

Description of the Corporation's Business

Part one: description of the general development of the Group's business

In this chapter, we shall describe the business of Safe-T Group Ltd. (hereafter – “the Company” and together with the companies under its control – “the Group”) and the development of its business in the year 2016, in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970.

As a general rule, the data and information provided in this report (hereafter – “the Report”) are correct as of December 31, 2016 (hereafter – “the date of the report”). Should the report provide information regarding events that have taken place subsequent to the date of the report, this will specifically be mentioned.

1. The Company's activity and description of the development of its business

1.1 General

- 1.1.1 The Company was incorporated in Israel in October 1989 as a private company limited by shares by the name Aviv Advanced Solutions Ltd. As from January 2001, the Company's shares are listed on the Tel Aviv Stock Exchange (hereafter - “TASE”). On June 28, 2011, the Company's name was changed to Companies Merging Purpose Ltd. and on June 23, 2016, the Company's name was changed to Safe-T Group Ltd., further to the merger transaction (as defined below).

1.1.2 Composition with creditors

On December 24, 2015, the Tel-Aviv-Jaffa District Court issued a ruling in Liquidation Case no. 31184-03-15, approving a composition with creditors in accordance with Section 350 to the Companies Law, between the Company (whose name at the time was Companies Merging Purpose Ltd. and its shareholders on the one hand, and the Company's creditors on the other hand (hereafter – the “Composition with Creditors”). The Composition with Creditors approved Mr. Kfir Zilberman's proposal (hereafter – the “Investor”) to acquire the control in the Company as a “shelf company” with no business activity and no assets and liabilities, in consideration for a cash payment to the Composition with Creditors' account and the allocation of shares to the Investor and/or anyone acting on his behalf. For further details regarding the steps taken by the special manager in order to complete the Composition with Creditors and the implementation of the Investor's proposal as part of the Composition with Creditors, see the reports published by the Company about the steps taken by the special manager on 22.3.2016, 29.3.2016, 10.4.2016 and 11.4.2016 (reference numbers: 2016-01-011370), 2016-01-017673, 2016-01-018003 and 2016-01-045466, respectively).

Over the course of the reported period, the Composition with Creditors was finalized and on June 21, 2016, the Company's shares were reinstated into the TASE maintenance list.

1.1.3 Merger transaction by way of shares exchange with Safe-T Data and its shareholders

On June 15, 2015, a merger transaction was effected by way of shares exchange between the Company, Safe-T Data A.R Ltd. (hereafter – “Safe T- Data”) and the shareholders of Safe-T Data, in accordance with the provisions of Section 103t to the Income Tax Ordinance [New Version], 1961. As part of the merger transaction, the Company acquired from the shareholders of Safe-T Data at the time of finalization of the transaction all the issued and paid share capital of Safe-T Data against the allocation of 8,262,761 ordinary Company shares to the shareholders of Safe-T Data at the time of completion of the transaction and the conversion of Safe-T Data's options into 1,496,725 non-tradable options of the Company. Subsequent to the finalization of the merger transaction, Safe-T Data is a fully-owned subsidiary of the Company. As from the date

of finalization of the merger transaction, the Company's activities involve the holding of all issued and paid share capital of Safe-T Data. Further to the merger transaction, the Company's name was changed from Companies Merging Purpose Ltd., to its current name.

For further details regarding the merger transaction, see the transaction report and the summons to convene the General Meeting of the Company's shareholders of March 31, 2016, as amended on April 7, 2016 and May 3 2016 (reference no.: 2016-01-058504), the immediate report regarding the approval of the merger transaction by the General Meeting of the Company's shareholders of May 8, 2016 (reference no. 2016-01-061333) and the Company's immediate report on the finalization of the transaction of May 15, 2016 (reference no. 2016-01-051198).

As from the date of finalization of the merger transaction, the Company's activities include the holding of all issued and paid share capital of Safe-T Data.

1.1.4 Reinstatement of Company's shares into the primary list

On June 20, 2016, the TASE issued a report to the effect that commencing June 21, 2016, the Company's shares (security no. 1083856), Series 1 warrants (security no. 1138510) and Series 2 warrants (security no. 1138528) were moved from the TASE's maintenance list to the TASE's primary list.

1.1.5 Safe-T Data

As mentioned above, as from the date of finalization of the merger transaction, the Company's activities include the holding of all issued and paid share capital of Safe-T Data.

Safe-T Data was incorporated by Mr. Amir Mizhar and commenced operations at the beginning of 2013. As of the date of the Report, Safe-T Data operates, both independently and through two subsidiaries in Israel and in the USA, in the field in information security, specifically in the development and marketing of information security solutions for organizations that will allow secure and controlled sharing of information. As part of its operations, Safe-T Data develops and markets combined information security solutions, that allow secure transfer of data both within the organization and to parties outside the organization. Safe-T Data has both Israeli and foreign clients. Among its clients are large financial institutions, large healthcare organizations and companies, leading insurance companies, government agencies, industrial and commercial companies, education institutions, etc.

The solutions offered by the Group are based on two universal platforms, which were developed by Safe-T Data: SDA (or RSAccess, as it was called till recently) and SDE (or Safe-T Box, as it was called till recently).

As of the date of the Report, Safe-T Data operates in Israel and globally – in North America, Europe and the Far East. Safe-T Data works to expand and develop its activities in the USA and Canada by entering into engagements with various business and technological parties and by working with an external company for the purpose of creating initial links with potential clients (inside sales). In addition, Safe-T Data takes steps to expand its activities in Europe and South-East Asia and aims to enter into engagements with new business partners in those markets. Also, towards the end of 2016 and after the date of the Report, several African clients placed orders to purchase Safe-T Data products; those orders relate to solutions developed for Ghanaian banks for the purpose of preventing financial fraud.

Safe-T Data's products were developed by Mr. Amir Mizhar, the founder of Safe-T Data. Mr. Mizhar has over 20 years' worth of experience in the development of products and software for organizations. He specializes in information sharing and security. Mr. Mizhar has started developing the ideas that serve as the basis for Safe-T Data's products prior to founding Safe-T, as part of the activities of eTouchware Ltd. (a fully-owned

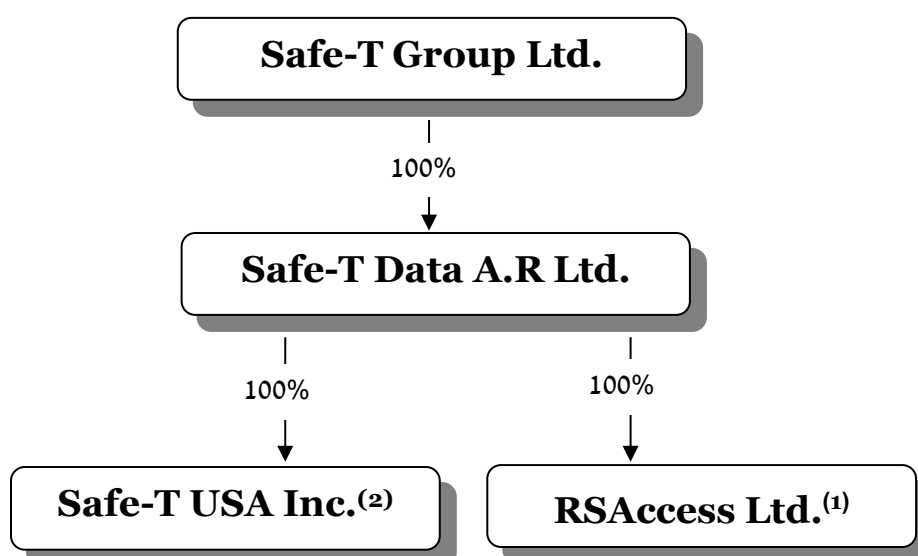
company of Mr. Mizhar) (hereafter – “eTouchware”). Mr. Mizhar founded eTouchware in 2005. This Company was engaged in development of a solution for transfer of large files between users in the retail market. In 2007, eTouchware commenced developing solutions for organizations to enable secure and controlled transfer of files. In 2013, after the incorporation of Safe-T Data, it acquired some of eTouchware’s assets, which constituted the basis for the development of the Group’s SDE product (as defined in section 16.1 below). For details about the acquisition of eTouchware’s assets by the Company, see section 1.3.2 below. Mr. Mizhar’s vast experience, knowledge and expertise in the field of information transfer, sharing and security served as the enabling force behind the development of the Company’s innovative and state of the art products.

In 2015, Gartner Inc¹. (hereafter – “Gartner”) recognized Safe-T Data as a “Cool Vendor” for its SDE product (as defined in section 16.1 below), which is developed and marketed by Safe-T Data. This title has meant that Gartner recognized Safe-T Data as an innovative company, which owns highly unique and interesting technologies.

1.1.6 First attempt to carry out an IPO by Safe-T Data

Further to a prospectus, that was published by the Company on August 31, 2015, as amended on October 11, 2015 and November 17, 2015 (reference no: 2015-01-156426), on November 23, 2015, Safe-T filed a public offering prospectus with the TASE (hereafter – “the IPO”). The IPO did not take place, since TASE’s listing conditions were not satisfied.

1.2 Group’s holdings



(1) RSAccess Ltd. (hereafter – “RSAccess”) is a private Company, which was incorporated in Israel and develops the SDA product (or RSAccess, as it was called till recently), which is marketed by Safe-T Data. For details see section 16 below.

(2) Safe-T USA Inc. (hereafter – “Safe-T USA”) is a private company, which was incorporated on March 4, 2015 in the State of Delaware USA. This company was incorporated for the purpose of selling and marketing the Group’s products in North America.

¹ Gartner is an American research and advisory firm providing information technology related insight and analysis for IT and other business leaders. Gartner identifies trends in the fields of computing and IT, assesses software, hardware and communication products and compares them to competing products.

1.3 The nature and results of each material structural change, merger or acquisition

1.3.1 Acquisition of RSAccess

In February 2013, as part of the Sasa investment agreement (as defined in section 3.1.1 below) for investment in Safe-T Data and as a condition for the finalization of this agreement, Safe-T Data was allocated 50% of the issued and paid share capital of RSAccess (a private company whose shares were held at the time by Mr. Amir Mizhar and Mr. Roei Haberman).

On June 10, 2015, Safe-T Data, RSAccess and the remaining shareholders (Mr. Amir Mizhar and Mr. Roei Haberman) entered into agreement, where under Safe-T Data purchased Mr. Amir Mizhar and Mr. Roei Haberman's holdings in RSAccess against the allocation of Safe-T Data ordinary shares to Mr. Amir Mizhar and Mr. Roei Haberman (in accordance with their proportionate holdings of RSAccess' shares before the transaction), such that subsequent to the transaction as above Safe-T Data holds all the share capital of RSAccess.

As of the date of this report, Safe-T Data holds all the share capital of RSAccess, which develops one of the Group's principal products – SDA. For details, see section 16 below. For details regarding the merger process between Safe-T Data and RSAccess, see section 1.3.4 below.

1.3.2 Acquisition for eTouchware's assets

In February 2013, Safe-T Data acquired all intellectual property, contractual rights and all other assets, which are required for the purpose of research, development, marketing, distribution and sale of eTouchware Ltd.'s software products in the field of information security; eTouchware is a private company that was held - through the date of the said acquisition – by eTouchware 2005 Inc. (a company fully-owned by Mr. Amir Mizhar). In consideration for the said assets, Safe-T Data allocated ordinary Safe-T Data shares to eTouchware 2005 Inc. The assets acquired as above, were used as the basis for the SDE product (as defined in section 16.1 below), which is developed by Safe-T Data.

1.3.3 Merger transaction by way of shares exchange with Safe-T Data and its shareholders

On June 15, 2015, a merger transaction was finalized, as part of which the Company acquired from the shareholders of Safe-T Data at the time of the finalization of the transaction, all issued and paid share capital of Safe-T Data. For details, see section 1.1.3 above.

1.3.4 Merger between Safe-T Data and RSAccess

On December 31, 2016, Safe-T Data and RSAccess entered into merger agreement whereby, subject to the fulfillment of several conditions precedent, which include, among others, the issuance of a tax ruling by the Israel Tax Authority to the effect that the merger is tax exempt in accordance with the provisions of Section 103 to the Income Tax Ordinance (New Version), 1961 (hereafter – the "Ordinance"), RSAccess will be merged with and into Safe-T Data, in accordance with the provisions of the First Chapter of the Eighth Part of The Companies Law. After the merger, RSAccess will be wound up without liquidation. On February 2, 2017, the General Meeting of the Company's shareholders approved the said merger. For further details see the Company's report of December 29, 2016 (reference no. 2016-01-093669), and the Company's report on the results of the General Meeting of the Company's shareholders of February 2, 2017 (reference no: 2017-01-010582).

2. The Company's areas of activity

As of the date of the Report, the Company is engaged in one area of activity – information security.

3. Investments in equity

3.1 Investment in Safe-T Data by Sasa - Agricultural Cooperative Society Ltd.

On February 7, 2013, Safe-T Data and its shareholders at the time (Mr. Amir Mizhar, eTouchware 2005 Inc. – a fully-owned company of Mr. Amir Mizhar and Mr. Roei Haberman) on the one hand, and Sasa - Agricultural Cooperative Society Ltd. on the other hand, entered into investment agreement in Safe-T Data (hereafter – “the Sasa Investment Agreement” and “the Sasa Transaction”), where under Sasa (as defined below) has invested a total of \$ 2.5 million in Safe-T Data against the allocation of preferred shares and ordinary shares of Safe-T Data to Sasa. In addition, Sasa extended shareholders' loans totaling \$ 2.5 million to Safe-T Data (hereafter – “the shareholders' loans”).

As part of an amendment to the Sasa Investment Agreement of June 2015, Sasa agreed to waive the repayment of the shareholders' loan by Safe-T Data, subject to an undertaking by Shisha Shany Holdings Ltd. Shlomy Shany, Fidelity Venture Capital Ltd., Dror Atzmon and Technoplus Ventures Ltd. and entities acting on their behalf (hereafter – “the Group of Investors”) to work towards an IPO of Safe-T Data's shares (an IPO which did not take place, as described in section 1.1.6 above). Sasa has also agreed to extend to the Company a bridge loan. Furthermore, under the said amendment of the Sasa Investment Agreement, Sasa agreed to convert the preferred shares that were allocated to it into ordinary shares of Safe-T Data.

On May 19, 2015, Safe-T Data's shares held by Sasa Industries - Agricultural Cooperative Society Ltd. were transferred to Sasa Holdings Agricultural Cooperative Society Ltd. (each of the above companies shall be named hereafter – “Sasa”). As part of the merger transaction (as defined in section 1.1.3 above), Sasa's holdings in Safe-T Data's shares were converted to Company shares.

3.2 Investment in Company's equity

3.2.1 For details regarding merger transaction by way of shares exchange between Safe-T Data and the Company – see section 1.1.3 above.

3.2.2 Capital raising through a prospectus

On June 7, 2016, the Company completed an issuance of rights and on June 9, 2016 the Company carried out an IPO in accordance with the supplementary prospectus and the supplementary notice, which was published by the Company on June 8, 2016. The total amount raised by the Company as part of the abovementioned issuance of rights and public offering is approximately 17.6 million ILS (gross, before deduction of expenses), against the issuance of 4,676,527 ordinary Company shares of no par value, 1,292,280 convertible Series A warrants and 1,292,280 convertible Series B warrants, each of which is convertible into one Company share of no par value. For details regarding the results of the issuance of rights and public offering, see the Company's reports of June 7, 2016 and June 9, 2016 (reference numbers: 2016-01-047970 and 2016-01-048540, respectively).

3.2.3 Capital raising from investors by way of private offering

On November 27, 2016, the Company and private investors, who are not related to any of the Company's office holders entered into investment agreements (hereafter in this section 3.2.3 – “investment agreements” and “the investors”). Under the investment agreements, the investors invested in the Company a total of 6,343,849 ILS in November and December 2016, against the allocation of 1,492,670 ordinary Company shares to the investors on December 14, 2016 and against allocation – on the said date - of 1,492,670

Series 2 warrants to the investors. Under the investment agreements, if the Company decides to allocate further securities over the course of the 12-month period after the finalization of the investment at a price per share that is lower than the price per share set in the investment agreements, the Company shall compensate the investors by allocating those investors further shares, in accordance with the price per share set in the investment agreements and the price per share determined in such additional allocations, up to a minimal price of ILS 3 per share. For further details see the Company's immediate reports of November 22, November 27, 2016 and December 14, 2016 (reference numbers: 2016-01-130330, 2016-01-132031 and 2016-01-139561, respectively).

3.2.4 Extending the exercise period of the Company's Series 1 warrants and reducing the exercise price thereof

On January 2, 2017 the Company filed to the Tel-Aviv-Jaffa District Court (hereafter – “the Court”) an application to extend the exercise period of the Company's Series 1 warrants and reducing the exercise price thereof (hereafter also – “the warrants”), through an arrangement in accordance with the provisions of Section 350 to the Companies Law. In accordance with the Court resolution, which was issued on January 15, 2017, the Company convened a meeting of its shareholders and a meeting of the holders of the Series 1 warrants for the purpose of approving the said arrangement. Further to the approval of the arrangement by the said meetings as above, on February 4, 2017 the Court approved the arrangement, such that the date until which the warrants were exercisable was deferred from February 9, 2017 to April 30, 2017 (inclusive) and the exercise price of the warrants shall be reduced from 6.25 ILS per warrant to 5.5 ILS per warrant. Subsequent to the period of the report and through the date of publication thereof, 243,073 Series 1 warrants of the Company were exercised, against payment to the Company of exercise price totaling 1,337,964 ILS; (some of the warrants were exercised at the old exercise price of 6.5 ILS per warrant, but most of the warrants were exercised at the new exercise price of 5.50 ILS per warrant). For further details about the said arrangement, see the Company's reports of January 2, 2017, January 3, 2017, January 16, 2017, January 30, 2017 and February 5, 2017 (reference numbers: 2017-01-001032, 2017-01-001294, 2017-01-007005, 2017-01-007008, 2017-01-009391, 2017-01-009394 and 2017-01-012666).

3.2.5 Engagement in agreements for raising of capital through two private offerings

On March 27, 2017, subsequent to the period of the Report, the Company and private investors, who are not related to any of the Company's office holders (hereafter in this section 3.2.3 – “the investors”), entered into investment agreements where under the investors undertook to invest a total of approximately 12 million ILS in the Company against the allocation of packages comprising approximately 2 million Company shares, reflecting a consideration of 6 ILS per share and approximately 2 million non-tradable Company options, which are exercisable into approximately 2 million ordinary Company shares through November 30, 2018 against payment of an exercise price of 8.75 ILS per option (each package includes 1 share and one option (hereafter – “the securities package”).

The allocation of securities as above to investors through two private offerings (as defined in the Securities Regulations (Private Offering of Securities in a Listed Company), 2000:

- 3.2.5.1 As part of the agreements relating to one of the private offerings (hereafter – “the first private offering”), if the Company decides to issue shares or securities convertible into Company shares (subject to exceptions set in the said agreements) over the course of the 12-month period starting on the date of finalization of the first private offering at a price per share or at an exercise price lower than 6 ILS, the price per share as part of the first private offering shall be reduced to the price per share paid for such additional securities (up to a minimal price of 4 ILS (hereafter – the adjusted share price”), and the Company shall allocate additional Company shares to the investors, who made investments as part of the first private offering, such that the overall number of shares allocated

to those investors upon the finalization of the first private offering and as part of the additional allocation as mentioned above, shall represent the amount invested in the Company by those investors as part of the first private offering, divided by the adjusted share price.

- 3.2.5.2 As part of the agreement with another investor (hereafter – “the second private offering”), the Company has undertaken an obligation whereby if: (1) the closing price of the Company’s share on the TASE on the last trading day preceding the date of finalization of the second private offering shall be less than 6 ILS; or (2) the average closing price of the Company’s share on the TASE during the 5 trading days preceding the date of finalization of the second private offering shall be less than 6 ILS (the lower of the prices set in subsections (1) and (2) above, or if prices are lower than 5 ILS, then (the 5 ILS price per share shall be named hereafter in this paragraph – “the adjusted price per share”), the Company shall allocate to the investor, who made an investment as part of the second private offering, additional securities packages, such that the overall number of securities packages that will be allocated to that investor upon the finalization of the second private offering and as part of the additional allocation as mentioned above, shall represent the amount invested in the Company by that investor as part of the second private offering, divided by the adjusted share price.

As part of the agreement relating to the second private offering, if the Company issues shares or securities convertible into Company shares (subject to exceptions set in the said agreements) over the course of the 6-month period starting on the date of entering into the investment agreement with that investor at a price per share or at an exercise price lower than 6 ILS, the price per securities package as part of the second private offering shall be reduced to the price paid for such further securities (up to a minimal price of 5 ILS (hereafter in this paragraph – “the adjusted package price”), and the Company shall allocate to the investor, who made investment as part of the second private offering additional securities packages, such that the overall number of securities packages allocated to that investor upon the finalization of the second private offering and as part of the additional allocation as mentioned above, shall represent the amount invested in the Company by that investor as part of the second private offering, divided by the adjusted package price.

The abovementioned agreement also stipulates that if - through the date of finalization of the second private offering - the investor shall be entitled to adjustments in accordance with any of the last two paragraphs, the adjustment shall be made in accordance with the lower of the prices referred to in the last two paragraphs.

The finalization of the investment by the investors (as part of the first and second private offerings) and the allocation of securities as above to the investors, is subject to the TASE’s approving the listing of the securities that will be allocated to the investors and of the shares that will arise from the exercise of the options that will be allocated to the investors; finalization as above will also be subject to any other approval required by law.

Also, the investment by the investor as part of the second private offering (amounting to approximately 3,630,000 ILS) is subject to the listing of the Company’s shares for trading over the counter (OTC) in the USA.

4. **Dividend distribution**

4.1 The Company has not distributed dividends over the course of the last two years.

4.2 As of December 31, 2016, the Company does not have any distributable profits, as this term is defined in the Companies Law.

Part two: Other Information

5. Financial information about the activity of the Company

Set forth below is financial information regarding the activity of the Company; this information is included in the Company's financial statements for the years 2014 through 2016 (in thousands of US dollars).

In view of the finalization of the merger transaction and the accounting treatment applied in connection therewith (for details see note 1h to the financial statements), whereby Safe-T Data is the accounting acquirer (rather than the Company), the comparative figures presented in these sections are the comparative figures of the accounting acquirer – Safe-T Data.

	2014	2015	2016
Revenues	531	715	843
Fixed costs	3,989	18,862	9,709
Variable costs	234	51	59
Income from ordinary operations			
Income from ordinary operations attributed to owners of the Company	(3,630)	(18,196)	(8,922)
Income from ordinary operations attributed to non-controlling interest	(62)	(2)	-
Total assets	3,437	2,588	3,227
Total liabilities	3,679	1,305	2,055

In 2016, the Group's revenue increased mainly due to the expansion of Safe-T Data's client base in Israel and due to renewal of maintenance of support services agreements by Israeli clients of Safe-T Data.

The expansion of the Group's activities caused an increase in its fixed costs. In 2015, the Group recorded a 14 million ILS one-off non-cash cost relating to share-based payment in preparation to the attempted IPO (that eventually did not take place, see section 1.1.6 above for details). For details, see section 1.1a to the Directors' Report.

Company's liabilities as of December 31, 2016 and 2015 were materially lower than its liabilities as of December 31, 2014. This was due to the cancellation of Safe-T Data's financial liability for potential future payment of dividend to the owners of preferred Safe-T Data shares at the time. The said liability was cancelled in view of the conversion of all preferred Safe-T Data shares into ordinary shares on June 10, 2015.

6. General environment and effect of external influences on the Group's activities

Information systems are an integral part of the activities of most organizations. They are used by organizations as part of the management of various organizational processes. Using information systems requires entities to put in place support systems such as information security, backup systems, storage systems, recovery plans, etc.

Information security is designed to protect information from various threats. It has many aspects, including protecting the security of the organization's hardware and software systems as well as the security of the information stored therein.

Many databases, which are used by individuals, organizations and countries and which contain various types of information, such as personal, business and defense-related information are stored on computers, which are connected to external networks, including the internet. Therefore, the sensitive information of those organizations is exposed to attacks and susceptible to sabotage

by third parties. Non-networked standalone databases can also be damaged by accessing them directly.

Information systems' computing and communication capabilities, as well as their global distribution, expose entities to various threats, whether in the form of hostile entities or in the form of market competitors, since most of the systems in a developed company depend on computing and information infrastructure. The increasing dependence on information technology (IT) and communications creates a situation whereby any damage caused to the computer systems and the flow of information processes of an organization can cause material damage to that organization by disrupting management, command and control systems by making changes to computer software. Such damage can be caused without any physical contact with the disrupted systems. One of the principal elements of the field of information security and of the Group's activities is the protection of these databases from unauthorized access to information, by, among other things, sharing, management and monitoring the organization's information in a secure manner.

