Somero Enterprises, Inc.
Annual Report & Accounts 2014

Table of Contents

Who We Are

Somero designs, assembles, and sells patented, laser-guided equipment that automates the process of spreading and leveling volumes of concrete for commercial flooring and other horizontal surfaces such as paved parking lots. Somero's innovative, proprietary products include the large S-22E Laser Screed®, CopperHead®, Mini Screed™ C, S-840 Laser Screed®, S-15R Laser Screed®, STS-11m Spreader, and the new S-485 Laser Screed® machines which employ laser-guided proprietary technology to achieve a high level of precision in concrete surface flatness at a higher rate of efficiency than conventional methods. This results in the highest level of flat-floor precision attainable at less cost to the flooring contractor.

Somero's products have been sold to concrete contractors for non-residential construction projects in over 92 countries and across every time zone around the globe. Laser Screed® equipment has been specified for use in the construction of warehouses, assembly plants, retail centers, and other commercial construction projects that require extremely flat concrete-slab floors and by a variety of companies, such as Costco, Home Depot, B&Q, DaimlerChrysler, various Coca-Cola bottling companies, the United States Postal Service, Lowe's, Toys 'R' Us, and ProLogis.

Somero Laser Screed® equipment holds a 99% market share in the non-residential, horizontal concrete flooring industry in over 92 countries. Somero equipment is used to construct the concrete slab in all building types, as well as all floors in multi-story buildings. Our target customer is the commercial concrete flooring contractor, of any size, who is ready to move to the next level of profitability with their business. The key to our success is, not only the quality of our equipment and the service that we provide, but the investment we make in the relationship with our customers. Somero equipment and service helps our customers achieve their business and profitability goals, creating the loyalty that maintains them as a customer for life.

Somero's assembly operations are located in Michigan, USA with headquarters in Florida, USA. It has sales and service offices in Chesterfield, England; Shanghai, China; and New Delhi, India.

Somero has approximately 165 employees and markets and sells its products through a direct sales force, external sales representatives, and independent dealers in the Americas, Europe, Middle East, South Africa, Asia, and Australia.

Somero is listed on the Alternative Investment Market (AIM) of the London Stock Exchange (LSE) and its trading symbol is SOM.L.

Financial Highlights

- Revenue increased by 32% to US$ 59.3m (2013: US$ 45.1m)
- Adjusted EBITDA increased by 67% to US$ 15.0m (2013: US$ 9.0m)(1,2)
- Pre-tax income increased by 91% US$ 12.4m (2013: US$ 6.5m)
- Adjusted net income before amortization increased 118% to US$ 16.1m (2013: US$ 7.4m)(3)
- EPS before amortization of US$ 0.29 (2013: US$ 0.13)
- Basic EPS US$ 0.26 (2013: US$ 0.10)
- Net cash at December 31, 2014 of US$ 6.6m (Net cash at December 31, 2013 of US$ 3.4m)(4)
- Final dividend of 4.0 US cents per share, for a total dividend for the year of 5.5 US cents per share; a 150% increase over last year

Business Highlights

- Total investment in hiring and training 37 new employees and moving into a new office building totaled US$ 1.4m
- Sales in North America continued strong with an increase of 46% to US$ 37.2m
- Sales in Asia had significant growth, namely
  - Increased sales and service presence in China resulted in 44% increase to US$ 9.5m
  - Increased sales and service presence in Southeast Asia resulted in strong growth from US$ 0.4m in 2013 to US$ 0.7m in 2014
  - Increased sales and service presence in India pushed the sales growth cycle to US$ 0.6m over US$ 0.0m in 2013
- Europe continued its recovery resulting in an increase of 20% to US$ 3.6m compared to US$ 3.0m in 2013
- 7 of the 10 regions experienced growth
- Our new product, the S-485 Laser Screed® machine introduced in October 2014 had sales of US$ 0.9m

Notes:

1. The Company uses non-US GAAP financial measures in order to provide supplemental information regarding the Company's operating performance. See further information regarding non-GAAP measures on pages 10 to 12.

2. Adjusted EBITDA as used herein is a calculation of the Company's net income plus tax provision, interest expense, interest income, foreign exchange gain/(loss), other expense, depreciation, amortization, stock based compensation and the write-down of Goodwill, as applicable.

3. Adjusted net income before amortization is a calculation of net income plus amortization of intangibles.

4. Net Cash is defined as cash and cash equivalents less borrowings under bank obligations.

Chairman's Statement

Overview

Somero completed an exceptional year of growth in 2014, ending the period with revenue of US$ 59.3m vs. US$ 45.1m for 2013. Key to our strong performance is has been our continued efforts to seek improvement in our products, processes, services, and people. Seven of the ten regions in which we operate grew and our performance in North America and China was outstanding. Our very experienced sales team in North America, the continued strength of China's economy, and our extensive investment in the Asian market contributed to our success.

People

We significantly invested in our people throughout the organization in 2014, increasing our staffing levels by 29%. Our existing 165 employees were key drivers of our growth while we added and trained additional staff and made key promotions in line with our expansion. We expect 2015 will be another exciting year, continuing to offer career entry and advancement opportunities. The Board appreciates all of our employees for their hard work, dedication, and loyalty.

Markets

North America has held strong, leading group revenues of US$ 37.2m (2013: US$ 25.5m). China's revenues increased 44% over 2013 ending at US$ 9.5m (2013: US$ 6.6m). Our European market saw a 20% increase in revenues with US$ 3.6m (2013: US$ 3.0m). Australia and Southeast Asia also experienced strong growth in 2014 while Russia and the Middle East experienced sales decline particularly due to political factors in those regions.

New product development

In 2014, Somero introduced the S-485 Laser Screed®. Designed for easier set-up and operation, Simplicity Defined is the motto for this new Laser Screed®. It requires one less person to operate and only one person is needed to establish grade or fine tune the programmable height receivers. We have had an outstanding response to this new machine as it was just introduced in October and contributed US$ 0.9m to our 2014 sales.

Product development continues to be a focus of our plans for 2015 as we are always working towards new and innovative ideas to introduce to the industry.

Current trading and outlook

Strong US sales momentum has carried forward into 2015 as a result of our new product introductions, replacement demands on outdated technology, and the ongoing construction growth that our customers are experiencing. This is another positive indicator of our customers demand to keep up with the fast growing economy. This growth trajectory is expected to result in strong sales for 2015.

The Asian markets remain positioned for continued growth this year. Continued penetration of our products and brand awareness signifies a greater need, and willingness to use our products and services. Rising penetration rate in China, which is currently estimated at 1%, will provide us ample opportunity to increase growth going forward. We are also pleased to announce that our customers in China now have access to financing options made available specifically for Somero® equipment, which is expected to have a positive impact on sales in the region. With the addition of the new facility, Concrete College and the financing option all play a key role into our 5-year strategic plan for the region.

Growth is also anticipated in Latin America outside of Brazil’s economic slowdown. This was driven by strong fourth quarter sales in Mexico, attributed to the manufacturing sector, and is continuing into 2015. We are also seeing positive signs of improvement in other countries in this region and we are optimistic about what is ahead.

Due to the anticipated growth of the business in the medium term, the Board has concluded that the current Global Headquarters in Fort Myers will not be large enough to accommodate future growth. As a result, the Company has entered into an agreement to purchase land to build a new Global Headquarters at an expected cost of up to US$ 4.0m spread over 2015 and 2016.

We are very encouraged by the sound start to 2015 and are confident that this will be another year of solid growth for the company.

Larry Horsch

Non-Executive Chairman

President and Chief Executive Officer's Statement

Overview

This was the first year of our strategy to double our 2013 revenue of US$ 45.1m by 2018. It was a remarkable year with sales increasing 32% to US$ 59.3m. This was driven by strong growth in 7 of our 10 regions, led by North America's increase in sales of 46% to US$ 37.2m and China with a sales increase of 44% to US$ 9.5m. Our committed focus on improving gross margin through cost and discounting reductions and pricing power resulted in gross margin increasing to 54.0% from 52.2%. Due to our strong operating leverage, our EBITDA(1,2) increased 67% to US$ 15.0m resulting in a 94% increase in net cash to US$ 6.6m.

Geographical growth

In North America, actual non-residential cement consumption exceeded the industry's original forecast of 22% growth in 2014 to end up at 30%(3). This construction growth, our new product introduction, pricing power, and the shortage of skilled labor by our customers all contributed to the 46% increase in North America sales. In 2015, we plan to expand our Michigan facility to accommodate our growth at an approximate cost of US$ 1.0m.

All three of our Asian markets grew substantially this year. In China, we increased sales by 44% to US$ 9.5m. This structural growth is driven by increasing our penetration rate in all regions of China and the broader awareness of US floor flatness standards now issued by the China Flooring Association. The higher wage rates in China are leading to greater automation which increases the value of Somero equipment. The Chinese economy is evolving towards more logistics, big box retailing, and e-commerce which increase owners' demands for the speed and flatness provided by Somero equipment. We invested an additional US$ 0.8m in 2014 to expand our team by 5 people to 19 employees. Our new office is 150% larger than our headquarters in Florida and will include the Somero Concrete College and warehousing for over US$ 1.0m in spare parts and equipment inventory to service China.

In Southeast Asia, sales increased from US$ 0.4m in 2013 to US$ 0.7m in 2014 representing sales in all the major countries. We expect to see strong sustained growth from this region as we increase our market awareness and penetration as evidenced by the sale of two Large line screeds and two 3-D Profilers for the startup of a multi-year project in Jakarta, Indonesia which will create a dedicated bus line with concrete pavement in early 2015.

Our sales in India were very good for the initial phases of penetration into this significant market. To increase awareness within the industry, we have stepped up our marketing efforts as well as attended trade shows and conducted seminars for engineers and architects. Cement consumption is three times that in the US, and we continue to invest in sales and develop revenue opportunities within the market.

Europe continues its road to recovery and demonstrates growth year over year. Latin America remained flat due to the Brazilian economy and currency. As expected, sales in Russia and the

Middle East were slow due to the geo-political changes that occurred in 2014.

In 2014, we increased our staff by 37 people to 165 people representing a 29% increase. This consistently represents one of our largest investments each year, with employees located in multiple countries, including China, India, United States, United Kingdom, and Europe. Given our hugely dominant share of the laser screed market, it is difficult to find prospective employees with the full scope of sales or support experience we seek and the hiring and training process of our employees is consequently a major investment both in time and financial resources. A large part of the hiring process is devoted to determining if a person fits the Somero culture, embraces our core values, and will be a significant contributor.

Product development

Somero invests 2% of sales on product development and introduces new products every year. It is a customer driven process whereby we utilize customer focus groups, customer surveys, and feedback from our sales and technical support staff. This process keeps us focused on the customer needs and value requirements. In 2014, we introduced the S-485 which is a ride-on Small line Laser Screed® with new simplistic operational capabilities, speed, and labor savings. Introduced in the 4th Quarter, it generated US$ 0.9m of revenue.

China Somero concrete college

In growing any emerging market, there needs to be an increasing demand for the product and a venue in which to teach customers the fundamentals of success. Learning how to operate our equipment is the easy part of this process because we have simplified it through our Product Development Team. In contrast, understanding how to place a high-quality concrete slab is more difficult as it is more than just placing the concrete and allowing it to harden. Until now, trial and error has been the only way for our customers to learn successful placing of a concrete floor. If the Concrete Contractor doesn't get it right the first time, their second chance could cost them hundreds of thousands of dollars as well as the opportunity to ever work with that owner or client again.

We have therefore devised the very first education and training program of its kind, specifically for the Chinese market. We call this program the Somero Concrete College. This 5-day, hands-on program will educate and train our customers to become industry leaders in placing a concrete floor successfully and with the utmost confidence. Our customers and their crews are taught step-by-step, utilizing our very talented team of professionals who are considered the best in industry. Our ultimate goal is to make the customer successful and drive industry expectations to higher levels which promotes demand for our equipment.

