MERITOR INC
Form 10-K/A
June 17, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A (Amendment no. 2)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 28, 2014
Commission file number 1-15983

MERITOR, INC.
(Exact name of registrant as specified in its charter)

Indiana	38-3354643
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2135 West Maple Road Troy, Michigan	48084-7186
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (248) 435-1000
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock, $1 Par Value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None
Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding twelve months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨		¨

(Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant on March 28, 2014 (the last business day of the most recently completed second fiscal quarter) was approximately $1,147,375,565

96,551,713 shares of the registrant's Common Stock, par value $1 per share, were outstanding on June 15, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Shareowners of the registrant held on January 22, 2015 is incorporated by reference into Part III of the Annual Report on Form 10-K for the fiscal year ended September 28, 2014.

EXPLANATORY NOTE - AMENDMENT

Meritor, Inc. (the “company” or “Meritor”) is filing this Form 10-K/A (Amendment No. 2) to include in its Annual Report on Form 10-K for the fiscal year ended September 28, 2014 (the “Annual Report”), pursuant to Rule 3-09 of Regulation S-X under the Securities Exchange Act of 1934, financial statements and related notes of Master Sistemas Automotivos Ltda. (“MSA”), an unconsolidated joint venture incorporated in Brazil in which the company owns an interest. Meritor owns a 49% interest in MSA (directly).

Rule 3-09 of Regulation S-X provides that if a 50% or less owned person accounted for by the equity method meets the first or third condition of the significant subsidiary tests set forth in Rule 1-02(w), substituting 20% for 10%, separate financial statements for such 50% or less owned person shall be filed. Such statements are required to be audited only in the years in which such person met such test.

MSA met the significance test for Meritor's 2013 fiscal year. Therefore, Meritor is required to file audited financial statements as of and for the fiscal year ended December 31, 2013 ("2013") and the company has included in this Amendment No. 2 on Form 10-K/A the required audited financial statements for the 2013 fiscal year. MSA did not meet such significance test for Meritor's fiscal years 2014 and 2012. Therefore, Meritor is only required to file unaudited financial statements as of and for the fiscal years ended December 31, 2014 ("2014") and December 31, 2012 ("2012") and the company has included in this Amendment No. 2 on Form 10-K/A the required unaudited financial statements for the 2014 and 2012 fiscal years.

Effective January 1, 2009, Brazil adopted International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The financial statements of MSA for 2014, 2013, and 2012 have been prepared in accordance with IFRS as issued by the IASB. Reconciliations between IFRS as issued by the IASB and U.S. GAAP are not required pursuant to SEC Release numbers 33-8879 and 34-57026.

Item 15 is the only portion of the Annual Report being supplemented or amended by this Amendment No. 2 on Form 10-K/A. Additionally, in connection with the filing of this Amendment No. 2 on Form 10-K/A and pursuant to SEC rules, Meritor is including the consents of the independent auditors of MSA and currently dated certifications. This Amendment No. 2 on Form 10-K/A does not otherwise update any exhibits as originally filed, except for Exhibits 10-a-4, 10-a-5, 10-a-6, 10-b-2, 3-b-1, 3-b-2, 21-a, and 23-d, and does not otherwise reflect events occurring after the original filing date of the Annual Report. Accordingly, this Amendment No. 2 on Form 10-K/A should be read in conjunction with Meritor’s filings with the SEC subsequent to the filing of the Annual Report.

PART IV
Item 15. Exhibits and Financial Statement Schedules.
(a) Financial Statements, Financial Statement Schedules and Exhibits.
(1) Financial Statements.
Meritor
The following financial statements and related notes were filed as part of the Annual Report filed with the SEC on November 20, 2014 (all financial statements listed below are those of the company and its consolidated subsidiaries):
Consolidated Statement of Operations, years ended September 30, 2014, 2013 and 2012.
Consolidated Statement of Comprehensive Income (Loss), years ended September 30, 2014, 2013, and 2012.
Consolidated Balance Sheet, September 30, 2014 and 2013.
Consolidated Statement of Cash Flows, years ended September 30, 2014, 2013 and 2012.
Consolidated Statement of Equity (Deficit), years ended September 30, 2014, 2013 and 2012.
Notes to Consolidated Financial Statements.
Report of Independent Registered Public Accounting Firm.