The data security market offers a variety of information security products. Each of those products provides specific protection for a certain market or aspect of information security. The Group's unique open extensible and customizable architecture, integrates with third party security and enterprise applications and solutions, for end-to-end security coverage across business processes. The Group's products offer various security solutions to organizations that will ensure full security of intra-organizational and inter-organizational data exchanges. The Group's products provide solutions to several sub-markets of the information security market: the enterprise file synchronization and sharing market (EFSS), whose global annual scope was estimated at approximately 1 billion dollars in 2017,² the managed file transfer (MFT) market, whose global annual scope was estimated at approximately 1 billion dollars in 2016³ and the cloud access security brokers (CABS) market, whose global annual scope was estimated at approximately 1 billion dollars in 2015. The abovementioned markets will be described extensively in this section. The Group's products also provide solutions for the following sub-markets: (1) Enterprise firewall market – a firewall is a network security system that monitors and controls the incoming and outgoing network traffic based on predetermined security rules; firewalls are either software appliances running on general purpose hardware, or hardware-based firewall computer appliances. Firewalls monitor and control data traffic in a communication networks or in a single computer. The global annual scope of the firewall market was estimated in 2017 at approximately \$ 7.14 billion⁽³⁾; (2) the Service-as-a-Service market – information security of cloud-stored information, as described in section 22.1.1 below, whose global annual scope was estimated in 2017 at approximately \$ 5 billion dollars⁽³⁾; the Secure Application Front-End market – information security market for information systems of organizations, whose services are publicly available; the annual global scope of this market is estimated by the Group at approximately 1 billion dollars; and (\$) the Software Defined Perimeter market – a market that redefines the network's architecture in a manner that on the one hand reduces the exposure of the organization's network to external entities and on the other hand enables access to services available in the organization's internal network to users from outside the organization, which were authenticated. The global annual scope of the Software Defined Perimeter market is estimated in 2017 at approximately 1 billion dollars⁽³⁾.

The Group is technologically positioned to penetrate into further sub-markets of information security, and the potential expansion in the information security market generally reflects the potential growth of the Group.

Set forth below is a description of the principal trends, events and developments in the macro-economic environment in which the Group operates, which – in the opinion of the Company – have or are expected to have a material effect on the Group's results of operations and the development of its business:

6.1 Using the Internet

The main cause for globalization and mobility is the increase in the scope of activity and use of the Internet. The Internet is a global network that has become a significant contributor to

² In accordance with researches carried out by Gartner.

³ In accordance with a research of Markets and Markets, an American research and advisory firm, that carries out market research in a variety of fields (hereafter – "Markets").

economic and cultural development. In view of the public's extensive use of the Internet and its various applications, many businesses opt to use it as a business platform. Such organizations include government agencies, health organizations and institutions, insurance companies and financial institutions. Using the Internet as a business platform can potentially expose organizations to significant damage due to exposure of their sensitive information; such damage may be caused by an external intruder hacking into the organization's databases, or by transfer of the information to parties outside the organization by its employees, whether intentionally or by mistake. Such potential exposure increases those organizations' need of information security solutions. As those organizations offer their clients an increasing number of services over the Internet, this need intensifies. In some cases, organizations' need for information security solutions stems from regulatory requirements to which they are subject. This, for example, applies to financial institutions. On the one hand, such institutions expand the scope of their online services (including online banking) and on the other hand they are subject to strict regulatory requirements. Therefore, the scope of use of the Internet directly affects the Group's activities and its business results.

6.2 Development of regulation in the field of information security

In recent years, regulatory bodies in Israel and globally have introduced various requirements to maintain information security mechanisms; such requirements apply to various entities, mainly in the field of banking, insurance, credit cards, medical institutions and government agencies. Such regulatory requirements increase demand for information security products, like the ones marketed by the Group thereby increasing the scope of the Group's activities. For further details see section 9 below.

6.3 Use EFSS tools (Enterprise File Synchronization and Sharing)

Even though electronic mail is still the main tool for organizational information sharing, its limitations has increasingly led many organizations to use EFSS tools, most of which are cloud based (computing services – servers and data centers – remotely accessible over the Internet or a dedicated communication channel) to facilitate intra-organizational information sharing. File sharing systems enable their users to gain access to shared sets of files from various platforms and devices, including desktops, laptops, mobile devices and tablets. The use of EFSS and MFT (as defined in section 6.4 below) becomes increasingly popular as a result of an increasing need of users to share information with employees, business partners, consultants and clients in ways that are not supported by electronic mail. Since the majority of SSEF tools currently used are low cost cloud-based solutions, they pose serious risk to organizations' information security. The increasing use of mobile platforms, cloud-based computing and social networks increases the vulnerability of various organizations. The Group offers solutions that are deployed within the organization's internal information systems, fully support file sharing and information synchronization and at the same time protect the organization's sensitive data. These features of its products enable the Group to market them to organizations that are unable to use cloud-based computing for various reasons, such as regulatory requirements (for example, banks, insurance companies, investment firms, health organizations, etc.).

6.4 Use of Managed File Transfer (MFT) solutions

MFT is the most commonly used solution for comprehensive, effective and protected information management. MFT is a medium that enables secure and reliable transfer of files between organizations. MFT and EFSS solutions serve similar purposes. However, EFSS solutions are mainly suitable for intra-organizational information sharing, whereas MFT solutions are more suitable for transfer of information for the organization to external parties, such as customers and other organizations. MFT solutions reduce the complexity arising from using multiple file transfer applications, which connect business entities and play a critical role in business work processes. The multiple types of files, which are transferred between organizations, increases the cyber risks and requires organizations to employ effective solutions that allow the organization to function effectively with minimal risks. Cloud-based computing and the use of multiple devices to share files via electronic mail, make information security solutions an essential tool for any organization, in which data protection is of the highest priority. Therefore, the scope of use of MFT solutions directly affects the Group's activities and its business results.

6.5 Use of Cloud Access Security Broker solutions (CASB)

Companies such as Microsoft, Google, Box and Dropbox currently have on offer free, easy to use and effective solutions for cloud information storage and sharing solutions for private users. The fact that those solutions are easy to use and their low cost resulted with massive intake of such solutions among private users and organizations. Using cloud-based platforms for sharing and storing sensitive business information of the organization by users, creates information security risks and may even lead to theft of information. Since most organizations do not monitor the activity of their users, it is for them to opt for cloud-based solutions. As a result, organizations that allow the use of such solutions from within their own network, expose themselves to failures in their information security. In order to deal with such failures and secure the access of organizations to the cloud and in order to prevent the leak of sensitive information into the cloud, organizations purchase Cloud Access Security Broker solutions. Those solutions allow continuous and transparent monitoring of all interactions made by the organization's users with the cloud and block the exportation of any information that is defined by the organization as sensitive information. The Group offers such solutions, which enable organizations to monitor and even block exportation of sensitive information to the cloud. Therefore, the scope of use of CASB solutions directly affects the Group's activities and its business results.

6.6 Change of data center architecture to comply with the definitions of the Software Defined Perimeter

In recent years, an increasing number of public online services offered by organizations experienced hacking and information theft. This trend is the result of old network architectures, which do not provide information security solutions for accessing the organizational data. The older architecture is composed of one or more layers of internal network and one or more external networks, and is designed to safeguard internal services within an internal secured network. In cases where external users need to access an internal service, then a special component is deployed into the external network as a bridge between external users and the internal network. The built-in weakness of this architecture is that the more services an organization wants to make publicly available, the more its networks are exposed. This, in turn, increases the exposure to hacking and information theft. Hence the need for a new network architecture that will allow on one hand to minimize the organization's exposure to the external world and on the other hand will enable external users to access services hosted within the organization's internal network. The new network design pattern is called Software Defined Perimeter (SDP); the underlying principle of this pattern is that the organization needs to "hide" itself from the external world and allow only access of authenticated external users, thereby preventing hackers from attacking the organization. The new architecture can be compared to a door that is integrated within a wall in a way that makes it completely invisible and opens up only after authentication. A person who is not authenticated will never "see" the door and therefore will not be able to attempt penetrating into the organization's network. In the opinion of the Company, this area opens up a new market for the Company and may increase its revenues. It also gives the Company the opportunity to approach suppliers of information security services and offer them to collaborate based on this technology.

6.7 Cyberwarfare

In recent years, there has been a significant increase in attacks by countries, security organizations and terror organizations targeting organizational systems of strategic importance. Those attacks are designed to gain access to sensitive information or to damage the organization's computer systems. The abovementioned trend gives rise to an array of new threats. The Group's business activities may be directly affected by this trend, since organizations have an increasing need for information security solutions that will protect them from those new threats and will integrate with the organization's existing information security systems. For further details about the effect of external influences on the Group's activities, see the chapter about risk factors in section 40 below.

Part three: description of the corporation's business by areas of activities

The Company has one area of activity – information security.

7. Structure of the area of activities and changes therein

In recent years information systems have become an integral part of organizations' activities. This trend is reflected in the increasing importance attributed to computing as a measure to support the core of the organization's activity. As a result, organizations expand, renew and update their information technology systems on an ongoing basis. The development of the computing infrastructure and information technology market is characterized, among other things, by an extensive connectivity of computers within digital networks and by a transition to more advanced operating systems, both for personal computers and for mobile devices.

Various researches show a consistent increase in the number of information security events in recent years. According to a global survey carried out by PwC (The Global State of Information Security Survey)⁴, the number of security breaches identified in 2015 before the publication of the survey has increased by 38% compared with 2014. A global study that was published in 2015 by the Ponemon Institute (Cost of Data Breach Study)⁵ estimated the damage caused in 2016 from cyber-attacks to an average company from among the companies included in the study will be approximately \$6 million. The overall damage caused by cyber-attacks to all companies that took part in the survey is estimated at approximately \$280 billion.

The abovementioned increase in the number of information security events causes material changes in the Group's markets. Those changes cause various organizations, which rely on information systems, to be increasingly aware of the need to put in place information security solutions and to significantly increase the budgets designated to protect their information, networks and applications. Also, in view of the increase in the number of internet users in the last decade, many organizations invest heavily in the launch of new digital services, the expansion of their network infrastructures and their existing business infrastructures and the upgrading of the information security systems. Researches that were carried out in 2015 have predicted that in the next few years organizations' spending on various types of information security solutions will grow to such an extent that in 2016 the global spending on information security will amount to approximately 82 billion.

The assumptions and data in connection with global spending on information security by organizations are forward-looking projections, assessments and estimates, as defined by the Israel Securities Law, 1968 (hereafter – "the securities law"), which are based on studies in this area. Those projections, assessments and estimates may not materialize, or materialize differently than expected due to various factors, including material technological changes, changes in clients' requirements, regulatory changes in Israel and abroad and/or other factors, which are not under the control of the Company.

Cloud storage services such as Dropbox, Box, Google Drive and the like are increasingly used for private and business purposes by organizational users. The use of those services bypasses the organization's information security policy and systems, since data, which enters the organization through cloud storage services, is not checked by the antivirus software, and data which is uploaded to the cloud by users, bypasses the organizational data loss prevention systems (DLP). The people charged with information security in an organization cannot control the information uploaded to clouds and shared by users in breach of the organization's policy, nor can they monitor and control this information. Furthermore, the transfer of the information to the cloud and its storage in the cloud is not always carried out in a secure and encrypted manner. In order to tackle the information security problem, information security officers in organizations are required to provide a secure

⁴ The survey is based on replies made by more than 10,000 office holders in more than 127 countries.

⁵ The study is based on answers of more than 150 IT office holders from 11 countries (including the USA, Britain, Germany, Australia, Brazil, Japan, etc).

organizational solution, which allows employees to use cloud-based information storage services and to share information in a more convenient way. Rather than block the cloud storage services, information security officers in organizations are required to allow the use of the services by adopting an easy to use and secure solution that will comply with the existing regulations (where relevant) and will be compatible with the organization's information security policy and systems.

In addition, in recent years there has been an increase in the use of mobile devices, which allow users of organizations to use business information through mobile devices and store information on clouds through those mobile devices. These trends increase organizations' need to find secured connectivity solutions, both for the organization's systems and for the cloud storage services. This need provides a potential growth opportunity for the Group's activity and business results.

Also, in recent years there has been a trend of regulatory changes that allow entities, organizations and companies to connect using the internet. Other regulatory changes are designed to make it obligatory for entities to provide online services and make services more digitally accessible. This trend may have a positive effect on the scope of the Group's activities. For further details, see section 9 below.

Company's assessments as to the trends, events and developments in the macro-economic environment in which it operates and which are expected to influence its activities and business results, as well as the Company's assessments as to the extent of their influence on the Group, its activities and results of operations, constitute forward looking information as defined in the securities law, which is not certain since it is affected by factors that are not under the Control of the Company and is subject, among other things, to the influence of the factors described above and of risk factors relating to the Group's activities (as described in section 40 below).

8. **Restrictions imposed by legislation and special constraints applicable to the area of activity**

For details regarding restrictions and supervision of the Group's activity, see section 33 below.

9. **Changes in the scope of activity and profitability in the Group's area of activity**

To the best of the Company's information, no changes have taken place in 2016 in the scope of activities of companies operating in the Group's area of activity, but clients' spending on information security products has increased. This increase enables the growth of the Group and the increase in its market share.

10. **Developments in the markets in the area of activity, or changes in the characteristics of its clients**

The trends described in the field of information security and cyber protection are the underlying factors of the regulatory developments in Israel and globally, which affect the information security and cyber protection requirements applicable to Group's clients. The regulation started with making information security obligatory for certain industries, such as critical infrastructures, and the health and finance sectors. In recent years this regulation is extended to many types of organizations that hold information or run infrastructures that have commercial or other value (including information of clients, employees and their internal systems). The regulation imposes on organizations various requirements (such as integration of corporate procedures, enforcement plans, reporting duties, office holders' duties in connection with cyber security, etc.). Regulation also requires organizations to integrate into their systems physical and technological security measures in order to protect their information assets and computer systems. This trend, which is expected to continue in future years, increases those organization's need to purchase information security products, such as the product marketed by the Group, which may have a potential positive effect on the scope of the Group's activities in Israel and abroad.

Regulation in Israel

Legislation and regulation currently applicable in Israel can be categorized as follows:

- 1) **Information security duties applicable to all sectors** in the area of databases management, pursuant to the Protection of Privacy Law, 1981 and the regulations promulgated thereunder. This law prescribes the duties of holders and owners of databases to maintain the security of the information in their possession.
- 2) **Regulatory duties applicable to certain sectors, mainly the finance sector** (banks, insurance companies and institutional organs such as pension funds in Israel). These duties include, among other things, the provisions relating to information security of databases in accordance with the Proper Conduct of Banking Business Directive 355 (business continuity management), the Proper Conduct of Banking Business Directive 357 (IT management), the Proper Conduct of Banking Business Directive 361 (cyber security management) and the directive issued by the Supervisor of Banks regarding “risk management in cloud computing environment”; the Institutional Organs Circular 14-09-2016 regarding “Management of Cyber Risks in Institutional Organs” that will come into effect in 2017; the guidelines issued by the Securities Authority to managers of funds, portfolios and issuers of exchange traded funds, etc.

Also, in February 2015, the Government of Israel decided to establish the National Cyber Defense Authority. The objective of the authority is to promote national cyber capabilities and strengthen and reinforce national cyber resilience. The National Cyber Defense Authority is commissioned to build and reinforce the Israeli economy’s cyber resilience, through preparatory measures and regulation, including increasing the level of preparedness of sectors and entities in the Israeli economy, designing and implementing a national cyber defense doctrine, licensing, standardization, conducting simulations and exercises, providing incentives and other required tools. As a result, the Authority will serve, in effect, as a regulator in the civilian market in connection with the fields of information security and protection. The establishment of the Authority has a positive effect on the scope of the Group’s activities since it increases awareness among civilian entities to install information security products, like the products marketed by the Group. This trend is further enhanced by resolution no. 4342 of the Government of Israel regarding the promotion of national regulation of cyber defense and regarding the government’s role in leading a nationwide policy and strategy on cyber. This government’s resolution lead to the adoption of the national regulation principles set by the national cybernetic taskforce regarding the regulation of the cyber defense services market. According to this regulatory approach, the government will aim not to add more regulators but rather reinforce the effectiveness of existing regulators in the field of cyberspace protection by using various tools that will enable it to increase the civilian sector’s level of protection against cyber threats.

The legislative and regulatory developments indicate that policy makers in Israel aim to improve the level of protection and security of organizations and companies against cyber-attacks by putting in place proper organizational processes in connection with dealing with cyber threats and protection of databases. It is expected that these regulatory developments will motivate organizations, especially those that hold personal information of clients, to reinforce their information security systems, by, among other things, purchasing information security products like the ones supplied by the Company.

Regulation in the USA and the EU

The USA has a number of regulatory schemes such as the PCI-DSS, HIPAA, SOX, GLBA AND BAZEL, which are applicable to the fields of credit cards, healthcare, securities and banking. Those regulatory frameworks put in place requirements as to security of business and private information (for further details see section 33.2 below). Furthermore, many states in the USA have passed legislation regarding reporting duty on information security breaches - Security Breach Notification (SBN) Laws. Moreover, there is a clear trend of increased enforcement in organizations and companies in order to increase information security. This is achieved, for

example, through the Federal Trade Commission and through the Securities and Exchange Commission, which impose enhanced reporting requirements in case of data leakage in many states in the USA and the imposition of heavy fines in case of information theft. This trend increases awareness among American organizations regarding the need to put in place information security solutions and motivates those organizations to buy security products that will assist preventing data leakage events. In addition, in September 2016, the New York Department of Financial Services, which is the regulating body of financial institutions in New York, published a draft of regulations pertaining to cyber security in financial institutions operating in the State of New York. This draft requires financial institutions to implement a cyber security policy that addresses subjects such as mapping of cyber risks, identifying and monitoring cyber-attack attempts, implementing internal procedures that will increase awareness and ensure appropriate tackling of cyber threats, and a requirement to have in place an appropriate recovery plan from a cyber event.

A similar trend can be seen in Europe, where the European Banking Authority (EBA) issued directives regarding the security of online payments, and other information security requirements were put in place under the Data Protection Directive (95.46.EC). Also, over the course of the last year the EU has put into action significant legislative and regulatory measures that motivate companies to take steps that will enable them to be better prepared to face cyber threats. Those regulatory and legislative measures also motivate organizations to take active measures to increase their information security.

In July 2016, the European Parliament approved the new cyber directive – The Directive on Security of Network and Information Systems that is designed to set binding principles for tackling cyber threats in EU countries. The directive makes it obligatory for EU countries to pass as laws certain cyber security requirements in connection with operators of essential services that rely heavily on cyber infrastructures, such as companies and organizations that provide essential services to the public and suppliers of energy, transport, water, banking, financial market infrastructures, healthcare and digital infrastructure. Also, key digital service providers (search engines, cloud computing services and online marketplaces) will have to comply with the security and notification requirements under the new Directive. This development in cyber regulation in the EU constitutes another layer of regulation on top of the EU General Data Protection Regulation (GDPR), which was approved in April of this year and is expected to come into effect in May 2018. This regulatory framework, that applies to all EU countries, stipulates, among other things, various provisions regarding the responsibility of companies operating in Europe or who deal with European clients, to protect the personal data they process. Those provisions include, among other things, strict reporting requirements regarding data leakage events, the duty to put in place organizational and technological security measures in order to protect information from cyber threats, enforcement measures and heavy fines to be imposed on companies that will breach the regulations, etc. To summarize, the enhanced regulatory frameworks drive demand to information security solutions.

Company's assessments as to the trends, events and developments in the macro-economic environment in which it operates and which are expected to influence its activities and business results, as well as the Company's assessments as to the extent of their influence on the Group, its activities and results of operations, constitute forward looking information as defined in the securities law, which is not certain since it is affected by factors that are not under the Control of the Company and is subject, among other things, to the influence of the factors described above and of risk factors relating to the Group's activities (as described in section 40 below).

11. Technological changes that may have a material effect on the area of activity

The launch of new digital services by many companies and organizations and their use of cloud-based services as well as hackers' ability to adapt and change their strategies to hack into computer networks in order to extract sensitive information or install a malware that will disrupt, damage, or gain authorized access to a computer system, may drive demand to the information security solutions offered by the Group.

12. Critical success factors in the area of activity and changes therein

In the opinion of the Company, the critical success factors in the Group's area of activity are as follows:

- a. The Group's innovativeness and its ability to adapt to the frequent changes and developments in its area of activity as well as its ability to reply quickly to such changes and developments.
- b. The simplicity of the Group's security solutions and the seamless integration of its solutions into the client's computer systems with minimal disruption to the organization's ongoing work.
- c. The ability to provide integral solutions that address different needs and scenarios of information transfer and information security.
- d. Customizing the security solution to the client's needs within a short period of time.
- e. The Group possesses the human capital that has the professional and technological knowledge in the field of information security. It is able to train its experts to a top level in order to provide clients with quick solutions of the highest standards, in accordance with the developments in the field of information security.
- f. Engagement with large and leading domestic and foreign clients – engagements with large clients establishes the Company's status as a prominent player in the information security market and gives the Company recognition and reliability, which open up opportunities to engagements with other clients in the future.
- g. Maintaining relationships with existing clients – maintaining the relationships with existing clients enables the Group to increase its revenues by selling additional licenses (increasing the number of users of Company's products), selling upgraded versions of its products, selling other features of the Group and providing maintenance and support services to existing clients; and
- h. The Group's products can integrate with other systems – a product's ability to interface with information security systems, databases, business systems and other systems in the organization is a highly important factor for the client when selecting a security solution.
- i. Signing business and technological collaboration agreements – business distribution agreements or technology based agreements (OEMs)⁶, that provide access to more markets and clients.

13. Principal entry and exit barriers of the area of activity, and changes therein

In the opinion of the Company the main entry barrier to the area of activity is the existence of prior knowledge and experience in the field of information sharing and security as well as experienced workforce, that has the ability to develop the Group's products in accordance with the clients' requirements, as well as variable market conditions and technological developments in the market. Another entry barrier to the area of the activity is reputation in the field of information technology. A company, which wishes to operate in this field, will find it difficult to enter into engagements with clients before it has such reputation. A final barrier is obtaining the funding required to develop and market the Group's products.

The Company does not have any significant exit barriers from its area of activity, except for long-term commitments to provide maintenance and support services to several clients.

⁶ An Original Equipment Manufacturer (OEM) is a company that produces parts and equipment that may be marketed by another manufacturer.

14. Substitutes to area of activity's products and changes therein

Currently, no company operating in the information security market has products, which offer organizations a comprehensive protection from breaching or damaging their information systems in various ways. Companies operating in this area of activity normally provide various types of information security products, each of which offers a solution in respect of a certain market or a certain aspect of information security. Thus, for example, the Companies Seeburger, Axway and Cyber Ark offer information security products in the MFT market (for details about this market see section 6.4 above), the companies Accellion and Egnyte offer information security products in the EFSS market (for details about this market see section 6.4 above), the companies Adallom Technologies Ltd. And Bitglass offer information security products in the CASB market (for details about this market see section 6.5 above), and the companies Vidder Inc., Zoha and Zscaler offer information security products in the Software Define Perimeter market.

The Group's products are unique since they provide extensive protection to information over various markets and aspects of information security. Those products offer clients a comprehensive solution covering both intra-organizational and inter-organizational data exchanges. Thus, for example, the SDE product addresses three information technology markets: the EFSS market (for details see section 6.3 above), the MFT market (for details see section 6.4 above) and the CASB market (for details see section 6.5 above). No other company, which currently operates in the market offers such a product that covers all three markets described above.

The SDA is another product, which is marketed by Safe-T Data, offers a unique solution that is designed to address both expected and un expected scenarios arising from the existing architecture of communications networks. The organizational networks of most organizations are currently composed of layers of internal (secured) networks and external networks. The following products are deployed between the internal and external networks: (a) Firewall - a firewall is a network security system that monitors and controls the incoming and outgoing network traffic based on predetermined security rules; firewalls are either software appliances running on general purpose hardware, or hardware-based firewall computer appliances. Firewalls monitor and control data traffic in a communication networks or in a single computer. Firewalls control the users' and the information's ability to move between the internal and external networks. (b) Front-End servers for each application, which enables the organization to monitor access to the applications; and (c) Reverse Proxy solutions, which block unauthorized access to applications and business services. The structure of networks as described above has proven to be ineffective in preventing cyberattacks and information theft in the current digital space. The SDA product is based on a different and ground-breaking technology – Secure Reverse Access, which enables secure access to communication networks and services by, among other things, protecting online business services from attacks, protecting the firewall from attacks, protecting the internal organizational networks from internal attacks and protecting the whole organization from external attacks (for further details about the SDA product, see section 16.2 below. Vidder Inc. offers a substitute product for the SDA.

