SOMERO® ENTERPRISES, INC

Annual Report and Accounts 2015

SOMERO ENTERPRISES®, INC. IS THE LEADING MANUFACTURER OF TECHNOLOGICALLY ADVANCED CONCRETE PLACING EQUIPMENT AND ASSOCIATED MACHINERY.

SOMERO ENTERPRISES WAS FOUNDED IN 1985 AND HAS GROWN AND PROSPERED BY DELIVERING SUPERIOR PRODUCTS, SERVICE, TRAINING AND EDUCATION TO AN INTERNATIONAL MARKET.

CONTENTS

GLOBAL LEADERS IN LEVELING

FINANCIAL HIGHLIGHTS

- Revenue ahead of market expectations, reflecting strong demand across the product portfolio:
  - Total revenue increased by 18% to US$ 70.2m (2014: US$ 59.3m)
- Efficient conversion of revenue growth into profit:
  - Adjusted EBITDA increased 34% to US$ 20.0m (2014: US$ 15.0m)[1,2]
  - Adjusted EBITDA margin grew to 29% (2014: 25%) driven by gross margin expansion and effective operating cost controls
  - Pre-tax income increased 40% to US$ 17.4m (2014: US$ 12.4m)
  - Adjusted net income grew 28% to US$ 13.0m (2014: US$ 10.1m)[3]
  - Basic adjusted net income per share grew 28% to US$ 0.23 (2014: US$ 0.18)[3]
- Strong growth in operating cash flows:
  - Net cash from operating activities increased by 18% to US$ 14.5m
- Balance sheet continues to strengthen:
  - Increased net cash at December 31, 2015 of US$ 12.6m[4], a US$ 6.0m increase over 2014
  - Post period close, successfully negotiated a five year extension to secured revolving line of credit
- Healthy dividend increase:
  - Final dividend of 5.0 US cents per share declared for a total 2015 dividend of 6.9 US cents per share, a 25% increase over last year

BUSINESS HIGHLIGHTS

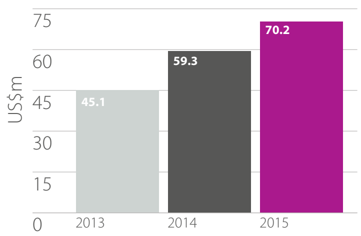
- Internally funded investments to increase business scale:
  - 20,000 sq. ft. expansion of Houghton, Michigan Operations and Support facility in 2015
  - Construction underway on a 14,000 sq. ft. new Global Headquarters and Training facility in Fort Myers, Florida
- New products continue to be a significant driver of growth:
  - S-485 Laser Screed® machine revenues were US$ 3.9m in 2015
  - New product pipeline continues with introduction of the Somero Floor Levelness System™ and S-10A Laser Screed® machine in late 2015, and the S-940 Laser Screed® machine at the World of Concrete in Las Vegas in early 2016
- Balanced product line and geographic growth:
  - Large line, Small line and 3-D Profiler System® revenues grew 26%, 40%, and 19%, respectively
  - Revenue growth led by North America, Europe and the Middle East, which grew a combined US$ 16.0m compared to prior year
  - China remains a key target for future revenue growth

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 page 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, and stock based compensation.
3. Adjusted net income as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and RSU settlements and other special items.
4. Net cash is defined as cash and cash equivalents less borrowings under bank obligations.

Revenue

US$ 70.2m

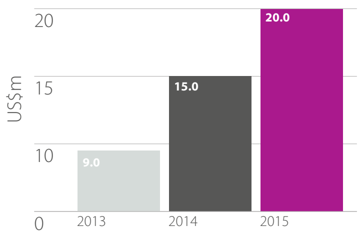
+18.4%



EBITDA (Adjusted)

US$ 20.0m

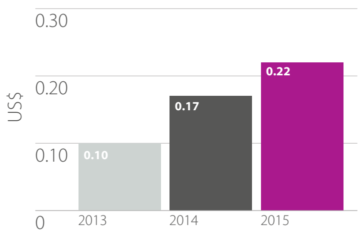
+33.3%



EPS (Adjusted Diluted)

US$ 0.22

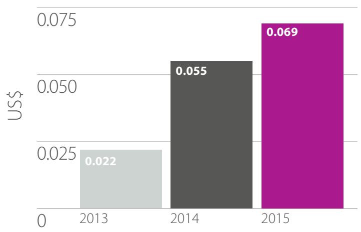
+29.4%



Dividend Per Share

US$ 0.069

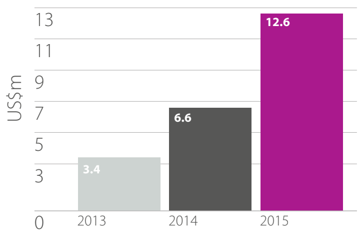
+25.4%



Net Cash

US$ 12.6m

+90.9%



Visit us online at www.somero.com/investors

US$ 70.2M REVENUES, GENERATED FROM 5 OFFICE LOCATIONS, SUPPLYING 90+ COUNTRIES.

OUR UNIQUE STRENGTHS

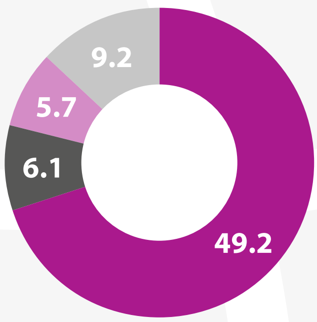
Somero operates in global markets, with minimal direct competition. The Company has been highly innovative throughout its history, bringing 32 new products to market since pioneering the Laser Screed® machine market in 1986, developing proprietary designs that are protected by a portfolio of 55 patents. Somero offers customers a compelling value proposition that includes not only equipment with unsurpassed quality and performance, but also an unparalleled combination of global service, technical support, training and education.

OUR APPLICATIONS

Somero Laser Screed® equipment is used to place and screed the concrete slab in all building types, as well as all floors in multi-story buildings. Somero equipment has been specified for use in the construction of warehouses, manufacturing assembly plants, exterior paving and parking structures, retail centers, and other commercial construction projects that require extremely flat concrete-slab floors 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.

2015 Revenue by region

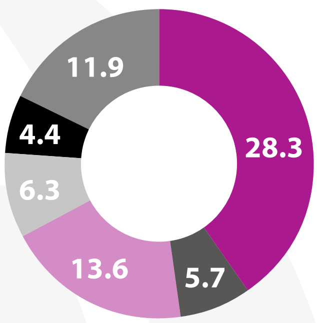
US$ 70.2m



North America	US$	49.2m
China	US$	6.1m
Europe	US$	5.7m
Rest Of World	US$	9.2m

2015 Revenue by product group

US$ 70.2m



Large line	US$	28.3m
Mid line	US$	5.7m
Small line	US$	13.6m
Remanufactured	US$	6.3m
3-D Profiler Systems	US$	4.4m
Other	US$	11.9m

OUR MISSION

Somero designs and assembles laser-guided and technologically innovative machinery used in horizontal concrete placement to advance the productivity, concrete flatness and efficiency of the jobsite. Somero promotes customer training, technical support and continuous innovation for all its products.