Meritor WABCO Vehicle Control Systems
The following financial statements and related notes of Meritor WABCO Vehicle Control Systems were filed as part of Amendment No. 1 on Form 10-K/A to the Annual Report filed with the SEC on December 12, 2014 (the "2014 10-K/A") pursuant to Rule 3-09 of Regulation S-X:
Balance Sheets, September 30, 2014 (Unaudited) and 2013 (Audited).
Statements of Net Income and Cash Flows, years ended September 30, 2014 (Unaudited), 2013 (Audited), and 2012 (Unaudited).
Independent Auditors’ Report.

Master Sistemas Automotivos Ltda.
The following financial statements and related notes of Master Sistemas Automotivos Ltda. are included in this Amendment No. 2 on Form 10-K/A pursuant to Rule 3-09 of Regulation S-X:
Balance Sheets, December 31, 2014 (Unaudited) and 2013 (Audited).
Statements of Income, Comprehensive Income, Changes in Shareholders’ Equity, and Cash Flows, years ended December 31, 2014 (Unaudited) 2013 (Audited), and 2012 (Unaudited).
Independent Auditors’ Report.

Master Sistemas Automotivos Ltda.

Financial Statements
For the Years
Ended December 31, 2014 (Unaudited), 2013, and 2012 (Unaudited) and Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

INDEPENDENT AUDITORS’ REPORT

To the Board of Directors and Shareholders of
Master Sistemas Automotivos Ltda.
Caxias do Sul, RS

We have audited the accompanying financial statements of Master Sistemas Automotivos Ltda. (the "Company"), which comprise the balance sheet as of December 31, 2013, and the related statements of income, comprehensive income, changes in
shareholer´s equity, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Master Sistemas Automotivos Ltda. as of December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB).

Other-matter paragraph

The financial statements comprising the balance sheet as at December 31, 2014 and the related statements of income, comprehensive income , changes in equity and cash flows for the year then ended were not audited by us and consequently we do not express an opinion on them.

April 30, 2014

/s/ DELOITTE TOUCHE TOHMATSU
DELOITTE TOUCHE TOHMATSU
Auditores Independentes

MASTER SISTEMAS AUTOMOTIVOS LTDA.
BALANCE SHEETS AS OF DECEMBER 31, 2014 (UNAUDITED) AND 2013
(In thousands of Brazilian reais - R$)

ASSETS	Note	12/31/2014	12/31/2013
CURRENT ASSETS		Unaudited	
Cash and cash equivalents	4	176,274	71,252
Short-term investments not immediately redeemable	5	18,546	34,085
Trade receivables	6	28,989	45,236
Recoverable taxes	7	7,231	6,521
Inventories	8	41,937	57,210
Prepaid expenses		481	364
Other receivables		684	1,002
Total current assets		274,142	215,670
NON-CURRENT ASSETS			
Recoverable taxes	7	609	987
Retirement benefit plan	14	140	451
Escrow deposits		642	606
Other investments		26	26
Property, plant and equipment	10	90,027	92,044
Intangible assets	11	8,235	8,751
Total non-current assets		99,679	102,865
TOTAL ASSETS		373,821	318,535

LIABILITIES AND EQUITY	Note	12/31/2014	12/31/2013
CURRENT LIABILITIES		Unaudited	
Trade payables		11,991	15,593
Borrowings and financing	12	2,767	605
Taxes and contributions payable		3,441	3,396
Salaries payable		892	1,074
Accrued vacation and related taxes		2,438	4,271
Dividends and interest on capital payable	18	30,992	42,266
Employee and management profit sharing		2,805	2,997
Advances from customers		598	1,743
Amounts due to related parties	13	150	150
Other payables		3,648	1,813
Total current liabilities		59,722	73,908
NON-CURRENT LIABILITIES			
Borrowings and financing	12	181,154	110,078
Amounts due to related parties	13	602	753
Provision for tax, social security and labor risks	15	340	182
Contributions payable		1,512	2,273
Deferred taxes	21	5,427	4,779
Other payables		164	440
Total non-current liabilities		189,199	118,505
EQUITY			
Share capital	17	60,000	60,000
Earnings reserve		59,492	59,492
Retained earnings		5,408	6,630
Total equity		124,900	126,122
TOTAL LIABILITIES AND EQUITY		373,821	318,535

The accompanying notes are an integral part of these financial statements.