The biggest part of this endeavor was to secure a suitable location in which to provide indoor training, thus keeping our customers comfortable in any type of weather condition. Our 4,000 square-meter facility (office/warehouse) will be utilized for the training grounds, regional sales office, customer service call center, and parts warehousing. This one-of-a-kind program is specific to the Chinese market and the training will encompass:

- Using our equipment
- Proper screeding techniques
- Concrete placement techniques
- Finishing techniques
- Understanding concrete mix designs and performance
- Saw cut and sealing of the concrete floor
- Measuring quality floor standards properly

In addition to the Somero Concrete College, we are pleased to announce that we are also launching our Screed Training program at the facility. This program is specifically designed for new customers and will educate them in proper operation and maintenance of a newly purchased Somero Laser Screed®. This training program will be similar to our training program currently provided in the US and is designed to provide our customers a stress-free and enjoyable learning environment. The completion of the Somero Concrete College will occur in the fourth quarter of 2015.

By providing these programs, we are able to prove to our customers, and ultimately their customers, that we are all together in this rapidly growing market.

Management targeting a doubling of group revenue by 2018

In my statement last year, I introduced our five year growth plan to double our year 2013 revenue by year 2018. Our 2014 revenue of US$ 59.3m exceeded our expectations, with 7 of 10 regions increasing year over year. Latin America was flat and Russia and the Middle East decreased, both due to political unrest. Actual non-residential cement consumption exceeded the industry's original forecast of 131%[(3)]. This growth is occurring throughout the US; therefore, we expanded our sales force by two people to a total of seven. The substantial increase in revenue was driven by two new products: the S-15R; the S-485, with our new proprietary operating system; our two new sales people; and the increased construction activity.

The Asian market is driven by China, as their total concrete consumption was 30 times the US in 2014. North American sales were US$ 37.2m which could make the China sales potential hundreds of millions of US dollars. This year, China sales increased 44% to US$ 9.5m. Our low penetration rate provides Somero with a large, sustainable opportunity. However, we continue to increase our market awareness, supported by our 44% increase in sales. Our specifications engineers are continuously engaged in educating the market through seminars to the China Flooring Association, the China Logistics Association, as well as large building owners and developers in order to increase the awareness of the quality, speed, and value of Somero Laser Screed® equipment.

We continue to make significant investments in China through hiring and training employees, securing our new office, developing the concrete college, and aggressive marketing efforts. Ensuring we expand the penetration rate and product awareness is a critical part of exceeding our strategic plan to triple revenue by 2018.

The India market has also experienced growth. With two salespeople and a support technician, sales increased from US$ 0.0m to US$ 0.6m. We continue to expand our importing capabilities to enlarge our inventory of machines and spare parts in order to support our expansion in the market.

Revenue in Southeast Asia increased from US$ 0.4m in 2013 to US$ 0.7m in 2014. Our market awareness has been significantly increased as evidenced by our work on the concrete bus lane project in Jakarta, Indonesia.

In 2014, the European construction market entered a new phase of growth and this year felt like the market had reached a phase of recovery. Positive growth is being seen in pockets all across Europe, and we expect to see continued growth in many more regions. The introduction of new products in 2014 presented us with opportunities for a new customer base and this will have positive impact, alongside our core products.

Cashflow and balance sheet

Our SG&A expense control system ensured that we maximized EBITDA(1). We generated US$ 6.6m in net cash(2) after paying US$ 1.6m in dividends, US$ 1.7m in taxes, US$ 6.3m in equity instruments, and reducing debt by US$ 1.3m.

Dividend

In recognition of Somero's strong performance and the Board of Directors' confidence in the continued growth of the Company, the Board is pleased to announce that we will increase the dividend payout ratio to 30%. Therefore, a final 2014 dividend of 4.0 US cents per share has been announced on April 7, 2015 that will be payable on May 11, 2015 to shareholders on the register at April 24, 2015 and together with the interim dividend paid in October 2014 of 1.5 US cents per share, represents a full year dividend to shareholders of 5.5 US cents per share; a 150% increase on the previous year. The final 2014 dividend of 4.0 US cents per share represents a 208% increase over the final 2013 dividend.

Conclusion

When we closed the books on 2014, we met or exceeded much of our expectations throughout the year. I was delighted in the performance of the Management Team and the focus maintained by their respective departments amidst the pace of growth we experienced. This was one of the most exciting years I have had the pleasure of experiencing with Somero.

As we endeavor to improve our culture, mission, and vision, we are confident that the strategic direction we have chosen is sound and our excitement only grows as we plan to bring new products and services to the market in the coming years. We will continue to accelerate and become ever more competitive, thus ensuring Somero's continued success and ability to attain a global leadership position. We are confident in our platform and our ability to drive the execution of our plans, guaranteeing our investments in innovation, people, systems and markets, deliver profitable growth, and improve return on invested capital.

With the US in its recovery mode, our penetration in emerging markets, and the positive upswing of momentum in Europe, we are already ahead of our five year growth plan projections.

We are all very excited about the opportunities going into 2015.

Jack Cooney

President and Chief Executive Officer

April 7, 2015

Notes:

1. Adjusted EBITDA as used herein is a calculation of the Company's net income plus tax provision, interest expense, interest income, foreign exchange gain/(loss), other expense, depreciation, amortization, stock based compensation and the write-down of Goodwill, as applicable.

2. Net Cash is defined as total borrowings under bank obligations less cash and cash equivalents.

3. Percentages derived from Portland Cement Association Market Intelligence November 2014 and Portland Cement Association Market Intelligence Fall 2013 reports.

Financial Review

Summary of financial results	Year ended December 31, 2014 US$ 000	Year ended December 31, 2013 US$ 000
Revenue	59,277	45,078
Cost of sales	27,290	21,536
Gross profit	31,987	23,542
Operating expenses		
Selling expenses	7,150	6,524
Engineering expenses	1,166	881
General and administrative expenses	11,079	9,734
Total operating expenses	19,395	17,139
Operating income	12,592	6,403
Other income (expense)		
Interest expense	(107)	(216)
Interest income	39	13
Foreign exchange (loss)/gain	(122)	249
Other	(3)	2
Income before income taxes	12,399	6,451
(Benefit)/provision for income taxes	(2,142)	1,071
Net income	**14,541**	**5,380**
Other data		
Adjusted EBITDA	14,951	8,953
Adjusted net income before amortization	16,086	7,384
Depreciation expense	553	369
Amortization of intangibles	1,545	2,004
Capital expenditures	1,221	795

Notes:

1. Adjusted EBITDA and Adjusted net income before amortization are not measurements of the Company's financial performance under US GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to US GAAP cash flow from operating activities as a measure of profitability or liquidity. Adjusted EBITDA and Adjusted net income before amortization are presented herein because management believes they are useful analytical tools for measuring the profitability and cash generation of the business. Adjusted EBITDA is also used to determine pricing and covenant compliance under the Company's credit facility and as a measurement for calculation of management incentive compensation. The Company understands that although Adjusted EBITDA is frequently used by securities analysts, lenders, and others in their evaluation of companies, its calculation of Adjusted EBITDA may not be comparable to other similarly titled measures reported by other companies.

2. Adjusted EBITDA as used herein is a calculation of its net income plus tax provision, interest expense, interest income, foreign exchange gain/(loss), other expense, depreciation, amortization, and stock based compensation.

3. Adjusted net income before amortization as used herein is a calculation of net income plus amortization of intangibles.

4. The Company uses non-US GAAP financial measures in order to provide supplemental information regarding the Company's operating performance. The non-US GAAP financial measures presented herein should not be considered in isolation from, or as a substitute to, financial measures calculated in accordance with US GAAP. Investors are cautioned that there are inherent limitations associated with the use of each non-US GAAP financial measure. In particular, non-US GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and many of the adjustments to the US GAAP financial measures reflect the exclusion of items that may have a material effect on the Company's financial results calculated in accordance with US GAAP.

Net income to adjusted EBITDA reconciliation and Adjusted net income before amortization reconciliation

	Year ended December 31, 2014 US$ 000	Year ended December 31, 2013 US$ 000
Adjusted EBITDA reconciliation		
Net income	14,541	5,380
Tax (benefit)/provision	(2,142)	1,071
Interest expense	107	216
Interest income	(39)	(13)
Foreign exchange loss/(gain)	122	(249)
Other expense	3	(2)
Depreciation	553	369
Amortization	1,545	2,004
Stock based compensation	262	177
Adjusted EBITDA	**14,952**	**8,953**
Adjusted net income before amortization reconciliation		
Net income	14,541	5,380
Amortization	1,545	2,004
Adjusted net income before amortization reconciliation	**16,086**	**7,384**

Notes:

1. Adjusted EBITDA and Adjusted net income before amortization are not measurements of the Company's financial performance under US GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to US GAAP cash flow from operating activities as a measure of profitability or liquidity. Adjusted EBITDA and Adjusted net income before amortization are presented herein because management believes they are useful analytical tools for measuring the profitability and cash generation of the business. Adjusted EBITDA is also used to determine pricing and covenant compliance under the Company's credit facility and as a measurement for calculation of management incentive compensation. The Company understands that although Adjusted EBITDA is frequently used by securities analysts, lenders, and others in their evaluation of companies, its calculation of Adjusted EBITDA may not be comparable to other similarly titled measures reported by other companies.

2. Adjusted EBITDA as used herein is a calculation of its net income plus tax provision, interest expense, interest income, foreign exchange gain/(loss), other expense, depreciation, amortization, and stock based compensation.

3. Adjusted net income before amortization as used herein is a calculation of net income plus amortization of intangibles.

4. The Company uses non-US GAAP financial measures in order to provide supplemental information regarding the Company's operating performance. The non-US GAAP financial measures presented herein should not be considered in isolation from, or as a substitute to, financial measures calculated in accordance with US GAAP. Investors are cautioned that there are inherent limitations associated with the use of each non-US GAAP financial measure. In particular, non-US GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and many of the adjustments to the US GAAP financial measures reflect the exclusion of items that may have a material effect on the Company's financial results calculated in accordance with US GAAP.

Revenues

The Company's consolidated revenues increased by 32% to US$ 59.3m (2013: US$ 45.1m). Company revenues consist primarily of sales from new Large line products (the S22-E Large Laser Screed® and its predecessors), sales from new Small line products (the S-840, CopperHead, and the new S-485), and other revenues, which consist of, among other things, revenue from sales of spare parts, refurbished machines, Topping Spreaders, Mini Screeds, 3-D Profilers, S-15R, and accessories. The overall increase for the year was driven by all categories - Large line sales, Small line sales, and Other revenues. The following table shows the breakdown between Large line sales, Small line sales, and Other revenues during the 12 months ended December 31, 2014 and 2013:

	12 months ended 31 December 2014		12 months ended 31 December 2013	
	(US$ in millions)	Percentage of net sales	(US$ in millions)	Percentage of net sales
Large line sales	22.4	37.8%	14.2	31.5%
Small line sales	9.7	16.4%	10.8	24.0%
Other revenues	27.2	45.8%	20.1	44.5%
Total	59.3	100.0%	45.1	100.0%

Large line sales increased to US$ 22.4 m (2013: US$ 14.2m) as a result of a 52% increase in volume to 64 units (2013: 42 units), Small line sales decreased to US$ 9.7 m (2013: US$ 10.8m) due to a slight decrease in units to 126 (2013: 132), and Other revenues, including sales of spare parts, refurbished machines, Topping Spreaders, Mini Screeds, 3-D Profilers, S-15R and accessories, increased to US$ 27.2 m (2013: US$ 20.1m).

