MERITOR INC
Form 10-K/A
May 03, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A (Amendment no. 1)
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 30, 2012
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 ¨ No x
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, 2013 (the last business day of the most recently completed second fiscal quarter) was approximately $452,642,563.

97,446,316 shares of the registrant's Common Stock, par value $1 per share, were outstanding on April 1, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the Annual Meeting of Shareowners of the registrant held on January 24, 2013 is incorporated by reference into Part III of the Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

EXPLANATORY NOTE - AMENDMENT

Meritor, Inc. (the “company” or “Meritor”) is filing this Form 10-K/A to include in its Annual Report on Form 10-K for the fiscal year ended September 30, 2012 (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”) and Suspensys Sistemas Automotivos Ltda. (“SSA”), unconsolidated joint ventures incorporated in Brazil in which the company owns an interest. Meritor owns a 49% interest in MSA (directly) and a 50% interest in SSA (through both direct and indirect interests).

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 and SSA did not meet such significance test for Meritor's 2012 fiscal year. Therefore, Meritor is only required to file unaudited financial statements for the fiscal year ended December 31, 2012 ("2012"). Both MSA and SSA met such test for Meritor's fiscal years 2011 and 2010 and the company has included in this Form 10-K/A the required audited financial statements for the fiscal years ended December 31, 2011 and 2010 (“2011” and “2010”).

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 and SSA for 2012, 2011 and 2010 have been prepared in accordance with IFRS as issued by the IASB.

Since the financial statement of MSA and SSA are presented in accordance with IFRS as issued by the IASB, reconciliations between local GAAP and U.S. GAAP are not required pursuant to SEC Release numbers 33-8879 and 34-57026 and have been omitted.

Item 15 is the only portion of the Annual Report being supplemented or amended by this Form 10-K/A. Additionally, in connection with the filing of this Form 10-K/A and pursuant to SEC rules, Meritor is including currently dated certifications. This Form 10-K/A does not otherwise update any exhibits as originally filed and does not otherwise reflect events occurring after the original filing date of the Annual Report. Accordingly, this 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 21, 2012 (all financial statements listed below are those of the company and its consolidated subsidiaries):
Consolidated Statement of Income, years ended September 30, 2012, 2011 and 2010.
Consolidated Balance Sheet, September 30, 2012 and 2011.
Consolidated Statement of Cash Flows, years ended September 30, 2012, 2011 and 2010.
Consolidated Statement of Shareowners' Equity (Deficit) and Comprehensive Loss, years ended September 30, 2012, 2011 and 2010.
Notes to Consolidated Financial Statements.
Report of Independent Registered Public Accounting Firm.
Master Sistemas Automotivos Ltda.
The following financial statements and related notes of Master Sistemas Automotivos Ltda. are included in this Amendment No. 1 on Form 10-K/A pursuant to Rule 3-09 of Regulation S-X:
Balance Sheets, December 31, 2012 and 2011.
Statements of Income, Comprehensive Income, Changes in Shareholders’ Equity, and Cash Flows, years ended December 31, 2012, 2011 and 2010.
Independent Auditors’ Report.
Suspensys Sistemas Automotivos Ltda.
The following financial statements and related notes of Suspensys Sistemas Automotivos Ltda. are included in this Amendment No. 1 on Form 10-K/A pursuant to Rule 3-09 of Regulation S-X:
Balance Sheets, December 31, 2012 and 2011.
Statements of Income, Comprehensive Income, Changes in Shareholders’ Equity, and Cash Flows, years ended December 31, 2012, 2011 and 2010.
Independent Auditors’ Report.

Master Sistemas Automotivos Ltda.