MASTER SISTEMAS AUTOMOTIVOS LTDA.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 (UNAUDITED), 2013, AND, 2012 (UNAUDITED)
(In thousands of Brazilian reais - R$)

	Note	2014 Unaudited	2013	2012 Unaudited
NET OPERATING REVENUE	19	433,221	518,063	379,419
COST OF SALES AND SERVICES	20	(361,577)	(422,131)	(316,358)
GROSS PROFIT		71,644	95,932	63,061
OPERATING INCOME (EXPENSES)				
Selling expenses	20	(18,119)	(19,325)	(13,034)
General and administrative expenses	20	(16,495)	(17,396)	(14,922)
Equity in associate	9	—	15,385	22,922
Other operating expenses, net	20	(4,070)	(4,408)	(1,896)
		(38,684)	(25,744)	(6,930)
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSES)		32,960	70,188	56,131
FINANCE INCOME (EXPENSES)				
Finance income	22	20,222	13,332	15,054
Finance expense	22	(11,680)	(9,038)	(7,754)
Foreign exchange gains	22	—	699	488
Finance income (expense), net		8,542	4,993	7,788
PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		41,502	75,181	63,919
INCOME TAX AND SOCIAL CONTRIBUTION				
Current	21	(10,118)	(15,336)	(8,743)
Deferred	21	(672)	(824)	(1,618)
NET PROFIT FOR THE YEAR		30,712	59,021	53,558

The accompanying notes are an integral part of these financial statements.

MASTER SISTEMAS AUTOMOTIVOS LTDA.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 (UNAUDITED) 2013, AND 2012 (UNAUDITED)
(In thousands of Brazilian reais - R$)

	2014 Unaudited	2013	2012 Unaudited
NET PROFIT FOR THE YEAR	30,712	59,021	53,558
OTHER COMPREHENSIVE INCOME			
Items that will be reclassified subsequently to profit for the year:			
Actuarial gains (losses) on retirement benefit plan	(70)	(1)	97
Deferred income tax and social contribution on other comprehensive income	24	—	(33)
Other comprehensive income of associate accounted for under the equity method of accounting	—	—	46
	(46)	(1)	110
COMPREHENSIVE INCOME FOR THE YEAR	30,666	59,020	53,668

The accompanying notes are an integral part of these financial statements.

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MASTER SISTEMAS AUTOMOTIVOS LTDA.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 (UNAUDITED), 2013, AND 2012 (UNAUDITED)
(In thousands of Brazilian reais - R$)

	Note	Share Capital	Earnings reserve	Retained earnings	Total
BALANCES AT JANUARY 01, 2012		160,000	129,216	17,360	306,576
Net profit for the year		—	—	53,558	53,558
Other comprehensive income		—	—	110	110
Comprehensive income for the year		—	—	53,668	53,668
Prepaid dividends		—	—	(1,205)	(1,205)
Interest on capital		—	—	(14,986)	(14,986)
Payment of dividends		—	(62,854)	—	(62,854)
Earnings reserve		—	39,583	(39,583)	—
BALANCE AT DECEMBER 31, 2012 (Unaudited)		160,000	105,945	15,254	281,199
Net profit for the year		—	—	59,021	59,021
Other comprehensive income		—	—	(1)	(1)
Comprehensive income for the year		—	—	59,020	59,020
Capital reduction	17	(126,003)	(9,649)	(7,048)	(142,700)
Capital increase	17	26,003	(26,003)	—	—
Payment of dividends	18	—	(26,522)	—	(26,522)
Interest on capital	18	—	—	(8,952)	(8,952)
Distribution of dividends	18	—	—	(35,923)	(35,923)
Earnings reserve		—	15,721	(15,721)	—
BALANCES AT DECEMBER 31, 2013		60,000	59,492	6,630	126,122
Net profit for the year		—	—	30,712	30,712
Other comprehensive income		—	—	(46)	(46)
Comprehensive income for the year		—	—	30,666	30,666
Interest on capital	18	—	—	(5,975)	(5,975)
Payments of dividends	18	—	—	(25,914)	(25,914)
BALANCE AT DECEMBER 31, 2014 (Unaudited)		60,000	59,492	5,407	124,899

The accompanying notes are an integral part of these financial statements.

