



# Management Report

# 2018

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# 1. Message from management

The year 2018 was the best in Ourofino's history and it presented a significant increase in figures and indicators, on an annual basis, even compared with the strong year of 2017. Our net revenues increased by 17% and totaled R\$ 589 million. Adjusted EBITDA reached R\$ 132 million, with an increase of 27% and margin of 22% and adjusted profit increased by 56% and totaled R\$ 71 million, the highest level ever achieved by the Company, with a net margin of 12%. Leverage at year-end was 1.7x the adjusted EBITDA with cash generated from operations of R\$ 82 million.

With respect to the production animals segment, net revenue increased by 15% in the year and totaled R\$ 459 million, with a gross margin of 51% and an increase of 1 p.p. in comparison with 2017. These results reflected the success of our pricing strategy combined with volume increases resulting from the excellent work of our sales team, by implementing our demand generation program including visits to farms throughout Brazil.

As regards the companion animals segment, we had an exceptional year with an increase of 24% in net revenues, which totaled R\$ 76 million, as a result of the investments in demand generation by the expansion of veterinary visitation teams which also perform various marketing actions in the points of sale, leading to an impact on volumes and prices. In addition, our team has continued to follow very closely the inventory levels of our distributors, which have remained at proper levels and in line with their sell-out volumes.

With regard to international operations, net revenues totaled R\$ 55 million in 2018, an increase of 18% in comparison with 2017. Mexico and Colombia had an increase of 55% in the year and reached R\$ 37 million in revenues, representing 68% of the total revenues in the segment. It is important to highlight that the growth presented took place substantially in local currency.

In the biologicals project front, an important milestone was reached in November as we did the technical launch for our circovirus vaccine called Safesui, which is the first vaccine of its kind to protect against the strain PCV2b. Circovirus is an important challenge for swine farmers across the country in Brazil. Additionally, in the beginning of February the first commercial batches were sold by our sales team.

Due to the excellent results presented by the teams, management rewarded all Ourofino employees with a bonus salary, which had a significant impact of R\$ 6 million on expenses in the 4<sup>th</sup> quarter. We believe that people are the most important element to achieve results as those presented in 2018, and that we should motivate them to reach our growth targets in subsequent years and to engage them for 2019. We continue to work hard bearing our purpose "Reimagining animal health" in mind, always looking for the best solutions that meet the expectations of all our customers. We thank the stockholders for their confidence in our work.



**Jardel Massari**  
President



**Kleber Gomes**  
CFO and DRI

## 2. Who we are

The Company is a listed corporation headquartered in Cravinhos, state of São Paulo, and its shares are traded on the Brazilian stock exchange, B3 S.A. – Brasil, Bolsa, Balcão, in the Novo Mercado (New Market) segment. It was established on April 10, 2014 and its objective and main activity is the investment in companies operating in the animal health industry (production and sale of veterinary drugs, cines and other products) three business segments:

### Companion Animals

This segment represents the production and sale in the domestic market of veterinary drugs (anesthetics, sedatives, anti-inflammatory drugs, antibiotics, antimicrobial drugs, ear and skin products, ectoparasiticides, endoparasiticides) and other products for dogs and cats.



### Production Animals

This segment represents the production and sale in the domestic market of veterinary drugs (anti-inflammatory and anticoccidial drugs, antibiotics, anti-mastitis drugs, ectoparasiticides, endectocides, endoparasiticides, hemoparasiticides, inoculants, therapeutic products, products for animal breeding (FTAI)), vaccines, and also additives for improving performance, probiotics, and other products for cattle, pigs, poultry, sheep, horses and goats, and the rendering of processing services for other companies operating in the same industry.



### International Operations

This segment represents the sale in the foreign market, mainly to Latin American countries, of veterinary drugs, vaccines and other products for production and companion animals. In the Mexican and Colombian markets we act with our own team through our subsidiaries.



To serve its customers the Company has a complete portfolio of animal health products, comprising 105 veterinary products (in all pharmaceutical forms, including solid, liquid, pills, semi-solid, oral and injectable drugs, and vaccines) and approximately 4,200 customers, including agricultural product resellers, cooperatives, agribusinesses, farmers and distributors that are present throughout the national territory and abroad. Among the customers, the largest one represents about 4% of the Company's revenue, and, therefore, there is no concentration that may result in dependence on specific customers.

The economic group of which the Company today is part was established in 1987 by its founding partners, Norival Bonamichi and Jardel Massari, initially exclusively for the production of veterinary drugs and other products for production animals (cattle, horses, poultry and pigs). Throughout the Company's successful history, our operations have always grown organically and, as a result, in 2018 we are the largest Brazilian multinational company in the animal health segment.

## Our Purpose

### Reimagining Animal Health

This is our commitment to challenge conventional thinking by promoting the development and sustainable growth of a new animal health generation, inspiring and creating ideas and solutions that are integrated with the needs of the world, people and markets, connecting and working in cooperation with the ecosystem of animal health, building and nurturing relationships that foster shared value.

### Our pillars

- **Integrated Innovation:**  
To contribute ideas and integrated solutions, developing new ways to produce and care for animals, with less impact, simplicity and in a more effective manner;
- **Engage and Collaborate:**  
To think and act in the broadest sense of animal health, engaging, connecting and working in collaboration with our customers, partners and the community, aiming at the transformation and development of the industry;
- **Build and Nurture Relationships:**  
To establish open and transparent ways to inspire, connect, collaborate, develop and do business. To grow together.

### Our personality

- Agile and simple
- Open and collaborative
- Entrepreneur attitude
- Transparent and engaging
- Brazilian

### 3. About the market

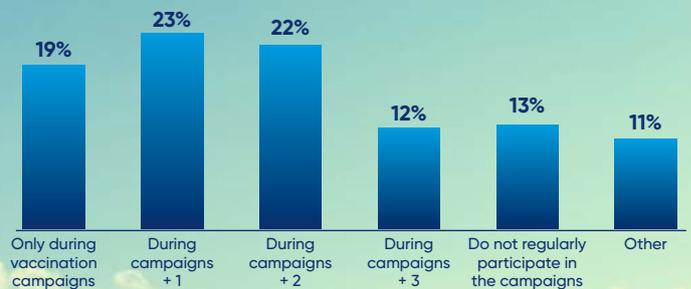
The animal health industry comprises the production and sale of veterinary drugs, vaccines and other products for production animals (ruminants, substantially beef and dairy cattle, poultry and pigs) and companion animals (dogs and cats). In this market, national and multinational companies operate, and the major multinational players also are (or have been) large companies of the pharmaceutical industry focusing on human health with global operations. Some of these corporations have separated their assets by means of spin-off arrangements, and subsequently the resulting veterinarian companies have gone public.

The seasonality in the sector derives mainly from factors such as the weather, the production and management system adopted, as well as regional characteristics. Considering also that in Brazil ruminants account for 55% of the total animal health market (Source: Brazilian Association of Animal Health Product Manufacturers (Sindan)), the seasonality is also noted due to the two national vaccination campaigns against foot-and-mouth

disease in cattle (April/May and October/November), except for the state of Santa Catarina. Considering that vaccination is mandatory, the farmer usually tries to associate the application of other veterinary products with the FMD vaccine, thus streamlining the management of animals.