15. The structure of competition in the area of activity and changes therein

For details regarding the competition in the field of information security, and the Group's ways to deal with competition, see section 22 below.

16. Services and products

The Group's products are designed to allow its clients to share, manage and monitor and access the organization's information in a secure manner. The target market of the Group's products are Israeli and foreign organizations from a wide range of industries such as banks, investment firms, healthcare organizations, insurance companies, government agencies, commercial and industrial companies, education institutions, etc. The Group's products are sold on a standalone

basis or as part of a single unit that provides the clients a comprehensive information security solution, that is customized to the client's information security infrastructure and systems.

Set forth below is a short description of Safe-T Data's two principal products:

16.1 Securing intra-organizational and inter-organizational data exchanges by using Safe-T Secure Data Exchange platform (hereafter – “SDE”)

16.1.1 SDE, which until recently was called Safe-T Box, is a product developed by Safe-T Data, which brokers, controls and secures intra-organizational and inter-organizational data exchanges (to registered clients or guest, business partners, external organizations, etc.), including data exchange through a cloud, in accordance with the organization's information security policy. SDE is a software product - a sort of a virtual box – which is placed within the organization and connects to all its sources of information, its existing information security services and to external data sources, thereby enabling the employees of the organization to securely share information and data within the organization and with external users. The SDE also provides secure cloud-storage solutions. It can be easily and quickly integrated into the systems of different organizations and it works together with the organization's existing information security solutions and applications as well as with those of external entities to provide fully secured business processes. The SDE's unique modular architecture and integration capabilities ensure its seamless integration into the organization's data exchange scenarios and the enforcement of its data security policy.

The SDE can be purchased as an infrastructure product on a standalone basis to which the client can add various plugins from a range of more than 120 plugins, which Safe-T Data has developed for data sources, organizational systems, information security services and external data sources (hereafter – “ the communication systems”). The plugins allow the SDE to communicate with the communications systems and to exchange information and files with those systems. The client can purchase the plugins and other features of the products at the time the SDE (the infrastructure product) is purchased, or at a later stage, all in accordance with the organization's needs. Thus, for example, a client can purchase the product for the purpose of ensuring secure email exchange in the organization and at a later stage it can purchase other features such as secure uploading of files or organizational vaults. In addition, each organization can determine the number of users of the SDE and increase this number from time to time based on its needs.

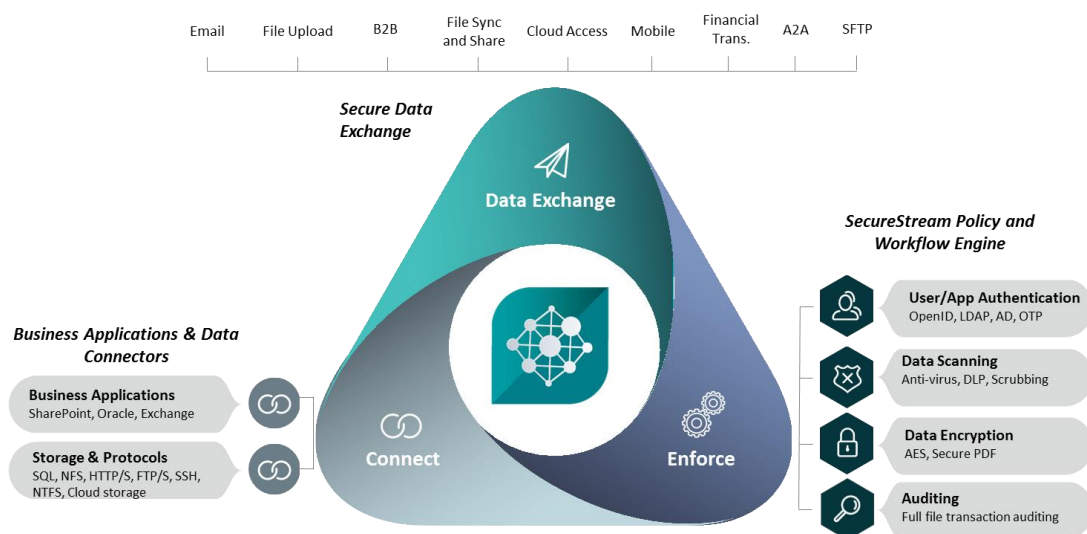
Using the SDE, the organization – with the help of its network administrator – can run secure organizational processes by creating predetermined processes in order to increase the efficiency and introduce automation of a wide range of business processes for any imported or exported file or email, in accordance with the organization's information sharing policy, without having to revert to complex programming, such that any exchange and transfer of organizational information is subject to the software's control. Built on the industry's widest range of preconfigured application and cloud connectors and powered by an automated security policy enforcement engine, the SDE is designed to rapidly add security and control across a wide variously of data exchange patterns for enterprises of all types including to a from the cloud.

The SDE has several modules, as follows:

- **Organizational vault** – the organizational vault is an encrypted library that allows encrypted information sharing, while controlling access by users. The organizational vault that was developed by Safe-T Data is unique in the sense that it allows easier and simpler access to sensitive information that can be stored anywhere (network drive, FTP server, Cloud, business application, database, etc.) from any desired location without installing any other software, while ensuring that the files placed in the vault benefit from maximum security.

- Secure access to the cloud – a solution enabling secure exchange of data and files with the cloud. SDE allows monitoring and controlling all exchanges of files and information to and from the cloud. It automatically enforces the organization's information security policy that is applied to all exchanges with the cloud and encrypts shared files and information.
- Secure email – sending encrypted emails of any size and type to registered or ad-hoc recipients, providing a simple, easy to use, full auditable alternative to PGP (Pretty Good Privacy).
- Secured managed file transfer – secure intra-organizational and inter-organizational transfer of files of all types and sizes with a secure, user-friendly file upload interface. This solution uses secure communication protocols that replace protocols such as File Transfer Protocol (FTP).
- Secure file synchronization and sharing – an intra-organizational Dropbox solution that enables users to safely share files from any user interface.
- Secure data exchange network – securely transferring and receiving files of any type and size to and from remote branches, business partners and clients with an intuitive user-friendly interface.

Set forth below is a drawing that describes the location of the SDE within the organization and the way it works:



SDE's uniqueness is reflected in the following features:

- A modular solution that allows adding users and easily expanding its functions;
- Addresses both expected and unexpected information transfer scenarios in an easy and secure manner;
- Offers more than 120 interfaces with organizational systems, security solutions, cloud, etc.;
- Installation and implementation time frames are among the shortest in the market;
- Supports all types and sizes of files and data;

- The level of security offered by this product is among the highest offered in the market;
- The most advanced policy enforcement tool in the market; and
- Unique and easy to use user interface.

16.1.2 On August 16, 2016, the Company finalized the development of a new version of the SDE product, which is one of the best solutions currently available in the field of secured information exchange. The new version includes the following features: it supports the transfer, scanning and securing of up to 2 million files a day; it has a new web-based management interface; it supports every possible scenario of data entry into the organization; it supports a range of technological partners; it enables the conversion of files to different formats and it supports new features in the field of user authentication. For further details, see the Company's report of August 16, 2016 (reference no.: 2016-01-104023).

16.1.3 On November 13, 2016, Safe-T Data launched a unique solution, which is based on the SDE product; this solution is designed to prevent financial fraud in the digital banking market. The new solution aims to secure and authenticate every banking action, that a bank wishes to allow its clients and partners to perform (the appropriateness of the action, its authentication and verifying that it was carried out by the entity/person who is allowed to do so). The solution allows authentication of banking actions under both simple and complex scenarios to comply with the organization's business and information security policies. The client can opt to implement all potential scenarios or only some of them. The new solution can be integrated both into existing clients' systems and into new clients' systems and it is designed to be used by financial organizations, which wish to prevent financial fraud, such as forgery of checks, illegal bank transfers, theft of cash from ATMs, etc.

The new solution includes, among other things, the following features: it supports very large scales of banking activity; it is easily integrated into all banking actions – deposits of paper checks or digital checks, money transfers, cash withdrawal from ATMs, ATM-less Card, capital market activities, etc.; the solution creates a double sided communication interface between the bank's client and the bank even without using the bank's application; it offers unique and highly advanced features of financial actions authentication; it is an easy-for-use solution that suits both technologically literate populations and technologically illiterate populations; the solution serves the needs of the banking system and meets its information security criteria. For further details, see the Company's report of November 13, 2016 (reference no.: 2016-01-076605).

16.1.4 Subsequent to the date of this report, Safe-T Data launched a new and unique solution, which is based on the SDE product; this product is designed to protect clients from ransomware attacks. While other products, which aim to provide such protection, require complicated installation that is customized to the end point of the organizational users, Safe-T Data's solution provides a central overall protection for all organizational information, which requires a one-off installation for the entire organization. The solution allows monitoring and securing access to information, such that only the solution is authorized to carry out any actions in connection with the information. For example, any attempt by the ransomware to encrypt the organization's files shall be automatically blocked by Safe-T box; the solution protects automatically all the organizational information; installation is simple and carried out centrally for the whole organization without disrupting the work of the end user. For further details, see the Company's report of February 1, 2017 (reference no.: 2017-01-009889).

- 16.1.5 In view of the expansion of the range of solutions offered under the SDE product, the Company expects that the demand for this product will increase. The Company also believes that each and every sale, where its products replace competing products, strengthens the Company's position in the market and opens up opportunities to replace other competing products used by that client, with SDE solutions.

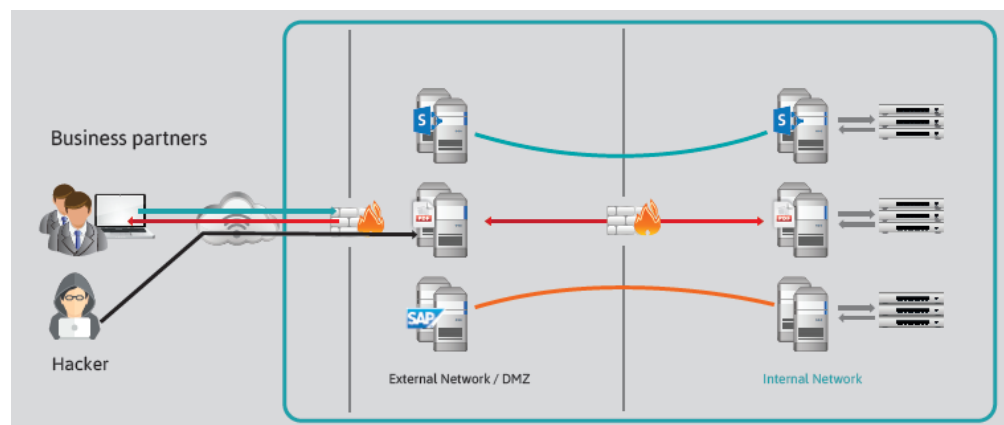
Company's assessments as to the increase in the demand for the SDE product are based on Company's projections and assessments, which constitute forward looking information as defined in the securities law regarding future developments and events, which are not certain and are not under the control of the Company. Those assessments may not materialize, or materialize differently than expected due to various factors, including changes in clients' requirements in territories in which the Group operates, and/or regulatory changes in those territories and/or other factors, which are not under the control of the Company and/or the materialization of any of the risk factors described in section 40 below.

16.2 Safe-T Secure Data Access (hereafter – “SDA”)

- 16.2.1 SDA, which until recently was called RSAccess is a product developed by RSAccess (a fully-owned subsidiary of Safe-T Data) and is exclusively marketed by Safe-T Data. This product is designed to protect the access to organizational data (Data Security Access).

The organizational networks of most organizations are currently composed of layers of internal (secured) networks and external networks. The following products are deployed between the internal and external networks: (a) Firewall - a firewall is a network security system that monitors and controls the incoming and outgoing network traffic based on predetermined security rules; firewalls are either software appliances running on general purpose hardware, or hardware-based firewall computer appliances. Firewalls monitor and control data traffic in a communication networks or in a single computer. Firewalls control the users' and the information's ability to move between the internal and external networks. (b) Front-End servers for each application, which enables the organization to monitor access to the applications; and (c) Reverse Proxy solutions, which block unauthorized access to applications and business services.

Set forth below is a drawing portraying the way networks are currently planned:



DMZ is an external and less secured communications network, on which the organization's client-facing services are deployed in order to allow third parties (such as clients, suppliers, business partners and the Internet) to access those services without accessing the organization's internal network. The DMZ is also called the “demilitarized zone”. The extensive use of DMZ and the need of high level of connectivity between organizations and external parties lead to significant parts

attacks, protects the internal organizational networks from hacking and protects the whole organization from external attacks.

16.2.2 On July 13, 2016, Safe-T Data launched a new version of the SDA product. The new version offers the following features: it triples the number of concurrent connections supported by the product, which enables connecting a larger number of users to the product and support a large number of SDA clusters through an innovative management interface. An SDA cluster is a group of interconnected SDA products that work in a coordinated manner to protect the organization's services from attacks. Prior to the upgrading of the product, it was only possible to combine the management of one cluster (two products). Using the new management interface, an organization will be able to manage many clusters, which will simplify management. The new version provides upgraded support to cloud environment; the product will enable an easy to use interface with cloud systems. For further details, see the Company's report of July 13, 2016 (reference no: 2016-01-080974).

16.2.3 On October 6, 2016 the Company finalized the first version of the SDA product, which is integrated into SecureAuth's authentication product. For further details, see section 20.3 below. The Company expects that the combination of the SDA product with SecureAuth's authentication product shall improve the quality of the product and increase the number of clients seeking to install the product. In the opinion of the Company, the use of this product by those clients shall give the Group's products a seal of quality and will enable the Company to sell the product to larger organizations.

Company's assessments as to the increase in the demand for the SDA product and the upgraded versions thereof are based on Company's projections and assessments, which constitute forward looking information as defined in the securities law regarding future developments and events, which are not certain and are not under the control of the Company. Those assessments may not materialize, or materialize differently than expected due to various factors, including changes in clients' requirements in territories in which the Group operates and/or other factors, which are not under the control of the Company and/or the materialization of any of the risk factors described in section 40 below.

17. Breakdown of revenues and profitability by products and services

Set forth below is a breakdown of the Group's revenues in the years 2014 to 2016 (as presented in the Company's financial statements) for each group of products, which constitutes more than 10% of the Company's revenues:

In view of the finalization of the merger transaction and the accounting treatment applied in connection therewith (for details see note 1h to the financial statements), whereby Safe-T Data is the accounting acquirer (rather than the Company), the comparative figures presented in these sections are the comparative figures of the accounting acquirer – Safe-T Data.

	Breakdown of revenues out of total Company's revenues					
	2014		2015		2016	
	Thousands of dollars	Rate out of total Company revenues	Thousands of dollars	Rate out of total Company revenues	Thousands of dollars	Rate out of total Company revenues
SDE	358	67.4%	528	73.8%	716	85.0%
SDA	173	32.6%	187	26.2%	127	15.0%
Total	531	100%	715	100%	843	100%

18. New products

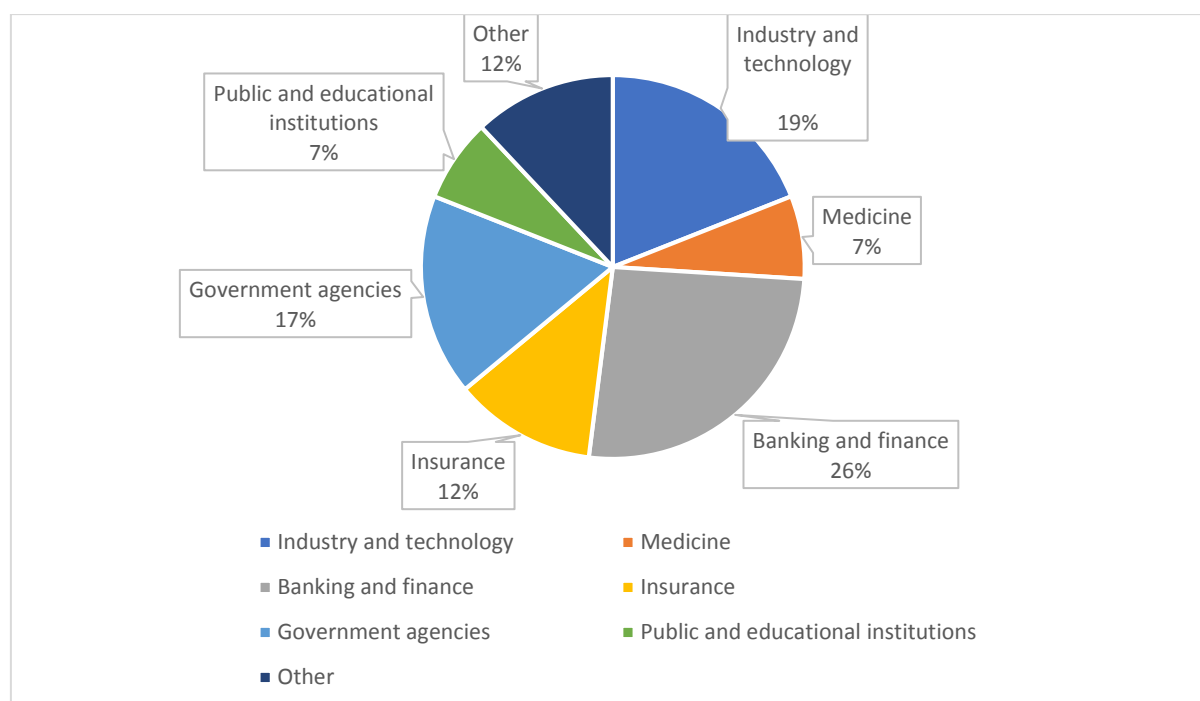
The Company constantly works to improve its existing products by developing new versions and adding new components in accordance with technological changes and market demands. Over the course of the period of this report and through the date of publication thereof, the Group has launched several new products, which are based on its existing SDE and SDA products. For details, see sections 16.1.2-16.1.4 and sections 16.2.2-16.2.3 to this chapter. The Group is currently working on the development of a solution in the field of Software Defined Perimeter (SDP), which – in the opinion of the Company – will open up a new market for the SDA product. This solution will enable organizations to allow employees and business partners access those organizations' services without opening portals in the firewall, without having to install a VPN and without exposing the services to hostile parties, such as hackers.

Part four: Matters pertaining to the Group's activities as a whole

19. Clients

The Group has tens of large Israeli clients, who are industry leaders in their field of activity, several medium and small clients in the Europe and the USA and several new orders that were placed (but not yet supplied as of the date of publication of this report) by African clients, mainly by Ghanaian banks. The Group's clients include banks and financial organizations, insurance companies, healthcare organizations, industrial and commercial companies, education institutions and government agencies. The Company is not dependent on any of its clients.

Set forth below is a drawing portraying the breakdown of the Group's clients by areas of activity as of the date of this report:



Group's engagement with its clients typically involves an initial engagement between Safe-T Data and the client for the purpose of purchasing the Group's products. In most cases, after the Group's products are purchased, the clients enter into further engagements with Safe-T Data in order to increase the number of users of the products, in order to purchase updated and new versions of the products and in order to purchase ongoing maintenance and technical support services.

The products and services of the Group are normally priced in accordance with the number of users, the nature of the supplied products and the number of products and services provided by

the Group to its clients – the number of features that the Group sells to its clients, the sale of upgrades and the provision of ongoing maintenance and support services. The Group's past experience shows that a client that has entered into an initial engagement with the Group and purchased a product will, in most cases, also purchase other products and upgrades and/or increase the number of users. This is, among other things, due to the fact that the client has made the initial investment in an information security product.

The Group has two models of engagement: (1) sale of a license for use of the product, with no time limitation and subject to a certain number of users. The client may renew the engagement for maintenance and support services every year or every few years (this model is called the sale model); and (2) engagement for a specific period of time. As part of this engagement, the client receives a license to use the Group's product for a year or a number of years. Under this type of engagement, the client is entitled to use the product and to receive maintenance and support services and upgrades over the relevant engagement period (lease model).

Set forth below are data about clients, the Company's revenues from whom constituted 10% or more of its revenues in the years 2014- 2016 (in accordance with the financial statements):

In view of the finalization of the merger transaction and the accounting treatment applied in connection therewith (for details see note 1h to the financial statements), whereby Safe-T Data is the accounting acquirer (rather than the Company), the comparative figures presented in these sections are the comparative figures of the accounting acquirer – Safe-T Data.

	Revenues from principal clients out of total Company's revenues					
	2014		2015		2016	
	Thousands of dollars	Rate out of total Company revenues	Thousands of dollars	Rate out of total Company revenues	Thousands of dollars	Rate out of total Company revenues
Taldor Computer Systems Ltd.	--	--	245	34.3%	195	23.1%
Indiana Office of Technology	--	--	--	--	191	22.5%
Client A	--	--	--	--	117	13.9%
e-Government Unit at Government ICT Authority at the Prime Minister's Office	--	--	170	23.8%	63	7.4%
eviCore (CareCore National)	313	58.8%	43	6.0%	41	4.8%
Client B	69	13.0%	33	4.6%	24	2.9%

19.1 Taldor Computer Systems Ltd. (hereafter – “Taldor”) – is a distributor, which purchases Safe-T Data's products and sells them on to end clients. The acquisition of Safe-T Data's products by Taldor is carried out in accordance with orders it receives from end clients. Most of the said clients normally engage with Taldor under a licenses sale model; in a small number of cases, they engage with Taldor under the license lease model. Those transactions involve the SDA and SDE products. The engagement was entered into after Safe-T Data issued a quote and Taldor placed a purchase order. Taldor paid Safe-T Data the entire consideration payable in respect of products, which the Company supplied in connection with Taldor's engagements with the said clients.

19.2 Indiana Office of Technology – On April 28, 2016, Dell Marketing L.P., which is an authorized supplier of the State of Indiana USA, placed an order with Safe-T USA Inc.; the order includes the provision of Safe-T Data's products to the Indiana Office of Technology under the licenses sale model and the provision of support and maintenance services for a one-year period. Three months after the first order had been placed, the Indiana Office of Technology placed a second order for the purchase of further SDA units. All products were

supplied and the client paid the entire consideration payable in respect of the two transactions.

- 19.3 **Client A** – in 2016, Safe-T Data and Client A entered into an engagement for the purchase of the Group's SDE and SDA products under the licenses sale model. The engagement was entered into after Safe-T Data issued a quote and Client A placed a purchase order. The engagement includes the provision of maintenance and support services by Safe-T Data for a period of one year as from the date of sale. Towards the end of 2016, Client A placed a second order. The client paid the entire consideration payable in respect of the two transactions. Subsequent to the date of this report, Client A placed with Safe-T Data an order for the provision of maintenance and support services for a period of 3 years against payment of approximately 230,000 ILS, which Safe-T Data expects to receive at the beginning of April 2017.

Company's assessments as to receipt of payment from Client A are based on Company's projections and assessments, which constitute forward looking information as defined in the securities law regarding future developments and events, which are not certain and are not under the control of the Company. Those assessments may not materialize, or materialize differently than expected due to various factors, including the client's meeting the dates of payments agreed upon.

- 19.4 **e-Government Unit at Government ICT Authority at the Prime Minister's Office (hereafter – "the unit")** – On August 12, 2015 the Tenders Committee at the Prime Minister's Office for procurement and engagements in matters relating to information and communications technology (hereafter – "the tenders committee") approved the Unit's entering into engagement with Safe-T Data without participating in a tender. This was possible since Safe-T is the only supplier that can provide the Unit a comprehensive solution that meets all the requirements of the Unit through the SDE and the SDA products. The Unit hosts in its server farm the websites of the government and of the different security and defense agencies of the State of Israel. In effect, the Unit will serve as a distributor and will sell Safe-T Data's products to various government agencies over the course of the period of engagement. The engagement includes a license to use the products, integration of the product and maintenance for a three-year period from October 2014 through October 2017, with an option to renew the engagement by two additional periods of up to one year each. On October 26, 2015, the Unit placed with Safe-T Data an order amounting to approximately 1.65 million ILS (including VAT). As of the date of this report, the Company received all amounts payable in respect of this order.

- 19.5 **eviCore (CareCore National)** – in 2014 Safe-T Data and CareCore National (currently named – eviCore) entered into an engagement for the purchase of the Group's SDE and SDA products. The engagement was entered into after Safe-T Data issued a quote and CareCore National placed a purchase order. The engagement includes the provision of maintenance and support services by Safe-T Data for a period of three years as from the April 1, 2014. As of the date of this report, the Company received all amounts payable in respect of this transaction.