MASTER SISTEMAS AUTOMOTIVOS LTDA.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 (UNAUDITED), 2013, AND 2012 (UNAUDITED)
(In thousands of Brazilian reais - R$)

	Note	2014 Unaudited	2013	2012 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES				
Net profit before income tax and social contribution		41,502	75,181	63,919
Adjustments to reconcile net profit before income tax and social contribution to cash generated by operating activities:				
Gain (loss) from sale of property, plant and equipment		(1,029)	(144)	(177)
Depreciation of property, plant and equipment	10	10,304	9,796	9,468
Amortization of intangible assets	11	1,520	1,454	1,268
Exchange differences on borrowings		—	3	(118)
Interest and charges on borrowings and financing		8,086	7,147	3,387
Share of profits of associate	9	—	(15,385)	(22,922)
Changes in assets and liabilities				
(Increase) decrease in trade receivables		16,382	2,346	8,675
(Increase) decrease in short-term investments	5	15,539	(34,085)	—
(Increase) decrease in inventories		15,273	(13,724)	6,433
(Increase) decrease in other receivables		144	(2,134)	952
Increase (decrease) in trade payables		(3,982)	(2,307)	(6,149)
Increase (decrease) in payables and provisions		(3,148)	2,062	(6,597)
Income tax and social contribution paid		(10,287)	(16,912)	(9,660)
Dividends and interest on capital received		—	9,194	36,781
Interest paid on borrowings		(5,622)	(5,130)	(4,283)
Net cash generated by operating activities		84,682	17,362	80,977
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	10	(9,378)	(11,819)	(10,443)
Purchase of intangible assets	11	(391)	(31)	(1,265)
Proceeds of property, plant and equipment		2,500	737	242
Net cash used in investing activities		(7,269)	(11,113)	(11,466)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends and interest on capital paid	18	(42,265)	(41,733)	(74,704)
Borrowings from related parties		(151)	(151)	(107)
Third-party borrowings		70,609	91,002	3,976
Repayment of borrowings and financing		(584)	(48,286)	(42,560)
Net cash generated by (used in) financing activities		27,609	832	(113,395)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		105,022	7,081	(43,884)
Cash and cash equivalents at the beginning of the year	4	71,252	64,171	108,055
Cash and cash equivalents at the end of the year	4	176,274	71,252	64,171

The accompanying notes are an integral part of these financial statements.

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MASTER SISTEMAS AUTOMOTIVOS LTDA.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 (UNAUDITED), 2013, AND 2012 (UNAUDITED)
(Amounts in thousands of Brazilian reais - R$, unless otherwise stated)

1. GENERAL INFORMATION

Master Sistemas Automotivos Ltda. (“Company”) is a limited liability company established in Brazil with its head office and principal place of business at Rua Atílio Andreazza, 3520, in Caxias do Sul, RS, and is a jointly controlled entity of Randon S.A. Implementos e Participações (“Randon”) and Meritor do Brasil Sistemas Automotivos Ltda. (“Meritor”) whereby Randon owns 51% and Meritor owns 49% The Company was incorporated on April 24, 1986, have started its operations in April 1987, and is engaged in the development, manufacture, sale, assembly, distribution, import and export of movement control systems for buses, trailers and trucks and their parts and components.

On June 18, 2013, pursuant to the 23rd amendment to the articles of organization, the shareholders decided, by unanimous vote, without reserves or restrictions, to reduce the Company’s capital by transferring the shares held by the Company in the capital of Suspensys Sistemas Automotivos Ltda. to the shareholders of Randon S.A. Implementos e Participações and Meritor do Brasil Sistemas Automotivos Ltda. This amendment is detailed in note 17.

Until June 2013, the Company held a 53.177% interest in Suspensys Sistemas Automotivos Ltda. (“Suspensys”), which has its head office and principal place of business in Caxias do Sul, RS and is engaged in the manufacture and sale of air and mechanical suspension systems for trucks, buses and trailers, axles for trailers, third axles, hubs and drums for trucks, buses and trailers, and the provision of technical assistance services for its products.

2. PRESENTATION OF FINANCIAL STATEMENTS

The Company’s Financial Statements for the years ended on December 31, 2014 (unaudited), 2013 and 2012 (unaudited) have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB).

The Company adopted all rules, revision of rules, and interpretations issued by IASB and that are applicable for the year ended on December 31, 2014.

The summary of the principal accounting policies adopted by the Company is detailed in note 3.

The financial statements were approved by the Company's executive committee and authorized for issue on April 30, 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1. Basis of preparation

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

3.2. Functional currency and presentation currency

The financial statements are presented in thousands of reais, which is the Company's functional currency. All financial information presented in thousands of reais was rounded to the closest value.

