Safe-T Group Ltd.

Periodic Report for the Year 2017

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Safe-T Group Ltd.is a "small corporation" as defined in the Securities Regulations (Periodic and Immediate Reports), 1970 (hereafter-"the Regulations"). The Company's Board of Directors has adopted the exemptions prescribed in the Regulations applicable to small corporations as listed in Regulations 5d(b)(1-4) to the Regulations.

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 2017, 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, 2017 (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 Group'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 Merger transaction by way of shares exchange with Safe-T Data and its shareholders

On June 15, 2015, a merger transaction was finalized 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 (hereafter: "the merger transaction"). As from the date of 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.

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).

1.1.3 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 a subsidiary in the USA, in the field in information security, specifically in the development and marketing of combined information security solutions for organizations in order to protect them from internal and external attackers; the said solutions provide secure and controlled access to information as well as secure and controlled 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 solution offered by the Group is called Software Defined Access. The solution combines a variety of technologies and products developed by Safe-T Data, such as the Secure Data Access product, the Secure Data Exchange product, the Software Defined Perimeter capabilities and more.

As of the date of the Report, Safe-T Data operates in Israel and globally – in North America, Europe, Africa 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 partiers and by working with the local team of the US subsidiary, Safe-T USA Inc. (hereafter also: “Safe-T USA) for the purpose of creating initial links with potential clients. In addition, Safe-T Data works to expand its activities in Europe and South-East Asia by, among other things, entering into engagements with new business partners in those markets.

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 Inc[1]. (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.

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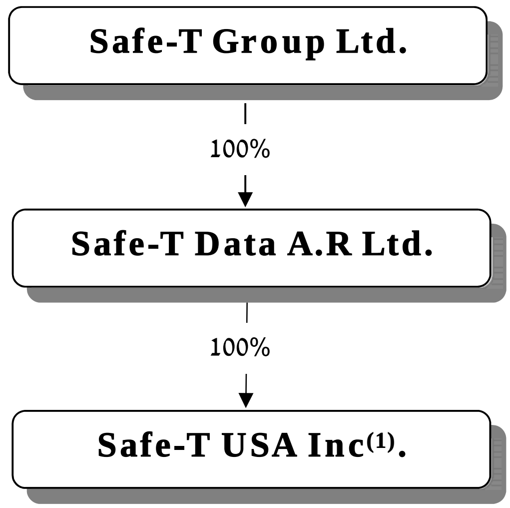
[1] Gartner is an American research and advisory firm providing information technology related insight and analysis for IT and other business leaders. Gartner identifies trends in the fields of computing and IT, assesses software, hardware and communication products and compares them to competing products.

1.2 **Group's holdings**



(1) Safe-T USA Inc. 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.

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

1.3.1 Acquisition of RSAccess and its merger with Safe-T Data

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 Ltd. (a private company whose shares were held at the time by Mr. Amir Mizhar and Mr. Roei Haberman), which shall be named hereafter: "RSAccess").

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 Heberman'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 held all the share capital of RSAccess.

On December 31, 2016, Safe-T Data and RSAccess entered into merger agreement whereby, subject to the fulfillment of several conditions precedent, 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, 1999 (hereafter: "the Companies Law") and will be wound up without liquidation (hereafter: "the merger"). On February 2, 2017, the General Meeting of the Company's shareholders approved the merger. On September 6, 2017, the merger was approved by the Registrar of Companies and RSAccess was wound up. For further details see immediate report on the convening of a special General Meeting of the Company's shareholders 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).

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 (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 of Safe-T Data (as defined in section 16.1 below).

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 further details, see section 1.1.2 above.

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 the equity of Safe-T Data

3.1.1 Investment 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", as applicable), where under Sasa (as defined below) has invested a total of approximately $ 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 approximately $ 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, against 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 eventually, since the TASE's listing conditions were not satisfied). 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 above and hereafter – "Sasa"). As part of the merger transaction, the Company purchased Sasa's holdings in in Safe-T Data's shares against allocation of Company shares to Sasa.

3.2 Investment in Company's equity

3.2.1 For details regarding the merger transaction see section 2.1.1 above.

3.2.2 <u>Capital raising through a prospectus</u>

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 <u>Capital raising from investors by way of private offerings</u>

3.2.3.1 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 3.2.3.1 – "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 aa 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).

3.2.3.2 On March 27, 2017, the Company and private investors, who are not related to any of the Company's office holders (who shall be named in this section 3.2.3.2: "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 in this section 3.2.3.2: "the securities package").

The allocation of securities as above to investors was carried out through two private offerings (as defined in the Securities Regulations (Private Offering of Securities in a Listed Company), 2000, which shall be named hereafter: "Private Offering Regulations"):

3.2.3.2.1 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.

3.2.3.2.2 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.

3.2.3.2.3 on April 7, 2017 the first private offering was completed. As part of the offering, 26 investors invested a total of 8,153,004 ILS in the Company and the Company allocated to those investors packages comprising securities of the Company, which include a total of 1,358,834 ordinary Company shares (reflecting a consideration of 6 ILS per share) and 1,358,834 non-tradable options of the Company, which are exercisable into 1,358,834 ordinary Company shares until November 30, 2018, against payment of an exercise price of 8.75 ILS per option.

May 22, 2017, the second private offering was completed. As part of the offering, a single investor invested a total of 3,630,000 ILS in the Company and the Company allocated to that investor packages comprising securities of the Company, which include a total of 605,000 ordinary Company shares (reflecting a consideration of 6 ILS per share) and 605,000 non-tradable options of the Company, which are exercisable into 605,000 ordinary Company shares until November 30, 2018 for an exercise price of 8.75 ILS per option (after the said investor has informed the Company that he waives one of the conditions precedent attached to the finalization of his investment in the Company).

For further details regarding the private offerings referred to in this section, see immediate reports of April 5, 2017 and May 22, 2017, reference numbers: 2017-01-030598 and 2017-01-051570, respectively.

3.2.3.3 On April 24, 2017 and April 30, 2017, the Company entered into investment agreements with three private investors, who are not related to any of the Company's office holders. Under the said agreements, the said investors have undertaken to invest in the Company a total amount of 2,648,898 ILS, against allocation to the investors - by way of material private offering (as defined in the Private Offering Regulations) – of packages of Company's securities, ,which include a total of 441,483 ordinary Company shares (reflecting a consideration of 6 ILS per share) and 441,483 non-tradable options of the Company, which are exercisable into 441,483 ordinary Company shares until November 30, 2018, against payment of exercise price of 8.75 ILS per option (each package includes one share and one option). For further details see immediate report of the Company of May 7, 2017 (reference no.: 2017-01-046167), which is incorporated by way of reference. On May 11, 2017, the Company received the Stock Exchange's approval to list the shares that will be allocated to the investors and the shares that will arise from the exercise of the options that will be allocated to the said investors. On May 22, 2017, two out of the said three investors completed their investment in the Company and they were awarded 138,983 ordinary Company shares and 138,983 non-tradable options of the Company, which are exercisable into 138,983 ordinary Company shares until November 30, 2018 against payment of an exercise price of 8.75 ILS per option (each package includes one share and one option). On May 28, 2017, the third investor completed his investment in the Company and was awarded 302,500 ordinary Company shares and 302,500 non-tradable options of the Company, which are exercisable into 302,500 ordinary Company shares until November 30, 2018, against payment of exercise price of 8.75 ILS per option (each package includes one share and one option).

3.2.3.4 On May 21, 2017, the Company entered into investment agreements with two private investors[2] (hereafter: "the additional investors"), who are not related to any of the Company's office holders. Under the said agreements, the said investors have undertaken to invest in the Company a total amount of approximately 8.2 million ILS, against allocation to the investors - by way of private offering - of packages of the Company's securities, which include a total of 1,174,286 ordinary Company shares, which reflect a consideration of 7 ILS per share and 1,174,286 non-tradable options of the Company, which are exercisable into approximately 1,174,286 ordinary Company shares until November 30, 2018, against payment of an exercise price of 10 ILS per option (each package includes one share and one option).

The investment of the additional investors was finalized on June 21, 2017 and the said securities were allocated to those investors.

For further details, see the Company's immediate reports of May 22, 2017 (reference no.: 2017-01-051570) and May 26, 2017 (reference no.: 2017-01-044476), which are incorporated by way of reference.

[2] One of those investors is the investor who made the investment as part of the second private offering, see section 3.2.3.2.2 above.

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

3.2.4.1 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 in this section: "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. Until the expiry of the options on April 30, 2017, 1,290,279 Series 1 warrants of the Company were exercised, against payment to the Company of exercise price totaling 7,103,097 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, 2017-01-005620, 2017-01-007005, 2017,01-007008, 2017-01-009391, 2017-01-009394 and 2017-01-012666, respectively), which are incorporated by way of reference.

3.2.4.2 On October 24, 2017, the Company filed to the Tel Aviv Jaffa District Court an application to extend the exercise period of the Company's Series 2 warrants (hereafter: "the Warrants") and reduce their exercise price, by way of settlement pursuant to Section 350 to the Companies Law, 1999 (hereafter – "the Companies Law"). Pursuant to the said settlement, the Warrants shall be exercisable through February 9, 2018, instead of through December 9, 2017 and the exercise price of the Warrants shall be reduced to 6.5 ILS per Warrant, instead of 7.5 ILS per Warrant (hereafter: "the Settlement"). On November 16 2017 and on November 23 2017, separate general meetings of the Company's shareholders and holders of options, respectively, approved the Settlement. Further to the said approval, on December 3, 2017, the Court approved the Settlement. Until the options Warrants expired on February 9, 2017, 7,020 Series 2 Warrants of the Company were exercised at the previous exercise price of 7.5 ILS per share against a payment to the Company of a total amount of 52,650 ILS. For further details about the Settlement, see the Company's reports of October 24, 2017, reference number: 2017-01-093478; November 2, 2017, reference number: 2017-01-103-01-103761, 2017-01-103785 and 2017-01-103788; November 16, 2017, reference number 2017-01-107259 and 2017-01-101194; November 23, 2017, reference number 2017-01-103789; November 23, 2017, reference number: 2017-01-103789 and 2017-01-103831, and November 26, 2017, reference number: 2017-01-109809, respectively, which are incorporated by way of reference.

3.2.5 Listing of the Company's shares in the USA

On June 22, 2017, the Company obtained all approvals required for listing the Company's shares as American Depository Shares ("ADS") that are tradable as part of the OTCQB Venture Market of the Over the Counter (OTC) market in the USA. Trading of the Company's ADSs commenced on June 27, 2017 as part of the ADR Level 1 program under the symbol SFTTY; each ADS represents 4 ordinary Company shares. For further details, see immediate report of June 27, 2017, reference number: 2017-01-065448, which is incorporated by way of reference.

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, 2017, 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 2015 through 2017 (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.

	2015	**2016**	**2017**
Revenues	715	843	1,096
Fixed costs	18,862	9,706	6,310
Variable costs	51	59	99
Income from ordinary operations			
Income from ordinary operations attributed to owners of the Company	(18,196)	(8,922)	(5,313)
Income from ordinary operations attributed to non-controlling interest	(2)	-	-
Total assets	2,588	3,227	5,927
Total liabilities	1,305	2,055	2,786

In 2017, 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. Also, 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). In 2016, the Group recorded a one-off non-cash cost in respect of notional recording of listing expenses at the total amount of approximately 1.5 ILS million.

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,[3], 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[4].

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 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

[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"). For further details about the study, see the following link: https://www.marketsandmarkets.com/Market-Reports/enterprise-file-sharing-and-synchronization-market-149308334.html

[4] 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"). For further details about the study, see the following link: https://www.marketsandmarkets.com/PressReleases/software-defined-perimeter.asp

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 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 ESSF 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.

Using the EFSS systems also serves as the basis of a comprehensive, effective and protected information management solution that enables secure and reliable transfer of files between organizations and not only within the organization. Organizations use such solutions to transfer information from the organization to external parties, such as customers and other organizations. The use of the solution reduces 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.

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 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 (regardless of whether it is saved on premises or in a cloud). These features of its products enable the Group to market them to organizations that are making increasing use of clouds and also 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.).

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.

6.4 <u>Change of data center architecture to comply with the definitions of the Software Defined Perimeter</u>

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.

6.5 <u>Cyberwarfare</u>

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)[5], the number of security breaches identified in 2016 before the publication of the survey has increased by 39% compared with 2015. A global study that was published recently by the Ponemon Institute in collaboration with IBM (Cost of Data Breach Study)[6] estimated the damage caused in 2017 from cyber-attacks to an average company from among the companies included in the study will be approximately $3.2 million.

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 2016 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 2018 the global spending on information security will amount to approximately 150 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 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.

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

[6] For details about this study, see the following link: https://www.ibm.com/security/data-breach

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, are based on information available to the Company as of the date of this report and they 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 2017 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 came 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.

<u>Regulation in the USA and the EU</u>

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, in 2016 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 (FGPR), which was approved in April 2016 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, are based on information available to the Company as of the date of this report 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)[7], that provide access to more markets and clients.

13. <u>Principal entry and exit barriers of the area of activity, and changes therein</u>

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 sand 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.

14. <u>Substitutes to area of activity's products and changes therein</u>

Currently, no company operating in the information security market has products, which offer organizations a comprehensive protection in terms of secured access to information and controlled and secure use of information. 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, Cyber Ark, Accellion and Varonis offer information security products in the EFSS market (for details about this market see section 6.3 above) and Vidder Inc., Cryptzone, Akamai and Zscaler offer information security products in the Software Defined 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 Software Defined Access solution enables to control both the secured access to information and the use and exchange of information. The combined capabilities of the Software Defined Access solution address the needs of the EFSS market (for details see section 6.3 above), and the SDP market (for details see section 6.4 above). No other company, which currently operates in the market offers such a product that covers all three markets described above.

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

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.

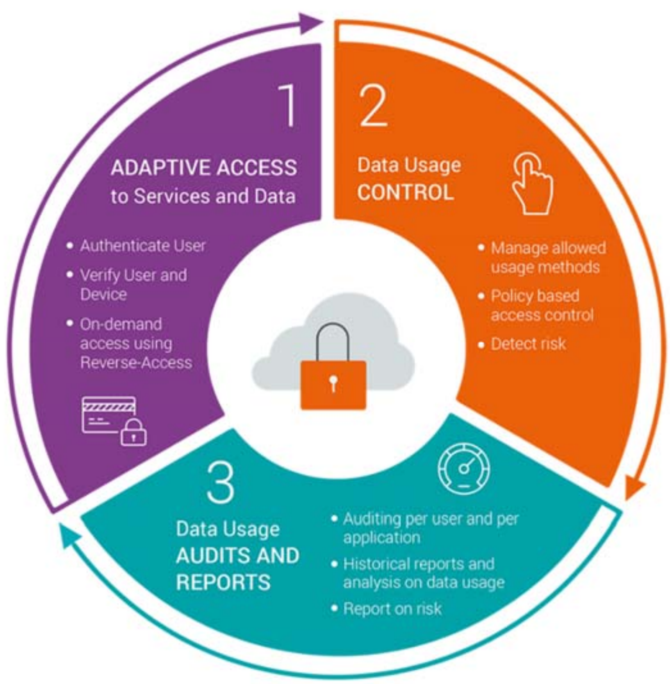
16. **Services and products**

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 principal solution:

16.1 **Securing intra-organizational and inter-organizational data exchanges and access by using the Software Defined Access solution**

The Software Defined Access solution of the Group is a unique solution that enables end-to-end control over organizational information, both in terms of secure access to information and in terms of controlled and secure use of the information.



The solution protects organizational information by managing the life cycle of organizational information:

1. **First stage – Adaptive access to data -** the user obtains access to the data only after he authenticated his identity, such that unauthorized users are not aware of the services that are exported outside the organization. Authenticated users access the data using the reverse-access technology of the Group.

2. **Second stage – Data usage control** – the system allows authenticated users to use the information and share it by identifying the user and the group to which he belongs.

3. **Third stage** – **Monitoring the process** – the system monitors all user activities throughout the process and reports and unusual activity.

The solution comprises two units:

16.1.1 **Data access control and security unit–** This unit is based on the Group's Secure Data Access (hereafter – "SDA")

SDA is a software product that is based on Secure Reverse Access technology, which is an innovative and ground-breaking technology focusing on reverse traffic of communication. The SDA is unique since it minimizes the need to store sensitive data within the DMZ and allows secure access to networks and services.

SDA is composed of two software units; one of those units is deployed within the organization's external communications network and the other is deployed within the organization's internal communications network (LAN). The two units process all data traffic of the organization. This product allows duplex flow of information, while using half-duplex ports in the firewall (from within the organization to the outside network); this technology is significantly different from existing technologies, which require the opening of a port in the firewall in order to transfer information by the user into an application server that is deployed within the internal network. This means that an organization that uses SDA only needs to define outbound access rules in order to transfer information into the organization. The SDA scraps the need to define inbound access rules, thereby minimizing the vulnerability of the organizational network.

SDA is planned in a way that enables it to overcome the challenges, which the DMZ network currently faces. It reduces the need to store sensitive data in a DMZ thereby minimizing the exposure to hacking. With SDA, there is no need to copy data from the internal (more secure) network of the organization to the DMZ, which is less protected, thereby increasing the protection from attacks and hackers.

To the best of the Company's knowledge, SDA is the only product currently available in the market, which is able to separate between the internal and external networks of an organization and at the same time enable an organization to offer its services to the outside world without opening ports in the firewall. SDA's unique technology protects client-facing business services from attacks, protects the firewall from attacks, protects the internal organizational networks from hacking and protects the whole organization from external attacks.

16.1.2 **Data usage and exchange control and security unit –** this unit is based on the Group's Secure Data Exchange (hereafter: "SDE") product.

SDE is a product 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.

17. **Breakdown of revenues and profitability by products and services**

Set forth below is a breakdown of the Group's revenues in the years 2015 to 2017 (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					
	2015		**2016**		**2017**	
	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	504	70.5%	661	78.4%	745	67.9%
SDA	179	25.0%	133	15.8%	228	20.8%
Services and sundry	32	4.5%	49	5.8%	123	11.3%
Total	715	100%	843	100%	1,096	100%

18. **New products**

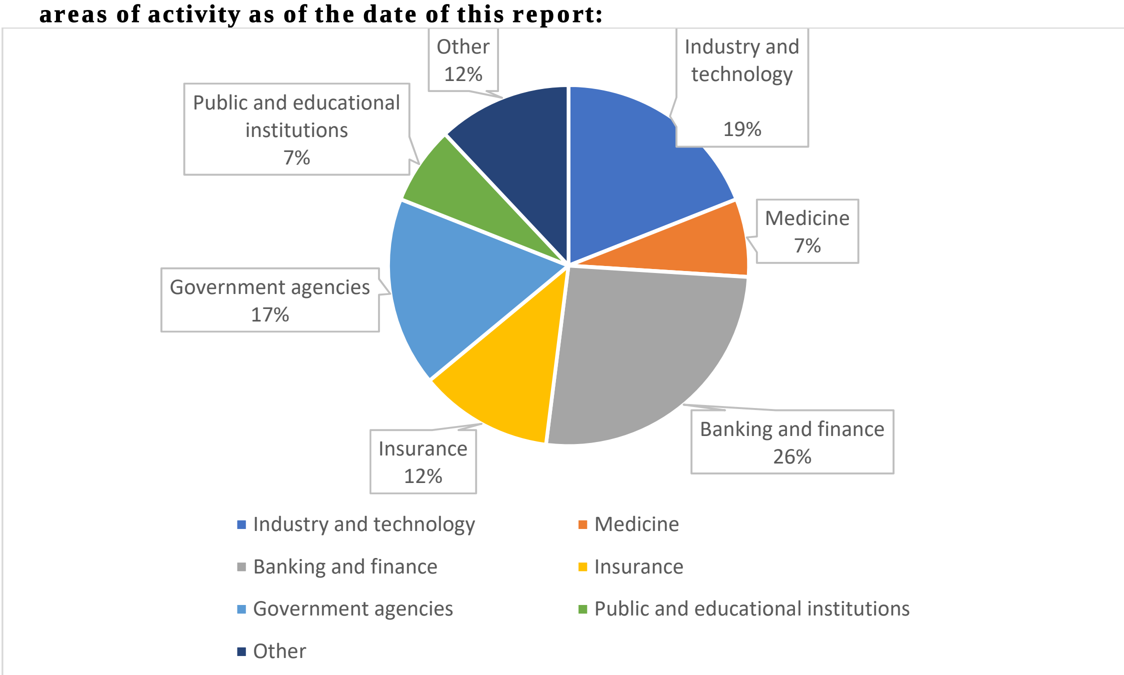
The Company constantly works to improve its existing products by developing new versions and adding new components in accordance with technological changes and market demands. Over the course of the reported period, the Group launched a solution for the field of Software Defined Perimeter (SDP), which – in the opinion of the Company – will open up a new market in the field of secure data access products and 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. For further details about the SDP solution, see section 6.4 above and immediate report of November 1, 2017 (reference number: 2017-01-103338).

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

19. Clients

The Group has tens of large Israeli end clients, who are industry leaders in their field of activity, several medium and small end clients in the Europe, Africa, Asia and the USA. The Group's end clients include banks and financial organizations, insurance companies, healthcare organizations, industrial and commercial companies, education institutions and government agencies, including defense agencies in Israel and abroad. The Company is not dependent on any of its end 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, whether directly or through a distributor on behalf of Safe-T Data, for the purpose of purchasing the Safe-T Data's products. In most cases, after the initial purchase of the products, the Group's 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 Group's 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 one-off 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 in consideration for an annual fixed fee. 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 (the annual subscription model).

Set forth below are data about clients, the Company's revenues from whom constituted 10% or more of its revenues in the years 2015- 2017 (in accordance with the financial statements):

	Revenues from principal clients out of total Company's revenues					
	2015		**2016**		**2017**	
	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%	192	22.8%	225	20.5%
e-Government Unit at Government ICT Authority at the Prime Minister's Office	170	23.8%	63	7.5%	65	5.9%
Indiana Office of Technology	--	--	191	22.7%	37	3.4%
Large Israeli bank	--	--	117	13.9%	32	2.9%
Israel Police	--	--	--	--	138	12.6%

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 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. The consideration in respect of the products which Safe-T Data supplied in connection with Taldor's engagements with the said clients is paid on a regular basis.

19.2 **e-Government Unit at Government ICT Authority at the Prime Minister's Office (hereafter – "the unit") –** In August 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 2015 through October 2018, with an option to renew the engagement by two additional periods of up to one year each. In October 2015, the Unit placed with Safe-T Data an order amounting to approximately 1.65 million ILS (including VAT). The consideration in respect of this order was paid in full.

19.3 **Indiana Office of Technology** – In April 2016, Dell Marketing L.P. (hereafter: "Dell"), 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. In April 2017, Dell renewed the maintenance and support period by one further year and the consideration for this transaction was paid in full.

19.4 **Large Israeli bank** – in 2016 Safe-T Data and the bank 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 the bank 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 sale date. Close to the end of 2016, the client placed a further order to purchase the Company's products. In 2017, the client placed with Safe-T Data an order for maintenance and support services for a period of three years. All amounts payable in respect of the said orders were paid in full.

