ICTS INTERNATIONAL N.V.
AMSTELVEEN

REPORT FOR FILING PURPOSES 2022

Chamber of Commerce registry for Woerden, file number 33279300.

Adopted by the General Meeting (GM) of ....2023.

ICTS INTERNATIONAL N.V.
Amstelveen

ANNUAL REPORT 2022

CONTENTS

To the board of directors of
ICTS International N.V.
Walaardt Sacrestraat 425
1117 BM Schiphol

ENGAGEMENT

In accordance with your instructions we have audited the annual account 2022 of your company, including the non-consolidated balance sheet with counts of $ 34,388,342, the consolidated balance sheet with counts of $ 175,639,896 and the consolidated and non-consolidated profit and loss account with a negative result after taxes of $ 4,725,253.

For the audit opinion we refer to the chapter “Other information” on page 70 of this report.

We trust in this to have fulfilled your assignment. We will gladly provide further explanations upon request.

Sincerely yours,

Waalwijk, 16 november 2023

HLB Witlox Van den Boomen Audit N.V.

W.G. door:
R. Vos MSc RA

R. Vos MSc RA

DIRECTORS' REPORT

The report is available for inspection at the company's premises.

CONSOLIDATED FINANCIAL STATEMENTS 2022

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2022

(after appropriation of results)

		31 December 2022		31 December 2021	
		$	$	$	$
ASSETS					
Fixed assets					
Intangible fixed assets	(1)		2,146,528		1,571,203
Tangible fixed assets	(2)				
Other fixed assets			4,129,687		4,217,865
Financial fixed assets	(3)				
Investments in other parties		2,049,243		2,004,243	
Other participating interests		130,442		-	
Other receivables		11,701,791		3,485,081	
			13,881,476		5,489,324
Current assets					
Receivables, prepayments and accrued income	(4)				
Trade receivables		43,795,631		43,340,035	
Taxes and social securities		1,919,898		810,617	
Other receivables and accrued income		18,394,984		27,034,940	
			64,110,513		71,185,592
Cash and cash equivalents	(5)		91,371,692		103,688,584
			175,639,896		186,152,568

	Note	31 December 2022		31 December 2021	
		$	$	$	$
LIABILITIES					
Group equity	(6)				
Group equity of ICTS International N.V.		125,389		5,299,548	
(Redeemable) Non-controlling interests in subsidiaries		80,827,999		81,219,330	
			80,953,388		86,518,878
Provisions	(7)				
Deferred tax liability		84,884		615,288	
Other provisions		549,446		1,186,668	
			634,330		1,801,956
Non-current liabilities	(8)				
Convertible notes, payable to related party		1,104,342		1,191,537	
Other debt		29,213,971		38,067,355	
			30,318,313		39,258,892
Current liabilities	(9)				
Interest-bearing loans and borrowings		121,918		198,859	
Trade creditors		8,720,469		5,857,084	
Taxes and social securities		25,419,234		21,547,331	
Other liabilities, accruals		29,472,244		30,969,568	
			63,733,865		58,572,842
			175,639,896		186,152,568

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

		2022		2021	
		$	$	$	$
NET TURNOVER	(10,11)	324,977,268		325,361,746	
Cost of sales	(12)	269,944,160		216,296,027	
GROSS MARGIN			55,033,108		109,065,719
EXPENSES					
Selling expenses	(13)	3,722,162		3,259,814	
General & Administrative expenses	(14)	54,917,660		51,834,829	
SUM OF EXPENSES			58,639,822		55,094,643
OPERATING RESULT			-3,606,714		53,971,076
Financial income and expenses	(15)		116,141		-787,377
RESULT FROM NORMAL OPERATIONS BEFORE TAX			-3,490,573		53,183,699
Tax on result	(16)		-1,646,193		-9,219,267
			-5,136,766		43,964,432
Result of participating interests			-97,079		-
RESULT FROM NORMAL OPERATIONS AFTER TAX			-5,233,845		43,964,432
Minority interest	(17)		508,592		-6,675,064
RESULT AFTER TAX			-4,725,253		37,289,368

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

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

	2022		2021	
	$	$	$	$
Cash flow from operating activities				
Operating result	-3,606,714		53,971,076	
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Amortisation and depreciation	2,109,683		2,355,393	
Changes in value of financial assets and securities	-		455,618	
Movement in provisions	-637,222		1,186,668	
Movements in working capital				
Movement of accounts receivable	7,146,480		-16,942,712	
Movement of short-term liabilities (excluding short-term part of long-term debts)	-10,199,235		9,713,584	
Cash flow from operating activities		-5,187,008		50,739,627
Interest received	811,703		-	
Interest paid	-695,562		-1,242,995	
Corporate income tax	-2,636,006		-2,706,651	
		-2,519,865		-3,949,646
Cash flow from operating activities		-7,706,873		46,789,981
Cash flow from investing activities				
Investments in intangible fixed assets	-1,397,532		-1,643,671	
Investments in tangible fixed assets	-1,503,393		-1,681,014	
Investments in other related parties	-175,442		-68,000	
Disposal of intangible fixed assets	-		402,938	
Disposal of tangible fixed assets	291,939		50,672	
Disposal of other relates parties	-		13,857	
Cash flow from investing activities		-2,784,428		-2,925,218
Cash flow from financing activities				
Issued shares premium reserve	-240,172		-	
Withdrawn shares premium reserve	-		219,860	
Repayments of long term receivables	328,809		-143,539	
Issued loans of long term receivables	-1,770,000		44,988	
Borrowings (repayments) under lines of credit, net	52,350		330,338	
Cash flow from financing activities		-1,629,013		451,647
Exchange and conversion differences		-196,578		-1,978,043
		-12,316,892		42,338,367

Compilation cash

	2022		2021	
	$	$	$	$
Compilation cash at 1 January		103,688,584		61,350,217
Movement of cash and cash equivalents		-12,316,892		42,338,367
Cash and cash equivalents at 31 December		91,371,692		103,688,584

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

GENERAL NOTES

Activities

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 four reportable segments:
a) corporate;
b) Airport security;
c) Other aviation related services; and
d) Authentication technology.

