) the proceeds distributable in respect of the New Series A Preferred Shares had they been converted into Class A Ordinary Shares. The Ordinary Shares rank equally in liquidation.

Conversion Rights: The New Series A Preferred Shares are subject to conversion into Class A Ordinary Shares on a 1:1 basis (subject to adjustments for certain events affecting the capital of AU10TIX): (a) upon the written request by any Series A Holder; and (b) immediately prior to a qualifying IPO of AU10TIX (being an IPO where each Class A Ordinary Share is valued at not less than 150% of the Starting Price at the completion of the IPO, subject to adjustments for certain events affecting the capital of AU10TIX) (a "Qualifying IPO").

The Class B Ordinary Shares are convertible into Class A Ordinary Shares at any time upon the written request of a holder of Class B Ordinary Shares on a 1:1 basis, subject to adjustments for certain events affecting the capital of AU10TIX.

Anti-Dilution Protection: The SHA contains customary broad-based weighted average anti-dilution protection whereby, if further shares are issued by AU10TIX at a price per new security that is less than the Starting Price, then the Series A Holders shall be entitled to receive additional Class A Ordinary Shares (at no further cost) on a weighted-average basis, reflecting the value of the equity in AU10TIX, as determined based on the subscription price paid in the new issue of securities.

Transfers: Subject to certain customary exceptions, including a transfer to a permitted transferee, any shareholder (other than TPG, Oak and GF) wishing to transfer any of the shares held by it shall first offer such shares to each shareholder holding 3% or more of AU10TIX's outstanding share capital at the same price and on the same terms at which the selling shareholder wishes to transfer such shares.

New Issuances: Subject to certain customary exceptions, each shareholder holding 3% or more of AU10TIX's outstanding share capital has the right to participate in any new issuance of securities by AU10TIX.

Information Rights: Subject to certain exceptions, each shareholder holding 3% or more of AU10TIX's outstanding share capital is entitled to receive certain financial information regarding AU10TIX including budgets, annual and quarterly accounts and details of any third party offer for the stock or assets of AU10TIX, as well as certain inspection rights.

Exit Rights: At any time from and after July 3, 2026, upon written request by Series A Holders holding at least 60% of the then outstanding New Series A Preferred Shares (the "Preferred Majority"), AU10TIX is required to use reasonable endeavors to facilitate a sale of AU10TIX within six months after such written request, and, thereafter, the Preferred Majority has the right to step-in and require AU10TIX to facilitate a sale or IPO. On the exercise of such step-in right, each other shareholder (including ICTS) is required to cooperate with the Preferred Majority regarding such sale or IPO and the Preferred Majority has the right to exercise drag rights over the shares held by other shareholders in order to facilitate such exit event.

Board Arrangements: The Shareholders Agreement and Articles provide that the board of directors of AU10TIX shall be constituted by up to six directors: (i) four of whom will be appointed by the holder of a majority of the Class B Ordinary Shares (i.e., currently ICTS); (ii) one of whom will be appointed by Oak (for so long as Oak holds at least 50% of the New Series A Preferred Shares held on the date of the closing of the transactions contemplated by the SPA, subject to adjustments for certain events affecting the capital of AU10TIX); and (iii) one of whom will be appointed by GF (for so long as GF holds at least 50% of the New Series A Preferred Shares held on the date of the closing of the transactions contemplated by the SPA, subject to adjustments for certain events affecting the capital of AU10TIX). As a general matter, the board of AU10TIX is able to pass resolutions by a simple majority, subject to the consent rights of the Preferred Majority set out below.

Preferred Majority Consent Rights: For as long as the Series A Holders hold, in the aggregate, at least 25% of the New Series A Shares Preferred Shares held on the date of the closing of the transactions contemplated by the SPA, subject to adjustments for certain events affecting the capital of AU10TIX, the consent of the Preferred Majority is required for the following actions (i) amending the SHA or the Articles in a manner that would adversely affect the rights, preferences or privileges of the New Series A Preferred Shares; (ii) issuing new securities ranking senior to or pari passu with the New Series A Preferred Shares; (iii) making of any dividend or distribution other than a dividend or distribution that is pro rata to the Series A Holders and the holders of the Ordinary Shares; (iv) redeeming any Ordinary Shares; (v) incurring debt in excess of 4.0x AU10TIX's consolidated EBITDA in the 12-month period ending on the last day of the month preceding the month in which the debt was incurred; (vi) consummating an IPO other than a Qualifying IPO; (vii) making certain changes to the size of AU10TIX's board; (viii) making any fundamental change in the nature of the business of AU10TIX and its subsidiaries; (ix) entering into related party transactions, unless such transaction is commercially reasonable and on an arm's-length basis; and (x) either amending AU10TIX's existing stock option plan or creating a new stock option plan to allow for the issuance of more than 500,000 additional Class A Common Shares.

Tag Rights: Following completion of the procedures on transfers set out above, each Series A Holder holding 3% or more of AU10TIX's outstanding shares will have the right to participate proportionately in any third-party share sale by another shareholder other than a Series A Holder (subject to certain customary exceptions).

Drag Rights: AU10TIX has the right to drag other shareholders into an exit event subject to certain requirements being satisfied (including either (i) holders of New Series A Shares receiving the greater of: (a) the Starting Price and (b) the proceeds distributable in respect of the New Series A Preferred Shares had they been converted into Class A Ordinary Shares, in each case with the approval of the Board, the Preferred Majority and the holders of a majority of the shares or (ii) a minimum value per New Series A Share of 150% of the Starting Price approved by the Board and holders of a majority of the shares, in each case subject to adjustments for certain events affecting the capital of AU10TIX) in relation to such exit transaction.

Termination: The SHA terminates upon (i) the agreement of AU10TIX, the Preferred Majority and a majority of the holders of the Ordinary Shares or (ii) the closing of a Qualifying IPO.

Tax Matters: AU10TIX is required to provide the Series A Holders with certain customary information for U.S. federal tax reporting purposes.

Confidentiality and Public Announcements: The SHA provides for customary confidentiality protections and limitations on public announcements without consent.

The RRA provides the Series A Holders (and in certain cases the holders of the Class B Ordinary Shares) with a limited number of customary long-form and short-form demand registration rights, shelf registration rights and the right to participate under certain conditions if AU10TIX determines to register its shares. In addition, AU10TIX has undertaken to (i) take certain actions to facilitate the rights of the parties under the RRA; (ii) provide customary indemnification; (iii) not agree to further registration rights superior to those granted under the RRA; and (iv) limit issuances of its shares under certain circumstances set out in the RRA.

Pre-emption Rights: The Shareholders Agreement contains a restriction on issuing any securities senior to or pari passu with the New Series A Preferred Shares for so long as the holders of the New Series A Preferred Shares on June 28, 2021 (or their transferees in accordance with the terms of the Shareholders Agreement) continue to collectively hold at least 25% of such number (appropriately adjusted for certain corporate events) of New Series A Preferred Shares. In addition, each shareholder holding in excess of 3% of AU10TIX's outstanding shares has the right to participate in any new issuance of securities by AU10TIX, subject to customary exceptions.

The Company has assessed whether the change in the terms of the Preferred Shares following the closing of the 2021 SPA constituted a modification or extinguishment for accounting purposes, by comparing the fair value of these Preferred Shares immediately before and immediately after the closing of the 2021 SPA. An extinguishment occurs when the difference in fair value exceeds 10%, while a modification occurs when such fair value difference is lower than 10%.

Additionally, the carrying value of the Series A-1 Shares, which were previously presented among non-controlling interests, were reclassified to redeemable non-controlling interests and initially recognized at their fair value, following their re-designation as New Series A Preferred Shares.

Following the modification and extinguishment of the Preferred Shares, and the reclassification of the Series A-1 Shares, the Company adjusted the carrying value of the redeemable non-controlling interests by $9,057, with a corresponding decrease to additional paid-in capital and non-controlling interests in the amounts of $10,102 and $1,045, respectively.

The table as presented section "Notes to the consolidated balance sheet as at December 31, 2021" no. 6 sets forth for the movement in the redeemable non-controlling interests.

ACCOUNTING PRINCIPLES APPLIED TO THE VALUATION OF ASSETS AND LIABILITIES

Intangible fixed assets

Intangible fixed assets are stated at historical cost less amortisation. Impairments are taken into consideration; this is relevant in the event that the carrying amount of the asset (or of the cash-generating unit to which the asset belongs) is higher than its realisable value.

With regard to the determination as to whether an intangible fixed asset is subject to an impairment, please refer to note "Impairment of fixed assets".

Goodwill

Goodwill resulting from acquisitions and calculated in accordance with section "Consolidation principles" is capitalised and amortised on a straight-line basis over the estimated economic life.

Tangible fixed assets

The tangible fixed assets are presented at the cost less the accumulated depreciations and, if applicable, impairments. The depreciations are based on the estimated economic lifespan and are calculated on the base of a fixed percentage of the purchase price, taking into account a residual value, if any. Depreciation is applied from the date an asset comes into use.

Financial fixed assets

Participations (associates), over which significant influence can be exercised, are valued according to the net asset value method. In the event that 20% or more of the voting rights can be exercised, it may be assumed that there is significant influence.

The net asset value is calculated in accordance with the accounting principles that apply for these financial statements; with regard to participations in which insufficient data is available for adopting these principles, the valuation principles of the respective participation are applied.

If the valuation of an associate based on the net asset value is negative, it will be stated at nil. If and insofar as ICTS International N.V. can be held fully or partially liable for the debts of the associate, or has the firm intention of enabling the participation to settle its debts, a provision is recognised for this.