The chart below shows the application of veterinary products in cattle, where 76% of the management activity is performed at least once together with the vaccination against foot-and-mouth disease.

Frequency of sanitary management observed in the field during the *Rally da Pecuária* 2018 Technical Expedition:

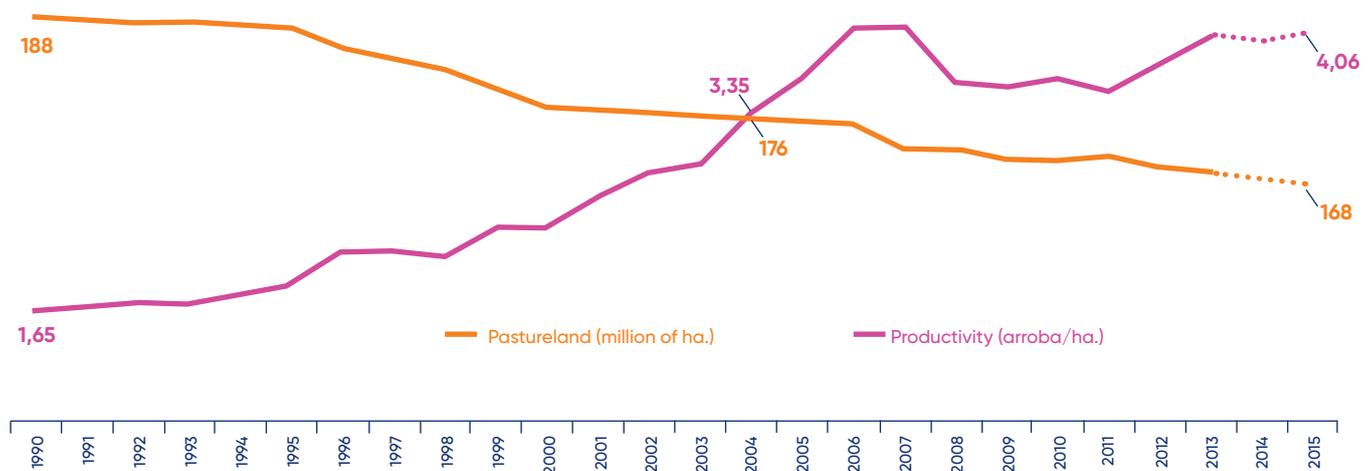


Source: Athenagro, *Rally da Pecuária*

The veterinary industry segment operating in the animal protein market has strong growth drivers. Despite the fact that Brazil is considered a developing country, the consumption of meat in Brazil is at a level similar to those observed in the wealthiest countries, and exceeds 100 kg per inhabitant per year. Until the 1970s, beef represented more than 50% of the total meat consumed by Brazilians. The second meat that was most bought was pork and chicken ranked third. As from the 1980s, however, the search for healthier food made the consumption of white meat increase. In the current decade, chicken meat has reached and even surpassed beef in the meal of Brazilians who eat, on average, 44 kg per year of this type of meat. Pork went then to the third position, considering that Brazilians eat approximately 15 kg of this type of meat per year. The increase in chicken consumption as compared to the other two types of meat was also due to the relatively lower price of chicken meat, which allows low-income people to have access to this source of protein. Brazil has a great potential domestic market for meat consumption. For example, pork, when compared to the other two types of meat, is the least consumed at a country level, thus having a market to be developed and expanded. In developed countries, the consumption of pork is approximately 70 kg per inhabitant per year.

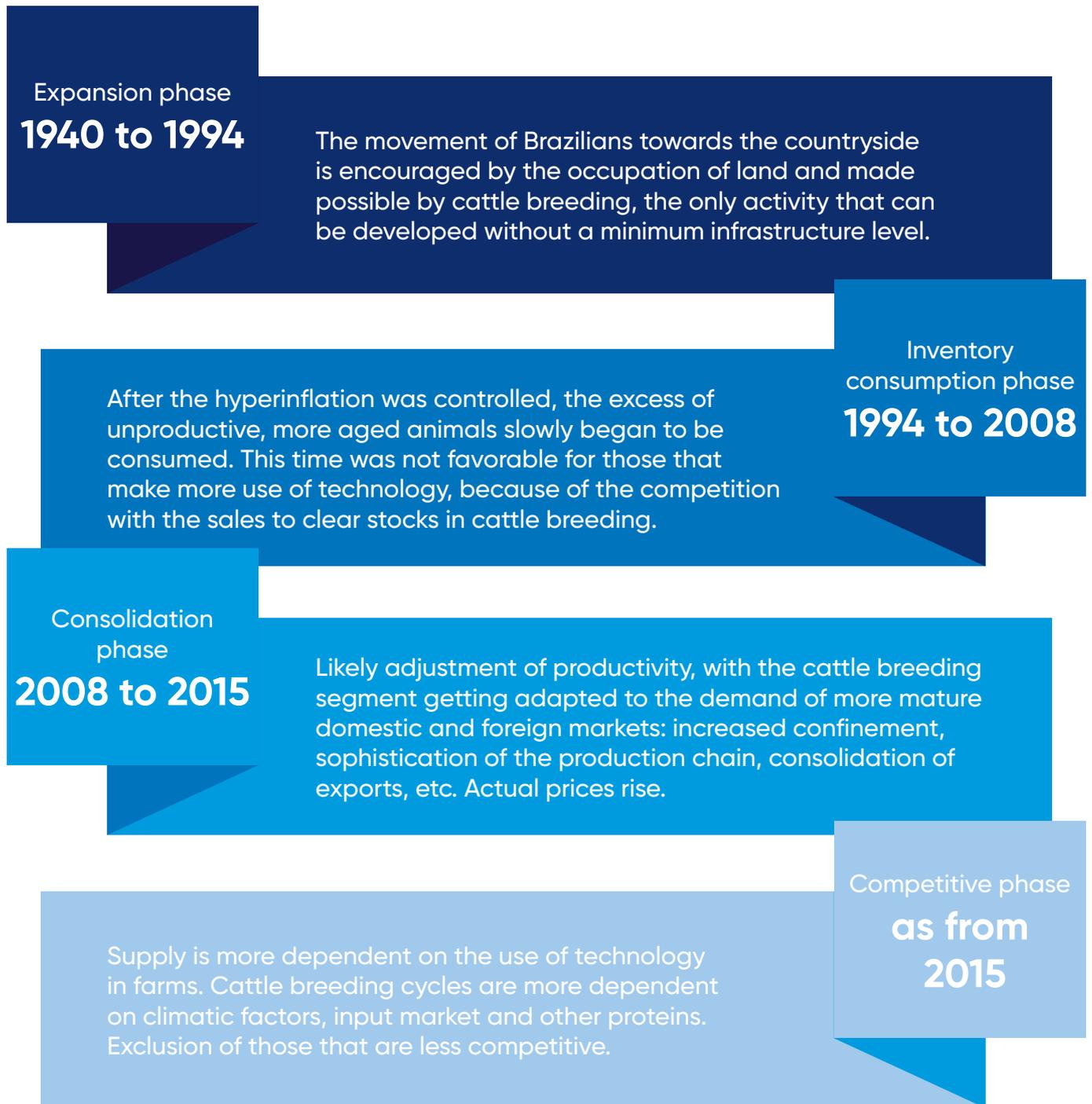
Beef cattle breeding is present in the national economic scenario since colonial times. In the last decades, it has developed through the expansion of the agricultural frontier, with the incorporation of new land, most of which lacking infrastructure and presenting soil erosion due to the intensive grain production system adopted. Production in Brazil has always been characterized by the extensive system. Today, there is a change in the occupation of land, as there is a strong process to expand the agricultural frontier over the area previously intended for cattle breeding. This expansion of the agricultural limits, together with the increase in land prices, will lead to a reduction in extensive cattle breeding, requiring farmers to increasingly use technology to get the best results in their farms. In this context, the increase in the search for technology becomes essential for farmers to maintain their businesses competitive in terms of profitability, considering the opportunities presented by agriculture.