19.5 **Israel Police –** in September 2017, Safe T Data was granted a sole supplier status for the provision of services under tender exemption, since it is the only supplier that can provide a solution that will secure the organizational facsimile system. In November 2017, a purchase order was placed for the purchase of the solution and the provision of maintenance services for a period of 3 years. The solution was implemented successfully in the organization's servers. The consideration payable in respect of the order was paid in full.

20. Marketing and distribution

Safe-T Data's marketing function includes a VP Marketing, a Product Management VP and marketing managers. Safe-T Data's distribution function includes the CEO of Safe-T USA, who deals with sales within the USA, a VP Sales, who focuses on sales in Africa and Asia-Pacific, a VP Sales who focuses on sales in Europe, a VP Sales Israel and regional sales persons, who operate in the USA, Europe, Africa and Israel. 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, North America, Europe, the Asia Pacific and Africa. As of the date of this report, the Group has approximately 15 active distributors. The engagement with each distributor/marketing entity is limited to a specific territory and is not exclusive. 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.

20.2 Sales representatives – Safe-T Data has entered into agreements for the marketing and promotion of its products with several service providers in this field (hereafter: "the sales representatives"). 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 representatives. As of the date of this report, Safe-T Data has approximately 5 active sales representatives, who operate in the Far East and Europe. Most of the sales representatives are entitled to receive a fixed monthly payment and commissions, the amounts of which are derived from Safe-T Data's sales from engagements entered into as a result of the sales representative's work. Other sales representatives are entitled only to commissions upon placement of a purchase order by clients with whom the Safe-T Data entered into engagements as a result of the sale representative's work.

20.3 Engagement with technological partners through an OEM[9] 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, 2017, 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)

	31.12.2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2019	2020-2022
Orders backlog	1,312	456	318	151	108	169	110

As of December 31, 2017, the orders backlog included orders totaling approximately $215 thousand, whose supply is contingent on various conditions that were dictated by the clients. As of the date of this report, the orders backlog included orders totaling approximately $51 thousand, whose supply is contingent on various conditions that were dictated by the clients. 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.

As of December 31, 2016, the Company's orders backlog amounted to approximately $626 thousand. Orders totaling approximately $144 thousand out of the said amount were not realized. All of these orders were made by entities in Ghana (in Africa); the orders were not realized mainly since the technical services infrastructure available to these clients is insufficient. The balance of orders backlog as of December 31, 2016 was recognized and is recognized in accordance with accounting principles; most of the balance was recognized in 2017 and a small amount of the balance will be recognized in 2018-2019.

22. Competition

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

To the best of the Company's knowledge, currently, no company operating in the information security market has products, which offer organizations a comprehensive protection in terms of secured access to information and controlled and secure use of information. 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.

22.1.1 **Information access control -** Vidder Inc., Cryptzone, Akamai and Zscaler offer information security products in the Software Defined Perimeter market.

22.1.2 **Information usage control -** Cyber Ark, Accellion and Varonis offer information security products in the EFSS 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 Group's 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.

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 OEM[6] 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 OEM[6] 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, assumptions, estimates and projections as to the existing and future competition and as to its effect on the Group, its activity and results are based on the information available to the Company as of the date of this report and they constitute forward looking information as defined in the securities law, which are not certain and are not under the control of the Company. Those assessments, assumptions, estimates and projections may not materialize, in whole or in part, 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 530 square meters in Herzliya, which are used by the Group in its operating activities. Also, Safe-T USA leases an office at the area of approximately 20 square meters in Stamford Connecticut, which is used by some of its employees.

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 launched a new data access solution based on Software Defined Perimeter (SDP) technology, which enables 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. For further details about the SDP solution, see section 6.4 above.

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 205 thousand ILS.

The amount of liability that was recognized in the financial statements of the Company as of December 31, 2017 in respect of the grant is $ 92 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

In the reported period, the Group funded its investments in R&D from its revenues and by raising capital from third parties, including through 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 2015-2017 (in thousands of dollars):

The period	**2015**		**2016**		**2017**	
	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	795	--	1,085	--	1,608	--

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 $8.1 million.

Company's assessments and data as to expected investments in research and development are based on information available to the Company as of the date of this report and they constitute forward looking information as defined in the securities law, 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 seven 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, whose title is Reverse Access Method for Securing Front-End Applications and Others, for the implementation of a reverse access technology which aims to reduce the need to store sensitive data in Demilitarized Zone (DMZ) and to open ports in the firewall and enables secure access to networks and services (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. According to this mechanism, the application is assessed separately in each and every country in accordance with its patent laws. 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. As of the date of publication of this report, Mr. Mizhar and Safe-T Data filed all the documents required to register the patent registration application in the name of Safe-T Data. Patent registration applications in Israel and in the USA, were already registered in the name of Safe-T Data.

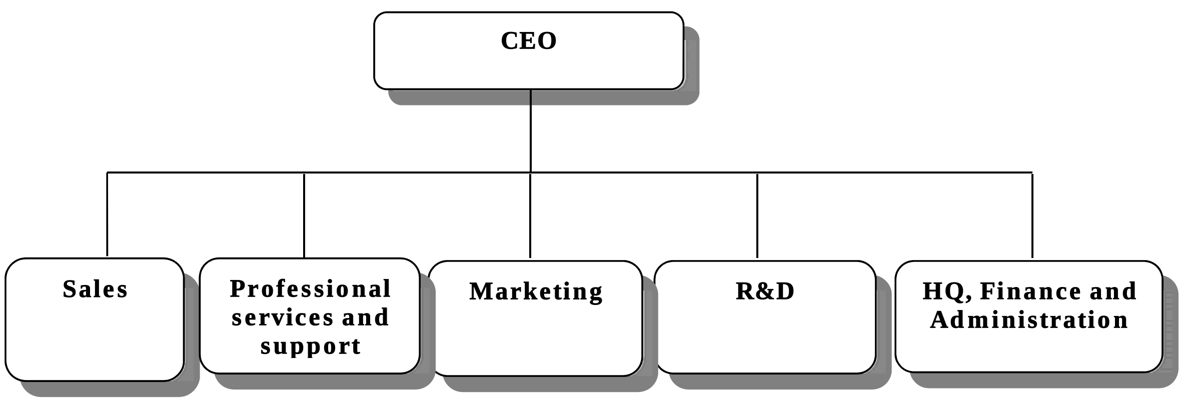
On January 11, 2011, subsequent to the date of this report, Safe-T Data received the approval of the United States Patent and Trademark Office (USPTO) for the registration of the patent in the USA. Subject to payment of the registration fee, this approval, constitutes proof that the patent was granted. Also, on February 14, 2018 Safe-T Data filed to the USPTO a continuation patent application in respect of additional aspects of the invention. As mentioned above, the patent is under review in Israel and China.

Also, on July 8, 2014, Mr. Amir Mizhar received approval regarding registration of the trademark Safe-T as a trademark in the USA. This trademark is currently under ownership of Safe-T Data. On July 2, 2015, the trademark Safe-T was registered in Israel and on of March 7, 2016 ownership of this trademark was transferred to Safe-T Data. On July 2, 2015, the trademark Safe-T Box was registered as a trademark in Israel in the name of Mr. Amir Mizhar. On December 27, 2017, ownership of the trademark was transferred to Safe-T-Data. On November 15, 2016 SmarTransfer[8] was registered as a trademark in the name of Safe-T Data in Europe and on January 3, 2017, this trademark was registered in the USA and an application to register it as a trademark in China was filed. On August 14, 2017, Safe-T Data filed an application to register another trademark in the USA – IF YOU CAN'T BE SEEN, YOU CAN'T BE HACKED.

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

27. **Human Capital**

27.1 The Group's organizational structure



27.2 Human capital in the Group

As of the date of this report, the Group employs app. 50 employees; 8 of those employees form the sales team, which operates in the USA. The Company also employs 5 contractors and 5 part-time agents. The said sales team comprises highly experienced employees with vast experience in the field of information security; those employees are thoroughly familiar with the US market and the relevant clients.

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

25.3 Company's workforce

As of the date of this report and as of December 31, 2015 and 2016, the Company's workforce is as follows:

Function	2017	2016	2015
Management and HQ	3	2	2
Administration and operation	3	2	1
Research and development	12	8	5
Marketing	6	3	2
Sales	19	8	6
Support and professional services	7	4	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

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's 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.

For details regarding non-tradable options granted by the Company to employees, office holders and consultants, see section 3.2.6 above.

27.7 Group'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 employee's 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 3.2.6 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 and about the Company's remuneration policy, as amended in the reported period, see regulation 21 to Chapter D of this report.

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.

29.3 For further details about the Company's working capital, see the Company's financial statements for the year 2017.

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.

31. **Funding**

In the reported period, the Group funded its activities mainly from self-resources and by raising capital from third parties (mainly through private offerings of the Company's securities). In 2017, the Company raised through private offerings of its securities an aggregate gross amount of approximately 30 ILS. For further details regarding these capital raisings, see section 3.2.3 above to this report. As from the beginning of 2018 through the date of publication of this report, the Company did not raise capital.

31.1 Loan to RSAccess from Mr. Amir Mizhar

On February 4, 3015, Mr. Amir Mizhar, a Company shareholder and the Chairman of the Board of Directors, 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 thousand ILS was extended for the purpose of repayment of RSAccess' debts to the Company. The loan did not bear interest. In September 2017, after the winding-up of RSAccess through a merger with and into Safe-T Data (see section 1.3.1 to this report), Safe-T Data repaid the debt to Mr. Mizhar without interest. For further details, see note 21(b)3 to the Company's financial statements for the year 2017.

31.2 For details about capital raising through a prospectus, see section 3.2.2 above and Regulation 10c to Chapter D of this report.

31.3 The Company has no bank credit other than Safe-T Data's credit card facility amounting to 50 thousand ILS and Safe-T USA has a credit card facility amounting to $4 thousand. Also, no restrictions were placed on the Company in connection with its ability to receive credit.

31.4 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.

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 (hereafter: “preferred enterprise” and “special preferred enterprise”, as applicable), 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 may be eligible to tax benefits under the “preferred enterprise” track as set in the amendment to the law if and when the Company earns taxable income. Under the amended law, the tax rates applicable to the preferred income of companies, whose plants are located in “other” zones are as follows (Safe-T Data’s offices are located in that area): in 2013 (the year in which Safe-T Data was established) – 12.5% and as from 2014 and thereafter – 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 Income Tax (Inflationary Adjustments) Law, 1985.

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 2013. Safe-T Data or the second-tier company, Safe-T USA, have not been assessed for tax purposes since incorporation.

As of the end of 2017, the Company has accrued unutilized tax losses of approximately 0.7 million ILS. Losses accrued prior to the date of the merger with Safe-T Data will not be utilized for tax purposes, in accordance with the ruling issued by the tax authorities in connection with Safe-T Data's merger with the Company. Safe-T Data has unutilized tax losses of approximately 56 million ILS. As a result of the merger between Safe-T Data and RSAccess (for details see section 1.3.1 above), a restriction applies to offsetting 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 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 2017 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 2017.

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 Israel Innovation Authority in accordance with the R&D Law. For further 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 time 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 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 was valid for 2017 and was renewed at the end of the year for a further one-year period in accordance with Safe-T Data's compliance with certain requirements.

34. **Material agreements**

34.1 For details about merger transaction by way of shares exchange with Companies Merging Purpose Ltd. see section 2.1.1 above.

34.2 For details regarding agreement between Safe-T Data and SecureAuth, see section 35 below.

34.3 For details regarding agreement between Safe-T Data USA and an American supplier of could services, see section 35 below.

34.4 Agreement between Safe-T Data and a cyber company. On March 22, 2018, Safe-T Data entered into an agreement with a cyber company (hereafter: "the agreement" and "the cyber company", respectively) for the acquisition of all the intellectual property of the cyber company which was aimed at identifying attacks on outfacing services (i.e., marketing websites of banks, ecommerce websites, personal zones on websites of insurance companies, etc.).

Safe-T Data intends to use the purchased intellectual property to identify user behavior anomalies as they access a service and use enterprise information, thereby upgrading its Software Defined Access (SDA) solution and strengthening the solution's protection against cyber-attacks. In addition, the Company intends to use the purchased intellectual property in order to evaluation potential penetration into the Web Behavior Analytics market and into the User Behavior Analytics market.

The completion of the transaction is subject to a condition precedent generally accepted in such transactions. The agreement stipulates that Safe-T Data shall purchase the intellectual property against cash payment as set in the agreement. In the opinion of the Company, the transaction shall be completed by the end of April 2018.

It should be emphasized that Company's assessments as set out above, including with regards to the completion of the transaction and with regard to the date of completion thereof constitute forward looking information as defined in the securities law, 1968 and they are based on the information available to the Company as of the date of this report. Those assessments may not materialize, in whole or in part, or materialize differently than expected due, among other things, to developments and future events which are not certain and are not under the control of the Company, including non-compliance with the condition precedent attached to the completion of the transaction.

35. **<u>Collaboration agreements</u>**

35.1 OEM agreement with an American SaaS vendor

On November 3, 2017, Safe-T USA entered into an OEM agreement with an American SaaS vendor (hereafter – "the Partner"). To the best of the Company's knowledge, the Partner provides cloud-based (SaaS) services and platforms for development to approximately 1.5 million users of approximately 6.5 thousand clients from a range of sectors, including finance, government and health organizations and industrial companies, including approximately 30% of the Fortune 100 companies. To the best of the Company's knowledge, the Partner's clients use its services in order to save costs, minimize business risks and increase their profits.

According to the three-year agreement, over the term of the agreement the Partner will purchase the Company's products, SDE and SDA, at a scope of 400 thousand ILS at the very least. The Partner shall also act as an OEM partner, offering the Company's SDA product as part of the cloud service that the Partner offers to its clients. The purpose of combining the SDA product into the vendor's cloud service, which it sells to its clients, is to provide those clients a simple and secure link from the clients' websites to the vendor's cloud.

The Company regards the agreement with the Partner as a further expansion of the process whereby Company's products penetrate major markets targeted by the Company: the American market and the market of cloud information security; and as a result, the Company expects that its customer base will expand and its revenues will increase.

It should be emphasized that Company's assessments as set out above, including, among other things, with regards to the penetration of the Company's products to the American market and/or to the cloud information security market and also with regard to the expansion of its customer base and the increase in its revenues constitute forward looking information as defined in the securities law, 1968 and they are based on the information available to the Company as of the date of this report. Those assessments may not materialize, in whole or in part, or materialize differently than expected due, among other things, to developments and future events which are not certain and are not under the control of the Company, including the Partner's success in distributing the Company's products, developments in those markets and changes in demand to information security in general and to the Company's products in particular.

35.2 <u>OEM agreement with SecureAuth</u>

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 is used as an information security solution in the field of IdP (Authentication and Identity Management) offered by SecureAuth to its clients. 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 is aimed at addressing the needs 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.
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.

The Company expects that the combined product may increase the sales in the USA of Safe-T Data's products through sales of that combined product to many existing and potential clients of SecureAuth, thereby increasing the Company's revenues and creating a basis for similar collaborations in the USA.

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.

In 2017, the Company received from SecureAuth orders at the aggregate amount of approximately $144 thousand, which are paid to the Company in accordance with the billing periods of the end clients that range between one to three years. As of the date of publication of this report, the Company received all amounts payable as of that date.

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 and on the information available to the Company as of the date of this report. These assessments 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.

35.3 <u>Collaboration between Safe-T Data and Check Point</u>

In 2017, 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 Software Defined Access solution; 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-D Data's sales are based on the information available to the Company as of the date of this report and on Company's assessments. These assessments 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 has also started operating in other markets such as South-East Asia and South America; at this stage, its activity in those markets is carried out by entering into distribution agreements with distributors in these markets. The Company has started receiving significant orders from clients in South East Asia.

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 Software Defined Access solution 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 the information available to the Company as of the date of this report, the 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 22 to the Company's financial statements for the year 2017.

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. 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, is expected to have a positive effect on eh 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 proceeds received from clients 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 or investor relations.

40.10 Weakness of internal controls over financial reporting, controls over Company's disclosures and procedures

The Company does not have sufficient skilled manpower to enable her to implement effective controls over several elements of its financial reporting processes, controls over its disclosures and procedures in accordance with IFRS. The Company's weaknesses are reflected in lack of segregation of duties in the finance department and in ineffective controls over the process of closing the Company's periodic financial statements. Therefore, there is a reasonable possibility that due to this shortage of skilled manpower the Company may not prevent in a timely manner misstatement of financial data included its financial statements or may not be able to prevent it at all. The Company has taken measures to reduce this risk, including, among other things, recruiting skilled manpower. The Company also intends to improve the skills and training of its existing employees who are engaged in this aspect of its activities. It should be noted that there is no certainty that the measures taken as described above shall reduce this risk completely.

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	
Special risks for the Company	Development and/or manufacturing of products and/or services that may replace the Group's products		X	
	Type of Group's engagement with its clients		X	
	Leakage of knowhow to competitors	X		
	Funding			X
	Weakness of internal controls over the Company's financial reporting	X		

CHAPTER B

DIRECTORS REPORT

ON THE STATE OF THE COMPANY'S AFFAIRS

December 31, 2017

Directors Report on the State of the Company's Affairs

December 31, 2017

The Board of Directors of the Company is pleased to present the Directors' Report on the affairs of the Company and the companies under its control (together with the Company: “the Group”) for the year ended December 31, 2017 (hereafter: “the reported period”).

This report is drawn up in accordance with the Securities Regulations (Periodic and Immediate Reports), 2010, and is filed as part of the Company’s periodic report for the year 2017, under the assumption that the other parts of the periodic report will be available to the reader.

1. Board of Directors explanations to the affairs of the Company’s business

1.1 Funding

Over the course of 2017 and through the date of publication of this report, the Company funded its activities by raising capital from private investors, by way of private offerings of the Company’s securities and exercise of tradable warrants. In 2017, the Company raise an aggregate (gross) amount of about 30 million ILS. For further details, see section 3.2.3 to Chapter A of this periodic report.

1.2 Expiry of Series 1 and 2 Warrants

The Company’s Series 1 warrants expired on April 30, 2017. Through the date of expiry of the said warrants, 1,290,279 Series 1 warrants were exercised against payment to the Company of an exercise price totaling 7,103,097 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).

Subsequent to the reported period, on February 9, 2018, the Company’s Series 2 warrants expired. Through the date of expiry of the said warrants, 7,020 Series 2 warrants were exercised against payment to the Company of an exercise price totaling approximately 52 thousand ILS (the warrants were exercised at the old exercise price of 7 ILS per warrant).

For further details about the Series 1 and 2 warrants of the Company and about arrangements made for extending their exercise period and reducing their exercise price, see sections 3.2.2 and 3.2.4 of Chapter A of this report.

1.3 Transition to revenue model based on the annual subscription

Over the course of the second quarter of 2017 and as part of the Company’s efforts to market its products to new customers and penetrate into new markets, it adopted the annual subscription model as its preferred revenue model. Under this model, clients pay a fixed annual amount for the use of the product, including software updates and upgrades and telephone support services. Through the date of publication of this report, approximately 25 clients work with the Company based on this model. The annual subscription model was adopted by the Company, among other things, for marketing reasons as described above and in order to create a fixed flow of revenues over time and achieve a shorter sale process. However, the Company intends to continue offering potential clients the one-off sales model whereby clients are offered a license to use the product in consideration for a one-off payment, in combination with support services, which are renewed on an annual basis.

1.4 Strengthening the Group’s management function

A number of senior office holders joined the Group over the course of the second quarter of 2017 in order to strengthen its management and sales functions. Among these office holders are Mr. Noam Markfeld, who serves as VP Sales Israel and Ms. Julie Shafiki, who serves as VP Marketing. Mr. Markfeld and Ms. Shafiki each has more than 20 years’ worth of experience in senior management positions in leading companies operating in the sector.

Also, as part of this trend, on January 1, 2018 Mr. John Parmley joined Safe-T USA as its new CEO. Mr. Parmley has more than 30 years' worth of experience in leading companies operating in the sector, including sales management positions. After Mr. Parmley joined Safe-T USA, the Company recruited 4 regional managers in the USA, all of whom have proven experience in sales positions in software security companies.

1.5 Early adoption of IFRS 15 – "Revenues with Contracts with Customers"

As from July 1, 2017 with effect from January 1, 2017 (hereafter in this paragraph: "date of initial application"), the Group implements the early adoption of IFRS 15 pursuant to the transitional provision that enables the recognition of the accumulated impact of first-time application as an adjustment of the opening balance of retained earnings as of January 1, 2017. The standard replaces the guidelines that were in effect through January 1, 2017 regarding revenue recognition and presents a new model for entities to use in accounting for revenue arising from contracts with customers. The main impact which the standard had on the Group's financial statements is the timing of recognition of revenue in respect of the license component in transactions for the sale of fixed-term license contracts. The impact of the early adoption of the standard for the for the year 2017 is an increase in revenues of approximately $ 164 thousand, against a corresponding decrease in the deferred revenue balance.

1.6 Orders

During the fourth quarter of 2017 the Group received orders from clients to purchase Group products at the total amount of approximately $ 1,132 thousand (of which approximately $ 216 thousand were recognized as revenue in the fourth quarter of 2017), of which an order amounting to approximately $164 thousand is contingent upon the finalization of tests by the client. This reflects an increase of approximately 88% in orders compared to the fourth quarter of 2016 in which the Group received orders at the total amount of approximately $603 thousand. The finalization of orders amounting to approximately $144 thousand out of the said $603 thousand was subject to certain conditions imposed by the clients and those order were not realized.

Throughout 2017, the Group received orders at the total amount of approximately 1,902, of which orders amounting to approximately $215 thousand as of December 31, 2017 and orders amounting to approximately $51 thousand as of the date of publication of this report are conditional orders, compared with orders amounting to approximately $1,292 thousand in 2016 (an increase of 47%), of which orders amounting to $144 thousand were conditional orders, which were not realized.

The amount of orders received in 2017 (approximately $1,902 thousand) as mentioned above is higher than the amount specified in orders projection published by the Company as part of an immediate report of August 31, 2017 (reference no. 2017-01-088380); in the said projection, the Company estimated that there was very high probability that orders received from clients in 2017 will amount to approximately $ 1,400 thousand and that the probability that orders will amount to $1,700 thousand was higher than 50%.

As of December 31, 2017, the Group had an orders backlog of approximately $ 1.3 million, which has not yet been recognized in its 2017 financial statements. Orders worth $0.6 million out of the said amount are yet to be supplied (of which orders amounting to $51 thousand are conditional orders). As of December 31, 2017, the Company also had obligations in respect of contracts with clients arising from orders that were supplied to clients at the total amount of approximately $0.7 million, most of which will be recognized as income in 2018 and the remaining will be recognized in 2019-2022. For further details see section 21 of Chapter a to this periodic report.

The Company has set a target amount of order of $4-5 million for the year 2018, of which a total of $2.7-3.2 million constitute its target for recognized revenue in 2018[1].

2. Principal data out of the chapter on description of the corporation's business

2.1 Raising of capital

For details about capital raisings carried out by the Company in the reported period, see sections 3.2.3.2-3.2.3.4 in Chapter A of this report.

2.2 Change in the terms of the Series 1 and 2 warrants

For further details about the Series 1 and 2 warrants of the Company and about arrangements made for extending their exercise period and reducing their exercise price, see sections 3.2.2 and 3.2.4 of Chapter A of this report.

2.3 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. 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.