Newly acquired associates are initially recognised on the basis of the fair value of their identifiable assets and liabilities at the acquisition date. For subsequent valuations, the principles that apply for these financial statements are used, with the values upon their initial recognition as the basis.

The amount by which the carrying amount of the associate has changed since the previous financial statements as a result of the net result achieved by the associate is recognised in the income statement.

Participations over which no significant influence can be exercised are valued at historical cost.

In the event of an impairment loss, valuation takes place at the realisable value (see also section "Impairment of fixed assets"); an impairment is recognised and charged to the income statement.

Deferred tax assets are recognised for all deductible temporary differences between the value of the assets and liabilities under tax regulations on the one hand and the accounting policies used in these financial statements on the other, on the understanding that deferred tax assets are only recognised insofar as it is probable that future taxable profits will be available to offset the temporary differences and available tax losses.

The calculation of the deferred tax assets is based on the tax rates prevailing at the end of the reporting year or the rates applicable in future years, to the extent that they have already been enacted by law.

Deferred income taxes are recognised at nominal value.

Where no significant influence is exercised participations are valued at cost and if applicable less impairments in value. With the valuation of participations any impairment in value is taken into account.

Impairment of fixed assets

On each balance sheet date, the company assesses whether there are any indications that a fixed asset may be subject to impairment. If there are such indications, the realisable value of the asset is determined. If it is not possible to determine the realisable value of the individual asset, the realisable value of the cash-generating unit to which the asset belongs is determined.

An impairment occurs when the carrying amount of an asset is higher than the realisable value; the realisable value is the higher of the realisable value and the value in use. An impairment loss is directly recognised in the income statement while the carrying amount of the asset concerned is concurrently reduced.

Receivables and deferred assets

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost. If payment of the receivable is postponed under an extended payment deadline, fair value is measured on the basis of the discounted value of the expected revenues. Interest gains are recognised using the effective interest method. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Cash and cash equivalents

Cash and cash equivalents represent cash, bank balances and deposits with terms of less than twelve months. Overdrafts at banks are recognised as part of debts to lending institutions under current liabilities. Cash at banks and in hand is carried at nominal value. If cash equivalents are not freely disposable, then this has been taken into account in the valuation.

(Redeemable) Non-controlling interests in subsidiaries

The Company's non-controlling interests represent the minority shareholder's ownership interests related to the Company's subsidiaries. The Company reports its non-controlling interests in subsidiaries as a separate component of equity in the consolidated balance sheets and reports net income (loss) attributable to the non-controlling interests in the consolidated statements of operations.

Redeemable Non-Controlling Interests:

Certain non-controlling interests in a subsidiary are entitled to predefined Exit Rights that, for accounting purposes, constitute a contingent redemption event that is outside of the Company's control.

After initial recognition, at the fair value of the investment less directly attributable transaction costs, the carrying value of redeemable non-controlling interests is adjusted for the non-controlling interests share in the subsidiary's profits and Other Comprehensive Income (Loss). The Company does not adjust the carrying value of the redeemable non-controlling interests to the deemed liquidation values of such shares as long as the liquidation events triggering the Exit Rights is not considered probable of occurring.

Provisions

General

A provision is recognised if the following applies:
- the company has a legal or constructive obligation, arising from a past event; and
- the amount can be estimated reliably;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are stated at the nominal value of the best estimate of the expenditures that are expected to be required to settle the liabilities and losses. If all or part of the payments that are necessary to settle a provision are likely to be fully or partially compensated by a third party upon settlement of the provision, then the compensation amount is presented separately as an asset.

Non-current liabilities

On initial recognition long-term debts are recognised at fair value. Transaction costs which can be directly attributed to the acquisition of the long-term debts are included in the initial recognition. After initial recognition long-term debts are recognised at the amortised cost price, being the amount received taking into account premiums or discounts and minus transaction costs.

The difference between stated book value and the mature redemption value is accounted for as interest cost in the income statement on the basis of the effective interest rate during the estimated term of the long-term debts.

Current liabilities

On initial recognition current liabilities are recognised at fair value. After initial recognition current liabilities are recognised at the amortised cost price, being the amount received, taking into account premiums or discounts, less transaction costs. This usually is the nominal value.

Pension liabilities

The company has various pension plans. The Dutch plans are financed through contributions to pension providers such as insurance companies or industry pension funds. The company has both defined contribution plans and defined benefit plans. Most of the foreign pension plans can be compared to the Dutch pension system.

Defined contribution plans:
In the event of defined contribution plans the company pays fixed contributions to pension insurers and funds. These fixed contributions are the company's sole payment commitments. The contributions are stated as cost item when they are due.

Industry pension fund scheme:
Some of the Dutch subsidiaries are associated with specific industry funds for the private security. The pension provided by the funds are defined benefit plans.
Defined benefit plans are being accounted as defined contribution plans, as the company has no commitment to make additional contributions in the event of a deficit other than higher future premiums.

Employee Rights Upon Retirement:
The Company is required to make severance payments to its Israeli employees upon dismissal of an employee or upon a termination of employment in certain circumstances. The Israeli pension and severance pay liability to the employees is covered mainly by deposits made at insurance companies. For its employees who are employed under the Section 14 of the Israeli Severance Pay Law, 1963 (“Section 14”), the Company makes deposits with certain insurance companies for accounts controlled by each applicable employee in order to secure the employees’ rights upon termination. In addition, the related obligation and amounts deposited on behalf of the applicable employees for such obligations are not presented on the Company’s consolidated balance sheets, as the amounts funded are not under the control of management of the Company and the Company is legally released from the obligation to pay any severance payments to the employees once the required deposits amounts have been paid.

For employees not under Section 14, severance liabilities are recorded based on the length of service and their latest monthly salary. The Company’s liabilities for the Israeli employees amounted to $1,631 and $1,556 as of December 31, 2021 and 2020, respectively and are included in other liabilities in the Company’s consolidated balance sheets. The deposits made at insurance companies to cover these liabilities amounted to $1,346 and $1,391 as of December 31, 2021 and 2020, respectively and are included in other assets in the Company’s consolidated balance sheets.

ACCOUNTING PRINCIPLES FOR THE DETERMINATION OF THE RESULT

The result is the difference between the realisable value of the goods/services provided and the costs and other charges during the year. The results on transactions are recognised in the year in which they are realised.

Revenue recognition

Revenue is recognized when the promised services are performed for our clients, and the amount that reflects the consideration we are entitled to receive in exchange for those services is determined. The Company's revenues are recorded net of any sales taxes.

In order to determine the revenue, we (1) identify the contract with the client, (2) identify the performance obligations, usually it's based on the hours spent, (3) determination of the transaction price, (4) allocation of the transaction price to the performance obligation and (5) we recognize revenue as performance obligation is satisfied.

A performance obligation is a promise in a contract to transfer a distinct service to the client, and it is the unit of account for revenue recognition. The majority of our contracts have a single performance obligation as the promise to transfer the individual services is not separately identifiable from other promises in our contracts and, therefore, is not distinct.

Airport Security and Other Aviation Services Segment

In the airport security and other aviation services, for performance obligations that we satisfy over time, revenues are recognized by consistently applying a method of measuring hours spent on that performance obligation. We generally utilize an input measure of time (hours and attendance for specific time framed service like specific flights) of the service provided. Performance obligations are satisfied over the course of each month and continue to be performed until the contract has been terminated or cancelled.

Pricing and Reduction to Revenues

We generally determine standalone selling prices based upon the prices included in the client contracts, using expected costs plus margin, or other observable prices. The price as specified in our client contracts is generally considered the standalone selling price as it is an observable input that depicts the price as if sold to a similar client in similar circumstances. Certain client contracts have variable consideration, including quality thresholds or other similar items that could reduce the transaction price. These amounts may be constrained and revenue is recorded to the extent we do not expect a significant reversal or when the uncertainty associated with the variable consideration is resolved. Our variable consideration amounts, if any, are not material, and we do not expect significant changes to our estimates.

Contracts

Our client contracts generally include standard payment terms acceptable in each of the countries, states and territories in which we operate. The payment terms vary by the type and location of our clients and services offered. Client payments are typically due in 30 to 60 days after invoicing, but may be a shorter or longer term depending on the contract. Our contracts with main customers are generally long-term contracts, between two to five years. The timing between satisfaction of the performance obligation, invoicing and payment is not significant.

Practical Expedients and Exemptions

Because nearly all our contracts are based on input measure of time of service provided (as hours or attendance) no exemptions need to be made. We have no material contracts with material revenues expected to be recognized subsequent to December 31, 2021 related to remaining performance obligations.

Authentication Technology Segment

In the authentication technology segment, the Company offers authentication services on a cost per click basis, with a minimum yearly commitment which means the customer pays the Company according to the higher of (a) number of times the customer used the system in order to authenticate IDs or (b) according to the yearly minimum commitment. According to the agreement with the customers, each chargeable click has an agreed price and revenue is being recognized accordingly.

Pricing and Reduction to Revenues

The company determines standalone selling prices based upon the prices included in the client contracts, using expected costs plus margin, or other observable prices. The price as specified in our client contracts is considered the selling price as agreed with the customer. The Company's variable consideration, if any, amounts are not material, and we do not expect significant changes to our estimates. The Company does not expect a significant reversal or when the uncertainty associated with the variable consideration is resolved. A customer might be offering a tier-based pricing scheme, or not, and in any event of usage above the committed amount, the pricing will remain unchanged.