Financial Statements
For the Years
Ended December 31, 2012 (Unaudited), 2011 and 2010 and Independent Auditor's Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Master Sistemas Automotivos Ltda. (the "Company"), a company incorporated in Brazil, as of December 31, 2011 and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011 and the results of its operations and its cash flows for the years ended December 31, 2011 and 2010 in conformity with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

May 30, 2012

/s/ DELOITTE TOUCHE TOHMATSU
DELOITTE TOUCHE TOHMATSU
Auditores Independentes

MASTER SISTEMAS AUTOMOTIVOS LTDA.
BALANCE SHEETS AS OF DECEMBER 31, 2012 (UNAUDITED) AND 2011
(In thousands of Brazilian reais - R$)

ASSETS	Note	12/31/2012	12/31/2011
CURRENT ASSETS		Unaudited	
Cash and cash equivalents	4	64,171	108,055
Trade receivables	5	47,582	56,257
Recoverable taxes	6	4,073	3,822
Inventories	7	43,486	49,919
Dividends and interest on capital receivable	12	7,927	5,489
Prepaid expenses		294	342
Other receivables		1,735	2,282
Total current assets		169,268	226,166
NON-CURRENT ASSETS			
Amounts due from parent company	12	—	44
Recoverable taxes	6	857	1,590
Retirement benefit plan	13	640	441
Escrow deposits		198	204
Investments:			
Investment in associate	8	128,805	146,126
Other investments		26	26
Total investments		128,831	146,152
Property, plant and equipment	9	90,506	89,597
Intangible assets	10	10,174	10,177
Total non-current assets		231,206	248,205
TOTAL ASSETS		400,474	474,371

LIABILITIES AND EQUITY	Note	12/31/2012	12/31/2011
CURRENT LIABILITIES		Unaudited	
Trade payables		17,793	23,942
Borrowings and financing	11	48,523	43,040
Taxes and contributions payable		3,427	4,546
Salaries payable		1,358	1,669
Accrued vacation and related charges		4,277	5,550
Dividends and interest on capital payable	12 and 17	13,944	11,850
Employee and management profit sharing		2,180	4,913
Advances from customers		719	46
Amounts due to related parties	12	150	150
Other payables		1,552	2,336
Total current liabilities		93,923	98,042
NON-CURRENT LIABILITIES			
Borrowings and financing	11	17,424	62,504
Amounts due to related parties	12	903	1,054
Provision for tax, social security and labor risks	14	118	690
Contributions payable		2,799	3,107
Deferred taxes	20	3,956	2,305
Other payables		152	93
Total non-current liabilities		25,352	69,753
EQUITY			
Share capital	16	160,000	160,000

Earnings reserve	105,945	129,216
Retained earnings	15,254	17,360
Total equity	281,199	306,576
TOTAL LIABILITIES AND EQUITY	400,474	474,371

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

MASTER SISTEMAS AUTOMOTIVOS LTDA.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 (UNAUDITED) , 2011 AND 2010
(In thousands of Brazilian reais - R$)

	Note	2012 Unaudited	2011	2010
NET OPERATING REVENUE	18	379,419	524,030	431,166
COST OF SALES AND SERVICES	19	(316,358)	(422,807)	(347,602)
GROSS PROFIT		63,061	101,223	83,564
OPERATING INCOME (EXPENSES)				
Selling expenses	19	(13,034)	(18,706)	(14,520)
General and administrative expenses	19	(14,922)	(15,213)	(10,623)
Equity in associate	8	22,922	52,946	43,316
Other operating expenses, net	19	(1,896)	(7,264)	(5,655)
		(6,930)	11,763	12,518
OPERATING PROFIT BEFORE FINANCE INCOME (EXPENSE)		56,131	112,986	96,082
FINANCE INCOME (EXPENSE)				
Finance income	21	15,054	17,073	11,282
Finance costs	21	(7,754)	(6,441)	(5,387)
Foreign exchange gains	21	488	596	96
		7,788	11,228	5,991
PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		63,919	124,214	102,073
INCOME TAX AND SOCIAL CONTRIBUTION				
Current	20	(8,743)	(21,394)	(16,467)
Deferred	20	(1,618)	1,713	1,107
NET PROFIT FOR THE YEAR		53,558	104,533	86,713

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

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MASTER SISTEMAS AUTOMOTIVOS LTDA.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 (UNAUDITED) , 2011 AND 2010
(In thousands of Brazilian reais - R$)