According to information provided to the Company by SecureAuth, in 2017 the combined product was installed with 13 clients. In 2017, the Company received from SecureAuth orders at the aggregate amount of approximately $144 thousand, which are paid to the Company in accordance with the billing periods of the end clients that range between one to three years. As of the date of publication of this report, the Company received all amounts payable as of that date.

For further details, see section 35.2 to Chapter A of this periodic report and immediate reports of July 20, 2016 (reference no. 2016-01-086314), August 9, 2017 (reference no. 2017-01-068551, and November 21, 2017 (reference no. 2017-01-102508), which are incorporated by way of reference.

2.4 OEM agreement with an American SaaS vendor

On November 3, 2017, Safe-T USA entered into an OEM agreement with an American SaaS vendor (hereafter: "the agreement" and "the Partner", respectively) who, to the best of the Company's knowledge, is a supplier cloud-based (SaaS) services and platforms for development to approximately 1.5 million users of approximately 6.5 thousand clients from a range of sectors, including finance, government and health organizations and industrial companies. According to the three-year agreement, over the term of the agreement the Partner will purchase the Company's products, SDE and SDA, at a scope of 400 thousand ILS at the very least. The Partner shall also offer the Company's SDA product as part of the cloud service that it offers to its clients. For further details see section 35.1 to Chapter A of this periodic report and immediate report of November 5, 2017 (reference no. 2017-01-104016, which is incorporated by way of reference.

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[1] **It should be emphasized that Company's assessments as set out above, with regard to targets of orders from clients and revenue recognized in 2018 constitute forward looking information as defined in the securities law, 1968 and they are based on the information available to the Company as of the date of this report. Those assessments may not materialize, in whole or in part, or materialize differently than expected due, among other things, factors, part of which are not under the control of the Company, including changes in the market conditions and the conditions of the Company's business environment, regulatory changes, or the materialization of any of the risk factors of the Company described in section 40 of Chapter A to this report.**

2.5 For events and developments subsequent to the date of the statement of financial position, see section 3.7 below.

3. Financial positions

3.1 Issues brought to the attention of the readers of the Company's financial statements by the Company's auditors

In their auditors' report on the financial statements, the Company's auditors have drawn the readers' attention to note 1f to the financial statements whereby the comparative figures presented in these financial statements for 2015 are based on the financial data of the accounting acquirer in order to reflect the accounting treatment applied to reverse acquisition (i.e., - the merger transaction). According to accounting principles, the accounting acquirer is Safe-T Data. The auditors have also drawn attention, without qualifying their opinion, to note 1i to the financial statements regarding the Company's financial position. According to note 1g, The Company has accrued losses and most of its activities are funded by its shareholders. Therefore, the continuation of the Company's activities is conditional upon its obtaining additional funding until it achieves profitability. This raises significant doubts as to the Company's ability to continue as a "going concern". The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and the amounts and classification of liabilities that might be necessary should the Company be unable to continue in its present form. The auditors have also drawn attention to note 2t of to the financial statements, which describes the changes made by the Company in connection with the measurement of revenues as from January 1, 2017 to comply with the principles of IFRS 15 - Revenues with Contracts with Customers.

3.2 Results of operations

3.2.1 **Analysis of 2017 results of operations compared with 2016 results of operations:**

Item	2017	2016	Increase (decrease)	Increase (decrease)	Explanation
	In thousands of dollars			%	
Revenues	1,096	843	253	30	The increase in revenues in the reported period compared with the corresponding period last year stems mainly from the expansion of the Company's customer base and revenues from support and maintenance services as well as from the impact of the first-time application of a new revenue recognition standard (see section 3.1 above).
Cost of revenues	583	512	71	14	The increase in cost of revenue in the reported period compared to the corresponding period last year stems mainly from increase in payroll expenses and from the cost of acquiring third party software that were sold together with Company's products.
Gross income	513	331	182	55	
Research and development expenses, net	1,608	1,085	523	48	The increase in the reported period compared to the corresponding period last year stems mainly from

					increase in payroll expenses and expenses relating to subcontractors, which are contracted by the Company as part of ongoing development activities.
General and administrative expenses	2,150	2,123	27	1	In the reported period there was hardly any increase in general and administrative expenses compared to the corresponding period last year. Increase was recorded in respect of payroll and office expenses that was offset by decrease in share-based payment to employees and advisors who work for this department.
Selling and marketing expenses	4,051	2,892	1,159	40	The increase in selling and marketing expenses in the reported period compared to the corresponding period last year stems mainly from an increase in scope of activities that was reflected in an increase in payroll expenses due to increase in sales personnel, travel expenses, expenses relating to professional services and selling and marketing expenses which were expensed as part of the promotion the Company and its products.
Listing expenses	-	1,579	(1,579)	(100)	The increase stems from one-off recognition of an expense following the finalization of the merger transaction – see section 1.1(a) above.
Operating loss	(7,296)	(7,348)	(77)	(1)	
Finance income (expenses) net	1,984	(1,572)	3,556		The transition from net finance expenses in 2016 to net finance income in 2017 stems mainly from finance income recorded as a result of a decrease in the stock exchange value of warrants to investors which the Company allotted as part of the public offering (for details see section 3.2.2 to Chapter A of this report) and as part of private offerings in 2017, net of the increase in the stock exchange value of the anti-dilution mechanism awarded to investors as part of those private offerings (for details see section 3.2.3 to Chapter A of this report).
Tax expenses	1	2	(1)	(50)	Tax expenses of the second-tier company Safe-T USA
Loss for the period	**(5,288)**	**(8,922)**	**(3,634)**	**(41)**	

1.5.2 **Analysis of 2016 results compared with 2015 results**

In view of the finalization of the merger transaction and the accounting treatment applied in connection therewith (for details see note 14 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.

Item	2016	2015	Increase (decrease)	Increase (decrease)	Explanation
	In thousands of dollars			%	
Revenues	843	715	128	18	The increase in revenues in 2016 compared with the previous year stems mainly from a significant sale of Safe-T Data's products to a client in the USA.
Cost of revenues	512	453	59	13	The increase in cost of revenues in 2016 compared to the previous year stems mainly from increase in payroll expenses and share-based payment to employees and advisors, whose cost expensed within cost of revenues.
Gross income (loss)	331	262	69	26	
Research and development expenses, net	1,085	795	290	36	The increase in net research and development expenses in 2016 compared to the previous year stems mainly from increase in payroll expenses and expenses relating to subcontractors, which are contracted by the Company as part of ongoing development activities.
General and administrative expenses	2,123	2,252	(129)	(6)	The decrease in 2016 compared to the previous year stems mainly from decrease in expenses relating to professional services and share-based payment to employees and advisors who work for this department; this decrease was offset by an increase in payroll expenses.
Selling and marketing expenses	2,892	2,295	597	26	The increase in selling and marketing expenses in 2016 compared to the previous year stems mainly from an increase in scope of activities that was reflected in an increase in payroll expenses due to increase in sales personnel, expenses relating to professional services and selling and marketing expenses which were expensed as part of the promotion the Company and its products.

Listing expenses	1,579	-	1,579	-	The increase stems from one-off recognition of an expense following the finalization of the merger transaction
Share-based payment expenses for purposes of public offering	-	14,012	(14,012)	(100)	The decrease stems from recognition of one-off expense (in the fourth quarter of 2015) in respect of an undertaking to grant shares and options under an amendment of the Fidelity agreement in the run-up to a planned IPO of the Company (which did not take place) (for further details see section 31.1 to Chapter A of this report).
Operating loss	(7,348)	(19,092)	(11,744)	(62)	
Finance income (expenses) net	(1,572)	894	(2,466)	-	The increase in net finance expenses in 2016 compared to the previous year stems mainly from recognition of the initial deferred loss as a consequence of the finalization of the merger transaction and from an expense recognized due to increase in the stock exchange value of the series 1 and series 2 warrants, which the Company allocated as part of the IPO (for details see section 3.2.2 to Chapter A of this report). In 2015, the Company recorded an initial deferred loss at an amount equal to the fair value of the financial liabilities to the group of investors designated to fair value through profit or loss (for details see note 14c1a to the attached financial statements). As a result of the above, the Company recorded finance income of approximately $ 1,056 thousand.
Tax expenses	2	-	2	-	Tax expenses of the second-tier company Safe-T USA
Loss for the period	**(8,922)**	**(18,198)**	**(9,276)**	**(51)**	

1.5.3 **Statement of profit or loss by quarters – the year 2017**

	Condensed Statements of Comprehensive Income for each of the Quarters of 2017 (thousands of dollars)				
	Q1	**Q2**	**Q3**	**Q4**	**Annual**
Revenue	195	205	319	377	1,096
Cost of revenue	139	144	127	173	583
Gross income (loss)	56	61	192	204	513
Research and development expenses, net	305	342	444	517	1,608
Selling and marketing expenses	658	834	1,155	1,404	4,051
General and administrative expenses	475	599	531	545	2,150
Operating income (loss)	(1,382)	(1,714)	(1,938)	(2,262)	(7,296)
Finance income (expenses) net	(218)	636	995	571	1,984
Tax expenses	-	-	1	-	1
Income (loss) for the period	(1,600)	(1,078)	(942)	(1,693)	(5,313)

Development of basic loss per share in the last eight quarters:

For the year 2017	For the nine months ended 30.09.2017	For the three months ended 30.09.2017	For the six months ended 30.09.2017	For the three months ended 30.09.2017	For the three months ended 31.03.2017
0.29	0.20	0.05	0.16	0.06	0.10

For the year 2016	For the nine months ended 30.09.2016	For the three months ended 30.09.2016	For the six months ended 30.09.2016	For the three months ended 30.09.2016	For the three months ended 31.03.2016
0.77	0.70	0.14	0.6	0.41	0.18

3.3 **Financial position**

Analysis of financial position as of December 31, 2017, compared with December 31, 2016

In view of the finalization of the merger transaction and the accounting treatment applied in connection therewith (for details see notes 1h and 15 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.

Item	As of December 31, 2017	As of December 31, 2016	Company's Explanations
	Thousands of dollars		
Current assets	4,475	1,606	The increase in current assets as of December 31, 2017 compared with current assets as of December 31, 2016 is mainly attributed to increase in cash as a result of capital raisings from private investors in 2017 and as a result of exercise of warrants to purchase Company's shares
Non-current assets	1,452	1,621	The decrease in non-current assets as of December 31, 2017 compared with non-current assets as of December 31, 2016 is mainly attributed to amortization of intangible assets and depreciation of property, plant and equipment.
Current liabilities	1,571	1,954	The increase in current liabilities as of December 31, 2017 compared with current liabilities as of December 3,1 2016 stems mainly from increase in the scope of Company's activities and from liabilities to employees, suppliers and service providers and from increase in short-term contractual obligations to clients in respect of sale of Company's products.
Non-current liabilities	1,215	1,101	The increase in non-current liabilities as of December 31, 2017 compared with non-current liabilities as of December 31, 2016 is mainly attributed to an increase in liabilities in respect of anti-dilution mechanism to investors who participated in capital raisings in 2017 and to increase in long-term contractual obligations to clients in respect of sale of Company's products, which are offset by a decrease in liabilities in respect of Series 1 and Series 2 warrants, which the Company has allocated as part of the IPO (for further details see note 14b2 to the financial statements) and in respect of non-tradable warrants that the Company allocated to investors as part of the said private offerings.
Equity	3,141	1,172	The increase in equity as of December 31, 2017 compared with December 31, 2016 is mainly attributed the capital raising rounds carried out during 2017 (for details see section 3.2.3 in Chapter A of this report) and to exercise of Series 1 options, net of the 2017 loss.

3.4 Liquidity

Section	2017	2016	2015	Explanation
Cash flows from operating activities	(5,406)	(3,317)	(2,434)	The increase in cash flows used in operating activities in 2017 compared with 2016 and in 2016 compared with 2015 is mainly attributed to increase in Company's operating activities, mainly R&D activities and sales and marketing activities.
Cash flows from investing activities	(153)	(52)	14	The change in use made in cash flow for investing activities in 2017 compared with 2016 stems mainly from an increase in acquisitions of computers compared to the previous years and from investments in improvements in the Company's leased offices. The negative cash flow from investing activities in 2016 compared with the positive cash flow the Company had from investing activities in 2015 was mainly attributed to acquisition of computers compared with no acquisitions of such equipment in the corresponding period last year; also, last year the Company received proceeds from the sale of a property, plant and equipment item (company car).
Cash flows from financing activities	7,511	4,593	2,172	The increase in cash flow provided by financing activities in 2017 compared with 2016 stems mainly from amounts raised by the Company through private offerings and exercise of Series 1 warrants issued by the Company as part of the IPO, compared to the amounts raised by the Company from the public in 2016 as part of the merger transaction and from the amounts raised as part of the private allocation in the last quarter of 2016 (for details see section 3.2.2 and 3.2.3 to Chapter A of this report). The increase in cash flows from financing activities in 2016 compared with 2015 stems mainly from the amounts the Company raised from the public as part of the merger transaction and from the amounts raised as part of the private allocation in the last quarter of 2016 (for details see section 3.2.3.1 to Chapter A of this report), compared to a lower scope of financing extended to Safe-T Data in 2015 by the group of investors (see note 14 to the financial statements) and by a private capital raising carried out by Safe-T Data at the beginning of that year from Sasa Holdings - Agricultural Cooperative Society Ltd. (for details see section 3.1.1 to Chapter A of this report).
Increase (decrease) in cash and cash equivalents	**1,952**	**1,224**	**(248)**	

3.5 **Funding sources**

In the reported period, the Group funded its activities mainly from self-resources and by raising capital from third parties as well as by exercising tradable warrants. For further details, see section 31 to Chapter A of this report.

3.6 Valuations used to determine the value of financial statements data

Set forth below are details regarding a valuation that was used to determine the value of financial statements data in accordance with Regulation 8b to the Regulations; the valuation is attached to this report:

A very material valuation

3.6.1 Valuation of fair value of options to investors and anti-dilution mechanism

Identification of the subject of the valuation	Valuation of the fair value of options to investors and anti-dilution mechanism.
Timing of the valuation	Date of valuation: December 31, 2017
The value of the subject of the valuation immediately preceding the date of the valuation, if the accepted accounting principles, including those regarding depreciation and amortization, did not require that its value be changed in accordance with the valuation:	N/A
The value of the subject of the valuation that was determined in accordance with the valuation.	As specified in the attached valuation.
Details of the appraiser	The valuation was carried out by Financial Immunities Trading Rooms Ltd. (hereafter – "Financial Immunities"). According to information provided to the Company by Financial Immunities, Financial Immunities is a company providing a comprehensive range of business and economic services. The Company was also informed that Financial Immunities was established in 2003 and specializes in economic consultancy, including business, finance, regulatory and non-regulatory matters (including dealing room transactions). Financial Immunities has vast experience in performance of valuations for accounting purposes in reporting corporations with scope of activities which is similar and even larger than the reported valuation. The assessor The appraiser: Mr. Kfir Landau, CPA, Chief Analyst, has a BA in Economics, Management and Accounting awarded by The College of Management Academic Management and an MA in Legal Studies awarded by the Bar Ilan University. Mr. Landau has 4.5 years' worth of experience as a senior economist in Israel Aerospace Industries Ltd. He has app. 8 years' worth of experience in the field of valuation. He is a Certified Public Accountant in Israel.

Is there an indemnification agreement with the appraiser?	The Company has undertaken to compensate and indemnify Financial Immunities, should legal proceedings or any other proceedings shall be conducted against Financial Immunities and it will be required to pay any amount to a third-party due to the valuation. The Company has also undertaken to bear all reasonable costs expensed by Financial Immunities in respect of advisory services and legal representation, experts' opinions, presenting defenses as part of legal proceedings, negotiations, etc., in connection with any lawsuit, demand or other procedure relating to the valuation. Regardless of the above, in case where a peremptory rule is issued to the effect that Financial Immunities has acted with gross negligence and/or willful intent, the Company shall only compensate and indemnify Financial Immunities as above for any amount that will exceed three times the fees that the Company will pay to Financial Immunities.
The valuation model in accordance with which the appraiser worked	The binomial model was applied to value the anti-dilution mechanisms and the Black & Scholes model was applied to value the options to investors.
The assumptions according to which the appraiser carried out the valuation according to the valuation model:	Risk free interest of 0.10%-0.11%. Standard deviation: 52.53%-56.45% Term of life: 0.26-0.45 years.

A material valuation

3.6.2 Valuation of fair value of options to investors and advisors

Identification of the subject of the valuation	Valuation of the fair value of options.
Timing of the valuation	Date of valuation: November 27, 2017
The value of the subject of the valuation immediately preceding the date of the valuation, if the accepted accounting principles, including those regarding depreciation and amortization, did not require that its value be changed in accordance with the valuation:	N/A
The value of the subject of the valuation that was determined in accordance with the valuation.	$162,748
Details of the appraiser	The valuation was carried out by Financial Immunities. For details regarding financial immunities and the appraiser, see 3.6.1 above.

Is there an indemnification agreement with the appraiser?	The Company has undertaken to compensate and indemnify Financial Immunities, should legal proceedings or any other proceedings shall be conducted against Financial Immunities and it will be required to pay any amount to a third-party due to the valuation. The Company has also undertaken to bear all reasonable costs expensed by Financial Immunities in respect of advisory services and legal representation, experts' opinions, presenting defenses as part of legal proceedings, negotiations, etc., in connection with any lawsuit, demand or other procedure relating to the valuation. Regardless of the above, in case where a peremptory rule is issued to the effect that Financial Immunities has acted with gross negligence and/or willful intent, the Company shall only compensate and indemnify Financial Immunities as above for any amount that will exceed three times the fees that the Company will pay to Financial Immunities.
The valuation model in accordance with which the appraiser worked	The binomial model was applied to value the fair value of the options.
The assumptions according to which the appraiser carried out the valuation	Risk free interest of 1.98%. Standard deviation: 65.80%. Term of life: 10.00 years.

Company's engagement with the appraiser in connection with the valuations described in sections 3.6.1 and 3.6.2 has been approved by the Company's CEO. The Company and the appraiser are independent of each other.

3.7 Events taking place subsequent to the date of statement of financial position

3.7.1 On January 1, 2018, the Company announced that Safe-T Data signed a distribution agreement with a supplier in the Philippines (hereafter: "the distributor") and that Safe-T Data received two orders through the distributor at the total amount of approximately 230 thousand ILS for the licensing of Safe-T Data's SDE and SDA products as well as for maintenance for a period of one year.

On January 3, 2018, the Company announced that Safe-T Data received two further orders through the distributor at the total amount of more than 500 thousand ILS for the licensing of Safe-T Data's SDE and SDA products as well as for maintenance for a period of one year.

Also, On January 17, 2018, the Company announced that Safe-T Data received one further order through the distributor at the total amount of approximately 157 thousand ILS[2] for the licensing of Safe-T Data's SDE product as well as for maintenance for a period of one year. This order constitutes an expansion of an order placed by a Philippine security organization, which order was announced by the Company on January 3, 2018 and includes the acquisition of several additional licenses. Furthermore, on February 8, 2018, the Company announced that Safe-T Data received from the distributor another order from the Philippines at the total amount of more than 400 thousand ILS[3] for licensing and maintenance for one year of Safe-T Data's Software Defined Access solution. This is the first order placed in the Philippines for this solution. The distributor has the right to cancel the order within 60 days from the date of the order for any reason what so ever.

[2] Including standard distribution commissions to distributors.

[3] The amount does not include standard distribution commissions to distributors.

For further details see the company's immediate reports of January 1, 2018 (reference no. 2018-01-000129, January 3, 2018 (reference no. 2018-01-000948), January 17, 2018 (reference no. 2018-01-005412 and February 8, 2018 (reference no. 2018-010011118), respectively, which are incorporated by way of reference.

3.7.2 On January 2, 2018, the Company announced that on January 1, 2018 Safe-T Data approved the placement of several orders by leading Israeli clients at the total amount of approximately 500 thousand ILS[4]. For further details, see immediate report of January 2, 2018, reference no. 2018-01-000624, which is incorporated by way of reference.

3.7.3 On January 17, 2018, the Company announced that on January 16, 2018 Safe-T Data approved the placement of several orders by leading Israeli clients at the total amount of approximately 300 thousand ILS[5]. For further details, see immediate report of January 17, 2018, reference no. 2018-01-004512 which is incorporated by way of reference.

Over the course of the first quarter of 2018 and through the date of this report, the Group received clients' orders to purchase its products at the total amount of approximately $506 thousand, compared with order amounting to $437 thousand received in the first quarter of 2017. In the opinion of the Company, approximately $400 thousand out of the orders placed in the first quarter of 2018 shall be recognized as revenue in 2018 and the remaining amount will be recognized in the years 2019-2022[6].

3.7.4 On February 6, 2018, Safe -T Data entered into its first distribution agreement for Australia and New Zealand with Witz Cybersecurity Pty Limited (hereafter: "Witz" and "the "Agreement", respectively), which, to the best of the Company's knowledge, is a boutique company specializing in sales of advanced cyber solutions to the financial sector. Pursuant to the terms of the agreement, Safe-T granted Witz a non-exclusive right to distribute Safe-T's solutions in addition to its own product portfolio. In addition, Witz will provide support, training and marketing services. For further details, see immediate report of February 8, 2018, reference no. 2018-01-011118, which is incorporated by way of reference.

3.7.5 On January 11, 2018, Safe-T Data received the approval of the United States Patent and Trademark Office (USPTO) for the registration of the patent in the USA in respect of Safe-T Data's SDA solution. For further details see section 26 to Chapter A of this report and immediate report of January 14, 2018, reference no. 2018-01-004176, which is incorporated by way of reference.

3.7.6 On March 22, 2018, Safe-T-Data decided, at the agreement of all other parties to the non-binding document of understanding for the establishment of a joint company that will engage in cyber security in vehicles and trains, dated April 23, 2017 (hereafter: "the document of understandings") to withdraw from the document of understanding.

3.7.7 On March 28, 2018, Safe-T Data signed an agreement with a cyber company for the acquisition of all the intellectual property of this company. For details see section 34.4 to Chapter A of this report and immediate report of March 25, 2018, reference no. 2018-01-023190, which is incorporated by way of reference.

For further details about the events taking place subsequent to the date of statement of financial position, see note 23 to the financial statements.

[4] See footnote 3 above.

[5] See footnote 3 above.

[6] The data for the first quarter of 2018 are unaudited and refer to the final consideration to the Company.

4 Corporate Governance Aspects

4.1 Company's policy regarding charitable donations

The Company has not set a policy regarding charitable donations. In the reported period the Company donated amounts aggregating 3,300 ILS to a public institution.

4.2 Directors who possess accounting and finance expertise

In accordance with the resolution of the Company's Board of Directors, the minimal number of directors who possess accounting and finance expertise which is required for the Company in accordance with Section 92(a)(12) to the Companies Law, is two (2) directors, having regard to the nature of the accounting issues and accounting controls arising in connection with the preparation of the Company's financial statements, its areas of activities, its size and the scope and complexity of its activities. As of the date of publication of this report, the Company has 5 directors, who possess accounting and finance expertise, as follows: Shahar Daniel, Vered Raz-Avayo, Yehuda Halfon, Lior Vider and Eylon Jeda. For further details as to the directors, see Regulation 26 in Chapter D of this report.