Revenue breakdown by geography								
	North America		EMEA		RoW		Total	
US$ millions	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Large screed	17.0	8.2	1.5	2.2	3.9	3.8	22.4	14.2
Small screed	6.2	7.6	1.3	2.3	2.2	0.9	9.7	10.8
Other	14.0	9.7	3.5	3.3	9.7	7.1	27.2	20.1
Total	37.2	25.5	6.3	7.8	15.8	11.8	59.3	45.1

Units breakdown by geography								
	North America		EMEA		RoW		Total	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Large screed	48	24	4	6	12	12	64	42
Small screed	73	90	15	27	38	15	126	132

Sales to customers located in North America contributed 63% of total revenue (2013: 57%), sales to customers in EMEA (Europe, India, Middle East, and South Africa) contributed 11% (2013: 17%) and sales to customers in RoW (Asia, Australia, Latin America, and Pacific) contributed 26% (2013: 26%).

Sales in North America generated US$ 37.2m (2013: US$ 25.5m) which is up 46% primarily due to higher Large line sales (48 Large line units in 2014 vs. 24 in 2013) but partially offset by lower Small line sales (73 Small line units in 2014 vs. 90 in 2013). Sales in EMEA generated US$ 6.3m (2013: US$ 7.8m) which is down 19% primarily due to lower Large line sales (4 Large line units in 2014 vs. 6 in 2013) and lower Small lines sales (15 Small line units in 2014 vs. 27 in 2013). Sales in RoW generated US$ 15.8m (2013: US$ 11.8m) which are up 34% primarily due to higher Small line sales (38 Small line units in 2014 vs.15 in 2013).

Regional sales breakdown	**2014**	**2013**
North America	37.2	25.5
ROW (China)	9.5	6.6
EMEA (Russia)	0.7	2.3
EMEA (Middle East)	0.8	2.1
ROW (Australia)	3.1	2.3
EMEA (Europe)	3.6	3.0
EMEA (Scandinavia)	0.6	0.4
ROW (Korea)	0.6	0.2
EMEA (India)	0.6	0.0
ROW (Latin America)	2.6	2.7
Total	59.3	45.1

Gross profit

Gross profit increased to US$ 32.0m (2013: US$ 23.5m), with gross margins increasing to 54% (2013: 52%) due to price increase, cost reductions, and factory efficiency.

Operating expenses

Operating expenses increased by 14% to US$ 19.4m (2013: US$ 17.1m). This increase was driven primarily by continuing to invest in Asia, sales commissions, insurance expenses, additional hires, and management and employee profit sharing. Total employment increased to 165 from 128 in 2014.

Other income (expense)

Other expenses were (US$0.2m) (2013: US$ 0.0m) consisting of interest expense, interest income, foreign exchange gains and losses and gains and losses on the disposal of assets.

(Benefit)/provision for income taxes

The benefit for income taxes was (US$ 2.1m) in 2014 as compared to a provision of US$ 1.1m in 2013. Overall, Somero's effective tax rate changed from 16.6% in 2013 to (17.3%) in 2014 due to a non-cash valuation allowance of US$ 4.1m, and US$ 5.9m settlement of Restricted Stock Units and settlement of Stock Options which are deductible for tax purposes.

Net income

Net income increased to US$ 14.5m from US$ 5.4m in 2013. The primary cause of the increase in net income was a 32% increase in revenues, US$ 4.1m non-cash valuation allowance, and higher gross margins. Basic earnings per share represents income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options. Earnings per common share have been computed based on the following:

	Year ended December 31, 2014 US$ 000	Year ended December 31, 2013 US$ 000
Net income	14,541	5,380
Basic weighted shares outstanding	56,274,097	56,425,598
Net dilutive effect of stock options and restricted stock units	1,641,129	4,302,189
Diluted weighted average shares outstanding	57,915,226	60,727,787

The company had 56,274,097 shares outstanding at December 31, 2014. Earnings per share at December 31, 2014 are as follows:

	US$
Basic earnings per share	0.26
Diluted earnings per share	0.25
Basic adjusted net income before amortization	0.29
Diluted adjusted net income before amortization	0.28

Board of Directors

Lawrence L. Horsch
Non-Executive Chairman of the Board

Mr. Horsch, age 80, came to Somero in October 2009 with extensive experience having served on 26 company boards, invested in 30 venture projects and conducted four corporate turnarounds. He co-founded SciMed Life Systems prior to its merger with Boston Scientific Corporation, after which he served on the Boston Scientific Corporation board. Mr. Horsch currently serves as the Chairman of Leuthold Funds Inc. and Pioneer Sales Group, and in the past six years has also served on the board of Medical CV Inc. and Gillette Children's Specialty Healthcare. Mr. Horsch has been a business consultant since 1990. He is a graduate of the University of St. Thomas, received a Masters of Business Administration in Finance from Northwestern University, and is a Chartered Financial Analyst.

John T. (Jack) Cooney
President, Chief Executive Officer, and Director

Mr. Cooney, age 68, joined Somero in December 1997 and has served as its Chief Executive since that time. He has been a Director of the Company since August 2005. Mr. Cooney has thirty-four years of experience in various senior management and sales and marketing positions. From 1995 to 1997, Mr. Cooney served as the Chief Executive Officer of Advance Machine Company, a US$145m industrial equipment manufacturer located in Minneapolis, Minnesota, USA. From 1990 to 1995, he was the Vice President of sales and marketing, as well as the Vice President of manufacturing, at Ganton Technologies, an aluminum die caster and precision machine business located in Wisconsin, USA. Mr. Cooney has an Associate's degree in Industrial Engineering from Central New England College and a Masters of Business Administration degree from College of St. Thomas.

Naveen (Neil) Mathur
Chief Financial Officer, Secretary, and Director

Mr. Mathur, age 46, joined Somero in December 2007 and has served as its Corporate Controller until November 2014 when he was appointed Chief Financial Officer. Mr. Mathur has been the Company's Information Technology Manager since April 2010 as well. Prior to joining Somero, Mr. Mathur held various senior financial management positions with Fishery Products International, a US$800m consumer products company and Owens Corning, a US$5b building materials manufacturer. Mr. Mathur earned a Bachelor's of Arts degree from the University of Waterloo and is a Chartered Accountant.

Howard E. Hohmann

Executive Vice President of Sales Worldwide and Director

Mr. Hohmann, age 53, joined Somero in 1997 and currently serves as Executive Vice President of Sales, Marketing, and Customer Service Worldwide. Mr. Hohmann also developed and managed Somero's Field Support Team and was part of its Product Development Team. Mr. Hohmann brings nearly three decades of career expertise in the concrete industry, previously working as Founder, Owner, and President of one of the eastern United States' largest and most successful concrete contractors, placing all aspects of concrete floors from coast to coast. Mr. Hohmann has also been a concrete flooring consultant teaching procedures, practices, and designs, alongside the inventors of the Somero Laser Screed®. Additionally, he has developed and managed sales in emerging markets, and managed both marketing and inside sales departments. Mr. Hohmann also served the US Marine Corps.

Thomas M. Anderson

Non-Executive Director

Mr. Anderson, age 63, retired after 30 years of service as President and Chief Executive Officer of Schwing America, Inc. to become the President and managing partner of Schwing Bioset, Inc. He also served as the managing partner of Concrete Pump Repair from 1989 to 2013. Mr. Anderson participated in compensation decisions for all three companies. He is also a partner in Engineered Chassis Systems, a specialty truck manufacturer. He spent 22 years on the Board of Directors of the American Concrete Pumping Association and five years as the President of the Concrete Pump Manufacturers Association. Mr. Anderson previously served on the Board of Directors of Somero Enterprises, Inc. from 1997 to 1999 prior to the sale of the Company to Dover Corporation.

Ronald Maskalunas

Non-Executive Director

Mr. Maskalunas, age 74, is a self-employed corporate consultant, focused on performing due diligence on corporate acquisitions, serving as an expert witness in litigation matters, performing forensic investigations and financial and operating reviews of companies, and assisting in the implementation of Sarbanes-Oxley controls and procedures for a company listed on the New York Stock Exchange. Mr. Maskalunas retired in 2001 after serving as a partner at PricewaterhouseCoopers LLP for twenty-four years. Mr. Maskalunas earned a Bachelor's of Science degree from Purdue University and a Masters of Business Administration from the University of Chicago. He is also a Certified Public Accountant.

Directors' Report

The directors present their Annual Report and the audited financial statements for the year ended December 31, 2014.

Activities

The principal activity of the Company is to design, assemble and sell equipment that automates the process of spreading and leveling large volumes of concrete for flooring and other horizontal surfaces, such as paved parking lots, as well as to provide support services for its customers throughout the world. Somero's headquarters and assembly operations are located in Michigan, USA with executive offices in Florida, USA. It has sales and service offices in Chesterfield, England; Shanghai, China; and New Delhi, India with distributors and direct sales representatives based throughout the world.

Review of business

A fair review of the Company's progress for the period reported, its future prospects and a description of the principal risks and uncertainties facing the Company are set out in the Chief Executive's Statement on pages 6 to 10, the Financial Review on pages 11 to 15, the Directors' Report on pages 18 to 25 and the Corporate Governance Report on pages 26 to 35.

The Directors' Report is prepared for the members of the Company and should not be relied upon by any other party for any other purpose. The Directors' Report (including the Chief Executive's Statement, the Financial Review and the Corporate Governance Report) contain certain forward-looking information and statements in relation to the Company's operations, economic performance and financial conditions. These statements are made by the directors in good faith based on the information available to them at the time of the approval of this report and, although they believe that the expectations reflected in such forward-looking statements are reasonable, they should be treated with caution due to their inherent uncertainties, including both economic and business risk factors underlying such forward-looking statements or information.

Results and dividends

The audited results for the year are set out in detail on pages 36 to 58. Dividends equal to US$ 1.6m were paid in 2014. A 4.0 US cents per share dividend was declared for the period ending December 31, 2014, with a record date of April 24, 2015, payable on May 11, 2015.

Share capital

	Ordinary shares	
	January 1, 2014	December 31, 2014
J T Cooney	4,217,102	2,814,634
M F Niemela	108,166	108,166
N Mathur	110,392	-
H Hohmann	-	-
L Horsch	152,000	152,000
T M Anderson	-	-
R Maskalunas	-	-

Somero stock is traded on the LSE AIM exchange and is therefore quoted in Pounds Sterling. The market price of the shares at December 31, 2014 was 119.0 p. The range during the 2014 period of trading was 99.5 p to 134.5 p. The Graph on page 34 shows share movement in the year.

Apart from the stockholdings listed below the Company has not been notified of any stockholdings which are 3% or more of the total issued ordinary shares of the Company.

