

**STRAUSS GROUP LTD.**  
**(The “Company”)**

November 21, 2024

Messrs.  
Israel Securities Authority  
Via MAGNA

Messrs.  
Tel Aviv Stock Exchange Ltd.  
Via MAGNA

Dear Sir/Madam:

Re: **Immediate Report Regarding the Findings of the Independent Claims Committee**

Further to the Immediate Reports published by the Company concerning a number of legal proceedings, including a motion for the discovery of documents under section 198A of the Companies Law, 1999 prior to a motion to approve a derivative action<sup>1</sup>, and further to the Immediate Report of the Company of August 3, 2022 (reference no. 2022-01-098284) regarding the resolution of the Board of Directors of the Company to establish an independent claims committee (the “**Committee**”) which would examine the claims and advise the Company in accordance with the deed of appointment granted to the Committee, the Company respectfully reports as follows:

1. After holding discussions concerning the discovery of a number of samples containing salmonella during routine tests in the chocolate factory in Nof Hagalil and the product recall and actions taken by the Company as a result of the foregoing (the “**Event**”), and further to a series of legal proceedings filed in connection with the Event (the “**Legal Proceeding**”), on August 2, 2022 the Board of Directors of the Company adopted a resolution determining that the circumstances warrant an investigation into the conduct of the Company and its officers. Accordingly, an independent and impartial claims committee was established to thoroughly examine the Event, evaluate possible courses of action available to the Company, and present its recommendations to the Board of Directors in accordance with its statutory authority and governance procedures.
2. In accordance with the deed of appointment and the powers vested in the Committee, the Committee examined the work procedures and processes, administrative procedures and processes, control processes and the corporate governance of the Company, the subsidiaries and business units, all of the foregoing in connection with the Event. Among other things, the Committee examined whether said processes and procedures were in alignment with the provisions of the law, the procedures of the Ministry of Health and relevant standards. The Committee also evaluated the actions of the Company’s officers and professional employees in connection with the Event, and specifically, whether the Company has proper cause of action and whether it has a proper factual evidentiary foundation to justify filing civil claims against current or former officers or professional employees, or against third parties. Furthermore, the Committee considered the chances of the claim’s success, whether filing and conducting the claim are aligned with the Company’s interests, and whether such action is appropriate given the circumstances.

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<sup>1</sup>For the details of the Immediate Reports, see the reports of April 27, 2022 (reference no. 2022-01-051385), April 28, 2022 (reference no. 2022-01-052126), May 1, 2022 (reference no. 2022-01-052906), May 1, 2024 (reference no. 2022-01-053158), May 2, 2022 (reference no. 2022-01-053965), May 8, 2022 (reference no. 2022-01-054775), May 9, 2022 (reference no. 2022-01-055789), June 20, 2022 (reference no. 2022-01-062493), June 30, 2022 (reference no. 2022-01-081364).