OUR VISION

Somero's vision is for our innovative, cutting edge technology and processes to be in use wherever a ready mix truck is discharging concrete for a horizontal concrete slab. Somero technology and equipment will enable every installation to be completed faster, flatter and with fewer people. We will continually pass on Somero knowledge and expertise to all our global customers.

OUR LOCATIONS

FORT MYERS, FL, USA

Global headquarters and training facility (site under construction).

HOUGHTON, MI, USA

Operations and support office.

NORTH AMERICA SALES US$ 49.2M

QINGPU DISTRICT, SHANGHAI, CHINA

Northeast Asia sales, support and training facility.

CHINA SALES US$ 6.1M

SALES & SUPPORT OFFICES

CHESTERFIELD, UK

European sales and support office.

NEW DELHI, INDIA

India sales and support office.

EMEA SALES US$ 9.6M

OUR PRODUCTS

Somero's equipment employs laser-guided proprietary technology to achieve a high level of precision in concrete surface flatness at a higher rate of efficiency than conventional methods, and results in the highest level of flat-floor precision attainable at less cost to the flooring contractor. Somero's innovative, proprietary products include the S-22E Laser Screed®, CopperHead®, Mini Screed™ C, S-840 Laser Screed®, S-15R Laser Screed®, STS-11m Spreader, S-485 Laser Screed®, S-940 Laser Screed®, and S-10A Laser Screed® machines as well as the 3-D Profiler System® and Somero Floor Levelness System™.

OUR CUSTOMERS

Somero's products have been sold to concrete contractors for non-residential construction projects in over 90 countries and across every time zone around the globe. 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 keys to our success are the quality of our equipment, the unparalleled level of service, education and training we provide, and the investment we make in relationships with our customers. Somero equipment and service help our customers achieve their business and profitability goals, creating the loyalty that retains them as a customer for life.

An exceptional year of growth

Performance and dividend

Somero delivered another exceptional year of profitable growth in 2015. The Company grew revenues to US$ 70.2m, an 18% increase over 2014, and profits before tax to US$ 17.4m, a 40% increase over 2014. Our growth in 2015 came from a variety of geographies including North America, Europe, the Middle East, Southeast Asia and Korea and a variety of product lines including Large line machines, Small line machines and our 3-D Profiler Systems®. This performance highlights the breadth, reach and diversity of our global business. The efficient translation of this growth into strong profits and free cash flow was made possible by the continued disciplined management of the business. While our 2015 financial performance was remarkable, it is only a by-product of our continued focus on delivering innovative products, solutions and services to our customers.

As a consequence of this stellar performance and the Board's confidence in the Company's future, we are pleased to report that the final 2015 dividend of 5.0 US cents per share has been approved and will be payable on April 4, 2016 to shareholders on the register at March 18, 2016. Together with the interim dividend paid in October 2015 of 1.9 US cents per share, this represents a full year dividend payment to shareholders of 6.9 US cents per share, a 25% increase from 2014.

Strategic progress

The Company enters 2016 with increased focus and alignment on what makes Somero a truly exceptional business. Somero's unique business model rests on two key competitive advantages: (1) unparalleled industry expertise, service, training and support, and (2) innovative product leadership. As we move forward, our mission remains to prioritize investment in these value drivers on our path to achieving our strategic objective of doubling Company revenue by 2018, compared to 2013.

Board of Directors

In October 2015, Ron Maskalunas stepped down from the Company's Board of Directors and Robert Scheuer was appointed. Throughout his nine-year tenure, Ron served as Chairman of the Audit Committee and played an instrumental role in helping lead and build the Company. The Board sincerely thanks Ron for his many contributions over the years and welcomes Robert to the Company. Robert brings exceptional operational and leadership experience to the Company, having previously served in a series of senior executive roles at Dover Corporation and Kraft Foods, Inc. There have been no other Board changes during the period.

Our people

Somero's success is in the hands of our 165 employees around the globe. On behalf of the Board, I would like to thank them all for their dedication and hard work during the year. Without our employees' tireless commitment and passion for our customers' success, we would not have delivered these extraordinary results for our shareholders. As a Company, we must continue to create an environment that stretches and challenges our people and enables them to do their best work. I look forward to working with the Board and the management team to make sure that we do.

Management Equity Bonus Program

We are also excited to announce the first year of the new Equity Bonus Program for senior management. Under this program, eligible senior managers are able to choose to receive a portion of their annual performance bonus in shares of Company stock. We believe that allowing our senior management team to share in the future performance of the Company's share price will further align their interests with those of our shareholders.

Current trading and outlook

Healthy trading momentum in the US has carried forward into 2016 from the strong finish to 2015. The momentum is driven by demand for replacement equipment, fleet additions, technology upgrades, and new products. The underlying non-residential construction market fundamentals in the US remain strong, evidenced by lengthy project backlogs for our customers extending well into 2016. This gives us confidence in our growth prospects for 2016.

In Europe, we are seeing similar carryover of momentum into 2016, which highlights a continued, steady recovery from the recessionary low point in 2010-2011. The momentum drivers in Europe are similar to the US. In the Middle East, following extraordinary growth in 2015, we expect to continue to see significant opportunities in 2016.

In Latin America, we expect stable performance in Mexico and Chile and are optimistic for improvement in the other countries in the region outside of Brazil, given its unique economic challenges.

The Asian markets remain positioned for improvement and will be driven primarily by increased penetration of our products. We expect to see greater need and willingness to use our products and services as acceptance of wide-placement and flatness, levelness standards grows. We will continue to support promotion of the benefits of using wide-placement processes to obtain high-quality, flat and level floors through our innovative Somero Concrete College initiative in China. In addition, we believe providing customers with Somero's new direct long-term financing options, enabled by development of Somero's proprietary machine shut-off capability, will have a positive impact on sales in the region.

The Board believes the Company is well-positioned to capitalize on global market opportunities in the coming year and is confident Somero will deliver another year of solid growth.

Larry Horsch
Non-Executive Chairman
March 1, 2016

Global market opportunity

Demand for Somero's equipment is underpinned by drivers that apply across the regions we serve - the need for quality floors and a shortage of skilled workers - which will help to advance market penetration.

	NORTH AMERICA	EUROPE	CHINA	REST OF WORLD
Market Dynamics	• Largest market • Strong recovery in equipment pricing and sales since recessionary low-point in 2010-2011 • Non-residential construction industry fundamentals remain sound in the US • Cement consumption from non-residential building construction increased 14% in 2015[1]	• Second largest installed base of equipment • Continued steady improvement from the recessionary low-point in 2010-2011 • Region appears at an earlier stage of recovery than North America	• Greatest market opportunity for growth outside North America • Massive quantity of cement consumption – estimated to represent nearly 58% of 2015 world cement consumption compared to 3.5% for North America[2] • Current market penetration very low • Recent slowdown in economic growth not expected to materially impact near-term opportunity	• Current market penetration very low • Most significant opportunity in region is India, with cement consumption second only to China and estimated to represent over 7% of 2015 world cement consumption (more than double North America)[2] • Significant opportunities in the Middle East, Southeast Asia, Latin America and Australia
Drivers of Growth	• US non-residential construction spend forecast to grow by 5%-7% through 2019[3] • Technology upgrades of aging fleet of installed equipment • Fleet additions • New product introductions • Shortage of skilled labor in concrete construction industry	• Continued recovery of non-residential construction market across mainland Europe • Technology upgrades of aging fleet of installed equipment • Fleet additions • New product introductions • Shortage of skilled labor in concrete construction industry	• Large multinational projects requiring high-quality floors adhering to western standards • Broader domestic acceptance of wide-placement and western flatness, levelness floor specifications • Increased availability of long-term financing options for customers • Increasing shortage of skilled labor	• Increased demand for higher quality concrete floors • Broader domestic acceptance of wide-placement and western flatness, levelness floor specifications • Increasing shortage of skilled labor

Notes:
1. Percentage derived from Portland Cement Association Market Intelligence Fall Cement Outlook report dated November 2015.
2. Percentage derived from Portland Cement Association Market Intelligence World Cement Consumption report dated August 2013.
3. Estimates obtained from FMI Research Services Group 3Q 2015 Construction Outlook Report.