Stockholders who hold more than 3% as of February 19, 2015

	Amount	% Holding
Polar Capital Partners Ltd.	6,913,700	12.34
Artemis Investment Management LLP	6,689,021	11.94
Hargreave Hale Ltd	6,617,050	11.81
River & Mercantile Asset Management LLP	4,940,598	8.82
Henderson Global Investors Limited	4,811,980	8.59
Ennismore Fund Mgmt Ltd	4,608,145	8.22
BlackRock Investment Management (UK) Ltd	3,575,713	6.38
Unicorn Asset Management Ltd	3,210,000	5.73
Jack Cooney *	2,814,634	5.00
Standard Life Investments	1,778,105	3.17

*Directors' Stock

Director stock options

	January 1, 2014	Award (exercise)	Cancelled	December 31, 2014	Exercise price US$	Earliest date from which exercisable	Expiry date
J T Cooney	249,394			249,394	0.24	1/19/2010	1/20/2019
J T Cooney	1,000,000			1,000,000	0.47	2/16/2011	2/17/2020
J T Cooney	62,715			62,715	0.47	1/3/2012	1/4/2021
M F Niemela	125,058	(125,058)		-	-	-	-
M F Niemela	300,227	(300,227)		-	-	-	-
N Mathur	33,333	(33,333)		-	-	-	-
L Horsch	154,268			154,268	0.47	2/16/2011	2/17/2020
T M Anderson	85,704			85,704	0.47	2/16/2011	2/17/2020
R Maskalunas	85,704			85,704	0.47	2/17/2011	2/17/2020

Director restricted stock options

	January 1, 2014	Award (exercise)	Cancelled	December 31, 2014	Weighted average grant date fair market value	Vesting date	Fully vested date
J T Cooney	327,476	(327,476)		-	-	-	-
J T Cooney	149,046			149,046	0.75	3/13/2016	3/13/2016
M F Niemela	164,213	(164,213)		-	-	-	-
M F Niemela	76,477			76,477	0.75	3/13/2016	3/13/2016
N Mathur	137,635	(137,635)		-	-	-	-
H Hohmann	189,841	(189,841)		-	-	-	-
L Horsch	6,148			6,148	0.75	3/13/2016	3/13/2016
T M Anderson	4,391			4,391	0.75	3/13/2016	3/13/2016
R Maskalunas	4,391			4,391	0.75	3/13/2016	3/13/2016
J T Cooney		59,977		59,977	1.93	1/29/2017	1/29/2017
M F Niemela		30,775		30,775	1.93	1/29/2017	1/29/2017
L Horsch		1,958		1,958	1.88	2/5/2017	2/5/2017
T M Anderson		1,398		1,398	1.88	2/5/2017	2/5/2017
R Maskalunas		1,398		1,398	1.88	2/5/2017	2/5/2017

Risks and uncertainties

The key risks and uncertainties facing the Company are considered as part of the Company's established process for identifying, evaluating and managing risk. Impacts of significant risks and their mitigation are monitored at Board meetings throughout the year and are subject to annual review by the Audit Committee. The key risks facing the business and the processes in place to manage those risks are:

Bank obligations

In March 2013, the Company amended its agreement with Citizens Bank, which renewed its loan facilities so that they mature between March 2016 and March 2018. The Company successfully met its bank covenants in each quarter in 2014. The March 2018 Delayed Draw Term Loan was paid in full in the first quarter of 2015.

Employee retention

The Company has a number of programs in place to retain key employees including: a savings and retirement match for employees, Restricted Stock Units (RSUs) for employees, Stock Options for key employees, and a compensation program to attract and retain key employees.

Economic and industry conditions

Somero's financial performance is affected by a number of factors, including the cyclical nature of the non-residential concrete construction industry, as well as the varying economic conditions of the geographic markets Somero serves, primarily North America and Western Europe. Somero also has a growing presence in Asia, Eastern Europe, Australia, the Middle East, Africa and Latin America. Demand in these markets continues to fluctuate in response to overall economic conditions and to the amount of private sector spending on commercial construction projects, especially by retailers such as Wal-Mart and Costco, where Somero's large Laser Screed® products have been utilized.

New product innovation

In 2014, Somero introduced the S-485 Laser Screed®. Designed for easier set-up and operation, Simplicity Defined is the motto for this new Laser Screed®. It requires one less person to operate and only one person is needed to establish grade or fine tune the programmable height receivers. We have had an outstanding response to this new machine as it was just introduced in October and contributed US$ 0.9m to our 2014 sales.

Product development continues to be a focus of our growth plans for 2015 as we are always working towards new and innovative ideas to introduce to the industry.

Product replacement demand

The Company's financial performance is also dependent on the replacement and refurbishment of older products as they reach the end of their expected life cycles. Somero equipment is in a period of demand for replacement and refurbishment, as older machines reach the end of their lifecycles. Somero's level of replacement demand is also dependent on its ability to continue developing enhanced models that encourage customers to replace older machines.

Geographic expansion

Somero's financial performance is dependent upon its ability to successfully enter and penetrate geographic markets outside the US. Currently, China, and Europe represent Somero's primary markets outside the US. Somero has primarily focused efforts on China with a secondary focus on Latin America, Australia, Middle East, Asia, and India. We continue to promote acceptance of the Company's technology, methods and products through our education and marketing efforts in emerging markets.

Interest rates

Somero's financial performance is also linked to prevailing interest rates, see "Liquidity and Capital Resources" below. In March 2013, the Company amended its agreement with the bank, which renewed its loan facilities so that they mature between March 2016 and March 2018.

Liquidity and capital resources

Liquidity

The Company's principal liquidity needs are for payroll, lease obligations, purchases of component parts and trade-in inventory (as part of making new sales), and interest and principal payments on its long-term debt. The Company's primary sources of liquidity are cash balances, cash provided by operations and its available revolving line of credit with Citizens Bank of up to US$ 5.0m. Operations are primarily funded through existing cash.

Capital resources

Currently, the Company's capital expenditure plans include improvements to our manufacturing facility, online parts ordering and other replacement information technology. One element of Somero's strategy is to identify and acquire businesses that have complementary products and services. Somero may finance such future acquisitions from internally generated funds, bank borrowings, public or private securities offerings, or some combination of these methods. In addition, the Company may issue debt or equity securities as some or all of the consideration for such acquisitions.

Somero cannot predict the level of financing that may be required in connection with future acquisitions. As of December 31, 2014, the Company had US$ 1.3m in aggregate principal outstanding in term loans under its Citizens Bank Financing Agreement, and US$ 0m drawn under the revolving portion of its Citizens Bank Financing Agreement.

The strong performance and relationship with its bank enabled the Company to amend its loan facilities so that they mature between March 2016 and March 2018. The amended agreement replaced the previous asset based lending facility with a more conventional bank financing facility. The amended facility, along with simplified covenants, will allow management to focus on implementation of its strategic plan, successfully introduce new products into the market and maximize opportunities from investments in emerging markets.

The Company's financing agreement with Citizens Bank imposes various restrictions and covenants on the Company which could potentially limit its ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business opportunities. The restrictive covenants include limitations on the incurrence of additional indebtedness, limitations on the creation of liens and limitations on asset sales and other fundamental changes, limitations on payment of dividends and limitations on the redemption or repurchase of outstanding capital stock, among other restrictions. The covenants also include financial measures such as a minimum debt service ratio, minimum net tangible asset ratio and a maximum funded debt to EBITDA ratio. The Company was in compliance with all debt covenants at the end of 2014. The directors believe that funds generated from operations, together with existing cash, will be sufficient to meet the Company's debt obligations over the next 12 months. The directors also expect that existing cash and available funds from the financing agreement with Citizens Bank and funds generated from operations will be sufficient to meet anticipated operating requirements and to fund planned capital expenditures for the remainder of 2015.

Somero had capital expenditures of US$ 1.2m in 2014 and US$ 0.8m in 2013. The majority of this expenditure was related to computer hardware and software upgrades, vehicle purchases, ERP upgrades and improvements to the Michigan facility. The directors will, from time to time, evaluate opportunities to sell equity or debt securities, and/or obtain credit facilities from lenders, which could result in dilution to the Company's stockholders and increased interest expense.

Other financial arrangements

Quantitative and qualitative disclosure about market risk

The Company is exposed to market risk from changes in interest rates and foreign currency exchange rates because it funds its operations through long and short-term borrowings and receives revenues and incurs expenses in a variety of foreign currencies. The Company does not currently hedge against the risk of exchange rate fluctuations. A summary of the Company's primary market risk exposures follows.

Foreign currency risk

The Company's foreign sales and results of operations are subject to the impact of foreign currency fluctuations because it receives revenues and incurs expenses in a variety of foreign currencies. However, the vast majority of products and services are priced in US dollars to significantly reduce the exposure to foreign currency risk.

Payments to creditors

The Company's policy is to set payment terms when agreeing the terms of each transaction. It is the Company's general policy to pay suppliers according to the set terms, to insure suppliers are informed of the terms of payment and to abide by these terms whenever possible.

Corporate social responsibility

Somero Enterprises believes, as a good corporate citizen, it must care about the communities it is involved in, keep the environment healthy, provide a safe and rewarding place to work and behave ethically in all its business dealings.

Donations

During the year, the Company made no political donations. Charitable donations were made in the amount of US$ 38,685 for 2014.

Employment policies

The Company supports equal opportunities in employment and advancement and opposes all forms of unlawful or unfair discrimination on the grounds of color, race, religion, age, nationality, gender or marital status. Full and fair consideration is given to applications for employment from disabled people. As an equal opportunities employer, all our benefits are accessible to every staff member and we encourage and support personal and professional development.

The Company has well established structures to communicate with employees at every level and to encourage their involvement regarding the Company's performance and future activities. As an organization, Somero Enterprises, Inc. prides itself on its honesty, integrity and high professional standards to deliver its services to its customers and in dealing with its staff and the public. It also demands the maintenance of these high standards in everything that it does. To this end, the Company has devised this policy and procedure in order to give encouragement and support to employees in coming forward and reporting certain types of conduct or activities that will fall short of these high standards.

Under the Public Interest Disclosure Act 1998, employees who report wrongdoing of certain kinds have specific protection. The Company aims to ensure that by adherence to this policy and through proper use of the procedure, as far as possible, any such report shall be made internally in the first instance by making it possible for all employees to approach an appropriate person within the Company in order to draw their concerns to the attention of someone who has authority to act. This policy and procedure is aimed at ensuring that any employee who wishes to voice a concern regarding potential or actual wrongdoing on the part of the Company or anyone with whom the Company is associated feels sufficiently comfortable to do so.

Director training

The Directors have continued to receive formal AIM compliance training from the initial listing on the AIM to the present date.

Health and safety

The Board considers health and safety a key priority and believes it essential to conduct business to ensure the health, safety and welfare of all our employees and all other persons who may be affected by our activities. This includes members of the public, customers and trade contractors we may employ. We maintain ISO 9001 certification for quality.

Environment

It is our intention to take all reasonable measures to conduct our business activities so that damage to the environment and pollution is minimized.

Annual General Meeting (AGM)

The notice of the AGM is included on page 60 in the Annual Report. It is approved by the Board of Directors and signed on behalf of the Board.

Naveen (Neil) Mathur

Company Secretary

April 7, 2015

Corporate Governance

While the Company is not required to comply with the provisions of the Combined Code and the UK Corporate Governance Code, it is the intention of the directors that the Company will indeed comply with both codes. With the exception of the following matters, the Company is in compliance with the June 2008 edition of FRC Combined Code on Corporate Governance and the September 2014 UK Corporate Governance Code.

A.1.2 Senior independent director has not been named.

B.6.1 The Board has not undertaken a formal evaluation of its own performance and that of its committees and individual directors. As suggested by the Combined Code, as of the end of 2014, relationships with the majority of all major stockholders have been maintained on a regular basis keeping them fully informed regarding the trading of the Company and any new developments.

C.3.6 Allowing for the size of the Company, there is currently no internal audit function as suggested by the Combined Code. The finance function continues to carry out regular and random internal checks on all systems and procedures to insure internal compliance. We do not feel the need, therefore, to appoint separate staff to carry out an internal audit function.

Auditor payments related to 2014 were US$ 154,000 and for 2013 were US$ 152,000.

Board of Directors

The Company is controlled through the Board of Directors which is comprised of six members, three of whom are non-executive directors. The Board considers that the Non-Executive Chairman of the Board, Mr. Horsch, as well as Messrs. Anderson and Maskalunas, who have been appointed as non-executive directors, are each independent in character and judgment and accordingly considers each of them to be an independent director for the purposes of the Combined Code. The names and biographical details of the directors are located on pages 16 and 17 of this report.