Contracts

Client contracts generally include standard payment terms acceptable in each of the countries, states and territories in which the company operates, and are typically set to a three-year deal duration. The payment terms vary by the type and location of our clients and services offered. The minimum commitment is usually being paid in advance. Client payments are typically due in 30 days after invoicing, but may be a shorter or longer term depending on the contract. Client contracts are usually range from one to three years, with a convenience exit every twelve months period, and at the end of the contract there is a renewal option. The timing between satisfaction of the performance obligation, invoicing and payment is not significant.

Cost of revenues

Cost of revenue represents primarily payroll and employee related costs associated with employees who provide services under the terms of the Company's contractual arrangements, insurance and depreciation and amortization.

Salaries and wages

General

Salaries, wages and social security contributions are charged to the income statement based on the terms of employment, where they are due to employees and the tax authorities respectively. The company applies the liability approach for all pension schemes. The premium payable during the financial year is charged to the result. The company pays premiums based on (legal) requirements, a contractual or voluntary basis to pension funds and insurance companies. Premiums are recognised as employee cost when they are due. Prepaid contributions are recognised as deferred assets if these lead to a refund or reduction of future payments. Contributions that are due but have not yet been paid are presented as liabilities.

Governmental support

During 2021 and 2020, governments in some of the countries in which we operate have announced the implementation of government assistance measures, which mitigated the impact of the COVID-19 outbreak on our results and liquidity. In the United States of America, the government has approved a payroll support of $15.9 million and $13.7 million, respectively to the American subsidiary of the Company. Out of those amounts, the American subsidiary recognized amounts of $16.9 million and $12.7 million as reduction of labor expenses for the years ended December 31, 2021 and 2020, respectively. During the years ended December 31, 2021 and 2020, the Dutch government has provided financial assistance of €16.6 million and €16.9 million ($19.6 million and $19.3 million as of December 31, 2021 and 2020), respectively. The Dutch government extended the support program until March, 2022 and will not extended it beyond. For the months January through March 2022, the Company was granted additional assistance up to €4,556. In Germany, the employees are eligible for payroll support up to 60% of the employee's payroll (on individual basis) in case the employees meet the support plan requirements. The Company pays to its German employees their full salary and the Company is being reimbursed by the German government for the payroll support amount. The Company applied for this support starting from April 2020 to June 2021. These available governmental support plans might be renewed and/or changed according to the future COVID-19 developments, although currently the Company does not expect those measures to be renewed or extended.

In the Netherlands wage tax, social security and VAT payments for the period March 2020 until September 2021 were postponed and will have to be paid in 60 installments, starting March 2023, except for VAT payments starting October 2022. As of December 31, 2021 and 2020, the Company accumulated debt of €33,456 and €20,796 ($38,011 and $25,548 as of December 31, 2021 and 2020), respectively to the Dutch tax authorities. In Germany, the government postponed the payment of the VAT for the period February through April, 2020. The Company accumulated €5,462 ($6,710 as of December 31, 2020) which was paid during the year 2021.

Financial income and expenses

Interest income and interest expenses

Financial income and expenses comprise interest income and expenses for loans (issued and received), bank charges and exchange rate differences during the current period.

Taxes

The Company accounts for income taxes using the liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance is established when realization of net deferred tax assets is not considered more likely than not.

Uncertain income tax positions are determined based upon the likelihood of the positions being sustained upon examination by taxing authorities. The benefit of a tax position is recognized in the consolidated financial statements in the period during which management believes it is more likely than not that the position will not be sustained. Income tax positions taken are not offset or aggregated with other positions. Income tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of income tax benefit that is more than 50 percent likely of being realized if challenged by the applicable taxing authority. The portion of the benefits associated with income tax positions taken that exceeds the amount measured is reflected as income taxes payable.

The Company recognizes interest related to uncertain tax positions in interest expense. The Company recognizes penalties related to uncertain tax positions in Selling, General and Administrative expenses.

PRINCIPLES FOR PREPARATION OF THE CONSOLIDATED CASH FLOW STATEMENT

The cash flow statement has been prepared using the indirect method.

For the purpose of the cash flow statement, cash and cash equivalents include petty cash funds, bank account balances, bills of exchange and checks, demand deposits and assets that can be converted into cash at short notice. Bank overdrafts are not part of cash and cash equivalents.

Cash flows denominated in foreign currencies have been translated at average estimated exchange rates. Exchange differences affecting cash items are shown separately in the cash flow statement.

Interest paid and received, dividends received and income taxes are included in cash from operating activities.
Dividends paid are recognised as cash used in financing activities.

NOTES TO THE CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2021

(US $ in thousands)

FIXED ASSETS

1. Intangible fixed assets

	Develop-ment costs	Goodwill	Payments on account	Total
	$	$	$	$
Balance as at January 1, 2021				
Purchase price	802,690	746,446	321,899	1,871,035
Cumulative depreciation and impairment	-351,191	-509,962	-	-861,153
	451,499	236,484	321,899	1,009,882
Movement				
Exchange result on purchase price	-	-64,113	-11,822	-75,935
Investments	1,413,450	137,360	92,861	1,643,671
Disposals	-	-	-402,938	-402,938
Amortization	-374,034	-281,107	-	-655,141
Exchange difference cumulative depreciation and impairment	-	51,664	-	51,664
	1,039,416	-156,196	-321,899	561,321
Balance as at December 31, 2021				
Purchase price	2,216,140	819,693	-	3,035,833
Cumulative depreciation and impairment	-725,225	-739,405	-	-1,464,630
	1,490,915	80,288	-	1,571,203

Amortisation rates

	%
Development costs	20 - 33.33
Goodwill	20
Payments on account	0

At December 31, 2021 and 2020, the Company performed qualitative assessments to determine if it was more likely than not that the fair value of the reporting units exceeded its carrying values, including goodwill. The qualitative assessments indicated that it was more likely than not that the fair value exceeded the carrying value of the reporting unit. The quantitative impairment test includes comparing the carrying value of the reporting unit, including the existing goodwill and intangible assets, to the fair value of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, a goodwill impairment charge is recorded for the amounts in which the carrying value of the reporting unit exceeds the fair value of the reporting unit, up to the amount of goodwill attributed to the reporting unit.

During the years ended on December 31, 2021 and 2020 the company did recognize impairment charges in the profit and loss statement.

The facts and circumstances that led to the impairment of goodwill during the year ended December 31, 2021 are as follows:

In February 2021, the Company acquired 51% of the outstanding shares of Quality Detection Dogs Sweden AB and recorded goodwill of €122k ($137k as of the purchase date). The purpose of the acquisition was to have a company with experience on detection dogs in order to train dogs to detect explosive materials. QDD’s revenue, operating profits and cash flows were lower than expected. The earnings forecast for the next year was revised and an impairment loss of €122k ($139k as of December 31, 2021) was recognized.

The pre-payments on investments have been settled as per agreement November, 2021 with a repayment of € 200k ($227k as of December 31, 2021) in 2022.

2. Tangible fixed assets

	Other fixed assets
	$
Balance as at January 1, 2021	
Purchase price	15,315,145
Cumulative depreciation and impairment	-10,594,451
	4,720,694
Movement	
Exchange difference purchase price	-1,017,267
Investments	1,681,014
Disposals	-2,301,790
Depreciation on disposals	2,296,915
Depreciation	-1,746,049
Exchange difference cumulative depreciation and impairment	584,348
	-502,829
Balance as at December 31, 2021	
Purchase price	13,677,102
Cumulative depreciation and impairment	-9,459,237
	4,217,865

Depreciation rates

	%
Other fixed assets	15 - 33.33

3. Financial fixed assets

All receivables included in the financial assets fall due in more than one year.

	31-12-2021	31-12-2020
	$	$
Investments in other parties		
Investment in Artemis Therapeutics Inc.	100	100
Investment in Mesh Technologies Inc.	36,143	50,000
Investment in Arrow Ecology & Engineering Overseas (1999) Ltd.	1,750,000	1,750,000
Investment in GreenFox Logistics LLC.	100,000	100,000
Investment in SardineAI Corp.	50,000	50,000
Investments in Silver Circle One	18,000	-
Investments in Justt Fintech Ltd (previously Acrocharge Ltd)	50,000	-
	2,004,243	1,950,100

For information on investments we refer to the notes of the consolidated balance sheet.

	2021	2020
	$	$
Investment in Artemis Therapeutics Inc.		
Carrying amount as of 1 January	100	100
Balance as at 31 December	100	100

As of December 31, 2021, the Company owns 125,916 shares or 2.4% of the outstanding common stock of Artemis Therapeutics, Inc. (“ATMS”). As of December 31, 2021, ATMS has no operating business.

The Company suspended its use of the equity method to accounting for this investment in 2007 after its investment balance was reduced to zero.

As of December 31, 2021 and 2020, the Company’s share of the underlying net assets of ATMS is equal to the Company’s carrying value of its investment in ATMS ($0 and $0 at December 31, 2021 and 2020). The market value of the Company's investment in ATMS as of December 31, 2021 and 2020 is $120k and $79k, respectively.

The Company evaluated the stock price of ATMS but as ATMS share price is low, the number of shares that are being traded is low, and as ATMS still does not have any revenue, the Company determined that the value of the investment is impaired and accordingly, valued the investment at zero.

Investment in Mesh Technologies Inc.		
Carrying amount as of 1 January	50,000	50,000
Disposals	-13,857	-
Balance as at 31 December	36,143	50,000

In January 2019, the Company invested an amount of $50 in Mesh Technologies, Inc. (“Mesh”), a company incorporated in the USA. As of December 31, 2021, the investment represented less than 1% of the issued and outstanding share capital of Mesh. Mesh is a technology company providing cross border payments technology by innovating on the existing payment rails of established card networks available in the market. As Mesh is a private, closely held company, there is no active market for this investment. Therefore, the Company measures the investment at cost minus impairment. In December 2021, the Company sold approximately 25% of its investment for a total amount of $200k and recognized a gain of $186k.