3.3. Critical accounting judgments and key estimates and assumptions

In the application of accounting policies, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Significant assets and liabilities subject to these estimates and assumptions include the residual value and useful lives of property, plant and equipment, the allowance for doubtful debts, impairment of inventories, the realization of deferred taxes, and the provision for labor and social security risks. The estimates and underlying assumptions

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are reviewed on an ongoing basis. The effects of revisions to accounting estimates are recognized in the period in which the estimate is reviewed. Actual results may differ from these estimates due to uncertainties inherent in such estimates.

3.4. Revenue recognition

Revenue is recognized on an accrual basis.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably; and

Specifically, revenue from the sale of goods is recognized when goods are delivered and legal title is passed.

3.5. Foreign currency

In preparing the Company's financial statements, transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

3.6. Current and non-current assets

- Cash and Cash Equivalents

Include cash on hand and in banks and short-term investments redeemable in up to 90 days from the investment date. Short-term investments are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These investments are carried at cost plus yield accrued through the end of the reporting period, which approximates their fair values.

- Short-term investments not immediately redeemable

The classification of short-term investments depends on the purpose for which the investment was acquired and these investments are adjusted to fair value. When applicable, the costs directly attributable to the acquisition of a financial asset are added to the amount originally recognized.

• Trade receivables

Trade receivables are recognized at the billed amount, including the related taxes and reduced to their present value at the end of the reporting period, when applicable.

Allowances for doubtful debts are recognized based on estimated irrecoverable amounts determined by reference to the Company's past default experience and an analysis of the debtor's current financial position.

•Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined under the weighted average cost method.Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

The allowances for slow-moving or obsolete inventories are recognized when considered necessary by Management.

•Investments in associates

An associate is an entity over which the Company has significant influence and that does not qualify as a subsidiary or a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The profit or loss, assets, and liabilities of associates are included in the financial statements by the equity method of accounting. Under the equity method of accounting, investments in associates are initially recognized at cost and subsequently adjusted for purposes of recognition of the Company’s share in profit or loss and other comprehensive income of an associate. When the Company’s share of losses of an associate exceeds its interest in the associate (including any long-term investment which, in substance, is included in the Company’s net investment in the associate), the Company discontinues recognizing its share of further losses. Further losses are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

When the Company's subsidiary conducts a transaction with an associate, the resulting profits or losses are recognized only proportionately to the interests held in the associate not related to the Company.

As mentioned in note 17, on June 18, 2013 the Company reduced its capital by transferring the shares held in the capital of Suspensys Sistemas Automotivos Ltda. to the shareholders Randon S.A. Implementos e Participações and Meritor do Brasil Sistemas Automotivos Ltda.

•Property, plant and equipment

Carried at cost of acquisition, formation or construction, less accumulated depreciation and accumulated impairment losses. Properties in the course of construction are carried at cost. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Company's accounting policy (note 3.9). Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Land is not depreciated. For the other classes of property, plant and equipment, depreciation is calculated using the straight-line method at the rates mentioned in note 10, which take into consideration the estimated useful lives of assets. The estimated useful life and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of a property and equipment item is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

•Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from use. Gain or loss arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss when the asset is derecognized.

3.7. Impairment of tangible and intangible assets

At the end of each reporting period (or earlier when the need is identified), the Company reviews the carrying amount of its tangible and intangible assets to determine where there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.
If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.
When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, as long as the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years/periods. A reversal of an impairment loss is recognized immediately in profit or loss.

3.8. Discount to present value

Monetary assets and liabilities are discounted to present value when the effect is considered material in relation to the financial statements taken as a whole. The discount to present value is calculated based on an interest rate that reflects the timing and risk of each transaction.
Trade receivables are discounted to present value with a corresponding entry in sales revenue in the statements of income, and the difference between the present value of a transaction and the face value of the billing is considered as financial income and will be recognized based on the amortized cost and the effective long-term rate of the transaction.
The discount to present value of purchases is recorded in “trade payables” and “inventories”, and its realization has a corresponding entry in line item “finance expenses” over maturity date of trade payables.

3.9. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets.
Income on investments earned on the short-term investment of funds of specific borrowings not yet spent on the qualifying assets is deducted from the borrowing costs eligible for capitalization.
All other borrowing costs are recognized in profit or loss in the year in which they are incurred.