3. The members of the Committee are **Judge (Ret.) Hila Gerstel** – Committee Chair; **Prof. Sharon Hannes**; and **Mr. Roni Kobrinsky**. Upon their appointment, the Committee members declared that they have no conflicts of interest in connection with the Event under examination by the Committee.
4. For purposes of its work, the Committee appointed the law firm of Erdinast, Ben Nathan, Toledano as outside counsel specializing in corporate law and civil-commercial litigation, which advised the Committee on issues within its areas of expertise, and engaged professional experts to provide guidance on relevant matters.
5. The Committee held 47 meetings, in which it interviewed professional staff and experts, and also met with the representatives of the various parties.
6. The Committee reached the following conclusions, *inter alia*:
  - a. In general, administrative processes in the Company and its procedures prior to the Event were appropriate, and the Company's procedures did not deviate from the provisions of applicable law or from the reasonable professional standard in the circumstances at hand;
  - b. The Committee was not presented with even a trace of evidence of the breach of fiduciary duty by any of the members of the Board of Directors, officers or professional employees in the Company, and the Board of Directors had satisfied its oversight obligations.
  - c. Under the circumstances, it is difficult to assert that the Company has cause of action against any of its officers, since there is no evidence of any flaw in their conduct that amounts to carelessness, and also since officers are granted exemption from liability for negligence, as well as due to the difficulty in proving causation between the acts or omissions of the officers and the damage.
  - d. Despite several flaws in the conduct of professional employees in the manufacturing site's management and in Quality HQ management at Strauss Israel with respect to the Event, which mainly concern a lack of meticulousness and flaws in control and oversight over the full implementation of plant procedures applying to food quality and safety, it is hard to prove causation between the acts or omissions of the professional employees in the Company and the damage, in a manner that raises difficulties with respect to the chances of a claim against any of the professional staff. In light of this, the Committee was of the opinion that the chances of a claim against the abovementioned professionals are not high, and furthermore, filing a claim against them is unwarranted considering the Company's interests.
7. The Committee saw fit to negotiate with the goal of reaching a settlement that would bring the Legal Proceeding to a close, with the Company receiving compensation (hereinafter: the "**Negotiations**").
8. Following the Negotiations, which, in the Committee's opinion, were exhaustive, the insurers agreed to pay the Company NIS 27 million. The Committee recommended that attorney's fees and remuneration would be added to the said amount at a total rate of 13% for the petitioner and the petitioner's attorneys in the motion for discovery, at an amount of NIS 3.51 million plus VAT.
9. The Committee was of the opinion that this is a fair and fitting sum, which correctly balances all causes and arguments, risks and exposure of all parties involved<sup>2</sup>, and accurately factors in the Company's interests.
10. The petitioner's attorneys in the motion for discovery agreed to the settlement agreement reached with the insurers (the "**Settlement Agreement**").

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<sup>2</sup>For information on the scope of the Event's effect on the Company's profits, see section 4 in the Board of Directors' Report in the Company's 2022 Periodic Report (reference no. 2023-01-026566).

11. Accordingly, in its report, the Committee recommended the adoption of the Settlement Agreement, subject to its approval by the District Court within the framework of the discovery proceeding pending before it.
12. The Board of Directors of the Company discussed the Committee's reports and recommendations at a number of meetings, and at the meetings held on November 4, 2024 and November 20, 2024, the Board decided to adopt the Committee's findings, conclusions and recommendations in their entirety, instructing Company management and legal counsel to formulate and implement the Settlement Agreement accordingly.
13. It is the Company's intention, within the coming days, to submit to the District Court adjudicating the proceeding a notice regarding the adoption of the Committee's recommendations, and of its intention to reach a detailed settlement with the relevant parties with the aim of enabling a motion to approve the Settlement Agreement to be filed with the court.
14. A summary of the Committee's findings is attached to this Immediate Report.

**Yours sincerely,**

**Strauss Group Ltd.**

Date signed: Thursday, November 21, 2024.

Signatories:

Shai Babad, Chief Executive Officer

Yael Nevo, Executive Vice President, General Counsel & Corporate Secretary

## **ANNEX TO THE IMMEDIATE REPORT**

### **Introduction and Main Conclusions of the Committee**

1. During annual tests for detecting Salmonella bacteria conducted at the company's chocolate factory in Nof HaGalil in April 2022, a suspicion arose, which was later confirmed, of the presence of Salmonella. As a result, the company initially decided to recall all chocolate products manufactured at the factory from February 20, 2022, onwards. Subsequently, on April 27, 2022, the voluntary recall was expanded to include all factory products. The company also announced the immediate cessation of chocolate production at the factory, blocked the distribution of products manufactured close to the date of the positive results, and took extensive actions to identify the source and extent of the problem.
2. On April 28, 2022, the company announced the decision of the National Food Service at the Ministry of Health to immediately suspend the "good manufacturing practice" approval for the factory. The suspension was set for three months or until the deficiencies were corrected.
3. Following the Salmonella incident and the aforementioned announcements, the factory was shut down for about four months, until August, when production at the factory resumed gradually for inventory. In November, the company began gradually marketing the chocolate products manufactured at the factory to the market.
4. After the recall announcement and following the incident, several legal proceedings were initiated against the company, including a request for document disclosure under Section 198A of the Companies Law, 1999, before submitting a request for approval of a derivative lawsuit.
5. In light of the above, on August 2, 2022, the company's board of directors decided that there was a need to examine the company's conduct and that of its officers in connection with the incident, through the establishment of an independent claims committee, in accordance with the terms of reference, as detailed below.
6. The board appointed as members of the committee retired Judge Hila Gerstel (Chair of the Committee), Professor Sharon Hannes, and Mr. Roni Kobrovsky.
7. The committee appointed external legal advisors from the law firm Erdinast, Ben Nathan, Toledano & Co., who specialize in corporate law and civil-commercial litigation, to accompany the committee in its ongoing work and provide advice on matters within their expertise. Additionally, the committee utilized the services of professional experts who advised on relevant issues.
8. In accordance with the terms of reference and the powers granted to it, the committee collected all relevant information regarding the incident to establish the relevant factual basis. The committee examined the circumstances that led to the occurrence of the incident and the company's actions following its occurrence, by collecting documents, meeting with experts, touring the factory, and interviewing officials, directors, and other officers. The committee held about 47 meetings, during which it interviewed officials and experts and met with representatives of the various parties.