To measure the development of cattle breeding and its technification, it is important to consider the "little land" effect. With the same productivity of 1990, 419 million hectares would be required to produce the same amount of meat estimated for 2014. In 2018, we continue to believe in the development of this trend for increasing productivity.



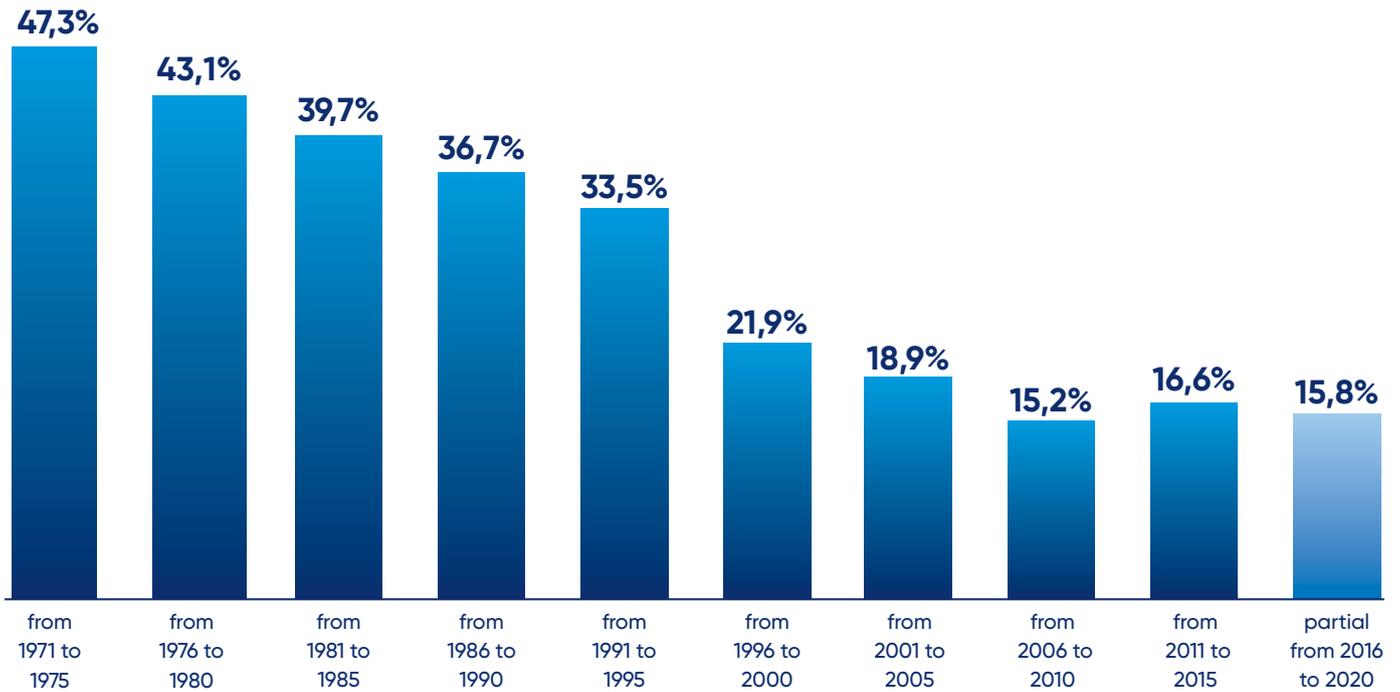
Source: Agroconsult (2015)

Briefly, according to Athenagro, the development of the beef cattle breeding in Brazil goes through the following phases:



In recent years, the decline in profit margins led to the adoption of new technologies aimed at increasing productivity, intensive production systems have developed in some regions, the so-called confinements or semi-confinements, in addition to the ILPF (Integrated Crop-Livestock-Forest) breeding system, which is a strategy aimed at a sustainable production that integrates agricultural, livestock and forestry activities that are carried out in the same area through intercropping, crop succession or crop rotation, and takes advantage of the synergistic effects among the components of the agroecosystem, taking into consideration environmental adequacy, appreciation of man and economic feasibility.

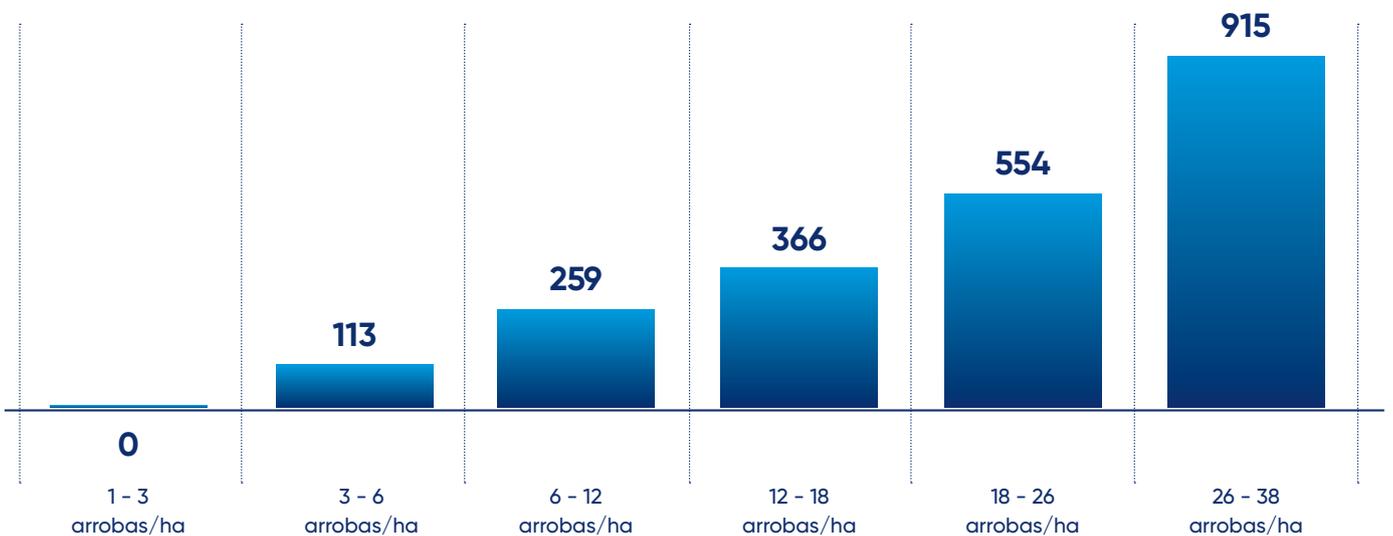
## Evolution of the average profit margin in beef cattle breeding - per arroba



Source: Athenagro, data from the Center for Advanced Studies on Applied Economics (CEPEA), Agricultural Economics Institute (IEA)

According to Agroconsult, the profitability of the farmer increases depending on their technification level, that is, the more arrobas per hectare the producer can produce, the higher their investments in technification and the greater their profitability.