	2012 Unaudited	2011	2010
NET PROFIT FOR THE YEAR	53,558	104,533	86,713
OTHER COMPREHENSIVE INCOME			
Actuarial gains (losses) on retirement benefit plan	97	(1)	46
Deferred income tax and social contribution on other comprehensive income	(33)	1	(16)
Other comprehensive income of associate accounted for under the equity method of accounting	46	—	32
	110	—	62
COMPREHENSIVE INCOME FOR THE YEAR	53,668	104,533	86,775

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

MASTER SISTEMAS AUTOMOTIVOS LTDA.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 (UNAUDITED), 2011 AND 2010
(In thousands of Brazilian reais - R$)

	Note	Capital	Earnings reserve	Retained earnings (accumulated losses)	Total
BALANCES AT JANUARY 01, 2010		105,000	83,787	21,056	209,843
Net profit for the year		—	—	86,713	86,713
Other comprehensive income		—	—	62	62
Comprehensive income for the year		—	—	86,775	86,775
Interest on capital	17	—	—	(10,990)	(10,990)
Payments of dividends	17	—	(8,400)	(12,677)	(21,077)
Earnings reserve		—	64,418	(64,418)	—
BALANCES AT DECEMBER 31, 2010		105,000	139,805	19,746	264,551
Net profit for the year		—	—	104,533	104,533
Comprehensive income for the year		—	—	104,533	104,533
Capital increase	16	55,000	(55,000)	—	—
Interest on Capital	17	—	—	(13,943)	(13,943)
Prepaid Dividends	17	—	—	(27,088)	(27,088)
Payments of Dividends	17	—	(21,477)	—	(21,477)
Earnings reserve		—	65,888	(65,888)	—
BALANCES AT DECEMBER 31, 2011		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	17	—	—	(1,205)	(1,205)
Interest on capital	17	—	—	(14,986)	(14,986)
Payments of dividends	17	—	(62,854)	—	(62,854)
Earnings Reserve		—	39,583	(39,583)	—
BALANCES AT DECEMBER 31, 2012 (UNAUDITED)		160,000	105,945	15,254	281,199

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, 2012 (UNAUDITED), 2011 AND 2010
(In thousands of Brazilian reais - R$)

	Note	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		Unaudited		
Profit before income tax and social contribution		63,919	124,214	102,073
Adjustments to reconcile profit before income tax and social contribution to cash generated by operating activities:				
Gain (loss) from sale of property, plant and equipment		(177)	288	45
Depreciation of property, plant and equipment	9	9,468	8,916	8,317
Amortization of intangible assets	10	1,268	109	135
Exchange differences on borrowings		(118)	—	—
Interest and charges on borrowings and financing		3,387	4,025	7,002
Share of profits of associate	8	(22,922)	(52,946)	(43,316)
Changes in assets and liabilities				
Decrease (increase) in trade receivables		8,675	(17,952)	(7,486)
Decrease (increase) in inventories		6,433	(19,551)	(6,238)
Decrease (increase) in other receivables		952	(2,682)	1,886
(Decrease) increase in trade payables		(6,149)	12,729	2,433
(Decrease) increase in payables and provisions		(6,597)	6,861	3,343
Income tax and social contribution paid		(9,660)	(21,394)	(16,466)
Dividends and interest on capital received		36,781	34,801	7,215
Interest paid on borrowings		(4,283)	(4,691)	(3,552)
Net cash generated by operating activities		80,977	72,727	55,391
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	9	(10,443)	(14,658)	(8,725)
Purchase of intangible assets	10	(1,265)	(5,868)	(4,208)
Proceeds of property, plant and equipment		242	—	—
Net cash used in investing activities		(11,466)	(20,526)	(12,933)
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends and interest on capital paid	17	(74,704)	(70,585)	(13,328)
Borrowings from related parties		(107)	(94)	570
Third-party borrowings		3,976	29,917	27,987
Repayment of borrowings and financing		(42,560)	(8,657)	(10,494)
Net cash used in financing activities		(113,395)	(49,419)	4,735
NET INCREASE IN CASH AND CASH EQUIVALENTS		(43,884)	2,782	47,193
Cash and cash equivalents at the beginning of the year		108,055	105,273	58,080
Cash and cash equivalents at the end of the year		64,171	108,055	105,273

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

MASTER SISTEMAS AUTOMOTIVOS LTDA.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 (UNAUDITED), 2011 AND 2010
(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, having 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.