4.3 Independent directors

As of the date of the report, the Company did not adopt in its articles of association a provision regarding the percentage of independent directors in accordance with the First Addendum to the Companies Law. As of the date of publication of this report, there is one independent director (Mr. Lior Vider) who serves in the Board of Directors in addition to the two external directors. For further details regarding Mr. Lior Vider, see Regulation 26 in Chapter D to this report.

4.4 Details regarding Company's internal auditor

4.4.1 Identity of the internal auditor

The Company's internal auditor is Ms. Dana Gottesman.

4.4.2 Date of start of tenure:

Date of start of tenure: June 27, 2016.

4.4.3 Internal auditor's compliance with legal requirements

To the best of the Company's knowledge and in accordance with the declaration of the internal auditor, the internal auditor meets all requirements set forth in section 146(b) to the Companies Law and in section 3(a) and 8 to the Internal Audit Law, 1992 (hereafter: "The Internal Audit Law"). Also, to the best of the Company's knowledge, the internal auditor is not an interested party in the Company, she is not a relative of an interested party or an office holder in the Company and does not serve as the Company's auditor or anyone on its behalf.

4.4.4 The internal auditor's relationship with the Company or any entity related thereto

The internal auditor is not an employee of the Company, but rather renders internal audit services to the Company as an external service provider on behalf of BDO Ziv Haft. The activity of the internal auditor does not give rise to conflict of interest with its role as the Company's internal auditor. The Company does not hold any other position in the Company. She serves as the internal auditor of several other public companies.

Also, the internal auditor and the firm on behalf of which she works as the Company's internal auditor - BDO Ziv Haft - do not hold securities of the Company or any of its related entities. Furthermore, the internal auditor and BDO Ziv Haft have no material business relations of any kind with the Company or with any of its related entities.

4.4.5 **Way of appointment of internal auditor**

Ms. Gottesman was appointed as the Company's internal auditor by the Company's Board of Directors at the recommendation of the Audit Committee. The principal reasons for the Board of Directors' approval of the appointment were, among other things, Ms. Gottesman's experience and capabilities in the field of the Company's activities and her suitability for the position, in view of the scope and complexity of the Company's activities.

4.4.6 **Identity of the officer supervising the Internal Auditor**

Company officer, who supervises the work of the internal auditor, is the Chairman of the Board of Directors.

4.4.7 **Work plan and considerations taken into account in determining the work plan**

The internal auditor's work plan is determined according to varying needs of the Company, risk survey carried out in the Company, suggestions of the internal auditor, members of the Audit Committee and the Board of Directors and in accordance with the importance and precedence of the different subjects. Also, audit targets are set for each year according to the frequency of the audit, the risk arising from the Company's activities, the probability of the existence of deficiencies, audits required by law, findings detected in previous audits and other events arising from the audit carried out by Company's auditors. Members of the Company's Audit Committee and the internal auditor determine the work plan and the Audit Committee approves the work plan.

The internal auditor did not review the material transactions (as defined in Regulation 5(f) to the Fourth Addendum to the Securities Regulations (Periodic and Immediate Reports), 1970, which were carried out by the Company over the course of 2017.

4.4.8 **Audit abroad or audit of investees**

The internal audit plan, which was decided upon close to the end of 2017 also covers material investees of the Company and investees outside Israel.

4.4.9 **Scope of employment**

In the reported period the internal auditor and its team carried out approximately 200 hours of internal audit in accordance with the approved audit plan. In the opinion of the Company's Board of Directors, this scope is in line with the activity reviewed by the internal auditor. In addition, the scope of employment of the internal auditor is determined every year upon approval of the work plan, taking into account, among other things, the scope of the work place for the relevant year, the complexity of the work plan and the sensitivity of the subjects reviewed on that year.

	2017	2016[7]
The hours invested in internal audit in the corporation itself with regard to its activity in Israel.	-	-
The hours invested in internal audit in investees with regard to their activity in Israel.	100	-
The hours invested in internal audit in the corporation itself and in investees with regard to their activity abroad.	100	-

Through the date of this report, the planned quota of hours was not reduced. Nevertheless, the internal auditor transfers internal audit hours from one subject to another as needed.

4.4.10 **The professional standards according to which the internal auditor carries out the audit**

As reported to the Company by the internal auditor, the auditor conducts the audit in accordance with the professional standards set out in Section 4(b) to the Internal Audit Law and in accordance with the directives published by the Institute of International Auditors, which were adopted by the New Institute of Internal Auditors in Israel. The Company's Board of Directors relied on the internal auditor's reports regarding her compliance with the requirements of the professional standards on which her audit is based.

4.4.11 **Access to information**

The internal auditor is given unlimited and direct access to the Company's documents and IT systems, including financial data and all sites in which activities of the Company are conducted, all as required for the purpose of discharging his duties and in accordance with Section 9 of the Internal Audit Law.

4.4.12 **Internal auditor's report**

Set forth is a list of the dates on which reports were filed to the Chairman of the Audit Committee on the internal auditor's findings and the dates on which discussions were held in the Audit Committee.

Subject	**2017 Financial statements**
Report 1:	
Date of filing internal auditor's report	10/07/2017
Date of discussion in Audit Committee	13/07/2017
Report 2:	
Date of filing internal auditor's report	20/11/2017
Date of discussion in Audit Committee	23/11/2017

4.4.13 **Board of Directors' assessment of internal auditor's activities**

The Company's Board of Directors is of the opinion that the scope, nature and continuity of the activities of the Company's internal auditor and the internal auditor's work plan are reasonable considering the size of the Company, its organizational structure and the nature and scope of its business activities and are sufficient to achieve the objectives of internal audit in the Company.

[7] No internal audit activities were carried out in the Company in 2016; however, a risk survey was carried out and preparations were made to execute the 2017 internal audit plan.

4.4.14 **Remuneration of internal auditor**

The remuneration to the internal auditor is based on an hourly rate in respect of actual working hours invested in the execution of her tasks and it is not dependent on the results of the internal audit, and therefore does not influence the results of the audit. In 2017, the internal auditor's fees amounted to approximately 40 thousand ILS. In the opinion of the Company's Board of Directors, this remuneration does not influence the internal auditor's professional judgment.

4.5 **Disclosure regarding the Company's auditor**

4.5.1 **The identity of the Company's auditor**

As from June 15, 2016 the auditor of the Company and its subsidiaries is Kesselman & Kesselman CPAs (hereafter: "the auditor").

4.5.2 **Auditor's fees**

Set forth below are data regarding the fees paid to the auditors for audit and related services, tax services and other services that were rendered to the Company and its subsidiaries, as well as data regarding the number of hours invested by the auditors in 2017 and 2016:

Auditor	Services	2017		2016	
		Fees (thousand of ILS)	No. of Hours	Fees (thousand of ILS)	No. of Hours
Kesselman & Kesselman	Audit services	180	4,210	221	1,458
	Services related to audit			-	-
	Tax services	25	35	106	173
	Other services	34	102	4	10

Kesselman & Kesselman fees for 2016 are partly in respect of services, which this firm rendered to Safe-T Data.
The auditor's fees are determined by the Company's Board of Directors pursuant to powers vested in it by the General Meeting of the Company's shareholders, which appointed the auditor.

4.5.3 **Changes in fees or no. of hours invested by the auditor**

The auditor's fee decreased in 2017 due to a decrease in the exchange rate of the dollar.

Mr. Amir Mizhar Chairman of the Board of Directors	Mr. Shahar Daniel CEO

Date: March 22, 2018

SAFE-T GROUP LTD.

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2017

SAFE-T GROUP LTD.

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders of

SAFE-T GROUP LTD.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of loss and other comprehensive loss, changes in equity and cash flows present fairly, in all material respects, the financial position of Safe-T Group Ltd. and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years ended December 31, 2017 and 2016 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Board of Directors and management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Emphasis of a Matter

As discussed in Note 2r to the consolidated financial statements, the Company changed its revenue recognition accounting policy effective January 1, 2017 to conform with IFRS 15 - "Revenue from Contracts with Customers".

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1j to the consolidated financial statements, the Company has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1j. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Kesselman & Kesselman
Certified Public Accountants (Isr.)
A member firm of PricewaterhouseCoopers International Limited
Tel-Aviv, Israel
March 22, 2018

We have served as the Company's auditor since 2016.

SAFE-T GROUP LTD.

CONOSLIDATED BALANCE SHEETS

	Note	December 31, 2017	December 31, 2016
		U.S. dollars in thousand	
Assets			
CURRENT ASSETS:			
Cash and cash equivalents	4	3,514	1,311
Restricted deposit		93	44
Accounts receivable:			
Trade	5	644	144
Other		224	107
		4,475	1,606
NON-CURRENT ASSETS:			
Property, plant and equipment, net		165	70
Restricted deposit		-	13
Goodwill	6	523	523
Intangible assets, net	6	764	1,015
		1,452	1,621
TOTAL ASSETS		5,927	3,227
CURRENT LIABILITIES:			
Short-term loans from related party	21	-	63
Accounts payable and accruals:			
Trade		178	44
Other	9	877	641
Contract liability		424	-
Deferred revenue		-	151
Liability in respect of the Israeli Innovation Authority		92	55
		1,571	954
NON-CURRENT LIABILITIES:			
Derivative financial instruments – warrants	13,14	237	889
Contract liability		286	-
Deferred revenue		-	55
Liability in respect of anti-dilution feature	13	692	94
Liability in respect of the Israeli Innovation Authority		-	63
		1,215	1,101
COMMITMENTS	10		
EQUITY:	13		
Ordinary share capital		-	-
Share premium		28,494	22,220
Other equity reserves		12,583	11,624
Accumulated deficit		(37,936)	(32,672)
TOTAL EQUITY		3,141	1,172
TOTAL EQUITY AND LIABILITIES		5,927	3,227

Amir Mizhar	Shachar Daniel	Shai Avnit
Chairman of the Board of Directors	**Chief Executive Officer**	**Chief Financial Officer**

Date of approval of financial statements by Company's Board of Directors: March 22, 2018.

The accompanying notes are an integral part of the consolidated financial statements.

SAFE-T GROUP LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

		Year ended	
		2017	2016
		U.S. dollars in thousand	
REVENUES	15	1,096	843
COST OF REVENUES	15	583	512
GROSS PROFIT		513	331
OPERATING EXPENSES:			
Research and development expenses	16	1,608	1,085
Selling and marketing expenses	17	4,051	2,892
General and administrative expenses	18	2,150	2,123
Listing expenses	1i	-	1,579
TOTAL OPERATING EXPENSES		7,809	7,679
OPERATING LOSS		(7,296)	(7,348)
FINANCE EXPENSES		(975)	(1,854)
FINANCE INCOME		2,959	282
FINANCIAL INCOME (EXPENSES), net	19	1,984	(1,572)
LOSS BEFORE TAXES ON INCOME		(5,312)	(8,920)
TAXES ON INCOME	8	1	2
NET LOSS FOR THE YEAR		(5,313)	(8,922)
BASIC AND DILUTED LOSS PER SHARE(IN DOLLARS)	20	(0.29)	(0.77)

The accompanying notes are an integral part of the consolidated financial statements.

SAFE-T GROUP LTD.

CONOSLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Ordinary Shares	Share premium	Accumulated deficit	Other equity reserves	Total
BALANCE AT JANUARY 1, 2016*	6	14,889	(23,750)	10,138	1,283
CHANGES IN THE YEAR 2016:					
Reverse acquisition	(6)	1,868			1,862
Proceeds from issuance of shares net of issuance costs of $ 101 thousand		4,058			4,058
Share-based payment				1,818	1,818
Proceeds from private issuance of shares net of issuance costs of $ 185 thousand		1,071			1,071
Exercise of options		108		(106)	2
Expiry of options		226		(226)	-
Net loss for the year			(8,922)		(8,922)
BALANCE AT DECEMBER 31, 2016	-	22,220	(32,672)	11,624	1,172
ADJUSTMENTS DUE TO APPLICATION OF THE PROVISIONS OF IFRS 15**	-	-	49	-	49
BALANCE AT JANUARY 1, 2017	-	22,220	(32,623)	11,624	1,221
CHANGES IN THE YEAR 2017:					
Exercise of options		543		(463)	80
Exercise of warrants		2,286			2,286
Share-based payment				1,318	1,318
Proceeds from private placement of shares net of issuance costs of $ 422 thousand		3,416		133	3,549
Expiry of options		29		(29)	-
Net loss for the year		-	(5,313)	-	(5,313)
BALANCE AT DECEMBER 31, 2017	-	28,494	(37,936)	12,583	3,141

* Retrospective application of reverse acquisition, see note 1i.

** Early application of IFRS 15, see note 2r

The accompanying notes are an integral part of the consolidated financial statements.

SAFE-T GROUP LTD.

CONOSLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31,	
	2017	2016
	U.S. dollars in thousands	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss for the year	(5,313)	(8,922)
Adjustments required to reflect the cash flows from operating activities:		
Effect of exchange rate differences on cash and cash equivalents balances	(251)	(25)
Gain from cancellation of options to a group of investors	-	(193)
Finance expenses in respect of financial liability to a group of investors	-	193
Recognition of day-one deferred loss	-	1,056
Listing expenses	-	1,545
Issuance expenses	242	-
Amortization of intangible assets	251	251
Depreciation	27	29
Change in financial liability at fair value through profit or loss	(1,981)	513
Share-based payment	1,318	1,818
Capital gain	(5)	-
	(399)	5,187
Changes in operating asset and liability items:		
(Increase) decrease in trade receivables	(138)	468
Increase in other receivables	(117)	(83)
Increase (decrease) in trade payables	134	(46)
Increase (decrease) in other payables	236	(22)
Decrease in deferred revenue and contract liability	191	101
	306	418
Net cash used in operating activities	(5,406)	(3,317)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Restricted deposits	(36)	(13)
Proceeds from sale of property, plant and equipment	15	-
Purchase of property, plant and equipment	(132)	(39)
Net cash used in investing activities	(153)	(52)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash acquired from reverse acquisition	-	317
Issuance of shares and warrants, net of issuance expenses	-	4,072
Repayment to Israeli Innovation Authority	(26)	(17)
Payment of loans	(63)	-
Payment of financial liability at fair value through profit or loss	-	(1,056)
Private issuance, net of issuance costs (Note 13(b))	5,582	1,527
Proceeds from exercise of options and warrants	2,018	2
Payment of financial liabilities at amortized cost	-	(1,122)
Proceeds from financial liabilities and options to group of investors	-	870
Net cash provided by financing activities	7,511	4,593

The accompanying notes are an integral part of the consolidated financial statements.

SAFE-T GROUP LTD.

CONOSLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31,	
	2017	**2016**
	U.S. dollars in thousands	
Increase in cash and cash equivalents	1,952	1,224
Effect of exchange rate differences on cash and cash	251	25
Cash and cash equivalents at beginning of year	1,311	62
Cash and cash equivalents at end of year	3,514	1,311
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Conversion of warrants into shares	348	-
Issuance of options to consultants	(133)	-

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 - GENERAL:

a. Safe-T Group Ltd. (formerly – "Matarat Mizug Havarot Ltd.", hereafter - the "Company") was incorporated in Israel on October 22, 1989 as a private company, and is engaged in development of information systems for organizations. In 2001, the Company became a public company and listed its shares on the Tel Aviv Stock Exchange ("TASE"). In 2010, the Company's operations were sold. Since then and up until June 2016, the Company has been operating as a "shell company" having no significant business activity other than management of the Company's administrative functions. On June 23, 2016, the Company's name was changed from Matarat Mizug Havarot Ltd. to Safe-T Group Ltd.

b. Safe-T Data A.R. Ltd (hereinafter – "Safe-T") is engaged in the development and marketing of a comprehensive solution for secure and safe data transfer, through two main products – Secure Data Exchange (formerly Safe-T Box) and Secure Data Access (formerly RSAccess). The solution allows organizations to benefit from improved productivity and effectivity, enhanced security and higher level of compliance with regulatory requirements relating to information security.

c. 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 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 "shell company" with no business activity and no assets and liabilities, in consideration for a cash payment to the Composition with Creditors' account and the issuance of shares to the Investor and/or anyone acting on his behalf.

d. In March 2016, a merger agreement (hereinafter "the Merger" or the "Merger Transaction") was signed between Safe-T Group and Safe-T which was closed on June 15, 2016 (hereafter – the "Merger Date"). Under the Merger Transaction, Safe-T's shareholders sold to the Company all of their holdings in Safe-T by way of share exchange. Safe-T's shareholders were to constitute 67% of the Company's share capital on a fully diluted basis prior to the change in share capital caused by the exercise of the warrants relating to capital raising as described below.

e. On April 5, 2016, the Company announced that it complied with the definition of a "shell company" as defined in the amendment to the Rules and Regulations of the Tel Aviv Stock Exchange (as published on March 28, 2016) and in accordance with the guidelines of the Israel Securities Authority. On April 10, 2016, in view of the finalization of the Composition with Creditors, the Company requested the Israel Securities Authority to resume trading of its shares. On June 21, 2016, following the approval of its request, the Company's shares were reinstated into the TASE's primary list.

f. On May 9, 2016, the Company filed a supplementary prospectus by way of public offering and a rights issuance prospectus. On June 7, 2016, the Company completed the issuance of rights at the total amount approximately $380 thousands. On June 8, 2016 the Company raised approximately $4.2 million from the public. In the process, the Company incurred issuance costs of $101 thousands.

The Merger Transaction was completed on June 15, 2016, such that all conditions precedent set in the Merger were met. As a result, Safe-T Group and Safe-T were merged such that Safe-T Group holds all share capital and voting rights of Safe-T, which became its fully-owned subsidiary, and is essentially a holding company, of Safe-T and its subsidiaries (RSAccess Ltd. and Safe-T USA Inc.) (hereafter – "RSAccess" and "Safe-T Inc.").RSAccess was merged to Safe-T on in September 2017 and ceased to exist. See Also Note 1h.

NOTE 1 – GENERAL (continued):

g. The following was carried out as part of the finalization of the Merger Transaction:

1) The Company issued 8,626,761 ordinary shares to all shareholders of Safe-T against 22,915,980 Safe-T shares, which were previously held by the aforementioned Safe-T shareholders (constituting 100% of the issued share capital of Safe-T). The Company has also issued – as part of an options plan - 1,496,725 options to all holders of Safe-T's options, which were listed as offerees in the prospectus. Those options were issued in lieu of 3,975,875 options held by these option holders immediately before the Merger was concluded. Subsequent to the issuance of Company options in lieu of those options, Safe-T has no remaining options. The shares and options issued to Safe T's shareholders and option holders constitute approximately 67% of the Company's share capital, excluding the warrant series issued to the public, as set out in the Merger Transaction (including the exchange ratio adjustment mechanism), which is described in detail in note 14b.

2) The Company repaid the financial liabilities at amortized cost and its financial liabilities at fair value through profit or loss, amounting to $2,178 thousands, see note 14c for further details.

h. On February 2, 2017, the Company's general meeting approved the merger of RSAccess into Safe-T. The Tax Authority approved the merger as a tax-exempt merger, subject to certain conditions. In September 2017, the merger was approved by the Registrar of Companies and RSAccess ceased to exist. The assets and liabilities of RSAccess, including a debt of approximately 242 thousand ILS (approximately $69 thousand) to the Company's controlling shareholder, was transferred to Safe-T, and RSAccess entered into voluntary liquidation.

i. The consolidated financial statements include Safe-T Group's and Safe-T's financial statements. Although legally the Company is the entity, which acquired the shares, since Safe-T's shareholders gained control over the Company, Safe-T is the accounting acquirer and therefore the transaction was accounted for using the reverse acquisition method.

Accordingly, the assets and liabilities of Safe-T Group (the accounting acquiree) were recognized in the consolidated financial statements according to their carrying amounts immediately before the transaction. The consideration for this acquisition, amounting to $1,862 thousands, was determined based on the value of Safe-T Group's (the accounting acquiree) equity instruments on the day on which the transaction was finalized. The excess of the consideration over the carrying amounts of Safe-T Group's assets and liabilities, amounting to $1,545 thousands, was recorded as "listing expenses" in the statement of operations in the year ended December 31, 2016. In addition to the excess of the consideration referred to above, additional transaction costs of approximately $34 thousands were charged to the "listing expenses" line item in the statement of operations.

j. Going concern

The Company has incurred losses and most of its activities are funded by its shareholders. Therefore, the continuation of the Company's activities is conditional upon its obtaining additional funding until it achieves profitability. The Company monitors its cash flow projections on a current basis and takes active measures to obtain the funding it requires to continue its operations. These cash flow projections are subject to various risks and uncertainties concerning their fulfilment. These factors and the risk inherent in the Company's operations raise substantial doubt as to the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. If the Company is unsuccessful in commercializing its products and raising capital, it may need to reduce activities, curtail or cease operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of presentation of financial statements:

1) The financial statements of the Company as of December 31, 2017 and 2016 and for the years ended on December 2017 and 2016 are in compliance with International Financial Reporting Standards (IFRS), and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

   In connection with the presentation of these financial statements, the following should be noted:

   a) The significant accounting policies described below have been applied consistently to all the years presented, unless otherwise stated.

   b) The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial liabilities (including derivatives) at fair value through profit or loss, which are presented at fair value.

   c) The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Company's management to exercise its judgment in the process of applying the Company's accounting policies.

   d) The Company has decided to early adopt IFRS 15 since July 1, 2017 with the cumulative effect at January 1, 2017. For further information see also Note 2r.

2) The Company analyzes the expenses recognized in the statement of operations using the classification method based on the functional category to which the expense belongs.

b. Consolidated financial statements

Subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

Intercompany balances and transactions, including income and expenses on transactions between The Company's subsidiaries are eliminated.

The accounting policy applied by the subsidiaries is consistent with the accounting policy adopted by the Company

c. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker in the Company, who is responsible for allocating resources and assessing performance of the operating segments. The Company has one operating segment. Entity wide disclosures are provided in note 22.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

d. Translation of foreign currency balances and transactions:

1) Functional and presentation currency.

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (hereafter the "Functional Currency"). The consolidated financial statements of the Company are presented in U.S. dollars, which is the Company's Functional Currency.

2) Transactions and balances

Transactions made in a currency which is different from the functional currency (hereafter - "Foreign Currency") are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions or valuations where the items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the end-of-year exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss as finance income (expense).

e. Cash and cash equivalents

Cash and cash equivalents include cash in hand, short-term bank deposits and other short-term highly liquid investments with original maturities of three months or less, which are subject to insignificant risk of changes in value.

f. Restricted deposits

Restricted deposits include cash deposits, which are pledged against a bank guarantee relating to lease agreements and credit cards. The classification of the restricted deposits as current or non-current assets depends on the date on which the deposit matures.

g. Trade receivables

The trade receivable balance represents the unconditional right to consideration because only the passage of time is required before the payment is due from Company customers for licenses granted or services rendered in the ordinary course of business. If collection is expected within one year or less, trade receivables are classified as current assets. If not, trade receivables are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for doubtful accounts (hereafter – "Provision for Impairment" or "Provision for Doubtful Accounts"), see note 5.

h. Goodwill

Goodwill arising from a business combination represents the excess of the overall amount of the consideration transferred, the amount of any non-controlling interests in the acquired company over the net amount as of acquisition date of the identifiable assets acquired and the liabilities assumed.