Until December 31, 2021, the Company used to present the results of the airport security and the other aviation related services as one consolidated segment. The corporate segment does not generate revenue and contains primarily non-operational expenses. The airport security segment provides security services primarily to airport authorities and airlines predominantly in Europe. The other aviation services segment provides services primarily to airlines and airport authorities in the United States of America. The authentication technology segment provides authentication services to financial and other companies, predominantly in the United States of America.

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 2022 until 31 December 2022.

Going concern

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.

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.

Change in accounting policies

Effective January 1, 2022, the amended provisions of Chapter 270, with respect to revenue recognition will be applied. In accordance with the transitional provisions, use has been made of the option to apply the amendments, with the exception of those relating to presentation and disclosure, only to agreements entered into or amended on or after January 1, 2022. Therefore, the aforementioned change in accounting policy has no impact on equity or profit after tax of previous year.

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.

Group structure

Group companies and other entities in which ICTS International N.V. exercises control or whose central management it conducts are consolidated in full. Participating interests in group equity and group result are disclosed separately. Participating interests over which no control can be exercised (associates) are not included in the consolidation.

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, 2022 is included below:

Name, statutory registered office	Share in issued capital
	%
I-SEC Global Security B.V. Amsterdam, the Netherlands	100.00
I-SEC International Security B.V. 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. New York, USA	100.00
Huntleigh Corporation Inc. Missouri, USA	100.00

Aviation Mobility Solutions Inc. Dallas, USA	100.00
AU10TIX Technologies B.V. 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 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 2022 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 statement of comprehensive income (RJ 265) is not recognised separately as part of the income statement. In the absence of the items specified in the Directive, the income statement shall be considered equivalent for the statement of comprehensive income.

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.

Comparison with previous year

If deemed necessary, the figures for 2021 have been reclassified in order to make them comparable to 2022.

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.

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 $1,550 and $1,631 as of December 31, 2022 and 2021, 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 $1,049 and $1,346 as of December 31, 2022 and 2021, 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

The result is the difference between the realisable value of the goods/services provided and the costs and other charges during the year.

Revenues and expenses are allocated to the period to which they relate. Profit is only included when realised on the balance sheet. Losses originated before the end of the financial year are taken into account if they have become known before preparation of the financial statement. Foreseeable obligations and possible losses orginating before the end of the financial year are considered if they have become known before the preparation of the annual accounts.

The Company usually recognizes revenue at the level of separate contracts. If it is necessary to reflect economic reality, revenue is recognized at the level of a group of contracts, for example where the Company has entered into several separate contracts, which have been negotiated as a total, separating the individual contracts in terms of pricing and profit margin that are closely related and are performed simultaneously or immediately after each other.

Amounts that the Company receives for its own account (as principal) are recognized as revenue. Amounts that the Company receives for third parties (as an agent) are not recognized as revenue. Revenues only include the gross increases in economic potential that the Company has received or has receivable for its own account.

The Company recognizes revenue for the amount to which the Company expects to be entitled in exchange for transferring promised goods or services, which is the transaction price. This amount excludes amounts received on behalf of third parties. The transaction price may consist of a fixed fee, a variable fee or a combination thereof. When determining the transaction price, the Company does not take credit risk into account. Any write-downs as a result of the credit risk are charged to the profit and loss account. In determining the transaction price, the Company assumes that the goods or services will be provided in accordance with the relevant agreement and that this agreement will not be cancelled, extended or otherwise modified. The Company measures a non-monetary consideration at fair value. When determining the transaction price, the Company takes into account, among other things, the effects of:

1 variable fees, due to discounts, returns, refunds, price concessions, performance bonuses, penalties or other similar elements that may vary in size. The Company estimates the amount of variable compensation as part of the total compensation and applies the prudence principle in doing so;

2 major financing components, where the Company adjusts the transaction price for the effects of the time value of money. In doing so, the Company applies an interest rate that is determined at the generally applicable interest rate for a comparable financing instrument of an issuer with a comparable credit rating or an interest rate that, when discounting the transaction price, results in the current spot selling price of the goods and services; and

3 payments to buyers of goods and services, which are accounted for as a reduction in the transaction price and therefore as a reduction in revenue, unless the payment to the buyer is made in exchange for a distinct good or service.

No revenue is recognized for all amounts received - or receivable - to which the Company does not expect to be entitled. The Company treats these received - or receivable - amounts in these cases as a repayment obligation. For the goods that are expected to be returned, the Company recognizes a return asset, which is presented as an accrual.
The Company recognizes revenue per separate performance obligation. A performance obligation is a commitment in a contract to supply:
- a distinct good or service or a combination of goods or services which are collectively distinguishable from other commitments in the contract; or
- a range of distinct services that are largely the same.

A promised good or promised service can be distinguished if the following criteria are met:
- the buyer can use the benefits of the goods or services independently, whether or not jointly with resources that the buyer has or can obtain; and
- the commitment to provide the goods or services is distinct from the other commitments contained in the contract.

If two or more commitments in a contract by the Company to provide goods or services are indistinguishable separately, the commitments are combined into a combination of goods or services that are collectively distinct from other commitments in the agreement.

In the event of multiple performance obligations in a contract, the total transaction price is allocated to the performance obligations in proportion to the value of the performance obligations. The Company bases this value on the stand-alone selling price per performance obligation. If the standalone sales price is not known, the Company uses estimates.

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, 2022 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 grants

Operating subsidies are recorded as income in the income statement in the year in which the subsidised costs were incurred or income was lost or when there was a subsidised operating deficit. Income is recognised when it is probable that it will be received. Received subsidies related to personnel expenses are recorded in the income statement as part of the personnel costs. The governmental support for COVID-19 is considered as a personnel related subsidy. Government taxes are recorded as expenses at the time alle conditions with regard to the applicable government tax have been met.