- 19.6 **Client B** – in 2014 Safe-T Data and Client B entered into engagement for the purchase of the Group's SDE and SDA products under the license sale model. The engagement was entered into after Safe-T Data issued a quote and Client B placed a purchase order. The engagement includes the provision of maintenance and support services by Safe-T Data for a period of one year from date of sale. The Company received all amounts payable in respect of this transaction. In 2016, Client B renewed the term of the maintenance and support services through March 31, 2017. Subsequent to the date of this report, Client B placed with Safe-T Data an order for maintenance and support services for a period of two years and for other professional services to be carried out over the course of this period against payment of approximately 265 thousand ILS, which Safe-T expects to receive over the course of the said period.

20. Marketing and distribution

Safe-T Data's marketing function includes a VP Marketing and Product Management and a marketing manager. Safe-T Data's distribution function includes the CEO of Safe-T USA, who deals with sales within the USA, a strategic partner, who is in charge on promoting and distributing the Company's products in Asia-Pacific, a sales VP, who focuses mainly on sales in Europe and RoW and on supporting the abovementioned strategic partner, a VP Sales Israel and Africa and regional sales persons, who operate in Israel and in the USA. The Company also works through the following marketing and distribution channels:

- 20.1 **Distributors and marketing entities** – Safe-T Data and Safe-T USA enter into engagements with distributors and marketing entities for the purpose of distributing their products to their clients. The distributors and marketing entities are in charge, among other things, on identifying potential clients, integration of the products in the organization's systems and providing support services to Group's clients. Safe-T Data has entered into engagements with distributors for the purpose of distributing its products in Israel, the USA, Mexico, Singapore and other countries in the Asia-Pacific area, UK, Switzerland, Canada, Germany, Italy, Serbia, Austria, France, Nigeria, Turkey, Brazil and Gahanna – approximately half of those engagements were carried out in 2016. As of the date of this report, the Group has approximately 18 active distributors. The engagement with each distributor/marketing entity is limited to a specific territory and is not exclusive, except for the distributor in Singapore, who was granted exclusivity in Singapore, Hong Kong, Taiwan, Korea and Thailand. Normally, the term of engagement with distributors/marketing entities is one year and it is extended automatically, unless cancelled by one of the parties. The consideration in respect of those engagements is paid to the Group from time to time, when sales are made by the distributors. During 2016, Safe-T Data entered into distribution agreements with several distributors for the distribution of the Group's products in France, Serbia, Gahanna, Nigeria, Turkey, Mexico and Brazil.
- 20.2 **Sales agents** – Safe-T Data has entered into consultancy agreements with several entities (hereafter – “the sales agents”) for the marketing and promotion of its products and the increase of the scope of its sales. The term of those agreements is normally one to two years and they focus on the marketing and promotion of the Group's sales in specific territories and to specific potential clients, as agreed between Safe-T Data and the sales agents. As of the date of this report, Safe-T Data has 5 active sales agents, which operate in Israel, Europe and the USA. Some of the sales agents are entitled to receive commissions, the amounts of which are derived from Safe-T Data's sales from engagements entered into as a result of the sales agent's work. Other sales agents are entitled to a fixed monthly payment or a one-off payment upon placement of a purchase order.
- 20.3 Engagement with technological partners through an OEM⁹ contract- for details, see section 35 below.
- 20.4 Marketing in information security exhibitions and conferences, such as CyberTech and RSA Conference.
- 20.5 Participating in regional events held by information security partners and integrators.
- 20.6 Marketing through the Company's website.
- 20.7 Marketing through digital media (various media websites, digital magazines, blogs and social networks).

21. Orders backlog

Set forth below are details regarding the Company's backlog of orders as of December 31, 2016, which have not yet been recognized as revenues in the Company's financial statements

(hereafter – “orders backlog”) as well as the estimated fulfillment of those orders up until 2019 (in thousands of dollars)

	31.12.2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2018	2019
Orders backlog	626	166	136	109	83	113	19

The products mix included in the orders backlog is similar to the products mix included in the Company’s revenues – as presented in this report. In addition, the Company has uncommitted orders of approximately \$ 144 thousands from Gahanna and Africa. The Company estimates that these orders shall become committed orders within 4 months, in view of the need to open a technical support center by a company with whom the company collaborates with regard to business ventures in Africa. Setting up the center, which requires technical and logistic preparations, will make the fulfillment of the orders possible.

As of December 31, 2015, Safe-T Data’s orders backlog amounted to approximately \$403 thousand. A total of approximately \$ 330 thousand out of the said amount was recognized as revenues in the Company’s accounts and the remaining amount will be recognized in 2017 and 2018.

22. Competition

22.1 General description of the competition in the area of activity and names of significant competitors

22.1.1 Protection of data and applications in DMZ (SDA)

SDA is an innovative information security product; it is a supplementary product to various other products such as firewalls. Applications, Sharepoint⁷, etc.

To the best of the Company’s knowledge, no technology that is currently offered in the market is similar to the technology offered by the Group as part of its SDA product. To the best of the Company’s knowledge, as of the date of this report SDA is the only product in the market, which is installed on-premise and which can separate between the organization’s internal network and its external network and at the same time enable the accessibility of services to external parties without opening ports in the firewall (as described in section 16.2 above). Therefore, the Group’s market share in this market cannot be estimated.

SDA is relevant, among other things, to activities in the following markets:

- Firewalls market – SDA protects firewalls from attacks that are targeted at the firewalls themselves;
- The Security-as-a-Service market – this market offers cloud-based information security services. Some of the said services expose the organization to attacks. SDA is integrated into those services and improves the level of security they provide by closing the ports in the firewall, thereby minimizing the vulnerability of the organization’s network, as explained in section 16.2 above. Companies such as Zoha, Zscaler and Viddeer Inc. operate in this market.
- External application servers market -servers that constitute an integral part of applications and serve as the first point of access of the application.
- The Data Diode market – in order to protect highly sensitive data and networks, the most commonly used security measure is to completely disconnect the

⁷ A generic name referring to web-based collaborative platforms designed to allow information resources management by several users.

system from other networks. But there is still a need to export and import data from those isolated systems. A data diode solves this issue by creating a physically secure one-way communication channel from the insecure network to the secure network. The one-way channel allows data to be safely transferred into the secure network, while not allowing any data to leave. The Data Diode is most suitable to industrial environments where Supervisory Control And Data Acquisition (SCADA) computer systems are operating. The products in this market are materially different from the SDA since they cannot be used to export services in a DMZ environment. Companies operating in this market include Waterfall Security and Vado Networks.

22.1.2 Securing intra-organizational and inter-organizational data exchanges (SDE)

The Company has both domestic and foreign competitors in this market.

The most significant competition to Group's activities in Israel in this area of activity is posed by CyberArk Software Ltd. Also, Adallom Technologies Ltd., is a significant competitor in the field of cloud security.

Foreign companies, that compete with Company's products abroad include Axway (a French company) and Seeburger (a German company), each of whom provides solutions for secure exchange of files by using a multi-protocol MFT gateway for securing, managing and tracking file flows among users and applications in the organizations. There are a number of American companies that compete the Company in the USA, such as Cleo, Citrix Sharefiles Globalscape, Egnyte and Accellion, which provide a solution for secure intra-organizational and inter-organizational data exchange especially when mobile devices or clouds are used.

In addition, there are several companies that compete with Company's products in the field of cloud connectivity and data breaches in the cloud: Bitglass, Netskope and CloudLock.

It should be noted that as described in section 16.1 above, SDE is the only solution in the data exchange market that provides a solution to the following three markets: the EFSS market, the MFT market and the CASB market (which are described in section 6 above). This feature supports secure data exchange in all data exchange scenarios of the organization using a single solution. No other Company or product currently addresses the needs of all three markets.

Company's share in the global intra-organizational and inter-organizational data exchange market is less than 0.1%. The Company is unable to estimate its market share in the Israeli market.

22.2 Main methods employed by the Group to deal with competition

In order to deal with competition, the Group carries out a market research in connection with the technologies developed by Competing companies, so that it will be able to offer its clients better products. The Group invests significant resources in research and development. It recruits high quality employees, who are highly experienced in its fields of activity. It also recruits management and sales team members, who have vast experience working for leading American companies, which operate in the Company's area of activity.

The Company also meets with clients and convenes forums of information security officers in order to understand their existing and future needs and be in a position to develop solutions that will address these needs.

Furthermore, since the Group competes with well-established companies, which have an existing client base, it invests significant efforts in obtaining a technological advantage in combination with an ability to offer cheaper and more effective solutions than the ones

offered by other companies. This is done with the aim of attracting clients of established companies that operate in its area of activity.

As of the date of this report, the Company has the industry's widest range of pre-configured application and cloud connectors, which enables quick installation of its products in comparison to other companies. The SDE system has a significant advantage compared to competing products since it is powered by an automated security enforcement engine. Another significant advantage of the Group is the fact that it is the only supplier in the market that can offer a single solution that supports all expected and unexpected data exchange scenarios of an organization, as described in section 16.1 above.

In the opinion of the Company, the combination of SDE with SDA creates the most secure data exchange solution available in the market, since this solution can be installed in the intra-organizational network without opening ports in the firewall.

22.3 Factors affecting the Group's competitive status

The Group's competitive status is mainly influenced from research and development activities that are carried out by competing companies and from various technology companies entering its area of activity and on the other hand from its own ability to upgrade its solutions and maintain their effectiveness.

The size of the Group may play a role in determining its competitive status in the market. On the one hand, a small company needs recognition and reputation in order to be able to enter into engagements with large companies and in order to establish its status as a leading market player. On the other hand, a young, innovative and dynamic company may seem more attractive compared to other companies operating in the same market.

The Group works to improve its competitive status using the following measures: (1) raising capital in order to expand its sales and marketing functions and develop products; (2) entering into engagements with large and leading clients, since such engagements establish the Group's status and reputation in the field of information security and open up new opportunities to enter into engagements with other clients; (3) entering into engagements with distributors, marketing entities and technological partners (for example by OEM⁶ contracts) in order to strengthen the Group's position in existing markets and to penetrate new markets, in accordance with the Company's business strategy; (4) providing high level maintenance and support services to existing clients in order to retain those clients and encourage them to consume other services offered by the Group, thereby increasing revenues and preventing client attrition; and (5) meeting with clients in order to maintain the Group's relationships with those clients.

The Group is well known in Israel in the field of providing information security services to organizations and has very good reputation in this field. Among its clients are insurance companies, financial institutions, healthcare organizations, industrial companies and government agencies. The engagements with those clients positions the Group as a leading market player in Israel and boosts its ability to enter into engagements with other clients.

In the USA, Europe and Asia the Group is less known than its competitors in the information security market. Therefore, the Group has been investing significant resources in penetrating other markets, especially the American market but also in Europe, Asia and Africa. The Group takes the following steps to promote penetration into additional markets:

- Setting up marketing and distribution functions in order to recruit large and leading clients in those markets. Entering into engagements with such clients will position the Group as a leading player in this area of activity and will enable it to acquire new clients.
- Entering into technological partnerships with leading companies, that will sell the Group's products (for example by OEM⁶ contracts) or combining the Group's products with the products of other companies thereby offering a joint solution.

- Recruiting high-quality sales team members, who are highly experienced in selling information security products in the USA as described in section 27 below.

On the other hand, the Group's size also works to its advantage since it enables the Company to provide its clients with solutions quickly and with great care, whereas larger companies take longer to address clients' queries and needs, since their work processes are more complex. Also, as a young and small company, its innovativeness is a huge advantage compared to larger and well-established market players.

Moreover, in the opinion of the Group, its penetration into the US market will have a positive effect on its competitive status, since approximately 40% of global spending on information security is spent in the US market and penetration into this market will also have an effect on European clients. In addition, since US organizations are required by regulators to have in place information security solutions, many American financial institutions, healthcare organizations and government agencies dedicate large budgets to information security.

Company's assessments and data as to the existing and future competition are based on Company's projections, assessments and estimates, which constitute forward looking information as defined in the securities law regarding future developments and events, which are not certain and are not under the control of the Company. Those assessments may not materialize, or materialize differently than expected due to various factors, including changes in clients' requirements in territories in which the Group operates, and/or regulatory changes in those territories and/or failure to obtain the funding required for research and development and/or other factors, which are not under the control of the Company and/or the materialization of any of the risk factors described in section 40 below.

23. Seasonality

As a general rule, Safe-T Data's revenues in the first and third quarters are lower than its revenues in the second and fourth quarters (although in view of the current scope of Company's sales, larger orders from Company's clients may change this trend). This seasonality normally stems from the fact that Group's clients tend to use their information security budget towards the end of the calendar year; this causes an increase in sales in the fourth quarter of the year and lower sales in the first quarter of the year. Also, summer holidays over the course of the third quarter of the year in most territories in which the Company operates cause lower sales in this quarter.

24. Property, plant and equipment

As of the date of this report, Safe-T Data rents offices at the area of approximately 330 square meters in Herzliya, which are used by the Group in its operating activities.

The Group also owns computer and electronic equipment, which is mainly used for the Group's research and development activities and for the provision of technical support.

25. Research and development

25.1 Review of the research and development activity in the area of activity and the results of this activity

The Group's research and development activities focus on constant improvement of new versions of its existing products, by adding new functions and features and updating the products in line with technological changes and with changes in clients' needs. As of the date of this report, Safe-T Data is developing a new cloud solution based on Software Defined Perimeter (SDP) technology, which will enable organizations to allow employees and business partners access the organizations' services without opening portals in the firewall, without having to install a VPN and without exposing the services to hostile parties, such as hackers.

Development grants

On May 5, 2015 Safe-T Data received the approval of the Chief Scientist Office in the Ministry of Economy to carry out a research and development plan on “a system for secure and controlled sharing of information between the organization’s systems and the network (instrument of approval no. 54355) over the course of the period from November 1, 2014 through October 31, 2015 (hereafter – “the approved plan”). As part of this plan, the Chief Scientist approved financial support of 50% of the R&D expenses that were approved by the Chief Scientist for the purpose of conducting the approved plan (i.e., support of up to 946,080 ILS). As of the date of this report, the approved plan has ended. Total support received by Safe-T Data from the Chief Scientist amounted to approximately 565 thousand ILS.

In view of the approved plan and receipt of support from the Chief Scientist, Safe-T Data is subject to the conditions stipulated in the approval issued by the Chief Scientist and in the instrument of approval; it is also subject to the provisions of the Law for the Encouragement of Research and Development in Industry, 1984 and the regulations promulgated thereunder, as well as to the rules, directives and circulars issued by the Chief Scientist or the Ministry of Economy. This includes an obligation, by the Company, to pay the Chief Scientist royalties on all its revenue until full repayment of the amount it received in support, with the addition of interest (and in some cases more than that amount due to manufacturing conducted abroad). The Company is also subject to special provisions relating to the rights and use of knowhow relating to the support of the Chief Scientist, whether directly or indirectly. Furthermore, the Company is subject to certain reporting requirements (such as in the case of an investment made by a foreign resident or change of control in the Company).

Assuming manufacturing will take place in Israel, over the course of up to three years from the end of the approved plan, Safe-T Data is expected to pay royalties of 3% and starting from the fourth year, it is expected to pay royalties of 3.5%. As of the date of this report, Safe-T Data has paid the Chief Scientist royalties aggregating approximately 114 thousand ILS.

The amount of liability that was recognized in the financial statements of the Company as of December 31, 2016 in respect of the grant is \$ 118 thousand.

25.2 Research and development agreements

The Group developed its systems and software independently. A very small portion of immaterial components for the systems and/or software were developed for the Group through third parties. Those third parties have no rights in those components.

25.3 Research and development expenses

The Group funded its investments in R&D from its revenues and by raising capital from third parties, including through investment agreements (as described in section 31 below), capital raising in accordance with a prospectus (as described in section 3.2.2) and through private offerings (as described in section 3.2.3 above). Set forth below is a table summarizing all research and development expenses of the Group after deducting the Chief Scientist grant for the years 2014-2016 (in thousands of dollars):

The period	2014		2015		2016	
	Amounts recognized in the financial statements as expenses	Amounts recognized in the financial statements as intangible asset	Amounts recognized in the financial statements as expenses	Amounts recognized in the financial statements as intangible asset	Amounts recognized in the financial statements as expenses	Amounts recognized in the financial statements as intangible asset
Research and development expenses	742	-	795	-	1,085	-

25.4 Expected investments in research and development

The Company estimates that over the course of the 12 months from the date of publication of this report, it will invest in R&D a total of approximately \$1.2 million.

Company's assessments and data as to expected investment in research and development are based on Company's projections, assessments and estimates, which constitute forward looking information as defined in the securities law regarding future developments and events, which are not certain and are not under the control of the Company. Those assessments may not materialize, or materialize differently than expected due to various factors, including non-compliance with time tables and/or failure to obtain the funding required for the development of the products at various development stages and/or marketing of the products and/or other factors, which are not under the control of the Company and/or the materialization of any of the risk factors described in section 40 below.

26. Intangible assets

As of the date of this report, the Company has rights in software and designs, which it accrued over a period of more than 6 years, including rights in patentable algorithms (Encryption and Key Management), software architecture (Encryption Database Connectivity) and various supporting technologies. As of the date of this report, those rights were not registered as patents.

As from 2012, Mr. Amir Mizhar, the founder of Safe-T Data and the Company's Chairman of the Board of Directors, filed applications to register patents in Israel, USA, Europe, Hong Kong and China in respect of the technology included in the SDA product, which aims to implement a reverse access technology without opening any ports in the firewall (hereafter – "the patent registration application"). The application was filed to the Israeli Patents Authority in 2012. In 2013, the application was filed directly to the World Intellectual Property Organization (WIPO) through a PCT mechanism, which aims to make the application process in multiple countries more efficient. The application was assessed separately in each and every country in accordance with its patent laws. Subsequent to the date of this report, on February 16, 2017, Mr. Mizhar received official confirmation regarding the registering of a patent from the European Patent Office in respect of the technology of the SDA product, in effect commencing on October 6, 2016. Mr. Mizhar and the Company intend to register the patent in the name of the Company. Patent registration applications in Israel and in the USA, were already registered in the name of Safe-T Data.

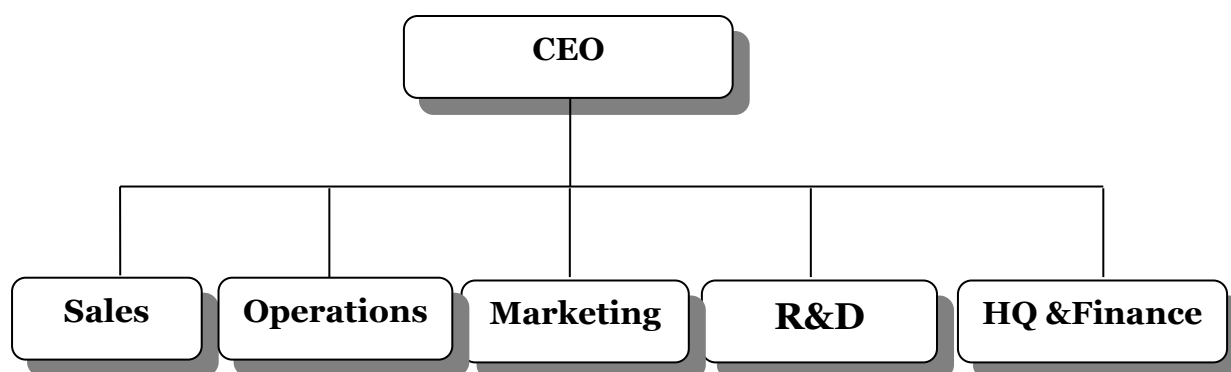
Also, on July 8, 2014, Mr. Amir Mizhar, one of the Company's shareholders, received approval regarding registration of the trade mark Safe-T as a trade mark in the USA. This trade mark is currently under ownership of Safe-T Data. On July 2, 2015, the trade mark Safe-T was registered in Israel and on of March 7, 2016 ownership of this trade mark was transferred to Safe-T Data. On July 2, 2015, Safe-T Box was registered as a trade mark in Israel in the name

of Mr. Amir Mizhar. SmarTransfer was registered as a trade mark in the USA and Europe in the name of Safe-T Data and an application to register it as a trade mark in China was filed⁸.

For further details regarding the Company's intangible assets, which were recorded in the Company's financial statements, see note 2i1) to the financial statements.

27. **Human Capital**

27.1 The Group's organizational structure



27.2 Human capital in the Company

As of the date of this report, the Group employs app. 27 employees; 5 of those employees form the sales team, which operates in the USA. The Company also employs 4 contractors and 4 part-time agents. The said sales team comprises highly experienced employees with vast experience in the field of information security. Some of those employees have previously served as VPs in the MFT and EFSS markets in the USA and they are thoroughly familiar with the US market and the relevant clients.

25.3 Company's workforce

As of the date of this report and as of December 31, 2014 and 2015, the Company's workforce is as follows:

Function	2016	2015	2014
Management and HQ	2	2	2
Administration and operation	2	1	2
Research and development	8	5	4
Marketing	3	2	2
Sales	8	6	5
Support	4	2	2

The workforce of the Company, as described in the above table, includes, among other things, employees working under consultancy agreements and management agreements, who work 50% or more of the number of hours of a full-time position.

27.4 Material dependency on a specific employee

⁸ SmarTransfer is a windows-based user interface that allows the end user to access the organizational vaults through the SDE product.

The Group is not materially dependent on a specific employee.

27.5 Employment agreements

Company's employees are employed in accordance with terms set out in personal employment contracts as decided by the Group. Under the employment contracts, the employees are entitled, among other things, to social benefits pursuant to the law and as set out in the personal employment contracts. Those contracts include an obligation to maintain confidentiality, non-competition clause and an obligation to maintain the Group's intellectual property rights. The Group provides some of its employees with mobile phones and vehicles, or alternatively reimburses them for car maintenance expenses. Also, some of the employment agreements include an obligation of the Company to grant the employee options to purchase Company shares and payment of bonuses and/or performance grants, mainly to sales persons.

27.6 Options plan to employees

On January 22, 2014, the Board of Directors of Safe-T Data approved an options plan, where under the Board of Directors of Safe-T Data may allocate non-tradable options and/or restricted shares to employees, office holders and advisors of the Company or related entities. Upon the finalization of the merger transaction, any options, which were allocated by Safe-T and which have not expired or exercised through that date, and which were exercisable into Safe-T Data shares, were converted into non-tradable options of the Company; those options are subject to the options plan (as defined below).

Close after the finalization of the merger transaction, the Company's Board of Directors adopted an option plan where under the Board of Directors of the Company may allocate non-tradable options and/or restricted shares to employees, office holders and advisors of the Company or related entities (hereafter – "the options plan"). The options plan is administered under the capital gains track (administered by a trustee) in accordance with the provisions of Section 102(b)(2) to the Income Tax Ordinance (New Version), 1961.

As from the date of finalization of the merger transaction the Company allocated – without consideration – 940,704 non-tradable options of the Company, which are exercisable into 940,704 ordinary Company shares, to employees and office holders of the Company and companies under its control, including the Company's CEO and a Company director –in accordance with an outline plan of options to employees, which was issued by the Company on September 18, 2016, as amended on November 9, 2016 and on November 17, 2016 (reference no.: 2016-01-079611).

27.7 Company's investment in training

The Group has a computer-based training program, which constitutes part of the process of integrating new employees, in accordance with the employees role. The Group also invests resources in management and retaining the organizational knowledge which accrues in the Group. Group employees participate in professional training programs from time to time, at the discretion of their direct line manager. In addition, the Group holds periodic training sessions to its employees and employees also participate in professional conferences in fields that are relevant to the Group's activity.

27.8 Office holders

Company's office holders are employed based on employment contracts or through personal written management and/or consultancy agreements.

In addition to their monthly salary, office holders in the Group are entitled, in accordance with the employment contracts, to other employment benefits such as reimbursement of expenses incurred while staying abroad (against receipts and in accordance with the Company's procedures), reimbursement of vehicle maintenance expenses, recreation pay, mobile phone, managers' insurance policy, pension fund, training fund, vacation pay and sick leave. Some of the Company's office holders are entitled to annual bonuses at the

discretion of the Company. In addition, the Company has allocated to most of its office holders, non-tradable options of the Company that are exercisable into ordinary Company shares (for details see section 27.6 above).

The Company has also provided its office holders with exemption and indemnification letters. The Company's office holders are also covered by a liability insurance.

For details about the terms of employment of the five highest paid office holders in the Company or corporations under its control, see regulation 21 to Chapter D of this report.