A clear strategic objective

In 2014, the Company outlined our strategic objective to double 2013 revenue of US$ 45.1m by 2018. In 2015, the Company made significant progress towards this goal, growing revenues by US$ 10.9m, or 18% from the prior year to reach US$ 70.2m. Our strategic objective remains in view as we execute our plans to grow the business through geographical expansion and product innovation.

Geographic expansion

Somero is a truly global business, supplying over 90 countries with our unique products and services. Replicating our success in the North American market across the globe is a key element of our strategy. Supporting this commitment to grow the business globally is our investment in our international employees. Since 2007, virtually all our staffing increases have been employees based outside of North America. We will continue to make selective investments to expand our global sales and support coverage as we pursue this strategy.

Product innovation

2015 was a highly productive year for our Engineering team as we completed development on three new products: our new S-940 Laser Screed and S-10A Laser Screed machines, as well as our Somero Floor Levelness System. The S-10A Laser Screed machines and the Somero Floor Levelness System were released in the fourth quarter of 2015, while the S-940 Laser Screed machine was officially released in the first quarter of 2016 at the World of Concrete in Las Vegas. Somero will continually search for opportunities to leverage our core technology and design capabilities to introduce innovative new products to the industry.

SOMERO

Design and assemble laser-guided, technologically innovative machinery used in horizontal concrete placement and screeding

SOMERO CUSTOMERS

Small, medium and large concrete contractors and self-performing general contractors

END USERS

Small domestic organisations to large multinational groups:

– Warehousing
– Commercial
– Industrial
– Retail
– Schools

MULTI-FACETED VALUE PROPOSITION

Somero's unique value proposition provides benefits to both our customer and the building owner

Key differentiators

Our technology and equipment enable every installation to be completed faster, flatter and with fewer people.

Supported by:

– Industry expertise, service, support, training

– Innovative product leadership

Key benefits

↗ Increases quality

↗ productivity

↗ and profit

Key outcomes

↗ Operational efficiency

↗ Improved physical appearance

↘ Lower maintenance cost

↘ Lower forklift repair cost

INVESTMENT CASE

WHAT MAKES SOMERO UNIQUE?

While Somero sells equipment to our concrete contractor customer base, the Company is much more than simply a seller of equipment. Somero is committed to making our customers successful in their businesses. We are able to deliver on this promise through two competitive advantages that differentiate us in the market:

1. Unparalleled industry expertise, service, training and support

Our deep and comprehensive industry expertise means we truly understand our customers' business. As a result, we're able to provide customers with valuable insight and guidance regarding their projects, well beyond the use of our equipment on the jobsite.

See case study on page 9 for more information →

2. Innovative product leadership

Our close customer relationships enable us to develop new and innovative products that address our customers' needs so they can produce higher quality floors, reduce manpower, increase their productivity, and ultimately become more successful in their business.

See case study on page 11 for more information →

WHY INVEST IN SOMERO?

- Dominant market position
- Significant barriers to entry based on technology, education, and global technical support
- Industry leader in introducing customer driven, technologically advanced new products
- Skilled management team with extensive industry experience
- Attractive global geographic growth opportunity:
  - Solid growth and market dynamics in developed markets
  - Strong potential for growth in emerging markets
- Strong and consistent financial performance:
  - Superior margins
  - Strong conversion of revenue growth into free cash flow
  - Strong, unleveraged balance sheet
  - Disciplined return of cash to shareholders through dividends

A positive outlook

With strong performance in the US, the positive upswing of momentum in Europe and contribution from new products, we are already ahead of our five year growth plan projections.

Overview

2015 was a tremendous year of growth with sales increasing 18% to US$ 70.2m. This robust growth was led by North America where sales grew 32% to US$ 49.2m, Europe where sales grew 58% to US$ 5.7m, and the Middle East where sales grew 238% to US$ 2.7m. In addition to the strong top-line performance, we were able to improve gross margin to 55.8%, from 54.0% in 2014, through productivity gains, product cost reductions and price increases. Our gross margin expansion combined with significant leverage in our operating costs drove an EBITDA[1] increase of 34% to US$ 20.0m. Finally, the strong operating results, coupled with disciplined working capital management, improved our year-end net cash position to US$ 12.6m[2], a US$ 6.0m increase from 2014. In addition, we completed development of three innovative products, completed a 20,000 square-foot expansion of our Houghton, Michigan operations facility, and are well-underway to completing construction of our new 14,000 square-foot global headquarters in Florida. By all measures, 2015 truly was a remarkable year.

Region reviews

In North America, 2015 cement consumption from non-residential building construction grew a robust 14%[3]. The healthy increase in non-residential construction spending spurred customer demand for replacement machines, fleet additions, and technology upgrades. This, combined with new product introductions, price increases and a shortage of skilled labor in the concrete contractor industry, all contributed to the 32% annual sales increase in North America.

Europe continued its positive trajectory with a solid year of growth in 2015, with sales increasing 58% from 2014 to US$ 5.7m. Growth in 2015 was driven by improvements in the UK, Spain, Poland, Italy, and Germany. Sales in the Middle East grew to US$ 2.7m, well ahead of expectations and driven by increased activity in Dubai, Turkey, and Saudi Arabia. As expected, sales in Russia remained slow due to that country's continued unstable geo-political climate.

"BY ALL MEASURES, 2015 TRULY WAS A REMARKABLE YEAR"

The China market was challenging in 2015, but market conditions stabilized in the second half of the year and we remain encouraged by underlying market fundamentals and the long-term growth prospects in the region. We ended the year with US$ 6.1m in sales, a decrease of US$ 3.4m from 2014. A significant factor adversely impacting the market was a slowdown in money flow throughout the construction industry. To address this factor, in the fourth quarter 2015 Somero began offering long-term financing to customers that requires the installation of our machine shut-off payment protection tool. While our experience with this program has been very positive to date, we will continue to develop alternative third-party financing options for customers. In the meantime, we expect the Somero long-term financing program to have a positive impact on sales.

There is a growing awareness in the market of US floor flatness and levelness standards as supported by the China Flooring Association. The training and educational efforts we are promoting through the Somero Concrete College in China and the efforts of our sales engineers are increasing awareness, acceptance and demand for higher quality floors through wide-placement methods. Higher wage rates in China are leading to demand for greater automation, which increases the value of Somero equipment. We expect the Chinese economy will continue to evolve towards more logistics, big box retailing, and e-commerce, which increase owners' demands for the productivity and flatness provided by Somero equipment.