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.
The cash items disclosed in the cash flow statement comprise cash at banks and in hand except for deposits with a maturity longer than three months.

Cash flows denominated in foreign currencies have been translated at average estimated exchange rates. Exchange difference 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 usedin financing activities. Transactions nog resulting in inflow or outflow of cash, including finance leases, are not recognised in the cash flow statement.

The value of the related asset and lease liability are disclosed in the notes to the balance sheet items. Payments of finance lease installments as repayments or borrowings under cash used in financing actvities and as interest paid under cash generated from operating activities.

NOTES TO THE CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2022

(US $ in thousands)

FIXED ASSETS

1. Intangible fixed assets

	Development costs	Goodwill	Payments on account	Total
	$	$	$	$
Balance as at January 1, 2022				
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
Movement				
Investments	1,374,534	-	22,998	1,397,532
Amortization	-741,919	-80,288	-	-822,207
	632,615	-80,288	22,998	575,325
Balance as at December 31, 2022				
Purchase price	3,590,674	819,693	22,998	4,433,365
Cumulative depreciation and impairment	-1,467,144	-819,693	-	-2,286,837
	2,123,530	-	22,998	2,146,528

Amortisation rates

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

2. Tangible fixed assets

	Other fixed assets
	$
Balance as at January 1, 2022	
Purchase price	13,677,102
Cumulative depreciation and impairment	-9,459,237
	4,217,865
Movement	
Exchange difference purchase price	-12,156
Investments	1,503,393
Disposals	-1,465,477
Depreciation on disposals	1,173,538
Depreciation	-1,287,476
	-88,178
Balance as at December 31, 2022	
Purchase price	13,702,862
Cumulative depreciation and impairment	-9,573,175
	4,129,687

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.

	31-12-2022	31-12-2021
	$	$
Investments in other parties		
Investment in Artemis Therapeutics Inc.	100	100
Investment in Mesh Technologies Inc.	36,143	36,143
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	38,000	18,000
Investments in Justt Fintech Ltd (previously Acrocharge Ltd)	50,000	50,000
Investments in Nilus OS Ltd	25,000	-
	2,049,243	2,004,243

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

	2022	2021
	$	$
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 less than 1% of the issued shares and outstanding share capital of Artemis Therapeutics, Inc. (“ATMS”). On March 6, 2022, ATMS entered into a Share Exchange Agreement with Manuka Ltd. an the shareholders of Manuka Ltd., a company incorporated in Israel engaged in developing and manufacturing skincare products based on Manuka honey and bee venom. Following these agreements Manuka Ltd. became a wholly owned subsidiary of the ATMS. As the shareholders of Manuka Ltd. received the largest ownership interest in ATMS, Manuka Ltd. was determined to be the "accounting acquirer" in a reverse recapitalization.

The market value of the Company's investment in ATMS as of December 31, 2022 and 2021 is $146 and $120, 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 material revenue or profitable operations, the Company determined that the value of the investment is impaired and accordingly, valued the investment at zero.

	2022	2021
	$	$
Investment in Mesh Technologies Inc.		
Carrying amount as of 1 January	36,143	50,000
Disposals	-	-13,857
Balance as at 31 December	36,143	36,143

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.

	2022	2021
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 on January 1, 2025. Some Directors and managers of Arrow are related parties of the company.

	2022	2021
Investment in GreenFox Logistics LLC.		
Carrying amount as of 1 January	100,000	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.

	2022	2021
	$	$
Investment in SardineAI Corp.		
Carrying amount as of 1 January	50,000	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. In January 2023, the Company sold approximately 85% of its investment for a total amount of $756.

	2022	2021
Investments in Silver Circle One		
Carrying amount as of 1 January	18,000	-
Investments	20,000	18,000
Balance as at 31 December	38,000	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.

	2022	2021
Investments in Justt Fintech Ltd (previously Acrocharge Ltd)		
Carrying amount as of 1 January	50,000	-
Investments	-	50,000
Balance as at 31 December	50,000	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, 2022, 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.

	2022	2021
Investments in Nilus OS Ltd		
Carrying amount as of 1 January	-	-
Investments	25,000	-
Balance as at 31 December	25,000	-

	31-12-2022	31-12-2021
	$	$
Other receivables		
Long term deposits and guarantees	9,134,498	703,876
Deferred tax assets	1,518,265	1,403,368
Deposits at insurance companies	1,049,028	1,345,657
Other receivables	-	32,180
	11,701,791	3,485,081

	2022	2021
	$	$
Long term deposits and guarantees		
Carrying amount as of 1 January	703,876	592,517
Movement	8,430,622	111,359
Balance as at 31 December	9,134,498	703,876

	2022	2021
	$	$
Deferred tax assets		
Carrying amount as of 1 January	1,403,368	1,168,913
Movement	114,897	234,455
Balance as at 31 December	1,518,265	1,403,368

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, 2022, the Company has net operating losses carry forwards of $24,116k and carry forward interest of $5,982 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 $10,399k in the United States of America, which will expire in 2031 through 2037 except $3,059 which do not expire but can offset up to 80% of taxable income every year. In Israel, the Company has net carry forward losses of $1,910k which do not expire. The ultimate utilization of such net operating loss carry forwards is limited in certain situations.

As of December 31, 2022, the Company has capital loss carry forwards of $495k 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, 2022, 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, 2022 and 2021 the valuation allowance increased (decreased) by $1,872k and ($5,815k), respectively.

As of December 31, 2022 and 2021, there are $688k and $688k 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 2016 are subject to examination in the Netherlands. In the United States of America, income tax returns for the years since 2019 are subject to examination. Income tax returns for the tax years since 2017 are subject to examination in foreign jurisdictions.

	2022	2021
	$	$
Deposits at insurance companies		
Carrying amount as of 1 January	1,345,657	1,390,645
Movement	-296,629	-44,988
Long-term part as at 31 December	1,049,028	1,345,657

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.