Pursuant to the provisions of the Companies Law, on May 8, 2016, the General Meeting of the Company's shareholders approved the adoption of a policy regarding terms of service and employment Company's office holders (hereafter – "the remuneration policy"). For details regarding the Company's remuneration policy see employment report and the summons to convene the General Meeting of the Company's shareholders as amended on April 7, 2016 and May 3, 2016 (reference no: 2016-01-058504). The service and employment terms of all Company officers comply with the provisions of the Company's remuneration policy⁹.

28. Raw materials and suppliers

The Group is engaged in software development. Therefore, it does not use raw materials, nor does it have material engagements with suppliers.

29. Working capital

29.1 The Company's working capital comprises mainly cash balances, trade receivable balances and VAT refunds as well as suppliers credit, other payables and institutions.

29.2 Credit policy to clients and from suppliers

The Group sells its products to medium and large organizations and to various government agencies, whose financial stability is high. In view of this fact and in view of the fact that the marginal cost of the products provided by the Group to its clients is negligible, the Group provides its clients credit periods of 30 to 90 days except for special cases.

As a software company, the scope of Group's operations with its suppliers is relatively low; operations mainly include various operational, administrative and marketing services. The consideration for those services is paid immediately or within 30 to 90 days from date of receipt of the invoice from the supplier. Suppliers of legal and financial services, who rendered services in connection with share offerings and in connection with the merger transaction, provide more extended credit periods – an average of 60 to 180 days.

29.3 For further details about the Company's working capital, see the Company's financial statements for the year 2016.

30. Investments

As of the date of this report, the Company does not have any investments in investees, partnerships and ventures, other than subsidiaries or investments in other activities.

⁹ Except for the terms of service and employment of Mr. Eylon Jeda – a Company director. Since the Company's remuneration policy provides that Company directors shall be entitled to receive remuneration in accordance with Companies Regulations (Rules Regarding Remuneration and Expenses to External Directors), 2000, then for the sake of caution, the Company's management decided to approve the Company's entering into an agreement to find investors with Mr. Jeda, as an exception to the remuneration policy. For further details, see the Company's report regarding the convening of the General Meeting of the Company's shareholders to approve the engagement of December 29, 2016 (reference no: 2016-01-093669 and a report on the results of the General Meeting of February 2, 2017 (reference no: 2017-01-019582).

31. Funding

The Group funds its activities from self-resources and by raising capital from third parties (including by issuance of options and warrants). Also, in 2016 Safe-T Data funded its activities by using loans extended by third parties. These loans were repaid in full, as described below:

31.1 Loans extended to Safe-T Data in preparation to its attempted IPO and merger transaction

On April 1, 2015, Safe-T Data and its shareholders on the one hand and the group of investors (as defined in section 3.1 above) on the other hand, entered into agreement in connection with a potential IPO of Safe-T Data's shares (hereafter – "the Fidelity agreement"). As described in section 1 above, the IPO of Safe-T Data did not take place. Under the provisions of the Fidelity agreement, the group of investors funded the costs relating to the attempted IPO of Safe-T Data. Also, Sisha Shany Holdings Ltd. and/or Fidelity Venture Capital Ltd. and/or anyone on their behalf (hereafter in this section – "the lenders") extended to Safe-T Data bridge loans (which do not bear interest) at the total amount of approximately \$1.05 million. Since Safe-T Data's IPO was unsuccessful, on January 7, 2016 and February 4, 2016 the parties amended the Fidelity agreement (hereafter – "the amendment to the Fidelity agreement"). Under the amendment to the Fidelity agreement, it was decided that the parties shall work to carry out a merger transaction, whereby all of Safe-T Data's shares shall be purchased by a listed company, which will have no business activities at the time of the merger. In consideration, Safe-T Data's shareholders at the time of the finalization of the merger transaction shall receive ordinary shares of the said public company, which will constitute – immediately after allocation – 67% of the issued and paid share capital of the public company on a fully diluted basis. Further to the amendment of the Fidelity agreement and in accordance with its provisions, Safe-T Data and the Company entered into a merger transaction as described in section 1.1 above.

Under the provisions of the amendment to the Fidelity agreement, the lenders extended to Safe-T Data additional loans at the total amount of approximately \$1.1 million. Also, it was determined that close after the finalization of the merger transaction the Group shall repay the group of investors and the lenders (as applicable) all amounts it received to fund the IPO, the bridge loans the Company received in accordance with the Fidelity agreement and the additional loan the Company received in accordance with the provisions of the amendment to the Fidelity agreement.

As part of the amendment to the Fidelity agreement, it was also determined that as from the date of finalization of the merger transaction, the group of investors shall provide the Company ongoing support and consultancy services in connection with its activity as a public company (hereafter – "the services"). In consideration for the said services, the Group shall pay the group of investors consultancy fees of \$5 thousand per month +VAT as required by law.

As part of the amendment to the Fidelity agreement, Safe-T Data has undertaken not to carry out an IPO for three and a half years after the finalization of the merger transaction. Safe-T Data has undertaken to raise funds only by private offerings. It was also agreed that this undertaking shall not be valid if one of the following conditions is met at the time a decision is made to raise capital: (a) (i) if the date of making the decision to raise capital falls within the year commencing on the date of finalization of the merger transaction – the total cash balance of the Company, in accordance with its consolidated, audited or reviewed financial statements (as applicable) is less than 3 million ILS; or (ii) the date of making the decision to raise capital falls after a year has elapsed since the date of finalization of the merger transaction (but less than 3.5 years since the date of finalization of the merger transaction) - the total cash balance of the Company, in accordance with its consolidated, audited or reviewed financial statements (as applicable) is less than 4 million ILS; or (b) the price per share as part of the IPO shall reflect an increase of 15% in the effective share price compared to the share price on the stock exchange on that date; or (c) the group of investors agreed to it in writing.

Close after the finalization of the merger transaction, the Group repaid all amounts extended by the group of investors and the lenders in accordance with the provisions of the Fidelity agreement and the amendments thereof – totaling approximately 8.4 million ILS (approximately \$2.1 million).

31.2 Loan to RSAccess from Mr. Amir Mizhar

On February 4, 2015, Mr. Amir Mizhar – one of the Company's shareholders – extended a shareholder's loan to RSAccess (which was at the time a subsidiary of Safe-T Data and its remaining shares were held by Mr., Amir Mizhar and Mr. Roei Haberman). The said loan – amounting to approximately 242,000 ILS was extended for the purpose of repayment of RSAccess' debts to the Company. The loan does not bear interest; (for further details, see note 22(b) to the Company's financial statements for the year 2016).

31.3 Bridge loans extended to the Company

Towards the finalization of the merger transaction, the three shareholders of the Company (who, to the best of the Company's knowledge were not interested parties of the Company at the time) extended to the Company bridge loan aggregating approximately 248 thousand ILS. Those loans were to be used to make payments required as part of the merger transaction (hereafter – "the interim loans"). The interim loans do not bear interest and are not linked to any index. They were fully repaid before the finalization of the merger transaction. For further details about the interim loans, see the transaction report and the summons to convene the General Meeting of the Company's shareholders of March 31, 2016, as amended on April 7, 2016 and May 3, 2016 (reference no: 2016-01058504).

31.4 For details about the issuance of rights and public offering carried out by the Company, see section 3.2.2 above.

31.5 For details regarding capital raising from investors by private offering, see section 3.2.3 above.

31.6 For details regarding the extension of the exercise period and the reduction of the exercise price of the Company's Series 1 warrants, see section 3.2.4 above.

31.7 For details about the Company's entering into agreements to raise capital from investors by means of two private offerings, see section 3.2.5 above.

31.8 Over the course of the period of the report, the Company allocated 60,000 non-tradable options to Company's consultants. The said options are exercisable into 60,000 ordinary Company shares. For further details, see private offering reports included in the Company's report of November 17, 2016 (reference no: 2016-01-079611).

31.9 Over the course of the period of the report the Company allocated – without consideration – 940,704 non-tradable options of the Company, which are exercisable into 940,704 ordinary Company shares, to employees and office holders of the Company and companies under its control, including the Company's CEO and a Company director –in accordance with an outline plan of options to employees, which was issued by the Company on September 18, 2016, as amended on November 9, 2016 and on November 17, 2016 (reference no.: 2016-01-079611).

31.10 The Company has no bank credit other than Safe-T Data's credit card facility amounting to 25 thousand ILS. Also, no restrictions were placed on the Company in connection with its ability to receive credit.

31.11 Further capital raising

The Company expects that it will be required to raise further funds in order to fund the Group's operating activities in the forthcoming year since the continuation of the Company's activities is conditional upon its obtaining additional funding until it achieves profitability. In April 2016, Safe-T Data released Mr. Amir Mizhar – the Chairman of the Company's Board of Directors – from a personal guarantee he provided to a bank in connection with Safe-T Data's debts to that bank. This was done by increasing Safe-T Data's pledged deposit with the bank by 50,000 ILS.

32. Taxation

32.1 Tax laws applicable to the Group

32.1.1 Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (hereafter – “the Law for the Encouragement of Capital Investments”)

a. Background

The Law for the Encouragement of Capital Investments has set in the past benefits tracks where under companies are entitled to receive various tax benefits by virtue of the “approved enterprise” or “benefited enterprise” status that was granted to some of their plants and other benefits by virtue of their status as a “foreign investors’ company” as defined in the Law for the Encouragement of Capital Investments.

The Law for Encouragement of Capital Investments, 1959 was amended as part of the Economic Policy Law for the Years 2011 and 2012 (Legislative Amendments), 2011, which was passed in the Knesset on December 29, 2010 (hereafter – the amendment).

The amendment sets alternative benefit tracks to the ones that were in place under the provisions of the Law for the Encouragement of Capital Investments before it was amended as follows: investment grants track designed for enterprises located in national development zone A and two new tax benefits tracks (preferred enterprise and a special preferred enterprise), which provide for application of a unified tax rate to all preferred income of the Company, as defined in the law.

Under the amendment to the law, on each year since the amendment came into effect (2011), a company, which is entitled to benefits under the law, will be able to opt for application of the amendment, thereby making available to itself the tax benefits under the amended law. Company's opting for application of the amendment is irrecoverable and starting from that year it will no longer be entitled to the tax benefits it was granted under the benefits tracks of the law before it was amended. A company that does not opt to apply the amended law will be allowed to continue and enjoy the tax benefits available under the law prior to its amendment until the end of the period of benefits, as defined in the law.

b. Tax benefits

Safe T Data is eligible to tax benefits under the “preferred enterprise” track as set in the amendment to the law. Under the amended law, the tax rates applicable to the preferred income of companies, whose plants are located in development zone A/other zones was supposed to decrease gradually as follows: in the years 2011 and 2012 – 10%/15%, in the years 2013 and 2014 – 7%/12.5% and in 2015 and thereafter – 6%/12%.

The Law for Change of National Priorities (Legislative Amendments for the Achievement of Budgetary Goals for 2013 and 2014), 2013, which was published in the official gazette on August 5, 2013, stipulated, among other things, that the tax rate applicable to preferred income shall increase such that as from the year 2014 and thereafter the tax rate applicable to income of companies whose enterprises are located in development zone A/other zones will be 9%/16%.

In that respect:

“preferred company” – amendment No. 68 the Law for the Encouragement of Capital Investments added the definition of a “preferred company” to Section 41 to the law. A preferred company is a company that has a “preferred enterprise”, is not a fully-owned government company (such companies are no longer eligible to tax benefits under the law) and meet several other conditions, as described below.

A “preferred company” is required to meet certain conditions set in Section 41 to the Law for the Encouragement of Capital Investments, whereby, the Company should be registered in Israel, control and management of the its business are conducted in Israel, it has a “preferred enterprise”, etc.

“preferred enterprise” – a preferred enterprise is an “industrial enterprise” that meets the criteria of a “competitive enterprise” set out in Section 18a to the Law for the Encouragement of Capital Investments. Under the provisions of Section 18a to the law, the enterprise’s compliance with the said definition should be assessed in respect of all revenues derived from the preferred enterprise in the relevant tax year.

32.1.2 The Law for the Encouragement of Industry (Taxation), 1969

- a) The Company is an "industrial company", as defined by this law. As such, it is entitled to claim depreciation at increased rates for equipment used in industrial activity, as stipulated by regulations published under the inflationary adjustments law.
- b) Under Section 5b to The Law for the Encouragement of Industry (Taxation), 1969, the Company is entitled to claim share-listing expenses at three equal annual installments.

32.1.3 Company’s compliance with the definition of a preferred company

In the opinion of the Company it complies with all the provisions of Section 18a of the Law for the Encouragement of Capital Investments in connection with its definition as an industrial enterprise. In that respect, when the Company will derive taxable income, it will address the tax authorities in order to claim tax benefits under the “preferred enterprise” track relating to companies whose plant is located in an “other zone” (for details see section 32.1.1).

32.2 Tax assessment

The Company has been issued with final tax assessments through tax year 2012. Safe-T Data or the second-tier companies – RSAccess and Safe-T USA have not been assessed for tax purposes since incorporation.

As of 2016, the Company has accrued unutilized tax losses of approximately 295 thousand ILS. In accordance with the ruling issued by the tax authorities in connection with Safe-T Data’s merger with the Company, losses incurred in previous years will not be utilized for tax purposes. Safe-T data has unutilized tax losses of approximately 35,032 thousand ILS and the second-tier company RSAccess has unutilized tax losses of approximately 1,404 thousand ILS. If the merger between Safe-T Data and RSAccess is finalized (for details see section 1.3.4 above), a restriction will apply to offset of losses, such that in each tax year the amount of offset losses shall not exceed the lower of 20% (over 5 years) of the total losses of the Company, RSAccess and Safe-T Data, or 50% of Safe-T Data’s taxable income on that tax year – before offset of the losses accrued in previous years.

The second-tier company Safe-T USA markets the Company’s products through a distribution agreement that meets the criteria of the methods for determining transfer prices, which are recognized by the tax authorities.

The company’s tax expenses in 2016 amounted to \$ 1 thousands.

For further details regarding the tax aspects of the Group's activities, see note 9 to the Company's financial statements for the year 2016.

33. Restrictions and supervision on the Group's activity

33.1 As of the date of this report, the Group is subject to certain statutory and regulatory restrictions under the Encouragement of Industrial Research and Development Law, 1984 and regulations promulgated thereunder and rules, provisions and circulars issued by the Israel Innovation Authority, the Chief Scientist Office or the Ministry of Economy (hereafter – "the R&D Law"). Those restrictions apply due to support, which the Company received from the Chief Scientist Office (currently named: the Israel Innovation Authority) in accordance with the R&D Law. For details see section 32.1.1 above.

The Israel Innovation Authority grants financial support to companies, which were given approval under the R&D Law to perform an R&D plan. The financial support is granted at a certain rate of the R&D expenses of R&D plans, which are approved by the Israel Innovation Authority. As a general rule, companies, which receive such support from the Israel Innovation Authority, are required to pay royalties as a percentage of their revenues, which are determined under the R&D Law and in accordance with the instrument of approval they were granted. Royalties are payable until the amount of the financial support is repaid in full with the addition of interest at LIBOR rate; in certain cases, the amount that a company is to repay is higher than the amount of the grant (for example when a company transfers manufacturing activities outside of Israel).

Under the R&D Law, manufacturing activities, which are based on knowhow which is related to the financial support granted by the Israel Innovation Authority, should be carried out only in Israel, unless the Israel Innovation Authority approves otherwise in advance and in writing. As a general rule, the transfer of manufacturing activities outside Israel, or the grant of rights to manufacture outside Israel require payment of increased royalties (up to three times the amount of the financial support granted by the Israel Innovation Authority with the addition of interest) and increased royalties rate.

In addition, the R&D Law sets restrictions as to knowhow (in its broadest meaning) that was developed using funds granted by the Israel Innovation Authority or in connection with such funds; restrictions are also placed on any right arising from such knowhow. Knowhow and rights as above are not to be transferred to or shared with others (including with related parties), regardless of whether those other parties are Israeli or not, unless the Israel Innovation Authority has given its advance written approval for such transfer or sharing.

The R&D Law authorizes the Israel Innovation Authority to approve certain types of transfer of knowhow (for instance, by way of sale of knowhow, but not for any case of licensing); however, there is no guarantee that such approval will be granted.

Furthermore, the transfer of knowhow or rights as mentioned above may be subject to payment of certain amounts to the Israel Innovation Authority in accordance with formulae and rules set out in the R&D Law or to other provisions or conditions. For example, transfer of knowhow to another country outside Israel requires not only the advance approval of the Israel Innovation Authority, but also payment of up to six times the amount of funding received therefore and the accrued interest (LIBOR) and in no case less than the amount of the funding received and the interest accrued (LIBOR), net of the royalties that have already been paid to the Israel Innovation Authority. Breach of the R&D Law as to transfer of knowhow abroad or allowing such a breach is a criminal offense punishable by three years in jail. Furthermore, in such a case, the Israel Innovation Authority may demand payment of funds and fines, including the amounts that would have been paid had Safe-T Data transferred the knowhow abroad after the approval of the Israel Innovation Authority was granted. Transfer of knowhow relating to the support of the Israel Innovation Authority or any right relating to such knowhow, is subject to the approval of the Israel Innovation Authority and to receipt - from the entity or person who receives the knowhow – of a statement to the effect that it/he is aware that it/he will be

subject to the provisions of the R&D Law, including the restrictions applicable to the rights and use of knowhow and the requirement to pay royalties. On the other hand, a company is not required to obtain the approval of the Israel Innovation Authority to export (market and sale) of products that were based on knowhow which was developed using funds granted by the Israel Innovation Authority. The restrictions mentioned above also apply to placing liens on knowhow developed with the assistance of the Israel Innovation Authority as well as to placing such knowhow in trust. Companies who wish to do so need to obtain the approval of the Israel Innovation Authority.

33.2 Many organizations in the USA and Europe are subject to information security standards. This applies, for instance, to healthcare organizations, organization operating in the finance sector, etc. Each such field of activities may be subject to one or more than one relevant standards that stipulate various provisions as to the management, securing, collection, storing, using or transferring of information. In addition, such standards include requirements as to the organization's information security systems. With regard to most standards, there is no single entity that can certify the compliance of a certain information security product with the relevant standard. So, in effect, the compliance with a certain standard is assessed by the entity, which is subject to the standards, based on the declarations of the company that provides the information security solution. As of the date of this report, the Company is of the opinion that the Group's products are in compliance with the information security requirements of the relevant laws, such as HIPAA (for healthcare organizations), GLBA (for the finance sector) and SOX (for companies listed on the NASDAQ). Nevertheless, certain fields of activities, such as the defense industry in the USA (the US Ministry of Defense and its subordinate agencies) require certain certifications and accreditation which are relevant to information security products and only entities who were awarded such certification and accreditation will be contracted to supply information security products in that sector (for instance the DoD Information Assurance Certification and Accreditation Process (DIACAP). As of the date of this report, the Group does not have the said certification and accreditation, but this does not have a material effect on its activities and on its ability to market its products in the USA and in Europe, since they are relevant to sectors which do not constitute a material part of the Group's marketing activities in the USA and in Europe.

33.3 Further to Safe-T Data's request to be recognized as a supplier of the Ministry of Defense, the latter demanded that Safe-T Data obtains an ISO 9001 certification in order for it to be able to sell its products to the Ministry of Defense and the IDF. In December 2016, Safe-T Data Safe-T Data contacted the Quality and Certification Unit of the Technion and the said unit conducted an assessment, following which Safe-T Data was issued a certificate to the effect that its quality management systems comply the ISO 9001 standard for development and marketing of secure data exchange solutions. The certificate is valid for 2017 and is expected to be renewed every year in accordance with Safe-T Data's compliance with certain requirements.

34. Material agreements

34.1 Merger transaction by way of shares exchange with Companies Merging Purpose Ltd. – for details see section 1.1.3 above.

34.2 For details regarding Safe-T Data's agreement with SecureAuth, see section 35 below.

35. Collaboration agreements

35.1 OEM agreement with SecureAuth

On July 20, 2016, Safe-T USA entered into an OEM agreement for the marketing of Safe-T Data's SDA product, by SecureAuth Corporation, a leading American information security company (hereafter – "SecureAuth") in combination with SecureAuth's products (hereafter – "the agreement"). On October 6, 2016, Safe-T Data completed the development of the first version of the SDA product that is combined with SecureAuth's identity authentication product (hereafter – "the combined product"). The combined

product shall be used as an information security solution in the field of IdP (Authentication and Identity Management) offered by SecureAuth to its clients (for details see section 16.2.3 above). SecureAuth's products help organizations to prevent misuse of stolen identity access authorizations and penetration into the organizational network, they combine strong security, flexibility and transparency for the user. The combined product addresses the need of authentication of the user's identity, threat management and the ability to stop the attackers while closing the network and protecting applications; this is achieved while providing secure access to authorized employees and external users.

The Company is of the opinion that with the completion of the first version of the combined product, the Company and Safe-T Data are one stage closer to commencing marketing and sales of the product to SecureAuth's clients. The Company expects that the combined product may increase the sales of Safe-T Data's products in the USA since the product will be sold to SecureAuth's existing and potential clients; this will increase the Company's revenues and will enable similar collaborations with other parties in the USA.

To the best of the Company's knowledge, the combined solution of SecureAuth and Safe-T Data is the first of its kind in the information security market that combines multifactor authentication, identity management, real-time biometric controls and single sign-up with reverse access to entire organization's data center.

The new version of the SDA product, which is adapted to SecureAuth's IdP product, enables SecureAuth to provide access control services to a range of applications and services, which previously were not supported by its product. It enables SecureAuth to add a unique layer of protection to the applications it supports, quicker integration of the product into the client's system as a result of the SDA's unique mechanism that learns the behavior of the client's website, thereby saving the company the need to make any definitions on the client's side as well as replacing competitors in the field of access control.

Subsequent to the period of this report, SecureAuth signed the first two transactions to sell the combined products to US clients; (the amounts of the transactions were immaterial). To the best of the Company's knowledge, one clients, to whom the combined product was sold is a leading global biotechnology company and the second client is one of the leading feminine care clinics in the Eastern Coast of the USA. The clients purchased the product from SecureAuth under the annual subscription model. The biotechnology Company – being the first client to be using the combined product – shall use the combined product free of charge during the first year.

Under the terms of the agreement between the Company and SecureAuth, Safe-T USA is entitled to receive 60% of the proceeds received as part of SecureAuth's transactions for the sale of the combined product.

Company's assessments and data as to the increase in Safe-T-Data's revenues in the USA as a result of the combined product and in respect of creating similar collaborations in the USA are based on Safe-T Data and the Company's projections and assessments, which constitute forward looking information as defined in the securities law regarding future developments and events, which are not certain and are not under the control of the Company. Those assessments may not materialize, or materialize differently than expected due to various factors, including developments in the information security market and changes in demand for information security products in general and specific demand for Safe-T Data and SecureAuth's products.

35.2 Collaboration between Safe-T Data and Check Point

Subsequent to the period of this report, the Company launched a new information security solution that was developed as part of a collaboration between Safe-T Data and Check Point Software Technologies Ltd. (hereafter – "Check Point"). As part of the said collaboration, Check Point recognized Safe-T Data as a technological partner. Check Point is the largest information security company in the world, which specializes in solutions for securing organizational networks, mobile devices, endpoints of end users, management of information security systems, etc.

As our world becomes increasingly digital, various organizations wish to make their services publicly available online in a way that allows transferring information into the organization. This trend is abused by hackers, who try to attack those organizations by the channels that make it possible to transfer information into the organization's system. The combined solution of Safe-T Data and Check Point (hereafter – “the combined solution”), is based on Safe-T Data's HDSHi solution (gh-risk Data Security); this is a solution that is designed to secure the entire sensitive information of the organization, both in terms of accessing the information and in terms of transferring the information. It enables organizations to develop their digital platform without any concerns of exposing confidential information or penetration into the organization's system and information theft. The combined solution secures all channels through which information is entered into the organization. It protects the organization both from known attacks and from zero-days attacks. By using the solution, organizations such as banks, healthcare organizations, government agencies and industrial companies can control all the information that is transferred to the organization by clients, business partners and remote employees in an automatic and secure manner that is transparent to the user, allow “clean” information to enter the organization and block any suspicious information from entering the organization, thereby preventing information theft, information leakage, encryption of information by ransomware, or complete shutdown of the organization's computer systems.

The Company's views the launch of the information security product in collaboration with Check Point as a recognition by Check Point, which is a well-known and reputable Company in the global information security market, of Safe-T Data's advanced technological abilities. Also, in the opinion of the Company, the collaboration with Check Point will expose the combined solution to many clients of Check Point worldwide and may even strengthen Safe-T Data's reputation in the global information technology market and increase its sales.