The Company holds a 53.177% interest in Suspensys Sistemas Automotivos Ltda. (“Suspensys”), which has its registered 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.

Although the Company has a 53.177% equity interest in Suspensys, the Company does not have voting control due to the following factors:

Suspensys is jointly controlled as there is an agreement between Suspensys shareholders' (the Company, Randon and Meritor) that Suspensys' Consultative Board (i.e., governing body) is comprised of six members, which makes the significant decisions associated with Suspensys' operations. Three members of the consultative board are elected by Randon and the other three by Meritor and all decisions need to be agreed by at least four board members.

In accordance with the articles of association, each matter discussed in Suspensys' shareholders meeting are approved by at least 80% of the shareholders.

2. PRESENTATION OF FINANCIAL STATEMENTS

The Company's Financial Statements for the years ended on December 31, 2012 (unaudited), 2011 and 2010 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, 2012.
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 12, 2013.

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 number.

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 to be 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 are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period.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.

- 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.

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•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.

•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 9, 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.

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 “financial 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 (in line item 'Carrying value adjustments') 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

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.

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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 and social contribution is based on the taxable profit for the year.Taxable profit differs from profit as reported in the income statement 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.

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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, 2012, as follows:

Standard	Main requirements	Effective for annual periods beginning on or after
IFRS 9 - Financial Instruments	Financial instruments	January 1, 2015
IFRS 10 - Consolidated Financial Statements	Replaces the IAS 27 requirements applicable to consolidated financial statements and SIC 12.IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities.	January 1, 2013
IFRS 11 - Joint Arrangements	Eliminates the proportionate consolidation model for jointly controlled entities and maintains equity method model only. It also eliminates the concept of 'jointly controlled assets' and maintains only 'jointly controlled operations' and 'jointly controlled entities'.	January 1, 2013
IFRS 12 - Disclosure of Interests in Other Entities	Expands the current disclosure requirements in respect of entities, whether or not consolidated, where the entities have influence.	January 1, 2013
IFRS 13 - Fair Value Measurement	Replaces and consolidates in a single standard all the guidance and requirements in respect of fair value measurement contained in other IFRSs. IFRS 13 defines fair value and provides guidance on how to measure fair value and requirements for disclosure relating to fair value measurement. However, it does not introduce any new requirement or amendment with respect to items to be measured at fair value, which remain as originally issued.	January 1, 2013
Amendments to IFRS 7 - Disclosure - offset of financial assets and financial liabilities	Replaces and consolidates in a single standard all the guidance and requirements in respect of fair value measurement contained in other IFRSs. IFRS 13 defines fair value and provides guidance on how to measure fair value and requirements for disclosure relating to fair value measurement. However, it does not introduce any new requirement or amendment with respect to items to be measured at fair value, which remain as originally issued.	January 1, 2013
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

Amendments to IFRS 10,11 and 12 - Consolidated Financial Statements, Joint Ventures and Disclosure of Interests in Other Entities: transition guidance	Amends IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide additional transition relief in by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Also, amendments to IFRS 11 and IFRS 12 eliminate the requirement to provide comparative information for periods prior to the immediately preceding period.	January 1, 2013
Amendments to IAS 19 - Employee Benefits -	Eliminates the corridor approach and requires recognition of actuarial gains and losses as other comprehensive income for pension plans and other long-term benefits in profit or loss, when earned or incurred, among other changes.	January 1, 2013
IAS 27 - Separate Financial Statements	IAS 27 requirements related to consolidated financial statements are replaced by IFRS 10.The requirements for separate financial statements are maintained.	January 1, 2013
Amendments to IAS 28 - Investments in Associates and Joint Ventures	Revision of IAS 28 to include the amendments introduced by IFRSs 10, 11 and 12.	January 1, 2013
Amendments to IAS 32 - Financial Assets	Clarifies aspects and requirements regarding the offset of financial assets.	January 1, 2014
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine	Clarifies the requirements to account for costs associated to the removal of surface mining waste, including when such stripping costs shall be recognized as an asset, how the asset is initially recognized, and subsequent measurements.	January 1, 2013

Annual improvements in several accounting pronouncements.