	31-12-2022	31-12-2021
	$	$
Trade receivables		
Trade debtors	45,003,661	44,331,294
Less: provision for bad debt	-1,208,030	-991,259
	43,795,631	43,340,035

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.

Taxes and social securities		
Corporate income tax	112,381	40,980
VAT	1,759,479	691,227
Payroll taxes and social security charges	39,750	33,819
Salaries and wages	5,081	4,713
Other taxes	3,207	39,878
	1,919,898	810,617

Other receivables and accrued income		
Other receivables	4,260,000	12,167,274
Prepayments and accrued income	14,134,984	14,867,666
	18,394,984	27,034,940

	31-12-2022	31-12-2021
	$	$
Other receivables		
Receivable from the Dutch tax authorities (1)	-	9,067,200
Dutch Governmental support - COVID 19 (2)	4,260,000	66,498
Reimbursement of Fixed Costs (TVL)	-	2,606,820
Receivable Force Pro	-	226,680
Receivable from sale of shares Mesh Technologies Inc.	-	200,076
	4,260,000	12,167,274

(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 the Netherlands, the Company was eligible for payroll support.

Prepayments and accrued income		
Unbilled revenues	10,510,325	11,822,325
Others	3,624,659	3,045,341
	14,134,984	14,867,666

	31-12-2022	31-12-2021
	$	$
5. Cash and cash equivalents		
Current account	49,546,007	86,702,850
Restricted bank accounts	15,867,492	14,701,952
Deposit	25,767,990	2,239,818
Petty cash	30,629	43,964
Cash in transit	159,574	-
	91,371,692	103,688,584

Restricted cash as of December 31, 2022 consists of: (a) $279k held in bank accounts that serve as cash collateral for outstanding letters of credit, (b) $14,459k held in several bank accounts in the Netherlands, which is restricted for payments to local tax authorities and (c) $1,1239k secured for derivative instruments.

Equity and liabilities

6. Group equity

Group equity of ICTS International N.V.

Please refer to the notes to the non-consolidated balance sheet on page 64 of this report for an explanation of the equity.

	2022	2021
	$	$
(Redeemable) Non-controlling interests in subsidiaries		
Carrying amount as of 1 January	81,219,330	73,807,414
(Investment) Allocation non-controlling interests in subsidiaries	4,000	1,315,467
(Investment) Redeemable non-controlling interests	-395,331	6,096,449
Balance as at 31 December	80,827,999	81,219,330

As of December 31, 2022 and 2021, the non-controlling interests in subsidiaries amounts to $ (195,633) and $(199,633), respectively.

As of December 31, 2022 and 2021, the redeemable non-controlling interests amounts to $81,023,632 and $81,418,963 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.

7. Provisions

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%.

	2022	2021
Carrying amount as of 1 January	615,288	-
Allocation	-	615,288
Release	-530,404	-
Balance as at 31 December	84,884	615,288

	31-12-2022	31-12-2021
	$	$
Other provisions		
Legal proceedings	334,353	334,353
Restructuring provision	215,093	852,315
	549,446	1,186,668

	2022	2021
	$	$
Legal proceedings		
Carrying amount as of 1 January	334,353	-
Allocation	-	334,353
Balance as at 31 December	334,353	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 s of December 31, 2022 and 2021 of € 155k ($ 165k as of December 31, 2022) and € 155k ($176k as of December 31, 2021), respectively has been recognised.
2) Secupart - I-SEC acknowledge that they have a legal- and constructive obligation related to a claim of Secupart for not hiring external agents. As such, a provision as of December 31, 2022 and 2021 of € 140k ($ 149k as of December 1, 2022) and € 140k ($ 159k as of December 31, 2022) of € 140,000 has been recognised.

Restructuring provision		
Carrying amount as of 1 January	852,315	-
Allocation	-	852,315
Withdrawal	-637,222	-
Balance as at 31 December	215,093	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). As of December 31, 2022 an amount of € 202k ($ 215k as of December 31, 2022) is expected. We deem this amount sufficient to settle the obligation and concur.

8. Non-current liabilities

	2022	2021
	$	$
Payable to related party (convertible)		
Carrying amount as of 1 January	1,191,537	1,200,000
Repayments	-87,195	-8,463
Long-term part as at 31 December	1,104,342	1,191,537

The company has an agreement with an entity related to its main shareholder, to provide it with up to $ 3,000 in revolving loans through January 2022. The term of the arrangement can be automatically extended to 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. In connection with the arrangement, the holder was granted an option to convert the outstanding 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 December 2021, the loan was extended until January 2024, the loan amounted was reduced up to $2,000 and the interest rate was adjusted to 2.5% per annum.

The Company's weighted average interest during the years ended December 31, 2022 and 2021 is 2.5%, 7.10%, respectively.

As of December 31, 2022 and 2021, convertible notes payable to this related party consist of $1,104 and $1,192, respectively.

Total interest expense related to the note is $28 and $83 for the years ended December 2022 and 2021, respectively.

	31-12-2022	31-12-2021
	$	$
Other debt		
Long term payables to the Dutch tax authorities (1)	26,665,099	35,734,140
Severance pay liability (2)	1,794,385	1,631,078
Other	754,487	702,137
	29,213,971	38,067,355

(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

	31-12-2022	31-12-2021
Notes payable banks	121,918	198,859

Europe

The Company has an additional credit arrangement in Sweden to provide it with up to 4,000k SEK ($385k as of December 31, 2022) 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. As of December 31, 2022 and 2021, the Company had 1,196 SEK and 1,800 SEK ($122k and $199k as of December 31, 2022 and 2021) respectively in outstanding borrowing under the line of credit facility.