	2021	2020
	$	$
Investment in Arrow Ecology & Engineering Overseas (1999) Ltd.		
Carrying amount as of 1 January	1,750,000	1,750,000
Balance as at 31 December	1,750,000	1,750,000

In December 2019, the Company invested an amount of $1,750k in Arrow Ecology & Engineering Overseas (1999) Ltd ("Arrow"), a limited company incorporated in Israel. Arrow develops and operates a sustainable green process to recycle mixed and sorted municipal solid waste. The Company purchased few types of shares representing 23.3% of Arrow's equity for an amount of $22k and shareholders loans were purchased for a price of $1,728k ($4,146k stated value less $2,418k allowance for credit losses, which have not changed since the acquisition).

The Company has an agreement with an entity related to its main shareholder, according to which, if the value of the investment decrease, the related party entity has guaranteed to repurchase this full investment at a minimum amount of $1,750k. The guarantee is effective immediately as of the date of purchase and terminates after three years (December 2022). Some Directors and managers of Arrow are related parties of the Company. In October 2022 the guarantie was extended till January 2026.

	2021	2020
Investment in GreenFox Logistics LLC.		
Carrying amount as of 1 January	100,000	-
Investments	-	100,000
Balance as at 31 December	100,000	100,000

In March 2020, the Company invested an amount of $100k in GreenFox Logistics, LLC. ("GreenFox"), a company incorporated in the USA. The investment was done as SAFE investment (Simple Agreement for Future Equity). GreenFox is an on-demand delivery/moving/transportation company. As GreenFox is a private, closely held company, there is no active market for this investment. Therefore, the Company measures the investment at cost minus impairment.

	2021	2020
Investment in SardineAI Corp.		
Carrying amount as of 1 January	50,000	-
Investments	-	50,000
Balance as at 31 December	50,000	50,000

In August 2020, the Company invested an amount of $50k in SardineAI Corp ("SardineAI"), a company incorporated in the USA. In return the Company received preferred shares representing less than 1% of SardineAI equity. SardineAI is a Fraud Prevention-as-a-Service (FaaS) platform for Digital businesses to detect frauds and financial crimes. As SardineAI is a private, closely held company, there is no active market for this investment. Therefore, the Company measures the investment at cost minus impairment.

	2021	2020
	$	$
Investments in Silver Circle One		
Carrying amount as of 1 January	-	-
Investments	18,000	-
Balance as at 31 December	18,000	-

In December 2021, the Company invested an amount of $18k in Silver Circle One, a capital fund which aims to invest in private emerging companies with focus on consumer, commerce and technology companies.

The company committed to invest up to $100k on the pool. As Silver Circle One is a private, closely held fund, there is no active market for this investment. Therefore the company measures the investment at cost minus impairment.

	2021	2020
Investments in Justt Fintech Ltd (previously Acrocharge Ltd)		
Carrying amount as of 1 January	-	-
Investments	50,000	-
Balance as at 31 December	50,000	-

In December 2021, the Company invested an amount of $50k in Justt Fintech Ltd ("Justt"), a company incorporated in Israel. As of December 31, 2021, the investment represented less than 1% of the issued and outstanding share capital of Justt Fintech Ltd. Justt is a technology company which fully automated chargeback disputes on behalf of online merchants. As Justt is a private, closely held company, there is not active market for this investment. Therefore, the Company measures the investment at cost minus impairment.

	31-12-2021	31-12-2020
	$	$
Other receivables		
Long term deposits and guarantees	703,876	592,517
Deferred tax assets	1,403,368	1,168,913
Deposits at insurance companies	1,345,657	1,390,645
Other receivables	32,180	-
	3,485,081	3,152,075

	2021	2020
	$	$
Long term deposits and guarantees		
Carrying amount as of 1 January	592,517	770,918
Movement	111,359	-178,401
Balance as at 31 December	703,876	592,517

	2021	2020
	$	$
Deferred tax assets		
Carrying amount as of 1 January	1,168,913	476,079
Movement	234,455	692,834
Balance as at 31 December	1,403,368	1,168,913

The ultimate realization of the net deferred tax assets in each jurisdiction the Company does business in is dependent upon the generation of future taxable income in that jurisdiction during the periods in which net operating loss carry forwards are available and items that gave rise to the net deferred tax assets become deductible. At present, the Company does not have a sufficient history of generating taxable income in the various jurisdictions it does business in, or positive expected core earnings to conclude that it is more likely than not that the Company will be able to realize its net deferred tax assets in the near future and, therefore, a valuation allowance was established for the carrying value of the net deferred tax assets, with the exception of few locations, which are currently generating taxable income. A valuation allowance will be maintained until sufficient positive evidence exists to support the reversal of any portion of the valuation allowance in other jurisdictions.

As of December 31, 2021, the Company has net operating losses carry forwards of $22,056k in the Netherlands. These losses can be carried forward and do not expire but starting 2022 the yearly utilization is limited to one million Euro per year, plus 50% of the excess taxable income. As of December 31, 2021, the Company has net operating loss carry forwards of $6,300k in the United States of America, which will expire in 2031 through 2037. In Israel, the Company has net carry forward losses of $7,060k which do not expire. The ultimate utilization of such net operating loss carry forwards is limited in certain situations.

As of December 31, 2021, the Company has capital loss carry forwards of $715k in Israel. Such capital loss carry forwards do not expire and can be offset against future capital gains generated in Israel.

As of December 31, 2021, the Company has $560k in tax credits for the welfare to work and work opportunity programs in the United States of America that expire in 2024 through 2029.

During the years ended December 31, 2021 and 2020 the valuation allowance decreased by $5,815k and $3,601k, respectively.

As of December 31, 2021 and 2020, there are $688k and $0 of unrecognized tax benefits, respectively, that if recognized would reduce the effective tax rate. Interest and penalties assessed by taxing authorities on an underpayment of income taxes are included as components of income tax provision in the consolidated statements of operations and comprehensive income.

The Company files income tax returns in the Netherlands and other foreign jurisdictions. Income tax returns for the years since 2015 are subject to examination in the Netherlands. In the United States of America, income tax returns for the years since 2018 are subject to examination. Income tax returns for the tax years since 2016 are subject to examination in foreign jurisdictions.

	2021	2020
Deposits at insurance companies		
Carrying amount as of 1 January	1,390,645	1,264,000
Movement	-44,988	126,645
Long-term part as at 31 December	1,345,657	1,390,645

The deposits made at insurance companies to cover the liabilities as described in the notes of the financial statements "Employee Rights Upon Retirement".

CURRENT ASSETS

4. Receivables, prepayments and accrued income

All receivables fall due in less than one year. The fair value of the receivables approximates the book value.

	31-12-2021	31-12-2020
	$	$
Trade receivables		
Trade debtors	44,331,294	22,160,258
Less: provision for bad debt	-991,259	-690,446
	43,340,035	21,469,812

The allowance for credit losses is based on historical collection experience, factors related to specific customers and current economic trends. The Company writes off accounts receivable when determined to be uncollectible and are recognized as a reduction to the allowance for credit losses.

	31-12-2021	31-12-2020
Taxes and social securities		
Corporate income tax	40,980	244,831
VAT	691,227	351,572
Payroll taxes and social security charges	33,819	342,910
Salaries and wages	4,713	-
Other taxes	39,878	8,714
	810,617	948,027

	31-12-2021	31-12-2020
Other receivables and accrued income		
Other receivables	12,167,274	16,483,126
Prepayments and accrued income	14,867,666	15,545,766
	27,034,940	32,028,892

	31-12-2021	31-12-2020
Other receivables		
Receivable from the Dutch tax authorities (1)	9,067,200	12,285,000
Receivable from the German authorities - COVID 19 (2)	-	1,887,000
Dutch Governmental support - COVID 19 (3)	66,498	111,126
Receivable from a related party (deposit) (4)	-	2,200,000
Reimbursement of Fixed Costs (TVL)	2,606,820	-
Receivable Force Pro	226,680	-
Receivable from sale of shares Mesh Technologies Inc.	200,076	-
	12,167,274	16,483,126

(1) The Company is obligated to hold restricted cash in the Netherlands, which is restricted for payments to the tax authorities. From time to time the Company is allowed to make a request to release the money from the restricted account into the regular bank account. As part of the process the Company transfers the requested amount to the Dutch tax authorities, who pay it back after a few weeks into the Company's regular bank account.

(2) In Germany, the employees are eligible for payroll support (see note "Liquidity and Financial Condition" in the notes). The Company pays to its German employees their full salary and the Company is being reimbursed by the German government for the payroll support amount.

(3) In the Netherlands, the Company is eligible for payroll support (see note "Liquidity and Financial Condition" in the notes).

(4) In May 2020, an entity related to the Company's main shareholder provided a letter of credit of €2.0 million ($2.3 million as of December 31, 2021) to a commercial bank to guarantee a borrowing arrangement on behalf of one of the Company's subsidiaries. The Company provided to the related party a deposit of $2.2 million against the letter of credit which was paid back to the Company after the letter of credit was cancelled.

	31-12-2021	31-12-2020
	$	$
Prepayments and accrued income		
Unbilled revenues	11,822,325	12,927,994
Others	3,045,341	2,617,772
	14,867,666	15,545,766

	31-12-2021	31-12-2020
	$	$
5. Cash and cash equivalents		
Current account	86,702,850	50,132,307
Restricted bank accounts	14,701,952	8,972,166
Deposit	2,239,818	2,200,019
Petty cash	43,964	45,725
	103,688,584	61,350,217

Restricted cash as of December 31, 2021 consists of: (a) $3,350k held in bank accounts that serve as cash collateral for outstanding letters of credit, (b) $10,599k held in several bank accounts in the Netherlands, which is restricted for payments to local tax authorities and (c) $750k secured for derivative instruments.