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

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.The yield on these short-term investments is as follows:

	12/31/2012 Unaudited	12/31/2011
Cash and banks	393	1,971
Cash in transit	2,040	2,751
Short-term investments:		
CDB - 75.00% to 97.49% of CDI	—	2,006
CDB - 97.50% to 99.99% of CDI	12,612	64
CDB - 100.00% to 100.99% of CDI	3,464	3,465
CDB - 102.00% to 102.99% of CDI	6,354	36,643
CDB - 103.00% to 103.99% of CDI	36,550	5,531
CDB - 104.00% to 104.99% of CDI	—	2,565
CDB - 105.00% to 105.99% of CDI	2,758	46,016
CDB - 106.00% to 106.99% of CDI	—	7,043
	61,738	103,333
Total	64,171	108,055

5. TRADE RECEIVABLES

Trade receivables are as follows:

	12/31/2012 Unaudited	12/31/2011
Trade receivables from third parties – domestic	26,889	32,555
Trade receivables from third parties – foreign	439	1,814
Trade receivables from related parties – domestic	15,757	14,829
Trade receivables from related parties – foreign	4,497	7,059
Total	47,582	56,257

Trade receivables include amounts that are past due at the end of the reporting period for which the Company has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable, through negotiation with customers. The aging of past-due trade receivables for which no allowance for doubtful debts was recognized is as follows:

	12/31/2012 Unaudited	12/31/2011
1 to 30 days	12,127	16,815
31 to 60 days	842	1,302
61 to 90 days	585	739
91 to 180 days	208	512
Over 180 days	1	67
Past-due amounts	13,763	19,435
Current amounts	33,819	36,822
Total	47,582	56,257

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 credit risk concentration is limited because the customer base is comprehensive and there is no relationship between customers. The Company does not hold any collateral or other credit enhancement over these receivables.

6. RECOVERABLE TAXES

Recoverable taxes are as follows:

	12/31/2012 Unaudited	12/31/2011
Federal VAT (IPI)	69	286
State VAT (ICMS)	907	2,782
Tax on revenue (PIS)	—	282
Tax on revenue (COFINS)	—	1,317
Taxes recoverable on imports	1,517	—
State VAT (ICMS) on purchases of property, plant and equipment	1,254	280
Tax on revenue (PIS) on purchases of property, plant and equipment	211	83
Tax on revenue (COFINS) on purchases of property, plant and equipment	972	382
Total	4,930	5,412
Current	4,073	3,822
Non-current	857	1,590

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.

7. INVENTORIES

Inventories comprise:

	12/31/2012 Unaudited	12/31/2011
Finished products	5,462	7,636
Work in process	8,402	11,449
Raw materials	17,440	27,478
Inventories in transit	5,441	875
Advances to suppliers	702	558
Imports in transit	6,039	1,923
Total	43,486	49,919

The cost of inventories recognized as expense during the year ended December 31, 2012, related to continuing operations, was R$316,358 (R$422,807 for the year ended December 31, 2011 and R$347,602 for the year ended December 31, 2010).

Management expects that these inventories will be recovered in a period shorter than twelve (12) months.

8. INVESTMENTS – INVESTMENT IN ASSOCIATE

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

	12/31/2012 Unaudited	12/31/2011	12/31/2010
Opening balance	146,126	120,002	96,851
Interest on capital receivable	(7,125)	(6,457)	(5,100)
Equity in associate	22,922	52,946	43,316
Dividends receivable	(1,871)	—	(10,102)
Dividends received	(31,293)	(20,363)	(4,995)
Other comprehensive income	46	(2)	32
Closing balance	128,805	146,126	120,002

The Company adjusted net income of each year to eliminate the impact of the tax incentive as detailed below:

	12/31/2012 Unaudited	12/31/2011	12/31/2010
Suspensys' net income	43,106	99,566	93,218
(Less) Disproportional dividend to Randon related to tax incentive	—	—	(11,763)
Basis for equity method	43,106	99,566	81,455
Master ownership on Suspensys	53.177%	53.177%	53.177%
Equity in associate for the year	22,922	52,946	43,316

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

	12/31/2012 Unaudited	12/31/2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	79,719	132,773
Trade receivables	85,909	141,114
Inventories	50,176	72,272
Other current assets	6,850	10,170
Total current assets	222,654	356,329
NON-CURRENT ASSETS		
Property, plant and equipment and intangible assets	207,997	134,610
Other non-current assets	7,972	17,062
Total non-current assets	215,969	151,672
Total assets	438,623	508,001

	12/31/2012 Unaudited	12/31/2011
LIABILITIES		
CURRENT LIABILITIES		
Trade payables	37,779	52,139
Borrowings and financing	24,466	49,528
Dividends and Interest on capital	14,908	10,321
Other current liabilities	20,093	32,888
Total current liabilities	97,246	144,876
NON-CURRENT LIABILITIES		
Borrowings and financing	87,473	78,104
Deferred taxes	6,436	5,650
Other non-current liabilities	5,248	4,580
Total non-current liabilities	99,157	88,334
SHAREHOLDERS’ EQUITY	242,220	274,791
Total liabilities and shareholders’ equity	438,623	508,001
Company's share in associate's net assets	128,805	146,126
Company's share in associate's contingent liabilities	490	416

STATEMENTS OF INCOME	12/31/2012 Unaudited	12/31/2011	12/31/2010
Net operating revenue	730,941	1,168,437	1,011,273
Cost of sales	(621,150)	(957,958)	(839,460)
GROSS PROFIT	109,791	210,479	171,813
Operating expenses, net	(60,634)	(86,085)	(53,646)
Finance income, net	6,888	15,953	5,924
PROFIT BEFORE TAXES	56,045	140,347	124,091
Income tax and social contribution	(12,939)	(40,781)	(30,873)
NET PROFIT FOR THE YEAR	43,106	99,566	93,218

9. PROPERTY, PLANT AND EQUIPMENT

	12/31/2012 Unaudited	12/31/2011
Cost	178,303	168,301
Accumulated depreciation	(87,797)	(78,704)
	90,506	89,597

	Annual depreciation rate (%)	12/31/2012 Cost	12/31/2012 Accumulated depreciation Unaudited	12/31/2012 Net	12/31/2011 Net
Land	— %	4,400	—	4,400	4,400
Buildings	2 %	28,056	(5,747)	22,309	22,726
Machinery and equipment	9 %	110,135	(63,924)	46,211	49,895
Molds	16 %	17,633	(13,007)	4,626	5,154
Furniture and fixtures	11 %	6,259	(2,940)	3,319	3,723
Vehicles	11 %	1,894	(1,320)	574	616
Computer equipment	17 %	1,496	(859)	637	761
Advances to suppliers	— %	1,461	—	1,461	—
Property, plant and equipment in progress	— %	6,969	—	6,969	2,322
Total		178,303	(87,797)	90,506	89,597

a) Movement in cost

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	Balances at 1/1/2012	Additions	Disposals	Transfers	Balances at 12/31/2012 Unaudited
Land	4,400	—	—	—	4,400
Buildings	28,015	41	—	—	28,056
Machinery and equipment	107,317	3,220	(402)	—	110,135
Molds	16,808	825	—	—	17,633
Furniture and fixtures	6,162	97	—	—	6,259
Vehicles	1,835	94	(35)	—	1,894
Computer equipment	1,442	58	(4)	—	1,496
Advances to suppliers	—	1,461	—	—	1,461
Property, plant and equipment in progress	2,322	4,647	—	—	6,969
Total	168,301	10,443	(441)	—	178,303
	Balance at 01/01/2011	Additions	Disposals	Transfers	Balance at 12/31/2011
Land	4,400	—	—	—	4,400
Buildings	26,481	1,015	—	519	28,015
Machinery, equipment, and molds	118,311	9,461	(4,759)	1,112	124,125
Furniture and fixtures	5,295	1,206	(303)	(36)	6,162
Vehicles	1,913	32	(110)	—	1,835
Computer equipment	1,334	567	(459)	—	1,442
Advances to suppliers	21	—	—	(21)	—
Property, plant and equipment in progress (*)	1,519	2,377	—	(1,574)	2,322
Total	159,274	14,658	(5,631)	—	168,301