In Southeast Asia, sales increased to US$ 1.3m in 2015 from US$ 0.7m in 2014. We view Southeast Asia as a significant growth opportunity for us in the coming years given our very low current market penetration and the growing demand for higher quality floors in the region.

In Australia, sales decreased to US$ 1.0m in 2015 from US$ 2.4m in 2014. The primary factor pressuring sales volume in 2015 was the devaluation of the Australian dollar, which led to our equipment becoming more expensive for Australian customers. If this continues, it will inhibit the growth opportunity in this territory in 2016.

Our results in India in 2015 were flat with 2014 as we ended the year with US$ 0.6m in revenues for the territory. We are still in the initial phase of penetration of this significant market.

We will continue to focus our efforts to promote the benefits of higher quality floors, increase our marketing activities, and hold educational seminars for engineers and architects to drive broader acceptance of wide-placement methods and flatness, levelness standards.

People

Our staffing level of 165 employees at the end of 2015 was unchanged from year-end 2014. We were able to support the Company's growth in 2015 by leveraging the investments we made in 2014 to increase our staff. Going forward, we will continue to selectively invest in new positions to support our 2018 strategic objective. However, more importantly than the number of staff we employ is the quality and fit of the individuals we hire. We devote a large part of the hiring process to determining whether a candidate fits the Somero culture, embraces our core values, and will be a significant, productive contributor.

Product development

On an annual basis, Somero invests approximately 2% of sales on product development, and our goal is to introduce at least one new product every year. Our product development effort is a customer-driven process that relies on customer focus groups, surveys, and feedback from our sales and technical support staff. This allows us to remain focused on customer needs and value requirements. 2015 was a highly productive year for our engineering team. During the year, we completed development of three new products: our new S-940 Laser Screed and S-10A Laser Screed machines, as well as our Somero Floor Levelness System. The S-10A Laser Screed machine and the Somero Floor Levelness System were officially released in the fourth quarter of 2015, while the S-940 Laser Screed machine was released in the first quarter of 2016. Even though these products were available only for a small portion of the year, they contributed nearly US$ 0.4m in 2015 sales on a combined basis. Similarly, sales of the S-485 Laser Screed machine introduced in the fourth quarter of 2014 grew considerably to US$ 3.9m in 2015, up from US$ 0.9m in 2014.

Progress towards our 2018 strategic objective

2015 was the second year of our five-year plan to double our 2013 revenues by 2018, and we have made tremendous progress towards this target. We ended 2015 with US$ 70.2m in revenues, putting us more than half-way towards the goal after only two years of the plan. With solid fundamentals in the US and European markets, and significant additional growth opportunities across our broad portfolio of products and geographic markets, we remain confident in our ability to achieve our strategic target in 2018.

Expansion update

In 2014, the Board and management concluded that the anticipated growth of the business over the medium term required an expanded facilities footprint. Consequently, we decided to expand our Houghton, Michigan facility and planned construction of a new global headquarters and training facility in Fort Myers, Florida. In 2015, we made significant progress on these projects.

CASE STUDY: CONCRETE COLLEGE SHANGHAI

Our goal is to make our customers successful and drive industry expectations to higher levels, which benefits both Somero and our customers. Therefore, we believe education and training are critical to driving demand for our products.
As a result, we developed the very first education program of its kind, the Somero Concrete College in Shanghai, China to provide five-day step-by-step instruction on wide-placement techniques and how to place a high-quality concrete slab.
The Somero Concrete College is open to customers and non-customers, with instruction provided by our talented team of professionals and 3rd party experts. Topics covered during the week include: concrete mix designs, proper screeding and placement techniques, finishing techniques, saw cuts and sealing, and measuring quality floor standards.

Top picture: Somero Concrete College Classroom, Shanghai, China.
Bottom picture: Hands-on learning experience at Somero Concrete College, Shanghai, China.

In October 2015, we completed our 20,000 square-foot expansion of our Operations and Support Offices in Houghton, Michigan, for a total project cost of US$ 1.3m. The expansion provides us with a facility that is able to support growth up to our 2018 strategic objective and beyond.

Also in 2015 we purchased land, and designed and began construction of a new 14,000 square-foot Global Headquarters and Training Facility in Fort Myers, Florida for a total expected cost of US$ 4.8m. Ground breaking on construction occurred in October 2015. The project remains on budget and we expect to complete construction and move into our new facility in the second quarter of 2016.

Cashflow and balance sheet

Our disciplined management of operating costs ensured we were able to efficiently translate our growth into profits. 2015 profits before tax increased 40% to US$ 17.4m, while EBITDA[1,2] increased 34% to US$ 20.0m. In addition, strong operating cash flows and effective working capital management drove considerable strengthening of our net cash position at year end. We ended 2015 with net cash of US$ 12.6m[2], a US$ 6.0m increase over 2014, even after paying US$ 3.3m in dividends to shareholders and investing US$ 4.2m in capital expenditures primarily related to our construction projects. We are entering 2016 with the strongest balance sheet in our 30-year history.

Conclusion

This was one of the most exciting, challenging and rewarding years I have had the pleasure of experiencing with Somero. By every measurement, 2015 was a tremendous year. We grew the business significantly, we expanded our product portfolio with innovative new products, we made progress in developing key new markets, we expanded our operational and training capabilities with investment in new facilities, we delivered remarkable financial performance, and we acquired key new talent for the organization. While all of these are considerable accomplishments, I'm most pleased with the performance of our Management Team, which excelled in managing the rapid growth we experienced while remaining focused on the continued pursuit of improving the products, solutions, and levels of service we offer our customers. Our employees' passion for our customers' success is the ultimate reason we have been and will continue to be successful.

We see 2016 as an exciting year, full of opportunity. We believe we are well positioned to capitalize on expected growth in our core US and other existing markets, extend our global footprint and grow revenues from new products. Most importantly, we look forward to delivering another year of superior results for our shareholders.

Jack Cooney
President and Chief Executive Officer
March 1, 2016

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, and stock based compensation.
2. Net Cash is defined as total cash and cash equivalents less borrowings under bank obligations.
3. Percentage derived from Portland Cement Association's Market Intelligence Fall Cement Outlook report dated November 2015.

CASE STUDY: PRODUCT INNOVATION

Somero product development is a customer-driven process through which we actively listen to customer feedback to continually improve our products and meet their demands and value requirements. We target introducing at least one new product every year, but in 2015 we exceeded this goal by developing 3 new products: our S-940 Laser Screed and S-10A Laser Screed machines, and our Somero Floor Levelness System. Each product offers new features and levels of performance. The S-940 Laser Screed machine provides improved traction and pulling power, while the S-10A Laser Screed machine combines the benefits of a boom-out screed machine with a compact design, simplifying transportation to and from the job-site. Our most recent innovation is the Somero Floor Levelness System, which provides real-time feedback to the machine operator allowing for corrective action before the concrete slab begins to harden. This is a significant advancement, providing customers with peace-of-mind and confidence in the quality of their work and will ultimately save them time, effort and money by avoiding rework after the concrete cures.