It should be clarified that Safe-T Data and Check Point have no agreement for the sale of the combined solution. Each of the companies continues to offer its solutions to its existing clients. Nevertheless, in view of the launch of the combined solution, each of the companies can recommend the other company's products to its clients in order to provide clients with a more comprehensive solution which is enabled due to the synergy between the products of the two companies.

Company's assessments and data as to the exposure of Check Point's clients to the combined solution, the enhancement of Safe-T Data's reputation in the global information security market and the increase in Safe-T Data's sales are based on Company's assessments, which constitute forward looking information as defined in the securities law regarding future developments and events, which are not certain and are not under the control of the Company. Those assessments may not materialize, or materialize differently than expected due to various factors.

36. Legal proceedings

As of the date of this report, Group companies are not parties to any material legal proceedings.

37. Goals and business strategy

The main goal of the Group is to become a market leader in the fields of cyber and information security. In order to achieve that goal, the Group invests resources in penetrating and establishing itself in the US market. Among the steps that the Group has taken in order to penetrate the US market, were the recruitment of sales persons, Pre-Sale engineers and technical support personnel, entering into engagements with additional distributors in the US market and entering into collaborative engagements with other technology suppliers. The Group intends to continue focusing its efforts on its penetration into the US market.

The Group also intends to penetrate other markets such as South-East Asia and South America, starting by entering into distribution agreements with distributors in these markets.

At the same time, the Group intends to continue operating in the Israeli market and work towards expanding its activities in European markets and in Africa, especially in Gahanna and Cameroon, where the Group commenced operations in 2016.

The Group intends to continue investing in research and development of its existing product lines (SDE and SDA), in order to retain its position as a technological leader and addressing the changing needs of its clients and the market and in order to increase its market share in the sub-markets information security it currently operates in. Furthermore, the Group intends to invest in market research in order to explore the development new products that will address new cyber threats and will enable the Group to develop into other sub-markets of information security.

The information provided in this section constitutes forward looking information as defined in the securities law, which is based on assessments of Company's management, the expected behavior of the information security market and the determination of the Company's strategic goals in view of the said assessments. The assessments regarding the development and expansion of the scope of activity may not materialize due, among other things, to legislation and/or changes in the information security market and/or other external changes that might reveres and/or reduce the profitability of operating in this field of activities. Also, assessments on the basis of which the Group's strategy is based may be incorrect or materially different than the ones that were taken into account. In such cases, the Company will assess the strategy and goals described above in order to check whether they are compatible with such future changes.

38. Outlook for developments in the forthcoming year

As of the date of this report, the Company has no plans to carry out in the forthcoming year any actions that are not in its normal course of business.

39. Financial data by geographic areas

For financial data by geographic areas, see note 23 to the Company's financial statements for the year 2016.

40. Discussion of risk factors

Macro risks

40.1 Recession and uncertainty in the Israeli or global market

Recession and uncertainty in the Israeli and/or global market may have an adverse effect on the Group's ability to expand its activities and on its business results.

40.2 Exposure to changes in the exchange rates of foreign currencies

A considerable part of the Group's revenues is expected to be paid by foreign clients, mainly from North America and Europe. Therefore, the Group may be exposed to changes in the exchange rates of foreign currencies, mainly the dollar and the Euro, which may affect the Group's profitability. Most of the Group's revenues are received in US dollars. Changes in dollar/ILS exchange rate that an effect, inter alia, on payroll expenses and costs of operating the offices in Israel, which are denominated in ILS.

Sector risks

40.3 Regulation

As of the date of this report, to the best of the Company's knowledge, the Group's area of activity is not regulated in Israel, i.e., there is no specific legislation relating to information security (except for the recommendations described in sections 10 and 33.1).

Nevertheless, the trends described in the field of information security and cyber protection are the underlying factors of the regulatory developments in Israel and globally, which affect the information security and cyber protection requirements applicable to Group's clients. The regulation started with making information security obligatory for certain industries, such as critical infrastructures, and the health and finance sectors. In recent years this regulation is extended to many types of organizations that hold information or run infrastructures that have commercial or other value (including information of clients, employees and their internal systems). The regulation imposes on organizations various requirements (such as integration of corporate procedures, enforcement plans, reporting duties, office holders' duties in connection with cyber security, etc.). This trend, which is expected to continue in future years, increases those organization's need to purchase information security products, such as the product marketed by the Group, which may have a potential positive effect on the scope of the Group's activities in Israel and abroad.

In recent years, there is a trend of increased regulation on related areas of activities, including regulatory developments in Israel and globally in the field of information security, cyber protection, the Internet and privacy security that may have a more indirect effect on the Group's area of activity. If regulatory requirements are put in place that will apply to suppliers of information security, or if such regulatory requirements will apply to Group's clients, the Group's way of managing its business and its products may be affected and it may be required to invest resources (especially since it sells products to sectors that are already regulated). Nevertheless, the application of regulatory requirements on various organizations and public institutions as described in section 33 above, will have a positive effect on the Group's business results.

40.4 Dependency on information and communication systems

The Group's databases are hosted on computer servers and/or clouds and some of its activities are carried out through the internet. Technical failures in the communication systems and/or in data systems may have an adverse effect on the Group's ability to respond quickly to clients' queries and issues. The Group's systems are vulnerable to terror attacks, floods, fires, power cuts and the disruption of telecommunications. The occurrence of a natural disaster, closure of the Group's facilities or any other unexpected event may disrupt the Group's services. Disruption to service may damage the Group and its reputation among its potential clients. The Group mitigates this risk by using various measures that reduce the risk of damage to its information systems and by using the backup service of a leader supplier of such services in Israel.

40.5 Security failure with the client

A claim made by a client to the effect that its information systems have been breached (regardless of whether they have actually been breached or not), as well as theft of a client's sensitive information (hereafter – "security failure"), where such breach or theft can be attributed to failure of the Group's products, may have an adverse effect on market perception of the effectiveness of Group's products; and accordingly, existing or potential clients of the Group may seek alternatives to the Group's products from competing entities. A security failure due to a product of the Group may also expose the Group to lawsuits and monetary expenses incurred as a result from indemnification of business partners and other third parties; another type of costs that the Group may incur as a result of such a failure is that of costs related to rectifying the weaknesses that lead to the security failure. The Group's reputation may also be damaged; existing clients may be discouraged from purchasing additional products and services and potential clients may decide not to purchase the Group's products in the first place. Nevertheless, it should be noted that in recent years there has been a trend among organizations of purchasing insurance policies covering damages caused as a result of cyber events, which reduce the said risk. Moreover, Safe-T Data has a liability insurance policy of up to \$3 million per claim and for a period of one year. This insurance policy covers some of the risks described above. The liability ceiling was set after consulting Safe-T Data's insurance advisor, in accordance with normal

practice in companies in its area of activity and taking into account the scope of its business.

Special risks for the Company

40.6 Development and/or manufacturing of products and/or services that can replace Group's products

The Group's clients may develop services and/or products that can potentially replace the technologies, products and services developed by the Group. This may have an adverse effect on the Group's market share.

40.7 Type of engagement with clients

In view of the type of the products sold by the Group, so far it entered into engagement with its clients by way of selling licenses to use its products to an unlimited period and provision of maintenance and support services over a certain period, for which the clients pay amounts, which are significantly lower than the amounts paid for the licenses. Therefore, the Group's activity is dependent on its ability to contract new clients.

Nevertheless, the Group continues to develop its products and in some cases clients, which purchased the Group's products, would purchase further licenses (in order to increase the number of users), updated versions of products and additional features as well as ongoing maintenance and support services. Also, the Company is gradually changing its model for engagement with clients to a model whereby it leases products for limited periods of one year or more. This model will spread the Group's revenues more evenly over a longer period of time.

40.8 Leakage of knowhow to competing entities.

Since Safe-T Data is a research and development company, its activities rely on the unique technological knowhow it develops. Leakage of such knowhow to competing entities may allow them to develop similar technologies and products thereby adversely affecting its competitive advantage and its ability to recruit new clients. The Group mitigates this risk by information security procedures, protecting its databases by access authorization and by requiring all employees to sign confidentiality and non-disclosure agreements.

40.9 Funding

The Company's activities are mainly funded by raising capital from investors. Therefore, the continuation of the Company's activities is conditional upon its obtaining additional funding until it achieves profitability. Company's management invests extensive resources in order to secure the funding of its operating activities through exacting management of its cash flow, identifying suitable funding sources and management of client relations.

Set forth below is a table that summarizes the effect of the above risk factors on the Group:

Type of risk	Risk factors	Effect of risk factors on activity		
		Minor	Moderate	Major
Macro risks	Recession and economic uncertainty in the Israeli and/or global markets		X	
	Fluctuation of exchange rates	X		
Sectorial risks	Regulation		X	
	Dependency on information and communication systems		X	
	Security failure with client		X	
	Development and/or manufacturing of products	X		

Special risks for the Company	and/or services that may replace the Group's products			
	Type of Group's engagement with its clients		X	
	Leakage of knowhow to competitors	X		
	Funding		X	

CHAPTER D

ADDITIONAL INFORMATION REGARDING THE CORPORATION

DECEMBER 31, 2016

Regulation 10a – Condensed Statements of Comprehensive Income for each of the quarters of 2016 (in thousands of dollars)

See section 1.5.3 to the Directors' Report

Regulation 10c – Use of Proceeds from securities

On June 7, 2016, the Company completed an issuance of rights and an IPO in accordance with the supplementary prospectus and the supplementary notice. The total amount raised by the Company as part of the abovementioned issuance of rights and public offering is approximately 17.6 million ILS (gross, before deduction of expenses). For details see the Company's reports on the results of issuance of rights and public offering of June 7, 2016 and June 9, 2016 (reference numbers: 2016-01-046419, 2016-01-047970 and 2016-01-048540, respectively), the Company's supplementary prospectus of May 10, 2016 as amended on June 1, 2016 (reference no: 2016-01-051856) and the supplementary notice of June 8, 2016 (reference no: 2016-01-047916). In accordance with the designation of the IPO proceeds as published in the abovementioned supplementary prospectus, the proceeds of the IPO were used by the Company to fund its business activities and to repay loans that were extended to Safe-T Data to fund these activities in the period before the merger transaction (for details see section 31.1 to Chapter A of this Report).

Regulation 11 - List of Investments in Subsidiaries and Associates

Set forth below is a list of the Company's investments in subsidiaries and associates as of the date of the statement of financial position:

						Stake in rights %		
Name of company	Stock Exchange share no.	Type of share	Number of shares	Total par value held by the Company	Value in separate financial statements of the Company (in thousands of ILS)	Equity	Voting rights	Rights to appoint directors
Safe-T Data	Not traded	Ordinary share of NIS 0.001 par value	22,915,980	22,915.98 ILS	19,519	100%	100%	100%
RSAccess	Not Traded	Ordinary share of NIS 0.01 par value	920	19.2 ILS	3,121	100%	100%	100%
		Preferred share of NIS 0.01 par value	1,000					
Safe-T Data USA	Not Traded	Ordinary share of \$0.01 par value	1,500	100	54	100%	100%	100%

Regulation 11(3) – Balance of bonds and loans that were received and extended by the Company to subsidiaries and associates as of the date of the statement of financial position

Name of Company that extends the loans	Name of the Company that receives the loans	Balance of the loans as of 31.12.2016 (in thousands of ILS) as per statement of financial position	Principal terms of the loans
Safe-T Group	Safe-T Data	8,586	<ul style="list-style-type: none"> • Loan totaling 8,407,367 ILS that was extended on June 20, 2016. • The loan is repayable in one installment or in several installments (as the discretion of the borrower), within 3 years from the date it was extended. • The loan bears annual ILS interest in accordance with the interest rate set in the Income Tax Regulations (Determining the Interest Rate for Purposes of Section 3(j), 1986). • The principal of the loan is not linked to nay index.
Safe-T Group	Safe-T Data	2,553	<ul style="list-style-type: none"> • Loan totaling 2,500,000 ILS that was extended on June 22, 2016. • The loan is repayable in one installment or in several installments (as the discretion of the borrower), within 3 years from the date it was extended. • The loan bears annual ILS interest in accordance with the interest rate set in the Income Tax Regulations (Determining the Interest Rate for Purposes of Section 3(j), 1986). • The principal of the loan is not linked to nay index.
Safe-T Group	Safe-T Data	2,039	<ul style="list-style-type: none"> • Loan totaling 2,000,000 ILS that was extended on July 6, 2016. • The loan is repayable in one installment or in several installments (as the discretion of the borrower), within 3 years from the date it was extended. • The loan bears annual ILS interest in accordance with the interest rate set in the Income Tax Regulations (Determining the Interest Rate for Purposes of Section 3(j), 1986).
Safe-T Group	Safe-T Data	2,533	<ul style="list-style-type: none"> • Loan totaling 2,500,000 ILS that was extended on September 1, 2016. • The loan is repayable in one installment or in several installments (as the discretion of the borrower), within 3 years from the date it was extended. • The loan bears annual ILS interest in accordance with the interest rate set in the Income Tax Regulations (Determining the Interest Rate for Purposes of Section 3(j), 1986). • The principal of the loan is not linked to nay index.
Safe-T Group	Safe-T Data	1,053	<ul style="list-style-type: none"> • Loan totaling 1,050,000 ILS that was extended on December 1, 2016. • The loan is repayable in one installment or in several installments (as the discretion of the borrower), within 3 years from the date it was extended.

			<ul style="list-style-type: none"> • The loan bears annual ILS interest in accordance with the interest rate set in the Income Tax Regulations (Determining the Interest Rate for Purposes of Section 3(j), 1986). • The principal of the loan is not linked to nay index.
Safe-T Group	Safe-T Data	2,504	<ul style="list-style-type: none"> • Loan totaling 2,500,000 ILS that was extended on December 18, 2016. • The loan is repayable in one installment or in several installments (as the discretion of the borrower), within 3 years from the date it was extended. • The loan bears annual ILS interest in accordance with the interest rate set in the Income Tax Regulations (Determining the Interest Rate for Purposes of Section 3(j), 1986). • The principal of the loan is not linked to nay index.

Regulation 12: Changes in Investments in Subsidiaries and Associates in the Reported Period:

Over the course of the reported period no changes have taken place in connection with the Company's investments in subsidiaries and/or associates, except for the fact that on December 31, 2016, Safe-T Data and RSAccess entered into merger agreement whereby, subject to the fulfillment of several conditions precedent, which include, the approval of the merger by the General Meeting of the Company's shareholders and the issuance of a tax ruling by the Israel Tax Authority to the effect that the merger is tax exempt in accordance with the provisions of Section 103 to the Income Tax Ordinance (New Version), 1961 (hereafter – the "Ordinance"), RSAccess will be merged with and into Safe-T Data, in accordance with the provisions of the First Chapter of the Eighth Part of The Companies Law. After the merger RSAccess will be wound up without liquidation. On February 2, 2017, the General Meeting of the Company's shareholders approved the said merger. For further details see the Company's report of December 29, 2016 (reference no. 2016-01-093669), and the Company's report on the results of the General Meeting of the Company's shareholders of February 2, 2017 (reference no: 2017-01-010582). As of the date of publication of this report not all conditions precedent have been fulfilled.

Regulation 13: Income of Subsidiaries and Associates and Income Received Therefrom

Name of company	Comprehensive income (loss)	Other comprehensive income (loss)	Management fees (Received through 31.12.16)		Interest and linkage differences (Received through 31.12.16)		Dividend (Received through 31.12.16)	
				Period after balance sheet date		Period after balance sheet date		Period after balance sheet date
			2016		2016		2016	
Safe-T Data	32	-	-	-	-	-	-	-
RSAccess Ltd.	-	-	-	-	-	-	-	-
Safe-T USA	-	-	-	-	-	-	-	-

In 2016 the Company charged Safe-T Data for interest at the total amount of \$79 thousands. As of the date of this report, the interest has not yet been paid.

In 2016, Safe-T Data charged the Company for management fees at the total amount of \$139 thousands in respect of the period from date of finalization of the merger transaction through December 31, 2016.

Regulation 20- Stock Exchange Trading

1. On June 7, 2016, the Company completed an issuance of rights and an IPO in accordance with the supplementary prospectus and the supplementary notice, which was published by the Company on June 8, 2016. As part of the said issuance of rights and IPO the Company issued and listed 4,676,527 ordinary Company shares of no par value, 1,292,280 Series A warrants and 1,292,280 Series B warrants. For details regarding the results of the issuance of rights and public offering, see the Company's reports of June 7, 2016 and June 9, 2016 (reference numbers: 2016-01-047970 and 2016-01-048540, respectively).
2. On June 15, 2015, a merger transaction was effected between the Company, Safe-T Data and its shareholders, (for details see section 1.1.3 to Chapter A of this report). As part of the merger transaction, the Company acquired from the shareholders of Safe-T Data at the time of finalization of the transaction all the issued and paid share capital of Safe-T Data against the allocation of 8,262,761 ordinary Company shares to the shareholders of Safe-T Data at the time of completion of the transaction and the conversion of Safe-T Data's options into 1,496,725 non-tradable options of the Company.
3. On December 14, 2016, the Company and private investors, who are not related to any of the Company's office holders (hereafter - "the investors") finalized an investment transaction. As part of the investment transaction, the investors invested in the Company a total of 6,343,849 ILS against the allocation of 1,492,670 ordinary Company shares of no par value and 1,492,670 Series 2 warrants of the Company. For further details see the Company's immediate reports of November 22 and November 27, 2016 (reference numbers: 2016-01-130330 and 2016-01-132031, respectively).
4. On March 30, 2015, trading of Company's shares on the stock exchange was suspended due to the appointment of a temporary liquidator to the Company. After the finalization of the composition with creditors for the Company (see section 1.1.2 to Chapter A of this report), trading of Company's shares was resumed and they were traded on the maintenance list as from April 13, 2016. On June 21, 2016, the Company's shares were reinstated into the stock exchange's primary list.

Regulation 21 - Remuneration to Interested Parties and Senior Office Holders in 2016

- a) Set forth below are data regarding the remuneration payments to the five-highest paid senior office holders of the corporation or of a corporation under its control as recognized in the financial statements for the reported year (in thousands of dollars (in terms of cost to the Company): ***

Details of the recipient of remunerations				Remuneration for the services							
Name	Position	Full time/part time position	Interest in equity (%)	Salary	Bonus	Share based payment	Management fees	Consultancy fees	Commission	Other*	Total
Shahar Daniel	CEO and director	Full time	-	147	-	523	-	-	-	9	679
Derek Schwartz	CEO of Safe-T USA	Full time	-	-	-	289	175	-	-	-	464
Eitan Bremner	VP Marketing and Product Management of Safe-T Data	Full time	-	136	-	150	-	-	-	7	293
Shai Avnit	CFO of the Company and Safe-T Data	90%	-	53	-	154	-	71	-	4	282
Yossi Carmon	VP Sales Israel and Africa of Safe-T Data	Full time	-	122	47	74	-	-	5	14	262
Amir Mizhar	Chairman of the Board of Directors of the Company and director in Safe-T Data	Part time	32.72	-	-	-	164	-	-	1	164
Yuval Illuz	Active director	Part time	-	2	-	2	-	-	-	10*	14

* Including personal vehicle costs, vehicle maintenance, travel, payment for meals and phone-related costs.

** In respect of consultancy services provided to the Company by Mr. Illuz (attending the Company's offices, as described below).

*** The table does not include costs relating to liability exemption, indemnification and insurance of directors and office holders; the cost of such insurance covering all office holders of the Company in 2016 amounted to \$8,000 thousands.

- (1) Shahar Daniel – Mr. Shahar Daniel has been serving as an office holder in the Group since 22.11.2013. Through 28.5.2015, Mr. Daniel served as VP Operations of Safe-T Data. As from 28.5.2015 and through the finalization of the merger transaction, Mr. Daniel served as the CEO of Safe-T Data. Since the date of finalization of the merger transaction, Mr. Daniel serves as the Company's CEO and director as well as the CEO of Safe-T Data. Through the finalization of the merger transaction, Mr. Daniel was entitled to a monthly salary of 28,000 ILS. Mr. Daniel was also entitled to reimbursement in respect of expenses incurred while staying abroad (against receipts and in accordance with Safe-T Data's procedures), reimbursement of vehicle maintenance expenses of 2,000 ILS (gross) per month, recreation pay, mobile phone, managers' insurance policy and pension fund, training fund, vacation pay and sick leave. On May 8, 2016, the General Meeting of the Company's shareholders approved Safe-T Data's entering into an employment agreement with Mr. Daniel (hereafter – "the employment agreement"). This agreement was approved by the General Meeting after the Company's Remuneration Committee and Board of Directors approved the agreement on March 31, 2016. Under the employment agreement, Mr. Daniel shall be paid a monthly salary of 40,000 ILS for his service as the Company's CEO and director and as the CEO of Safe-T Data on a full-time basis. Mr. Daniel is also entitled to receive an annual bonus, most of which (at least 80%) will be based on achievement of measurable quantitative targets that will be approved by the Company's Remuneration Committee and Board of Directors once a year. Mr. Daniel may also be entitled to a discretionary bonus (20%), based on qualitative criteria, all in accordance with the provisions of the Company's remuneration policy, and subject to the annual bonus ceiling set under this policy. Mr. Daniel is also entitled to contributions to a managers' insurance policy and/or pension fund, contributions to training fund and recreation pay, reimbursement in respect of expenses incurred while staying abroad (against receipts and in accordance with the Company procedures), reimbursement of vehicle maintenance expenses of 2,000 ILS (gross) per month, payment for phone-related costs and meals in accordance with the Company's procedure as well as vacation pay and sick leave. Mr. Daniel is entitled to liability exemption, indemnification and liability insurance of directors and office holders, all in accordance with the Company's normal practice applicable to its directors and office holders. Under the employment agreement, Safe-T Data and Mr. Daniel may terminate the employment agreement by giving a 2-month advance notice (hereafter – "the advance notice period"). Over the course of the advance notice period, Mr. Daniel shall be entitled to receive full payment of remuneration under the employment agreement. Furthermore, if the agreement is terminated by the Company or by Safe-T Data, Mr. Daniel shall be entitled to a 2-month adaptation period; during that period, Mr. Daniel shall be entitled to receive full remuneration in accordance with the employment agreement. Notwithstanding the above, Safe-T Data may terminate the employment agreement with immediate effect under certain circumstances set out in the employment agreement. In such cases, Mr. Daniel shall not be entitled to payment in respect of the advance notice period or the adaptation fees. For further details regarding the terms of Mr. Daniel's employment, see the summons to convene the General Meeting of the Company's shareholders that was published by the Company on May 3, 2016 (reference no: 2016-01-058504). Before the merger transaction, Safe-T Data allocated to Mr. Daniel non-tradable options of this company, that were exercisable into Safe-T Data shares. As part of the terms of the merger transaction, upon finalization of the merger the said options that were allocated to Mr. Daniel were converted into 411,838 non-tradable options of the Company, which are exercisable into 411,838 ordinary Company shares (for further details regarding the merger transaction and its terms, see section 1.1.3 to Chapter A of this report). Furthermore, on November 3, 2016, the General Meeting of the Company's shareholders approved the allocation – to Mr. Daniel – of 131,840 non-tradable Company options, which are exercisable into 131,840 ordinary Company shares. (This allocation was approved by the General Meeting after the Company's Remuneration Committee and Board of Directors approved the agreement on September 15, 2016. For further details, see the summons to convene the General Meeting of the Company's shareholders that was published by the Company on September 26, 2016 (reference no: 2016-01-054699) and an outline plan of options to employees, which was issued by the Company on September 18, 2016, as amended on November 17, 2016 (reference no.: 2016-01-079611). On November 24, 2016 and November 28, 2016, the Company's Remuneration Committee and Board of Directors (respectively) approved a vesting acceleration mechanism in case of change of control in the Company (as defined in the Company's options plan), in connection with the Company's options that were allocated to Mr. Daniel. The amount entered under the "share-based payment" column of the above table reflects the fair value of the Company's options that were allocated to Mr. Daniel. Also, on March 23, 2017 and March 29, 2017, the Company's Remuneration Committee and Board of Directors (respectively) approved – in accordance with Regulation 1b(4) to the Companies Regulations (Relieves for Transactions with Interested Parties) of 2000 – Mr. Daniel's entitlement to a personal leased car at a monthly value of up to 3,500 ILS with the addition of VAT; the taxable value of the leased car will be grossed up. Also, on March 23, 2017 and March 29, 2017, the Company's Remuneration Committee and Board of Directors (respectively) approved the allocation to Mr. Daniel of 100,000 non-

tradable options of the Company that are exercisable into 100,000 Company shares. This allocation was approved subject to approval of the General Meeting of the Company's shareholders. The allocation of these options is also subject to the stock exchange's approving the listing of the shares that will arise from exercise of the said options.