## Operating profit projections/technology level: R\$/ha (Full Cycle – 2018)



The veterinary industry is part of this environment of improved productivity, where the demand for veterinary products has a potential growth as a result of the factors already described, including the low rate of technification of the farms. The use of technologies in farms relates to curative treatments and is more and more based on the use of preventive therapies, and the producer who seeks higher productivity rates uses a prophylactic management through the vaccination of the livestock. In addition, another potential for spreading is the potential for genetic improvement of the Brazilian livestock, and the use of breeding protocols with Fixed Time Artificial Insemination (FTAI).

With respect to the use of FTAI protocols, which increase the productivity of the farmers, there has been an increasing adoption of this type of technology. The offtake rate, that is, the production in arrobas or heads in any given period in relation to the initial livestock, is an indicator of this evolution. Fifteen years ago, this rate was around 25% and today it is 39% (Source: Center for Advanced Studies on Applied Economics (CEPEA) (average in Brazil)). It is still a low rate when compared to more developed countries, that is, the higher the offtake rate, the higher the livestock's internal production. Therefore, encouraging the use of reproductive techniques such as FTAI brings advantages, like a greater control over management in the farms by reducing the interval between births, optimizing the use of labor, systemic monitoring of the livestock, less disposal of animals for lack of pregnancy, factors that are directly related to productivity in farms. There is, therefore, room for expansion of the market and the Company.

Combining products and services is a marketing trend and Ourofino takes this statement seriously and proposes to provide the market with the best solutions in animal health, contributing to the high performance of the protein production chain. Therefore, all the investment in technology must be accompanied by investments in labor qualification, another market opportunity explored by Ourofino through its Technical Consultant team that, among other activities, provides training courses to farmers and day visits to the field, give lectures to sales clerks, offer assisted application of the products and follow-up on the results. This team generates the demand of the Company's products by the final consumer and is also responsible for raising the needs and opportunities in the field, presenting solutions and implementing sanitary protocols and calendars.

In addition, the Brazilian livestock has undergone a genetic improvement with the increase of the use of European breeds, which

bring precocity, meat quality and increased production of milk, among other advantages. The spreading of this genetics generates the use of more inputs, including veterinary drugs, considering the greater susceptibility of these animals to the sanitary challenges currently faced in Brazil.

For companion animals, the factors to be considered are the increased number of companion animals in Brazilian homes: the age group of the population that grows faster is that between 30 and 49 years; the average number of children per woman has fallen dramatically; the number of elderly has increased; the number of single-person households has risen, according to the National Household Sample Survey (Pnad), and the total number of pets in Brazil has achieved R\$ 74 million (Source: Pnad and the National Health Survey (PNS)). Also, according to the Annual Report of the American Pet Product Association (APPA), the U.S. pet product market in 2017 was US\$ 69.5 billion, and the Brazilian market, according to the Brazilian Association of Pet Product Manufacturers (Abinpet) was R\$ 20.3 billion in 2017. Notwithstanding the fact that pets in the United States total 144 million, there is still a great potential to be explored in the Brazilian market. In addition to market potential, there is the fact that the relationship between families and their pets have become increasingly emotional. The change of status of pets is clear. They are no longer seen as pets, but have become family members, and no one leaves a "dear one" without basic items such as food, bath, health care, vaccines, etc.

In its purpose of Reimagining Animal Health, Ourofino has worked for the longevity of companion animals in search of continuous innovation, and is directly set within the context.

This scenario and the change in the population profile have led to a significant expansion of the pet market, which increased by an annual average rate of approximately 15.3% between 2013 and 2017 (Source: Sindan).

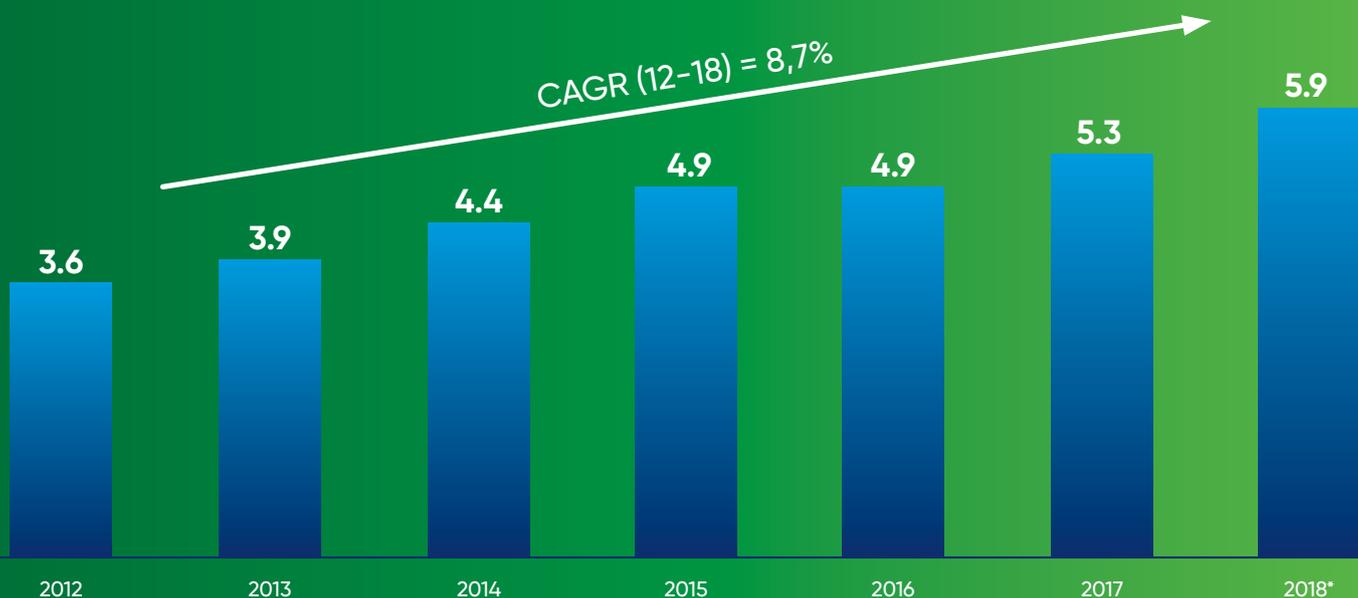
## Sales in the Veterinary Market

In 2017, the veterinary market increased by 8.2% in comparison with 2016, thus resuming its average historical growth levels, considering the market slowdown in the previous year, as a result of the macroeconomic scenario which adversely affected Brazil in that year. Although there are no official data for 2018 year-end, an evolution of approximately 11% in comparison with 2017 has been projected, indicating the resumption of growth in this market which continues to recover in accordance with an estimated favorable economic scenario before and after presidential elections.