Impairment reviews of the cash-generating-unit (CGU) to which goodwill was allocated are undertaken annually and whenever there is any indication of impairment of a CGU. The carrying amount of the Company's assets (which constitutes a single CGU), including goodwill, is compared to its recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment loss is allocated to reduce the carrying amount of the Company's assets at the following order: first to reduce the carrying amount of any goodwill allocated to a CGU and subsequently to the remaining assets of the Company, which fall within the scope of IAS 36, on a proportionate basis based on the carrying amount of each Company asset.

Any impairment loss is recognized immediately in profit or loss and is not subsequently reversed. As of December 31, 2017 and 2016, the Company did not record impairment of goodwill. For further details see note 6.

i. Intangible assets:

1) Research and development
Through December 31, 2017 and 2016, the Company has not met the criteria for capitalizing research and development expenses as intangible assets, and accordingly, no asset has so far been recognized in the financial statements in respect of capitalized research and development expenses. Consequently, the research and development expenses of the Company are fully recognized as incurred.

2) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relationships have a finite useful life and are carried at cost net of accumulated amortization. Amortization is classified to selling and marketing expenses and is calculated for 6 years using the straight-line method over the expected useful life of the customer relationships.

3) Technology

The technology acquired as part of the business combination is an innovative data security product, which is a supplementary product to various other products such as Firewall, applications, Sharepoint, etc. The technology has a finite useful life and it is carried at cost net of accumulated amortization. The amortization is classified to cost of revenues and is calculated for 8 years using the straight-line method over the technology's useful life.

j. Impairment of non-monetary assets

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling costs and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels of identifiable cash flows (cash-generating units). As mentioned above, the Company constitutes a single cash generating unit. Non-monetary assets, other than goodwill, that were impaired are reviewed annually for possible reversal of the impairment recognized at each statement of financial position date. The Company did not record any impairment charges during the years ended December 31, 2017 and 2016.

k. Government grants

During the first quarter of 2015, the Israeli Innovation Authority approved Company's participation in a grants scheme of the Israeli Innovation Authority (hereinafter - the "IIA") as participation in R&D performed by Safe-T (hereafter – "IIA Grants"), which fall into the scope of "forgivable loans" as defined in IAS 20 – "Accounting for Government Grants and Disclosure of Government Assistance" (hereafter – "IAS 20").

Israeli Innovation Authority (hereinafter - the "IIA") grants are recognized in accordance with IAS 39 – "Financial Instruments: Recognition and Measurement" (hereafter – "IAS 39"). If on the date on which the right for the IIA Grants is established (hereafter – "Entitlement Date") the Company's management concludes that there is no reasonable assurance that the IIA Grants to which entitlement has been established (hereafter – "the Received Grant"), will not be repaid, the Company recognizes a financial liability on that date, which is accounted for under the provisions of IAS 39 regarding financial liabilities measured at amortized cost.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

l. Financial assets and liabilities:

1) Classification
The Company classifies its financial assets as loans and receivables. The classification is determined, among other things, in accordance with the purpose for which the financial assets were acquired. The Company management determines the classification of the financial assets upon initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities longer than 12 months after the statement of financial position date. These are classified as non-current assets. The Company's loans and receivables are presented among "accounts receivable," "restricted deposits" and "cash and cash equivalents" in the statement of financial position (see also sections e, f and g above).

2) Recognition and measurement
Financial assets, which are initially measured at fair value, including any transaction costs, are measured in subsequent periods at amortized cost using the effective interest method. Financial assets, which are measured at fair value through profit or loss are initially measured at fair value and the transaction costs are carried to the statement of operations. For information on the method used to measure the fair value of the Company's financial instruments, see note 3.

3) Impairment of financial assets - financial assets measured at amortized cost
The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (hereafter - a "Loss Event") and that Loss Event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Where objective evidence for impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed for the asset upon initial recognition). The asset's carrying amount is reduced and the amount of the loss is recognized in the statements of operations.

If the amount of impairment loss in a subsequent period decreases, and this decrease may be attributed to an objective event that took place after the impairment was recognized (like improved credit rating of the borrower), reversal of the previously recognized impairment loss is recorded in the statements of operations.
The Company does not test impairment of groups of customers due to immateriality.

m. Derivatives and embedded derivatives

The Company accounts for warrants with an exercise price denominated in NIS, and anti-dilution features, as derivatives (see above). The warrants are measured at fair value (level 1) in accordance with their quoted price. Changes are recorded to profit or loss on a periodic basis. The anti-dilution features are measured at fair value (level 3) as reflected in a valuation carried out as of the date of the transaction. Changes are recorded to profit or loss on a periodic basis.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Derivatives, which are embedded in financial instruments or in any other host contract, which comprise of the anti-dilution feature and warrants, are bifurcated from the host contract if and only if (a) their economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract (b) a separate instrument with the same terms as the embedded derivative would meet the definition of derivative, and (c) the hybrid instrument in its entirety (including the embedded derivative) is not measured at fair value through profit or loss.

Changes in the fair value of such embedded derivatives that were bifurcated as above, are recorded as income (expense) in the statements of profit or loss.

n. Trade payables

Trade payables are Company's obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value.

o. Current and deferred income taxes

The tax expenses for the reported years comprise current and deferred taxes. Taxes are recognized in the statement of operations, except to the extent that they relate to items recognized directly in equity. In that case, the tax is also recognized in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company operates and generates taxable income. The Company’s management periodically evaluates the tax aspects applicable to it taxable income based on the relevant tax laws and makes provisions in accordance with the amounts payable to the Israeli Tax Authorities.

Deferred income tax is provided using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, deferred income tax liabilities are not accounted for if it arises from initial recognition of goodwill. Also, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Company does not provide deferred income tax on temporary differences arising from investments in subsidiaries, since the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

p. Employee benefits:

1) Severance pay and pension obligations

A defined contribution plan is a post-employment benefits scheme under which group companies pay fixed contributions into a separate and independent entity. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Company's severance pay and pension obligations are generally funded through payments to insurance companies or trustee-administered funds. Under their terms, the said pension plans meet the criteria for defined contribution plan as above.

2) Vacation and recreation pay

Every employee is legally entitled to vacation and recreation benefits, which are computed on an annual basis. This entitlement is based on the term of employment. The Company charges a liability and expense due to vacation and recreation pay, based on the benefits that have been accumulated for each employee.

Since the Company expects that the benefit arising from vacation pay will be fully settled within 12 months of the end of the reporting period in which the employees provide the relating services, the liability in respect of this benefit is measured in accordance with the additional amount, which the Company expects to pay for unutilized vacation benefits accrued at the end of the reporting period.

3) Severance pay

Severance pay is paid when an employee is terminated by the Company before the normal retirement date, or when an employee had agreed to accept voluntary redundancy in exchange for these benefits. The Company recognizes severance pay liabilities at the earlier of:

- when the entity can no longer withdraw the offer of those benefits; and
- when the entity recognizes costs for a restructuring in the scope of IAS 37 that includes the payment of severance benefits.

q. Share based payment

The Company operates a number of equity-settled, share-based compensation plans, under which the Company receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted excluding the impact of any service and non-market performance vesting conditions. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

At the date of each statement of financial position, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the statement of operations, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

For plans that include conditions that are not vesting conditions, any relating expenses are immediately recognized in the statement of operations. When the Company revises the conditions of an equity-settled grant, the Company recognizes an additional expense, in excess of the original expense calculated for every such revision that increases the overall fair value of the granted benefit or benefits the other service provider, based on the fair value at the time of revision.

r. Revenue recognition

Accounting policy for the year ended December 31, 2017 under IFRS 15

A. General

The Company has decided to early adopt IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”) from January 1, 2017 (“date of initial application”), whereas revenues recognized in 2016 were accounted for according to the provisions of IAS 18 "Revenue". The early adoption of IFRS 15 by the Company was done pursuant to the transitional provision that enables the recognition of the accumulated impact of adoption as an adjustment of the opening balance of retained earnings as of January 1, 2017 (also known as the modified retrospective approach).

The Standard replaces the guidelines that were in effect through January 1, 2017 regarding revenue recognition and presents a new single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The Standard provides two approaches to revenue recognition: one point in time or over time. The model framework consists of five steps for analyzing transactions to determine the timing and amount of revenue recognition.

1) Identify the contract with the customer.
2) Identify the separate performance obligations in the contract.
3) Determine the transaction price.
4) Allocate the transaction price to each of the performance obligations in the contract.
5) Recognize revenue as each performance obligation is satisfied, while making a distinction between satisfying an obligation on a certain date and satisfying an obligation over time.

In addition, the standard provides new, more extensive disclosure requirements to those that exist today, which are provided in notes 15 and 22.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

B. Accounting for perpetual and term licenses of software

The main impact which the Standard had on the Company's financial statements is the timing of recognition of revenue in respect of the license component in transactions for the sale of fixed-term license contracts. Pursuant to the Standard, the Company's promise to the customer in granting a license is to provide a right to use the entity's intellectual property as intellectual property exists (in terms of form and functionality) at the point in time at which the license is granted to the customer. This means that the customer can direct the use of, and obtain substantially all of the remaining benefits from, the license at the point in time at which the license transfers.

Therefore, revenue in respect of the license component in such transactions shall be recognized at the time at which the license granted to the customer.
The total accumulated impact of the early adoption of the Standard as of date of initial application is a $49 thousands decrease in the accumulated deficit balance, which related solely to term licenses for which revenue was recorded earlier when compared to previous policy.

The timing for the remaining performance obligations remained unchanged – see below.

C. Presentation of revenue and revenue related balances

The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company controls the specified goods or services before the transfer to its customers. In determining this, the Company follows the accounting guidance for principal-agent considerations. This determination involves judgment and is based on an evaluation of the terms of each arrangement, considering the party that is primarily responsible in the arrangement, whether it bears inventory risk and whether it determines the prices charged to the customers. When an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the goods or services transferred.
Sales to resellers are recognized on a net basis which means that the reseller are considered the ultimate customer in such arrangements.

Revenue is recognized net to Value Added Tax.

Commencing January 1, 2017, the Company recognized obligations in respect of sale contracts at the total amount equal to the total amount of transactions invoiced, net of transactions in respect of which revenues were recognized.

D. Allocation of revenue to multiple performance obligations

The Company allocates revenue to licenses, postcontract Customer Support and Professional Services on a relative stand-alone selling price basis, except in cases in which a stand-alone selling price of an individual performance obligation is highly uncertain or variable, in which case the residual method is used.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

E. *Other insignificant impacts*

Other impacts arising from the application of IFRS 15 are: (1) adjusting the amount of consideration that has been promised to reflect the effect of a significant financial component, if the Company expects, at inception, that the period between the performance of the obligations (transfer of license or rendering a service to the customer) and the associated payment is expected to exceed one year; (2) recognizing the incremental costs of obtaining the contact, which will be amortized over the initial period of contract or over the expected period of engagement with the customer, as appropriate under the relevant circumstances. Nevertheless, these impacts are negligible as of the date of initial application of IFRS 15 and for the year ended December 31, 2017.

F. Election of certain practical expedients

The Company has also elected to apply the following practical expedients in connection with the application of IFRS 15:

1) IFRS 15 was applied only to contracts that were not completed as of the date of initial application.

2) Where the asset that would be recognized as a result of capitalizing the cost of obtaining a contract would be amortized over one year or less, the Company shall expense those costs when incurred.

3) For contracts in which, at inception, the period between the performance of the obligations (transfer of goods or service to the customer) and the associated payment is expected to be one year or less, the Company does not account for the effect of a significant financing component.

Accounting policy for the year ended December 31, 2016 under IAS 18

Under IAS 18, through December 31, 2016 inclusive, the Company's revenues were measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales between subsidiaries of the Company.

1) Revenue from perpetual and term licenses of software

The Company recognized revenue from the sale of perpetual software licenses when all of the following conditions were met: the license was delivered to the client; the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the Company; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Company recognized revenue from software licensing for a limited period on a straight-line basis over the licensing period.

2) Revenue from provision of services

Revenue from provision of maintenance and support services was recognized on a straight-line basis over the service provision period. Any consideration received prior to the provision of the service is deferred at the time of receipt thereof and recognized in the statement of operations on a straight-line basis over the service provision period.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Revenues from transactions that include professional services rendered to the Company's customers is recognized only when the development was delivered to the customer or the provision of service had been completed, the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the Company; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3) Multiple-element transactions

Revenue from multiple-element sale agreements, which include a number of components such as a license and support services and which do not include a general right of return, is allocated into separate accounting units and recognized separately for each accounting unit. An element constitutes a separate accounting unit if and only if it has a standalone value for the customer. In addition, there should be reliable and objective evidence of the fair value of those elements of the transaction that have not yet been delivered.

The license element within a multiple element sale is measured using the marginal method, as this is one of those limited circumstances where no stand-alone selling price observable and no suitable methods for estimating the stand-alone selling price exist.

Elements, which were not considered to be separate accounting units since they do not meet the conditions specified above, are grouped into a single accounting unit. Revenue from the various accounting units is recognized when the revenue recognition criteria are met with respect to all the elements of the accounting unit based on their specific type and only up to the amount of the consideration that is not contingent on completion or performance of the other elements in the contract.

Where a discount was given as part of the transaction, the Company allocated the whole discount amount to the license element.

4) Gross verses net revenue reporting

The Company reported its revenue on a gross basis since it acts as the principal supplier and is the primary obligor in transactions with Company customers. Also, the Company has latitude to set the price of its transactions and bears the risks and benefits arising from a transaction, including the credit risk. In cases where the Company acts as an agent or a broker without bearing the risks and benefits arising from the transaction, it presents its revenue on a net basis.

s. Loss per share

Basic loss per share is calculated by dividing net loss attributable to holders of ordinary Company shares by the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

When calculating the diluted loss per share, the Company adjusts the loss attributable to holders of ordinary shares and the weighted average number of shares in issue, to reflect the effect of all potentially dilutive ordinary shares, as follows:

The Company adds to the weighted average number of shares in issue that was used to calculate the basic loss per share the weighted average of the number of shares to be issued assuming the all shares that have a potentially dilutive effect would be converted into shares, and adjusts net loss attributable to holders of ordinary Company shares to exclude any profits or losses recorded during the year with respect to potentially dilutive shares.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

The potential shares, as above, are only taken into account in cases where their effect is dilutive (reducing the earnings per share or increasing the loss per share).

When calculating the loss per share the Company used the weighted average of Safe-T's shares up until the date of completion of the Merger Transaction, multiplied by the exchange ratio set for the transaction, as described in note 1i.

The number of shares used to calculate the loss per share as from the date of the transaction and thereafter is the weighted average number of Company shares. As to the agreement between Safe-T Group and Safe-T shareholders of June 2016, see note 14.

t. New international financial reporting standards, amendments and interpretations to existing standards:

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company:

1) IFRS 9 – "Financial Instruments" (hereafter – "IFRS 9" or "the Standard")

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling.

The standard presents a new model for impairment of financial assets. The new model is based on expected credit losses and it replaces the incurred loss impairment model used in IAS 39.

For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 will be effective retrospectively for annual periods beginning on or after January 1, 2018, taking into account the reliefs specified in the transitional provisions of IFRS 9. The Company's assessed that the impact of IFRS 9 on the financial statements is immaterial.

2) IFRS 15 - "Revenue from Contracts with Customers" (hereafter - "IFRS 15" or "the Standard") – see note 2r above.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued):

3) IFRS 16 – "Leases" (hereafter – "IFRS 16")

IFRS 16 will replace upon first-time implementation the existing guidance in IAS 17 "Leases"(hereafter "IAS 17"). The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases, and is expected to have material impact mainly on the accounting treatment applied by the lessee in a lease transaction.

IFRS 16 changes the existing guidance in IAS 17 and requires lessees to recognize a lease liability that reflects future lease payments and a "right-of-use asset" in all lease contracts (except for the following), with no distinction between financing and capital leases. IFRS 16 exempts lessees in short-term leases or the when underlying asset has a low value.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 also changes the definition of a "lease" and the manner of assessing whether a contract contains a lease.

IFRS 16 will be effective retrospectively for annual periods beginning on or after January 1, 2019, taking into account the reliefs specified in the transitional provisions of IFRS 16. Under the provisions of IFRS 16, early adoption is permitted only if IFRS 15 has also been applied. The Company is assessing the expected impact of IFRS 16 on its consolidated financial statements.

4) IFRIC 23, Uncertainty Over Income Tax Treatments

IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 for uncertainties in income taxes. According to IFRIC 23, when determining the taxable profit (loss), tax bases, unused tax losses, unused tax credits and tax rates when there is uncertainty over income tax treatments, the entity should assess whether it is probable that the tax authority will accept its tax position. Insofar as it is probable that the tax authority will accept the entity's tax position, the entity will recognize the tax effects on the financial statements according to that tax position. On the other hand, if it is not probable that the tax authority will accept the entity's tax position, the entity is required to reflect the uncertainty in its accounts by using one of the following methods: the most likely outcome or the expected value. IFRIC 23 clarifies that when the entity examines whether or not it is probable that the tax authority will accept the entity's position, it is assumed that the tax authority with the right to examine any amounts reported to it will examine those amounts and that it has full knowledge of all relevant information when doing so. Furthermore, according to IFRIC 23 an entity has to consider changes in circumstances and new information that may change its assessment. IFRIC 23 also emphasizes the need to provide disclosures of the judgments and assumptions made by the entity regarding uncertain tax positions.

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019.

NOTE 3 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT:

a. Financial risk management

Financial risk factors

The Company's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Risk management is carried out by the Company's finance department in accordance with a policy approved by the Board of Directors. The Company's finance department identifies, evaluates and hedges the financial risks. The Board of Directors provides written principles for the overall management of the risks.

1) Credit risks

Most of the Company's credit risks arise from short-term deposits and trade receivables. The Company mitigates the risk by ensuring it has sufficient funds to meet its needs and by selling to customers of high credit quality.

No credit limits were exceeded in 2017, and management does not expect any losses from non-performance by these counterparties beyond those that have already been recognized.

2) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the ILS. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities denominated in foreign currency..
The Company hedges and minimizes the foreign exchange risk by ensuring that the amounts of net current assets at a specific point in time correspond to the amount of current liabilities at that point in time.

3) Liquidity risk

Prudent liquidity risk management requires maintaining sufficient cash and cash equivalents. The Company works to maintain sufficient cash and cash equivalents, taking into account forecasts as to the cash flows required to fund its activities, in order to minimize the liquidity risk to which it is exposed.
Cash flow forecasting is performed by the Company's finance department on a consolidated basis. The Company monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Surplus cash held by the operating entities of the Company over and above the balance required for working capital management are invested in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts.
The table below analyzes non-derivative financial liabilities into relevant maturity groupings based on the remaining period at statement of financial position date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTE 3 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

	Less than one year	Between one to two years
	U.S. dollar in thousands	
Balance as of December 31, 2017:		
IIA liability (*)	92	-
Trade payables and other payables	1,055	-
	1,147	-
Balance as of December 31, 2016:		
IIA liability	55	63
Trade payables and other payables	685	-
Loan from related party	63	-
	803	63

(*) The decrease in the IIA liability for the year ended December 31, 2017 results primarily from payments to the IIA.

b. Fair value estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Level 1 financial instruments:
The Company has a financial liability in respect of derivative financial instruments – warrants – which is measured at fair value through profit or loss. As of December 31, 2017 and 2016 the amounts of the liabilities are $176 thousands and $889 thousands, respectively.
The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

NOTE 3 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

Level 3 financial instruments:
The Company has several financial liabilities measured at fair value through profit or loss, which meet the level 3 criteria as of December 31, 2017 and 2016.

The following table presents the changes in level 3 instruments for the 2017 and 2016:

	Anti-dilution feature	Non Traded Warrants	Total
	U.S. dollar in thousands		
Balance as of January 1, 2017	94	-	94
Initial recognition	315	1,958	2,273
Finance expenses (income)	283	(1,897)	(1,614)
Balance as of December 31, 2017	692	61	753
Total unrealized losses (gains) for the period included in profit or loss for liabilities held at December 31, 2017	283	(1,897)	(1,614)

	Anti-dilution feature	Options to group of investors	Bridge loan	Financing of issuance expenses	Total
	U.S. dollar in thousands				
Balance as of January 1, 2016	-	-	*	*	*
Initial recognition	106	193	-	-	299
Finance expenses (income)	(12)	-	**800	**256	1,044
Settlement/cancellation	-	(193)	(800)	(256)	(1,249)
Balance as of December 31, 2016	94	-	-	-	94
Total unrealized gains for the period included in profit or loss for liabilities held at December 31, 2016	12	-	-	-	12

* Represents an amount of less than $ 1 thousands.

** Recognition of deferred initial loss at an amount equal to the cash amount paid by the Company at the time of completion the Merger Transaction. For details see note 14.

NOTE 3 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

d. Financial instruments

December 31, 2017	**Loans and receivables**
	U.S. dollar in thousands
Assets:	
Cash and cash equivalents	3,514
Trade receivable and other receivables (excluding prepaid expenses)	740
Restricted deposits	93
	4,347

	Liabilities at fair value through profit or loss	**Other financial liabilities at amortized cost**	**Total**
	U.S. dollar in thousands		
Liabilities:			
Trade payables and other payables	-	1,055	1,055
IIA liability	-	92	92
Liability in respect of anti-dilution feature	692	-	692
Derivative financial instruments – warrants	237	-	237
	929	1,147	2,076

December 31, 2016	**Loans and receivables**
	U.S. dollar in thousands
Assets:	
Cash and cash equivalents	1,311
Trade receivable and other receivables (excluding prepaid expenses)	215
Restricted deposits	57
	1,583

	Liabilities at fair value through profit or loss	**Other financial liabilities at amortized cost**	**Total**
	U.S. dollar in thousands		
Liabilities:			
Trade payables and other payables	-	685	685
IIA liability	-	118	118
Loan from related party	-	63	63
Liability in respect of anti-dilution feature	94	-	94
Derivative financial instruments – warrants	889	-	889
	983	866	1,849

NOTE 3 – FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued):

Assets and liabilities, which are not measured on a recurring basis at fair value, are presented at their carrying amount, which approximates their fair value.

d. Valuation processes of the Company

Set forth below are details regarding the valuation processes of the Company:

1) Financial liabilities at fair value through profit or loss – see notes 13 and 14.

2) Warrants to group of investors as of December 31, 2017 – the Company used the Black-Scholes model, using the following principal assumptions: expected volatility of 64.91%, risk-free interest of 0.1%, expected term of 0.92 years. For details, see note 14.

3) Anti-dilution feature - the Company used the binomial share price model for a period of 12 months, using the following principal assumptions: expected volatility between 52.53%-56.45%, risk-free interest between 0.10%-0.11%, expected term between 0.26-0.45 years and a 75% probability of capital raise during February -April 2017 and 90% probability of capital raise during April-June 2017.

4) Options to employees and advisors – for details see note 12.

NOTE 4 - CASH AND CASH EQUIVAELNTS

As of December 31, 2017 and 2016, the balance of cash and cash equivalents comprises of cash at bank.

NOTE 5 - ACCOUNTS RECEIVABLE – TRADE, net:

As of December 31, 2017 and 2016, the accounts receivable-trade balance comprises open accounts. Also, as of December 31, 2017 the Company has a doubtful debt in an amount that is not material, and as of December 31, 2016, the Company did not record a provision for doubtful accounts. The Company has no customers that exceed their credit terms.