3.10. Retirement benefit plan

The Company is the sponsor of a defined contribution plan with minimum guaranteed benefits and the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses are immediately recognized in equity (Other comprehensive income) according to the available option in paragraph 93A IAS 19 - Employee Benefits.

3.11. Financial instruments

(a) Classification and measurement

The classification depends on the purpose for which the financial assets and liabilities were acquired or contracted. The Company’s management classifies its financial assets and liabilities at the time of initial contracting.
Loans and receivables measured at amortized cost

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Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade receivables and cash and cash equivalents) are measured at amortized cost using the effective interest method, less any impairment.

Financial liabilities measured at amortized cost

Borrowings are initially recognized, upon receipt of funds, net of transaction costs. They are subsequently measured at amortized cost. The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument.

3.12. Provisions

A provision is recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Provisions for the expected cost of warranty obligations are recognized at the date of sale of the relevant products, at Management's best estimate of the expenditure required to settle the Company's obligation.

3.13. Tax incentive (FUNDOPEM)

Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Subsidized loans, directly or indirectly provided by the Government, obtained at interest rates lower than market, are treated as government grants, measured at the difference between the amounts raised and the fair value of the borrowing calculated using market interest rates.

3.14. Income tax and social contribution

Current taxes

The provision for income tax and social contribution is based on the taxable profit for the year. Taxable profit differs from profit as reported in the statements of income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The provision for income tax and social contribution is calculated based on rates prevailing at the end of the reporting period (15% plus a 10% surtax on taxable profit exceeding R$ 20 per month for Income Tax and 9% on taxable profit for Social Contribution on Profit).

Deferred taxes

Deferred taxes are recognized on temporary differences at the end of each annual reporting period between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes for the period

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, current and deferred taxes are also recognized in other comprehensive income or directly in equity, respectively.

3.15. Standards, interpretations and amendments to existing standards not yet effective and which were not early adopted by the Company

Several standards, amendments to standards and IFRS interpretations issued by the IASB have not yet come into effect for the year ended December 31, 2014, as follows:

Standard	Main requirements	Effective for annual periods beginning on or after
IFRS 9 - Financial Instruments	Financial instruments	January 1, 2018
Amendments to IFRS 9 and IFRS 7 - Date of mandatory adoption of IFRS 9 and Transition Disclosures	Date of mandatory adoption of IFRS 9 and Transition Disclosures	January 1, 2015
IFRS 14 - Regulatory Deferral Accounts	Permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements	January 1, 2016
IFRS 15 - Revenue from contractors with customers	Provides a single, principles based five-step model to be applied to all contracts with customers	January 1, 2017
Amendments to IFRS 11	Require an acquirer of an interest in a joint operation in which the activity constitutes a business to apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, expect for those principles that conflict with the guidance in IFRS 11. Disclose the information required by IFRS 3	January 1, 2016
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortization	January 1, 2016
Amendments to IAS 16 and IAS 41	Define a bearer plant and require biological assets that meet such definition to be accounted for as property, plant and equipment	January 1, 2016
Amendments to IAS 27	Allow the use of equity method in separate financial statements	January 1, 2016
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	January 1, 2016
Annual improvements (2012-2014 cycle) in several accounting pronouncements	Makes amendments in the standards: IFRS 5, IFRS 7, IAS 9, IAS 34	January 1, 2016
Amendments to IAS 1	Disclosure Initiative	January 1, 2016
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: applying the consolidation exception	July 1, 2016

Considering the current operations of the Company, management is still assessing if these changes will have any impact on its financial statements.

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4. CASH AND CASH EQUIVALENTS

Short-term investments refer to bank certificates of deposit (CDBs), pegged to the interbank certificates of deposit rate (CDI) fluctuation that have original maturities of less than 90 days. The yield on these short-term investments is as follows:

	12/31/2014 Unaudited	12/31/2013
Cash and banks	1,302	4,294
Cash in transit	2,752	1,827
Short-term investments:		
CDB - 75.00% of CDI	—	1,556
CDB - 85.00% of CDI	1,019	—
CDB - 90.00% to 95.99% of CDI	5,796	—
CDB - 97.50% to 99.99% of CDI	16,207	4,436
CDB - 100.00% to 100.99% of CDI	64,181	12,613
CDB - 102.00% to 102.99% of CDI	85,017	46,526
	172,220	65,131
Total	176,274	71,252