In 2018, prices of vaccines against foot-and-mouth disease remained stable and more investments were made by producers, who faced prices per arroba without significant negative fluctuations due to the im-

provement of domestic demand and continued high sales to the foreign market. But the poultry and pork markets have undergone high costs, competitive beef prices and low exports. Despite these scenarios, the veterinary market for poultry and pigs managed to react against the previous year and at year-end was in the black, resuming its historical average growth. In addition, there was an improvement in domestic consumption (protein) with the anticipation of a favorable economic scenario, and the opening of new export markets has resulted in better expectations to the sector. In addition to the protein market, there was an improvement in the purchasing power of the population, which has direct effects on the care of companion animals.

Brazilian animal health industry - R\$ billion



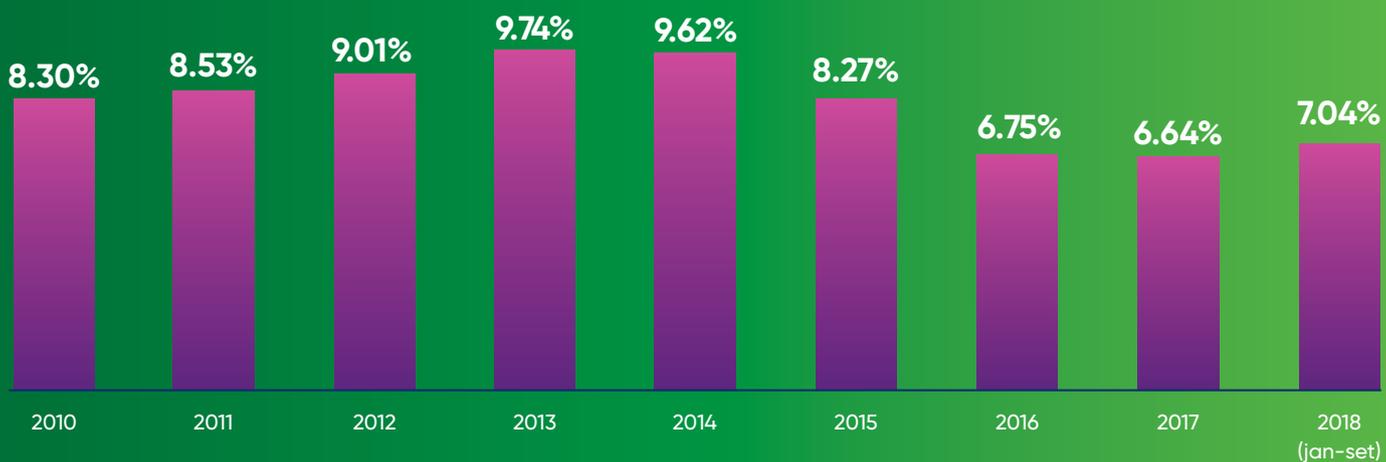
Source: 2012 to 2017 (Sindan website).  
\*2018 estimated by the Company.

## Market Share Evolution

### Market Share Evolution - Production animals



### Market Share Evolution - Companion animals



Source: PPE Sindan (Ourofino)

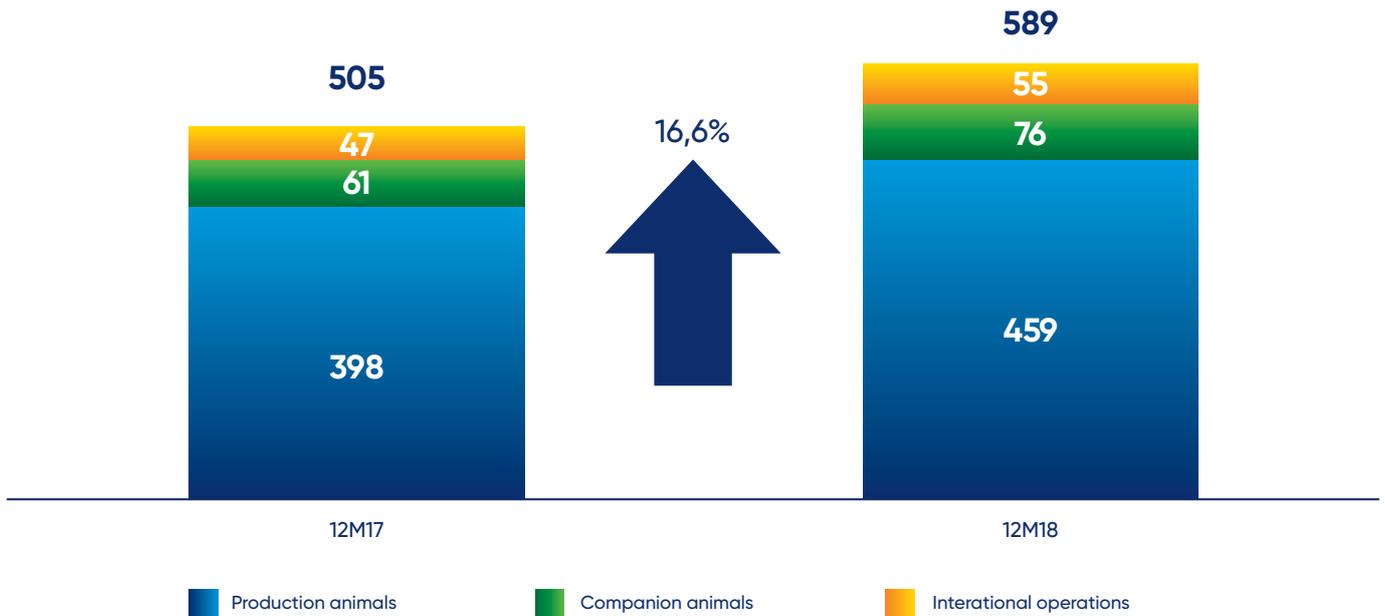
## 4. Financial Performance

R\$ million	12M17	12M18	Variation %
Net revenue	505,3	589,2	16,6%
Cost of sales	(236,5)	(265,1)	12,1%
Gross profit	268,8	324,1	20,6%
(gross margin)	53,2%	55,0%	1,8 p.p.
Expenses*	(191,0)	(222,7)	16,6%
Operating profit	77,8	101,4	30,3%
(operating margin)	15,4%	17,2%	1,8 p.p.
Finance result, net	(16,8)	(15,2)	-9,5%
Income tax and social contribution*	(15,6)	(15,2)	-2,6%
Adjusted profit	45,4	71,0	56,4%
(adjusted profit margin)	9,0%	12,1%	3,1 p.p.
Adjusted EBITDA	103,7	131,7	27,0%
(adjusted EBITDA margin)	20,5%	22,4%	1,9 p.p.

(\*) In 2017, does not include non-recurring expenses related to consulting services by Falconi, settlement of a tax assessment notice for previous years and restructuring costs. In 2018, does not include the provision for contingencies and extemporaneous tax credits related to prior years. These events gave rise to their related tax effects.

### Net revenue

R\$ million	12M17	12M18	Variation %
Net sales revenue	505,3	589,2	16,6%
Production animals	397,7	458,6	15,3%
Companion animals	61,0	75,6	23,9%
International operations	46,6	55,0	18,0%



In 12M18, net revenue was R\$ 589.2 million, an increase of 16.6% in comparison with 12M17.

