ICTS INTERNATIONAL N.V.
Amstelveen

ANNUAL REPORT 2023

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

ENGAGEMENT

In accordance with your instructions we have audited the annual account 2023 of your company, including the non-consolidated balance sheet with counts of $ 34,169,269, the consolidated balance sheet with counts of $ 190,789,767 and the consolidated and non-consolidated profit and loss account with a result after taxes of $ 7,434,490.

For the audit opinion we refer to the chapter “Other information” on page 82 of this report.

<u>NO OPINION INCLUDED</u>

Because the activities of the provided engagement have not yet been completed, we are not allowed to include an opinion in this report.

DIRECTORS' REPORT

The directors hereby present the 2023 Annual Report for ICTS International N.V. and its subsidiaries.

Operations

ICTS International N.V. was registered at the Department of Justice in Amstelveen, Netherlands on October 9, 1992. ICTS International N.V. and Subsidiaries (collectively referred to as “ICTS” or “Company") operate in 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. Starting 2022, the Company has decided to separate between the Airport Security and the Other Aviation Related Services into two different segments. 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.

Legal structure and major shareholders

The following table sets forth certain information regarding ownership of the Company's Common Shares as of December 31, 2023 with respect to:

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

Name shareholders holding five percent or more	Percent of Amount Beneficially Owned (a)	Common shares Outstanding (a)
MacPherson Trust and its beneficiaries (b)	63.6%	23,818,861
Menachem J. Atzmon	13.0%	4,850,000
Igal Tabori	5.3%	2,002,483
All officers and directors as a group, the MacPherson Trust and its Beneficiaries (10 persons)	84.6%	31,680,721

(a) The amounts include Shares owned by each of the above, directly or indirectly.
(b) 1. The MacPherson Trust (“Trust”) was created for the benefit of the family of Mr. Menachem J. Atzmon. The Trust owns Spencer Corporation, Limited, which holds together with the Trust and its beneficiaries approximately 63.6% of the issued and outstanding Shares. Mr. Atzmon disclaims any beneficial interest in the MacPherson Trust. Spencer Corporation Limited and the MacPherson Trust and its beneficiaries together with Mr. Atzmon are able to appoint all the directors of ICTS and control the affairs of ICTS.

2. As of December 31, 2023 the Company has no convertible notes payable to a related party. However, there is a promissory note facility agreement with a related party in place under which agreement that related party, to the extent convertible notes are payable to it, has the right to convert up to 3,000,000 Shares into the Company's shares at a rate of $0.75 per share. The calculation above does not take into consideration the conversion of convertible notes.
3. As previously reported, the Company intends to repurchase the 3,000,000 shares issued to its directors and certain employees in 2019 at price of EUR 0.45 (or its equivalent in USD at the rate it was issued in 2019). During the Company's 2023 annual general meeting held on 20 December 2023, the General Meeting has authorized the Management Board to repurchase shares for this purpose once the Company's balance sheet test allows it according to Dutch law.

Airport Security Segment
Increase in revenue from the airport security segment from $224.0 million in 2022 to $309.3 million in 2023 relates to the recovery of the aviation industry from the COVID-19 crisis and overcome the shortage in manpower that affected the 2022 operations. As the majority of this segments operations are in Euros, the yearly results are being affected by the movements in exchange rates between the Euros and the US Dollars. The yearly average exchange rate for the year 2023 was 1.09 USD to 1.00 Euro compared to 1.05 USD to 1.00 Euro in 2022, representing an increase of approximately 3.5%.

The Company's net income from the airport security was $2.6 million in 2023 compared to $1.1 million in 2022. The main reason for the difference between 2023 and 2022 is the recovery of the aviation industry in 2023 which increased the demand for our services which was reflected in increase of revenue and profitability.

Other Aviation Related Services Segment
Increase in revenue from aviation related services segment from $54.0 million in 2022 to $66.5 million in 2023 relates to the recovery of the aviation industry from the COVID-19 crisis and overcome the shortage in manpower that affected the 2022 operations. In addition, in few states in the United States of America there have been some increases in minimum wages, which increase both our revenues and our labor costs, even though not always by the same amounts.

The Company's net income (loss) from the other aviation related services was $0.0 million in 2023 compared to $(2.2) million in 2022. The main reasons for the difference between 2023 and 2022 are the recovery of the aviation industry in 2023 which increased the demand for our services, reflected in increase of revenue and profitability, as well as some changes implemented in 2023 in the operations in order to improve efficiency.

Authentication Technology Segment
Revenue in 2023 from the authentication technology segment was $55.7 million compared to $47.0 million in 2022. The Company has been increasing its customers as well as increasing the services it provides to existing customers. The net profit (loss) from this segment amounted $11.3 million in 2023 compared to $(1.2) million in 2022. Increase in profitability in 2023 was a result of increase in revenue as well as changes in the segment structure and cutting of expenses.

Liquidity and Capital Resources

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

As of December 31, 2023 and 2022, the Company had cash, cash equivalents, restricted cash and bank deposits of $98.9 million and $91.3 million, respectively. As of December 31, 2023 and 2022, restricted cash were $9.7 million and $15.8 million which consist of collateral for our letters of credit, derivative instruments and restricted bank accounts in the Netherlands, which are restricted for payments to local tax authorities. As of December 31, 2023 and 2022, bank deposits were $51.4 million and $25.7 million, respectively.

As of December 31, 2023 and 2022, the Company had a working capital of $102.7. million and $92.5 million, respectively and shareholders' deficit of $8.3 million and $ 0.1 million, respectively. During the years ended December 31, 2023, 2022 and 2021, the Company incurred net income (loss) of $10.7 million, $(3.6) million and $53.9 million, respectively, and net cash flows provided by (used in) operating activities of $9.1 million, $(7.7) million and $55.2 million, respectively.

In September 2023 the Company signed a three-year credit facility for its American subsidiary with a maximum borrowing limit of $7.5 million. In addition, the Company has a line of credit in Sweden up to 4,000 SEK ($0.4 million as of December 31, 2023), as well as a loan facility in Spain for short term loans which was used during 2023 by taking loans for periods ranging between three to six months in a total amount of $2.9 million and which were fully repaid during the year.

The Company has an agreement with an entity related to its main shareholder, to provide it with up to $2.0 million in revolving loans through January 2026 with interest rate of 2.5% per annum. The lender can convert up to 3 million shares into the Company's shares at a price of $0.75 per share.

The Company's business plan projects profit from operations in 2024. The Company is dependent mostly in Europe and the United States of America for its businesses on the airline industry. ICTS is an employee intensive company.

The decisions taken in previous years by various governments following the COVID 19 situation have affected economic activity and the Company's business as following:

- During 2022 and 2021, governments in some of the countries in which we operate implemented the government assistance measures, which mitigated the impact of the COVID-19 outbreak on our results and liquidity. In the United States of America, the government has approved a payroll support of $0 and $15.9 million, for the years ended December 31, 2022 and 2021 to the American subsidiary of the Company. The American subsidiary recognized amounts of $0.0 million, $0.0 million and $16.9 million as reduction of labor expenses for the years ended December 31, 2023, 2022 and 2021, respectively.

- For the years ended December 31, 2022 and 2021, the Dutch government has provided financial assistance of €3.7 million and €18.1 million ($3.9 million and $22.6 million as of December 31, 2022 and 2021), respectively. The Dutch government terminated the support program in March, 2022.

- In the Netherlands wage tax, social security and VAT payments for the period March 2020 until September 2021 were postponed and have to be paid in 60 monthly installments, starting October 2022. The debt incurs annual interest starting July 2022 of 1% and increases every six months to a maximum of 4% starting on January 1, 2024 onwards. As of December 31, 2023 and 2022, the Company accumulated debt of €24.9 million and €31.8 million ($27.3 million and $33.8 million as of December 31, 2023 and 2022), respectively to the Dutch tax authorities.

- In Germany, the employees are eligible for payroll support up to 60% of the employee's payroll (on individual basis) in case the employees meet the support plan requirements. The Company pays to its German employees their full salary and the Company is being reimbursed by the German government for the payroll support amount. The Company applied for this support regarding COVID-19 starting from April 2020 to June 2021.