	31-12-2022	31-12-2021
	$	$
Trade creditors		
Creditors	8,720,469	5,857,084
Taxes and social securities		
Corporate income tax	6,005,403	6,278,514
VAT	7,702,537	6,453,463
Payroll taxes and social security charges	10,605,176	7,733,269
Salaries and wages	1,090,739	1,067,704
Other taxes	15,379	14,381
	25,419,234	21,547,331
Other liabilities, accruals		
Accruals	29,472,244	30,969,568
Accruals		
Provision for vacation allowances	10,628,379	9,953,029
Net wages and other related payroll costs	9,794,231	10,215,941
Bonuses	882,265	1,675,365
Provision commissions	150,000	1,371,169
Deferred revenue	3,569,877	2,239,351
Severance payments	500,276	713,417
Repayment NOW government subsidy for COVID-19	-	319,770
Other short term payables	3,947,216	4,481,526
	29,472,244	30,969,568

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, 2022, the Company has $8,249 in outstanding letters of credit. Such letters of credit are being secured by the same amounts in restricted cash with commercial banks.

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 ($3,191 as of December 31, 2022).

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, 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. The Company expects the investigator to provide his report to the court during 2023.

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.
On November 2022, the appeal court of Amsterdam rendered its judgement after reviewing all filings and a court hearing. The Court rejected the Company's request for disclosure of documents.

Long-term financial obligations

Operating leases

The Company leases certain premises under various operating leases. Maturities of operating lease liabilities as of December 31, 2022 were as follows:

2023	$ 4,361 million
2024	$ 3,398 million
2025	$ 1,570 million
2026	$ 1,050 million
Thereafter	$ 971 million

The total of the future minimum operating lease commitments amounts to $ 11,350 million.

Rent expense for the years ended December 31, 2022 and 2021 is $ 6.2 million and $ 6.0 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, 2022, 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, 193,000 options were granted by AU10TIX of which 0 options are fully vested as of December 31, 2022. The weighted average exercise price was $26.46 and the weighted average remaining contractual term as of December 31, 2022 is 5 years.

As of December 31, 2022, there are 282,625 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.

Foreign currency risk

The foreign currency policy is to retain the operational margin of the company. Therefore forward currency contracts are used in order to control foreign currency fluctuations.

Interest rate risk

Interest rate derivatives are used to control interest rate fluctuations in fixed and variable loans taken up and granted.

Market risk

The market risk for the company is insignificant.

Credit risk

Credit risks are reduced by doing solely business with third parties who have a high credit risk profile, for each entity a limit structure regarding credit risk profiles is formulated.

Liquidity risk

The risk of the company that future cash flows related to monetary financial instruments will flctuate in size is minimal, because the long-term receivables and debt have a fixed interest rate over the entire term.

NOTES TO THE CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

(US $ in thousands)

10. Net turnover
The revenues decreased in 2022 compared to 2021 with 0.1 %.

	2022	2021
	$	$
11. Net turnover		
Airport security	224,037,148	217,890,855
Other aviation related services	53,954,000	36,224,000
Technology	46,986,120	71,246,891
	324,977,268	325,361,746

The Company operates in four reportable segments:
(a) corporate;
(b) airport security
(c) other aviation related services; and
(d) 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 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 decreased from $325.4 million in 2021 to $325.0 million in 2022.

Revenue generated in Germany was $111.8 million in 2022 compared to $126.4 million in 2021.
Revenue generated in the Netherlands was $63.8 million in 2022 compared to $52.1 million in 2021.
Revenue generated in the United States of America was $88.3 million in 2022, compared to $94.7 million in 2021.
Revenue generated in Spain was $39.4 million in 2022, compared to $30.9 million in 2021.
Revenue in other countries was totaled $21.7 million in 2022 compared to $21.3 million in 2021.

	2022	2021
	$	$

12. Cost of sales

	2022	2021
Operational costs of labour	241,772,362	228,234,438
Other operational costs	36,164,073	27,288,053
Governmental grants	-7,992,275	-39,226,464
	269,944,160	216,296,027
Wages and salaries	182,403,382	167,388,811
Holiday allowances	12,104,476	14,846,748
Social securities	27,969,491	31,170,139
Pension premiums	2,693,908	2,919,813
Travel and parking expenses	3,534,426	3,949,517
Severance payments	931,946	1,463,813
Freelance / external employees	12,134,733	6,495,597
	241,772,362	228,234,438
Operational insurance expenses	3,022,390	1,924,069
Operational uniform and ID card expenses	1,371,210	1,466,780
Operational rent and other accommodation expenses	2,295,563	1,430,402
Operational car, lease and other equipments	5,324,052	4,510,400
Operational training and recruitment expenses	1,890,018	1,219,967
Operational IT and communication expenses	5,036,677	3,163,738
Research and development expenses	13,440,111	12,114,158
Other operational expenses	3,784,052	1,458,539
	36,164,073	27,288,053
NOW government subsidy for COVID-19	-4,426,815	-19,129,070
United Stated Treasury Payroll Support Program for COVID-19	-	-16,836,139
Grants for governmental social security contributions	-3,565,460	-3,261,255
	-7,992,275	-39,226,464
	269,944,160	216,296,027

	2022	2021
	$	$

13. Selling expenses

	2022	2021
Marketing, advertisements and other sales expenses	3,722,162	3,259,814

14. General & Administrative expenses

	2022	2021
Other staff expenses	35,127,432	29,749,266
Accommodation expenses	673,243	1,168,821
External service provider expenses	7,782,720	9,954,102
Amortisation / depreciation on (in)tangible fixed assets	1,714,946	2,401,190
IT expenses	2,381,191	2,423,519
Insurance expenses	361,413	412,111
General & other expenses	6,876,715	5,725,820
	54,917,660	51,834,829

Other staff expenses

	2022	2021
Wages and salaries	24,547,011	20,954,565
Social security charges	5,831,550	2,552,398
Pension premiums	539,779	628,172
Other components and costs	252,096	228,022
Freelance and external employees	3,956,996	5,386,109
	35,127,432	29,749,266

15. Financial income and expenses

	2022	2021
Interest and similar income	811,703	-
Changes in value of financial assets and of securities	-	455,618
Interest and similar expenses	-695,562	-1,242,995
	116,141	-787,377

Interest and similar income

	2022	2021
Hedging income	811,703	-

Changes in value of financial assets and of securities

	2022	2021
Value adjustment of receivables other participating interests	-	455,618

Value adjustment of receivables other participating interests

	2022	2021
Recognized gain related to Mesh Technologies, Inc.	-	186,219
Value adjustment of AU10Tix Group prior years	-	269,399
	-	455,618

	2022	2021
	$	$
Interest and similar expenses		
Bankcharges	-228,266	-411,767
Other financial costs	-7,333	-420,039
Exchange results	-88,856	-44,448
Capital loss	-342,993	-284,063
Interest related parties	-28,114	-82,678
	-695,562	-1,242,995

	2022	2021
	$	$

16. Tax on result

Corporate income tax	-1,983,481	-8,936,229
Corporate income tax prior years	202,547	-614,447
Movement of deferred tax assets	134,741	331,409
	-1,646,193	-9,219,267

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.