Top picture: Somero Floor Levelness System
Middle picture: S-940 Laser Screed machine
Bottom picture: S-10A Laser Screed machine

Summary of financial results

	Year ended December 31, 2015 US$ 000	Year ended December 31, 2014 US$ 000
Revenue	**70,222**	59,277
Cost of sales	**31,059**	27,290
Gross profit	**39,163**	31,987
Operating expenses		
Selling expenses	**7,491**	7,150
Engineering expenses	**1,031**	1,166
General and administrative expenses	**13,068**	11,079
Total operating expenses	**21,590**	19,395
Operating income	**17,573**	12,592
Other income/(expense)		
Interest expense	**(191)**	(107)
Interest income	**20**	39
Foreign exchange loss	**(43)**	(122)
Other	**-**	(3)
Income before income taxes	**17,359**	12,399
(Benefit)/provision for income taxes	**5,809**	(2,142)
Net income	**11,550**	14,541
Other data		
Adjusted EBITDA (1) (2) (4)	**20,034**	14,951
Adjusted net income (1) (3) (4)	**12,966**	10,133
Depreciation expense	**719**	553
Amortization of intangibles	**1,545**	1,545
Capital expenditures	**4,162**	1,221

Notes:

1. Adjusted EBITDA and Adjusted net income 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 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 as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and RSU settlements and other special items.
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, 2015 US$ 000	Year ended December 31, 2014 US$ 000
Adjusted EBITDA reconciliation		
Net income	**11,550**	14,541
Tax provision/(benefit)	**5,809**	(2,142)
Interest expense	**191**	107
Interest income	**(20)**	(39)
Foreign exchange loss	**43**	122
Other expense	**-**	3
Depreciation	**719**	553
Amortization	**1,545**	1,545
Stock based compensation	**197**	262
Adjusted EBITDA	**20,034**	14,952

Adjusted net income reconciliation		
Net income	**11,550**	14,541
Amortization	**1,545**	1,545
Reversal of valuation allowance for deferred tax assets	**-**	(4,056)
Tax impact of stock option & RSU settlements	**(129)**	(1,897)
Adjusted net income	**12,966**	10,133

Notes:

1. Adjusted EBITDA and Adjusted net income 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 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 as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and RSU settlements and other special items.
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 18% to US$ 70.2m (2014: US$ 59.3m). Company revenues consist primarily of sales from new Large line products (the S22-E Large line Laser Screed machine and its predecessors), sales from Mid line products (the S-15R and the new S10A), sales from Small line products (the S-840, CopperHead, and the S-485), sales of Remanufactured machines, 3-D Profiler Systems, and Other Revenues, which consist of, among other things, revenue from sales of spare parts, Topping Spreaders, Mini Screeds, and accessories. The overall increase for the year was driven by Large line sales, Small line sales, 3-D Profiler System sales, and Other sales.

Large line sales increased to US$ 28.3m (2014: US$ 22.4m) as a result of increased volume and price increases. Small line sales increased to US$ 13.6m (2014: US$ 9.7m), also due to higher volume and price increases. 3-D Profiler System sales increased to US$ 4.4m (2014: US$ 3.7m) and Other revenues, including sales of spare parts, Topping Spreaders, Mini Screeds, and accessories, increased modestly to US$ 12.3m (2014: US$ 11.1m).

Revenue breakdown by geography

	North America US$ in millions		EMEA US$ in millions		Rest Of World US$ in millions		Total US$ in millions			
							2015		2014	
	2015	2014	2015	2014	2015	2014	Net sales	% of Net sales	Net sales	% of Net sales
Large line	**24.5**	17.0	**1.9**	1.5	**1.9**	3.9	**28.3**	**40.3%**	22.4	37.8%
Mid line	**2.5**	2.2	**1.6**	1.2	**1.2**	2.5	**5.3**	**7.5%**	5.9	9.9%
Small line	**8.5**	6.2	**3.4**	1.3	**1.7**	2.2	**13.6**	**19.4%**	9.7	16.4%
Remanufactured machines	**2.6**	2.4	**0.6**	0.2	**3.1**	3.9	**6.3**	**9.0%**	6.5	11.0%
3-D Profiler Systems	**3.8**	3.3	**0.3**	0.2	**0.3**	0.2	**4.4**	**6.3%**	3.7	6.2%
Other	**7.3**	6.1	**1.8**	1.9	**3.2**	3.1	**12.3**	**17.5%**	11.1	18.7%
Total	**49.2**	37.2	**9.6**	6.3	**11.4**	15.8	**70.2**	**100.0%**	59.3	100.0%

Units by product line

	Total	
	2015	2014
Large line	**80**	64
Mid line	**26**	31
Small line	**165**	126
Remanufactured machines	**43**	49
3-D Profiler Systems	**47**	40
Total	**361**	310

Sales to customers located in North America contributed 70% of total revenue (2014: 63%), sales to customers in EMEA (Europe, India, Middle East, and South Africa) contributed 14% (2014: 11%) and sales to customers in Rest of World ("ROW") (Southeast Asia, Australia, Latin America, and China) contributed 16% (2014: 27%).

Sales in North America were US$ 49.2m (2014: US$ 37.2m) which is up 32% driven by higher Large line and Small line sales. Sales in EMEA were US$ 9.6m (2014: US$ 6.3m) which is up 52% primarily due to an increase in Small line sales. Sales in ROW were US$ 11.4m (2014: US$ 15.8m) which are down 28% primarily due to declines in Large line, Mid line and Remanufactured machine sales.

Regional sales

	2015	2014
North America	**49.2**	37.2
EMEA (Europe)	**5.7**	3.6
ROW (Korea)	**1.0**	0.6
ROW (Latin America)	**2.0**	2.6
EMEA (India)	**0.6**	0.6
ROW (Australia)	**1.0**	2.4
ROW (Southeast Asia)	**1.3**	0.7
ROW (China)	**6.1**	9.5
EMEA (Middle East)	**2.7**	0.8
EMEA (Scandinavia)	**0.5**	0.6
EMEA (Russia)	**0.1**	0.7
Total	**70.2**	59.3

Gross profit

Gross profit increased to US$ 39.2m (2014: US$ 32.0m), with gross margins increasing to 55.8% (2014: 54.0%) due to price increases, product cost reductions, and factory efficiency.

Operating expenses

Operating expenses increased by 11% to US$ 21.6m (2014: US$ 19.4m). This increase was driven primarily by increased commissions and insurance associated with higher sales volume, and higher personnel costs due in part to increased average headcount in 2015 vs. 2014.

Other income/(expense)

Other expenses, consisting of interest expense, interest income, and foreign exchange gains and losses, remained flat at US$ (0.2)m.

Provision/(benefit) for income taxes

The provision for income taxes was US$ 5.8m in 2015 as compared to a benefit of US$ 2.1m in 2014. Overall, Somero's effective tax rate changed from (17.3)% in 2014 to 33.5% in 2015 due to a one-time reversal of a deferred tax valuation allowance of US$ 4.1m in 2014, and US$ 5.9m in settlements of restricted stock units and stock options which were deductible for tax purposes in 2014.