The Company holds monthly Board meetings and more frequent meetings as required. There is a separation of roles and responsibilities of the Chairman and the Chief Executive. As the Non-Executive Chairman, Mr. Horsch is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda; ensuring that the directors receive accurate, timely and clear information, and appropriate induction and training; ensuring effective communication with stockholders; and facilitating the effective contribution of non-executive directors in particular, and ensuring constructive relations between the executive and non-executive directors. Non-executive directors are responsible for constructively challenging and helping to develop proposals on strategy; scrutinizing the performance of management in meeting agreed goals and objectives, and monitoring the reporting of performance; satisfying themselves on the integrity of financial information, and that financial controls and systems of risk management are robust and defensible; and responsibility for determining appropriate levels of remuneration of executive directors, and having a prime role in appointing, and where necessary removing, executive directors, and in succession planning. The directors are provided with regular and timely information on the financial performance of the Company together with other reports from functional areas within the Company as requested.

During the year, there were twelve regularly scheduled monthly Board meetings, two Audit Committee meetings, two Remuneration Committee meetings and one Nominations Committee meeting, with perfect attendance.

The Board is responsible for overall Company strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks, considers environmental and employee issues and key appointments. It ensures that all directors receive appropriate training on appointment and then subsequently as appropriate. A budget is established for this purpose. All directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

The Board has three committees, the Audit Committee, the Remuneration Committee and the Nominations Committee, with formally delegated rules and responsibilities. Each of these committees meets regularly, at least once each year.

The Audit Committee is comprised of Messrs. Maskalunas, Anderson, and Horsch, and is chaired by Mr. Maskalunas. The Audit Committee determines and examines any matters relating to the financial affairs of the Company, including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the audit. It receives and reviews reports from management and the Company's auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. In addition, it ensures that the financial performance, position and prospects of the Company are properly monitored and reported on. The Audit Committee has unrestricted access to the Company's auditors.

The Remuneration Committee is comprised of Messrs. Anderson, Maskalunas, and Horsch, and is chaired by Mr. Anderson. The Remuneration Committee measures the performance of the executive directors and key members of senior management as a prelude to recommending their annual remuneration, bonus awards, and awards of stock options to the Board for final determination. The Remuneration Committee also makes recommendations to the Board concerning the allocation of stock options to employees.

The Nominations Committee is comprised of Messrs. Horsch, Anderson, and Maskalunas and is chaired by Mr. Horsch. The Nominations Committee regularly reviews the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and makes recommendations to the Board with regard to any changes; gives full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future; and is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise. The Nominations Committee supports equal opportunities in employment and advancement and opposes all forms of unlawful or unfair discrimination on the grounds of color, race, religion, age, nationality, gender or marital status. Full and fair consideration is given to applications for employment from disabled people. As an equal opportunities employer, all our benefits are accessible to every staff member and we encourage and support personal and professional development.

The Company adopted a code for directors' and applicable employees' stock dealings. The directors will comply with Rule 21 of the AIM rules relating to directors' dealings and will take all reasonable steps to ensure compliance by Somero's applicable employees.

Relations with stockholders

The directors are committed to maintaining good communications with the stockholders and quickly respond to all queries received.

All stockholders have at least 20 working days' notice of the AGM at which the majority of Directors are introduced and available for questions. Institutional investors and analysts are invited to briefings by the Company immediately after the announcement of the Company's full year results and all stockholders are encouraged to participate in the Company's AGM.

Accountability and audit

Financial reporting

A review of the performance and financial position of the Company is included in the financial review. The Board uses this, together with the Chairman's Statement, the Chief Executive's Statement and the Directors' Report to present a balanced and understandable assessment of the Company's position and prospects. The statement of directors' responsibilities for the financial statements is described on page 26.

Internal control

An ongoing process for identifying, evaluating, and managing the significant risks faced by the Company has been established and that process is regularly reviewed by the Board and accords with the Internal Control Guidance to directors on the Combined code. Steps continue to be taken to embed internal control and risk management further into the operations of the business and deal with areas of improvement coming to management and Board attention. The Board implemented a review of eighteen key risk areas starting in 2007. Since then, ten of the eighteen risk areas have been examined with results reported to the entire board. One to two of the remaining eight risk areas will be completed each year until fully complete.

The reporting systems include formal consideration of all significant business risks at the monthly Board meetings and are still subject to continuous review by the Board throughout the year. The monthly management information includes some key risk indicators with the emphasis on early warning systems. Risk management principles are embedded within all significant projects.

The directors are responsible for the system of internal control and reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable but not absolute assurance against material misstatement or loss.

The key risk management activities are described under the following headings:

Strategic control – The Board reviews the Company's strategic plans each year. On a regular basis, the Company's significant risks are updated and appropriate control strategies and accountabilities are agreed.

Allocation of responsibilities and control environment – The Board has set clear terms of reference for each of its committees and the Company has an organizational structure with clearly defined and documented delegation of authority to executive management and reporting systems for financial results, risk exposure and control assessment.

Financial control – The Company has a comprehensive system for reporting financial results to the Board.

Quality and integrity of personnel – The Company is committed to competence and integrity of management and staff at all levels, through its values statement, comprehensive recruitment, training and appraisal programs.

IT systems – The Company has established controls and procedures over the security of data held on computer systems and have put in place suitable disaster recovery arrangements.

Controls over central functions – A number of the Company's key functions, including treasury and taxation, are dealt with centrally. The Chief Financial Officer reports on an as needed basis to keep the Board updated.

Internal audit – There is no dedicated resource for internal audit functions which is considered sufficient for the Company due to its size.

Role of the Executive Committee – Day-to-day management of the Company's activities is delegated to senior management which is considered sufficient for the Company.

Risk management reporting and Board review – The Board has overall responsibility for identifying, evaluating and managing major business risks facing the Company. It annually reviews all operating unit assessments of business risk exposure and control, including compliance assessments, and determines appropriate action, taking into account the recommendations of senior management.

An ongoing review of the effectiveness of the system of internal control for the year ended December 31, 2014 has been maintained and has taken account of any material developments since the year end.

Audit Committee

A summary of the process the Board (where applicable, through its committees) has applied in reviewing the effectiveness of the system of internal control is set out as follows:

During the year, the Audit Committee of the Board, comprising three non-executive directors:

- meets regularly with the external auditors and executive directors attending by invitation
- receives and considers reports relating to the monitoring of the adequacy of the Company's internal controls, the suitability of its accounting policies and financial reporting and matters arising from the external auditors work
- monitors the nature and extent of non-audit work undertaken by the external auditors
- makes recommendations to the Board on these matters.

In forming their opinion of the independence and objectivity of the external auditors, the Audit Committee takes into account the safeguards operating within the external auditors and that the level of auditor fee is sufficient to enable them to fulfill their obligations in accordance with the audit Letter of Engagement. All audit and non-audit work performed by our external auditors is in compliance with the independence rules promulgated by the American Institute of CPAs (AICPA). The Chairman of the Audit Committee makes a report to the Board following each committee meeting and the Board receives the minutes of all Audit Committee meetings.

The following table summarizes audit, tax, and other fees paid by the Company to its auditor in 2014 and 2013.

	Year ended December 31, 2014 US$ 000	**Year ended December 31, 2013 US$ 000**
Audit	154	152
Tax	31	-
Other	-	-

Going concern basis

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Director's report on pages 18 to 25. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Director's report on pages 18 to 25. After making inquiries, the directors have formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Compliance statement

Although not required, the Board reports on compliance with the Combined Code throughout the accounting period. The Company has complied throughout the accounting period ended December 31, 2014 with the provisions outlined in Section 1 of the Combined Code. The exceptions to the Combined Code are noted on page 26.

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors have chosen to prepare the accounts for the Company in accordance with United States Generally Accepted Accounting Principles (US GAAP). The Company believes it is in full compliance with all laws of the USA where it is incorporated.

The AIM rules require the directors to prepare such financial statements for each financial year which give a true and fair view in accordance with US GAAP of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period and comply with US GAAP. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for the system of internal control, for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report has been approved by the Board and adopted for submission for ratification by the stockholders. This report is unaudited.

Directors' Remuneration Report

The members of the Remuneration Committee during the year were Tom Anderson (Chairman), Ron Maskalunas and Larry Horsch. The Remuneration Committee makes recommendations to the Board, within existing terms of reference, on remuneration policy and determines, on behalf of the Board, specific remuneration packages for each of the executive directors.

	Salary Paid 2014	Bonus 2014	Salary 2015	Bonus opportunity 2015	Options held	Restricted stock units held
Larry Horsch	$91,790		$91,790		154,268	8,106
Ron Maskalunas	$65,550		$65,550		85,704	5,789
Tom Anderson	$65,550		$65,550		85,704	5,789
Jack Cooney	$385,710	$161,997	$401,138	50%-100% of salary	1,312,109	209,023
Michael Niemela*	$197,912	$80,468	$0	40%-80% of salary	-	107,252
Neil Mathur	$158,340	$23,368	$174,000	35% of salary	-	-
Howard Hohmann	$215,000	$237,324	$215,000	Commission**	-	-

* Michael Niemela retired from Somero as of December 31, 2014. His remaining RSUs were settled for cash in lieu of issuance of stock in January 2015.
** Commission of 1.0 - 1.4274 % on sales above US$45.0m

Remuneration policy

The Company's policy is to provide executive remuneration packages which are designed to attract, motivate and retain directors of the highest caliber required and to reward them for enhancing value to stockholders. The performance measurement of the executive directors and the determination of their annual remuneration package are undertaken by the Remuneration Committee consisting solely of non-executive directors. The remuneration of the non-executive directors is determined by the full Board.

In framing remuneration policy the Remuneration Committee has given consideration to the requirements of the Combined Code.

Components of remuneration

The components of remuneration are:

- basic salary and benefits determined by the Remuneration Committee and reviewed annually
- performance related bonuses having regard to profitability of the Company
- stock option incentives

Basic salary

An executive director's basic salary is determined by the Remuneration Committee at the beginning of each year and when an individual changes position or responsibility.

Cash compensation

In the year ended December 31, 2014, the executive directors received bonuses as shown in the table on page 32.

Directors' contracts

The Company has entered into employment agreements with certain members of senior management. The terms of these agreements range from six to eighteen months and include non-compete and non-disclosure provisions as well as providing for defined severance payments in the event of termination or change in control. If any existing contract of employment is breached by the Company in the event of termination, the Company would be liable to pay, as damages, an amount approximating the net loss of salary and contractual benefits for the unexpired notice period. The Remuneration Committee will seek to ensure that the director fulfills obligations to mitigate losses and will also give consideration to phased payments where appropriate.

With the approval of the Remuneration Committee, executive directors are entitled, under their service agreements to perform duties outside the Company and to receive fees for those duties.

Equity incentives

The Remuneration Committee approves the grant of equity awards to executive directors under the Company's discretionary equity incentive schemes. In 2010, the Remuneration Committee adopted Somero's 2010 Equity Incentive Plan that made 5.6 million stock options available to be granted, which is 10% of the 56 million shares that were issued and outstanding. At that time, all other equity incentive plans were abandoned. Other than as disclosed above, the equity awards issued to executive directors do not have any performance criteria attached to them. At the time they were first issued, it was not felt that performance criteria were appropriate. For more information, see Note #14 on pages 55 to 57 within the Notes to the Financial Statements.

Restricted stock units

On March 13, 2013, the board approved an award to Executive and Non-Executive Directors under the terms of its 2010 Equity Incentive Plan at a price of 50p per RSU for a cumulative grant of 2,540,899 units. The awarded stock units will vest in three years from the date of the grant and require continued employment for the period. In 2014 2,279,349 units were exercised or forfeited, 188,800 units issued, leaving a balance of 450,350 units as of December 31, 2014. Beginning in 2015, 25% of management bonuses will be paid in the form of restricted stock units. For more information, see Note #14 on pages 55 to 57 within the Notes to the Financial Statements.