* The amount of R$6,969 in 2012 and R$2,322 in 2011 recognized in property, plant and equipment in progress refers to a machine that after being installed will be lent to Endosul Pintura Automotiva Ltda. under a free-lease agreement.

b) Movement in accumulated depreciation

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	Balance at 01/01/2012 Unaudited	Additions	Disposals	Transfers	Balance at 12/31/2012
Buildings	(5,289)	(458)	—	—	(5,747)
Machinery and equipment	(57,422)	(6,871)	369	—	(63,924)
Molds	(11,654)	(1,353)	—	—	(13,007)
Furniture and fixtures	(2,439)	(501)	—	—	(2,940)
Vehicles	(1,219)	(104)	3	—	(1,320)
Computer equipment	(681)	(181)	3	—	(859)
Total	(78,704)	(9,468)	375	—	(87,797)

	Balance at 01/01/2011	Additions	Disposals	Transfers	Balance at 12/31/2011
Buildings	(4,841)	(451)	—	3	(5,289)
Machinery, equipment, and molds	(65,905)	(7,737)	4,595	(29)	(69,076)
Furniture and fixtures	(2,260)	(481)	276	26	(2,439)
Vehicles	(1,146)	(96)	23	—	(1,219)
Computer equipment	(976)	(151)	446	—	(681)
Total	(75,128)	(8,916)	5,340	—	(78,704)

c) Assets pledged as collateral

Machinery and equipment in the residual values of R$1,228 and R$785 (R$930 and R$1,360 in December 2011) were pledged as collateral for the financing from the National Bank for Economic and Social Development (BNDES), by the Company and its associate Suspensys Sistemas Automotivos Ltda., respectively.

10. INTANGIBLE ASSETS

	Annual amortization rate	Balance at 12/31/2010	Additions	Balance at 12/31/2011	Additions	Transfers	Balance at 12/31/2012 Unaudited
Software:							
Cost	12.7%	1,347	5	1,352		11,262	12,614
Accumulated amortization		(1,083)	(109)	(1,192)	(1,268)	—	(2,460)
		264	(104)	160	(1,268)	11,262	10,154
Intangible assets in progress		4,154	5,863	10,017	1,265	(11,262)	20
		4,418	5,759	10,177	(3)	—	10,174

The transfer made in the period refers to the completion of the SAP software implementation.

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11. BORROWINGS AND FINANCING

Financing obtained was used to fund the construction of the Company's manufacturing facilities, develop quality processes, finance exports and imports, and finance machinery imports. Financing was obtained from several financial institutions by means of funds raised by these institutions with the National Bank for Economic and Social Development (BNDES).

Borrowings and financing are as follows:

Type:	Annual financial charges	Payment frequency	Final maturity	12/31/2012	12/31/2011
Working capital / exports				Unaudited	
Advance of forex contract (ACC)	US dollar plus 2.90%	Monthly	09/2012	—	3,752
Bank Credit Note - Exin	4.50% to 9%	Bullet upon maturity	11/2013	46,054	78,519
Financing					
BNDES financing	TJLP plus 2.5% to 5%	Monthly	04/2013	1,741	6,973
FININP	US dollar plus LIBOR + 1% to 4.4%	Quarterly	12/2013	410	1,239
BNDES financing	US dollar plus 2.5% p.a.	Monthly	04/2013	176	653
FUNDOPEM - ICMS (a)	IPCA plus 3%	Monthly	02/2021	17,566	14,408
Total				65,947	105,544
Current				48,523	43,040
Non-current				17,424	62,504

The maturities of the long-term portions of the financing are as follows:

Maturity	12/31/2012	12/31/2011
	Unaudited	
2013	—	48,226
2014	337	310
2015	1,123	1,033
2016	2,214	