6. Group equity

Group equity of ICTS International N.V.

Please refer to the notes to the non-consolidated balance sheet on page 77 of this report for an explanation of the equity.

	2021	2020
	$	$
(Redeemable) Non-controlling interests in subsidiaries		
Carrying amount as of 1 January	73,807,414	72,674,248
(Investment) Allocation non-controlling interests in subsidiaries	1,315,467	111,000
(Investment) Redeemable non-controlling interests	15,156,370	1,022,166
Balance as at 31 December	90,279,251	73,807,414

As of December 31, 2021 and 2020, the non-controlling interests in subsidiaries amounts to $(199,633) and $(1,515,100), respectively.

As of December 31, 2021 and 2020, the redeemable non-controlling interests amounts to $90,478,884 and $75,322,514 respectively.

The Company's non-controlling interests represent the minority shareholder's ownership interests related to the Company's subsidiaries. The Company reports its non-controlling interests in subsidiaries as a separate component of equity in the consolidated balance sheets and reports net income (loss) attributable to the non-controlling interests in the consolidated statement of operations.

For a description of the Redeemable non-controlling interests, we refer to the notes to the consolidated financial statements.

	31-12-2021	31-12-2020
	$	$
7. Provisions		
Deferred tax liability	615,288	-
Other provisions	1,186,668	-
	1,801,956	-

Deferred tax liability

This provision concerns the temporary differences between the valuation in the annual account and the tax valuation of assets and liabilities. The provision is calculated based on the applicable tax rate of 23,00%.

	2021	2020
	$	$
Carrying amount as of 1 January	-	-
Allocation	615,288	-
Balance as at 31 December	615,288	-

	31-12-2021	31-12-2020
	$	$
Other provisions		
Legal proceedings	334,353	-
Restructuring provision	852,315	-
	1,186,668	-

	2021	2020
	$	$
Legal proceedings		
Carrying amount as of 1 January	-	-
Allocation	334,353	-
Balance as at 31 December	334,353	-

1) FNV - I-SEC acknowledge that they have a legal- and constructive obligation related to a claim of the FNV (Federation of Dutch Trade Unions). As such, a provision as of December 31, 2021 of € 155k ($176k as of December 31, 2021) has been made.
2) Secupart - I-SEC acknowledge that they have a legal- and constructive obligation related to a claim of Secupart for not hiring external agents. As such, a provision as per December 31, 2021 of € 140k ($159k as of December 31, 2021) has been made.

	2021	2020
Restructuring provision		
Carrying amount as of 1 January	-	-
Allocation	852,315	-
Balance as at 31 December	852,315	-

A subsidiary within the group faces challenges to optimize its business. In order to enhance operational efficiency and to maintain customer satisfaction, management decided to restructure the internal organization. As such, the company has accounted for a restructuring provision as of December 31, 2021 of € 752k ($ 852k as of December 31, 2021). We deem this amount sufficient to settle the obligation and concur.

8. Non-current liabilities

	2021	2020
	$	$
Payable to related party (convertible)		
Carrying amount as of 1 January	1,200,000	2,000,000
Other movements, net	-8,463	-
Conversion loan into shares	-	-800,000
Long-term part as at 31 December	1,191,537	1,200,000

The Company had an agreement with an entity related to its main shareholder, to provide it with up to $37.0 million in revolving loans through June 30, 2020. The term of the arrangement can be automatically extended for four additional six-month periods at the option of the holder. Loans received under the arrangement bear interest, which is compounded semi-annually and payable at maturity, at the interest rate of LIBOR plus 7% for U.S. dollar-denominated loans and the Company's European commercial bank interest base rate plus 3% for Euro-denominated loans. The arrangement is secured by a 26% interest in one of the Company's European subsidiaries. In connection with the arrangement, the holder was granted an option to convert the outstanding principal notes payable under the arrangement into the Company's common stock at a price of $1.50 per share and the unpaid accrued interest at a price of $0.75 per share.

In May 2019, the Company granted this entity, the option to convert up to $2.0 million of the loan into the Company's shares at a price of $0.40 per share, and all other conversion rights for the balance of the debt except $2.6 million, which is convertible at a price of $0.75 per share, would eliminate. In December 2019, this entity converted the $2.6 million accrued interest into 3,480,968 shares at a price of $0.75 per share. In October 2020, the entity converted $0.8 million into 2,000,000 shares.

In October 2020, the loan was extended until January 2022, the loan amount was reduced to $3.0 million after the Company repaid 30 million of the debt in 2019 and the pledge of 26% interest in one of the Company's European subsidiaries was terminated. In December 2021 the loan was extended until January 2024 and the maximum amount was reduced to $2.0 million. Interest rate was reduced to 2.5%.

The Company's weighted average interest during the years ended December 31, 2021 and 2020 is 7.1% and 7.6%, respectively.

As of December 31, 2021 and 2020, convertible notes payable to this related party consist of $1.2 million and $1.2 million, respectively.

	31-12-2021	31-12-2020
	$	$
Other debt		
Long term payables to the Dutch tax authorities (1)	35,734,140	23,419,000
Deferred revenue	-	263,000
Severance pay liability (2)	1,631,078	1,556,257
Other	702,137	446,620
	38,067,355	25,684,877

(1) Companies financially impacted by COVID-19 had the opportunity to postpone the regular payment of corporate income tax, wage tax and/or value added tax. The repayment terms are 60 installments starting from October 2022. The interest rate till June 30, 2022 is 0,01% and will increase up to 4%.

(2) The company recorded for Israeli employees severance liabilities based on the length of service and their latest monthly salary (see note "Employee rights upon retirement").

9. Current liabilities

Interest-bearing loans and borrowings

	31-12-2021	31-12-2020
Notes payable banks	198,859	8,103,682

United States of America

The Company’s U.S. subsidiary was a party to a credit facility with a commercial lender, which provided a maximum borrowing capacity up to $10 million, subject to a borrowing base limitation. The borrowing base limitation was equivalent to: (i) 85% of eligible accounts receivable, as defined, plus (ii) 80% of eligible unbilled receivables, as defined, plus (iii) 95% of a $500k standby letter of credit. Borrowings under the credit facility are secured by the U.S. subsidiary’s accounts receivable, unbilled receivables, equipment, cash and the $500 letter of credit that was provided to the lender by the Company. The credit facility expired on October 2021.

Borrowings made under the credit facility bore interest, which was payable monthly, at LIBOR plus 3% per annum.

The Company’s weighted average interest rate in the United States of America during the years ended December 31, 2020 was 4.42%.

Europe

The Company had a credit arrangement with a commercial bank, to provide it with up to €12 million in borrowings which was renewed in May 2020 through March 2021. Borrowings under the line of credit bore interest at one-month EURIBOR plus 4.8% with a minimum of 4.8% per annum. The Company was also subject to unused line fee of 0.75% per annum, which was payable quarterly. The line of credit was secured by accounts receivable of ten of the Company’s European subsidiaries, tangible fixed assets and a bank guarantee of €2,000 ($2,457 as of December 31, 2020) provided by the parent company, ICTS International N.V. The line of credit could not exceed 70% of the borrowing base. The line of credit includes certain financial covenants. The line of credit expired in March 2021.

In addition to the line of credit arrangement, a guarantee facility of €2,500 ($2,841 as of December 31, 2021) is provided to the Company by the same commercial bank, which was renewed until March 2022, with an interest of 2.5% per annum and an unused line fee of 0.75% per annum which is payable quarterly. As of December 31, 2021 and 2020, the Company had €1,022k and €973k ($1,161k and $1,195k as of December 31, 2021 and 2020), respectively, of outstanding guarantees under the guarantee facility, which related to leases and performance guarantees for contracts. The guarantee facility expired in March 2022.

The guarantee facility is secured by the accounts receivables of ten of the Company’s European subsidiaries.

The Company’s weighted average interest rate in Europe during the years ended December 31, 2021 and 2020, is 4.8% and 4.4% respectively.

The Company has an additional credit arrangement in Sweden to provide it with up to 4,000k SEK ($442k as of December 31, 2021) in borrowings. Borrowings under the line of credit bear annual interest of 2.8% and subject to annual extension by the financial institution. The line of credit is secured by accounts receivable of the Swedish subsidiary.

	31-12-2021	31-12-2020
	$	$
Trade creditors		
Creditors	5,857,084	3,715,345
Taxes and social securities		
Corporate income tax	6,278,514	350,582
VAT	6,453,463	11,081,299
Payroll taxes and social security charges	7,733,269	10,392,761
Salaries and wages	1,067,704	1,011,121
Other taxes	14,381	216,774
	21,547,331	23,052,537
Other liabilities, accruals		
Accruals	31,025,330	20,840,291
Accruals		
Provision for vacation allowances	9,953,029	7,530,824
Net wages and other related payroll costs	10,215,941	6,043,152
Bonuses	1,675,365	-
Provision commissions	1,371,169	168,595
Deferred revenue	2,239,351	2,142,654
Severance payments	713,417	590,254
Payroll Support Program Funding	-	1,018,736
Repayment NOW government subsidy for COVID-19	319,770	148,468
Other short term payables	4,537,288	3,197,608
	31,025,330	20,840,291

All current liabilities fall due in less than one year. The fair value of the current liabilities approximates the book value due to their short-term character.