9. Based on the information received, the committee examined and assessed the strength of the possible claims, both those raised in the legal proceedings and additional possible claims that emerged from the information presented to it, the relevant regulations and standards, and the compliance of the company's procedures and processes with these regulations, as well as the likelihood of success of the possible claims and the company's interest in pursuing them.
10. After reviewing the documents and information presented to it, and after examining the interviews and meetings and hearing the arguments of the various parties involved, the committee reached the following main conclusions:
  - Regarding the company's operational and managerial procedures and processes before the incident, the committee found that, in general, the managerial processes and procedures were proper, and the company's procedures did not deviate from the legal requirements or the reasonable professional standard under the circumstances.
  - The committee found that, under the circumstances presented to it, it is difficult to determine that the company has a cause of action against any of its officers, both because no defect, by act or omission, can be pointed out in the conduct of the officers that would establish a cause of action under the law, and because the officers are exempt from liability under certain conditions. Therefore, the committee believes that the chances of a lawsuit against the officers are low under the circumstances.
  - The committee found that there were several defects in the conduct of officials in the factory management and the quality headquarters at Strauss Israel before the incident, mainly regarding non-compliance and deficiencies in monitoring and supervision of the full implementation of the factory's procedures related to food quality and safety. However, the committee found it difficult to prove a causal link between the actions or omissions of the officials and the damage, raising difficulties regarding the chances of a lawsuit against any of the mentioned officials. Therefore, the committee believes that although there are some chances of a lawsuit against the mentioned officials, these chances are not high, and additionally, there is no place to file a lawsuit against them, considering the company's best interests.
11. After examining all the data, weighing the chances and risks associated with legal proceedings against any of the officers or officials, and considering the defects identified as detailed below, the committee found it appropriate to negotiate to reach a settlement that would end the legal proceedings while compensating the company.
12. After exhaustive negotiations, the insurers agreed to pay the company a sum of 27 million NIS. This willingness was achieved after considering the committee's arguments and to prevent the continuation of the legal proceedings, which entail damage to both the company and the officers and other officials. The committee recommended that the aforementioned amount be supplemented by a fee and compensation totaling 13% to the applicant and the applicant's attorneys in the disclosure request, amounting to 3.51 million NIS plus VAT.
13. The applicant's attorneys in the disclosure request agreed to the settlement reached with the insurers.

14. The committee believes that it has exhausted this negotiation and that the amount is fair and reasonable, balancing all the claims and arguments, risks, and exposures of all parties involved, and correctly weighing the company's best interests and its interests. Therefore, the committee recommends in this report to adopt the settlement reached with the insurers and the applicant's attorneys in the disclosure request, subject to the approval of the district court in the pending disclosure proceeding before it.