5. SHORT-TERM INVESTMENTS NOT IMMEDIATELY REDEEMABLE

Investments in bank certificates of deposit (CDBs) and in local currency (R$) held in top tier banks, as follows:

Short-term investments:	12/31/2014 Unaudited	12/31/2013
CDB - 102.00% to 102.99%	18,546	34,085
Total	18,546	34,085

6. TRADE RECEIVABLES

Trade receivables are as follows:

	12/31/2014 Unaudited	12/31/2013
Trade receivables from third parties – domestic	15,093	24,783
Trade receivables from third parties – foreign	215	2,420
Trade receivables from related parties – domestic	8,960	13,899
Trade receivables from related parties – foreign	4,832	4,134
Allowance for doubtful debts	(111)	—
Total	28,989	45,236

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The aging of past-due trade receivables is as follows:

	12/31/2014 Unaudited	12/31/2013
1 to 30 days	5,802	8,695
31 to 60 days	419	668
61 to 90 days	222	106
91 to 180 days	240	346
Over 180 days	217	120
Past-due amounts	6,900	9,935
Current amounts	22,089	35,301
Total	28,989	45,236

Change on the allowance for doubtful debts:

	12/31/2014 Unaudited
Balance at the beginning of the year	—
Allowance recognized	(111)
Balance at the end of the year	(111)

To determine whether or not trade receivables are recoverable, the Company takes into consideration any change in the customer's creditworthiness from the date the credit was originally granted to the end of the reporting period. The Company does not hold any collateral or other credit enhancement over these receivables.

7. RECOVERABLE TAXES

Recoverable taxes are as follows:

	12/31/2014 Unaudited	12/31/2013
Federal VAT (PIS)	111	485
State VAT (ICMS)	1,442	1,362
Tax on revenue (PIS and COFINS)	206	171
Corporate Income Tax (IRPJ) and Social Contribution on Profit (CSLL)	1,105	540
Taxes recoverable on imports	1,438	1,862
ICMS on purchases of property, plant and equipment	1,376	1,411
PIS and COFINS on purchases of property, plant and equipment	1,344	954
Other recoverable taxes	818	723
Total	7,840	7,508
Current	7,231	6,521
Non-current	609	987

Recoverable taxes in non-current assets comprise ICMS, PIS and COFINS on purchases of property, plant and equipment for which the realization, pursuant to current relevant legislation, occurs in 48 monthly installments.

8. INVENTORIES

Inventories comprise:

	12/31/2014 Unaudited	12/31/2013
Finished products	7,648	4,767
Work in process	5,934	11,277
Raw materials	15,458	23,893
Inventories in transit	7,993	2,328
Provision for inventory losses	(391)	—
Advances to suppliers	745	947
Imports in transit	4,550	13,998
Total	41,937	57,210

The provision for inventory losses refers to probable losses arising from the adjustment of inventories to their realizable values. Change on this provision was as follows:

	12/31/2014 Unaudited
Balance at the beginning of the year	—
Provision recognized	(391)
Balance at the end of the year	(391)

The cost of inventories recognized as expense during the year ended December 31, 2014, related to continuing operations, was R$ 361,577 (R$ 422,131 at December 31, 2013 and R$ 316,358 for the year ended December 31, 2012).

Management expectations are that these inventories will be recovered in a period of less than twelve months.

9. INVESTMENTS – INVESTMENT IN ASSOCIATE

The changes in the investment in associate Suspensys Sistemas Automotivos Ltda. are as follows:

	12/31/2013	12/31/2012 Unaudited
Opening balance	128,805	146,126
Interest on capital receivable	(1,490)	(7,125)
Equity in associate	15,385	22,922
Dividends receivable	—	(1,871)
Dividends received	—	(31,293)
Other comprehensive income	—	46
Distribution of share units to Randon - (see note 17).	(142,700)	—
Closing balance	—	128,805

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Reconciliation of the equity investment at Suspensy’s net income:

	12/31/2013	12/31/2012 Unaudited
Suspensys' net income	28,931 (*)	43,106
Master's ownership on Suspensys	53.177 %	53.177 %
Equity in associate	15,385	22,922

(*) The equity in associate was calculated through May 31, 2013 due to the amendment to the articles of organization in June 2013, with the transfer of the share units held by the Company in Suspensys to the companies Randon and Meritor, as detailed in note 17.