NOTE 6 - INTANGIBLE ASSETS:

Composition of intangible assets is as follows:

2017:	**Cost**				**Accumulated amortization**				**Amortized balance**
	Balance at beginning of year	**Additions during the year**	**Retirements during the year**	**Balance at end of year**	**Balance at beginning of year**	**Additions during the year**	**Retirements during the year**	**Balance at end of year**	**December 31, 2017**
	U.S. dollar in thousand								
Technology	1,955	-	-	1,955	954	245	-	1,199	756
Contractual customer relations	38	-	-	38	24	6	-	30	8
Goodwill	523	-	-	523	-	-	-	-	523
	2,516	-	-	2,516	978	251	-	1,229	1,287

2016:	**Cost**				**Accumulated amortization**				**Amortized balance**
	Balance at beginning of year	**Additions during the year**	**Retirements during the year**	**Balance at end of year**	**Balance at beginning of year**	**Additions during the year**	**Retirements during the year**	**Balance at end of year**	**December 31, 2016**
	U.S. dollar in thousand								
Technology	1,955	-	-	1,955	709	245	-	954	1,001
Contractual customer relations	38	-	-	38	18	6	-	24	14
Goodwill	523	-	-	523	-	-	-	-	523
	2,516	-	-	2,516	727	251	-	978	1,538

NOTE 6 - INTANGIBLE ASSETS (continued):

Testing of goodwill impairment

As of December 31, 2017 and 2016, the recoverable amount of the Company, which constitutes a single cash generating unit, is calculated on the basis of its fair value less cost to sell of Company's share. As of December 31, 2017 and 2016, the recoverable amount exceeded the Company's equity.

NOTE 7 - INTERESTS IN OTHER ENTITIES:

Subsidiaries:

Set forth below are details regarding the Company's subsidiaries as of December 31, 2017 and 2016:

Name of company	Principal place of business	Nature of business activities	Percentage held directly by the Company	Rate of shares held by the Company
			%	
Safe-T Data A.R.	Israel	Development of data security software	100	100
RSAccess*	Israel	Development of data security software	-	100
Safe-T USA Inc.	USA	Business development and sales in the USA	-	100

*RSAccess completed its merger into Safe-T Data on September 2017, therefore the above rate is relevant only for December 31, 2016. For further details see note 14.

NOTE 8 - TAXES ON INCOME:

a. **Corporate taxation in Israel**

The income of the Company and its Israeli subsidiary is taxed at the regular corporate tax rate which is 25% for 2016, and 24% for the year 2017.

b. **Tax assessments**

The Company and Safe-T have open tax assessments as of 2013.

c. **Carryforward tax losses**

Deferred tax assets in respect of carryforward tax losses are recognized in case that it is expected that the relating tax benefit would be realized against a future taxable income. The Company's losses for tax purposes through Merger Date were written-off in accordance with the Tax Authority's tax ruling, which approved the Merger.

Carryforward tax losses in Israel of the Company from the merger amount to $0.2 millions and $0.3 millions as of December 31, 2017 and 2016, respectively. Carryforward tax losses in Israel of Safe-T Data A.R. amount to $15.8 millions and $9.1 millions as of December 31, 2017 and 2016, respectively. Carryforward tax losses in Israel of the RSAccess as of December 31, 2016 before it was merged to Safe-T and ceased to exist (see also Note 1h) amounted to $0.4 millions. The Company did not recognize deferred taxes for these losses since their utilization is not expected in the foreseeable future.

NOTE 8 - TAXES ON INCOME (continued)**:**

d. Theoretical tax reconciliation

Following is a reconciliation of the theoretical tax expense, assuming all income is taxed at the regular tax rates applicable to companies in Israel (see section a above) and the actual tax expense:

	Year ended December 31, 2017		Year ended December 31, 2016	
	%	US thousands of dollars	%	US thousands of dollars
Loss before taxes on income, as reported in the statement of operations	100	5,312	100	8,920
Theoretical tax saving on this profit or loss	(24)	(1,275)	(25)	(2,230)
Increase in taxes resulting from permanent differences - non-deductible expenses	1.56	83	14.14	1,261
Increase in taxes resulting from tax losses in the reported year for which deferred taxes were not recognized	22.46	1,193	10.88	971
Tax expenses	0.02	1	0.02	2

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUALS:

a. Accounts payable - other:

	December 31, 2017	December 31, 2016
	U.S dollars in thousands	
Employees and related institutions	558	280
Accrued expenses	319	361
	877	641

b. The carrying amount of accounts payables, which are financial liabilities, is a reasonable approximation of their fair value since the effect of discounting is immaterial.

NOTE 10 – COMMITMENTS:

a. Lease agreements

In 2013, Safe-T entered into a lease agreement for the premises it uses for an office, which expired on June 30, 2015. The agreement included an option to extend the lease with a lease fee increase of 6%. In 2015, Safe-T extended the lease agreement in similar terms until December 31, 2017.

On September 13, 2017 Safe-T signed an amendment to its office leases agreement. According to the amendment, Safe-T will lease its Israeli Offices for a monthly fee of approximately $16 thousands. The lease will expire on December 31, 2019.

Also, the second-tier subsidiary – Safe-T Inc. has entered into a lease agreement, which expired on November 30, 2017. On September 19, 2017, Safe-T Inc. signed an extension to its office lease agreement. According to the extension, Safe-T Inc. leases its U.S. offices for a monthly amount of $1.3 thousand. The lease will expire on April 30, 2020.

NOTE 10 – COMMITMENTS (continued)**:**

The minimal future lease fees (including the management fees), which are payable under the said leases agreements are:

For the year ended December 31:	**U.S dollars in thousands**
2018	211
2019	211
2020	5

b. Royalties payable to the IIA

Under the terms of a plan with IIA, the Company is committed to pay royalties to the IIA on proceeds from sales of products in the research and development of which the IIA participated by way of grants. Royalties are payable at the rate of 3% to 3.5% of the proceeds from such sales.

Safe-T completed the performance of the plan on October 31, 2015 and filed a final report to the IIA, who approved the report. Since 2015, Safe-T received a total of $163 thousands in grants. As of December 31, 2017 and 2016 the company paid royalties in an amount of $26 thousands and $33 thousands, respectively, and presents liabilities to the IIA of $92 thousands and $118 thousands, respectively.

c. Lease of vehicles

The minimal future lease fees, which are payable under the Company's vehicles lease agreements are:

For the year ended December 31:	**U.S dollars in thousands**
2018	69
2019	64
2020 and thereafter	32

NOTE 11 - RETIREMENT BENEFITS OBLIGATION:

a. Liability for employee rights upon retirement

Labor laws and agreements require the Company to pay severance pay and/or pensions to employees dismissed or retiring from their employ in certain other circumstances. The amounts of benefits those employees are entitled to upon retirement are based on the number of years of service and the last monthly salary.

Also, under labor laws and labor agreements in effect, including the Expansion Order (Combined Version) for Obligatory Pension under the Collective Agreements Law of 1957 (hereafter – the “Expansion Order”), The Company is liable to make deposits with provident funds, pension funds or other such funds (hereafter – the “Funds”) so as to cover its employees' pension insurance as well as some of its severance pay liabilities.

Under the terms of the Expansion Order, the Company deposits for severance pay as required under the Expansion Order as well as other deposits made by those companies "in lieu of severance pay" and which were announced as such as required under the Expansion Order, replace all payment of severance pay under Section 14 of the Severance Pay Law with respect to the wages, components, periods and rates for which the deposit alone was made (hereafter – “Deposits under Section 14”).

b. Defined contribution plans

The Company's severance pay liability to Israeli employees for which the said liability is covered under section 14 of the Severance Pay Law is covered by regular deposits with defined contribution plans. The amounts funded as above are not reflected in the consolidated statements of financial position.

The amounts recognized as expense in respect of defined contribution plans in 2017 and 2016 are $157 thousands and $95 thousands, respectively.

NOTE 12 - SHARE BASED PAYMENT

The data provided in this note in the tables under note 12(b) and note 12(c) are presented after adjustments arising from the exchange ratio between Safe-T group and Safe-T and after adjustment/exchange carried out further to the reverse acquisition (as described in note 15), such that the number of options and the exercise prices were adjusted as part of the presentation thereof in this note. The data provided in notes 12(a)(1) and 12(a)(2) are presented in the amounts they were originally denominated in, before these adjustments.
According to the Company's share based payment plan, the options vest over a period of up to 4 years, and their term period is ten years.

a. Options plan, restricted (non-tradable) shares to employees, office holders and Advisors:

1) On January 18, 2016, the exercise price of 150,000 options, which were granted to Safe-T’s CEO in June 2015, was fixed as $0.15. The said 150,000 options, constituting 75% of the number of options that were granted to the CEO, the exercise price of which was to be derived from the share price that was to be set as part of the IPO, which did not take place. The Company has accounted the fixing of the exercise price as a modification of terms as defined in IFRS 2. As a result, the Company recorded additional expenses in respect of the incremental fair value as reflected in the valuation of the options.

NOTE 12 - SHARE BASED PAYMENT (continued)**:**

The incremental fair value at date of grant, which was computed at January 18, 2016 according to the binomial model and amounted to $29 thousands. This value is based on the following assumptions: expected volatility of 59.22%, risk free interest of 2.9%, expected term until exercise of 9.4 years and an early exercise multiple of 2.5. Volatility is based on volatility data of share price of software companies for periods matching the expected term of the option until exercise.

2) On January 18, 2016, Safe-T's Board of Directors approved the grant of 1,178,000 options to employees at an exercise price of $0.15. The options will be exercisable at the end of the vesting period in accordance with the terms of the award agreements; further to the Merger, the said options were exchanged with 443,460 Company options at an exercise price of $0.3985.

The fair value of the options at date of grant, which was computed according to the binomial model, amounted to $1,002 thousands. This value is based on the following assumptions: expected volatility of 59.22%, risk free interest of 3.08%, expected term until exercise of 10 years and an early exercise multiple of 2.5 for each offeree. Volatility is based on volatility data of share price of software companies for periods matching the expected term of the option until exercise.

3) On August 28, 2016, the Company's Compensation Committee and Board of Directors approved the grant of 779,296 options to Company employees and advisors, at exercise prices of ILS 5.137 (approximately $1.37).

The fair value of the options at date of grant, which was computed according to the binomial model, amounted to $607 thousands. This value is based on the following assumptions: expected volatility of 59.22%, risk free interest of 1.62%, expected term until exercise of 10 years and an early exercise multiple of 2.5 for each offeree. Volatility is based on volatility data of share price of software companies for periods matching the expected term of the option until exercise.

4) On September 15, 2016, the Company's Compensation Committee and Board of Directors approved the grant of 171,408 options to Company's CEO, to a member of the Company's Board of Directors and to an employee, who is a relative of the Chairman of the Board of Directors. The options were granted at an exercise price of ILS 4.887 (approximately $1.28), which constitutes an average of the closing price of the Company's share over the course of the 30 trading days that preceded the resolutions. The said grants were approved by the general meeting of the Company's shareholders on November 3, 2016.

The fair value of the options at the date of grant, which was computed according to the binomial model, amounted to $102 thousands. This value is based on the following assumptions: expected volatility of 59.22%, risk free interest of 1.99%, expected term until exercise of 10 years and an early exercise multiple of 2.5 for each offeree. Volatility is based on volatility data of share price of software companies for periods matching the expected term of the option until exercise.

5) On March 29, 2017, the Company's Board of Directors approved the grant of 747,896 options to Company employees and advisors at an exercise price of 6.371 ILS per share, including a grant of 100,000 to the Company's C.E.O.

The fair value of the options at the date of grant, which was computed according to the binomial model, amounted to $655 thousands. This value is based on the following assumptions: expected volatility of 47.4%, risk free interest of 2.31%, expected term until exercise of 10 years and an early exercise multiple of 2.5 for each offeree. Volatility

NOTE 12 - SHARE BASED PAYMENT (continued)**:**

is based on volatility data of share price of software companies for periods matching the expected term of the option until exercise.

6) On July 24, 2017, the Company's Board of Directors approved the award of 641,744 options to employees and advisors of the Company at an exercise price of 6.976 ILS per share. The options will be exercisable at the end of the vesting periods in accordance with the terms of the award agreements.

   The fair value of the options at the date of grant, which was computed according to the binomial model, amounted to $784 thousands. This value is based on the following assumptions: expected volatility of 68.07%, risk free interest of 2.05%, expected term until exercise of 10 years and an early exercise multiple of 2.5 for each offeree. Volatility is based on volatility data of share price of software companies for periods matching the expected term of the option until exercise.

   The Company's Board of Directors has also approved the award of 100,000 Series 2 marketable options to an advisor, at an exercise price of 7.5 ILS per share; the expiry date of those options is December 9 2017. The expenses relating to the marketable options were accounted for as share-based payment pursuant to the provisions of IFRS 2.

7) On August 8, 2017, the Company's general meeting approved the award of options to the Company's CEO at an exercise price of 6.588 ILS per share. In accordance with the conditions set out in the March 29, 2017 grant above.
   The fair value of the options at the date of grant, which was computed according to the binomial model, amounted approximately to $85 thousands. This value is based on the following assumptions: expected volatility of 68.03%, risk free interest of 1.95%, expected term until exercise of 10 years and an early exercise multiple of 2.5.Volatility is based on volatility data of share price of software companies for periods matching the expected term of the option until exercise.

8) On August 29, 2017, the Company's Board of Directors approved the award of 500,000 options to employees and advisors of the Company at an exercise price of 5.655 ILS per share. The options will be exercisable at the end of the vesting periods in accordance with the terms of the award agreements.

   The fair value of the options at the date of grant, which was computed according to the binomial model, amounted to $473 thousands. This value is based on the following assumptions: expected volatility of 68.17%, risk free interest of 1.81%, expected term until exercise of 10 years and an early exercise multiple of 2.5 for each offeree.
   Volatility is based on volatility data of share price of software companies for periods matching the expected term of the option until exercise.

9) On November 27, 2017, the Company's Board of Directors approved the award of approximately 305,008 options to Company's employees at an exercise price of 4.30 NIS per share. The options will be exercisable at the end of the vesting periods in accordance with the terms of the award agreements.

   The fair value of the options at the date of grant, which was computed according to the binomial model, amounted to $163 thousands. This value is based on the following assumptions: expected volatility of 65.8%, risk free interest of 1.98%, expected term until exercise of 10 years and an early exercise multiple of 2.5 for each offeree. Volatility is based on volatility data of share price of software companies for periods matching the expected term of the option until exercise.

NOTE 12 – SHARE BASED PAYMENT (continued):

b. Movement in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2017		2016	
	Number of options	**Average exercise price**	**Number of options**	**Average Exercise Price**
		$		**$**
Outstanding at beginning of year:	2,384,909	0.84	1,099,240	0.49
Granted	2,194,648	1.70	1,444,164	1.07
Exercised	(159,648)	0.51	(4,235)	0.40
Forfeited	(351,810)	1.52	(78,734)	0.51
Expired	(12,839)	1.12	(75,526)	0.46
Outstanding at end of year	4,055,260	1.26	2,384,909	0.84
Exercisable at end of year	1,552,660	0.74	1,061,645	0.55

c. The following table summarizes information about exercise price and the remaining contractual life of options outstanding at the end of 2017 and 2016:

	2017		2016	
Exercise Prices	**Number outstanding at end of year**	**Weighted average remaining contractual Life**	**Number outstanding at end of year**	**Weighted average remaining contractual Life**
$		**Years**		**Years**
0.40	336,802	6.32	382,475	7.23
0.40	341,606	7.25	351,606	8.26
0.40	372,310	8.05	407,698	9.05
0.61	162,694	7.01	248,458	8.01
1.22	305,008	9.91	-	-
1.28	162,912	8.71	171,408	9.71
1.37	614,288	8.66	773,264	9.66
1.58	450,000	9.67	-	-
1.73	50,000	1.66	50,000	2.66
1.76	547,896	9.25	-	-
1.83	100,000	9.32	-	-
1.94	611,744	9.57	-	-
	4,055,260		2,384,909	

NOTE 12 - SHARE BASED PAYMENT (continued):

d. Expenses recognized in the financial statements

The cost, which was recognized in the Company's financial statements in respect of services received from its employees is presented in the table below:

	Year ended December 31,	
	2017	2016
	U.S. dollars in thousands	
Share-based payment plans	1,318	1,818

The plans are intended to be governed under rules set for that purpose in the Company's options plan. The exercise prices of the options that are exercisable into shares as of December 31, 2017 range between $0.4 to $1.94.

NOTE 13 - SHAREHOLDERS' EQUITY:

a. Share capital

As of December 31, 2017 and 2016, the Company's ordinary share capital (hereafter – "ordinary shares") is composed as follows:

	Number of shares			
	Authorized		Issued and paid	
	December 31,		December 31,	
	2017	2016	2017	2016
Ordinary shares of no par value	1,000,000,000	1,000,000,000	20,198,583	15,162,033

b. Issuance of share capital

Funds raised on or before the consummation of the Merger Transaction, which included the rights issuance and public offering on June 7, 2016 and June 8, 2016, respectively, are described in note 14.

On November 21 and 23, 2016, the Company's Board of Directors approved an agreement for a private issuance of shares. Under the agreement, the Company shall issue units comprising one share and one warrant in consideration for 4.25 ILS per unit.

Under the agreement, if the Company carries out further capital raising rounds at a price, which is lower than the price of the unit, the shares that will be issued as part of the private issuance shall benefit from anti-dilution protection for a period of one year from the date of closing the investment up until December 14, 2017. The protection shall be effected by a further issuance of shares in accordance with the calculation of the number of shares that the investors would have been entitled to receive had the issuance been carried out at the price of the diluting issuance, but in no case, shall the price per share be lower than 3 ILS.
The agreement also provides that the exercise price of warrants that will be granted to the investors will be 7.5 ILS per share. The warrants will expire on November 9, 2017. See also note 14c below.

The issuance of the units was completed on December 14, 2016 – 1,492,670 units comprising one share and one warrant, in consideration for a total of approximately 6.34 million ILS

NOTE 13 - SHAREHOLDERS' EQUITY (continued):

(approximately $1.64 million). As part of the private issuance, the Company paid capital raising commissions in the amount of ILS 710 thousands (approximately $185 thousands).

On March 27, 2017, the Company's Board of Directors approved an additional private share issuance agreement. Under the agreement, the Company shall issue 1,963,834 units comprising one share and one non-traded warrant in consideration for 6.00 ILS per unit, such that the total consideration to be received by the Company amounted to approximately 11.8 million ILS (approximately $3.3 million).

The non-traded warrants that were awarded to the investors are non-marketable. The exercise price of the non-traded warrants that was awarded to the investors will be 8.75 ILS per share. The non-traded warrants will expire on November 30, 2018. The investment of one of the Company's investors under this board's approval– amounting to approximately 3.63 million ILS (605,000 units) – was subject to listing the Company's shares for trading over the counter (OTC) in the USA. The investor has eventually waived this demand.

On April 24 and April 30 2017, the Company's Board of Directors approved the an additional private placement at the amount of 2,649 thousands ILS (approximately $727 thousands) under the same terms, against the issuance of 441,483 shares. The prices of the shares and the terms of the options are similar to the terms of the private issuance.

In addition, on May 21, 2017, the Company's Board of Directors approved a further private placement. The Company issued 1,174,286 units comprising one share and one non-traded warrant in consideration for 7.00 ILS per unit, such that the additional consideration received by the Company totaled approximately 8.15 million ILS (approximately $ 2.28 million). The exercise price of the non-traded warrants is 10.00 ILS per share and they shall expire on November 30, 2018.

On June 26, 2017, the Company obtained all approvals required for listing the Company's shares as ADS (American Depository Shares) that are tradable as part of the OTCQB Venture Market of the Over the Counter (OTC) market in the USA.

In accordance with the approvals, the Company may commence trade as part of the ADR Level 1 program as from June 27, 2017 under the symbol SFTTY; each ADS represents 4 ordinary Company shares.

NOTE 13 - SHAREHOLDERS' EQUITY (continued):

As part of the abovementioned private issuances, the Company has undertaken that in case that it will decide to issue additional securities over the course of up to 12 months from the respective dates of the issuances, at a price per share that is lower than the price per share that was set as part of the private issuances, it will compensate the relevant investors by issuing additional shares in accordance with the difference between the price per share of the relevant private issuance and the price per share in that future issuance, up to a minimal price that ranges between 4-6 ILS per share, according to the terms of the relevant issuance. In connection with the private issuance referred to in this note 13(b), the Company used the services of brokers, who mediated between the investors and the Company. In consideration for the services rendered by those brokers, the Company awarded them fully-vested non-traded warrants, as follows:

Date of award	Number of non-traded warrants awarded	Exercise price (in ILS)	Exercise period (in years)	FV in the date of the award in USD in thousands
April 6, 2017	11,383	6	5	12
April 6, 2017	56,558	6	3	47
May 11, 2017	22,074	6	3	17
May 22, 2017	45,375	6	3	67
June 13, 2017	84,500	10	3	76

The Company accounted for the said awards in accordance with the provisions of IFRS 2. The value of the services that were rendered by the brokers was treated as issuance costs, by crediting equity and allocating on a pro rata basis between the premium and finance expenses according to the proportion of equity instruments and liability instruments included in each private issuances.

By June 30, 2017, the Company received the total proceeds in connection with the abovementioned private issuances (including the two extensions), amounting to 22,634 thousands ILS ($6,244 thousands). The issuance costs as of December 31, 2017 and 2016 amounted at $663 thousands and $51 thousands, respectively.

For accounting purposes, the Company recognized financial liabilities in respect warrants and in respect of anti-dilution features (see above). The warrants are measured at fair value (level 1) in accordance with their quoted price. Changes are recorded to profit or loss on a periodic basis. The anti-dilution features are measured at fair value (level 3) as reflected in a valuation carried out as of the date of the transaction. Changes are recorded to profit or loss on a periodic basis. The equity component is initially recognized by subtracting the fair value of the financial liabilities from consideration received. The equity component is not remeasured in subsequent periods. Issuance expenses of $51 thousands in 2016 and $663 thousands in 2017 were allocated on a pro-rata basis to the three components mentioned above.

NOTE 13 - SHAREHOLDERS' EQUITY (continued)**:**

c. Exercises of tradable options

- **Series 1 warrants**

  On January 30, 2017, the Company's general meeting decided to defer the exercise date of the Series 1 warrants from February 9, 2017 to April 30, 2017 and to reduce the exercise price of the warrants from 6.25 ILS to 5.50 ILS. As of April 30, 2017, 8,750 warrants were exercised before the reduction of the exercise price, for a total consideration of approximately 55 thousand ILS (approximately $14 thousand), and 1,281,529 warrants were exercised after the reduction of the exercise price, for a total consideration of approximately 7,048 thousand ILS (approximately $1,930 thousand) (99.85% of all series 1 warrants were exercised in consideration for approximately 7,103 thousand ILS (approximately $ 1,943 thousand). The remaining warrants expired on April 30, 2017.