17. Minority interest

Minority interests Quality Detection Dogs Sweden AB	19,668	217,843
Minority interests AU10TIX Technologies B.V.	488,924	-6,892,907
	508,592	-6,675,064

Auditor's fees

Audit of the financial statements	129,500	115,690
Other audit services	42,750	38,700
Other non-audit services	19,500	17,395
	191,750	171,785

The table above sets forth the aggregate fees billed by independent registered public accounting girm, HLB Witlox Van den Boomen Audit N.V. (HLB). The fees mentioned in the table for the audit of the financial statement 2022 (2021) relate to the total fees for the audit of the financial statements 2022 (2021), irrespective of whether the activitities have been performed during the financial year 2022 (2021).

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.

7 OTHER DISCLOSURE

Staff

As of December 31, 2022, the Company has 6,466 employees (2021: 6,590), of which 4,421 (2021: 4,689) employees are located in Europe, Far East and Israel and 2,045 (2021: 1,592) are located in the United States of America.

COMPANY FINANCIAL STATEMENTS 2022

ICTS International N.V.
AMSTELVEEN

COMPANY BALANCE SHEET AS AT DECEMBER 31, 2022
(after appropriation of result and in US $ in thousands)

		31 December 2022		31 December 2021	
		$	$	$	$
ASSETS					
Fixed assets					
Tangible fixed assets	(18)				
Other fixed assets			72,609		155,345
Financial fixed assets	(19)				
Investments in other parties		1,999,243		1,954,243	
Other receivables		5,060		-	
			2,004,303		1,954,243
Current assets					
Receivables, prepayments and accrued income	(20)				
Receivables from group companies		24,128,576		26,375,737	
Taxes and social securities		56,060		46,483	
Other receivables and accrued income		80,174		380,060	
			24,264,810		26,802,280
Cash and cash equivalents	(21)		8,046,620		9,482,468
			34,388,342		38,394,336

		31 December 2022		31 December 2021	
		$	$	$	$
EQUITY AND LIABILITIES					
Equity	(22)				
Issued share capital		19,187,066		19,187,066	
Additional paid-in capital		25,604,374		25,844,546	
Revaluation reserve		-8,910,383		-8,701,649	
Legal reserves		2,865,450		1,490,915	
Other reserves		-38,621,118		-32,521,330	
			125,389		5,299,548
Provisions	(23)		31,579,428		30,868,002
Non-current liabilities	(24)				
Convertible notes, payable to related party		1,104,342		1,191,537	
Other debt		356,698		-	
			1,461,040		1,191,537
Current liabilities	(25)				
Trade creditors		377,699		173,135	
Loans from participations in group companies		-		11,364	
Taxes and social securities		32,941		194,323	
Other liabilities, accruals		811,845		656,427	
			1,222,485		1,035,249
			34,388,342		38,394,336

COMPANY INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2022

	2022	2021
	$	$
SHARE IN RESULT OF PARTICIPATING INTERESTS AFTER TAXES	-3,780,136	37,928,004
Other income and expenses after taxation	-945,117	-638,636
RESULT AFTER TAXATION	-4,725,253	37,289,368

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, 2022

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

Assets

FIXED ASSETS

18. Tangible fixed assets

	Other fixed assets
	$
Balance as at January 1, 2022	
Purchase price	341,711
Cumulative depreciation and impairment	-186,366
	155,345
Movement	
Investments	-12,156
Depreciation	-70,580
	-82,736
Balance as at December 31, 2022	
Purchase price	329,555
Cumulative depreciation and impairment	-256,946
	72,609

Depreciation rates

	%
Other fixed assets	15 - 33.33

19. Financial fixed assets

	2022	2021
	$	$
I-SEC Global Security B.V.		
Carrying amount as of 1 January	-15,456,994	-25,633,310
Exchange rate adjustments	963,880	1,561,962
Share in result	1,148,212	8,614,354
	-13,344,902	-15,456,994
Provision	13,344,902	15,456,994
Balance as at 31 December	-	-

	2022	2021
	$	$
ICTS USA Inc.		
Carrying amount as of 1 January	-13,190,286	-27,546,080
Share in result	-4,023,241	14,355,794
	-17,213,527	-13,190,286
Provision	17,213,527	13,190,286
Balance as at 31 December	-	-
AU10TIX Technologies B.V.		
Carrying amount as of 1 January	-30,867,227	-43,975,878
Exchange difference	-34,856	-1,890,372
Value decreases	-	-121,789
Share in result	-722,893	15,120,812
	-31,624,976	-30,867,227
Provision	31,624,976	30,867,227
Balance as at 31 December	-	-
TSAS Ltd		
Carrying amount as of 1 January	-5,598,433	-5,234,462
Exchange difference	661,821	-201,015
Conversion of shares	5,117,574	-
Share in result	-182,214	-162,956
	-1,252	-5,598,433
Provision	1,252	5,598,433
Balance as at 31 December	-	-

	31-12-2022	31-12-2021
	$	$
Investments in other parties		
Investment in Artemis Therapeutics Inc.	100	100
Investment in Mesh Technologies Inc.	36,143	36,143
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	38,000	18,000
Investments in Justt Fintech Ltd (previously Acrocharge Ltd)	50,000	50,000
Investments in Nilus OS Ltd	25,000	-
	1,999,243	1,954,243

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

Other receivables		
Long term deposits and guarantees	5,060	-

	2022	2021
	$	$
Long term deposits and guarantees		
Carrying amount as of 1 January	-	-
Movement	5,060	-
Balance as at 31 December	5,060	-

For the disclosure of the long term deposits we refer tot the disclosure of the long term deposits of the consolidated financial statements.