Stock options

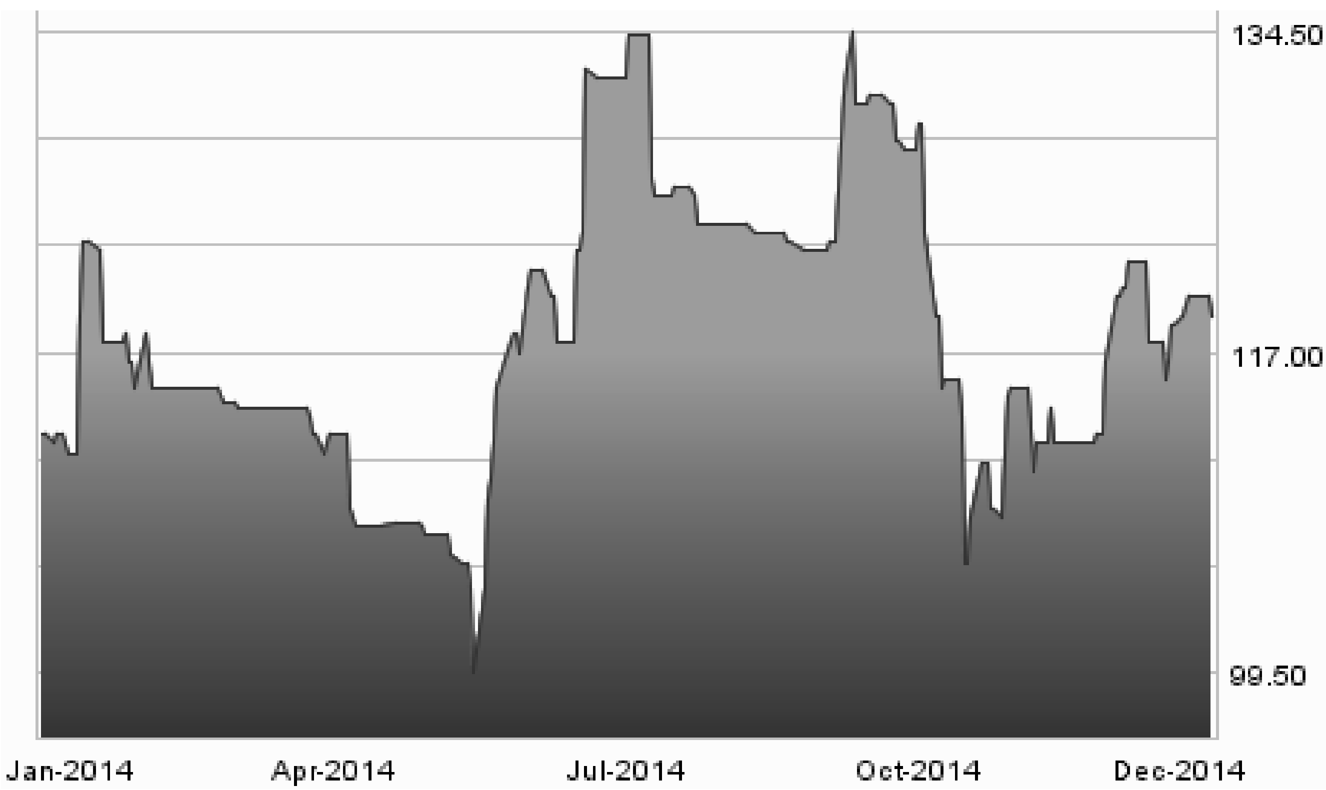
An initial grant was made in February 2010 for 2.3 million stock options as replacements for grants under the old option plan which was cancelled and the old plan was abandoned. The grants have a three year vesting and a strike price of 30p, a 100% premium over the market price on the date of grant. The remaining options will only be issued for new key employees and superior performance. In 2014 561,461 shares of stock options were exercised, leaving an outstanding balance of 1,840,627 shares as of December 31, 2014. For more information, see Note #14 on pages 55 to 57 within the Notes to the Financial Statements.

Directors and officers insurance

The Company maintains customary D&O insurance.

Performance graph

For the 12 months of 2014, Company stock traded at a high of 134.5p and a low of 99.5p and ended trading December 31, 2014 at 119.0 p which represented a 7% increase over the December 31, 2013 price of 111.5p.



The remuneration of the non-executive directors is determined by the Board within the limits set out in the Articles of Association, and is based upon independent surveys of fees paid to non-executive directors of similar companies. The remuneration paid to each non-executive director in the year to December 31, 2014 was subject to Board approval. The letters of appointment and terms are listed in the following chart.

Director	Date of appointment	Termination date
Larry Horsch	May 20, 2014	2017 AGM
Ron Maskalunas	April 30, 2013	2016 AGM
Tom Anderson	May 20, 2014	2017 AGM
Jack Cooney	May 22, 2012	2015 AGM
Neil Mathur	November 24, 2014	2016 AGM
Howard Hohmann	November 24, 2014	2015 AGM
Mike Niemela	April 30, 2013	October 7, 2014

Approved by the Board of Directors and signed on behalf of the Board.

Tom Anderson

Chairman of Remuneration Committee

April 7, 2015

Independent Auditors' Report

To the Board of Directors and Stockholders of

Somero Enterprises, Inc.

We have audited the accompanying consolidated financial statements of Somero Enterprises, Inc., a Delaware corporation, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 entity'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 entity'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Somero Enterprises, Inc. as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Whitley Penn LLP

Dallas, Texas, USA

April 7, 2015

Consolidated Balance Sheets

For the Years Ended December 31, 2014 and 2013

	Year ended December 31, 2014 US$ 000	Year ended December 31, 2013 US$ 000
Assets		
Current assets:		
Cash and cash equivalents	7,950	5,983
Accounts receivable - net	6,599	5,407
Inventories	8,390	6,781
Prepaid expenses and other assets	734	636
Deferred tax asset	174	-
Total current assets	23,847	18,807
Property, plant, and equipment - net	4,823	4,181
Intangible assets - net	4,040	5,585
Goodwill	2,878	2,878
Deferred financing costs	103	135
Deferred tax asset	3,505	428
Other assets	32	43
Total assets	**39,228**	**32,057**
Liabilities and stockholders' equity		
Current liabilities:		
Notes payable - current portion	266	1,265
Accounts payable	4,096	3,239
Accrued expenses	2,896	1,756
Income tax payable	25	525
Total current liabilities	7,283	6,785
Notes payable, net of current portion	1,072	1,338
Other liabilities	91	38
Total liabilities	8,446	8,161
Stockholders' equity		
Preferred stock, US$.001 par value, 50,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, US$.001 par value, 80,000,000 shares authorized, 56,425,598 shares issued at December 31, 2014 and 2013	26	26
Less: treasury stock, 232,700 shares as of December 31, 2014 and 60,827 shares as of December 31, 2013, at cost	(416)	(61)
Additional paid in capital	22,336	27,984
Retained earnings/(accumulated deficit)	10,194	(2,774)
Other comprehensive loss	(1,358)	(1,279)
Total stockholders' equity	30,782	23,896
Total liabilities and stockholders' equity	**39,228**	**32,057**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income *

For the Years Ended December 31, 2014 and 2013

	Year ended December 31, 2014 US$ 000 *except per share data*	Year ended December 31, 2013 US$ 000 *except per share data*
Revenue	59,277	45,078
Cost of sales	27,290	21,536
Gross profit	31,987	23,542
Operating expenses		
Selling expenses	7,150	6,524
Engineering expenses	1,166	881
General and administrative expenses	11,079	9,734
Total operating expenses	19,395	17,139
Operating income	12,592	6,403
Other income (expense)		
Interest expense	(107)	(216)
Interest income	39	13
Foreign exchange (loss)/gain	(122)	249
Other	(3)	2
Income before income taxes	12,399	6,451
(Benefit)/provision for income taxes	(2,142)	1,071
Net income	**14,541**	**5,380**
Other comprehensive income		
Cumulative translation adjustment	(79)	(230)
Change in fair value of derivative instruments - net of income taxes	-	4
Comprehensive income	14,462	5,154
Earnings per common share		
Earnings per share basic	0.26	0.10
Earnings per share diluted	0.25	0.09
Weighted average number of common shares outstanding		
Basic	56,274,097	56,425,598
Diluted	57,915,226	60,727,787

See notes to consolidated financial statements.

* *US GAAP requires the previous Consolidated Statements of Operations to now be called Statements of Comprehensive Income*

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2014 and 2013

	Common stock			Treasury stock			Other	
	Shares	Amount US$ 000	Additional paid-in capital US$ 000	Shares	Amount US$ 000	Retained earnings/ (accumulated deficit) US$ 000	Compre-hensive income (loss) US$ 000	Total stockholder's equity US$ 000
Balance - January 1, 2013	56,425,598	26	28,331	-	-	(7,195)	(1,053)	20,109
Cumulative translation adjustment	-	-	-	-	-	-	(230)	(230)
Change in fair value of derivative	-	-	-	-	-	-	4	4
Net income	-	-	-	-	-	5,380	-	5,380
Stock based compensation	-	-	177	-	-	-	-	177
Dividend	-	-	-	-	-	(959)	-	(959)
Treasury stock	-	-	-	60,827	(61)	-	-	(61)
Stock options settled for cash	-	-	(524)	-	-	-	-	(524)
Balance - December 31, 2013	56,425,598	26	27,984	60,827	(61)	(2,774)	(1,279)	23,896
Cumulative translation adjustment	-	-	-	-	-	-	(79)	(79)
Net income	-	-	-	-	-	14,541	-	14,541
Stock based compensation	-	-	262	-	-	-	-	262
Dividend	-	-	-	-	-	(1,573)	-	(1,573)
Treasury stock	-	-	-	171,873	(355)	-	-	(355)
RSUs settled for cash	-	-	(4,874)	-	-	-	-	(4,874)
Stock options settled for cash	-	-	(1,036)	-	-	-	-	(1,036)
Balance - December 31, 2014	56,425,598	26	22,336	232,700	(416)	10,194	(1,358)	30,782

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2014 and 2013

	Year ended December 31, 2014 US$ 000	Year ended December 31, 2013 US$ 000
Cash flows from operating activities:		
Net income	14,541	5,380
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	(3,251)	(428)
Depreciation and amortization	2,098	2,373
Amortization of deferred financing costs	32	100
Stock based compensation	262	177
Working capital changes:		
Accounts receivable	(1,192)	(1,011)
Inventories	(1,609)	(391)
Prepaid expenses and other assets	(98)	20
Other assets	11	(9)
Accounts payable, accrued expenses and other liabilities	2,051	1,451
Income taxes payable	(500)	355
Net cash provided by operating activities	12,345	8,017
Cash flows from investing activities:		
Proceeds from sale of property and equipment	25	-
Property and equipment purchases	(1,221)	(795)
Net cash used in investing activities	(1,196)	(795)
Cash flows from financing activities:		
Borrowings from additional financing	-	11,269
Payment of dividend	(1,573)	(959)
Payment of RSUs	(4,874)	-
Purchase of treasury stock	(355)	(61)
Stock options settled for cash	(1,036)	(524)
Loan origination fees	-	(160)
Repayment of notes payable	(1,265)	(11,745)
Net cash used in financing activities	(9,103)	(2,180)
Effect of exchange rates on cash and cash equivalents	(79)	(226)
Net increase in cash and cash equivalents	1,967	4,816
Cash and cash equivalents:		
Beginning of year	5,983	1,167
End of year	7,950	5,983

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

As of December 31, 2014 and 2013

1. Organization and description of business

Nature of business

Somero Enterprises, Inc. (the “Company” or “Somero”) designs, assembles, refurbishes, sells and distributes concrete leveling, contouring and placing equipment, related parts and accessories, and training services worldwide. The operations are conducted from a corporate office in Houghton, Michigan, executive offices in Fort Myers, Florida, and sales and distribution offices in the United Kingdom, China, and India.

2. Summary of significant accounting policies

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America.