Net income

Net income decreased to US$ 11.6m from US$ 14.5m in 2014 due primarily to significant, non-recurring tax benefits in 2014. On an adjusted basis, excluding amortization and tax benefits associated with reversal of the deferred tax asset valuation allowance and settlement of RSUs and stock options, adjusted net income increased to US$ 13.0m from US$ 10.1m in 2014, driven by higher sales volume, gross margin expansion and operating cost controls. 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 reflects 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, 2015 US$ 000	Year ended December 31, 2014 US$ 000
Income available to stockholders	**11,550**	14,541
Basic weighted shares outstanding	**56,145,563**	56,274,097
Net dilutive effect of stock options and restricted stock units	**1,545,716**	1,641,129
Diluted weighted average shares outstanding	**57,691,279**	57,915,226

The Company had 56,106,732 shares outstanding at December 31, 2015. Earnings per share at December 31, 2015 are as follows:

	Year ended December 31, 2015 per share US$	Year ended December 31, 2014 per share US$
Basic earnings per share	**0.21**	0.26
Diluted earnings per share	**0.20**	0.25
Basic adjusted net income per share	**0.23**	0.18
Diluted adjusted net income per share	**0.22**	0.17

Lawrence L. Horsch
Non-Executive Chairman of the Board
Mr. Horsch, age 81, 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 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 69, 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 34 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.

John Yuncza
Chief Financial Officer, Secretary and Director
Mr. Yuncza, age 44, joined Somero in May 2015 to serve as Chief Financial Officer. Mr. Yuncza has over 20 years of experience in various finance and senior management roles. Most recently, Mr. Yuncza served as Chief Financial Officer of Datamax-O'Neil, a subsidiary of Dover Corporation. Prior to his role at Datamax-O'Neil, Mr. Yuncza held a variety of senior financial roles at Pegasus Communications, Legg Mason Wood Walker and Fifth Third Bancorp in addition to serving as an Audit Manager at KPMG LLP. Mr. Yuncza earned a Bachelor of Science degree from St. Joseph's University in Philadelphia and an MBA from the Yale School of Management.

Howard E. Hohmann
Executive Vice President of Sales Worldwide and Director
Mr. Hohmann, age 54, 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® equipment. Additionally, he has developed and managed sales in emerging markets, and managed both marketing and inside sales departments. Mr. Hohmann also served in the US Marine Corps.

Thomas M. Anderson
Non-Executive Director
Mr. Anderson, age 64, 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.

Robert Scheuer
Non-Executive Director
Mr. Scheuer, age 58, has served in a series of senior executive roles at Dover Corporation, an US$ 8 billion Fortune 500 company. Most recently, from 2011 to 2014, Mr. Scheuer was Chief Financial Officer and Vice President Finance of Dover Engineered Systems, a US$ 3.8 billion business segment of Dover Corporation. In this role, Mr. Scheuer provided strategic guidance to the 14 operating company CEOs/CFOs in the segment and directed over 140 global employees in FP&A, budgeting, forecasting, acquisitions, compliance, accounting and reporting. Prior to this role, from 2007 to 2011 Mr. Scheuer served as Chief Financial Officer and Vice President of Finance of Dover Industrial Products, a US$ 2.4 billion business segment of Dover Corporation and from 1998 to 2007 as Chief Financial Officer and Vice President of Finance of Dover Industries, a US$ 1.2 billion business segment of Dover Corporation. Prior to his tenure at Dover Corporation, from 1986 to 1998, Mr. Scheuer served in a variety of leadership roles at Kraft Foods, Inc., most recently as Controller of the Grocery Products Division, a US$ 1.7 billion multi-brand portfolio with 6 major product lines. Mr. Scheuer graduated from DePaul University with a BA in Accountancy, received an MBA in Finance/Marketing from Northwestern University-Kellogg School of Management and is a Certified Public Accountant.

The directors present their Annual Report and the audited financial statements for the year ended December 31, 2015.

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, as well as to provide education, training and support services for its customers throughout the world. Somero's Operations and Support Offices are located in Michigan, USA with Global Headquarters and Training Facilities in Florida, USA and an established Sales, Service and Training Facility that is home to the Somero Concrete College in Shanghai, China. In addition, Somero maintains sales and service offices located in Chesterfield, UK and New Delhi, India.

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 Chairman's Statement, the Chief Executive's Statement, the Financial Review, the Directors' Report and the Corporate Governance Report.

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 Chairman's Statement, 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 below. Dividends equal to US$ 3.3m were paid in 2015. A 5.0 US cents per share dividend was declared for the period ending December 31, 2015, with a record date of March 18, 2016, payable on April 4, 2016.

Share capital

	Ordinary shares	
	January 1, 2015	**December 31, 2015**
L Horsch	152,000	**92,000**
J T Cooney	2,814,634	**2,814,634**
J Yuncza	–	**–**
H Hohmann	4,268	**4,268**
T Anderson	–	**–**
R Scheuer	–	**–**

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, 2015 was 118.5p. The range during the 2015 period of trading was 111.5p to 155.0p.

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 26, 2016

	Amount	% holding
Artemis Investment Management	6,815,025	12.15%
Hargreave Hale	6,641,483	11.84%
BlackRock Investment Management	5,012,701	8.93%
Henderson Global Investors	4,811,980	8.58%
River & Mercantile Asset Management	3,979,959	7.09%
Ennismore Fund Management	3,958,145	7.05%
Unicorn Asset Management	3,580,405	6.38%
Close Asset Management	3,138,110	5.59%
Mr. Jack Cooney*	2,814,634	5.02%
Polar Capital	2,716,885	4.84%

* Directors' stock

Director stock options

Director	January 1, 2015	Award/(Exercise)	Cancelled	**December 31, 2015**	Exercise price US$	Earliest date from which exercisable	Expiry date
L Horsch	154,268	–	–	**154,268**	0.47	2/16/2011	2/17/2020
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
T Anderson	85,704	–	–	**85,704**	0.47	2/16/2011	2/17/2020
R Maskalunas	85,704	(85,704)	–	**–**	–	–	–

Director restricted stock units

Director	January 1, 2015	Award/(Exercise)	Cancelled	**December 31, 2015**	Weighted average grant date fair market value	Vesting date	Fully vested date
L Horsch	6,148	–	–	**6,148**	0.75	3/13/2016	3/13/2016
L Horsch	1,958	–	–	**1,958**	1.88	2/5/2017	2/5/2017
L Horsch	–	9,312	–	**9,312**	1.85	1/27/2018	1/27/2018
J T Cooney	149,046	–	–	**149,046**	0.75	3/13/2016	3/13/2016
J T Cooney	59,977	–	–	**59,977**	1.93	1/29/2017	1/29/2017
J T Cooney	–	64,271	–	**64,271**	1.87	1/21/2018	1/21/2018
J Yuncza	–	32,639	–	**32,639**	2.16	5/18/2018	5/18/2018
T Anderson	4,391	–	–	**4,391**	0.75	3/13/2016	3/13/2016
T Anderson	1,398	–	–	**1,398**	1.88	2/5/2017	2/5/2017
T Anderson	–	6,650	–	**6,650**	1.85	1/27/2018	1/27/2018
M Niemela	76,477	(76,477)	–	**–**	–	–	–
M Niemela	30,775	(30,775)	–	**–**	–	–	–
R Maskalunas	4,391	(4,391)	–	**–**	–	–	–
R Maskalunas	1,398	(1,398)	–	**–**	–	–	–

Strategic Report

Corporate Governance

Financial Statements

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 February 2016, the Company amended its agreement with Citizens Bank, which renewed its loan facilities so that they mature between April 2018 and February 2021. The Company successfully met its bank covenants in each quarter in 2015. 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, Costco, B&Q, and IKEA, on whose projects Somero's Large Laser Screed products have been utilized.