- (2) Derek Schwartz – Mr. Derek Schwartz has been employed by the Group since September 15, 2015. Through June 11, 2015, Mr. Schwartz served as the Chief Business Officer of Safe-T Data and was also in charge of the establishment of Safe-T USA. Upon commencement of the operations of Safe-T USA, Mr. Schwartz was appointed as CEO of that company. Mr. Schwartz is employed pursuant to a consultancy agreement with Safe-T Data. Under the provisions of the consultancy agreement, through April 30, 2016, Mr. Schwartz was entitled to annual fees of \$ 169,000 and to an annual bonus of up to \$40,000, subject to the achievement of targets as set by the Board of Directors of Safe-T Data. Mr. Schwartz was also entitled to reimbursement of expenses he incurred as part of his job. On March 31, 2016, Board of Directors of Safe-T Data approved the increase of the fees payable to Mr. Schwartz as a consultant to \$16,700 per month, with effect from May 1, 2016. On August 31, 2016, the term of the consultancy has ended, and since then Mr. Schwartz is employed as a consultant of Safe-T USA under the same terms. Mr. Schwartz is entitled to liability exemption, indemnification and liability insurance of directors and office holders, all in accordance with the Company's normal practice applicable to its directors and office holders. Before the merger transaction, Safe-T Data allocated to Mr. Schwartz non-tradable options of this company, that were exercisable into Safe-T Data shares. As part of the terms of the merger transaction, upon finalization of the merger the said options that were allocated to Mr. Schwartz were converted into 225,871 non-tradable options of the Company, which are exercisable into 225,871 ordinary Company shares (for further details regarding the merger transaction and its terms, see section 1.1.3 to Chapter A of this report). In addition, further to the approval of the Company's Remuneration Committee and Board of Directors of August 28, 2016, the Company allocated to Mr. Schwartz 72,304 non-tradable Company options, which are exercisable into 72,304 ordinary Company shares under the provisions of an outline plan of options to employees, which was issued by the Company on September 18, 2016, as amended on November 17, 2016 (reference no.: 2016-01-079611). The amount entered under the "share-based payment" column of the above table reflects the fair value of the Company's options that were allocated to Mr. Schwartz. Mr. Schwartz may be entitled to receive an annual bonus, most of which (at least 80%) will be based on achievement of measurable quantitative targets that are subject to approval by the Company's Remuneration Committee and Board of Directors once a year. Mr. Schwartz may also be entitled to a discretionary bonus (20%), based on qualitative criteria, all in accordance with the provisions of the Company's remuneration policy, and subject to the annual bonus ceiling set under this policy.
- (3) Eitan Bremler - Mr. Eitan Bremler has been serving as an office holder of Safe-T Data since 16.10.2013. Through June 2014, Mr. Bremler served as a marketing manager at Safe-T Data. Commencing June 2014, Mr. Bremler has been serving as VP Marketing and Product Management of Safe-T Data. Under the terms of his employment agreement, Mr. Bremler was entitled – through May 1, 2016 - to a monthly salary of 30,000 ILS. Mr. Bremler was also entitled to reimbursement in respect of expenses incurred while staying abroad (against receipts and in accordance with Safe-T Data's procedures), reimbursement of vehicle maintenance expenses of 1,600 ILS (gross) per month, recreation pay, mobile phone, managers' insurance policy and pension fund, training fund, payment for meals in accordance with the Company's procedure and vacation pay and sick leave. Commencing May 1, 2016 and in accordance with an amendment to Mr. Bremler's employment agreement, his basic monthly salary was increased to a gross amount of 35,000 ILS on a full-time basis (excluding vehicle expenses of 1,600 ILS). All other terms of the agreement relating to Mr. Bremler's remuneration remained unchanged. Under the employment agreement, Safe-T Data and Mr. Bremler may terminate the employment agreement by giving a 2-month advance notice (hereafter – "the advance notice period"). Over the course of the advance notice period, Mr. Bremler shall be entitled to receive full payment of remuneration under the employment agreement. Furthermore, if the agreement is terminated by Safe-T Data, Mr. Bremler shall be entitled to a 2-month adaptation period; during that period, Mr. Daniel shall be entitled to receive full remuneration in accordance with the employment agreement (excluding an annual bonus, should he be entitled to payment of such a bonus). Notwithstanding the above, Safe-T Data may terminate the employment agreement with immediate effect under certain circumstances set out in the employment agreement. In such cases, Mr. Bremler shall not be entitled to payment in respect of the advance notice period or the adaptation fees. Mr. Bremler is entitled to liability exemption, indemnification and liability insurance of directors and office holders, all in accordance with the Company's normal practice applicable to its directors and office holders. Mr. Bremler may be entitled to receive an annual bonus, most of which (at least 80%) will be based on achievement of measurable quantitative targets that are subject to approval by the Company's Remuneration Committee and Board of Directors once a year. Mr. Bremler may also be entitled to a discretionary bonus (20%), based

on qualitative criteria, all in accordance with the provisions of the Company's remuneration policy, and subject to the annual bonus ceiling set under this policy. Before the merger transaction, Safe-T Data allocated to Mr. Bremler non-tradable options of this company, that were exercisable into Safe-T Data shares. As part of the terms of the merger transaction, upon finalization of the merger the said options that were allocated to Mr. Bremler were converted into 117,829 non-tradable options of the Company, which are exercisable into 117,829 ordinary Company shares (for further details regarding the merger transaction and its terms, see section 1.1.3 to Chapter A of this report). In addition, further to the approval of the Company's Remuneration Committee and Board of Directors of August 28, 2016, the Company allocated to Mr. Bremler 115,728 non-tradable Company options, which are exercisable into 115,728 ordinary Company shares under the provisions of an outline plan of options to employees, which was issued by the Company on September 18, 2016, as amended on November 17, 2016 (reference no.: 2016-01-079611). The amount entered under the "share-based payment" column of the above table reflects the fair value of the Company's options that were allocated to Mr. Bremler. Also, on March 23, 2017 and March 29, 2017, the Company's Remuneration Committee and Board of Directors (respectively) approved the allocation to Mr. Bremler of 66,432 non-tradable options of the Company that are exercisable into 66,432 Company shares. The allocation of these options is subject to the stock exchange's approving the listing of the shares that will arise from exercise of the said options.

- (4) Shai Avnit – Mr. Avnit has been serving as Safe-T Data's CFO since April 30, 2013. As from the date of finalization of the merger transaction, Mr. Avnit also serves as the Company's CFO. Through July 31, 2016, Mr. Avnit was employed as a consultant of Safe-T Data and was entitled – under a consultancy agreement - to payment of 240 ILS per hour + VAT, or 224 ILS per hour + VAT in respect of months in which he worked more than 30 hours per month. In addition, Mr. Avnit was entitled to reimbursement of reasonable expenses incurred as part of his job, subject to advance approval of such expenses by the Company. On June 28, 2015, The Company and Mr. Avnit entered into an employment agreement, which was subsequently amended on March 2, 2016. As from August 1, 2016 the employment agreement and the amended employment agreement replaced the consultancy agreement. Under the amended employment agreement, Mr. Avnit shall be employed as the CFO of the Company and Safe-T Data and his scope of work shall be equal to at least 80% of a full-time position. Under the terms of the amended employment agreement, Mr. Avnit is entitled to a monthly salary of 35,000 ILS on a full-time basis and to a proportionate share of this salary if his scope of work shall be less than full-time (excluding vehicle maintenance expenses of 2,500 ILS). Commencing August 1, Mr. Avnit's scope of work shall be 90% of a full-time position. Mr. Avnit shall also be entitled to reimbursement of expenses incurred while staying abroad (against receipts and in accordance with Safe-T Data's procedures), reimbursement of reasonable expenses incurred as part of his job (subject to providing the required evidence and to advance approval of such expenses by the Company), mobile phone, managers' insurance policy and/or pension fund, training fund, recreation pay, payment for meals in accordance with the Company's procedure, vacation pay and sick leave. Under the employment agreement, Safe-T Data and Mr. Avnit may terminate the employment agreement by giving a 2-month advance notice (hereafter – "the advance notice period"). Over the course of the advance notice period, Mr. Avnit shall be entitled to receive full payment of remuneration under the employment agreement. Furthermore, if the agreement is terminated by Safe-T Data or by the Company, Mr. Avnit shall be entitled to a 2-month adaptation period in addition to the advance notice period; during that period, Mr. Avnit shall be entitled to receive full remuneration in accordance with the employment agreement (excluding an annual bonus, should he be entitled to payment of such a bonus) and the options awarded to him shall continue to vest. Notwithstanding the above, the Company may terminate the employment agreement with immediate effect under certain circumstances set out in the employment agreement. In such cases, Mr. Avnit shall not be entitled to payment in respect of the advance notice period or the adaptation fees. Mr. Avnit is entitled to liability exemption, indemnification and liability insurance of directors and office holders, all in accordance with the Company's normal practice applicable to its directors and office holders. Before the merger transaction, Safe-T Data allocated to Mr. Avnit non-tradable options of this company, that were exercisable into Safe-T Data shares. As part of the terms of the merger transaction, upon finalization of the merger the said options that were allocated to Mr. Avnit were converted into 117,829 non-tradable options of the Company, which are exercisable into 117,829 ordinary Company shares (for further details regarding the merger transaction and its terms, see section 1.1.3 to Chapter A of this report). In addition, further to the approval of the Company's Remuneration Committee and Board of Directors of August 28, 2016, the Company allocated to Mr. Avnit 115,728 non-tradable Company options, which are exercisable into 115,728 ordinary Company shares under the provisions of an outline plan of options to employees, which was issued by the Company on September 18, 2016, as amended on November 17, 2016 (reference no.: 2016-01-079611). On November 24, 2016 and November 28, 2016, the Company's Remuneration Committee and Board of Directors (respectively) approved a vesting acceleration mechanism in case of change of control in the Company (as defined in the Company's

options plan), in connection with the Company's options that were allocated to Mr. Avnit. The amount entered under the "share-based payment" column of the above table reflects the fair value of the Company's options that were allocated to Mr. Avnit. Mr. Avnit may be entitled to receive an annual bonus, most of which (at least 80%) will be based on achievement of measurable quantitative targets that are subject to approval by the Company's Remuneration Committee and Board of Directors. Mr. Avnit may also be entitled to a discretionary bonus (20%), based on qualitative criteria, all in accordance with the provisions of the Company's remuneration policy, and subject to the annual bonus ceiling set under this policy. Also, on March 23, 2017 and March 29, 2017, the Company's Remuneration Committee and Board of Directors (respectively) approved the allocation to Mr. Avnit of 66,432 non-tradable options of the Company that are exercisable into 66,432 Company shares. The allocation of these options is subject to the stock exchange's approving the listing of the shares that will arise from exercise of the said options.

- (5) Yossi Carmon – Mr. Carmon has been serving as an office holder of Safe-T Data since 1.7.2014. Through June 2016, Mr. Carmon served as the business development manager of Safe-T Data in Israel. As from June 2016 and up until the beginning of 2017, Mr. Carmon served as the sales manager Israel and Africa of Safe-T Data and since January 2017, Mr. Carmon has been serving as VP Sales Israel and Africa of Safe-T Data. Under Mr. Carmon's employment agreement, through April 1, 2016 he was entitled to a monthly salary of 25,000 ILS. Mr. Carmon's employment agreement was subsequently amended such that commencing on April 1, 2016 his gross basic salary on a full-time basis is 30,000 ILS. Mr. Carmon is also entitled to a personal car to be funded by the Company, recreation pay, managers insurance policy and pension fund, training fund, payment for meals in accordance with the Company's procedure, vacation pay and sick leave. Mr. Carmon is also entitled to reimbursement in respect of expenses incurred while staying abroad (against receipts and in accordance with Safe-T Data's procedures) and to reimbursement of reasonable expenses incurred as part of his job (subject to providing the required evidence and to advance approval of such expenses by the Company). Mr. Carmon is entitled to receive sales commissions and an annual bonus based on his achievement of sales orders targets relating to sales orders that were approved by clients and which were achieved by Mr. Carmon or in the market Mr. Carmon is in charge of; (the targets are set at the end of each year for the following year). Under the employment agreement, Safe-T Data and Mr. Carmon may terminate the employment agreement by giving a 1-month advance notice (hereafter – "the advance notice period"). Over the course of the advance notice period, Mr. Carmon shall be entitled to receive full payment of remuneration under the employment agreement. Notwithstanding the above, the Company may terminate the employment agreement with immediate effect, by giving written notice. Mr. Carmon is entitled to liability exemption, indemnification and liability insurance of directors and office holders, all in accordance with the Company's normal practice applicable to its directors and office holders. Mr. Carmon may be entitled to receive an annual bonus, most of which (at least 80%) will be based on achievement of measurable quantitative targets that are subject to approval by the Company's Remuneration Committee and Board of Directors. Mr. Carmon may also be entitled to a discretionary bonus (20%), based on qualitative criteria, all in accordance with the provisions of the Company's remuneration policy, and subject to the annual bonus ceiling set under this policy. Before the merger transaction, Safe-T Data allocated to Mr. Carmon non-tradable options of this company, that were exercisable into Safe-T Data shares. As part of the terms of the merger transaction, upon finalization of the merger the said options that were allocated to Mr. Carmon were converted into 60,232 non-tradable options of the Company, which are exercisable into 60,232 ordinary Company shares (for further details regarding the merger transaction and its terms, see section 1.1.3 to Chapter A of this report). In addition, further to the approval of the Company's Remuneration Committee and Board of Directors of August 28, 2016, the Company allocated to Mr. Carmon 39,104 non-tradable Company options, which are exercisable into 39,104 ordinary Company shares under the provisions of an outline plan of options to employees, which was issued by the Company on September 18, 2016, as amended on November 17, 2016 (reference no.: 2016-01-079611). The amount entered under the "share-based payment" column of the above table reflects the fair value of the Company's options that were allocated to Mr. Carmon. For details regarding Mr. Carmon's entitlement to a portion of the profits of a company, which he established together with a distributor, which distributes Safe-T Data's products in Ghana and Nigeria, see regulation 29a to Chapter D of this report. Also, on March 23, 2017 and March 29, 2017, the Company's Remuneration Committee and Board of Directors (respectively) approved the allocation to Mr. Carmon of 100,000 non-tradable options of the Company that are exercisable into 100,000 Company shares. The allocation of these options is subject to the stock exchange's approving the listing of the shares that will arise from exercise of the said options.

b) Remuneration to interested parties

- (1) Mr. Amir Mizhar is the founder of Safe-T Data and served in various positions in this company since the day it was founded. Mr. Amir Mizhar served, inter alia, as the CEO of Safe-T Data until 28.5.2015. As from the finalization of the merger, Mr. Mizhar has been serving as an active Chairman of the Board of Directors of the Company. Up until the finalization of the merger transaction, Mr. Mizhar was entitled to receive management fees of 44,800 ILS + VAT per month, liability insurance of directors and office holders and 22 paid leave days per year. On May 8, 2016, the General Meeting of the Company's shareholders approved the Company's engagement in a management agreement with Mr. Mizhar (hereafter – "the management agreement"). This agreement was approved by the General Meeting after the Company's Remuneration Committee and Board of Directors approved the agreement on March 31, 2016. The management agreement stipulates that Mr. Mizhar will be paid for his service as a full-time active Chairman of the Board of Directors of the Company, monthly consultancy fees of 55,000 ILS +VAT (which include reimbursement of travel expenses of 3,000 ILS). Mr. Mizhar is also entitled to an annual bonus most of which (at least 80%) will be based on achievement of measurable quantitative targets that are subject to approval by the Company's Remuneration Committee and Board of Directors once a year. Mr. Mizhar may also be entitled to a discretionary bonus (20%), based on qualitative criteria, all in accordance with the provisions of the Company's remuneration policy, and subject to the annual bonus ceiling set under this policy. Mr. Mizhar is also entitled to reimbursement in respect of expenses incurred while staying abroad (against receipts and in accordance with Safe-T Data's procedures) and to reimbursement of reasonable expenses incurred as part of his job (subject to providing the required evidence and to advance approval of such expenses by Safe-T Data). In addition, Mr. Mizhar is entitled to 22 paid leave days per year, the funding of his vehicle expenses and payment for meals in accordance with the Company's procedures. Mr. Mizhar is entitled to exemption and indemnification letters and liability insurance of directors and office holders all in accordance with the Company's normal practice applicable to its directors and office holders. Under the management agreement, the Company and Mr. Mizhar may terminate the management agreement by giving a 2-month advance notice (hereafter – "the advance notice period"). Over the course of the advance notice period, Mr. Mizhar shall be entitled to receive full payment of remuneration under the management agreement. Mr. Mizhar shall be entitled to a 2-month adaptation period; during that period, Mr. Mizhar shall be entitled to receive full remuneration in accordance with the management agreement. Notwithstanding the above, the Company may terminate the management agreement with immediate effect under certain circumstances set out in the agreement. In such cases, Mr. Mizhar shall not be entitled to payment in respect of the advance notice period or the adaptation fees. For further details regarding the terms of Mr. Mizhar's service, see the summons to convene the General Meeting of the Company's shareholders that was published by the Company on May 3, 2016 (reference no: 2016-01-058504).
- (2) Mr. Yuval Illuz has been serving as an active director in the Company since the finalization of the merger transaction. On May 8, 2016, the General Meeting of the Company's shareholders approved the Company's engagement in a services agreement with Mr. Illuz (hereafter – "the services agreement"). This agreement was approved by the General Meeting after the Company's Remuneration Committee and Board of Directors approved the agreement on March 31, 2016. The services agreement stipulates that Mr. Illuz will be paid for his service as an active director in the Company an annual payment and a participation payment in accordance with the minimal amounts set in the Companies Regulations (Rules Regarding Remuneration and Expenses to External Director), 2000 and in accordance with the category into which the Company will be classified from time to time. Mr. Illuz is also entitled to receive a sales bonus and a transactions bonus that will be paid once a year, subject to the approval of the Remuneration Committee and the Company's Board of Directors, as follows: (a) sales bonus – in respect of revenues derived by the Company as a result of proof of concept (POC) transactions that will result in a sale of Company's products to clients who were introduced to the Company by Mr. Illuz, subject to restrictions and conditions set out in the services agreement; and (b) a transactions bonus – for each calendar year, if on that year the Company reached the POC stage (i.e., met all the client's technological and business needs, such that all that remains is to complete the financial and legal aspects of the transaction), in respect of two POC transactions that resulted in a sale of Company's products to clients who were introduced to the Company by Mr. Illuz, provided that the maximal sales bonus to which Mr. Illuz will be entitled in respect of each and every client shall not exceed \$ 50,000 and provided that the aggregate amount of the sales bonus and the transactions bonus shall not exceed 200,000 ILS per calendar year. In 2016, the criteria for payment of such bonuses were not met. The services agreement also stipulates that in 2016 Mr. Illuz shall be entitled for remuneration of 40,000 ILS provided that he spends at least 6 hours per calendar month at the Company's offices. Mr. Illuz met most of these

conditions and received most of the said remuneration. It was also determined that Mr. Illuz is entitled to a remuneration of 40,000 ILS in 2016 for participation in at least four conferences in the name of the Company, including giving lectures in the name of the Company where needed. The criteria for payment of this amount were not met; therefore Mr. Illuz did not receive this payment. Mr. Illuz is also entitled to reimbursement of expenses he incurred as part of his job, in accordance with the Company's policy subject to providing receipts and to advance approval of such expenses. Furthermore, Mr. Illuz is entitled to exemption and indemnification letters and liability insurance of directors and office holders all in accordance with the Company's normal practice applicable to its directors and office holders. For further details regarding the terms of Mr. Illuz's service, see the summons to convene the General Meeting of the Company's shareholders that was published by the Company on May 3, 2016 (reference no: 2016-01-058504). In addition, further to the approval by the Remuneration Committee and the Company's Board of Directors of September 15, 2017, the Company allocated to Mr. Illuz 28,240 non-tradable options, which are exercisable into 28,240 ordinary Company shares, under the provisions of an outline plan of options to employees, which was issued by the Company on September 18, 2016, as amended on November 17, 2016 (reference no.: 2016-01-079611). The amount entered under the "share-based payment" column of the above table reflects the fair value of the Company's options that were allocated to Mr. Illuz.

- (3) Company's directors, who do not serve as office holders in the Company or its subsidiaries – Mr. Eylon Jeda, Ms. Vered Raz-Avayo, Mr. Yehuda Halfon and Mr. Lior Vider - are entitled to annual payment and a participation payment in accordance with the minimal amounts set in the Companies Regulations (Rules Regarding Remuneration and Expenses to External Director), 2000 (hereafter – "the remuneration regulations") and in accordance with the category into which the Company will be classified from time to time. Furthermore, the Company's directors are entitled to exemption and indemnification letters and liability insurance of directors and office holders all in accordance with the Company's normal practice applicable to its directors and office holders. In 2016, this remuneration of directors amounted to approximately \$ 38 thousand.
- (4) On February 2, 2017, the General Meeting of the Company's shareholders approved the Company's engagement with Mr. Eylon Jeda in an agreement for the recruitment of investors to the Company; under the agreement, Mr. Jeda – who is a Company director – shall be entitled to a 5% commission +VAT out of an equity investment¹⁰ in the Company by investors, who will be identified by Mr. Jeda, where such investment is carried out (if it is carried out) within 12 months from the date of signing the agreement. For further details, see the summons to convene the General Meeting of the Company's shareholders, which was published by the Company on December 29, 2016 (reference no: 2016-01-093669).

Regulation 21a – Controlling Shareholders

On December 24, 2015, the Tel-Aviv-Jaffa District Court approved a composition with creditors between the Company and its creditors. The Composition with Creditors approved Mr. Kfir Zilberman's proposal to acquire the control in the Company as a "shelf company" with no business activity and no assets and liabilities, in consideration for a cash payment to the Composition with Creditors' account and the allocation of shares to the Investor and/or anyone acting on his behalf. As a result, Mr. Zilberman became the controlling shareholder of the Company (for further details see the Company's immediate report of December 24, 2015, reference no: 2015-01-188232).

On June 15, 2015, a merger transaction was effected by way of shares exchange between the Company, Safe-T Data and the shareholders of Safe-T Data, in accordance with the provisions of Section 103t to the Income Tax Ordinance [New Version], 1961. (For details see section 1.1.3 to Chapter A of this report). As from the date of the finalization of the merger transaction, the Company does not have a controlling shareholder. Nevertheless, it should be noted, that to the best of the Company's knowledge, the controlling shareholder of the Company for purposes of the Fifth Chapter of the Sixth Part of the Companies Law, 1999 (hereafter – "the companies law") is Mr. Amir Mizhar, who holds approximately 32.72% of the Company's issued and paid share capital and actual voting rights and approximately 23.3% of the Company's issued and paid share capital and voting rights on a fully diluted basis.

¹⁰ Cash investment, by way of private allocation, in consideration for Company shares or other convertible securities.

Regulation 22- Transactions with Controlling Shareholder

Although the Company does not have a controlling shareholder (as described in regulation 21a above), set forth below is a list, to the best of the Company's knowledge, of all transactions with Mr. Amir Mizhar or transactions in the approval of which Mr. Amir Mizhar has personal interest, which the Company (or a company under its control or a related company) entered into over the course of the reported year or subsequent to the end of the reported year and through the date of filing this report, or transactions which are still effective as of the date of this report:

a. Transactions listed in Section 270(4) to the Companies Law, 1999 (hereafter – “the companies law”):

1. Merger transaction between Safe-T Data and its shareholders

On May 8, 2016, the General Meeting of the Company's shareholders approved the Company's engagement with Safe-T Data and its shareholders in a merger transaction. (The transaction was approved by the General Meeting after the Company's Audit Committee and Board of Directors approved the transaction on March 31, 2016). On June 15, 2016, the merger transaction was finalized and the Company purchased from the shareholders of Safe-T Data at the time of the finalization of the transaction, including Mr. Amir Mizhar, all issued and paid share capital of Safe-T Data, against the allocation of ordinary shares of Safe-T Data's shareholders at the time of the finalization of the transaction and the conversion of Safe-T Data's options into non-tradable options of the Company. As part of the transaction, Mr. Mizhar (including a private company fully owned by Mr. Mizhar) was allocated 5,040,923 ordinary Company shares (against his Safe-T Data shares, that were purchased by the Company as part of the merger transaction). For further details regarding the merger agreement and merger transaction, see section 1.1.3 to Chapter A of this report.

2. Management agreement between the Company and Mr. Amir Mizhar as the active Chairman of the Company's Board of Directors

On May 8, 2016, as part of the approval of the merger transaction between Safe-T Data and its shareholders, the General Meeting of the Company's shareholders approved the terms of employment of Mr. Amir Mizhar as the active Chairman of the Company's Board of Directors. (The terms of employment were approved by the General Meeting after the Company's Remuneration Committee and Board of Directors approved them on March 31, 2016). For further details about the terms of employment of Mr. Amir Mizhar, see regulation 21 above.