- **Series 2 warrants**

  7,020 warrants were exercised in May 2017 for a total consideration of approximately 53 thousand ILS (approximately $15 thousand). On November 2017, the Company's general meeting and board of directors decided to defer the exercise date of the Series 2 warrants from December 9, 2017 to February 9, 2018 and to reduce the exercise price of the warrants from 7.50 ILS to 6.50 ILS. For more details see note 23c.

d. Rights conferred by shares

- **Ordinary shares**

  The ordinary shares confer upon their holders voting rights, the right to receive dividends, the right to a share in excess assets upon liquidation of the Company and other rights as set out in the Company's articles of association (hereafter- the "Articles of Association").

NOTE 14 – THE MERGER TRANSACTION:

a. Background to Merger

Prior to the Merger Transaction in March 2016 as described in Note 1d, the group of investors entered into a number of agreements during 2015 and beginning of 2016. As further detailed below, the first, second and third amendments to the original agreement (which was signed in 2015), were signed in November 2015, January 7, 2016 and February 4, 2016, respectively (hereafter – the "First Amendment", the "Second Amendment", the "Third Amendment", respectively). The Second Amendment fully cancels the First Amendment. The Second Amendment also essentially cancels the Fidelity Agreement, which included the grant of options of shares to the group of investors, in the event of an IPO.

Additionally, under the Second Amendment, Safe-T and the group of investors will work to complete a merger with a shell company. Furthermore, until the said merger, the group of investors provided funding to Safe-T of $1,924 thousands between June 2015, and June 2016. This amount, along with a $254 thousands loan, which was extended by a potential investor in December 2015, shall be named hereafter “Additional Loans” or “Financial Liabilities from Group of Investors”. Under the Second Amendment, it was resolved that some of the Additional Loans, amounting to approximately $1,056 thousands (hereafter – the “Issuance-Funding Loans” or “Financial Liabilities at Fair Value Through Profit or Loss”) shall have the same terms. If the merger process is successful, all of the said amounts were to be repaid to the investors in cash and would not be converted into Company’s share capital.

Under the agreement, upon completion of the Merger Transaction the company shall have a cash balance of approximately $4 million (16.06 million ILS) at the very least. The cash amounts comprising this balance shall be transferred to Safe-T by the group of investors and/or by anyone acting on its behalf until the date of completion of the merger. In consideration for those cash amounts, the group of investors and the public shall be issued shares, which constitute approximately 35% of the Company’s share capital on a fully diluted basis.

The group of investors also received options (hereafter – “Options to the Group of Investors”), which was to constitute approximately 8.8% of the issued and paid share capital of the Company on a fully diluted basis. These options will be exercisable over a period of 36 months. The exercise price of the options is determined by dividing the value of the Company ($13 million) by the number of shares comprising the share capital (on a fully diluted basis) after the completion of the Merger Transaction through a cash-less exercise mechanism.

Additionally, the Second Amendment stipulates that the existing shareholders of Safe-T shall receive additional shares of the Company (hereafter – the “Milestones Shares”), without consideration. Those shares constitute approximately 5.8% and approximately 6.6% of the share capital of the Company on a fully diluted basis. This is conditional upon the achievement of sales targets in the 12 and 18-month periods from date of completion of the merger, respectively. If Safe-T does not achieve its sales targets in the course of the said periods, but does meet them within the subsequent 12-month period, Safe-T’s existing shareholders shall receive further shares of the Company, which constitute approximately 5.12% of the share capital of the Company, on a fully diluted basis.

The Second Amendment also stipulates that beginning on the date on which the merger is finalized, the group of investors would provide ongoing support and advisory services to the Company on how to conduct itself in the capital market, and how to operate a public company, in exchange for the terms specified in the Second Amendment.

NOTE 14 – THE MERGER TRANSACTION (continued)**:**

On February 4, 2016, the Third Amendment to the Fidelity Agreement was signed (hereafter: "the Third Amendment"). According to the Third Amendment, upon completion of the merger, the Merged Company will have a cash balance of about $4 million (16.06 million ILS). The group of investors has also agreed that if the merger transaction is not completed by March 31, 2016, it will extend further loans of approximately $250 thousands.

It has been further agreed as part of the Third Amendment that immediately after the Merger Transaction is completed, the holdings of the group of investors and anyone acting on its behalf, along with public holdings in the Company, shall constitute approximately 33% of the fully diluted share capital, as compared to the 35% stake set in the Second Amendment. Furthermore, the Third Amendment stipulates that the options and Milestone Shares of the group of investors, which were granted as part of the Second Amendment, shall be cancelled be void.

On February 24, 2016, further loans of approximately $250 thousands were extended by the group of investors (hereafter: "Additional Loan II" which is part of the "Additional Loans").

b. Signing the Merger Transaction

In March 2016, the Merger Transaction was signed between Safe-T and the Company, which was completed on the Merger Date. Under this agreement, Safe-T's shareholders sold to the Company all of their holdings by way of share exchange. Safe-T's shareholders were to constitute 67% of the Company's share capital on a fully diluted basis prior to the change in share capital caused by the exercise of the warrants relating to capital raising as described below.

In order to complete the transaction, the Company agreed to raise at least 17 million ILS (approximately $4.5 million) net of the amounts agreed upon between the Parties, which, cumulatively, shall not exceed approximately 100 thousands ILS (hereafter: "the Threshold"). If the funds raised exceed or fall short of the Threshold, the rate of Company shares to be issued will be adjusted, such that for every 1 million ILS raised in excess of the Threshold or below the Threshold, the rate of shares issued to Safe-T's shareholders decrease or increase by 1.3% of the Company's share capital on a fully diluted basis (hereafter – the "Exchange Ratio Adjustment Mechanism"). If the amount raised was to be lower than 13 million ILS, the Board of Directors of Companies Merging Purpose Ltd. had the power to cancel the agreement.

Options

In addition, any outstanding options of Safe-T at the Merger Date converted into non-tradable options of the Company. Set forth below are the conversion terms (i.e. the Adjustment Mechanism) of the options:

1) Number of options – each holder of Safe-T's options received a number of Company options equal to the product of (a) the number of Safe-T options it held immediately before the completion of the transaction; and (b) the ratio between (1) the product of (i) the number of shares included in Safe-T's issued and paid share capital on a fully diluted basis (excluding the number of shares that will arise from the exercise of the warrants relating to capital raising, see below) immediately before the completion of the transaction, and (ii) the ratio between the number of shares included in the Company's issued and paid share capital on a fully diluted basis immediately after the completion of the transaction that will be held by Safe-T's shareholders (excluding the number of shares that will arise from the exercise of the warrants relating to capital raising, see below) and the number of shares included in

NOTE 14 – THE MERGER TRANSACTION (continued):

the Company's issued and paid share capital on a fully diluted basis that will not be held by Safe-T's shareholders (excluding the number of shares that will arise from the exercise of the warrants relating to capital raising, see below) as the numerator and (2) the number of Safe-T's shares immediately before the completion of the transaction on a fully diluted basis – as the denominator.

2) The exercise price of the options was calculated to be the product of (a) the exercise price of Safe-T's options granted and (b) the ratio between the number of Safe-T options outstanding at the Merger Date (as the numerator) and the number of Company options to be issued to the relevant holder as part of the transaction (as the denominator).

3) The options' exercise period did not change as a result of the conversion

Capital Raising

Capital was raised through two offerings:

a) Offer of rights: An issuance of up to 1,447,360 ordinary Company shares, which will be offered to the Company's existing shareholders for a minimum price of 1 ILS per share, and

b) Public Offering on the TASE – These units included (a) 3,179,700 ordinary Company shares, at a minimum price of 5 ILS per share, (b) 1,271,880 warrants (series 1) and (c) tradable Company warrants (series 2). Each unit included 100 ordinary Company shares, 40 (series 1) warrants, and 40 (series 2) warrants.

Set forth below are the exercise terms of the warrants:

a) Series 1 warrants: 1,271,880 warrants in consideration for an exercise price of 6.25 ILS per warrant. The exercise period of this series began when the public offering was made on June 9, 2016 and was due to end 8 months later on February 9, 2017. As to the extension of the exercise period, see note 13d.

b) Series 2 warrants: 1,271,880 options, in consideration for an exercise price of 7.5 ILS per warrant. The exercise period of this series began when the public offering was made on June 9, 2016 and was due to end 18 months later on December 9, 2017.

Loans

As part of the Merger, the group of investors loaned the Company approximately $1,808 thousands). Those loans were used to fund the Merger costs. The loan funds were repaid after the issuance of rights. In addition, during April to June 2016, the group of investors extended further loans of approximately $370 thousands in accordance with the provisions of the Third Amendment (hereafter – "Additional Loan III").

As part of the Merger, the Company repaid all of the following loans amounting to a total of approximately $2,178 thousands.

1) A total of approximately $1,056 thousands – in respect of the loans used to fund the offering.

2) A total of approximately $1,122 thousands – in respect of the Additional Loans ($752 thousands) and Additional Loan III ($370 thousands).

NOTE 14 – THE MERGER TRANSACTION (continued):

c. Issuance and finalization of the Merger:

1) On June 7, 2016, the Company completed the issuance of rights by allocating 1,445,827 shares at 1 ILS per share in consideration for $379 thousands. This issuance was not dependent on the funds the Company was planning to raise from the public and did not constitute a condition precedent for the finalization of the Merger.

2) On June 8, 2016 the Company made a public offering by way of issuing units of securities. As part of the issuance, offers were received to purchase 32,307 units of 3,230,700 shares, 1,292,280 Series A warrants and 1,292,280 Series B warrants, in consideration for $4,173 thousands. The issuance expenses relating to this public offering amounted to $101 thousands. This issuance was a condition precedent for the completion of the Merger.

3) The terms of the warrants, which were issued are as follows: each Series A warrant is exercisable into one share in consideration for 6.25 ILS until January 9, 2017. Each Series B warrant is exercisable into one share in consideration for 7.50 ILS until November 9, 2017.

All the conditions attached to the Merger Transaction were met on June 15, 2016 and the transaction was finalized as described in note 14. Close to that date, the Company repaid all the loans listed above amounting to a total of approximately $2,178 thousands.

d. Accounting treatment applied to the Merger Transaction

The Company has assessed whether the Merger meets the criteria of reverse acquisition in accordance with paragraph b15 of IFRS 3R, and concluded that although legally the Company is the entity, which acquired the shares, since Safe-T's shareholders gained control over the Company, Safe-T is the accounting acquirer and therefore the transaction was accounted for using the reverse acquisition method.

Since the transaction discussed here is a transaction for the acquisition of a shell company, the consideration received in the Merger was accounted for in accordance with IFRS 2, such that the difference between the fair value of the shell company as of the date of finalization of the Merger and the carrying value of the net acquired assets, constitutes a service provided to the accounting acquirer in exchange for its listing on the stock exchange. Therefore, the said difference was of approximately $1.5 million recognized as an expense in the Company's financial statements at the time of the finalization of the merger. For further details, see note 1i.

As described in note 14c, the public offering included the issuance of a unit of securities comprising 32,307 units of 100 shares and two series of warrants. The exercise price of the warrants (host contract) is denominated in New Israeli Shekels. Since the functional currency of the Company is the U.S. dollar, the warrants were accounted for as a derivative financial instrument. At of the date of issuance to the public, the warrants were accounted for as a financial liability in accordance with IAS 39 and were measured at fair value. Out of the total proceeds arising from the public offering, the derivative was allocated its fair value upon initial recognition and the remaining proceeds were allocated to equity. Subsequent to initial recognition, the liability in respect of the warrants is measured at fair value through profit or loss and changes in the liability are carried to finance expenses (income), net.

NOTE 14 – THE MERGER TRANSACTION (continued):

e. **Accounting treatment applied to loans used to fund the offering and the additional loans**:

1) Loans used to fund the offering and options to the group of investors in connection with the offering -

   a) Before the Merger Transaction was finalized, loans used to fund the offering were accounted for as financial liabilities in accordance with IAS 39 and were allocated to fair value through profit or loss at initial recognition. Even after the amendments to the loan agreements described above, made as part of the Second and Third Amendments, the total deferred initial loss in respect of loans used to fund the offering - amounting to $ 2,259 thousands – exceeds the value of the financial liabilities, and accordingly, the net carrying amount of those loans did not change in the course of the period.

   b) As of the date of completion of the Merger Transaction, the Company had observable market data available and accordingly a deferred initial loss of approximately $1,056 thousands was recognized within finance expenses (income), net. The amount of the said loss is equal to the amount of the cash payment that was expected to be paid to the lenders close to that date. Those loans were fully repaid after the finalization of the Merger Transaction.

2) Additional Loan I and options to the group of investors in connection with the offering -

   Further to the Second Amendment, the Additional Loan included a financial liability component in respect of the repayment of the loan and a component of options to the group of investors.

   The liability component relating to Safe-T's obligation to repay the Additional Loan was accounted for as a financial liability in accordance with IAS 39 and was recognized for the first time by subtracting the fair value of the liability in respect of the options to the group of investors - $ 193 thousands (which constitutes the proportionate share of the value of the options for the investment group as specified above) from the cash amount received. Subsequent to initial recognition, the liability in respect of the loan was measured at amortized cost using the effective interest method. The liability was classified as a current liability since the Company expected to settle the liability within less than 12 months after the end of the reporting period.

   Upon the cancellation of the options to investors as a result of the Third Amendment, Safe-T recognized finance income of approximately $ 193 thousands. After the finalization of the Merger, this loan was fully repaid as part of the repayment of all loans as described in note 14c.

3) Additional Loans II and III

   Prior to the finalization of the Merger Transaction and as described above, the loans were accounted for as a financial liability in accordance with IAS 39. The loans had been classified as a current liability, since the Company expected to settle the liability within less than 12 months after the end of the reporting period. These loans were fully repaid after the finalization of the Merger, as described above.

NOTE 14 – THE MERGER TRANSACTION (continued):

4) Loan from potential investor

Prior to the finalization of the Merger Transaction and as described above, the change in the terms of the loan, which was extended by the potential investor, did not have any effect on the statement of operations for the first quarter of 2016. Accordingly, the loan was accounted for as a financial liability in accordance with IAS 39. This liability was classified as a current liability since the Company expected to settle the liability within less than 12 months after the end of the reporting period. This loan was fully repaid after the finalization of the Merger, as described above.

f. The accounting treatment applied to options granted to Safe-T's employees and to warrants issued further to the public and private offering:

1) Options granted to Safe-T's employees

The Adjustment Mechanism did not result in any incremental fair value provided by the Company, and consequently no additional expenses were recorded in respect of the incremental fair value.

2) Series A warrants and the Series B warrants (hereafter – the "Warrants")

The Warrants constitute a derivative financial instrument. On the date of the public offering, the Warrants were accounted for as a financial liability in accordance with IAS 39 and measured at fair value as of offering date – at $14 thousands. On the date of the private offering, the Warrants were recognized at fair value of $350 thousands. Upon initial recognition, this amount was subtracted from the proceeds arising from the public offering and the issuance. Subsequent to initial recognition, the liability in respect of the Warrants is measured at fair value through profit or loss and is carried to net finance expenses (income), net.

NOTE 15 - REVENUES AND COST OF REVENUES:

	Year ended December 31	
	2017	**2016***
	U.S dollars in thousands	
a. Revenues(**):		
Revenues from licenses	486	453
Revenues from provision of maintenance and support services	519	341
Revenue from provision of other services	91	49
Total revenues	1,096	843

* The Company has initially applied IFRS 15 using the modified retrospective approach, the comparative information is not restated, See note 2r.
(**) See note 22 with respect to the disclosure of disaggregated revenue, which is identical to entity wide disclosures.

NOTE 15 - REVENUES AND COST OF REVENUES (continued):

b. Revenue recognized in relation to contract liabilities

The following table includes revenue expected to be recognized in the future related to performance obligations that are unsatisfied at the reporting date.

In U.S dollars in thousands	2018	2019 and thereafter	Total
contracts with customers	424	286	710

The Company recognized $151 thousands of revenue related to beginning of the period contract liability balances.

c. Disclosure of impact in year of adoption.

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on our consolidated income statement and balance sheet for the period ended December 31, 2017 was as follows:

1. Income statement

	Year ended December 31, 2017 as reported	Year ended December 31, 2017 according to previous policy	Effect of adjustment of IFRS 15
		U.S dollars in thousands	
Revenues	1,096	932	164
Net income	(5,313)	(5,477)	164
Basic and diluted loss per share	(0.29)	(0.30)	0.01

2. Balance sheet

	Balance at December 31, 2017 as reported	Balance at December 31, 2017 according to previous policy	Effect of adjustment of IFRS 15
		U.S dollars in thousands	
Trade receivable	644	209	435
Contract liability-short term	424	-	424
Contract liability-long term	286	-	286
Deferred revenue-short term	-	296	(296)
Deferred revenue-long term	-	112	(112)

NOTE 15 - REVENUES AND COST OF REVENUES (continued):

e. Cost of revenues:

	Year ended December 31	
	2017	**2016**
	U.S dollars in thousands	
Payroll, related expenses and share-based payment	254	216
Expenses relating to amortization of intangible assets	245	245
Cost relating to sales as an agent	47	10
Other	37	41
Total cost of revenues	583	512

NOTE 16 - RESEARCH AND DEVELOPMENT EXPENSES:

	Year ended December 31	
	2017	**2016**
	U.S dollars in thousands	
Payroll, related expenses and share-based payment	1,022	715
Subcontractors	377	249
Other	209	121
	1,608	1,085

NOTE 17 - SELLING AND MARKETING EXPENSES:

	Year ended December 31	
	2017	**2016**
	U.S. dollars in thousands	
Payroll, related expenses and share-based payment	2,140	1,466
Professional fees	823	741
Marketing	490	353
Other	598	332
	4,051	2,892

NOTE 18 - GENERAL AND ADMINISTRATIVE EXPENSES:

	Year ended December 31	
	2017	**2016**
	U.S. dollars in thousands	
Payroll, related expenses and share-based payment	1,237	1,284
Professional fees	749	731
Other	164	108
	2,150	2,123

NOTE 19 - FINANCE EXPENSES, NET:

Finance expenses:

	Year ended December 31	
	2017	2016
	U.S. dollars in thousands	
Bank fees	(15)	(12)
Issuance expenses	(242)	-
Financial liabilities at fair value through profit or loss	(718)	(1,842)
Total finance expenses	(975)	(1,854)

Financing income:

	Year ended December 31	
	2017	2016
	U.S. dollars in thousands	
Financial liabilities at fair value through profit or loss	2,697	205
Interest received from institutions	9	2
Exchange differences	253	75
Total financing income	2,959	282
Financing income (expenses) - net	1,984	(1,572)

NOTE 20 - LOSS PER SHARE:

a. Basic

Basic loss per share is calculated by dividing the loss attributable to the Company's owners by the weighted average number of ordinary shares in issue.

	Year ended December 31	
	2017	2016
	U.S. dollars in thousands	
Loss attributable to Company's owners	5,313	8,922
	-	-
	5,313	8,922
The weighted average of the number of ordinary shares in issue	18,433	11,527
Basic and diluted loss per share (dollar)	0.29	0.77

In the calculation of the loss per share, the Company used the weighted average number of Safe-T shares until the date of finalization of the Merger Transaction, multiplied by the exchange ratio determined for the transaction, as described in note 1i.

The number of shares used in the calculation as from the transaction date is the weighted average number of Company's shares.

NOTE 20 - LOSS PER SHARE (continued):

b. Diluted

The Company adjusts the loss attributable to holders of ordinary shares and the weighted average number of shares in issue, to reflect the effect of all potentially dilutive ordinary shares, as follows:

The Company adds to the weighted average number of shares in issue that was used to calculate the basic loss per share, the weighted average of the number of shares to be issued assuming that all shares that have a potentially dilutive effect would be converted into shares, and adjusts net loss attributable to holders of ordinary Company shares to exclude any profits or losses recorded during the year with respect to potentially dilutive shares.

The potential shares, as mentioned above, are only taken into account in cases where their effect is dilutive (reducing the earnings per share or increasing the loss per share).

When calculating the loss per share for 2017 and 2016, the Company did not take into account any dilutive instruments (the issuance expenses, the bridge loans, share options, options to employees and anti- dilution mechanism) since their effect, on a fully diluted basis, is anti-dilutive.

NOTE 21 – RELATED PARTIES TRANSACTIONS AND BALANCES:

"Related Parties" – As defined in IAS 24.

Key management personnel – included together with other entities in the said definition of "related parties" in IAS 24, include the members of the Board of Directors and senior executives.

a. Transactions with related parties:

1) Compensation to related parties:

	Year ended December 31	
	2017	2016
	U.S dollars in thousands	
Payroll and related expenses to interested parties employed by the Company	234	307
Management fees and consulting fees to interested parties hired by the Company	344	166
Compensation to directors who are not employed by the Company	57	36

2) Compensation to key management personnel:
The compensation paid to key management personnel for work services they provide to the Company is as follows:

	Year ended December 31	
	2017	2016
	U.S. dollars in thousands	
Payroll and other short-term benefits	1,073	703
Advisory fees	251	246
Management fees	222	166
Share-based payment	665	1,291
	2,211	2, 406

NOTE 21 – RELATED PARTIES - TRANSACTIONS AND BALANCES (continued):

b. Other transactions with related parties:

1) As part of the ongoing running of its business, the Company receives management services from the controlling shareholder and the Chairman of the Board of Directors in consideration for a monthly payment of $16 thousands. In the years 2017 and 2016 and, the total amounts in respect of these engagements amounted to $222 and $166 thousands, respectively. As of December 31, 2017 and 2016 the payable balance amounted to $15 thousands and $16 thousands, respectively.

2) During 2017 and 2016, the Company employed related parties of its shareholders. The total amounts relating to those commitments amounted to $ 121 and $114 thousands, respectively. As of December 31, 2017 and 2016, the payable balance amounted to $12 and $3 thousands, respectively.

3) On February 4, 2015, the Company's controlling shareholder and Chairman of the Board of Directors transferred to RSAccess an amount of approximately $62 thousands (242 thousands ILS), which was to be used to partly repay its debt to the Safe-T. The funds were transferred as a loan, which does not bear interest, with the aim that RSAccess will repay the loan as soon as possible out of revenue proceeds or out of investment proceeds it will receive from Safe-T. In September 2017, following the completion of the merger of RSAccess into Safe-T Data, the loan was fully repaid with no interest.

4) On June 20, 2016, the Company repaid all of Safe-T's loans amounting to $2,178 thousands (as described in note 1g2). On July 25, 2016, the Company and Safe-T signed a credit facility agreement, where under the Company will provide a credit facility of up to approximately 16.5 million ILS (approximately $4.3 million) for the purpose of withdrawing the abovementioned loans and further loans to be used in Safe-T's operating activities. The loans shall bear interest in accordance with the minimum rate set in the Income Tax Regulations and they are repayable in one installment or several installments within three years from the date of receipt of each such loan. The amount of Safe-T's loans repaid by the Company as described above was included in the maximum credit facility amount provided by the Company to Safe-T. On November 28, 2016, the parties signed a further credit facility agreement under similar terms. The maximum amount of this credit facility is 6 million ILS (approximately $1.6 million).
In the period from June 22, 2016 through December 31, 2017, Safe-T has withdrawn further amounts totaling approximately $ 2,748 thousands on account of the said credit facility, such that the total amount of the loans extended by the Company to Safe-T is approximately $4,931 thousands as of December 31, 2017 (including exchange differences).