Cash Flow over the year

Cash flow from operating activities

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

Cash flow from investment activities

Net cash used in investing activities for the year ended December 31, 2023 was $0.9 million and consisted primarily of capital expenditures of $1.0 million offset mostly by proceeds received from sale of investments.

Net cash used in investing activities for the year ended December 31, 2022 was $2.7 million and consisted primarily of capital expenditures of $1.7 million and capitalization of software costs of $1.4 million.

Cash flow from financing activities

Net cash provided by financing activities for the year ended December 31, 2023 was $0.5 million which consisted of payments under the lines of credit and the convertible notes payable to a related party.

Net cash used in financing activities for the year ended December 31, 2022 was $1.6 million which consisted of repayments under the lines of credit and repayment of convertible notes payable to a related party.

Risk Factors

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

Labor concerns

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

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

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

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

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

Potential liability claims

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

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

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

Terrorism, war or risk of war

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

Loans from third parties

Our financing activities have consisted in the past of loans from banks and other third parties. Currently, two of the Company's subsidiaries have a line of credit and a loan facility, while the Company is looking for additional lines of credit for its other subsidiaries. There is no assurance that third parties will provide loans to the Company and even if loans are made, there is no assurance that the terms will be favorable to the Company.

Key personnel

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

Development of new technology

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

Acquiring or investing in other businesses

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

Cyber Security Measures

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

Competition

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

Operations in international environments risk

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

Our R&D facility is located in Israel and currently remain largely unaffected following the war declared in Israel and the military activity in the region. However, the duration, severity and global implications of these and other geopolitical conflicts that may arise in the future, cannot be predicted at this time and could have an effect on our business as impact of our employees who are military reservists being called to active military duty, and the impact of the war on the economic, social and political stability of Israel.

Governmental regulation

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

Legislation designed to protect privacy rights

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

Licenses for operations

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

Poor economic conditions

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

Inflation risk

In the last years, record levels of inflation have resulted in significant volatility and disruptions in the global economy. In response to rising inflation, central banks in the markets in which we operate, including the United States Federal Reserve, have tightened their monetary policies and raised interest rates, and such measures may continue if there is a period of sustained heightened inflation. Higher interest rates and volatility in financial markets could lead to additional economic uncertainty or recession. Increased inflation rates have increased our operating costs, mostly labor costs. There is no assurance that we will be able to promptly increase our pricing to offset our increased costs, or that our operations will not be materially impacted by rising inflation and its broader effects on the markets in which we operate in the future. We have implemented certain measures in response to such inflation pressures, including negotiating with major customers reimbursement for salary increase following the inflation adjustments in the employees’ salaries. There is no assurance that we will be fully or partly successful in those negotiations. In addition, the Company has a loan facility and a line of credit for two of its subsidiaries. The increased interest rates will increase the Company's financing costs. We are continuing to monitor the effects of inflation on our business performance and financial condition. However, we cannot accurately predict whether we will be able to effectively and timely mitigate their impact on our business.

Currency risk

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

Limitations in price share

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

Main shareholders

As of May 1st, 2024, the MacPherson Trust, its beneficiaries and Mr. M.J. Atzmon, own or control together approximately 76.6% of our issued and outstanding common stock (excluding conversion rights). Mr. Atzmon, the Chairman of the Supervisory Board, disclaims any benefit or interest in the MacPherson Trust. As a result of such ownership and conversion rights, the MacPherson Trust and its beneficiaries together with Mr. Atzmon are able to significantly influence and/or control all matters requiring shareholder approval including the election of directors and approval of significant corporate transactions. Such concentration may also have the effect of delaying or preventing a change in control. Their interests could conflict with yours. In addition, significant sales of shares held by them could have a negative effect on our stock price.

Dividends

There is no assurance the Company will pay any cash dividends on our common stock in the foreseeable future.

Quantitative and qualitative disclosure about market risk

Foreign Currency Exchange Risk - applies to our operations outside the USA. In 2023, approximately 23% of the Company's revenues were derived in the United States of America, and approximately 77% was derived in Europe and the Far East. The Company is subject to market risks associated with foreign currency exchange rate fluctuations. We utilize some derivative instruments to manage the exposure to currency risk relating salaries in Israel. As such, significant foreign currency exchange rate fluctuations can have a material impact of the Company's financial position, results of operations, and cash flows.

Interest Rate Risk – As the Company currently doesn't have in use any line of credit and the interest rate on convertible notes payable to a related party is fix, the Company is not subject to changes in interest rates based on Federal Reserve actions and/or general market conditions. The Company does not utilize derivative instruments to manage exposure to interest rate risk. As of December 31, 2023, an increase of 1% in the interest rate would increase the Company's interest expense for the Company's lines of credit with a maximum effect of $0.1 million.

Movements of investments

As of December 31, 2023, the Company owns less than 1% of the issued and outstanding share capital of Manuka, Inc. ("MNKA"). MNKA is a company incorporated in Israel engaged in developing and manufacturing skincare products based on Manuka honey and bee venom. The market value of the Company's investment in MNKA as of December 31, 2023 and 2022 is $0.0 million and $0.1 million, respectively. The Company evaluated the stock price of MNKA but as MNKA share price is low, the number of shares that are being traded is low and as MNKA 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.

In January 1, 2023, the Company sold its part in the JVC of Freezone I-SEC Korea Inc. and QDD in Sweden. At December 31, 2022 the Company wrote off $0.1 million of the investment to match the sale price. In August 2020, the Company invested an amount of $0.1 million in SardineAI Corp ("SardineAI"), a company incorporated in the USA. In return, the Company received preferred shares representing less than 1% of SardineAI equity. In January 2023, the Company sold approximately 85% of its investment for a total amount of $0.8 million.

In December 2019, the Company invested an amount of $1.8 million 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. Arrow is in discussions to build plants in various locations. The Company purchased few types of shares representing 22.6% of Arrow's equity for an amount of $22 thousand and shareholders loans were purchased for a price of $1.7 million ($4.1 million stated value less $2.4 million allowance for credit losses which have not changed since the acquisition). The Company uses the equity method for this investment. During the years ended December 31, 2023, 2022 and 2021, the Company recognized its share in Arrow losses in the amount of $0 million, $0 million and $1.0 million, respectively, from this investment. The Company suspended its use of the equity method to accounting for this investment in 2023 after its investment balance was reduced to zero. The Company has an agreement with an entity related to its main shareholder, according to which, if the value of the investment decreases, the related party entity has guaranteed to repurchase this full investment at a minimum amount of $1.8 million. The guarantee is effective immediately as of the date of purchase and terminates on January 1, 2025. Because of that the Company still evaluates this investment in its books according to the guarantee value of $1.8 million Some Directors, managers and shareholders of Arrow are related parties of the Company.

Research and Development Costs

Research and development costs in 2023 were $12.4 million or 2.9% of revenue, compared to $13.4 million or 4.1% of revenue in 2022. The authentication technology segment has been restructuring its operations in 2023 resulting in a decrease of the R&D costs, mostly because of less payroll costs.

Organization

Employees

As of December 31, 2023, the Company has 8,263 employees, of which 6,196 employees are located in Europe, Far East and Israel and 2,067 are located in the United States of America.

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

In June 2021, a minority shareholder initiated inquiry proceedings by requesting the Enterprise Chamber of the Amsterdam Court of Appeal to order an inquiry into few aspects of the policy and affairs of the Company that have been previously disclosed by the Company in its periodic filings with the SEC for the fiscal years 2020 and 2019 as well as in its financial statements. In June 2022, the Enterprise Chamber rendered its judgment and (i) it accepted the Company's defense on all items except two and ordered an investigation into those two aspects of the policy and affairs of the Company, being (a) the issuance of shares to directors and certain employees at USD 0.40 in May 2019 (the May 2019 Issuance) and (b) the adjustment of the conversion price under a convertible shareholder loan to USD 0.40 in May 2019 (the May 2019 Adjustment of the Issue Price), and (ii) appointed an investigator for this purpose.

