Building a better
working world

Centro Empresarial PB 370
Praia de Botafogo, 370
6º ao 10º andar - Botafogo
22250-040 - Rio de Janeiro - RJ - Brasil
Tel: +55 21 3263-7000
ey.com.br

Independent auditor's report on consolidated financial statements

To the Board of Directors and shareholders of
Wilson Sons Limited

Opinion

We have audited the consolidated financial statements of Wilson Sons Limited (the "Company"), which comprise the statement of financial position as at December 31, 2020, and the statements of profit or loss, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Wilson Sons Limited as at December 31, 2020, and its consolidated financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Service revenue recognition

The Company's revenues arise mainly from towage services, container handling and port operations. As mentioned in Note 4.3, the Company recognises revenues under the accrual basis of accounting and to the extent that control of the services is transferred to customers for an amount that reflects the consideration to which the Company expects to be entitled in exchange for these services. Therefore, the Company recognises revenue as the performance obligations are satisfied.

The Company's revenue recognition process was considered as a key audit matter due to the following factors, among others: (i) the significant number of transactions; (ii) revenue generation at different jurisdictions; (iii) the materiality of the amounts involved; and (iv) the need for manual inputs, which are subject to management’s judgment and subjectivity.

How we addressed the matter in our audit

Our audit procedures included, among others: (i) obtaining an understanding of the procedures and controls designed and implemented by the Company relating to the revenue recognition process to assist the selection and application of audit procedures applicable to the circumstances, which included checking the correlation among revenue, accounts receivable and cash considering all book entries, by using data analysis tools, focusing on the identification and investigation of accounting records that are inconsistent with our expectations prepared based on our knowledge of the Company and the industry; (ii) inspecting significant new or renewed contracts, and/or amendments to significant contracts in force; we have analyzed clauses that may have a material impact on revenue recognition, such as those containing provisions on minimum volume guarantees, surcharges, or discounts and other performance obligations, and we have sent balance confirmation letters to customers in order to assess the existence of outstanding balances at year-end, as well as whether they are reliable; (iii) testing cut-off of sales and their recognition upon effective delivery of the services provided during the period prior to and after the reporting date; (iv) performing substantive analytical procedures to identify and investigate unusual business patterns and perform additional audit procedures where actual results are not in line with our expectations; and (iv) reviewing the adequacy of the disclosures included in Note 4 to the financial statements.

Based on the result of our audit procedures, which is consistent with the management's assessment, we consider that the Company's revenue recognition policies for revenues deriving from sales and services and their respective disclosures in the financial statements are acceptable in the context of the financial statements as a whole.

Impairment risk to intangible assets relating to business combinations

As mentioned in Notes 10 and 11, the Company recognised goodwill and intangible assets in respect of the acquisitions made in prior years, including the acquisitions of Tecon Rio Grande, Tecon Salvador and Brasco Caju (Briclog). There are inherent risks and uncertainty involved in forecasting and discounting future cash flows in this industry, which are the basis of impairment testing. In addition, the magnitude of the goodwill and intangible assets balances and continued economic uncertainty in Brazil which could give rise to possible weakening of demand or variability of the cost base in the industry, we determined that this is a key audit matter.

How we addressed the matter in our audit

Our audit procedures included, among others: (i) using valuation model specialists to help us evaluate and test the model used to measure the recoverable amount and assumptions, particularly the data used to determine the discount rates used by the Company management; (ii) assessing the reasonableness of the projections and methodology used by the Company, and comparing the assumptions (such as gross revenue, operating expenses, net operating income, growth rate in perpetuity, among others) with internal and external sources, segment information and historical data, as well as assessing the effects of the current COVID-19 pandemic on the assumption used; (iii) validating the information used in the calculations; (iv) conducting a retrospective review of previous projections to identify any potential inconsistency in estimates in the future; (v) performing an independent calculation sensitizing the main assumptions used; and (vi) reviewing the adequacy of the disclosures included in Notes 10 and 11 to the financial statements.

Based on the result of the audit procedures performed on the impairment testing of goodwill and intangible assets, which is consistent with management's assessment, we consider that the criteria and assumptions adopted by management, as well as the related disclosures in the respective notes are acceptable in the context of the financial statements as a whole.

Provisions for tax, labour and civil risks

As mentioned in Note 20, the Company is party to a high volume of legal claims arising from civil proceedings, labour claims and tax legislation. These resultant contingent liabilities are potentially significant and the application of accounting standards to determine the amount, if any, to be recognised as a liability or disclosed, is inherently subjective. In making these decisions, Management use their judgment and, where appropriate, are supported by their external legal consultants in order to make the judgements and to determine their best estimate of the provisions to be recorded or amounts to be disclosed in the financial statements. This is one of the key areas that our audit concentrated on, since inappropriate evaluations of the possible outcome on material claims may materially impact the Company's financial position and result for the year.

How we addressed the matter in our audit

Our audit procedures included, among others: (a) obtaining an understanding, with the executive officers and internal legal advisors, about the basis of judgments and estimates, questioning the rationale considered for the latest corroborative information available, and assessing the communication with the Company’s external advisors for the cases for which such involvement was considered necessary; (b) obtaining direct formal confirmations from the Company's external lawyers for all litigations; (c) involving our specialists in tax matters to assist us in evaluating the Company’s significant tax positions and related likelihood of losses, as well as the correspondence with taxation authorities; and (d) reviewing the adequacy of the disclosures included by the Company in Note XX to the consolidated financial statements.

Based on the result of the audit procedures performed on the provision for contingencies and their disclosure, which is consistent with management's assessment, we consider the criteria and assumptions used by management for recognition and measurement of that provision, as well as the respective disclosures in Note 20, acceptable in the context of the consolidated financial statements as a whole.

Other information accompanying the consolidated financial statements and the auditor’s report

Management is responsible for such other information, which comprise the Management Report.

Our opinion on the consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Company's and its subsidiaries' financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.

Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements, including applicable independence requirements, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Rio de Janeiro, March 12, 2021.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Diogo Afonso da Silva
Accountant CRC-1RJ114783/O-8