Commitments and contingent liabilities

Contingent liabilities

General

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the normal course of its business activities. Liabilities for such contingencies are recognized when: (a) information available prior to the issuance of the consolidated financial statements indicates that it is probable that a liability had been incurred at the date of the consolidated financial statements and (b) the amount of loss can reasonably be estimated.

Letters of Credit and guarantees

As of December 31, 2021, the Company has $3,250 in outstanding letters of credit. Such letters of credit are being secured by the same amounts in restricted cash with commercial banks.

As of December 31, 2021, the Company has €1,022 ($1,161 as of December 31, 2021) in outstanding guarantees on its lines of credit arrangement in Europe, which relate to leases and performance guarantee for contracts.

Agency agreements

In April 2013, prior to the purchase of one of the current subsidiaries in Europe, the Company entered into an agency agreement with a third party to assist it with this transaction. According to the agreement, in the event that the operations in that country are sold in the future, the third-party agent is entitled to a payment of €3,000 ($3,409 as of December 31, 2021).

In March 2016, the Company entered into an agreement with a third party to assist the Company with the possible sale of one of the Company's subsidiaries (see note 13). The fees depend on the outcome of the assignment and are between 2% - 5% of the sale consideration but not less than $4,000. In February 2019 the agreement was amended. According to the amendment, in case that less than 50% of the voting stock or majority of the subsidiary assets are being sold, the transaction fee will be 5% of the sale consideration but not lower than $3,000. In January 2022, the agreement was amended so that the fees will be 2%-3% of the sale consideration but not less than $4,000 and with a cap of $20,000. In case that less than 50% of the voting stock or majority of the subsidiary assets are being sold the transaction fee will be 5% of the sale consideration but not lower than $4,000.

In August 2017, the Company entered into an agreement with a third party to assist the Company with a possible sale of one of the Company's subsidiaries. The fees depend on the outcome of the assignment and are between 2% - 10% of the sale consideration but not less than € 2,000 ($2,273 as of December 31, 2021). The agreement was terminated in June 2021, although the third party is entitled to the consideration in case that subsidiary will be sold before December 2022.

Legal proceedings

General

The Company is subject to various investigations, claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. These claims are primarily related to grievances filed by current and former employees for unfair labor practices or discrimination, and for passenger aviation claims. Management recognizes a liability for any matter when the likelihood of an unfavorable outcome is deemed to be probable and the amount is able to be reasonably estimated. Management has concluded that such claims, in the aggregate, would not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

Inquiry Proceedings
On June 24, 2021 a minority shareholder of the Company initiated inquiry proceedings before the Enterprise Chamber of the Amsterdam Court of Appeal (the “Court”) which is a specialized court dedicated to resolving corporate disputes. The shareholder has requested the Court to appoint an investigator on behalf of the Court in accordance with Dutch law, to investigate certain activities of the Company that have been previously disclosed by the Company in its periodic filings with the SEC for the fiscal years ended December 31, 2020 and 2019. The shareholder has not requested the Court to order preliminary relief, but has requested the Court to order the registrant to pay the costs of the proceedings.

On June 24th, 2022, the Court rendered its judgment after reviewing all filings and a court hearing. The Court accepted ICTS’s defense on all items except two and appointed an inquirer to examine the two items. The two items are: The conversion of loans in 2019 from a related party at a share price of $0.40 and the issuance of shares to directors and certain employees in 2019 at a share price of $0.40.

White Line
In 2017, the company invested $3,500 in White Line B.V., a limited Company incorporated in the Netherlands, representing 10% of the issued and outstanding share capital of White Line B.V.

The Company had an agreement with an entity related to its main shareholder, according to which, if the value of this investment decreased, the related party entity has guaranteed to repurchase this full investment in minimum amount of $3,500. In December 2018, the related party entity purchased the full investment from the Company for $3,500. In 2021, the Company has a dispute with White Line B.V. as certain items disclosed in White Line B.V. financials appeared questionable. As the economical ownership is not within the Company any more, the Company has no financial exposure on this dispute.
In November 2022 the appeal court rejected the requested of the company to provide additional information.

Long-term financial obligations

Operating leases

The Company leases certain premises under various operating leases. Maturities of operating lease liabilities as of December 31, 2021 were as follows:

2022	$ 3.8 million
2023	$ 3.4 million
2024	$ 2.8 million
2025	$ 1.2 million
2026	$ 0.9 million
Thereafter	$ 0.9 million

The total of the future minimum operating lease commitments amounts to $ 13 million.
Rent expense for the years ended December 31, 2021 and 2020 is $6.0 million and $5.5 million, respectively.

Stock-based compensation

In June 2016, one of the Company's subsidiaries adopted a Stock Option Plan and reserved 500,000 shares of common stock for that subsidiary's future issuance. As of December 31, 2021, the subsidiary has 13,000,000 authorized shares of which 12,500,000 shares are issued and outstanding. Under the stock option plan, stock options may be granted to that subsidiary's employees, officers, directors, consultants and service providers of the subsidiary at an exercise price as determined by the subsidiary's board of directors with expiration terms of not more than ten years after the date such option is granted. Options granted under the plan generally vest over a period of four years.

In August 2020, AU10TIX's board of directors agreed to move the option plan from AU10TIX Limited to AU10TIX, which is still in process. During the year ended December 31, 2021, 30,000 options were granted by AU10TIX of which 22,500 options are fully vested as of December 31, 2021. The weighted average exercise price was $26.46 and the weighted average remaining contractual term as of December 31, 2021 is 5.2 years.

As of December 31, 2021, there are 222,375 options outstanding and exercisable.

Financial instruments

General

For the notes to the primary financial instruments, reference is made to the specific item-by-item explanation. The financial derivatives of the group and the associated risks are explained below.

NOTES TO THE CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

(US $ in thousands)

10. Net turnover
The revenues increased in 2021 compared to 2020 with 30.6 %.

	2021	2020
	$	$
11. Net turnover		
Airport security and other aviation services	254,114,855	223,363,837
Technology	71,246,891	25,764,731
	325,361,746	249,128,568

The Company operates in three reportable segments:
(a) corporate;
(b) airport security and other aviation services; and
(c) technology.

The corporate segment does not generate revenue and contains primarily non-operational expenses. The airport security and other aviation services segment provides security and other aviation services to airlines and airport authorities, predominantly in Europe and the United States of America. The authentication technology segment is predominantly involved in the development and sale of authentication security software to financial and other institutions, predominantly in the United States of America and Europe. All inter-segment transactions are eliminated in consolidation. The accounting policies of the segments are the same as the accounting policies of the Company as a whole.

Total revenue increased from $249.1 million in 2020 to $325.4 million in 2021.

Revenue generated in Germany was $126.4 million in 2021 compared to $119.5 million in 2020.
Revenue generated in the Netherlands was $52.1 million in 2021 compared to $58.4 million in 2020.
Revenue generated in the United States of America was $94.7 million in 2021, compared to $45.3 million in 2020.
Revenue generated in Spain was $30.9 million in 2021, compared to $7.5 million in 2020.
Revenue in other countries was totaled $21.3 million in 2021 compared to $18.4 million in 2020.

12. Cost of revenues

	2021	2020
	$	$
Operational costs of labour	228,234,438	212,433,326
Other operational costs	27,288,053	21,418,317
Governmental grants	-39,226,464	-31,047,676
	216,296,027	202,803,967
Wages and salaries	167,388,811	152,692,239
Holiday allowances	14,846,748	16,043,467
Social securities	31,170,139	29,699,999
Pension premiums	2,919,813	2,998,306
Travel and parking expenses	3,949,517	4,353,595
Severance payments	1,463,813	810,860
Freelance / external employees	6,495,597	5,834,860
	228,234,438	212,433,326
Operational insurance expenses	1,924,069	2,204,877
Operational uniform and ID card expenses	1,466,780	2,741,561
Operational rent and other accommodation expenses	1,430,402	1,882,051
Operational car, lease and other equipments	4,510,400	3,823,827
Operational training and recruitment expenses	1,219,967	576,979
Operational IT and communication expenses	3,163,738	1,815,540
Research and development expenses	12,114,158	5,735,698
Other operational expenses	1,458,539	2,637,784
	27,288,053	21,418,317
NOW government subsidy for COVID-19	-19,129,070	-18,386,376
United Stated Treasury Payroll Support Program for COVID-19	-16,836,139	-12,661,300
Grants for governmental social security contributions	-3,261,255	-
	-39,226,464	-31,047,676
	216,296,027	202,803,967

I-SEC Nederland B.V. has applied for government grants (Noodmaatregel Overbrugging Werkgelegenheid, NOW) for the amount of € 16,171,334 in 2021 (2020: € 16,104,103). For 2021, it consists of NOW 3.2, NOW 3.3, NOW 4 and NOW 5.

These support grants are temporary governmental compensation for labour costs and is granted to companies who lost a substantial amount of income due to the pandemic. I-SEC complied with the following conditions for the 2021 (and 2020) financial years with regards to the NOW subsidies: no distribution of dividends, no buy back of shares, no payment of bonuses to the Board and providing of training and development to personnel. Certain aspects with regards to the decrease in revenue and personnel development costs relating to the government grants (NOW) are subject to an external audit, for which NOW 1 has been finalised.