Following the appointment of the investigator, the Company has completed an internal examination on the relevant subjects and provided the relevant findings to the investigator. In November 2023 the investigator concluded that (i) certain aspects of the Company's corporate governance and (ii) certain procedural aspects of the decision-making according to Dutch law on (a) the May 2019 Issuance and (b) the May 2019 Adjustment of the Issue Price were flawed. The investigator suggested several alternatives to correct these flaws and as a result, the Company has agreed to the following based on discussions with the Investigator and his recommendations:

(i) to bring more balance to the supervisory board by adding a new independent supervisory board member who is particularly attentive to the interests of minority shareholders and mindful of Dutch law;
(ii) to undo the May 2019 Issuance due to the flaws in procedural aspects of the decision-making; and
(iii) to undo the May 2019 Adjustment of the Issue Price due to the flaws in in procedural aspects of the decision-making.

In line with these recommendations the Company:

(i) ratified the resolutions on the May 2019 Issuance and the May 2019 Adjustment of the Issue Price, which have been approved by the General Meeting during the 2023 annual general meeting held on 20 December 2023;
(ii) has in accordance with Section 2:80(1) of the Dutch Civil Code called in the amounts not yet fully paid in under the previous years' issuances from the relevant shareholders totaling $514.
(iii) it approved the repurchase of shares issued under the May 2019 Issuance for the same price they were issued and by that the issuance will be undone. The Company will repurchase those shares as soon as the financials of the Company allow according to Dutch law.
(iv) has reverted the May 2019 Adjustment of the Issue Price so that the option price for the conversion option is $0.75per share.;
(v) has strengthened the supervisory board by appointing a Dutch board members, who have knowledge of Dutch law; and
(vi) has been and will continue to further strengthen its corporate governance through the amendment of its constitutional documents.

In addition, during the year ended December 31, 2023 the Company has (i) ratified the resolutions on the issuance of shares to directors and certain employees in April 2018 and October 2018, which have been approved by the General Meeting during the 2023 annual general meeting held on 20 December 2023, and (ii) in accordance with Section 2:80(1) of the Dutch Civil Code called in the amounts not yet fully paid in under the share issuances to directors and certain employees in September 2016 and December 2018 from the relevant shareholders.

Following the filing of the investigation report with the Enterprise Chamber in November 2023, the relevant minority shareholder has filed three new requests with the court, two of which the Enterprise Chamber already dismissed in full at the end of March 2024. The hearing of the third request, which is a request to establish mismanagement on the basis of the investigation and to order certain definitive measures at the Company is scheduled for mid-September 2024 and the Company has the opportunity to file a written statement of defense beforehand.

Inquiry proceedings revolve around corporate governance disputes and no formal liability can be established or damages can be claimed in such proceedings.

Climate change regulation

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

Well-balance between men and women in management board
On the basis of the “Wet Bestuur en Toezicht” (Code on Management and Supervision) the group needs to comply with the articles 2: 166 and 2: 276 of the Dutch Civil Code which include requirements for the well-balanced spread of the management board. As a result at least 30% of the available seats should be occupied by women. In the supervisory board is one woman seated out of eight seats. The only management board member is men. Next to the board level initiatives we promote well-balanced gender diversity in senior management positions.

Board practices

ICTS has a two tier board system, including a Supervisory Board and a Management Board. The Supervisory Board has the primary responsibility of supervising the policies of the Management Board and the general course of corporate affairs of ICTS and the business connected with it as well as to provide the Management Board with advice.

The Management Board is responsible for the day-to-day operations of ICTS. Members of the Supervisory Board and the Management Board are appointed by the general meeting for a term of one year.

Non-executive officers are appointed by and serve at the satisfaction of the Management Board.

The members of the Supervisory Board as of December 31, 2023 and the initial year they joined the Supervisory Board are as follows: Menachem Atzmon (1999), Ron Atzmon (2018), Gil Atzmon (2018), David W. Sass (2002), Philip M. Getter (2003), Gordon Hausmann (2005), Gail F. Lieberman (2010) and Ilan Nir (2023).

The Audit Committee consists of Philip M. Getter, Chairman, Gail F. Lieberman and Gordon Hausmann, all of whom are independent. Mr. Getter and Ms. Lieberman have financial expertise. The Audit Committee provides assistance and undertakes preparatory work for the Supervisory Board in its decision-making regarding the supervision of ICTS’ accounting and financial reporting processes and audits of the financial statements, in doing so the Audit Committee evaluates ICTS's accounting policies and practices and financial reporting and internal control structures, selection of independent auditors to audit ICTS’ financial statements and confers with the auditors and the officers. The Audit Committee has an Operating Charter as well, most recently adopted on 6 February 2024.

The members of the Audit Committee and Compensation Committee are all independent and were never officers or employees of the Company.

The Supervisory Board of the Company has adopted a Code of Ethics for principal executive officers, directors and senior financial officers.

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

Background and compensation philosophy

Our Compensation Committee consists of Gail Lieberman, Chairman, Gordon Hausmann and Ilan Nir, all of them independent directors.

The Compensation Committee is to assist and undertake preparatory work for the Supervisory Board in its decision-making in relation the compensation to be paid to members of the Management Board and (other) executive officers based on our financial and operating performance and prospects, the level of compensation paid to similarly situated executives in comparably sized companies, and contributions made by the officers to our success. Each of the named officers will be measured by a series of performance criteria by the Supervisory Board, or the Compensation Committee on a yearly basis. Such criteria will be set forth based on certain objective parameters such as job characteristics, required professionalism, management skills, interpersonal skills, related experience, personal performance and overall corporate performance.

Our Supervisory Board and Compensation Committee have not adopted or established a formal policy or procedure for determining the amount of compensation paid to our executive officers.

The Compensation Committee makes an independent evaluation of appropriate compensation of key employees, with input from management.

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

Elements of Compensation

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

Market developments and outlook 2024

I-SEC Group in general
Our current key markets are Germany, The Netherlands, and Spain. Our growth ambition includes, besides expanding the business in airport security and general security for critical infrastructure, a strong position on the cargo security market. For achieving this ambition, we have appointed a Global Cargo Coordinator since the end of 2022.

The shareholder and Senior Management decided to focus the efforts to continue growing the business on the strategically chosen business lines and profitable new contracts in the existing markets, contrary to the previous strategic intend to expand operations around the globe.
Early in 2024, the group initiated a reorganization at its I-SEC Head Quarters, which leads to more decentralization and empowerment towards the subsidiaries of I-SEC, reducing the HQ functions to a bare minimum and migrating to a Financial Holding set up. The new structure will empower subsidiaries with more responsibility emphasizing their importance and reflecting the trust, which the group's management as well as our shareholder have in the talent and dedication of our local management teams. The change aims to reduce bureaucracy and streamline decision-making. Decentralization will boost competitiveness in the local markets, helping our sales and marketing teams succeed in upcoming tenders. Overall, this shift will fuel our organization's growth.

Finally yet importantly, as we are a manpower company, counting with the quality staff and the correct number of people is crucial. We expect the workforce and employment will develop in line with the volume of the businesses and do not foresee having difficulties in recruiting the necessary staff in the near future as the labour market has normalized in 2023.

Based on our Budget for 2024 we believe the Group will increase its revenues compared to Last Year with a positive and reasonable EBITDA.
Our cash position will remain healthy, accommodating the payment of the current debts together with the repayment of the postponed taxes in The Netherlands as per the current schedule (60 monthly instalments). We are grateful that all our employees keep on working with such dedication and professionalism even in time of crisis, that it pleases our customers every day and attracts new customers who want to work with and for I-SEC.

Huntleigh

Huntleigh is operating in the United States of America and provides mostly aviation related services to airlines and airports. Huntleigh revenues increased from $ 54.0 million in 2022 to $ 66,5 million in 2023. The increase in revenue relates to few main reasons: an increase of the number of passengers traveling by air, the shortage in employees is being resolved as time pass by and an increase of minimum wages in different states in the United States which in one hand encourage people to go out to work and in the other hand force us to increase the billing rates, increasing the revenue. The intense competition on the aviation related services continue affecting the net profit (loss) of Huntleigh, which we don't expect it to recover in the foreseeable future.

AU10TIX

In 2023 the revenue of AU10TIX increased from $ 47.0 million in 2022 to $ 55.7 million in 2023. This is the result of increasing the numbers of customers by entering new agreements in 2023 and increase of services provided to existing customers. As a result, the profitability increased materially. The Company expects AU10TIX to continue its growth in the following years.

On behalf of ICTS International N.V.