**In this section, under the title "Summary of the Committee's Report," a summary of the committee's findings will be presented, as detailed above:**

1. **Procedures and Management Processes in the Company Before the Event:** The committee found that, in general, the company's management processes and procedures were proper, and the company's procedures did not deviate from any legal requirements or the reasonable professional standard under the circumstances.
2. **The committee identified several flaws related to the inspection procedures practiced at the plant prior to the event:**
  - The committee found that there is doubt whether the plant's conduct regarding the type of indicative tests used (coliform tests) aligns with the best practice for this matter. It might have been appropriate to conduct more in-depth research and examination on this point, both domestically and internationally, to ensure the effectiveness of coliform testing as an indicator for the presence of Salmonella and to find a substitute in advance, as the global stance formed that these tests are not effective enough and should be replaced with other tests (such as the EB test). It is clarified that the company is required to meet the reasonableness test and not the excellence test.
  - Regarding the suitability of the plant's sampling plan to the best practice for detecting Salmonella, the committee believed there was a gap compared to the accepted sampling plans for detecting Salmonella, and it might have been appropriate to conduct Salmonella tests more frequently for final products. However, the committee believed it could not be determined that the plant's sampling plan did not comply with legal requirements or deviated from the reasonable professional standard under the circumstances.
3. **The issue of business license and promotion of planning and construction procedures in the company:** The committee found that this issue had no impact on the recall event and its consequences.
4. **The question of the existence of a cause of action against any of the company's officeholders or employees:** The committee found that no evidence or initial indication of a breach of fiduciary duty by any board members, officeholders, or employees was presented. The committee also found it appropriate to commend the mobilization of the company's employees and managers after the event and their dedication in acting for the company's benefit to deal with the event.
5. **The conduct of the board of directors before the event and examining compliance with their obligations:** The committee found that the company had an adequate system for complying

with the relevant legal requirements for the event, as required by law. The committee also found that no "red flags" were raised before the board of directors that were ignored by the board members in connection with the event. The committee also did not find that the board of directors had an increased duty of supervision in this matter.

6. **Regarding the process of determining and updating the risk assessment for pathogenic contamination in chocolate**, the committee believed that it was appropriate for the company's board of directors, or at least the company's management, to hold a discussion, at a frequency they deem reasonable under the circumstances, and at least periodically, on the perception of the risk of microbiological contamination and the preparation for it. Such a discussion should have been held with the assistance of the quality headquarters at Strauss Israel and with the participation of expert consultants, to present information on what is happening in the field in Israel and around the world, to periodically challenge the existing risk perception in the company, in its various factories (or in a specific factory), and to examine the need to change or adapt it to the accepted standard in the industry worldwide, as it has changed. This should be done proactively and not due to a specific event. However, the committee believes that even if this was not done, it does not constitute a failure or negligence in the conduct of the board members (or other office holders), who made a reasonable decision to leave the management of specific risks for each factory in the hands of the professional levels of the factory, under the supervision of the quality headquarters at Strauss Israel.
7. **Therefore, the committee found that the board of directors fulfilled its supervisory duties.**
8. Regarding the conduct of the office holders, the committee believed that under the circumstances, it is difficult to determine that the company has a cause of action against any of the office holders in the company, both because it is not possible to point to a defect in the conduct of the office holders that amounts to negligence, and because of the existence of an exemption for office holders from liability for negligence, and because of the difficulty in proving a causal link between the actions or omissions of the office holders and the damage.

The committee noted that regarding the inquiry conducted in the company after the event, there was a defect in the decisions made regarding the handling of the videos found during the inquiry, but the committee believed that it could not be determined that this defect amounts to negligence or a breach of duty of care, which would establish any cause of action for the company.

Regarding the office holders, in the management of the factory and the management of the quality headquarters at Strauss Israel, the committee believed that there were several defects in their conduct in connection with the event:

1. The committee believes that there is a flaw in the fact that there was no proactive discussion on the perception of the risk of pathogenic contamination in chocolate among the professional levels in the factory (some of whom are included in the office holders). They should have actively and informedly examined whether there is a need to change the risk assessment from time to time. Such an examination should have been done with the assistance of the quality headquarters at Strauss Israel and in consultation with a dedicated expert in the field of chocolate contamination. The fact that such a proactive discussion did not take place constitutes a failure.

## Unofficial Translation from Hebrew

2. The committee believes that there was a failure in the way the office holders handled complaints because they did not ensure that these complaints and the deviations identified as a result were handled according to the factory's procedures, and because the complaints received from the company were not brought to the attention of the CEO of the confectionery division, who is the person at Strauss Israel responsible for the factory's operations.
3. The committee believes that the conduct of the office holders in the management of the factory and the management of the quality headquarters at Strauss Israel regarding compliance with procedures in the areas of quality and food safety deviated from a reasonable professional standard of care.