- The production animals segment presented net revenues of R\$ 458.6 million, an increase of 15.3%, with impacts from the increases in volumes and prices in 2018.
- The companion animals segment presented a net revenue of R\$ 75.6 million, an increase of 23.9% in comparison with 12M17. These increases were mainly due to increases in volume.
- The international operations segment presented a net revenue of R\$ 55.0 million, an increase of 18%. These increases resulted mainly from the increase in figures in local currency and favorable foreign exchange rates, and were affected by the decreases in sales to other countries, mainly the sales of vaccines against foot-and-mouth disease in 2017.

## Gross profit and gross margin

R\$ million	12M17	12M18	Variation %
Gross profit	268,8	324,1	20,6%
(gross margin)	53,2%	55,0%	1,8 p.p.
Gross profit - production animals	202,2	236,0	16,7%
(gross margin - production animals)	50,8%	51,5%	0,7 p.p.
Gross profit - companion animals	42,7	53,2	24,6%
(gross margin - companion animals)	70,0%	70,4%	0,4 p.p.
Gross profit - international operations	23,9	34,9	46,0%
(gross margin - international operations)	51,3%	63,5%	12,2 p.p.

In 12M18, gross margin was 55.0%, an increase of 1.8 p.p. in comparison with 12M17.

- The production animals segment presented a gross margin of 51.5%, an increase of 0.7 p.p., reflecting price gains in the segment in the year.
- The companion animals segment presented a gross margin of 70.4%, an increase of 0.4 p.p., reflecting price gains in 2018.
- The international operations segment presented a gross margin of 63.5%, an increase of 12.2 p.p. These results show a better mix in the periods and gains from favorable foreign exchange rates.

## Selling, general and administrative expenses

R\$ million	12M17	12M18	Variation %
Selling, general and administrative and other expenses	(191,0)	(222,7)	16,6%
Percentage of net revenue	37,8%	37,8%	0,0 p.p.

In 12M18, selling, general and administrative expenses totaled R\$ 222.7 million, remaining at the same percentage level on revenues as 12M17.

## EBITDA and EBITDA Margin

R\$ million	12M17	12M18	Variation %
Adjusted profit	45,4	71,0	56,4%
(+) Non-recurring results, net of IRPJ/CSLL*	(7,5)	(2,2)	-70,7%
Profit for the period	37,9	68,8	81,5%
(+) Finance result, net	16,8	15,2	-9,5%
(+) Income tax and social contribution	11,7	14,0	19,7%
(+) Depreciation and amortization	24,9	25,5	2,4%
EBITDA	91,3	123,5	35,3%
(+) Non-recurring effects*	11,4	3,4	-70,2%
(+) Other	1,0	4,8	380,0%
Adjusted EBITDA	103,7	131,7	27,0%
Net sales revenue	505,3	589,2	16,6%
EBITDA margin	18,1%	21,0%	2,9 p.p.
Adjusted EBITDA margin	20,5%	22,4%	1,9 p.p.

(\*) In 2017, does not include non-recurring expenses related to consulting services by Falconi, settlement of a tax assessment notice for previous years and restructuring costs. In 2018, does not include the provision for contingencies and extemporaneous tax credits related to prior years. These events gave rise to their related tax effects.

In 12M18, adjusted EBITDA was R\$ 131.7 million, with a margin of 22.4%, an increase of 1.9 p.p. in comparison with 12M17, reflecting gross margin gains in 2018.

## Finance result

R\$ million	12M17	12M18	Variation %
Finance result, net	(16,8)	(15,2)	-9,5%

In 12M18, net finance costs totaled R\$ 15.2 million, a decrease of 9.5% in comparison with 12M17.

## Income tax and social contribution

R\$ million	12M17	12M18	Variation %
Income tax and social contribution	(15,6)	(15,2)	-2,6%
Percentage of profit before IRPJ and CSLL	-25,6%	-17,6%	8,0 p.p.

In 12M18, income tax and social contribution totaled R\$ 15.2 million against R\$ 15.6 million in 12M17. It should be noted that the calculation of Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) is carried out on tax bases that differ from the accounting result.

## Profit

R\$ million	12M17	12M18	Variation %
Adjusted profit	45,4	71,0	56,4%
Profit margin	9,0%	12,1%	3,1 p.p.

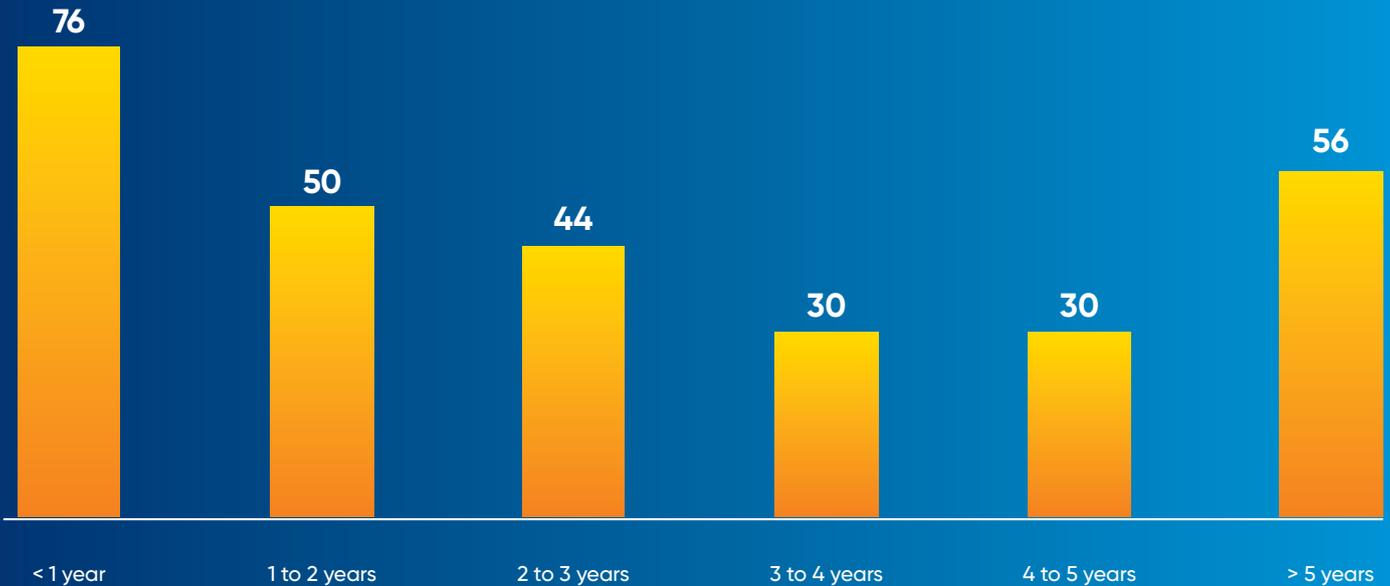
In 12M18, adjusted profit was R\$ 71 million with a net margin of 12.1%, an increase of 3.1 p.p. in comparison with 12M17, reflecting gains in adjusted EBITDA margin, combined with a lower percentage of taxes on profit before IRPJ and CSLL.