A. Raich
Managing director

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2023

(after appropriation of results)

		31 December 2023		31 December 2022	
		$	$	$	$
ASSETS					
Fixed assets					
Intangible fixed assets	(1)		1,285,253		2,146,528
Tangible fixed assets	(2)				
Other fixed assets			3,933,174		4,129,687
Financial fixed assets	(3)				
Investments in other parties		2,007,243		2,049,243	
Other participating interests		-		130,442	
Other receivables		7,193,934		11,701,791	
			9,201,177		13,881,476
Current assets					
Receivables, prepayments and accrued income	(4)				
Trade receivables		50,699,989		43,795,631	
Taxes and social securities		1,926,455		1,919,898	
Other receivables and accrued income		24,756,088		18,394,984	
			77,382,532		64,110,513
Cash and cash equivalents	(5)		98,987,631		91,371,692
			190,789,767		175,639,896

		31 December 2023		31 December 2022	
		$	$	$	$
LIABILITIES					
Group equity	(6)				
Group equity of ICTS International N.V.		8,391,721		125,389	
(Redeemable) Non-controlling interests in subsidiaries		86,038,909		81,581,363	
			94,430,630		81,706,752
Provisions	(7)				
Deferred tax liability		85,127		84,884	
Other provisions		668,756		549,446	
			753,883		634,330
Non-current liabilities	(8)				
Convertible notes, payable to related party		-		1,104,342	
Other debt		21,952,840		29,213,971	
			21,952,840		30,318,313
Current liabilities	(9)				
Interest-bearing loans and borrowings		209,467		121,918	
Trade creditors		6,601,038		8,720,469	
Taxes and social securities		27,614,449		25,419,234	
Other liabilities, accruals		39,227,460		28,718,880	
			73,652,414		62,980,501
			190,789,767		175,639,896

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2023

		2023		2022	
		$	$	$	$
NET TURNOVER	(10)	431,541,642		324,977,268	
Cost of sales	(11)	363,869,847		269,944,160	
GROSS MARGIN			67,671,795		55,033,108
Selling expenses	(12)	3,736,227		3,722,162	
General & Administrative expenses	(13)	53,203,985		54,917,660	
SUM OF EXPENSES			56,940,212		58,639,822
OPERATING RESULT			10,731,583		-3,606,714
Financial income and expenses	(14)		873,064		116,141
RESULT FROM NORMAL OPERATIONS BEFORE TAX			11,604,647		-3,490,573
Tax on result	(15)		-1,745,297		-1,646,193
			9,859,350		-5,136,766
Result of participating interests			718,717		-97,079
RESULT FROM NORMAL OPERATIONS AFTER TAX			10,578,067		-5,233,845
Minority interest	(16)		-3,490,319		508,592
RESULT AFTER TAX			7,087,748		-4,725,253

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2023

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

	2023		2022	
	$	$	$	$
Cash flow from operating activities				
Operating result	10,731,583		-3,606,714	
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Amortization and depreciation	2,128,722		2,109,683	
Movement in provisions	119,310		-637,222	
Movements in working capital				
Movement of accounts receivable	-12,517,492		7,146,480	
Movement of short-term liabilities (excluding short-term part of long-term debts)	13,637,597		-10,199,235	
Cash flow from operating activities		14,099,720		-5,187,008
Interest received	2,280,097		811,703	
Interest paid	-1,407,033		-695,562	
Corporate income tax	-5,836,877		-2,636,006	
		-4,963,813		-2,519,865
Cash flow from operating activities		9,135,907		-7,706,873
Cash flow from investing activities				
Investments in intangible fixed assets	-50,663		-1,397,532	
Investments in tangible fixed assets	-1,023,099		-1,503,393	
Investments in other related parties	-		-175,442	
Disposal of tangible fixed assets	-		291,939	
Disposal of other relates parties	172,442		-	
Cash flow from investing activities		-901,320		-2,784,428
Cash flow from financing activities				
Issued shares premium reserve	1,213,961		-240,172	
Repayments of long term receivables	-1,800,060		328,809	
Issued loans of long term receivables	-		-1,770,000	
Borrowings (repayments) under lines of credit, net	-		52,350	
Cash flow from financing activities		-586,099		-1,629,013
Exchange and conversion differences		-32,549		-196,578
		7,615,939		-12,316,892

Compilation cash

	2023		2022	
	$	$	$	$
Compilation cash at 1 January		91,371,692		103,688,584
Movement of cash and cash equivalents		7,615,939		-12,316,892
Cash and cash equivalents at 31 December		98,987,631		91,371,692

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.

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 2023 until 31 December 2023.

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.

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, 2023 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
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
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 2023 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 2022 have been reclassified in order to make them comparable to 2023.

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.
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 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.
The accounting principles for the determination and recognition of impairments are included under the section 'Impairments of non-current assets'.

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 $1,388 and $1,550 as of December 31, 2023 and 2022, 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 $854 and $1,049 as of December 31, 2023 and 2022, 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, 2023 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, 2023

(US $)

FIXED ASSETS

1. Intangible fixed assets

	Development costs	Goodwill	Payments on account	Total
	$	$	$	$
Balance as at January 1, 2023				
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
Movement				
Investments	49,905	-	758	50,663
Amortization	-911,938	-	-	-911,938
	-862,033	-	758	-861,275
Balance as at December 31, 2023				
Purchase price	3,640,579	819,693	23,756	4,484,028
Cumulative depreciation and impairment	-2,379,082	-819,693	-	-3,198,775
	1,261,497	-	23,756	1,285,253

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, 2023	
Purchase price	13,702,862
Cumulative depreciation and impairment	-9,573,175
	4,129,687
Movement	
Exchange difference purchase price	-2,828
Investments	1,023,099
Depreciation	-1,216,784
	-196,513
Balance as at December 31, 2023	
Purchase price	14,723,133
Cumulative depreciation and impairment	-10,789,959
	3,933,174

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.

	31-12-2023	31-12-2022
	$	$
Investments in other parties		
Investment in Manuka, Inc. (Previously 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.	8,000	50,000
Investments in Silver Circle One	38,000	38,000
Investments in Justt Fintech Ltd (previously Acrocharge Ltd)	50,000	50,000
Investments in Nilus OS Ltd	25,000	25,000
	2,007,243	2,049,243

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

	2023	2022
	$	$
Investment in Manuka, Inc. (Previously Artemis Therapeutics, Inc.)		
Carrying amount as of 1 January	100	100
Balance as at 31 December	100	100

As of December 31, 2023 the Company owns less than 1% of the issued and outstanding share capital of Manuka, Inc. ("MNKA"). MNKA is a company incorporated in Israel engaged in developing and manufacturing skincare based on Manuka honey and bee venom. The market value of the Company's investment in MNKA as of December 31, 2023 and 2022 is $9k and $146k, respectively. The company evaluated the stock price of MNKA but as MNKA share price is low, the number of shares that are being traded is low and as MNKA still does not have any material revenue or profitable operations, the Company previously determined that the value of the investment is impaired and accordingly, valued the investment at zero.

Investment in Mesh Technologies Inc.		
Carrying amount as of 1 January	36,143	36,143
Balance as at 31 December	36,143	36,143

In January 2019, the Company invested an amount of $50k in Mesh Technologies, Inc. (“Mesh”), a company incorporated in the USA. 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.

	2023	2022
	$	$
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 22.6% 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. Because of that the Company still evaluates this investment in its books according to the guarantee value of $ 1,8 million. Some Directors and managers of Arrow are related parties of the company.

	2023	2022
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.

	2023	2022
Investment in SardineAI Corp.		
Carrying amount as of 1 January	50,000	50,000
Disposals	-42,000	-
Balance as at 31 December	8,000	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 $756k.

	2023	2022
	$	$
Investments in Silver Circle One		
Carrying amount as of 1 January	38,000	18,000
Investments	-	20,000
Balance as at 31 December	38,000	38,000

In December 2021, March 2022 and December 2022, the Company invested an amount of $38k 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.

Investments in Justt Fintech Ltd (previously Acrocharge Ltd)		
Carrying amount as of 1 January	50,000	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, 2023, 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.

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

In March 2022, the Company invested an amount of $25k in Nilus OS Ltd. ("Nilus"), a company incorporated in Israel. As of December 31, 2023, the investment represented less than 1% of the issued and outstanding share capital of Nilus. Nilus is a company that automates payment and financial workflows for platforms that involve transfers of money. As Nilus is a private, closely held company, there is no active market for this investment. Therefore, the Company measures the investment at cost minus impairment.