	2021	2020
	$	$
13. Selling expenses		
Marketing, advertisements and other sales expenses	3,259,814	1,522,507
14. General & Administrative expenses		
Other staff expenses	29,817,527	21,770,219
Accommodation expenses	1,168,821	1,345,972
External service provider expenses	9,954,102	5,888,808
Amortisation / depreciation on (in)tangible fixed assets	2,401,190	1,942,920
IT expenses	2,423,519	1,927,542
Insurance expenses	412,111	302,666
General & other expenses	5,657,559	4,784,273
	51,834,829	37,962,400

Other staff expenses

	2021	2020
Wages and salaries	20,954,565	16,282,768
Social security charges	2,552,398	2,405,819
Pension premiums	628,172	553,830
Other components and costs	296,283	166,929
Freelance and external employees	5,386,109	2,360,873
	29,817,527	21,770,219

General & other expenses

	2021	2020
General and other expenses	8,378,229	4,784,273
Reimbursement of Fixed Costs (TVL)	-2,720,670	-
	5,657,559	4,784,273

I-SEC Group applied for the maximum amount for the 'Tegemoetkoming Vaste Lasten' (TVL) during the 2021 financial year and have recognised the amounts which are reasonably certain to be received. The grants were recognised as deductions to the related operating expenses in the consolidated statement of profit and loss.

Financial income and expenses

15. Changes in value of financial assets and of securities

	2021	2020
Value adjustment of receivables other participating interests	455,618	-

Value adjustment of receivables other participating interests

	2021	2020
Recognized gain related to Mesh Technologies, Inc.	186,219	-
Value adjustment of AU10Tix Group prior years	269,399	-
	455,618	-

	2021	2020
	$	$

16. Interest and similar expenses

	2021	2020
Bankcharges	-411,767	-633,767
Other financial costs	-420,039	5,560
Exchange results	-44,448	-254,028
Capital loss	-284,063	-183,541
Interest related parties	-82,678	-171,033
	-1,242,995	-1,236,809

	2021	2020
	$	$

17. Tax on result

	2021	2020
Corporate income tax	-8,936,229	-1,345,467
Corporate income tax prior years	-614,447	61,726
Movement of deferred tax assets	331,409	692,834
	-9,219,267	-590,907

The applicable taxation rate for the Dutch taxes varies between 15-25%. ICTS International N.V. together with Dutch Subsidiaries of ISEC Global Security B.V. forms a fiscal unity for corporate income tax. Due to the valuation of the compensable losses there is a difference between the nominal and effective tax rate.

ICTS International N.V. does not record any corporate income tax charges in their profit and loss account (for the Dutch Corporate Income Tax) due to the tax losses carry forward. The presented CIT is related to payables taxes in the profitable foreign subsidiaries.

18. Minority interest

	2021	2020
Minority interests Quality Detection Dogs Sweden AB	217,843	-
Minority interests AU10TIX Technologies B.V.	-6,892,907	-999,024
	-6,675,064	-999,024

OTHER DISCLOSURE

Subsequent events

On May 2nd 2022, one of the subsidiaries of ICTS, I-SEC International Security B.V., has experienced a data breach incident. This was a ransomware incident that involved the exposure of information in the Company's possession including human resources data of current and former employees. The Company has taken steps in an effort to address the incident. The immediate expenses following the incident are approximately $0.8 million. In addition, the Company will continue upgrading its technological systems and expects additional costs to be approximately $0.3 milion during 2021. The Company does not expect the incident to affect its relationships with its customers or any third parties.

Wages, salaries and social security charges

Staff

As of December 31, 2021, the Company has 6,590 employees(2020: 6,235), of which 4,698 (2020: 4,709) employees are located in Europe, Far East and Israel and 1,592 (2020: 1,526) are located in the United States of America.

	2021	2020
	$	$
Auditor's fees		
Audit of the financial statements	115,690	125,700
Other audit services	38,700	-
Other non-audit services	17,395	15,800
	171,785	141,500

The table above sets forth the aggregate fees billed by independent registered public accounting firm, HLB Witlox Van den Boomen Audit N.V. ("HLB"), for services rendered to us during the years ended December 31, 2021 and 2020.

The audit committee has considered whether the provision of these services is compatible with maintaining the principal accountant's independence and has concluded that such services are compatible. All fees were reviewed and pre-approved by the audit committee

COMPANY FINANCIAL STATEMENTS 2021

COMPANY BALANCE SHEET AS AT DECEMBER 31, 2021

(after appropriation of result and in US $ in thousands)

		31 December 2021		31 December 2020	
		$	$	$	$
ASSETS					
Fixed assets					
Tangible fixed assets	(19)				
Other fixed assets			155,345		225,574
Financial fixed assets	(20)				
Investments in other parties			1,954,243		1,900,100
Current assets					
Receivables, prepayments and accrued income	(21)				
Receivables from group companies		26,375,737		9,761,511	
Taxes and social securities		46,483		28,293	
Other receivables and accrued income		380,060		2,288,846	
			26,802,280		12,078,650
Cash and cash equivalents	(22)		9,482,468		8,817,830
TOTAL OF ASSETS			38,394,336		23,022,154

		31 December 2021		31 December 2020	
		$	$	$	$
EQUITY AND LIABILITIES					
Equity	(23)				
Issued share capital		19,187,066		19,187,066	
Additional paid-in capital		25,844,546		25,624,686	
Revaluation reserve		-8,701,649		-6,266,416	
Legal reserves		1,490,915		451,499	
Other reserves		-32,521,330		-68,771,282	
			5,299,548		-29,774,447
Provisions	(24)		30,868,002		50,272,591
Non-current liabilities	(25)				
Convertible notes, payable to related party			1,191,537		1,200,000
Current liabilities	(26)				
Trade creditors		173,135		415,208	
Loans from participations in group companies		11,364		12,285	
Taxes and social securities		194,323		292,189	
Other liabilities, accruals		656,427		604,328	
			1,035,249		1,324,010
TOTAL OF EQUITY AND LIABILITIES			38,394,336		23,022,154

COMPANY INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

	2021	2020
	$	$
SHARE IN RESULT OF PARTICIPATING INTERESTS AFTER TAXES	37,928,004	6,843,565
Other income and expenses after taxation	-638,636	-2,830,609
RESULT AFTER TAXATION	37,289,368	4,012,956

NOTES TO THE COMPANY BALANCE SHEET AND INCOME STATEMENT

The company financial statements have been prepared in accordance with the statutory provisions of Title 9, Book 2 of the Dutch Civil Code and the firm pronouncements of Dutch GAAP (Richtlijnen voor de Jaarverslaggeving).

For the general principles for the preparation of the annual account, the principles for valuation of assets and liabilities and determination of the result, as well as for the notes to the specific assets and liabilities and the results, reference is made to the notes to the consolidated annual account, if there is no further explanation provided.

Financial fixed assets

Participating interests in group companies where extensive influence is exerted on business and financial policies are valued based on the net capital value that is, however, not lower than zero. This net capital value is calculated based on the principles of ICTS International N.V.

Participating interests with a negative net capital value are valued at zero. When the company guarantees (wholly or partially) debts of the participating interest concerned, a provision is created primarily at the expense of claims against this participating interest and for the remainder under the provisions of the remaining part in the losses of the participating interest or the expected payments by the company on behalf of these participating interests.

NOTES TO THE COMPANY BALANCE SHEET AS AT DECEMBER 31, 2021

(after appropriation of result and in US $ in thousands)

Assets

FIXED ASSETS

19. Tangible fixed assets

	Other fixed assets
	$
Balance as at January 1, 2021	
Purchase price	332,397
Cumulative depreciation and impairment	-106,823
	225,574
Movement	
Investments	9,314
Depreciation	-74,567
Exchange difference cumulative depreciation and impairment	-4,976
	-70,229
Balance as at December 31, 2021	
Purchase price	341,711
Cumulative depreciation and impairment	-186,366
	155,345

Depreciation rates

	%
Other fixed assets	15 - 33.33

20. Financial fixed assets

Participations in group companies

	2021	2020
	$	$
I-SEC Global Security B.V. which holds the shares of:		
Carrying amount as of 1 January	-25,633,310	-19,481,122
Exchange rate adjustments	1,561,962	-2,215,943
Share in result	8,614,354	-3,936,245
	-15,456,994	-25,633,310
Provision	15,456,994	25,633,310
Balance as at 31 December	-	-

	2021	2020
	$	$
ICTS USA Inc. which holds the shares of:		
Carrying amount as of 1 January	-27,546,080	-36,021,530
Share in result	14,355,794	8,475,450
Provision	13,190,286	27,546,080
Balance as at 31 December	-	-
AU10TIX Technologies B.V. which holds the shares of:		
Carrying amount as of 1 January	-43,975,878	-46,483,013
Exchange difference	-1,890,372	310,013
Value decreases	-121,789	-
Share in result	15,120,812	2,197,122
Provision	30,867,227	43,975,878
Balance as at 31 December	-	-
TSAS Ltd (inactive)		
Carrying amount as of 1 January	-5,234,462	-4,743,053
Exchange difference	-201,015	-365,884
Share in result	-162,956	-125,525
Provision	5,598,433	5,234,462
Balance as at 31 December	-	-

	31-12-2021	31-12-2020
	$	$
Investments in other parties		
Investment in Artemis Therapeutics Inc.	100	100
Investment in Mesh Technologies Inc.	36,143	50,000
Investment in Arrow Ecology & Engineering Overseas (1999) Ltd.	1,750,000	1,750,000
Investment in GreenFox Logistics LLC.	100,000	100,000
Investments in Silver Circle One	18,000	-
Investments in Justt Fintech Ltd (previously Acrocharge Ltd)	50,000	-
	1,954,243	1,900,100

For information on investments we refer to the notes of the consolidated balance sheet.

CURRENT ASSETS

21. Receivables, prepayments and accrued income

	31-12-2021	31-12-2020
	$	$
Receivables from group companies		
I-SEC Global Security B.V. which holds the shares of:	2,509,337	-
ICTS USA Inc. which holds the shares of:	23,866,400	9,761,511
	26,375,737	9,761,511

An interest rate of 0% has been calculated.