CURRENT ASSETS

20. Receivables, prepayments and accrued income

	31-12-2022	31-12-2021
	$	$
Receivables from group companies		
I-SEC Global Security B.V.	3,473,782	2,509,337
ICTS USA Inc.	20,654,794	23,866,400
	24,128,576	26,375,737

I-SEC Global Security B.V.

	2022	2021
	$	$
Carrying amount as of 1 January	17,996,331	19,336,714
Movements	-31,926	96,597
Exchange rate adjustments	-1,145,721	-1,466,980
	16,818,684	17,966,331
Provision	-13,344,902	-15,456,994
Balance as at 31 December	3,473,782	2,509,337

An interest rate of 0% (2021: 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.

	2022	2021
	$	$
Carrying amount as of 1 January	37,056,686	37,307,591
Additions	811,635	-
Repayments	-	-250,905
	37,868,321	37,056,686
Provision	-17,213,527	-13,190,286
Balance as at 31 December	20,654,794	23,866,400

An interest rate of 4% (2021: 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.

AU10TIX Technologies B.V.

Carrying amount as of 1 January	-	-
Additions	46,800	-
Provision	-46,800	-
Balance as at 31 December	-	-

An interest rate of 0% (2021: 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.

TSAS Ltd

Carrying amount as of 1 January	5,597,658	5,234,345
Conversion of shares	-5,117,574	-
Exchange rate adjustments	-653,858	-
Movements	173,774	363,313
Provision	-	-5,597,658
Balance as at 31 December	-	-

An interest rate of 4% (2021: 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.

	31-12-2022	31-12-2021
	$	$
Taxes and social securities		
VAT	50,979	41,770
Salaries and wages	5,081	4,713
	56,060	46,483

	31-12-2022	31-12-2021
	$	$
Other receivables and accrued income		
Other receivables	-	227,617
Prepayments and accrued income	80,174	152,443
	80,174	380,060

Other receivables		
Dutch Governmental support - COVID 19 (2)	-	27,541
Receivable from sale of shares Mesh Technologies Inc.	-	200,076
	-	227,617

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

Prepayments and accrued income		
Others	80,174	152,443

	31-12-2022	31-12-2021
	$	$
21. Cash and cash equivalents		
Current account	6,846,620	8,242,669
Deposit	1,200,000	1,239,799
	8,046,620	9,482,468

An amount of $ 1,200,000 is not freely disposable.

22. Equity

	31-12-2022	31-12-2021
	$	$
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, 2022 and 2021. 37,433,333 shares issued and outstanding as of December 31, 2022 and 2021.

	2022	2021
	$	$
Additional paid-in capital		
Carrying amount as of 1 January	25,844,546	25,624,686
Stock based compensation of AU10TIX Technologies B.V.	-240,172	240,172
Miscellaneous movement	-	-20,312
Balance as at 31 December	25,604,374	25,844,546
Revaluation reserve		
Carrying amount as of 1 January	-8,701,649	-6,266,416
Exchange rate adjustments	-208,734	-2,435,233
Balance as at 31 December	-8,910,383	-8,701,649
Reserve for research and development		
Carrying amount as of 1 January	1,490,915	451,499
Allocation	1,374,535	1,039,416
Balance as at 31 December	2,865,450	1,490,915
Other reserves		
Carrying amount as of 1 January	-32,521,330	-68,771,282
Allocation of financial year net result	-4,725,253	37,289,368
Allocation legal and statutory reserves	-1,374,535	-1,039,416
Balance as at 31 December	-38,621,118	-32,521,330

	31-12-2022	31-12-2021
	$	$

23. Provisions

Other provisions	31,579,428	30,868,002

Provision subsidiaries

AU10TIX Technologies B.V.	31,578,176	30,867,227
TSAS Ltd	1,252	775
	31,579,428	30,868,002

24. Non-current liabilities

	2022	2021
	$	$
Payable to related party (convertible)		
Carrying amount as of 1 January	1,191,537	1,200,000
Repayments	-87,195	-8,463
Long-term part as at 31 December	1,104,342	1,191,537

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

	31-12-2022	31-12-2021
	$	$
Other debt		
Long term payables to the Dutch tax authorities (1)	112,549	-
Severance pay liability (2)	244,149	-
	356,698	-

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

25. Current liabilities

Trade creditors

Creditors	377,699	173,135

Taxes and social securities

Payroll taxes and social security charges	32,941	194,323

	31-12-2022	31-12-2021
	$	$
Other liabilities, accruals		
Accruals	811,845	656,427
Accruals		
Provision for vacation allowances	273,661	213,281
Net wages and other related payroll costs	-	23,916
Other short term payables	538,184	419,230
	811,845	656,427

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, 2022

26. Result of participating interests

	2022	2021
	$	$
Share in result of I-SEC Global Security B.V.	1,148,212	8,614,354
Share in result of ICTS USA Inc.	-4,023,241	14,355,794
Share in result of AU10TIX Technologies B.V.	-722,893	15,120,812
Share in result of TSAS Ltd	-182,214	-162,956
	-3,780,136	37,928,004

OTHER DISCLOSURE NOTES

Subsequent events

The current, military events in Israel have social and economic impact on Israel, als on AU10TIX with regard to the availability of employees in future. The extent of the effects is currently unclear, but management is alert and tries to anticipate as much as possible.

Appropriation of the result for the 2021 financial year

The financial statements of 2021 have been adopted by the General Meeting held on December 28, 2022. The proposal of the appropriation of profits, as processed in the financial statements, have been approved.