The summarized financial information on Suspensys Sistemas Automotivos is as follows:

	05/31/2013	12/31/2012 Unaudited
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	94,384	79,719
Trade receivables	106,048	85,909
Inventories	63,817	50,176
Other current assets	12,184	6,850
Total current assets	276,433	222,654
NON-CURRENT ASSETS		
Property, plant and equipment and intangible assets	221,976	207,997
Other non-current assets	8,593	7,972
Total non-current assets	230,569	215,969
Total assets	507,002	438,623

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	05/31/2013	12/31/2012 Unaudited
LIABILITIES		
CURRENT LIABILITIES		
Trade payables	61,474	37,779
Borrowings and financing	23,041	24,466
Dividends and Interest on capital	17,290	14,908
Other current liabilities	29,108	20,093
Total current liabilities	130,913	97,246
NON-CURRENT LIABILITIES		
Borrowings and financing	98,560	87,473
Deferred taxes	3,735	6,436
Other non-current liabilities	5,445	5,248
Total non-current liabilities	107,740	99,157
SHAREHOLDERS' EQUITY	268,349	242,220
Total liabilities and shareholders' equity	507,002	438,623
Company's share in associate's net assets	142,700	128,805
Company's share in associate's contingent liabilities	538	490

	05/31/2013	12/31/2012 Unaudited
STATEMENTS OF INCOME		
Net operating revenue	396,639	730,941
Cost of sales	(324,932)	(621,150)
GROSS PROFIT	71,707	109,791
Operating expenses, net	(30,386)	(60,634)
Finance income, net	(1,472)	6,888
PROFIT BEFORE TAXES	39,849	56,045
Income tax and social contribution	(10,918)	(12,939)
NET PROFIT FOR THE YEAR	28,931	43,106

10. PROPERTY, PLANT AND EQUIPMENT

a) Balance breakdown

	12/31/2014 Unaudited	12/31/2013
Cost	196,144	189,479
Accumulated depreciation	(106,117)	(97,435)
	90,027	92,044

	Annual depreciation rate (%)	12/31/2014 Cost	Accumulated depreciation	Net	12/31/2013 Net
		Unaudited			
Land		4,400	—	4,400	4,400
Buildings	2 %	28,249	(6,671)	21,578	22,015
Machinery and equipment	9 %	121,650	(77,172)	44,478	48,444
Molds	16 %	21,743	(15,673)	6,070	7,162
Furniture and fixtures	11 %	6,999	(3,961)	3,038	3,117
Vehicles	11 %	2,011	(1,475)	536	465
Computer equipment	17 %	1,620	(1,165)	455	637
Advances to suppliers		50	—	50	121
Property, plant and equipment in progress (*)		9,422	—	9,422	5,683
Total		196,144	(106,117)	90,027	92,044

b) Movement in the cost:

	Balance at 1/1/2014	Additions	Disposals	Transfers	Balance at 12/31/2014
	Unaudited				
Land	4,400	—	—	—	4,400
Buildings	28,223	11	—	15	28,249
Machinery and equipment	119,532	675	(1,763)	3,206	121,650
Molds	21,518	342	(1,199)	1,082	21,743
Furniture and fixtures	6,542	390	—	67	6,999
Vehicles	1,845	242	(76)	—	2,011
Computer equipment	1,615	5	—	—	1,620
Advances to suppliers	121	105	(55)	(121)	50
Property, plant and equipment in progress (*)	5,683	7,988	—	(4,249)	9,422
Total	189,479	9,758	(3,093)	—	196,144

	Balance at 1/1/2013	Additions	Disposals	Transfers	Balance at 12/31/2013
Land	4,400	—	—	—	4,400
Buildings	28,056	—	—	167	28,223
Machinery and equipment	110,135	4,906	(289)	4,780	119,532
Molds	17,633	2,574	(221)	1,532	21,518
Furniture and fixtures	6,259	260	(53)	76	6,542
Vehicles	1,894	76	(125)	—	1,845
Computer equipment	1,496	177	(63)	5	1,615
Advances to suppliers	1,461	219	—	(1,559)	121
Property, plant and equipment in progress (*)	6,969	3,715	—	(5,001)	5,683
Total	178,303	11,927	(751)	—	189,479

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	Balance at 01/01/2012	Additions	Disposals	Transfers	Balance at 12/31/2012
		Unaudited			
Land	4,400	—	—	—	4,400
Buildings	28,015				