Principles of consolidation

The consolidated financial statements include the accounts of Somero Enterprises, Inc. and its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Cash and cash equivalents

Cash includes cash on hand, cash in banks, and temporary investments with a maturity of three months or less when purchased. The Company maintains deposits primarily in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (“FDIC”). The Company has not experienced any losses related to amounts in excess of FDIC limits.

Accounts receivable and allowances for doubtful accounts

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company’s accounts receivable are derived from revenue earned from a diverse group of customers. The Company performs credit evaluations of its commercial customers and maintains an allowance for doubtful accounts receivable based upon the expected ability to collect accounts receivable. Allowances, if necessary, are established for amounts determined to be uncollectible based on specific identification and historical experience. As of December 31, 2014 and 2013, the allowance for doubtful accounts was approximately US$ 324,000 and US$ 324,000, respectively. Bad debts expense was US$ 49,000 and US$ 31,000 in 2014 and 2013, respectively.

Inventories

Inventories are stated at the lower of cost, using the first in, first out ("FIFO") method, or market. Provision for potentially obsolete or slow-moving inventory is made based on management's analysis of inventory levels and future sales forecasts.

Deferred financing costs

Deferred financing costs incurred in relation to long-term debt are reflected net of accumulated amortization and are amortized over the expected remaining term of the debt instrument. These financing costs are being amortized using the effective interest method.

Intangible assets and goodwill

Intangible assets consist primarily of customer relationships and patents, and are carried at their fair value when acquired, less accumulated amortization. Intangible assets are amortized using the straight-line method over a period of three to twelve years, which is their estimated period of economic benefit. Goodwill is not amortized but is subject to impairment tests on an annual basis, and the Company has chosen December 31 as its periodic assessment date. Goodwill represents the excess cost of the business combination over the Group's interest in the fair value of the identifiable assets and liabilities. Goodwill arose from the Company's prior sale from Dover Corporation to The Gores Group in 2005. The Company did not incur a goodwill impairment loss for the year ended December 31, 2014 or 2013. (See Note 4 for more information.)

The Company evaluates the carrying value of long-lived assets, excluding goodwill, whenever events and circumstances indicate the carrying amount of an asset may not be recoverable. For the year ended December 31, 2014, the Company tested its other intangible assets including customer relationships and technology for impairment and found no impairment. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such asset (or asset group) are separately identifiable and less than the asset's (or asset group's) carrying value. In that event, a loss is recognized to the extent that the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. (See Note 4 for more information.)

Revenue recognition

The Company recognizes revenue on sales of equipment, parts and accessories when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured. For product sales where shipping terms are F.O.B. shipping point, revenue is recognized upon shipment. For arrangements which include F.O.B. destination shipping terms, revenue is recognized upon delivery to the customer. Standard products do not have customer acceptance criteria. Revenues for training are deferred until the training is completed unless the training is deemed inconsequential or perfunctory.

Warranty liability

The Company provides warranties on all equipment sales ranging from 60 days to three years, depending on the product. Warranty liabilities are estimated net of the warranty passed through to the Company from vendors, based on specific identification of issues and historical experience.

	2014 US$ 000	2013 US$ 000
Balance, January 1	(179)	(101)
Warranty charges	397	268
Accruals	(411)	(346)
Balance, December 31	(193)	(179)

Property, plant, and equipment

Property, plant and equipment is stated at estimated market value based on an independent appraisal at the acquisition date or at cost for subsequent acquisitions, net of accumulated depreciation and amortization. Land is not depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is 31.5 to 40 years for buildings (depending on the nature of the building), 15 years for improvements, and 2 to 10 years for machinery and equipment.

Income taxes

The Company determines income taxes using the asset and liability approach. Tax laws require items to be included in tax filings at different times than the items reflected in the financial statements. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance, if necessary, to the extent that it appears more likely than not, that such assets will be unrecoverable.

The Company evaluates tax positions that have been taken or are expected to be taken in its tax returns, and records a liability for uncertain tax positions. This involves a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement. The Company recognizes interest and penalties related to unrecognized tax benefits in the provision/ (benefit) for income taxes in general and administrative expenses in the accompanying consolidated financial statements. The Company is subject to a three year statute of limitations by major tax jurisdictions.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision/ (benefit) for income taxes in general and administrative expenses in the accompanying consolidated financial statements, which there were none in 2014 and 2013. The Company is subject to a three year statute of limitations by major tax jurisdictions, and currently 2011 through 2013 remain open to investigation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Stock based compensation

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The Company measures the cost of employee services in exchange for an award based on the grant-date fair value of the award.

Transactions in and translation of foreign currency

The functional currency for the Company's subsidiaries outside the United States is the applicable local currency. Balance sheet amounts are translated at December 31 exchange rates and statement of operations accounts are translated at average rates. The resulting gains or losses are charged directly to accumulated other comprehensive income. The Company is also exposed to market risks related to fluctuations in foreign exchange rates because some sales transactions, and some assets and liabilities of its foreign subsidiaries, are denominated in foreign currencies other than the designated functional currency. Gains and losses from transactions are included as foreign exchange gain/(loss) in the accompanying consolidated statements of comprehensive income.

Comprehensive income

Comprehensive income is the combination of reported net income and other comprehensive income (OCI). OCI is changes in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources not included in net income.

Earnings per share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued using the treasury stock method. Potential common shares that may be issued by the Company relate to outstanding stock options. Earnings per common share have been computed based on the following:

	Year ended December 31, 2014 US$ 000	Year ended December 31, 2013 US$ 000
Net income	14,541	5,380
Basic weighted shares outstanding	56,274,097	56,425,598
Net dilutive effect of stock options and restricted stock units	1,641,129	4,302,189
Diluted weighted average shares outstanding	57,915,226	60,727,787

Fair value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of the short-term nature of these instruments. The carrying value of our long-term debt approximates fair value due to the variable nature of the interest rates under our Credit Facility.

The FASB has issued accounting guidance on fair value measurements. This guidance provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it.

This guidance also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. These valuation techniques may be based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy.

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and model-derived other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.
- Level 3 –Unobservable inputs for the asset or liability which are supported by little or no market activity and reflect the Company's assumptions that a market participant would use in pricing the asset or liability.

		Quoted prices in active markets Identical Assets *Level 1*	Significant other observable inputs *Level 2*	Significant other unobservable inputs *Level 3*
	US$ 000	US$ 000	US$ 000	US$ 000
Year ended December 31, 2013				
Asset:				
Goodwill	2,878			2,878
Interest rate swap	5			5
Year ended December 31, 2014				
Asset:				
Goodwill	2,878			2,878
Interest rate swap	-			-

New accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under US GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing US GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

3. Inventories

Inventories consisted of the following at December 31, 2014 and 2013:

	Year ended December 31, 2014 US$ 000	Year ended December 31, 2013 US$ 000
Raw material	2,312	1,794
Finished goods and work in process	2,970	1,900
Refurbished	3,108	3,087
Total	8,390	6,781

4. Goodwill and intangible assets

Goodwill represents the excess of the cost of a business combination over the fair value of the net assets acquired. The Company is required to test goodwill for impairment, at the reporting unit level, annually and when events or circumstances indicate the fair value of a unit may be below its carrying value.

The results of the qualitative assessment indicated that Goodwill was not impaired as of December 31, 2014 and 2013, and that the value of patents was not impaired as of December 31, 2014 and 2013.

The following table reflects Other intangible assets:

	Weighted average amortization period	Year ended December 31, 2014 US$ 000	Year ended December 31, 2013 US$ 000
Capitalized cost			
Patents	12 years	18,538	18,538
Intangible assets not subject to amortization	-	49	49
		18,587	18,587
Accumulated amortization			
Patents	12 years	14,547	13,002
Intangible assets not subject to amortization	-	-	-
		14,547	13,002
Net carrying costs			
Patents	12 years	3,991	5,536
Intangible assets not subject to amortization	-	49	49
		4,040	5,585

Amortization expense associated with the intangible assets in each of the years ended December 31, 2014 and 2013 was approximately US$ 1,545,000 and US$ 2,004,000, respectively. Future amortization of intangible assets is expected to be as follows for the years ended:

	December 31 US$ 000
2015	1,545
2016	1,545
2017	901
Thereafter	-
	3,991

5. Property, plant, and equipment

Property, plant, and equipment consist of the following at December 31:

	Year ended December 31, 2014 US$ 000	Year ended December 31, 2013 US$ 000
Land	207	207
Building and improvements	3,686	3,686
Machinery and equipment	3,760	2,680
	7,653	6,573
Less: accumulated depreciation and amortization	(2,830)	(2,392)
	4,823	4,181

Depreciation expense for the years ended December 31, 2014 and 2013 was approximately US$ 553,000 and US$ 369,000 respectively.

6. Notes payable

The Company's debt obligations consisted of the following at December 31:

	Year ended December 31, 2014 US$ 000	Year ended December 31, 2013 US$ 000
March 2016 secured revolving line of credit	-	-
March 2018 delayed draw term loan	218	1,435
March 2018 commercial real estate mortgage	1,120	1,168
Total bank debt	1,338	2,603
Less debt due within one year	(266)	(1,265)
Obligations due after one year	1,072	1,338

The bank's revolving line of credit is collateralized by all inventories and accounts receivable.

The future payments by year under the Company's amended loan are as follows:

	December 31 US$ 000
2015	266
2016	48
2017	48
2018	976
Thereafter	-
	1,338

March 2013 Amended Credit Facility The Company entered into an amended credit facility in March 2013. The new agreement will mature between March 2016 and March 2018.

- US$ 5,000,000 March 2016 secured revolving line of credit
- US$ 6,000,000 March 2018 delayed draw term loan
- US$ 1,447,000 March 2018 Commercial Real Estate Mortgage

The interest rate on the delayed draw loan was 2.99% as of December 31, 2014. The interest rate on the commercial real estate loan was 2.91% as of December 31, 2014. The Company's new loan facility is secured by substantially all of its business assets. Fees paid to the bank were US$ 30,000.

7. Retirement program

The Company has a savings and retirement plan for its employees, which is intended to qualify under Section 401(k) of the Internal Revenue Code ("IRC"). This savings and retirement plan provides for voluntary contributions by participating employees, not to exceed maximum limits set forth by the IRC. The Company matches vests immediately. The Company contributed approximately US$259,000 to the savings and retirement plan during the year ended December 31, 2014 and contributed US$ 201,000 for the year of 2013.

8. Operating leases

The Company leases property, vehicles and office equipment under leases accounted for as operating leases without renewal options. Future minimum payments by year under non-cancellable operating leases with initial terms in excess of one year were as follows:

	December 31 US$ 000
2015	533
2016	459
2017	302
2018	265
Thereafter	148
	1,707

9. Supplemental cash flow and non-cash financing disclosures

	Year ended December 31, 2014 US$ 000	Year ended December 31, 2013 US$ 000
Cash paid for interest	71	122
Cash paid for taxes	1,697	968
Non-cash financing activities - change in fair value of derivative instruments	-	(4)

10. Business and credit concentration

The Company's line of business could be significantly impacted by, among other things, the state of the general economy, the Company's ability to continue to protect its intellectual property rights, and the potential future growth of competitors. Any of the foregoing may significantly affect management's estimates and the Company's performance. At December 31, 2014 and 2013, the Company had two customers which represented 10% and 36% of total accounts receivables, respectively.

11. Commitments and contingencies

The Company has entered into employment agreements with certain members of senior management. The terms of these are for renewable one year periods and include non-compete and nondisclosure provisions as well as provide for defined severance payments in the event of termination or change in control.

The Company is subject to various unresolved legal actions which arise in the normal course of its business. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible losses, the Company believes these unresolved legal actions will not have a material effect on its consolidated financial statements.