Product development

Somero invests approximately 2.0% of sales on product development and introduces new products each 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 2015, we introduced the S-10A. Introduced in late November, it generated US$ 0.4m of revenue within one month of launch.

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 and Europe, 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 February 2016, the Company amended its agreement with the bank, which renewed its loan facilities so that they mature between April 2018 and February 2021.

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$ 10.0m. 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, 2015, the Company had US$ 1.1m in aggregate principal outstanding in term loans under its Citizens Bank Financing Agreement, and has not drawn any amounts 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 April 2018 and February 2021. The amended facility 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 2015. 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 2016.

Somero had capital expenditures of US$ 4.2m in 2015 and US$ 1.2m in 2014. The majority of this expenditure was related to the new Global Headquarters and Training Facilities in Florida, expansion of the Operations and Support facility in Michigan, computer hardware and software upgrades, vehicle purchases and ERP upgrades. 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 ensure 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$ 29,380 for 2015.

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 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.

John Yuncza
Company Secretary
March 1, 2016

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 2015, 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 ensure internal compliance. We do not feel the need, therefore, to appoint separate staff to carry out an internal audit function.

Auditor payments related to 2015 were US$ 165,000 and for 2014 were US$ 154,000.

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 Scheuer, 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 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, one Remuneration Committee meeting, one Nominations Committee meeting, and three special meetings, 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 roles and responsibilities. Each of these committees meets regularly, at least once each year.

The Audit Committee is comprised of Messrs. Scheuer, Anderson, and Horsch, and is chaired by Mr. Scheuer. 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, Scheuer, 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 Scheuer 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 under the Board of Directors section on page 22.

Internal control

An ongoing process for identifying, evaluating, and managing the significant risks faced by the Company has been established and that process is reviewed regularly 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 Company targets examining one to two key risk areas each year, with the results reported to the entire Board.

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 has 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 and 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, 2015 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, with 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; and
- 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 2015 and 2014.

	Year ended December 31, 2015 US$ 000	Year ended December 31, 2014 US$ 000
Audit	**165**	154
Tax	**34**	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 Directors' Report. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Directors' Report. 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, 2015 with the provisions outlined in Section 1 of the Combined Code. The exceptions to the Combined Code are noted at the beginning of the Corporate Governance section on page 22.

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.

The members of the Remuneration Committee at year-end were Thomas Anderson (Chairman), Robert Scheuer and Larry Horsch. During the year, Ron Maskalunas participated on the Committee until he stepped down from the Board in October 2015 and was replaced by Robert Scheuer. 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 2015	Bonus 2015	Salary 2016	Bonus opportunity 2016	Options held	Restricted stock units held
L Horsch	$91,790	–	$91,790(1)		154,268	17,418
JT Cooney	$401,138	$536,137(3)	$421,195	50%-100% of salary	1,312,109	273,294
J Yuncza	$149,135(2)	–	$246,750	Up to 50% of salary(5)	–	32,639
H Hohmann	$215,000	$237,324	$236,500	Commission(4)(5)	–	–
T Anderson	$65,550	–	$65,550(1)		85,704	12,439
R Scheuer	$18,625(6)	–	$74,500(1)		–	–

Notes:
1. Annual director fee increases have been paid in the form of RSUs.
2. Annual salary is $235,000 but amount paid in 2015 was $149,135 on a pro rata basis.
3. Includes 2014 bonus paid in 2015 as well as a portion of 2015 bonus paid prior to December 31, 2015.
4. Commission of 1.0%-1.4% on sales above US$ 45.0m.
5. 25% of bonuses and commissions will be paid in the form of company stock.
6. Annual director fee is $74,500 but amount paid in 2015 was $18,625 due to October 1, 2015 start date.

Remuneration policy
The Company's policy is to provide executive remuneration packages which are designed to attract, motivate and retain directors of the high 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 non-executive directors receive RSUs in lieu of salary increases as 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, 2015, the executive directors received bonuses as shown in the table above.

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 15 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 2015, 145,971 units were exercised or forfeited, 119,522 units issued, leaving a balance of 423,901 units as of December 31, 2015. For more information, see Note 15 within the Notes to the Financial Statements.

Stock options

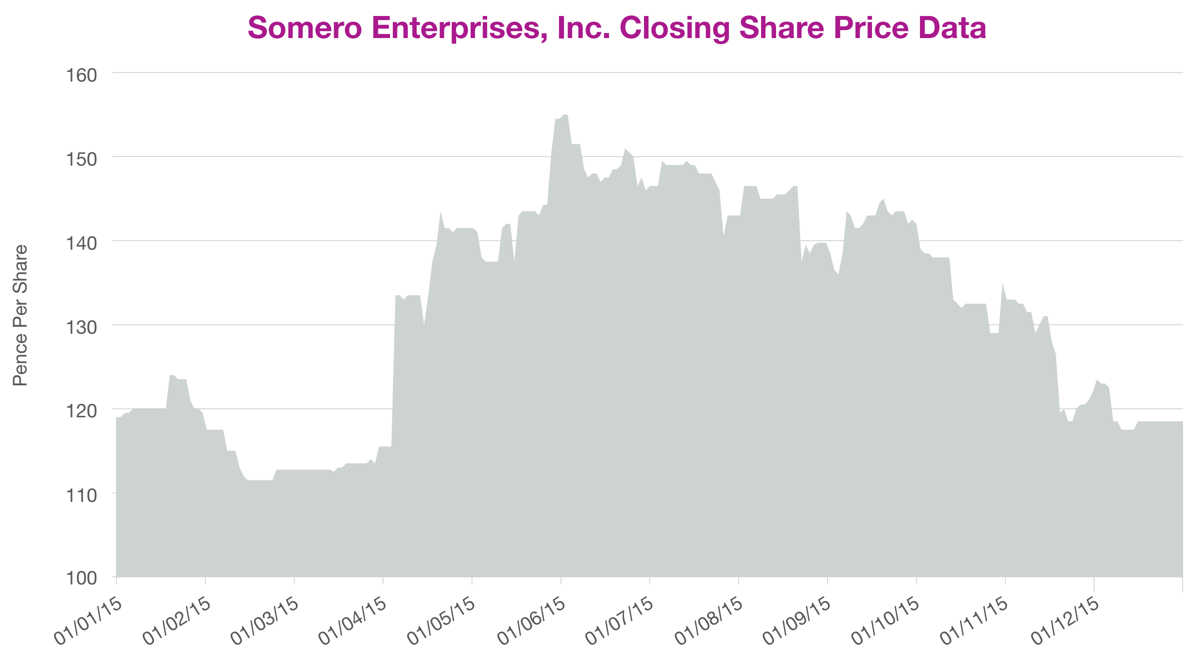
An initial grant was made in February 2010 for 2.3 million stock options as replacements for grants under the old option plan which was cancelled. The grants have a three year vesting and a strike price of 30p, a 100% premium over the market price on the date of grant. The remaining options will only be issued for new key employees and superior performance. In 2015, 154,266 shares of stock options were exercised, leaving an outstanding balance of 1,686,361 shares as of December 31, 2015. For more information, see Note 15 within the Notes to the Financial Statements.