	31-12-2023	31-12-2022
	$	$
Other receivables		
Long term deposits and guarantees	4,601,833	9,134,498
Deferred tax assets	1,575,468	1,518,265
Deposits at insurance companies	853,692	1,049,028
Other receivables	162,941	-
	7,193,934	11,701,791

	2023	2022
	$	$
Long term deposits and guarantees		
Carrying amount as of 1 January	9,134,498	703,876
Movement	-4,532,665	8,430,622
Balance as at 31 December	4,601,833	9,134,498
Deferred tax assets		
Carrying amount as of 1 January	1,518,265	1,403,368
Movement	57,203	114,897
Balance as at 31 December	1,575,468	1,518,265

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, 2023, the Company has net operating losses carry forwards of $24,608k and carry forward interest of $4,901 in the Netherlands. These losses can be carried forward and do not expire but starting 2023 the yearly utilization is limited to one million Euro per year, plus 50% of the excess taxable income. As of December 31, 2023, the Company has net operating loss carry forwards of $8,924k in the United States of America, which will expire in 2031 through 2037 except $3,060 which do not expire but can offset up to 80% of taxable income every year.

As of December 31, 2023, 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.

As of December 31, 2023 and 2022, there are $86k 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.

	2023	2022
Deposits at insurance companies		
Carrying amount as of 1 January	1,049,028	1,345,657
Movement	-195,336	-296,629
Long-term part as at 31 December	853,692	1,049,028

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.

	31-12-2023	31-12-2022
	$	$
Trade receivables		
Trade debtors	51,459,267	45,003,661
Less: provision for bad debt	-759,278	-1,208,030
	50,699,989	43,795,631

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

	31-12-2023	31-12-2022
Taxes and social securities		
Corporate income tax	866,908	112,381
VAT	959,952	1,759,479
Payroll taxes and social security charges	60,527	39,750
Salaries and wages	5,622	5,081
Other taxes	33,446	3,207
	1,926,455	1,919,898

	31-12-2023	31-12-2022
Other receivables and accrued income		
Other receivables	512,000	4,743,000
Prepayments and accrued income	24,244,088	13,651,984
	24,756,088	18,394,984

	31-12-2023	31-12-2022
Other receivables		
German authorities	512,000	483,000
Dutch Governmental support - COVID 19	-	4,260,000
	512,000	4,743,000

In Germany, the employees are eligible for payroll support. The company pays to its German employees their full salary and the Company is being reimbursed by the German government for the payroll support amount. In the Netherlands, the Company was eligible for payroll support.

	31-12-2023	31-12-2022
	$	$
Prepayments and accrued income		
Unbilled revenues	19,742,076	10,510,325
Interest from bank deposit	529,000	-
Prepaid uniforms	712,000	811,000
Prepaid insurance	532,000	536,000
Prepaid licenses	541,000	139,000
Others	2,188,012	1,655,659
	24,244,088	13,651,984

5. Cash and cash equivalents

	31-12-2023	31-12-2022
	$	$
Current account	37,695,332	49,546,007
Restricted bank accounts	9,766,339	15,867,492
Deposits	51,495,567	25,767,990
Petty cash	30,393	30,629
Cash in transit	-	159,574
	98,987,631	91,371,692

Restricted cash as of December 31, 2023 consists of: (a) $2,980k held in bank accounts that serve as cash collateral for outstanding letters of credit, (b) $6,036k held in several bank accounts in the Netherlands, which is restricted for payments to local tax authorities and (c) $750k 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 75 of this report for an explanation of the equity.

	2023	2022
	$	$
(Redeemable) Non-controlling interests in subsidiaries		
Carrying amount as of 1 January	81,581,363	81,972,694
(Investment) Allocation non-controlling interests	910,451	4,000
(Investment) Redeemable non-controlling interests	3,547,095	-395,331
Balance as at 31 December	86,038,909	81,581,363

As of December 31, 2023 and 2022, the non-controlling interests related to stock option plan in subsidiaries amounts to $1,468,183 and $753,364, respectively.

As of December 31, 2023 and 2022, the non-controlling interests in subsidiaries amounts to $0 and ($195,633), respectively.

As of December 31, 2023 and 2022, the redeemable non-controlling interests amounts to $84,991,908 and $81,023,632.

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 19,00%.

	2023	2022
Carrying amount as of 1 January	84,884	615,288
Mutation	243	-530,404
Balance as at 31 December	85,127	84,884

	31-12-2023	31-12-2022
	$	$
Other provisions		
Legal proceedings	502,866	334,353
Restructuring provision	165,890	215,093
	668,756	549,446

	2023	2022
	$	$
Legal proceedings		
Carrying amount as of 1 January	334,353	334,353
Mutation	168,513	-
Balance as at 31 December	502,866	334,353

1) FNV - I-SEC recorded an obligation related to a claim of the FNV (federation of Dutch Trade Unions). As such, a provision of December 31, 2023 and 2022 of € 155k ($ 170k as of December 31, 2023) and € 155k ($ 165k as of December 31, 2022) respectively has been recognised.

2) Secupart - I-SEC recorded an obligation related to a claim of Secupart for not hiring external agents. As such, a provision for 2022 of € 140k ($149k as of December 31, 2022) has been recognised.

The provision has been increased to an amount of € 300k ($ 332k as of December 31, 2023).

Restructuring provision		
Carrying amount as of 1 January	215,093	852,315
Mutation	-49,203	-637,222
Balance as at 31 December	165,890	215,093

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 a restructuring provision has been accounted as of December 31, 2023 of € 150k ($ 165k as of December 31, 2023).

8. Non-current liabilities

	2023	2022
	$	$
Payable to related party (convertible)		
Carrying amount as of 1 January	1,104,342	1,191,537
Repayments	-1,104,342	-87,195
Long-term part as at 31 December	-	1,104,342

The company has an agreement with an entity related to its main shareholder, to provide it with up to $ 2,000 in revolving loans through January 2024. 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 2.5%. In connection with the arrangement, the holder was granted in May 2019 an option to convert up to $2,000 of the loan into maximum of 5,000,000 shares at a price of $0.4 per share. In October 2020, the entity converted $800 into 2,000,000 shares. In November 2023 the Company and the related party agreed to extend the length of the note until January 206 and to adjust the terms of the option to convert the loan into maximum 5,000,000 shares at a price of $0.75 per share. As a result, an adjustment was made to the per share price of the 2,000,000 shares issued in October 2020 conversion, resulting in an amount of $700k of the loan derecognize with a corresponding increase to the additional paid in capital.

The Company's weighted average interest during the years ended December 31, 2023 and 2022 is 2.5% and 2.50%, respectively.

As of December 31, 2023 and 2022, convertible notes payable to this related party consist of $ 0 and $1,104,342 respectively.

Total interest expense related to the note is $21k and $28k for the years ended December 2023 and 2022, respectively.

	31-12-2023	31-12-2022
	$	$
Other debt		
Long term payables to the Dutch tax authorities (1)	20,056,000	26,665,099
Severance pay liability (2)	1,838,144	1,794,385
Other	58,696	754,487
	21,952,840	29,213,971

(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 increases 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

	31-12-2023	31-12-2022
	$	$
Interest-bearing loans and borrowings		
Notes payable banks	209,467	121,918

United States of America
The Company's U.S. subsidiary secured a three-year credit with its primary bank in September, 2023. The credit facility has a maximum borrowing base limit of $7,500. The borrowing base limitation is equivalent to: (i) 85% of eligible non-investment grade receivables and 90% of eligible investment grade receivables, plus (ii) 80% of direct labor payroll for the previous two pay periods plus 20%. The company is required to maintain a fixed charge ratio of 1.00. Borrowings on the credit facility are subject to interest at SOFR plus 2.65% and a minimum annual interest charge of $60. As of December 31, 2023, the Company has not yet borrowed funds under the credit facility and the unused available amount of the line is $7,500.

Europe

The Company has a credit arrangement in Sweden to provide it with up to 4,000k SEK ($398k as of December 31, 2023) 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, 2023 and 2022, the Company had 2,098 SEK and 1,196 SEK ($209k and $115k as of December 31, 2023 and 2022) respectively in outstanding borrowing under the line of credit facility.