The committee found that there was no strict adherence to the full implementation of the factory's procedures regarding quality and food safety: lack of control and supervision in the factory after performing the required tests, their results, and follow-up; lack of full adherence to the factory's procedures regarding hygiene and food quality, including the absence of effective control systems that ensure, among other things, hand washing before entering the production areas in the factory; inadequate handling of the pigeon intrusion event in the sense that the possible consequences of the pigeon intrusion into the factory in terms of microbial contamination were not addressed; poor implementation of the low-risk perception on the determination of the "change procedure" in the factory.

The committee found that there was insufficient adherence to the implementation of the procedures and supervision over them in the factory, and an organizational culture developed that did not attribute the appropriate weight to the risks of microbial contamination and hygiene in the daily conduct. The committee believes that the importance of adhering to hygiene in general, and hand washing in particular, in a food factory, is critical and goes to the heart of the matter. Therefore, the factory management and the management of the quality headquarters at Strauss Israel should have devoted more attention and resources to supervising and controlling the implementation of the procedures related to this in practice. This, even under the assumption that the risk of pathogenic contamination in chocolate is low, since the potential damage in the event of the risk materializing is particularly great.

However, the committee found that there is significant difficulty in proving a causal link between the actions or omissions of the office holders in the company and the damage, in a way that raises difficulties regarding proving the existence of a cause of action and the chances of success of such a claim.

As stated in section 10.7.2 "Committee's conclusions regarding the claimable damage" above, the total maximum claimable damage caused to the company as a result of the event is estimated by the committee at 293 million NIS, in addition to amounts that will be paid, if and to the extent that they will be paid, according to the company's demand, and in addition to the amounts that the company will be required to pay as part of the process of approving a class action, if accepted. However, the committee believes that it cannot be ruled out that it will be determined that the claimable damages are lower, given that some of the damages were influenced by business decisions made by the company's management and board of directors after the event.

The committee also found that there is doubt whether conducting a lawsuit in a legal proceeding against any of the office holders or against office holders in the company would be in the company's best interest. This, for several main reasons:

Unofficial Translation from Hebrew

1. As far as non-office holders are concerned, according to the case law, liability should only be imposed in cases of gross negligence. Therefore, even if it is found that the office holders were negligent in their duties, the court will need to determine that it is a case of gross negligence to hold them responsible for the damage caused, and in the committee's opinion, on the face of it, this is not the case.
2. Conducting such a lawsuit would involve significant costs, as the company would need to present extensive factual infrastructure, including presenting professional opinions, and invest considerable resources to prove its claim.
3. The company underwent a significant and professional process of investigation and improvement after the event, and therefore there is no justification for conducting a derivative lawsuit to correct the failures.

The company's reputation was not significantly damaged by the event, but there is a concern that managing the lawsuit at this time will "bring the recall event back into the headlines" and harm the company's business and reputation.

In parallel with the disclosure request and the committee's activities, a unified request for approval of a class action lawsuit against the company is pending due to the event. The request for approval of the class action lawsuit is largely based on the same factual framework underlying the committee's work. Managing a class action lawsuit in parallel with a derivative lawsuit on behalf of the company is likely, in most cases, to be contrary to the company's interests, as the derivative lawsuit proceedings may jeopardize the company's defense in the class action lawsuit.

If the company has a cause of action, it is against mid-level managers, not office holders, and there is significant doubt whether managing a lawsuit against mid-level managers is in the company's best interest. As mentioned, filing such a lawsuit is not common, especially when it does not involve gross negligence, recklessness, or illegal acts, and it may harm the company's reputation, both publicly and among its employees, as it places responsibility on lower levels. This conduct may significantly harm the motivation of the company's employees and managers, whose efforts to investigate the event and restore the plant's operations deserve praise, and it may also make it difficult for the company to recruit professional and talented employees in the future<sup>3</sup>.

Therefore, the committee believes, in summary, that although there were failures in the conduct of the plant management and the quality headquarters management, as detailed above, the chances of a lawsuit against these office holders are not high, and beyond that, there is doubt whether managing such a lawsuit would be in the company's best interest.