5) Over the course of the 2017, the Company paid certain amounts to a subsidiary of a related party, who is a shareholder. The amounts were paid in respect of participation in revenues from services provided to a customer, including maintenance and support services. The total amount paid in the 12 months ended December 31, 2017 was $10 thousands.

NOTE 22 – ENTITY LEVEL DISCLOSURES

Management has determined the operating segment based on the information reviewed by the chief operating decision maker for the purposes of allocating resources and assessing performance. Accordingly, for management purposes, the Company has one operating segment, which is based on its revenues from licenses and services.

As of the date of these financial statements, the Company's activities are mainly focused on data security services and development and marketing of data security solutions. Most of the Company's customers are commercial Israeli and American companies. The remaining Company customers are European companies. Set forth below is a breakdown of the Company's revenues by geographic regions:

	Israel	USA	Other	Total
		U.S. dollars in thousands		
Company's revenues:				
For the year 2017	823	227	46	1,096
For the year 2016*	590	243	10	843

* The Company has initially applied IFRS 15 using the modified retrospective approach, the comparative information is not restated, See note 2r.

Company revenues by types of products:

	Year ended December 31			
	2017		2016*	
	U.S dollars in thousands	%	U.S dollars in thousands	%
Secure Data Exchange	745	67.9	661	78.4
Secure Data Access	228	20.8	133	15.8
Services & Other	123	11.3	49	5.8
	1,096	100	843	100

* The Company has initially applied IFRS 15 using the modified retrospective approach, the comparative information is not restated, See note 2r.

NOTE 22 – ENTITY LEVEL DISCLOSURES (continued):

Principal customers:

	Year ended December 31	
	2017	*2016
	U.S. dollars in thousands	
Revenue with principal customers	436	499
	Percentage of total sales	
Customer A	21%	23%
Customer B	3%	23%
Customer C	3%	14%
Customer D	13%	-

* The Company has initially applied IFRS 15 using the modified retrospective approach, the comparative information is not restated, See note 2r.

NOTE 23 - SUBSEQUENT EVENTS

a. Merging the current products into one solution

The Company has decided that as of January 1st 2018, the current products – SDE and SDA will be merged into one solution that will be include various sub-solutions to meet customer needs.

b. Document of understanding in the field of transport cyber security

On the date of approval of these financial statements, Safe-T announced that it has decided to withdraw from the non-binding document of understanding to found a joint company that will engage in cyber security in vehicles and trains. The withdraw was agreed mutually with the other parties that signed the document.

c. **Expiration of Series 2 options**

On February 9, 2018, Series 2 options expired. Out of a total of 2,884,950 options, 7,020 options (0.24%) were exercised for an exercise amount of $14.6 thousand. The rest of the options expired.

d. Intellectual property purchase

On March 22, 2018, The Company's board of directors approved an agreement between Safe-T and a cyber security company, to purchase its intellectual property which is aimed to recognize hostile attacks on online services through the identification of the users' anomalous behavior. Safe-T intends to use the intellectual property in order to strengthen the protection it already provides its customers from such hostile attacks.

The transaction completion is subject to the fulfilment of several conditions. Upon the successful completion of the transaction the consideration for it will be paid in cash.

CHAPTER D

ADDITIONAL INFORMATION
REGARDING THE CORPORATION

DECEMBER 31, 2017

Regulation 10a – Condensed Statements of Comprehensive Income for each of the quarters of 2017 (in thousands of dollars)

See section 3.2.3 to the Directors' report – 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 further 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 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 to the periodic and annual report of the Company for the year 2016, which was published by the Company on March 30, 2016, reference no. 2017-01-028717).

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[1]:

						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 dollars)**	**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	11,583	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	(46)	100%	100%	100%

[1] On September 6, 2017, a merger process was completed, at the end of which RSAccess was merged with and into Safe-T Data. For further details, see section 1.3.1 to Chapter A of this report.

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 31.12.2017 (in thousands of dollars) as per statement of financial position	Principal terms of the loans
Safe-T Group	Safe-T Data	11,791	• 17 loans the principal of which aggregates to approximately $ 11,534 thousand. • The loans are repayable in one installment or in several installments (as the discretion of the borrower), within 3 years from the date they were extended. • The loans bear 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:

On September 6, 2017, a merger process was completed, at the end of which RSAccess was merged with and into Safe-T Data in accordance with the provisions of the First Chapter of the Eighth Part of The Companies Law and was wound up without liquidation. For further details see section 1.3.1 to Chapter A of this report.

Except as described above, no changes have taken place during the reported period and through the date of publication of this report in connection with the Company's investments in subsidiaries and/or related companies.

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

Set forth below is a table listing the comprehensive income (loss) of subsidiaries and associated companies of the Company (the income (loss) data are the consolidated data of those companies, and the Company's revenues from these companies through the date of the statement of financial position for the year 2017 and for the period subsequent to balance sheet date (in thousands of dollars):

Name of company	Comprehensive income (loss)	Other comprehensive income (loss)	Management fees (Received through 31.12.17)		Interest and linkage differences (Received through 31.12.17)		Dividend (Received through 31.12.17)	
			2017	Period after balance sheet date	2017	Period after balance sheet date	2016	Period after balance sheet date
Safe-T Data[2]	(7,069)	-	-	-	-	-	-	-
Safe-T USA	2	-	-	-	-	-	-	-

On December 31, 2017 the Company charged Safe-T Data for interest at the total amount of $199 thousand in respect of the balance of loans extended to Safe-T Data in respect of 2017. The accrued interest that was charged in respect of the loans in 2016 and 2017 amounts to $257 thousand. As of the date of the publication of this report, the interest has not yet been paid.

On December 31, 2017 Safe-T Data charged the Company for management fees and other expenses in respect of 2017 at the total amount of $346 thousands.

[2] The data include the data of RSAccess through the date of its merger with and into Safe-T Data.

Regulation 20- Stock Exchange Trading

1. On April 7, 2017, 1,358,834 ordinary Company shares with no par value (hereafter: "ordinary shares") were listed on the stock exchange. For further details, see immediate report of April 7, 2017, reference no.: 2017-01-031945, which is incorporated by way of reference.

2. On May 22 and May 28 2017 441,483 ordinary shares were listed on the stock exchange. For further details, see immediate reports of May 22 and May 28, 2017 (reference no.: 2017-01-043003 and 2017-01-045127, which is incorporated by way of reference).

3. On June 21, 2017, 1,1779,286 ordinary shares were listed on the stock exchange. For further details, see immediate report of June 21, 2017, reference no.: 2017-01-051817, which is incorporated by way of reference.

4. On September 12, 2017, 100,000 Series 2 warrants of the Company were listed on the stock exchange. For further details, see immediate report of September 21, 2017, reference no.: 2017-01-092133, which is incorporated by way of reference.

Regulation 21 - Remuneration to Interested Parties and Senior Office Holders in 2017

a) On August 8, 2017, the General Meeting of the Company's shareholders approved, among other things, an update to the Company's remuneration policy (hereafter: "the remuneration policy"). The said approval was granted after the said update was approved by the Company's Compensation Committee and Board of Directors on July 3, 2017.

b) 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)[3]:

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	Manag e-ment fees	Consultan -cy fees	Commi -ssion	Other[4]	Total
Shahar Daniel	CEO and director	Full time	-	189	25	135	-	-	-	19	368
Derek Schwartz[5]	CEO of Safe-T USA	Full time	-	-	-	98	153	12	13	-	276
Eitan Bremler	VP Marketing and Product Management of Safe-T Data	Full time	-	152	-	94	-	-	-	16	261
Shai Avnit	CFO of the Company and Safe-T Data	Full time	-	153	16	80	-	-	-	11	260
Yossi Carmon	VP Sales Far East and Africa of Safe-T Data	Full time	-	132	-	75	-	-	31	18	256
Amir Mizhar	Chairman of the Board of Directors of the Company and director in Safe-T Data	Part time	24.96[6]	-	35	-	185	-	-	2	222
Yuval Illuz	Active director	Part time	-	7[7]	-	11	-	-	-	-	18

[3] 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 2017 amounted to $20 thousands.

[4] Including personal vehicle costs, vehicle maintenance, travel, payment for meals and phone usage costs.

5 Mr. Derek Schwartz stopped serving as the CEO of Safe-T USA on September 30, 2017. For further details, see section (2) below.

[6] As of December 31, 2017. For further details, see Regulation 21a below.

[7] Directors remuneration.

(1) Shahar Daniel – Mr. Shahar Daniel has been serving as an office holder in the Group since November 22, 2013. Through May 28, 2015, Mr. Daniel served as VP Operations of Safe-T Data. As from May 28, 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. 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 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, an immaterial part of which (as specified in the Company's remuneration policy) will be a discretionary bonus 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 accrual thereof in accordance with the Company's procedures) 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. On March 23 and March 29 2017, the Company's Remuneration Committee and the Company's Board of Directors, respectively, approved an entitlement of Mr. Daniel to a personal leased car at a monthly value of up to 3,500 ILS with the addition of VAT and other car-related expenses; the taxable value of the benefit will be grossed up; this benefit will replace the vehicle maintenance expenses mentioned above. On August 8, 2017, this benefit was approved by the General Meeting of the Company's shareholders. 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) and the summons to convene the General Meeting of the Company's shareholders that was published by the Company on August 2, 2017 (reference no. 2017-01-066517). 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 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 1.1.2 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) (hereafter – "the previous outline plan"). 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. 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, pursuant to the previous outline plan. This allocation was approved by the General Meeting of the Company's shareholders on August 8, 2017. The amount entered under the "share-based payment" column of the above table reflects the aggregate fair value in 2017 of all Company options that were allocated to Mr. Daniel.

(2) Derek Schwartz – Mr. Derek Schwartz was employed by the Group from September 15, 2015 and ended his work for the Company on January 31, 2018. 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 was 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 consultancy 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 consultancy fees payable to Mr. Schwartz as a consultant to $200,400, with effect from May 1, 2016. On August 31, 2016, the term of the consultancy has ended, and since then Mr. Schwartz was employed as a consultant of Safe-T USA under the same terms. Mr. Schwartz was 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 and upon finalization of the merger the said options were converted into 225,871 non-tradable options of the Company, which were exercisable into 225,871 ordinary Company shares (for further details regarding the merger transaction and its terms, see section 1.1.2 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, pursuant to the previous outline plan. The amount entered under the "share-based payment" column of the above table reflects the aggregate fair value in 2017 of all Company options that were allocated to Mr. Schwartz. On September 30, 2017, the consultancy agreement with Mr. Schwartz expired and he stopped serving as an office holder in the Company. Through December 31, 2018, Mr. Schwartz continued providing consultancy services to the Company in consideration for monthly consultancy fees of $4,000 and commissions for identifying clients to buy Company's products.

(3) 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. Pursuant to an employment agreement between the Company and Mr. Avnit, 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 in consideration for a monthly salary of 35,000 ILS on a full-time basis and to a proportionate share of this salary if his scope of employment shall be less than full-time; (Mr. Avnit is also entitled to reimbursement of vehicle maintenance expenses in the gross amount of 2,500 ILS per month). Commencing August 1, Mr. Avnit's scope of work increased to 90% of a full-time position and as from June 2017, Mr. Avnit is employed as a full-time employee. 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 and which will be approved in advance (subject to providing the required evidence), mobile phone, managers' insurance policy and/or pension fund, training fund, recreation pay, payment for meals in accordance with the Safe-T Data's procedures, 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 1.1.2 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 additional 115,728 non-tradable Company options, which are exercisable into 115,728 ordinary Company shares under the provisions of a previous outline plan. Also, on March 23 and March 29, 2017, the Company's Remuneration Committee and Board of Directors (respectively) approved the allocation, to Mr. Avnit, of additional 66,432 non-tradable options of the Company, that are exercisable into 66,432 Company shares pursuant to the provisions of the previous outline plan. On November 24 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 aggregate fair value in 2017 of all Company options that were allocated to Mr. Avnit. In addition, Mr. Avnit may be entitled to receive an annual bonus, most of which 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, all in accordance with the provisions of the Company's remuneration policy, and subject to the annual bonus ceiling set under this policy.

(4) Eitan Bremler - Mr. Eitan Bremler has been serving as an office holder of Safe-T Data since October 16, 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. As from May 1, 2016, Mr. Bremler is entitled to a gross monthly salary of 35,000 ILS (on a full-time basis). Mr. Bremler is also entitled to 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. 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. Bremler 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 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 (should they be approved). Mr. Bremler may also be entitled to a discretionary bonus, all in accordance with the provisions of the Company's remuneration policy, and subject to the annual bonus ceiling set under this policy. On March 23 and March 29, 2017, the Company's Remuneration Committee and the Company's Board of Directors, respectively, approved the increase of the amount reimbursed to Mr. Bremler in respect of vehicle maintenance expenses to 4,100 ILS per month.

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 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 1.1.2 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 additional 115,728 non-tradable Company options, which are exercisable into 115,728 ordinary Company shares under the provisions of the previous outline plan. Also, on March 23 and March 29, 2017, the Company's Remuneration Committee and Board of Directors (respectively) approved the allocation, to Mr. Bremler, of additional 66,432 non-tradable options of the Company, that are exercisable into 66,432 Company shares pursuant to the provisions of the previous outline plan. The amount entered under the "share-based payment" column of the above table reflects the aggregate fair value of all Company's options in 2017 that were allocated to Mr. Bremler.

(5) Yossi Carmon – Mr. Carmon has been serving as an office holder of Safe-T Data since July 1, 2014. 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. 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), all in accordance with the provisions of the Company's remuneration policy and subject to the annual bonus ceiling set under this policy . 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. 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 and upon finalization thereof the said options 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 1.1.2 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 additional 39,104 non-tradable Company options, which are exercisable into 39,104 ordinary Company shares under the provisions of the previous outline plan. 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 additional 100,000 non-tradable options of the Company that are exercisable into 100,000 Company shares. The options were allocated pursuant to the provisions of the new outline plan. The amount entered under the "share-based payment" column of the above table reflects the aggregate fair value in 2017 of Company options that were allocated to Mr. Carmon.

c) 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 May 28, 2015. As from the date of finalization of the merger, Mr. Mizhar has been serving as an active Chairman of the Board of Directors of the Company. 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. Pursuant to the management agreement, 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 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, an immaterial part of which (as specified in the Company's remuneration policy) will be a discretionary bonus 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 the Company'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). 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. Pursuant to the services agreement, Mr. Illuz will is entitled to an annual remuneration and a participation remuneration for his service as an active director in the Company 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, as described below that will be paid once a year, subject to the approval of the Remuneration Committee and the Company’s Board of Directors: (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 2017, the criteria for payment of such bonuses were not met. 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, 2016, the Company allocated to Mr. Illuz 28,240 non-tradable options, which are exercisable into 28,240 ordinary Company shares, under the provisions of the previous outline plan. The amount entered under the “share-based payment” column of the above table reflects the fair value in 2017 of all Company 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 2017, this remuneration of directors amounted to approximately $ 51 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 total equity investment[8] that will be carried out (if it is carried out) in the Company by investors, who will be identified by Mr. Jeda, within 12 months from the date of signing the agreement. As of the date of publication of this report, no obligation has arisen to the Company in respect of this 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 June 15, 2015, a merger transaction was finalized 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 further details see section 1.1.2 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, in 2017 the controlling shareholder of the Company for purposes of the Fifth Chapter of the Sixth Part of the Companies Law is Mr. Amir Mizhar, who held more than 25% of the voting rights of the Company. As of the date of publication of this report, Mr. Mizhar holds 5,115,923[9] ordinary shares, which constitute approximately 25.149% of the Company's issued and paid share capital and approximately 16.762% of the Company's issued and paid share capital on a fully diluted basis.

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:**

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 transaction, see section 1.1.2 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.

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

[9] Including 75,000 ordinary Company shares which are dormant shares (pursuant to the provisions of Section 340 to the Companies Law), which do not confer rights in equity and voting rights.

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 was employed by Safe-T Data as a software developer for a period of three years, which commenced on the date of finalization of the merger transaction (June 15, 2016). On October 31, 2017 Mr. Hofesh ended his employment by Safe-T Data. In respect of his employment, Mr. Hofesh was entitled to a monthly salary of 24,000 ILS. As from February 1, 2017, after the finalization of capital raising by the Company in December 2016, Mr. Hofesh was entitled to a monthly salary of NIS 28,000. Under the terms of his employment, Mr. Hofesh was 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 to 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 ratified 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. Mr. Mizhar's personal interest in this merger stems from his being a creditor of RSAccess. On September 6, 2017, the merger was approved by the Registrar of Companies and RSAccess was wound up. For further details, see section 1.3.1 to Chapter A of this report.

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 holdings of Interested Parties and Senior Office Holders of the Company in Securities of the Company as of the date of publication of this report, see the Company's immediate report of March 25, 2018 (reference no: 2018-01-023226), which is incorporated by way of reference.

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

For details regarding the Company's authorized and issued share capital, and its convertible securities as of the date of publication of this report, see the Company's immediate report of February 12, 2018 (reference no: 2018-01-011649), which is incorporated by way of reference.

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 the publication of this report, the Company does not have any independent authorized signatories.

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

No changes were made in the wording of the Company's articles of association in the reported period and through the date of publication of this report. 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. On March 26 2017, the Company's Board of Directors approved a private offering, as part of which 1,963,834 ordinary shares and 2,077,150 non-tradable warrants of the Company were offered to 30 offerees. For further details, see section 3.2.3.2 to Chapter A of this report.

2. On April 24 and April 30 2017, the Company's Board of Directors approved a private offering, as part of which 441,483 ordinary shares and 463,557 non-tradable warrants of the Company were offered to 4 offerees. For further details, see section 3.2.3.3 to Chapter A of this report.

3. On May 21 2017, the Company's Board of Directors approved a private offering, as part of which 1,174,286 ordinary shares and 1,258,785 non-tradable warrants of the Company were offered to 4 offerees. For further details, see section 3.2.3.4 to Chapter A of this report.

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

1. On January 30, 2017, special General Meeting of the Company's shareholders approved the following resolution: Approval of an arrangement in accordance with the provisions of Section 350 to the Companies Law, for the extension of the exercise period of the Company's Series 1 warrants and the reduction of their exercise price.

   For further details regarding the subject on the agenda of the meeting and the results of that meeting, see the summons to convene the meeting of January 16, 2017 (reference no.: 2017-01-007005) and section 3.2.4.1 to Chapter A of this report.

2. On February 2, 2017, special General Meeting of the Company's shareholders approved the following resolutions:

   (a) Entering into an agreement with Mr. Eylon Jeda – a Company director - for the recruitment of investors to the Company; (b) merger of RSAccess with and into Safe-T Data.

   For further details regarding these subjects on the agenda of that meeting and the results of that meeting, see the summons to convene the meeting of December 29, 2016 (reference no.: 2016-01-093669) and section 1.3.1 to Chapter A of this report.

3. On August 8, 2017, special General Meeting of the Company's shareholders approved the following resolutions:

   (a) Updating the service and employment terms of Mr. Shahar Daniel, the Company's CEO; (b) Amendment of the Company's remuneration policy.

   For further details regarding these subjects and other subjects on the agenda of that meeting, see the summons to convene the meeting of August 2, 2017 (reference no.: 2017-01-066517).

4. On November 16 2017, special General Meeting of the Company's shareholders approved the following resolution: Approval of an arrangement in accordance with the provisions of Section 350 to the Companies Law, for the extension of the exercise period of the Company's Series 2 warrants and the reduction of their exercise price.

   For further details regarding the subject on the agenda of the meeting and the results of that meeting, see the summons to convene the meeting of November 2, 2017 (reference no.: 2017-01-103785) and section 3.2.4.2 to Chapter A of this report.

Regulation 29a – Company's Resolutions

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

On May 8, 2016, the General Meeting of the Company's shareholders approved, among other things, 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 (hereafter: "the meeting".

The meeting also approved the issuance of exemption letters and indemnification letters to directors and office holders that will serve in the Company from time to time, including office holders that may be considered as "controlling shareholders" as defined in Section 268 to the Companies Law. Under the terms of the letters of exemption and indemnification, the maximum indemnity to all office holders shall not exceed 25% of the Company's shareholders' equity in accordance with the last consolidated financial statements of the Company as of the date on which the indemnity is actually paid.

For further details regarding the said insurance policy and the letters of exemption and indemnification, see the summons to convene the General Meeting of the Company's shareholders of May 3, 2016 (reference no: 2016-01-058504), which is incorporated by way of reference.

On July 3, 2017, the Company's Remuneration Committee and the Company's Board of Directors approved 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 until June 26, 2018 (hereafter: "the insurance policy"), subject to approval of the remuneration policy by the General Meeting of the Company's shareholders. Under the terms of the insurance policy, the liability ceiling is $ 10 million per claim and per period, including reasonable legal costs; the excess applicable under this insurance policy is up to $ 15 thousand in respect of a regular claim (as defined in the insurance policy), up to $25 thousand for a regular claim filed in the USA, up to $35 thousand for a claim relating to securities (except for claims filed in the USA) and up to $200 thousand for claims relating to securities that were filed in the USA.

On August 8, 2017, the General Meeting of the Company's shareholders approved, among other things, the remuneration policy. For further details, see the summons to convene the general meeting, of August 2, 2017, reference no. 2017-01-066517, which is incorporated by way of reference.

Shahar Daniel	Amir Mizhar
CEO and Director	Chairman of the Board of Directors

March 22, 2018

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 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 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	Relativ anothe intere party i Compa
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., Africa Israel Residences Ltd., Foresight Automotive Holdings Ltd.	Israeli	No
Yehuda Halfon	034879791	27.2.1978	799 HaShaked St. Kohav Michael	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.	Israel	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	Relati anothe intere party i Compa
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. 2002-2017 - finance management services to companies from the software, electronics, biotech and medical devices industries; 2004-2015 – director and office holder in Creative Vision Ltd.; 2013-2016 – 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 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 Far East 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 Systemsץ
Eitan Bremler	017639865	23.11.1977	17.10.2013	VP 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.
John Parmley	Passport no. 457232526	09.04.1959	01.01.2018	CEO of Safe-T USA	No	BA in Geology from the University of Wisconsin Oshkosh 2012-2017 – Area Vice President at Tufin Technologies

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
Julie Shafiki	304795446	19.02.1966	06.08.2017	VP Marketing at Safe-T Data	No	BA in Sociology from Colgate University New York MBA in Business Administration, Tel Aviv University, Recanati 2017 – VP Marketing Voyager Labs 2012-2016 – VP Marketing Tufin Technologies
Noam Markfeld,	022156749	21.10.1965	04.06.2017	VP Sales Middle East at Safe-T Data	No	BA in Economics and Business Administration from Bar Ilan University 03/14-05/17 – manager of sales and business partners, Cyber Ark Software Ltd. 06/06-03/14 – Sales Director, Securenet Ltd.
Micha Bar	039539093	14.02.1984	01.09.2017	VP Technological Sales at Safe-T Data	No	MCSE – College of Management Academic Studies CCNA/CCSE/CCSA/F5 - College of Management Academic Studies 2015-2016 – Senior Presale Consultant – Symantec 2012-2015 – Senior Solution Architect - HP
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 2017 (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 22, 2018	
Date	**Shahar Daniel, CEO and Director**

(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 2017 (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 22, 2018	
Date	**Shai Avnit, CFO**