## Indebtedness

Em R\$ million	December 31, 2017	December 31, 2018
Current	190,2	76,4
Non-current	122,9	211,1
Gross debt	313,1	287,5
Related derivative financial instruments	10,5	-
Gross debt considering related derivatives	323,6	287,5
(-) Cash and cash equivalents	123,4	65,2
Net debt	200,2	222,3
Average cost of debt (year) <sup>1</sup>	6,84%	7,22%
Net debt/adjusted annual EBITDA (LTM)	1,93	1,69

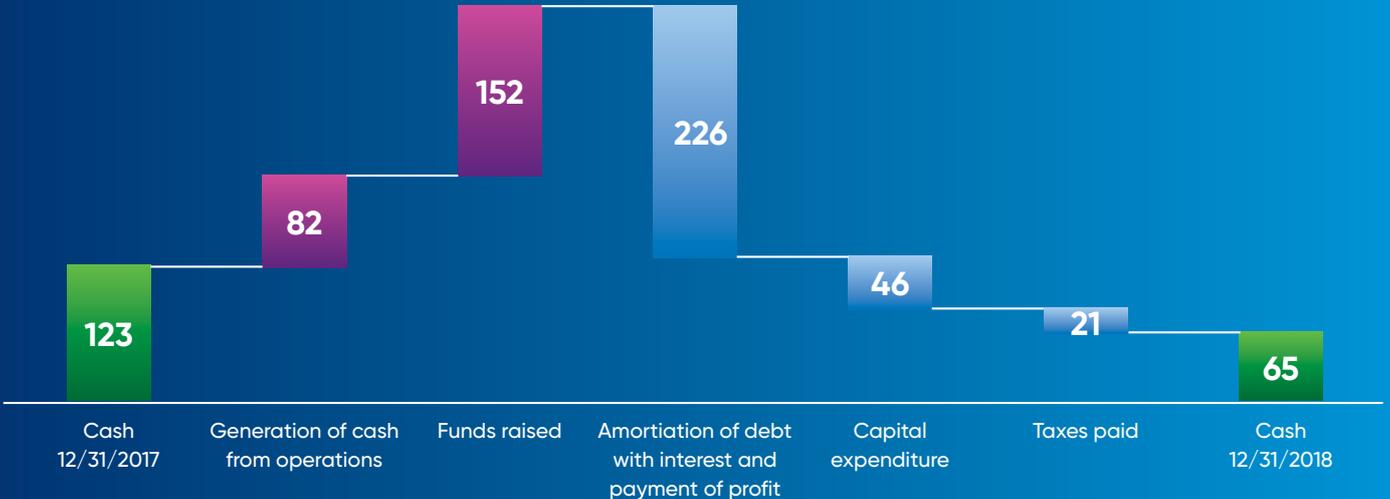
<sup>1</sup>Net bank debt considering related derivatives and bank guarantee costs.

## Bank debt aging\*



\*Considers the period between January 1 and December 31 and debt plus derivatives.

## Cash position



In 12M18, there was a generation of cash from operations of R\$ 82 million, which was impacted by an increase in the volume of inventories due to higher purchases of inputs in China. We would also emphasize the amortization of debts, payment of interest, and profit totaling R\$ 226 million. Funds raised totaled R\$ 152 million with extension of debt and improvement of its profile with long-term indebtedness reaching 3/4 of total gross debt. At December 31, 2018, the average cost of debt was 7.22% p.a., including the costs of derivatives and related guarantees.

## 5. Animal health drugs plant

Considered one of the most modern and fully-equipped plant in Latin America, with a built area of approximately 24,840m<sup>2</sup>, it develops all pharmaceutical forms of production: Vaccines against foot-and-mouth disease, manufactured in a biosafety level 4 laboratory (BSL-4), one of the highest levels in the world. Production of the following types of drugs: solid (tablets and powders), semi-solid (creams and ointments), liquid (solutions), injectable, hormonal and the newest production item, the biological vaccines.

The project was conceived in compliance with the Good Manufacturing Practices (GMP), and complies with the standards applicable by the Ministry of Agriculture and Supply (MAPA) and includes the world strictest regulatory rules, such as those issued by the Food and Drug Administration (FDA) in the United States and the European Medicines Agency (EMA) in the European Union.

Pharmaceutical products plant  
6.680 m<sup>2</sup>

Hormonal products plant  
820 m<sup>2</sup>

FMD vaccine plant  
5.651 m<sup>2</sup>

Quality control of biological products plant  
6.482 m<sup>2</sup>

Animal health products plant  
1.900 m<sup>2</sup>

## 6. Research & Development – R&D

One of the main targets of the Group is to remain at the technological forefront in the segment, continuously investing in research and development. The R&D structure has internal laboratories for research and the development of new products and a multidisciplinary internal team of approximately 110 people, made up of veterinarians, pharmacists, chemists, biologists, biotechnicians, engineers and members of management.

### Launches in 2018



As a result of our R&D efforts, there were launches in line with our pipeline, such as that of **Safesui Circovirus** vaccine, a vaccine for prevention of one of the major diseases in pigs globally. It was developed on a platform for production of recombinant viral protein, using a virus strain more related to the current challenges, which can improve protection to and the performance of animals, which makes it different from all the other products available on the market. This is the first of several other projects the company has been developing in the biological products segment.

**Pareun:** The first Amikacin for veterinary use in Brazil.

**Indications:** Prescribed for the treatment of bacterial infections and joint problems that affect the horses. Available in 100ml packages. This innovative product represents a big technological leap for the market.

**Therapeutic class:** antimicrobial.

**Segment:** horses.

**Launched in:** February 2018.



**SiloSolve® MC:** Keeps silage fresher and profits on the rise for longer.

Science-based, research-proven bacterial inoculant formulated to improve fermentation, leading to: reduced pathogenic microorganisms in silage; improved recovery of dry matter; increased palatability of silage; increased efficiency of milk or meat production.

**Therapeutic class:** nutritional.

**Segment:** cattle.

**Launched in:** June 2018.

In 12M18, 6.5% of the net revenue was invested in R&D, totaling R\$ 39 million. The chart below shows the Company's total investments in R&D from 2015 to 2018.



# 7 . Corporate Governance

## New market

In October 2014, we conducted the initial public offering (IPO) of the Company's shares on B3 S.A. - Brasil, Bolsa, Balcão in the Novo Mercado (New Market) segment, which imposes the highest requirements for transparency and corporate governance practices. Listing on this special segment entails the adoption of a set of corporate rules that expand the rights of stockholders, and also of a more transparent and comprehensive information disclosure policy.

## Board of Directors/ Statutory Board

The Board of Directors consists of six members, including four external and independent members, according to the new market provisions. The Company's Statutory Executive Board consists of two officers. A list with the name, job description and a brief résumé of our directors and officers can be found in the Company's Reference Form, in the Investor Relations section on our website at [www.ourofino.com/ri](http://www.ourofino.com/ri).

## Statutory Audit Board

The Statutory Audit Board is an independent oversight body, not related to the Executive Board or the Board of Directors, which seeks, through the principles of transparency, fairness and accountability, to contribute to the better performance of the organization. It consists of three external independent members and their duties are established in Article 163 of Law 6,404/76 and in the Company's Bylaws.