3. Approval and ratification of the terms of employment of a relative of Mr. Amir Mizhar – Mr. Bar Hofesh – an employee of a subsidiary and approval of award to Mr. Hofesh of non-tradable options

On November 3, 2016, the General Meeting of the Company's shareholders approved and ratified the terms of employment of a relative of Mr. Amir Mizhar – Mr. Bar Hofesh, who is the son of Mr. Mizhar's partner. The terms of employment were approved by the General Meeting after the Company's Audit Committee and Board of Directors approved them on September 15, 2016). Mr. Hofesh is a key employee of Safe-T Data; he is employed by this Company for a period of three years, which commenced on the date of finalization of the merger transaction (June 15, 2016). Mr. Hofesh is entitled to a monthly salary of 24,000 ILS. Subject to the finalization of capital raising by the Company, commencing on February 1, 2017 (or commencing the date of finalization of capital raising by the Company if such capital raising is finalized after February 1, 2017), Mr. Hofesh shall be entitled to a monthly salary of NIS 28,000. Mr. Hofesh is also entitled to contributions towards his pension rights, training fund, reimbursement of travel expenses, funding of mobile phone costs, payment for meals (up to a maximum of 800 ILS per month and paid leave – all in accordance with the Company's normal practice applicable to its employees.

On the said date, and further to the approval of the Company's Audit Committee and Board of Directors of September 15, 2016, the General Meeting of the Company's shareholders approved the allocation – to Mr. Hofesh - of 11,328 non-tradable options registered in name, which are exercisable up to 11,328

ordinary Company shares, without consideration, by way of extraordinary private placement (as defined in the Securities Regulations (Private Placement of Securities in a Listed Company), 2000. In addition, the General Meeting of the Company's shareholders approved the conversion of options that were allocated to Mr. Hofesh by Safe-T Data before the merger transaction and which were converted as part of the merger transaction, into 35,386 non-tradable options of the Company which are exercisable to up 35,386 ordinary Company shares. For further details, see summons to convene the General Meeting, which was published by the Company on September 26, 2016 (reference no: 2016-01-054699).

4. Merger of RSAccess with and into Safe-T Data

On February 2, 2017 and further to the approval of the Company's Audit Committee and Board of Directors of December 25, 2016, the General Meeting of the Company's shareholders approved the merger of RSAccess with and into Safe-T Data (without consideration), in accordance with the First Chapter of the Eighth Part of the Companies Law, 1999. Mr. Mizhar's personal interest in this merger stems from his being a creditor of RSAccess. For further details, see summons to convene the General Meeting, which was published by the Company on December 29, 2016 (reference no: 2016-01-093669).

5. Insurance and Letters of Indemnification and Exemption

For details regarding the Company's purchase of a liability insurance for its directors and office holders and regarding the provision of indemnification and exemption letters to Company's office holders, including Mr. Amir Mizhar, who serves as an active Chairman of the Company's Board of Directors, see regulation 29a below).

b. Transactions which are not listed in Section 270(4) to the Companies Law (including negligible transactions)

In the course of the reported period, the Company did not carry out any transactions with the controlling shareholder, which are not listed in Section 270(4) to the Companies Law.

Regulation 24 – Holdings of Interested Parties and Senior Office Holders of the Company in Securities of the Company

For details regarding the holdings of interested parties and senior office holders of the Company in securities of the Company, see the Company's immediate report of March 29, 2017 (reference no: 2017-01-027358), which is incorporated by way of reference.

Regulation 24a – Authorized Capital, Issued Capital and Convertible Securities

For details regarding the Company's authorized, issued and paid share capital, see note 14 to the financial statements.

Regulation 24b – Register of Shareholders

Type of security	No. of security with the stock exchange	Name of holder	Id number/ company number
Ordinary shares	1083856	The Registration Company of Bank Hapoalim Ltd.	510356603

Regulation 25a – Registered Address of the Company, Phone and Fax Nos. and Email Address

The Company's registered address: 8 Aba Even Avenues, Herzliya, 4672526.

Phone no.: 09-8666110

Fax no.: 072-7694952

Email address: info@safe-t.com

Website: www.safe-t.com

Regulation 26 – Company's directors

For details about directors serving in the Company, see **Appendix A**, which is attached to this report.

Regulation 26a – Senior Office Holders

For details about senior office holders, who are not members of the Board of Directors, see **Appendix B**, which is attached to this report.

Regulation 26b – Independent Authorized Signatories

As of the date of this report, the signature of each of the following persons – Mr. Amir Mizhar (the Chairman of the Board of Directors), Mr. Shahar Daniel (CEO and Director) and Mr. Shai Avnit (CFO) shall bind the Company (together with the Company's stamp or its printed name) in respect of the following matters: currency conversion, opening and sale of deposits, transfer of funds between the Company's accounts, and signing documents on behalf of the Company, provided that those documents do not involve a financial undertaking on behalf of the Company, the sole signature of one of the three persons, mentioned above.

Regulation 27 – The Company's Auditor

Kesselman & Kesselman CPAs, 25 Hamered St. Tel Aviv 6812508.

Regulation 28 – Changes to the Memorandum or Articles of Association

On May 8, 2016, the General Meeting of the Company's shareholders approved the replacement of the Company's Articles of Association as part of the approval of the merger transaction between the Company, Safe-T Data and its shareholders and with effect from the date of finalization of that transaction. The replacement of the Articles of Association was approved by the General Meeting after the Company's Audit Committee and Board of Directors passed a resolution to that effect on March 31, 2016. For further details, see the summons to convene the General Meeting of the Company's shareholders that was published by the Company on May 3, 2016 (reference no: 2016-01-058504). For the full wording of the Company's Articles of Association, see the Company's report of June 15, 2016 (reference no.: 2016-01-051252).

Regulation 29 – Recommendations and Resolutions of the Board of Directors

Board of Directors' recommendations to the General Meeting of the Company's shareholders that are not subject to the approval of General Meeting of the Company's shareholders (regulation 29a):

1. As part of the finalization of the composition with creditors in the Company (for details see section 1.12 to Chapter A of this report), the special manager approved the consolidation of the Company's issued and paid share capital, such that each eight hundred (800) ordinary shares of no par value of the Company were consolidated into one ordinary share of no par value of the Company. For details, see Company's reports of February 25, 2016 and March 1 2016 (reference numbers: 2016-01-034723 and 2016-01-037846, respectively).
2. On March 29, 2016, as part of the Company's Composition with Creditors, the Company allocated to an investor and to persons and entities on its behalf 325.656 ordinary Company shares. For details about the Composition with Creditors see section 1.1.2 to Chapter A of this report. Also, see the Company's immediate report of March 29, 2016 (reference no. 2016-01-017157).
3. For details regarding the issuance of rights and public offering carried out by the Company in accordance with a supplementary prospectus and a supplementary notice, see Regulation 20 above.
4. As part of the merger transaction, the Company allocated to Safe-T Data's shareholders before the transaction 8,262,761 ordinary Company shares. For details, see section 1.1.3 to Chapter A of this report.
5. For details regarding the allocation of non-tradable options to employees and office holders of the Company and companies under its control, including to the Company's CEO and a Company director under an outline plan of options to employees, which was issued by the Company on September 18, 2016, as amended on November 9, 2016 and November 17, 2016 (reference no.: 2016-01-079611), see section 27.6 to Chapter A of this report.

6. For details about the allocation of 60,000 non-tradable options to Company's consultants, see section 31.8 to Chapter A of this report.
7. For details about the allocation of 1,492,670 ordinary Company shares and 1,492,670 Series 2 warrants of the Company to private investors of the Company, see Regulation 20 above.
8. For details about the approval – by the Remuneration Committee and the Company's Board of Directors – of the allocation of non-tradable options to Mr. Shahar Daniel, Mr. Shai Avnit, Mr. Eitan Bremler and Mr. Yossi Carmon, see Regulation 21 above.
9. For details regarding the Company's entering into agreement with investors to raise capital against allocation of Company shares and non-tradable options of the Company, see section 3.2.3 to Chapter A of this report.
10. For details regarding the replacement of the Company's Articles of Association, see Regulation 28 above.

Resolutions adopted at an Extraordinary General Meeting (EGM) (Regulation 29c)

1. On March 27, 2016, the General Meeting of the Company's shareholders approved the appointment of Ms. Vered Raz-Avayo and Mr. Yehuda Halfon as external directors of the Company for a period of three years.
2. On May 8, 2016, the General Meeting of the Company's shareholders approved the following resolutions: (a) the merger transaction between the Company, Safe-T Data and its shareholders, including private offering to shareholders and holders of options of Safe-T Data; (b) repayment of all loans extended by investors and lenders to Safe-T Data before the merger transaction (for details see section 31.1 to Chapter A of this report); (c) repayment of interim loans to Company's shareholders (for details see section 31.1 to Chapter A of this report); (d) replacement of Company's Articles of Association; (e) end of term of service of the directors who served in the Company at the time (except for external directors), and the appointment of Mr. Amir Mizhar, Mr. Shahar Daniel, Mr. Eran Ziv and Mr. Yuval Illuz to Company directors as from the date of finalization of the merger transaction and up until the next General Meeting of the Company's shareholders; (f) approval of the remuneration policy regarding Company office holders; (g) approval the terms of service and employment of Mr. Shahar Daniel as the Company's CEO and Director, Mr. Amir Mizhar as the active Chairman of the Company's shareholders and Mr. Yuval Illuz as an active director in the Company; (h) approval of the provision of letters of exemption and indemnification to Company's directors and office holders; (i) Company's purchase of liability insurance policy for directors and office holders covering two periods and two groups: (1) with regard to directors, who served in the Company from March 27, 2016 through the date of finalization of the merger transaction – in respect of the period from the date they were appointed as directors through the date of the finalization of the merger transaction; (2) with regard to directors and office holders who served in the Company and its subsidiaries, from time to time, as from the date of finalization of the merger transaction through June 14, 2017; (j) Company's purchase of a Run-Off liability insurance policy for directors and office holders who served in the Company as from March 27, 2016 through the date of finalization of the transaction; this policy came into effect on the date of finalization of the merger transaction and will be in effect for a 7-year period; (k) end of Shtainmetz Aminoach & Co's term of service as the Company's auditors; (l) change of the Company's name; and (m) discussion of the Company's periodic report for the year 2015. For further details, see the summons to convene the General Meeting of the Company's shareholders that was published by the Company on May 3, 2016 (reference no: 2016-01-058504).
3. On November 3, 2016, the General Meeting of the Company's shareholders approved the following resolutions: (a) grant of non-tradable options to Mr. Shahar Daniel – the Company's CEO; and (b) approval and ratification of the terms of employment of a relative of Mr. Amir Mizhar – Mr. Bar Hofesh – an employee of a subsidiary and approval of award to Mr. Hofesh of non-tradable options. For further details, see the summons to convene the General Meeting of the Company's shareholders that was published by the Company on September 26, 2016 (reference no: 2016-01-054699)

Regulation 29a – Company's Resolutions

- a. Approval of a plan of action in accordance with Section 255 to the Companies Law and an extraordinary transaction with an office holder of Safe-T Data in accordance with Section 270(1) to the Companies Law (Regulations 29a(1)(3))

In August 2016, Safe-T Data entered into distribution agreement with another company (hereafter- “the distributor”) for the purpose of distributing Safe-T Data’s products to banks in Gahanna and Nigeria. At first, Safe-T Data and the distributor considered the option of establishing a foreign company to be held in equal shares and to use this company for the purpose of implementing the collaboration with the distributor. Due to various reasons, including the financial and managerial resources that Safe-T Data will be required to set up and operate a subsidiary in a foreign territory, it was decided not to do so and rather to collaborate with the distributor through a foreign company (hereafter – “the project company”) that will be held in equal shares by the distributor and by Mr. Yossi Carmon, VP Sales Israel and Africa of Safe-T Data. It was also decided that Mr. Yossi Carmon shall be entitled to receive 25% of the profits derived by the project Company as a result of the sale of Safe-T Data’s products. On December 25, 2016, the said plan was approved by the Audit Committee and the Company’s Board of Directors, pursuant to Section 255 to the Companies Law. In that respect, the Audit Committee and Company’s Board of Directors determined that Mr. Carmon acts in good faith in connection with the plan, that the approval of the said engagement will not harm the Company’s interest and that Mr. Carmon disclosed to the Company the nature of his personal interest in the plan, including any material fact or document relating thereto.

- b. Exemption or indemnification letter and liability insurance to office holder in effect as of the date of this report (Regulation 29a(4))

Liability insurance to office holders

On May 8, 2016, and further to the approval of the Company’s Audit Committee and Board of Directors of March 31, 2016, the General Meeting of the Company’s shareholders approved (a) extending the term of the professional insurance liability for directors and office holders with regard to directors who serve in the Company as from March 27, 2016, in respect of the period from the date they were appointed as directors through the date of the finalization of the merger transaction; and (b) the Company’s purchase of a liability insurance policy with regard to office holders and directors who serve and/or who will serve in the Company from time to time (including directors and office holders that may be considered as “controlling shareholders” as defined in Section 268 to the Companies Law); this policy will be in effect for a period of one year as from the date of finalization of the merger transaction, with a liability ceiling of \$ 5 million per claim and per period; (c) the Company’s purchase of a Run-Off liability insurance policy that will apply to directors who served in the Company from March 27, 2016 through the date of finalization of the merger transaction; this policy came into effect on the date of finalization of the merger transaction and will be in effect for a 7-year period. For further details, see the summons to convene the General Meeting of the Company’s shareholders that was published by the Company on May 3, 2016 (reference no: 2016-01-058504).

Exemption and indemnification letters to directors and office holders

On May 8, 2016, and further to the approval of the Company’s Audit Committee and Board of Directors of March 31, 2016, the General Meeting of the Company’s shareholders approved the Company’s commitment to issue indemnification letters (in advance and in retrospect) and exemption letters to the directors and office holders that will serve in the Company and/or in any other corporation in which the Company will hold any securities, from time to time, starting on the date of finalization of the merger transaction and including directors and office holders that may be considered as “controlling shareholders” as defined in Section 268 to the Companies Law. The wording of the indemnification and exemption letters is available in the summons to convene the General Meeting of the Company’s shareholders that was published by the Company on May 3, 2016 (reference no: 2016-01-058504).

Shahar Daniel
CEO and Director

Amir Mizhar
Chairman of the Board of Directors

March 30, 2017

Appendix A – Details Regarding Directors in the Company (according to Regulation 26)

Name	Id number	DOB	Address for service of process	Member of Board of Directors committees	Independent or external director	Possesses accounting and financial expertise/ or professional qualifications/ expert external director	Date of commencement of tenure	If he/she is an employee of the Company, a subsidiary, related party or interested party thereof – job description	Education and Occupation in the last five years	Nationality	Relative of another interested party in the Company
Amir Mizhar	026266304	15.1.1975	7 Shvat St. Modi'in	No	No	No	15.6.2016	Chairman of the Company's Board of Directors, Director in Safe-T Data, Director and CEO of RSAccesss, Directors in Safe-T USA	Sela College, Object-Oriented Programming, no academic degree. 2006-2013 founder and VP Software of eTouchware Inc.; 2013-2015 CEO and Chairman of the Board of Directors of RSAccess	Israeli	No
Shahar Daniel	031556251	16.4.1978	15/44 Levi Eshkol St. Tel Aviv	No	No	Possesses accounting and financial expertise	15.6.2016	CEO of Safe-T Data; CEO and Director in the Company	BA in Technology Management from the Holon Institute of Technology, specialized in project management; MBA from the College of Management Academic Studies; 2009-2012 Project managers group leader at Logic Industries Ltd. 2012-2013 – Chief programmer at Prime Sense Ltd; 2013-2015 VP Operations at Safe-T Data. 2015 to date – CEO of Safe-T Data and the Company	Israeli	No

Name	Id number	DOB	Address for service of process	Member of Board of Directors committees	Independent or external director	Possesses accounting and financial expertise/ or professional qualifications/ expert external director	Date of commencement of tenure	If he/she is an employee of the Company, a subsidiary, related party or interested party thereof – job description	Education and Occupation in the last five years	Nationality	Relative of another interested party in the Company
Yuval Illuz	032946915	23.4.1978	33 Onslow St. Rose Bay, Sydney 2029 NSW Australia	No	No	No	15.6.2016	No	BA in Computer Science and Management – Open University. MA in Information Systems Management – Clark University; professional certificates from Microsoft and Check Point; ISO 27001 Lead Auditor Course (Certified) 2017 - Executive General Manager, Chief Information Security & Trust Officer at Commonwealth Bank; 2015-2016 Chief Information Security Officer of PlayTech Group; 2008 to date – advising start-up companies (including membership in advisory boards); 2010-2015 – Lecturer on information security and information systems; 2013-2015 – CEO and founder of ECI's cyber division; 2010-2013 – information systems management at ECI; 2009-2010 – information security management at ECI		

Name	Id number	DOB	Address for service of process	Member of Board of Directors committees	Independent or external director	Possesses accounting and financial expertise/ or professional qualifications/ expert external director	Date commencement of tenure	If he/she is an employee of the Company, a subsidiary, related party or interested party thereof – job description	Education and Occupation in the last five years	Nationality	Relative to another interested party in Company
Vered Raz-Avayo	024810103	22.1.1970	41 Oppenheimer St. Tel Aviv	Member of the Remuneration Committee, the Audit Committee and the Financial Statements Review Committee	External director	Possesses accounting and financial expertise	27.3.2016	No	BA in Business Administration and Financing - College of Management Academic Studies; MFA in Film and Television Studies – Script Writing – Tel Aviv University. 2010 to date – independent financial advisor and director; 1999-2010 – CFO of the private Leviev group Memorand Management (1998) Ltd.; Director at Hamda Ltd., Analyst IMS Mutual Funds Management (1986) Ltd., Naaman Group Ltd., Africa Israel Residences Ltd.	Israeli	No
Yehuda Halfon	034879791	27.2.1978	15 Habanim St. Ashkelon	Member of the Remuneration Committee, the Audit Committee and the Financial Statements Review Committee	External director	Possesses accounting and financial expertise	27.3.2016	No	BA in Economy and Accounting – Hebrew University. 2009 to date - Cooperica Property Ltd. - management of nursing home and real estate; 2010 to date – Finance Director at LDG Real Estate Holdings (Germany). Director at Phomello Ltd., served as a director at Gilon Underwriting and Distribution Ltd. (2010-2012); Ashkelon Economic Company Ltd. (2010-2013)	Israel	No

Name	Id number	DOB	Address for service of process	Member of Board of Directors or committees	Independent or external director	Possesses accounting and financial expertise/ or professional qualifications/ expert external director	Date commencement of tenure	If he/she is an employee of the Company, a subsidiary, related party or interested party thereof – job description	Education and Occupation in the last five years	Nationality	Relative to another interested party in the Company
Lior Vider	033075110	6.7.1976	3 Yuval Ne'eman St. Rehovot	Member of the Remuneration Committee, the Audit Committee and the Financial Statements Review Committee	Independent director	Possesses accounting and financial expertise	29.3.2016	No	Industrial & Management Engineer – Information Systems Shenkar College. Licensed portfolio manager (certified by the Israeli Securities Authority). 2010 to date – Senior Investments Director - Epsilon Investment House Ltd.; 2007-2010 – Chief Investments Directors at Impact Investment Portfolio Management Ltd of the Union Bank Group. Founder and owners of Sponsor Naale	Israeli	No
Eylon Jeda	028697233	3.8.1971	9 Bavli St. Tel Aviv	No	No	Possesses accounting and financial expertise	27.6.2016	No	BA in Economics and Management – Tel Aviv University. ScM – Management Sciences – Tel Aviv University. 2008 – to date – owners and manager of Eylon Jeda Capital Management.	Israeli	No

Appendix B – Details Regarding Senior Office Holders in the Company (according to Regulation 26a)

Name	Id number	DOB	Date of commencement of tenure	Position in the Company, subsidiary, related company or interested party thereof	Is he/she an interested party in the Company or a relative of a senior office holder or an interested party in the Company	Education and occupation in the last five years
Shai Avnit	059799189	31.7.1965	At Safe-T Data- 1.5.2013; at the Company – 15.6.2016	CFO of the Company and of Safe-T Data	No	BA in Economics and Accounting and MBA in Business Administration (specializing in finance and marketing) – awarded by the Tel Aviv University. Provides finance management services to companies from the software, electronics, biotech and medical devices industries; 2014-2015 – director and office holder in Creative Vision Ltd.; 2013-2015 – entrepreneur and directors at Kablanet Ltd. 2013 to date – CFO at Safe-T Data; commencing on 15.6.2016 – CFO at Safe-T Group.
Jorge Gerber	017081704	28.3.1961	1.12.2015	VP Sales Europe, The Far East and RoW at Safe-T data	No	2015 to date - VP Sales Europe, The Far East and RoW at Safe-T data; 2007-2015 – HP – Director of international partnerships and development - Israel
Yossi Carmon	025339011	2.10.1973	23.4.2014	VP Sales Israel and Africa at Safe-T Data	No	BA in Computer Science from the Academic College of Tel Aviv; BA in Social Sciences and MA in Business Administration from the Bar Ilan University 2014-15 – sales manager and business development of Safe-T Data in Israel; Development Manager at Elad Systemsy
Derek Schwartz	06986038 (US Passport)	4.3.1954	15.9.2014	CEO of Safe-T USA	No	Qualified CPAI BC in Commerce from the University of Cape Town. VP Finance at Axway Inc.; VA+P in Seeburger AG.
Eitan Bremler	017639865	23.11.1977	17.10.2013	VP Marketing & Product Management at Safe-T Data	No	Electronics Technician Certificate from the Mosinzon Youth Village; BA in Business Administration (specializing in marketing) from the Ono Academic College; 2001-2012 – Marketing Director at Radware; 2012-2013 – Product Manager at Radvision 2013-2016 – VP Marketing and Product Management at Safe-T Data.
Dana Gottesman-Erlich	037575735	8.8.1975	27.6.2016	Internal Auditor of the Company	No	BA in Business Administration from the College of Management Academic Studies, MA in Public Administration. Qualified Internal Auditor – CIA, Certified Public Accountant. Partner at Ziv Haft CPAs.

Executive Declarations:

(a) Declaration of the Chief Executive Officer Pursuant to Regulation 9b(d)(1):

Executive Declaration

Declaration of the Chief Executive Officer

I Shahar Daniel, hereby declare that:

- (1) I have reviewed the periodic report of Safe-T Group Ltd. (hereafter – “the corporation”) for the year 2016 (hereafter – “the reports”).
- (2) To the best of my knowledge, the reports do not include any misrepresentation of a material fact nor do they omit any representation of a material fact so that the representations included therein, in view of the circumstances in which such representations have been included, shall not be misleading with regard to the period covered by the reports;
- (3) To the best of my knowledge, the financial statements and other financial information included in the reports, reflect fairly, in all material respects, the financial position, results of operations and cash flows of the corporation as of the dates and periods covered by the reports;
- (4) I have disclosed to the corporation’s auditor, Board of Directors and Audit Committee any fraud, whether material or immaterial, in which the Chief Executive Officer, or anyone directly reporting to him, or any other employees are involved who have a significant function in the corporation’s financial reporting and in internal control over financial reporting and disclosure thereof.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

March 29, 2017

Date

Shahar Daniel, CEO

(b) Statement of the Most Senior Financial Officer Pursuant to Regulation 9b(d)(2):

Executive Declaration

Declaration of the Most Senior Financial Officer

I Shai Avnit, hereby declare that:

- (1) I have reviewed the financial statements and other financial information included in the reports of Safe-T Group Ltd. (hereafter – “the corporation”) for the year 2016 (hereafter – “the reports”).
- (2) To the best of my knowledge, the financial statements and the other financial information included in the reports do not include any misrepresentation of a material fact nor do they omit any representation of a material fact so that the representations included therein, in view of the circumstances in which such representations have been included, shall not be misleading with regard to the period covered by the reports;
- (3) To the best of my knowledge, the financial statements and other financial information included in the reports, reflect fairly, in all material respects, the financial position, results of operations and cash flows of the corporation as of the dates and periods covered by the reports;
- (4) I have disclosed to the corporation’s auditor, Board of Directors and Audit Committee any fraud, whether material or immaterial, in which the Chief Executive Officer, or anyone directly reporting to him, or any other employees are involved who have a significant function in the corporation’s financial reporting and in internal control over financial reporting and disclosure thereof.

The aforesaid does not derogate from my responsibility or from the responsibility of any other person, pursuant to any law.

March 29, 2017

Date

Shai Avnit, CFO