Recognition of the loss for 2022

In accordance with the legal provisions, the loss of $ 4,725,253 over 2022 has been deducted from the other reserves. This proposal has been processed in the annual account in advance of the adoption by the General Meeting.

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, 2022:

Salaries, fees, commissions and bonuses in total $3,018k (2021: $2,975k).
- Supervisory Directors as a group (7 persons) $310k (2021: $304k); and
- Officers as a group (6 persons) $2,708k (2021: $2,671k).

Pension, retirement and other similar benefits $249k (2021: $332k).
- Supervisory Directors as a group (7 persons) $0 (2021: $0); and
- Officers as a group (6 persons) $249k (2021: $332k).

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, 2022 was $0.8 million.

Staff

During 2022, on average 3 employees were employed, converted to full-time equivalents (2021: 3).

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, 16 november 2023

Management Board:	Supervisory Directors:
R. Shaked	M. Atzmon
A. Raich	R. Atzmon
	G. Atzmon
	D.W. Sass
	P.M. Getter
	G.B.S. Hausmann
	G.F. Lieberman

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.

ICTS International N.V.
AMSTELVEEN

INDEPENDENT AUDITOR'S REPORT

To: The shareholders and the supervisory board of ICTS International N.V.

Report on the audit of the financial statements 2022 included in the annual report

Our opinion

We have audited the financial statements 2022 of ICTS International N.V., based in Amstelveen.

In our opinion the accompanying financial statements give a true and fair view of the financial position of ICTS International N.V. as at 31 December 2022 and of its result for 2022 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:
1. the consolidated and company balance sheet as at 31 December 2022;
2. the consolidated and company profit and loss account for 2022; and
3. the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of ICTS International N.V. in accordance with the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

HLB Witlox Van den Boomen Audit N.V.
HLB WVDB Audit
Burg. Burgerslaan 42 | P.O. box 402 | T: +31(0)73 528 77 77 | E: info@hlb-wvdb.nl
5245 NH Rosmalen | 5240 AK Rosmalen | F: +31(0)73 528 77 88 | CoC: 17187876

Audit approach fraud risks

We have identified and assessed the risks of material misstatements in the financial statements due to fraud. During our audit, we obtained an understanding of the entity and its environment, the components of the internal control system, including the risk assessment process, the way in which management responds to fraud risks and monitors the internal control system, and the way in wich oversight is exercised by those charged with governance, as well as the outcomes of this oversight.

We evaluated the design and relevant aspects of the internal control system, including the Code of Ethics and other relevant policies. We evaluated the design and existence, and as far as we deemed necessary, tested the operating effectiveness of internal control measures aimed at mitigating fraud risks.

As part of our process for identifying risks of material misstatements in the financial statements due to fraud, we considered fraud risk factors relating to fraudulent financial reporting, impropert appropriation of assets and bribery and corruption. We evaluated whether these factors were indicative of the presence of any risk of material misstatement due to fraud.

The fraud risks we identified and specific procedures carries out focus on the risk of management override of controls and the fraud risk associated with the accuracy and occurrence of revenue recognition. Theses risks are not so pervasive that we have paid significant attention to them, given the limited judgement and estimation uncertainty and the absence of significant events and/or transactions occuring during the reporting period.

We addressed the risk of management override of controls by selecting journal entries based on risk criteria, such as the manual journal entries on (cost of) sales, debtors, creditors and journal entries for estimates related to provisions and accruals, and performing audit procedures on such estimates by management.

Our procedures did not reveal any specific indications for fraud or suspected fraud with a potential material impact in respect to management override of controls.

The fraud risk associated with revenue recognition was firstly addressed by testing the operating effectiveness of the internal control measures for authorization of sales prices, and by selecting (manual) revenue entries based on risk criteria and performing a detailed check on the accuracy of sales prices and realized margins. Secondly, by performing substantive audit procedures related to occurrence of (cost of) sales supported by documentation, carrying out payment verification for debtors, performing substantive audit procedures on the cutoff, external confirmations and data analysis (such as job- shop time analysis) and credit notes testing in the period January 1 to February 1 after the end of the financial year.
Our procedures did not result in any specific indications for fraud or suspected fraud with a potential material impact in respect to accuracy and occurrence of revenue recognition.

Furthermore, we include an element of unpredictability in our audit. We also assessed the outcome of other audit procedures and considered whether there were any findings that were indicative of fraud or non-compliance with legislation and regulation.

We inspected the available information and requested information from members of the management board and the supervisory board. This did not lead to any signals of fraud that could lead to a material misstatement.

We also remained alert to indications of signals of fraud during the audit and evaluated the outcome of other audit procedures and considered whether there were any findings indicative of fraud. If this was the case, we reassessed our evaluation of the risk of fraud and its impact on our audit procedures.

Audit approach going concern

Management had performed its going concern assessment for the period of at least 12 months from the date of preparation of the financial statements and has not identified any events or circumstances that could cast reasonable doubt on the entity's ability to continue as a going concern. Our procedures to evaluate management's going concern assessment include:

- considering whether management's going concern assessment contains all relevant information known to us as a result of our audit and questioning management on key estimates and assumptions.
- evaluating the expected operating results and related cash flows for the period of at least 12 months from the date of preparation of the financial statements taking into account industry developments and our knowledge obtained during the audit;
- analysing whether the current and necessary funding for the entire business operation to be able to continue as a going concern is assured, including compliance with relevant convenants;
- obtaining informaton from management on its knowledge of any continuity risks beyond the period of the going concern assessment made by management.

Our audit procedures did not reveal any information that conflicts with management's estimates and assumptions on the going concern assumption made.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The management report;
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Description of responsibilities regarding the financial statements

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting, unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.
Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities. Decisive were the size and/or the risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Waalwijk, 16 november 2023

HLB Witlox Van den Boomen Audit N.V.

W.G. door:
R. Vos MSc RA

R. Vos MSc RA