On November 2023, the Company entered into a loan agreement with a commercial bank in Spain to provide it with up to €1,000 ($1,099 as of December 31, 2023). Interest rate will be determined by the bank at the time the loan will be taken. The loan agreement expires in November 2024. As of December 31, 2023 the Company had no outstanding balance under the loan agreement.

During the year ended December 31, 2023 the Company has been taking from time to time revolving short term loans from the same commercial bank, of variable amounts. The loans ranged between €250 to €1,415 ($274 and $1,555 as of December 31, 2023) with interest rates between 5.25% to 5.90% and for periods between three to six months. On December 2023, an agreement with the commercial bank was extended, to provide loans up to €1,500 ($1,648 as of December 31, 2023). These loans can be used only for paying different taxes to the Spanish tax authorities. The interest rate is being determined at the time the loans are being taken. The loan agreement can be terminated by both sides at any time. As of December 31, 2023 there are no outstanding balances regarding those loans.

The Company’s weighted average interest rate in Europe during the years ended December 31, 2023 and 2022, was 4.7% and 2.8% respectively.

Trade creditors		
Creditors	6,601,038	8,720,469

	31-12-2023	31-12-2022
	$	$
Taxes and social securities		
Corporate income tax	2,725,310	6,005,403
VAT	10,758,776	7,702,537
Payroll taxes and social security charges	12,534,462	10,605,176
Salaries and wages	1,574,708	1,090,739
Other taxes	21,193	15,379
	27,614,449	25,419,234
Other liabilities, accruals		
Accruals	39,227,460	28,718,880
Accruals		
Provision for vacation allowances	11,805,829	10,628,379
Net wages and other related payroll costs	11,129,866	9,794,231
Bonuses	2,384,178	882,265
Provision commissions	256,326	150,000
Deferred revenue	9,988,901	3,569,877
Severance payments	490,245	500,276
Other short term payables	3,172,115	3,193,852
	39,227,460	28,718,880

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, 2023, the Company has $7,215k in outstanding letters of credit. Such letters of credit are being secured by the same amounts in restricted cash with commercial banks or with deposits provided to customers which serve as a collateral in order to guarantee the performance and quality of services provided to the customers.

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 €3,000k ($3,297k as of December 31, 2023).

Future contractual obligations

As per December 31, 2023 there is a committed liability to repurchase shares for an amount of $1,518k. We refer to the "legal proceedings" hereinafter for the occasion.

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
In June 2021, a minority shareholder initiated inquiry proceedings by requesting the EnterpriseAmsterdam Court of Appeal to order an inquiry into have been previously disclosed by the Company in its periodic filings with the SEC for the fiscal years 2020 and 2019 as well as in its financial statementsaccepted the Company’s defense on all items except two and ordered an investigation into those two aspects of the policy and affairs of the Company, being (a) the issuance of shares to directors and certain employees at USD 0.40 in May 2019 (the May 2019 Issuance) and (b) the adjustment of the conversion price under a convertible shareholder loan to USD 0.40 in May 2019 (the May 2019 Adjustment of the Issue Price), and (ii) appointed an investigator for this purpose.

Following the appointment of the investigator, the Company has completed an internal examination on the relevant subjects and provided the relevant findings to the investigator. In November 2023 the investigator concluded that (i) certain aspects of the Coprocedural aspects of the decision-making according to Dutch law on (a) the May 2019 Issuance and (b) the May 2019 Adjustment of the Issue Price were flawed. The investigator suggested several alternatives to correct these flaws and as a result, the Company has agreed to the following based on discussions with the Investigator and his recommendations:
(i) to bring more balance to the supervisory board by adding a new independent supervisory board member who is particularly attentive to the interests of minority shareholders and mindful of Dutch law;
(ii) to undo the May 2019 Issuance due to the flaws in procedural aspects of the decision making; and
(iii) to undo the May 2019 Adjustment of the Issue Price due to the flaws in in procedural aspects of the decision-making.

In line with these recommendations the Company:
(i) ratified the resolutions on the May 2019 Issuance and the May 2019 Adjustment of the Issue Price, which have been approved by the General Meeting during the 2023 annual general meeting held on 20 December 2023;
(ii) has in accordance with Section 2:80(1) of the Dutch Civil Code called in the amounts not yet fully paid in under the previous years' issuances from the relevant shareholders totaling $514.
(iii) it approved the repurchase of shares issued under the May 2019 Issuance for the same price they were issued and by that the issuance will be undone. The Company will repurchase those shares as soon as the financials of the Company allow according to Dutch law.
(iv) has reverted the May 2019 Adjustment of the Issue Price so that the option price for the conversion option is $0.75per share.;
(v) has strengthened the supervisory board by appointing a Dutch board members, who have knowledge of Dutch law; and
(vi) has been and will continue to further strengthen its corporate governance through the amendment of its constitutional documents.

In addition, during the year ended December 31, 2023 the Company has (i) ratified the resolutions on the issuance of shares to directors and certain employees in April 2018 and October 2018, which have been approved by the General Meeting during the 2023 annual general meeting held on 20 December 2023, and (ii) in accordance with Section 2:80(1) of the Dutch Civil Code called in the amounts not yet fully paid in under the share issuances to directors and certain employees in September 2016 and December 2018 from the relevant shareholders.

Following the filing of the investigation report with the Enterprise Chamber in November 2023, the relevant minority shareholder has filed three new requests with the court, two of which the Enterprise Chamber already dismissed in full at the end of March 2024. The hearing of the third request, which is a request to establish mismanagement on the basis of the investigation and to order certain definitive measures at the Company is scheduled for mid-September 2024 and the Company has the opportunity to file a written statement of defense beforehand.

Inquiry proceedings revolve around corporate governance disputes and no formal liability can be established or damages can be claimed in such proceedings.

Long-term financial obligations

Operating leases

The Company leases certain premises under various operating leases. Maturities of operating lease liabilities as of December 31, 2023 were as follows:

2024	$ 4,187 million
2025	$ 1,738 million
2026	$ 1,147 million
2027	$ 775 million
Therafter	$ 249 million

The total of the future minimum operating lease commitments amounts to $ 8,096 million.

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, 2023, 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. During the year ended December 31, 2021, 193,000 options were granted by AU10TIX. The non-vested options as of December 31, 2023 are 469,125. The weighted average exercise price was $0.67 and the weighted average remaining contractual term as of December 31, 2023 is 6 years.

As of December 31, 2023, there are 389,500 options outstanding and exercisable.

During the years ended December 31, 2023, 2022 and 2021, there was $714, $513 and $350 of compensation expenses.

As of December 31, 2023 and 2022, the Company has $2,502 and $374, respectively of unrecognized compensation cost related to stock options.

In 2024, the Company is working to issue shares to employees that asked to exercise their options. As of May 1, 2024, 266,750 options will be exercised to shares.

Financial instruments

General

For the notes to the primary financial instruments, reference is made to the specific item-by-item explanation. 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 fluctuate 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, 2023

(US $)

	2023	2022
	$	$
10. Net turnover		
Airport security	309,334,704	224,037,148
Other aviation related services	66,463,000	53,954,000
Technology	55,743,938	46,986,120
	431,541,642	324,977,268

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 increased from $325.0 million in 2022 to $431.5 million in 2023.

Revenue generated in Germany was $114.2 million in 2023 compared to $111.8 million in 2022.
Revenue generated in the Netherlands was $101.5 million in 2023 compared to $63.8 million in 2022.
Revenue generated in the United States of America was $99.7 million in 2023, compared to $88.3 million in 2022.
Revenue generated in Spain was $82.2 million in 2023, compared to $39.4 million in 2022.
Revenue in other countries was totaled $33.9 million in 2023 compared to $21.7 million in 2022.