12. Income taxes

Income Tax Provision

	Year ended December 31, 2014 US$ 000	Year ended December 31, 2013 US$ 000
Current income tax		
Federal	954	1,331
State	123	41
Foreign	32	127
Total current income tax expense	1,109	1,499
Deferred tax (benefit)/expense		
Federal	(3,083)	(402)
State	43	(26)
Foreign	(211)	-
Total deferred tax (benefit)/expense	(3,251)	(428)
Total (benefit)/provision	(2,142)	1,071

The components of the net deferred income tax asset at December 31, 2014 and 2013 were as follows:

	Year ended December 31, 2014 US$ 000	Year ended December 31, 2013 US$ 000
Bad debt allowance	115	115
Inventory reserve	39	64
Accrued expenses	5	63
UNICAP - Sec 263A	124	60
Current deferred tax asset	283	302
Prepaid insurance	(53)	(43)
Prepaid other	(56)	(85)
Current deferred tax liabilities	(109)	(128)
Accrued warranty	97	64
Stock comp expense (options & RSUs)	243	164
Charitable contributions	-	1
Intangible assets	3,181	3,489
State NOL	-	14
UK NOL	-	417
UK intangibles	134	134
Italy - NOL	76	76
Foreign tax credit	237	237
Noncurrent deferred tax assets	3,968	4,596
Fixed assets	(463)	(286)
Noncurrent deferred tax liabilities	(463)	(286)
Total deferred tax assets	3,679	4,484
Valuation allowance for deferred tax assets	-	(4,056)
Deferred tax assets, net of valuation allowance	3,679	428
Total net deferred tax asset	3,679	428
Rate reconciliation		
Consolidated income before tax	12,399	6,451
Statutory rate	34%	34%
Statutory tax expense	4,216	2,193
State taxes	110	15
Foreign taxes	(179)	(27)
Revaluation of deferred tax assets	-	116
Meals and entertainment	50	43
Permanent differences due to stock options & RSUs	(1,897)	-
Permanent differences due to other items	10	-
Valuation allowance	(4,056)	(1,017)
Other	(396)	(252)
Tax (benefit)/expense	(2,142)	1,071

The Company has US$ 246,185 in foreign loss carry forwards with indefinite expiration dates.

13. Revenues by geographic region

The Company sells its product to customers throughout the world. The breakdown by location is as follows:

	Year ended December 31, 2014 US$ 000	**Year ended December 31, 2013 US$ 000**
United States and US possessions	36,314	24,226
Canada	841	1,248
Rest of World	22,122	19,604
Total	59,277	45,078

14. Stock based compensation

The Company has one stock-based compensation plan, which is described below. The compensation cost that has been charged against income for the plan was approximately US$ 262,000 and US$ 177,000 for the years ended December 31, 2014 and 2013, respectively. The income tax effect recognized for stock based compensation was $1.9m and zero, respectively, for the years ended December 31, 2014 and 2013. During 2013, the Company recorded a partial valuation allowance against its deferred tax assets related to stock compensation that was reversed during 2014.

Stock options

An initial grant was made in February 2010 for 2.3 million stock options as replacements for grants under the old option plan, which was cancelled when the old plan was abandoned. The grants have a three year vesting and a strike price of 30p, a 100% premium over the market price on the date of grant. The remaining stock options will only be issued for new key employees and superior performance.

Options granted under the Plan have a term of up to 10 years and generally vest over a three-year period beginning on the date of the grant. Options under the Plan must be granted at a price not less than the fair market value at the date of grant. The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The risk-free interest rate is based on the U.S. Treasury rate for the expected term at the time of grant, volatility is based on the average long-term implied volatilities of peer companies as our Company has limited trading history and the expected life is based on the average of the life of the options of 10 years and an average vesting period of 3 years. No new options were granted in 2014 and 2013.

A summary of options activity is presented below:

Options	Stock options	Weighted-average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding at January 1, 2013	3,067,345	0.56	6.76	-
Granted	-	-	-	-
Exercised	(459,566)	0.41	-	-
Forfeited	(205,691)	2.34	-	-
Outstanding at December 31, 2013	2,402,088	0.44	5.99	-
Exercisable at December 31, 2013	2,401,402	0.44	5.99	-
Outstanding at January 1, 2014	2,402,088	0.44	5.99	-
Granted	-	-	-	-
Exercised	(561,461)	0.42	-	-
Forfeited	-	-	-	-
Outstanding at December 31, 2014	1,840,627	0.44	5.02	-
Exercisable at December 31, 2014	1,840,627	0.44	5.02	-

Options exercised in 2014 and 2013 were settled for cash of US$ 1.0m and US$ 0.5m, respectively.

A summary of the status of the Company's non-vested stock options as of December 31, 2014, and changes during the year then ended is presented below:

	Stock options	Weighted grant-date fair value
Non-vested stock options as of December 31, 2013	686	0.05
Granted	-	-
Vested	(686)	0.05
Forfeited	-	-
Non-vested stock options as of December 31, 2014	-	-

As of December 31, 2014, there was US$ 0 of total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Company's stock option plan. The fair value of options vested in 2014 and 2013 was US$ 0 and US$ 51,000 respectively.

A summary of restricted stock units activity is presented below:

	Shares	Grant date fair market value US$
Outstanding at January 1, 2013	2,300,446	370,654
Granted	240,453	179,497
Vested	-	-
Forfeited	-	-
Outstanding at December 31, 2013	2,540,899	550,151
Outstanding at January 1, 2014	2,540,899	550,151
Granted	188,800	364,002
Vested or settled for cash	(2,279,349)	(360,154)
Forfeited	-	-
Outstanding at December 31, 2014	450,350	553,999

RSUs vested in 2014 were settled for cash US$ 4.9m.

As of December 31, 2014, there was US$ 329,000 total unrecognized compensation cost related to non-vested restricted stock units. Restricted stock unit expense is being recognized over the three year vesting period. The weighted average remaining vesting period is 1.58 years.

15. Employee compensation

The Board approved management bonuses and profit sharing dollars totaling US$ 1.3m to be paid in December 2014 and early 2015 based upon the Company meeting certain profitability targets.

16. Reclassed items

US$524,000 and 459,566 shares were reclassed from Treasury stock to Additional paid-in capital and stock options settled for cash at December 31, 2013.

17. Subsequent events

Dividend

A final 2014 dividend of 4.0 US cents per share has been announced on April 7, 2015 and will be payable on May 11, 2015 to shareholders on the register as of April 24, 2015 and together with the interim dividend paid in October 2014 of 1.5 US cents per share, represents a full year dividend to shareholders of 5.5 US cents per share; a 150% increase on the previous year. The final 2014 dividend of 4.0 US cents per share represents a 208% increase over the final 2013 dividend.

Capital Expenditure

Due to the anticipated growth of the business in the medium term, the Board has concluded that the current Global Headquarters in Fort Myers will not be large enough to accommodate future growth. As a result, the Company has entered into an agreement to purchase land to build a new Global Headquarters at an expected cost of up to US$ 4.0m spread over 2015 and 2016.

Advisers and Corporate Information

Directors

Lawrence Horsch – *Chairman and Non-Executive Director*
John T. Cooney – *President and Chief Executive Officer and Director*
Naveen (Neil) Mathur – *Chief Financial Officer and Secretary and Director*
Howard E. Hohmann – *Executive Vice President of Sales Worldwide and Director*
Ronald Maskalunas – *Non-Executive Director*
Thomas M. Anderson – *Non-Executive Director*

Registered and Head Office

Somero Enterprises, Inc
16831 Link Court
Fort Myers, Florida 33912
USA

Registered Number

Incorporated in the State of Delaware, USA under the Delaware
General Corporation Law with registered number 3589295

Registrars

Computershare Investor Services
(Jersey) Limited
Queensway House
Hilgrove Street
St Helier
Jersey
JE1 1ES
Channel Islands

Nomad

Canaccord Genuity Limited
88 Wood Street
London EC2V 7QR
UK

Broker

Canaccord Genuity Limited
88 Wood Street
London EC2V 7QR
UK

Legal

Brown Rudnick LLP
8 Clifford Street
London W1S 2LQ
UK

Auditors

Whitley Penn LLP
Suite 400
8343 Douglas Ave
Dallas, TX 75225
USA

Notice of Annual General Meeting of Stockholders

SOMERO ENTERPRISES, INC. (the “Company”)

(Incorporated in the State of Delaware, USA under the Delaware General Corporation Law (the “DGCL”) with registered number 3589295)

Notice is given that the Annual General Meeting of Stockholders (the “AGM”) of the Company will be held at the offices of Canaccord Genuity Limited, 88 Wood Street, London EC2V 7QR on May 19, 2015 at 11:00 am local time for the following purposes:

To consider and, if thought fit, to pass the following resolutions:

- To ratify the Directors’ Report and the Annual Report and the Company audited financial statements for the year ended December 31, 2014.
- To ratify the Directors’ Remuneration Report for the year ended December 31, 2014.
- To re-elect John T. Cooney as a Class III Director.
- To re-elect Howard E. Hohmann as a Class III Director.
- To ratify the appointment of Whitley Penn LLP as the auditors of the Company for the fiscal year ending December 31, 2015.
- To consider and act upon any matters incidental to the foregoing purposes and any other matters which may properly come before the AGM or any adjourned session thereof.

Please refer to the Annual Report and form of proxy, which forms a part of this Notice and is incorporated in this Notice by reference, for further information with respect to the business to be transacted at the AGM.

Stockholders of record at the close of business on April 8, 2015 are entitled to receive notice of, and vote at, the AGM or any adjournment or postponement of the AGM.

Whether or not you expect to attend the AGM, please complete, date and return the enclosed proxy as promptly as possible in order to ensure your representation at the AGM. To be effective, proxies must be sent to or deposited at the office of the Company’s registrars (Computershare Investor Services (Jersey) Limited, c/o The Pavilions, Bridgewater Road, Bristol BS99 6ZY) so as to be received not later than 48 hours before the time for the AGM (provided that the Company may waive such requirement in its sole discretion). Even if you have given your proxy, you may still vote in person if you attend the AGM.

You may inspect a complete list of the stockholders eligible to vote at the AGM during normal business hours at our offices located at 16831 Link Court, Fort Myers, Florida 33912, USA, during the ten days prior to the date of the AGM and also at the location indicated above during the AGM.

The Board of Directors unanimously recommends a vote “FOR” each of the proposed resolutions.

All stockholders are cordially invited to attend the AGM.

By order of the Board of Directors.

Neil Mathur,
Secretary
April 7, 2015

Notes:

1. The Company’s Board of Directors has approved the Annual Report (including the Director’s Report and the Directors’ Remuneration Report contained therein) and the Company’s audited financial statements for the year ended December, 31 2014. Stockholder ratification of the Annual Report (including the Director’s Report and the Directors’ Remuneration Report contained therein) and the Company’s audited financial statements for the year ended December 31, 2014 is not mandatory under Delaware law. However, the Board is submitting the Annual Report (including the Director’s Report and the Directors’ Remuneration Report contained therein) and the Company’s audited financial statements for the year ended December 31, 2014 to the stockholders for ratification as a matter of good corporate practice. If ratification is not approved a majority of the shares of common stock voting at the AGM in person or by proxy, the Board will reconsider its approval thereof.

2. The Company’s Board of Directors has selected Whitley Penn LLP to serve as the Company’s auditors until the next Annual AGM of Stockholders. Stockholders ratification of the selection of Whitley Penn LLP as the Company’s auditors is not mandatory under Delaware law. However, the Board is submitting the selection of Whitley Penn LLP to the stockholders for ratification as a matter of good corporate practice. If ratification is not approved a majority of the shares of common stock voting at the AGM in person or by proxy, the Board will reconsider its approval thereof.

3. In accordance with the Company’s Bylaws, the holders of one-third in voting power of all issued and outstanding stock entitled to vote at the AGM, present in person or presented by proxy, shall constitute a quorum for the transaction of business.