## Statutory Audit Committee

An advisory body linked directly to the Board of Directors, for the purposes of: (i) examining the engagement and termination of independent auditors, (ii) reviewing and supervising the activities of internal and external audit, (iii) monitoring the quality and integrity of the mechanisms of internal controls and accounting information, (iv) evaluating and monitoring risk exposure, and (v) reviewing and monitoring, together with management and the internal audit the appropriateness of transactions with related parties. Currently, the Audit Committee consists of three independent external members elected by the Board of Directors and is chaired by an independent member of the Board of Directors.

## Human resources committee

This Committee assists the Board of Directors in defining the compensation and benefit policy for directors and officers. The Human Resources Committee has three members elected by the Board of Directors, two of whom are external independent members, and is chaired by an independent member of the Board of Directors.

## Relationship with independent auditors

In accordance with CVM Instruction 381/03, the Company and its subsidiaries adopt as a formal procedure, prior to hiring other professional services not related to external audit, to consult with the independent auditors, in order to ensure that the performance of any other services does not affect their independence and objectivity, which are required for the provision of independent audit services. In this context, during the year ended December 31, 2018, no additional services were contracted.

## Arbitration

Under the New Market's regulations and the Company's bylaws, the controlling shareholder, the management, the Company itself and the members of the Supervisory Board should undertake to resolve any and all dispute or controversy related to or resulting from these rules of the Regulation of the New Market, the Agreement to Participate in the New Market, the Arbitration Commitment Clauses, especially as regards their application, validity, effectiveness, interpretation, breach and effects, through arbitration. The differences related to the sale of the Company's control shall also be resolved by arbitration.

## Statement of Statutory Board

In compliance with item VI of Article 25 of the Brazilian Securities Commission (CVM) Regulatory Instruction 480/09, Ourofino's officers represent that they have reviewed and discussed and are in agreement with the financial statements for the year ended December 31, 2018 and the opinions expressed in the independent auditors' report thereon.

## 8. Human Resources

In 2018, the Human Resources and Sustainability Board intensified its actions initiated previously, ratifying its strategic actions, through joint actions with the Senior Management and employees, seeking integrated alignment with the business and practical solutions for the people. In this strategic context and in line with the time of the business, we prepared a People Master Plan to guide us for the next 5 (five) years, including actions for the improvement of the organizational climate, strategies focused on recognition, meritocracy, attraction and retention, development plans and mapping of key employees and potential talents, evolution of the Performance Management model, changes in recruitment and selection of candidates, as well as initiatives focused on quality of life and family programs.

For these strategic actions to be implemented and adhered to by employees, the Human Resources area has continued to play its role in the process of incorporating the Company's purpose and redeeming the pillars that have raised the Company's human level. For this to be effective, the internal public engagement process will be followed through the Dialogues with HR program, aiming to identify the main needs of our internal public and to act on resolutions of problems that may have impacts on the results of the teams. Another important action was the creation of an Organizational Climate Committee, aligned and supported by the senior management, and some members of the latter have participated in this Committee. Having as our main objective to actively listen to our employees, including managers and senior management, to establish an alignment with foreign markets so as to understand the best practices, develop a sharp focus and achieve an excellent implementation of the Master Plan, we will seek to maintain a high performance team to continue achieving excellent results and maintaining the values/pillars of the company, in a good organizational climate.

## 9. Social Responsibility

Building and nurturing relationships are part of the Company's purpose and are considered in the manner how Ourofino understands its social role in relation to its stakeholders. We understand that the dialogue strengthens the engagement process and enhances the business, and is a commitment under our Sustainability Policy, which aims at establishing a healthy relationship of transformation and progress for both parties. Aiming at always improving this process, in 2018, Ourofino undertook a review of its materiality process, which consists of mapping, identifying and evaluating what are the most important topics for the business. We had a face-to-face meeting with community members of Cravinhos and Ribeirão Preto (surrounding communities), where topics such as diversity and employment for young people were addressed. In addition to the community, we also kept in contact with the senior management and the other stakeholders (customers, suppliers, stockholders and employees), where we also mapped the major topics of each public.

We launched "Viva Mais", a program that promotes quality of life among employees through integrated actions focusing on health, safety, culture, sports and volunteer service.

In 2018, we supported several social projects, including: Judô Corpore Association, Guará Women's Polo Training Center, Municipal Elderly Fund of Ribeirão Preto, Minaz Theater Company, Biking for the Future Project, Cultura Caipira Festival Project, Association for the Visually Impaired of Ribeirão Preto, Cycling Team of the Federation of the state of São Paulo, among other projects.

We have continued to connect our employees with our social projects and actions through the Volunteer Service pillar of our Viva Mais Program, which is made up of a group of employees, and we have achieved 260 hours of volunteer services.

The Company continues to invest in this business model and plans to continue implementing more and more actions focused on reducing social and environmental impacts and risks.

# 10. Health, safety and environment

We remain committed to developing actions focused on reducing material environmental impacts and identifying occupational hazards and risks in our operations and throughout our value chain, thus strengthening our commitment to promoting sustainable growth in a conscious and transparent manner, adding value to the business.

In 2018, we continued monitoring Greenhouse Gas (GHG) emissions and focusing on this, we identified an opportunity to improve the energy efficiency of processes, reducing emissions. Therefore, in 2018, all mercury vapor lamps were replaced with LED lamps in the Company's external and internal areas. Another project was the reduction by 50% of the water discharged by the Thermocompressor System. This waste is used to irrigate the company's external areas.

Seeking to enhance and add value to the company, the environment area seeks companies on the market that associate excellence in service provision with reasonable costs. The objective is to unify whenever possible compliance with legislation regarding waste management and revenue generation for the company. Also, investments in the wastewater treatment system were made, so as to adapt the Company's units to receive and handle future needs arising from increased production.

After participating effectively in the preparation of a sectoral agreement together with the labor union, Federation of Industries of the State of São Paulo (FIESP) and Eu Reciclo association, Ourofino signed a Reverse Logistics Commitment Instrument (TCLR) as established by Law 12,305/10. Proper collec-

tion and treatment of packaging items after consumption contributes to the protection of natural resources and reduces possible occupational damage. We maintain our business model close to the producer through our sales team and different communication channels, by fostering an understanding of the improvement in performance when products are properly used, generating greater efficiency and care in the management. The prevention of occupational risks has been continuous and has led to positive results involving employees' awareness of safe practices: use of personal protective equipment (PPE), specific training courses for the various activities developed, and compliance with safety procedures aligned with production processes.

In addition to the preventive safety actions, we focused on actions aimed at improving the quality of life of employees, extended the actions of the family doctor aiming at providing medical services at the company in order to anticipate situations of risk to health and promote well-being, mapped more accurately the risks in the Company's areas, conducted simulations of emergency situations to qualify the emergency brigade, and also involved employees in the Company's Emergency Plan. We conducted the Internal Accident Prevention and Environment Week, further fostering and raising awareness by our employees with the objective of having them continuously involved in campaigns related to occupational health, accident prevention and occupational diseases in all our activities.

## 11. Final Comments

Ourofino management maintains its commitment and focus on continuous efforts for a sustainable growth. In our continuous search for business excellence, we thank our customers, suppliers, financing agents, stockholders and employees for their trust in the actions carried out by Ourofino.