	2023	2022
	$	$
11. Cost of sales		
Operational costs of labour	324,800,617	241,772,362
Other operational costs	39,069,230	36,164,073
Governmental grants	-	-7,992,275
	363,869,847	269,944,160
Wages and salaries	225,787,640	182,403,382
Holiday allowances	25,440,786	12,104,476
Social securities	42,142,180	27,969,491
Pension premiums	3,594,105	2,693,908
Travel and parking expenses	4,030,493	3,534,426
Severance payments	1,178,092	931,946
Freelance / external employees	22,627,321	12,134,733
	324,800,617	241,772,362
Cost of goods sold	1,439,699	-
Operational insurance expenses	3,545,312	3,022,390
Operational uniform and ID card expenses	2,343,098	1,371,210
Operational rent and other accommodation expenses	2,705,429	2,295,563
Operational car, lease and other equipments	6,158,059	5,324,052
Operational training and recruitment expenses	1,759,593	1,890,018
Operational IT and communication expenses	5,126,817	5,036,677
Research and development expenses	12,432,665	13,440,111
Other operational expenses	3,558,558	3,784,052
	39,069,230	36,164,073
NOW government subsidy for COVID-19	-	-4,426,815
Grants for governmental social security contributions	-	-3,565,460
	-	-7,992,275
	363,869,847	269,944,160

I-SEC Nederland B.V. has applied for government grants (Noodmaatregel Overbrugging Werkgelegenheid, NOW) for the amount of € 0 in 2023 (2022: € 4,204k ($4,427k as of December 31, 2022)). For 2022, it consists of NOW 6.

These support grants are temporary governmental compensation for labour costs and is granted to companies who lost a substantial amount of income due to the pandemic. I-SEC complied with the following conditions for the 2022 (and 2021) financial years with regards to the NOW subsidies: no distribution of dividends, no buy back of shares, no payment of bonuses to the Board and provididing of training and development to personnel. Certain aspects with regards to the decrease in revenue and personnel development costs relating to the government grants (NOW) are subject to an external audit, all have been finalised.

	2023	2022
	$	$
12. Selling expenses		
Marketing, advertisements and other sales expenses	3,736,227	3,722,162
13. General & Administrative expenses		
Other staff expenses	33,486,877	35,127,432
Accommodation expenses	795,008	673,243
External service provider expenses	4,967,563	7,782,720
Amortisation / depreciation on (in)tangible fixed assets	1,732,158	1,714,946
IT expenses	2,579,816	2,381,191
Insurance expenses	402,704	361,413
General & other expenses	9,239,859	6,876,715
	53,203,985	54,917,660
Other staff expenses		
Wages and salaries	26,948,486	24,547,011
Social security charges	3,321,530	5,831,550
Pension premiums	585,179	539,779
Other components and costs	269,654	252,096
Freelance and external employees	2,362,028	3,956,996
	33,486,877	35,127,432
14. Financial income and expenses		
Interest and similar income	2,280,097	811,703
Interest and similar expenses	-1,407,033	-695,562
	873,064	116,141
Interest and similar income		
Interest bank	1,791,484	-
Hedging income	488,613	811,703
	2,280,097	811,703
Interest and similar expenses		
Bankcharges	-	-228,266
Interest Tax Authorities	-1,182,500	-
Exchange results	-127,011	-88,856
Capital loss	-61,936	-342,993
Interest related parties	-	-28,114
Other interest payable	-35,586	-7,333
	-1,407,033	-695,562

	2023	2022
	$	$
15. Tax on result		
Corporate income tax	-2,556,173	-1,983,481
Corporate income tax prior years	753,673	202,547
Movement of deferred tax assets	57,203	134,741
	-1,745,297	-1,646,193

The applicable taxation rate for the Dutch taxes varies between 19-25,8%. ICTS International N.V. together with Dutch Subsidiaries of I-SEC 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.

	2023	2022
16. Minority interest		
Minority interests Quality Detection Dogs Sweden AB	-	19,668
Minority interests AU10TIX Technologies B.V.	-3,490,319	488,924
	-3,490,319	508,592
Auditor's fees		
Audit of the financial statements	154,000	129,500
Other audit services	39,600	42,750
Other non-audit services	19,600	19,500
	213,200	191,750

The table above sets forth the aggregate fees billed by independent registered public accounting firm, Newtone Audit N.V. The fees mentioned in the table for the audit of the financial statement 2023 (2022) relate to the total fees for the audit of the financial statements 2023 (2022), irrespective of whether the activitities have been performed during the financial year 2023 (2022).

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, 2023, the Company has 8,263 employees (2022: 6,960), of which 6,196 (2022: 5,299) employees are located in Europe, Far East and Israel and 2,067 (2022: 1,651) are located in the United States of America.

COMPANY FINANCIAL STATEMENTS 2023

COMPANY BALANCE SHEET AS AT DECEMBER 31, 2023
(after appropriation of result and in US $ in thousands)

		31 December 2023		31 December 2022	
		$	$	$	$
ASSETS					
Fixed assets					
Tangible fixed assets	(17)				
Other fixed assets			69,604		72,609
Financial fixed assets	(18)				
Participations in group companies		323,791		-	
Investments in other parties		1,999,243		1,999,243	
Other receivables		5,316		5,060	
			2,328,350		2,004,303
Current assets					
Receivables, prepayments and accrued income	(19)				
Receivables from group companies		14,366,614		24,128,576	
Taxes and social securities		116,016		56,060	
Other receivables and accrued income		174,865		80,174	
			14,657,495		24,264,810
Cash and cash equivalents	(20)		17,113,820		8,046,620
			34,169,269		34,388,342

	Note	31 December 2023		31 December 2022	
		$	$	$	$
EQUITY AND LIABILITIES					
Equity	(21)				
Issued share capital		19,187,066		19,187,066	
Additional paid-in capital		26,818,335		25,604,374	
Revaluation reserve		-8,945,760		-8,910,383	
Legal reserves		1,261,497		2,865,450	
Other reserves		-29,582,675		-38,621,118	
			8,738,463		125,389
Provisions	(22)		24,024,168		31,579,428
Non-current liabilities	(23)				
Convertible notes, payable to related party		-		1,104,342	
Other debt		305,901		356,698	
			305,901		1,461,040
Current liabilities	(24)				
Trade creditors		521,903		377,699	
Loans from participations in group companies		21,631		-	
Taxes and social securities		1,853		32,941	
Other liabilities, accruals		555,350		811,845	
			1,100,737		1,222,485
			34,169,269		34,388,342

COMPANY INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2023

	2023	2022
	$	$
SHARE IN RESULT OF PARTICIPATING INTERESTS AFTER TAXES	8,791,946	-3,780,136
Other income and expenses after taxation	-1,357,456	-945,117
RESULT AFTER TAXATION	7,434,490	-4,725,253

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, 2023

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

Assets

FIXED ASSETS

17. Tangible fixed assets

	Other fixed assets
	$
Balance as at January 1, 2023	
Purchase price	329,555
Cumulative depreciation and impairment	-256,946
	72,609
Movement	
Exchange difference purchase price	-2,828
Investments	5,202
Depreciation	-5,379
	-3,005
Balance as at December 31, 2023	
Purchase price	331,929
Cumulative depreciation and impairment	-262,325
	69,604

Depreciation rates

	%
Other fixed assets	15 - 33.33

18. Financial fixed assets

	31-12-2023	31-12-2022
	$	$
Participations in group companies		
I-SEC Global Security B.V.	323,791	-

	2023	2022
	$	$
I-SEC Global Security B.V.		
Carrying amount as of 1 January	-13,344,902	-15,456,994
Exchange rate adjustments	-557,515	963,880
Conversion of shares	11,303,395	-
Share in result	2,922,813	1,148,212
	323,791	-13,344,902
Provision	-	13,344,902
Balance as at 31 December	323,791	-
ICTS USA Inc.		
Carrying amount as of 1 January	-17,213,528	-13,190,286
Share in result	-1,794,846	-4,023,241
	-19,008,374	-17,213,527
Provision	19,008,374	17,213,527
Balance as at 31 December	-	-
AU10TIX Technologies B.V.		
Carrying amount as of 1 January	-31,624,976	-30,867,227
Exchange difference	-72,138	-34,856
Share in result	7,664,489	-722,893
	-24,032,625	-31,624,976
Provision	24,032,625	31,624,976
Balance as at 31 December	-	-
TSAS Ltd		
Carrying amount as of 1 January	-1,252	-5,598,433
Exchange difference	-728	661,821
Conversion of shares	-	5,117,574
Share in result	-510	-182,214
	-2,490	-1,252
Provision	2,490	1,252
Balance as at 31 December	-	-

	31-12-2023	31-12-2022
	$	$
Investments in other parties		
Investment in Manuka, Inc. (Previously 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	38,000
Investments in Justt Fintech Ltd (previously Acrocharge Ltd)	50,000	50,000
Investments in Nilus OS Ltd	25,000	25,000
	1,999,243	1,999,243

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

	31-12-2023	31-12-2022
Other receivables		
Long term deposits and guarantees	5,316	5,060

	2023	2022
	$	$
Long term deposits and guarantees		
Carrying amount as of 1 January	5,060	-
Movement	256	5,060
Balance as at 31 December	5,316	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

19. Receivables, prepayments and accrued income

	31-12-2023	31-12-2022
	$	$
Receivables from group companies		
I-SEC Global Security B.V.	-	3,473,782
ICTS USA Inc.	14,366,614	20,654,794
	14,366,614	24,128,576

I-SEC Global Security B.V.