I-SEC Global Security B.V. which holds the shares of:

	2021	2020
	$	$
Carrying amount as of 1 January	19,336,714	13,152,054
Additions	96,597	4,412,211
Repayments	-	-17,956
Exchange rate adjustments	-1,466,980	1,790,405
Provision	-15,456,994	-19,336,714
Balance as at 31 December	2,509,337	-

An interest rate of 0% (2020: 0%) per annum applies to the average intercompany balances. In respect of repayment and securities provided to most of the balances no agreements have been made.

ICTS USA Inc. which holds the shares of:

Carrying amount as of 1 January	37,307,591	37,467,562
Mutaties	-	350,000
Movement 1	-250,905	-509,971
Provision	-13,190,286	-27,546,080
Stand per 31 December	23,866,400	9,761,511

TSAS Ltd (inactive)

Carrying amount as of 1 January	5,234,345	4,743,642
Mutaties	557,110	133,888
Movement 2	-193,797	356,815
Provision	-5,597,658	-5,234,345
Stand per 31 December	-	-

	31-12-2021	31-12-2020
	$	$
Taxes and social securities		
VAT	41,770	21,973
Salaries and wages	4,713	6,320
	46,483	28,293
Other receivables and accrued income		
Other receivables	227,617	2,240,651
Prepayments and accrued income	152,443	48,195
	380,060	2,288,846
Other receivables		
Dutch Governmental support - COVID 19 (3)	27,541	40,651
Receivable from a related party (deposit) (4)	-	2,200,000
Receivable from sale of shares Mesh Technologies Inc.	200,076	-
	227,617	2,240,651

For information on other receivables we refer to the notes of the consolidated balance sheet.

Prepayments and accrued income		
Others	152,443	48,195

22. Cash and cash equivalents

	31-12-2021	31-12-2020
	$	$
Current account	8,242,669	7,617,707
Deposit	1,239,799	1,200,000
Petty cash	-	123
	9,482,468	8,817,830

An amount of $ 1,239,799 is not freely disposable.

23. Equity

	31-12-2021	31-12-2020
	$	$
Issued share capital		
Share capital	19,187,066	19,187,066

Common stock, €0.45 par value; 150,000,000 shares authorized as of December 31, 2021 and 2020. 37,433,333 shares issued and outstanding as of December 31, 2021 and 2020.

	2021	2020
	$	$
Additional paid-in capital		
Carrying amount as of 1 January	25,624,686	25,890,772
Stock based compensatoin of AU10TIX Technologies B.V.	240,172	-266,086
Miscellaneous movement	-20,312	-
Balance as at 31 December	25,844,546	25,624,686
Revaluation reserve		
Carrying amount as of 1 January	-6,266,416	-5,924,904
Exchange rate adjustments	-2,435,233	-101,169
Miscellaneous movement	-	-240,343
Balance as at 31 December	-8,701,649	-6,266,416
Reserve for research and development		
Carrying amount as of 1 January	451,499	-
Allocation	1,039,416	451,499
Balance as at 31 December	1,490,915	451,499
Other reserves		
Carrying amount as of 1 January	-68,771,282	-72,332,739
Allocation of financial year net result	37,289,368	4,012,956
Allocation legal and statutory reserves	-1,039,416	-451,499
Balance as at 31 December	-32,521,330	-68,771,282

	31-12-2021	31-12-2020
	$	$

24. Provisions

Other provisions	30,868,002	50,272,591

Provision subsidiaries

I-SEC Global Security B.V. which holds the shares of:	-	6,296,596
AU10TIX Technologies B.V. which holds the shares of:	30,867,227	43,975,878
TSAS Ltd (inactive)	775	117
	30,868,002	50,272,591

25. Non-current liabilities

	2021	2020
	$	$
Payable to related party (convertible)		
Carrying amount as of 1 January	1,200,000	2,000,000
Other movements, net	-8,463	-
Conversion loan into shares	-	-800,000
Long-term part as at 31 December	1,191,537	1,200,000

For information on long term liabilities we refer to the notes of the consolidated balance sheet.

26. Current liabilities

	31-12-2021	31-12-2020
	$	$
Trade creditors		
Creditors	173,135	415,208
Taxes and social securities		
Payroll taxes and social security charges	194,323	292,189
Other liabilities, accruals		
Accruals	656,427	604,328
Accruals		
Provision for vacation allowances	213,281	198,015
Net wages and other related payroll costs	23,916	35,823
Other short term payables	419,230	370,490
	656,427	604,328

All current liabilities fall due in less than one year. The fair value of the current liabilities approximates the book value due to their short-term character.

Contingent liabilities and assets

Contingent liabilities

Fiscal unity

The company constitutes a tax entity for corporate income tax and VAT with ICTS International N.V. and other group companies; consequently the company is severally liable for the resulting debts.

Guarantees

The legal entity had guaranteed liabilities of group companies, as meant in article 2:403 of the Netherlands Civil Code up till March 26, 2020.

Till that date the legal entity was therefore jointly and severally liable for the liabilities arising from the legal acts of those group companies.

NOTES TO THE COMPANY INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2021

	2021	2020
	$	$
27. Financial income and expenses		
Interest and similar income	162,329	133,888
Changes in value of financial assets and of securities	518,089	-
Interest and similar expenses	-194,103	-607,491
	486,315	-473,603
Interest and similar income		
Interest receivable TSAS Ltd.	162,329	133,888
Value adjustment of receivables other participating interests		
Recognized gain related to Mesh Technologies, Inc.	186,219	-
Value adjustment of AU10Tix Group prior years	331,870	-
	518,089	-
Interest and similar expenses		
Bankcharges	-6,523	-70,969
Other financial costs	-	-255,382
Exchange results	-104,902	-110,107
Interest related parties	-82,678	-171,033
	-194,103	-607,491
28. Result of participating interests		
Share in result of I-SEC Global Security B.V.	8,614,354	-3,936,245
Share in result of ICTS USA Inc.	14,355,794	8,475,450
Share in result of AU10TIX Technologies B.V.	15,120,812	2,197,122
Share in result of Broadcasting Security Directive Limited	-	232,763
Share in result of TSAS Ltd (inactive)	-162,956	-125,525
	37,928,004	6,843,565

OTHER DISCLOSURE NOTES

Appropriation of the result for the 2020 financial year

The financial statements of 2020 have been adopted by the General Meeting held on February 3, 2022. The proposal of the appropriation of profits, as processed in the financial statements, have been approved.

Appropriation of the profit for 2021

The board of directors proposes to add the profit for 2021 of $ 37,289,368 to the other reserves. This proposal has been processed in the annual account in advance of the adoption by the General Meeting.

Disclosure of exceptional items

Emoluments of directors and supervisory directors

The following sets forth information concerning the aggregate compensation paid or accrued on behalf of all of our directors and executive officers as a group for the year ended December 31, 2021:

Salaries, fees, commissions and bonuses in total $2,975k (2020: $1,646k).
- Supervisory Directors as a group (7 persons) $304k (2020: $322k); and
- Officers as a group (6 persons) $2,671k (2020: $1,324k).

Pension, retirement and other similar benefits $332k (2020: $163k).
- Supervisory Directors as a group (7 persons) $0 (2020: $0); and
- Officers as a group (6 persons) $332k (2020: $163k).

Each member of the Supervisory Board who is not an employee of the Company receives an annual fee of $30 thousands and a fee for each Supervisory Board or committee meeting attended of $2 thousands. The Chairman of the Audit Committee receives an additional $20 thousands per year. The Chairman of the Board receives an annual fee of $50 thousands. Managing Directors are being employed by the Company and the total expenses regarding the employment of the current Managing Directors for the year ended December 31, 2021 was $0.6 million.

Staff

During 2021, on average 3 employees were employed, converted to full-time equivalents (2020: 4).

Signing of the financial statements

Preparation financial statements

The consolidated and company financial statements are prepared and approved by the management and Supervisory Board.

Amstelveen,

Management Board:

R. Shaked

A. Raich

Supervisory Directors:

M. Atzmon

R. Atzmon

G. Atzmon

D.W. Sass

P.M. Getter

G.B.S. Hausmann

G.F. Lieberman

OTHER INFORMATION

OTHER INFORMATION

Articles of association governing profit appropriation

The articles of Association's provision governing the appropriation of profits (article 20) reads as follows:

1. The profit shall be determined in accordance with generally accepted accounting principles.

2. Of the profit appearing from the annual accounts adopted by the General Meeting such a sum can be reserved as shall be fixed by the Supervisory Board.

3. The remaining profits after the application of paragraph 2 of this Article shall be available to the General Meeting. The company may make distributions of profit to shareholders only to the extent that the shareholders equity exceeds the paid and called up part of the capital increased by the amount of the reserves which it is required to maintain by law or by these Articles of Association.

4. Distribution of profit shall be made only after the adoption of the annual account which shows that such distribution is possible.

5. In calculating the distribution of profit shares or the depository receipts thereof, the full ownership which is vested in the Company or in respect of which the Company has usufruct shall not be counted.

6. The Company may pay interim dividends with due observance of the provisions of paragraph 4. The resolution to distribute an interim dividend shall be passed by the Management Board after the approval of the Supervisory Board has been obtained.

7. The date on which dividends and other distributions become payable, no later than three months from the date such dividends have been declared shall be determined by the Supervisory Board and announced in accordance with the provisions of Article 16, Section 4.

8. Dividends which have not been claimed within five years after the date on which they were made payable shall be forfeited to the benefit of the Company.

Independent auditor's report

Reference is made to the independent auditor's report as included hereinafter.