	2023	2022
	$	$
Carrying amount as of 1 January	16,818,684	17,996,331
Movements	-16,818,684	-31,926
Exchange rate adjustments	-	-1,145,721
	-	16,818,684
Provision	-	-13,344,902
Balance as at 31 December	-	3,473,782

An interest rate of 0% (2022: 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.

Carrying amount as of 1 January	37,868,321	37,056,686
Additions	-4,493,333	811,635
	33,374,988	37,868,321
Provision	-19,008,374	-17,213,527
Balance as at 31 December	14,366,614	20,654,794

An interest rate of 4% (2022: 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	10,947	46,800
Provision	-10,947	-46,800
Balance as at 31 December	-	-

An interest rate of 0% (2022: 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.

	31-12-2023	31-12-2022
	$	$
Taxes and social securities		
VAT	110,394	50,979
Salaries and wages	5,622	5,081
	116,016	56,060

	31-12-2023	31-12-2022
	$	$
Other receivables and accrued income		
Prepayments and accrued income	174,865	80,174

Prepayments and accrued income		
Others	174,865	80,174

	31-12-2023	31-12-2022
	$	$

20. Cash and cash equivalents

Current account	337,179	6,846,620
Deposits	16,776,641	1,200,000
	17,113,820	8,046,620

An amount of $ 16,776,641 (2022: € 1,200,000) is not freely disposable.

21. Equity

	31-12-2023	31-12-2022
	$	$
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, 2023 and 2022.
37,433,333 shares issued and outstanding as of December 31, 2023 and 2022.

	2023	2022
	$	$
Additional paid-in capital		
Carrying amount as of 1 January	25,604,374	25,844,546
Stock based compensation of AU10TIX Technologies B.V.	-	-240,172
Additional payment for shares issued in previous years	1,213,961	-
Balance as at 31 December	26,818,335	25,604,374
Revaluation reserve		
Carrying amount as of 1 January	-8,910,383	-8,701,649
Exchange rate adjustments	-35,377	-208,734
Balance as at 31 December	-8,945,760	-8,910,383
Reserve for research and development		
Carrying amount as of 1 January	2,865,450	1,490,915
Allocation	-1,603,953	1,374,535
Balance as at 31 December	1,261,497	2,865,450
Other reserves		
Carrying amount as of 1 January	-38,621,118	-32,521,330
Allocation of financial year net result	7,434,490	-4,725,253
Allocation legal and statutory reserves	1,603,953	-1,374,535
Balance as at 31 December	-29,582,675	-38,621,118
Reconciliation company capital		
Consolidated capital	8,391,721	125,389
I-SEC Italia S.R.L. with negative equity	346,742	-
Equity	8,738,463	125,389

Reconciliation company capital by result

Consolidated result	7,087,748	-4,725,253
I-SEC Italia S.R.L. with negative equity	346,742	-
result	7,434,490	-4,725,253

	31-12-2023	31-12-2022
	$	$

22. Provisions

Other provisions	24,024,168	31,579,428

Provision subsidiaries

AU10TIX Technologies B.V.	24,024,168	31,578,176
TSAS Ltd	-	1,252
	24,024,168	31,579,428

23. Non-current liabilities

	2023	2022
	$	$
Payable to related party (convertible)		
Carrying amount as of 1 January	1,104,342	1,191,537
Repayments	-1,104,342	-87,195
Long-term part as at 31 December	-	1,104,342

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

	31-12-2023	31-12-2022
	$	$
Other debt		
Long term payables to the Dutch tax authorities (1)	-	112,549
Severance pay liability (2)	305,901	244,149
	305,901	356,698

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

24. Current liabilities

Trade creditors

Creditors	521,903	377,699

Loans from participations in group companies

I-SEC Global Security B.V.	21,631	-

	31-12-2023	31-12-2022
	$	$
Taxes and social securities		
Payroll taxes and social security charges	1,853	32,941
Other liabilities, accruals		
Accruals	555,350	811,845
Accruals		
Provision for vacation allowances	305,959	273,661
Other short term payables	249,391	538,184
	555,350	811,845

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 is the head of the fiscal entity for corporate income tax and VAT. On this basis the company is jointly and severally liable for the taxes payable by the fiscal entity as a whole.

NOTES TO THE COMPANY INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2023

Staff

During 2023, 3 employees were employed on a full-time basis (2022: 3).

25. Result of participating interests

	2023	2022
	$	$
Share in result of I-SEC Global Security B.V.	2,922,813	1,148,212
Share in result of ICTS USA Inc.	-1,794,846	-4,023,241
Share in result of AU10TIX Technologies B.V.	7,664,489	-722,893
Share in result of TSAS Ltd	-510	-182,214
	8,791,946	-3,780,136

OTHER DISCLOSURE NOTES

Subsequent events

On March 2024, the Company entered into a factoring agreement with a commercial bank to provide it up to €3,000k ($3,297k as of December 31, 2023). The arrangement is linked to one of the service contracts that the Company provides to one of its customers. The maximum amount provided by the bank cannot exceed 75% of the monthly invoice for that customer. The factoring agreement will end in April 2025, unless the service contract with the customer is extended. Borrowings under the factoring agreement bear interest at one month Euribor plus 0.6%. The Company is also subject to a 0.2% fee for every withdrawal under the agreement.

Factoring Line Germany
In 2024, a factoring line agreement was signed for a total amount of € 9.8 million regarding invices for four main customers (Frankfurt airport, Airport Cologne, Borderpolice Bremen and Borderpolice Dortmund). Interest consists of the average one-month Euribor and a surchare of 4.5%. An unused fee of 1.5% is payable for the line that is not being used.

Agreement TD Securities
In 2024, the company has entered an agreement with TD Securities to act as exclusive corporate financial advisor to AU10Tix Limited. Upon finalizing the engagement and in case of transaction relating to that subidiary, TD Securities shall be compensated for its services with a fee ranging between 1.25% and 1.7% of the aggregate Consideration.

On April 2024, AU10TIX has declared a dividend of $10,000k to its shareholders of which $6,751k will be paid to ICTS and $3,249k will be paid to other shareholders of AU10TIX.

Appropriation of the result for the 2022 financial year

The financial statements of 2022 have been adopted by the General Meeting held on December 20, 2023. The proposal of the appropriation of profits, as processed in the financial statements, have been approved.

Appropriation of the profit for 2023

The board of directors proposes to add the profit for 2023 of $ 7,434,490 to 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, 2023:

Salaries, fees, commissions and bonuses in total $3,693k (2022: $3,018k).
- Supervisory Directors as a group (8 persons) $308k (2022: $310k); and
- Officers as a group (6 persons) $3,385k (2022: $2,708k).

Pension, retirement and other similar benefits $431k (2022: $249k).
- Supervisory Directors as a group (8 persons) $0k (2022: $0); and
- Officers as a group (6 persons) $431k (2022: $249k).

Each member of the Supervisory Board who is not an employee of the Company received during 2023 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, 2023 was $0.9 million.

Signing of the financial statements

Preparation financial statements

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

Management Board:

A. Raich

Supervisory Directors:

M. Atzmon

R. Atzmon

G. Atzmon

D.W. Sass

P.M. Getter

G.B.S. Hausmann

G.F. Lieberman

I. Nir

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.

No opinion included

Because the activities of the provided engagement have not been finished yet, we are not allowed to include an opinion in this report.