Directors and officers insurance

The Company maintains customary D&O insurance.

Performance graph

The market price of the shares at December 31, 2015 was 118.5p. The range during the 2015 period of trading was 111.5p to 155.0p.



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, 2015 was subject to Board approval. The letters of appointment and terms are listed in the following chart.

Director	Date of appointment	Termination date
L Horsch	May 20, 2014	2017 AGM
JT Cooney	May 19, 2015	2018 AGM
J Yuncza	April 20, 2015	2016 AGM
H Hohmann	May 19, 2015	2018 AGM
T Anderson	May 20, 2014	2017 AGM
R Scheuer	October 21, 2015	2016 AGM

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

Thomas Anderson
Chairman of Remuneration Committee
March 1, 2016

INDEPENDENT AUDITOR'S 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, 2015 and 2014, 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, 2015 and 2014, 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
March 1, 2016

CONSOLIDATED BALANCE SHEETS

As of December 31, 2015 and 2014

	As of December 31, 2015 US$ 000	As of December 31, 2014 US$ 000
Assets		
Current assets:		
Cash and cash equivalents	**13,709**	7,950
Accounts receivable – net	**8,127**	6,599
Inventories	**8,479**	8,390
Prepaid expenses and other assets	**862**	734
Deferred tax asset	**410**	174
Total current assets	**31,587**	23,847
Property, plant and equipment – net	**8,266**	4,823
Intangible assets – net	**2,495**	4,040
Goodwill	**2,878**	2,878
Deferred financing costs	**70**	103
Deferred tax asset	**3,119**	3,505
Other assets	**26**	32
Total assets	**48,441**	39,228
Liabilities and stockholders' equity		
Current liabilities:		
Notes payable – current portion	**48**	266
Accounts payable	**3,705**	4,096
Accrued expenses	**4,330**	2,896
Income tax payable	**1,044**	25
Total current liabilities	**9,127**	7,283
Notes payable, net of current portion	**1,024**	1,072
Other liabilities	**84**	91
Total liabilities	**10,235**	8,446
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, 2015 and 2014	**26**	26
Less: treasury stock, 318,866 shares as of December 31, 2015 and 232,700 shares as of December 31, 2014 at cost	**(614)**	(416)
Additional paid in capital	**22,008**	22,336
Retained earnings	**18,432**	10,194
Other comprehensive loss	**(1,646)**	(1,358)
Total stockholders' equity	**38,206**	30,782
Total liabilities and stockholders' equity	**48,441**	39,228

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME*

For the years ended December 31, 2015 and 2014

	Year ended December 31, 2015 US$ 000 except per share data	Year ended December 31, 2014 US$ 000 except per share data
Revenue	**70,222**	59,277
Cost of sales	**31,059**	27,290
Gross profit	**39,163**	31,987
Operating expenses		
Selling expenses	**7,491**	7,150
Engineering expenses	**1,031**	1,166
General and administrative expenses	**13,068**	11,079
Total operating expenses	**21,590**	19,395
Operating income	**17,573**	12,592
Other income/(expense)		
Interest expense	**(191)**	(107)
Interest income	**20**	39
Foreign exchange (loss)/gain	**(43)**	(122)
Other	**–**	(3)
Income before income taxes	**17,359**	12,399
Provision/(benefit) for income taxes	**5,809**	(2,142)
Net income	**11,550**	14,541
Other comprehensive income/(loss)		
Cumulative translation adjustment	**(280)**	(79)
Change in fair value of derivative instruments – net of income tax	**(8)**	–
Other comprehensive income/(loss)	**11,262**	14,462
Earnings per common share		
Earnings per share basic	**0.21**	0.26
Earnings per share diluted	**0.20**	0.25
Weighted average number of common shares outstanding		
Basic	**56,145,563**	56,274,097
Diluted	**57,691,279**	57,915,226

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2015 and 2014

	Common stock		Additional paid-in capital	Treasury stock		Retained earnings/ (accumulated deficit)	Comprehensive income/(loss)	Total stockholders' equity
	Shares	Amount US$ 000	US$ 000	Shares	Amount US$ 000	US$ 000	US$ 000	US$ 000
Balance – January 1, 2014	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
Cumulative translation adjustment	–	–	–	–	–	–	(280)	(280)
Change in fair value of derivative instruments	–	–	–	–	–	–	(8)	(8)
Net income	–	–	–	–	–	11,550	–	11,550
Stock based compensation	–	–	197	–	–	–	–	197
Dividend	–	–	–	–	–	(3,312)	–	(3,312)
Treasury stock	–	–	–	86,166	(198)	–	–	(198)
RSUs settled for cash	–	–	(275)	–	–	–	–	(275)
Stock options settled for cash	–	–	(250)	–	–	–	–	(250)
Balance – December 31, 2015	**56,425,598**	**26**	**22,008**	**318,866**	**(614)**	**18,432**	**(1,646)**	**38,206**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2015 and 2014

	Year ended December 31, 2015 US$ 000	Year ended December 31, 2014 US$ 000
Cash flows from operating activities:		
Net income	**11,550**	14,541
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	**150**	(3,251)
Depreciation and amortization	**2,264**	2,098
Amortization of deferred financing costs	**33**	32
Stock based compensation	**197**	262
Working capital changes:		
Accounts receivable	**(1,528)**	(1,192)
Inventories	**(89)**	(1,609)
Prepaid expenses and other assets	**(128)**	(98)
Other assets	**6**	11
Accounts payable, accrued expenses and other liabilities	**1,036**	2,051
Income taxes payable	**1,019**	(500)
Net cash provided by operating activities	**14,510**	12,345
Cash flows from investing activities:		
Proceeds from sale of property and equipment	**–**	25
Property and equipment purchases	**(4,162)**	(1,221)
Net cash used in investing activities	**(4,162)**	(1,196)
Cash flows from financing activities:		
Payment of dividend	**(3,312)**	(1,573)
Payment of RSUs	**(275)**	(4,874)
Purchase of treasury stock	**(198)**	(355)
Stock options settled for cash	**(250)**	(1,036)
Repayment of notes payable	**(266)**	(1,265)
Net cash used in financing activities	**(4,301)**	(9,103)
Effect of exchange rates on cash and cash equivalents	**(288)**	(79)
Net increase in cash and cash equivalents	**5,759**	1,967
Cash and cash equivalents:		
Beginning of year	**7,950**	5,983
End of year	**13,709**	7,950

See notes to consolidated financial statements.

Strategic Report

Corporate Governance

Financial Statements

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. Somero's Operations and Support Offices are located in Michigan, USA with Global Headquarters and Training Facilities in Florida, USA. Sales and service offices are located in Chesterfield, UK; Shanghai, China; and New Delhi, 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 US 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, 2015 and 2014, the allowance for doubtful accounts was approximately US$ 698,000 and US$ 324,000, respectively. Bad debt expense was US$ 381,000 and US$ 49,000 in 2015 and 2014, respectively.

Inventories

Inventories are stated at the lower of cost, using the first in, first out ("FIFO") method, or market value. 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, 2015 or 2014. (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, 2015, 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.

	2015 US$ 000	2014 US$ 000
Balance, January 1	**(193)**	(179)
Warranty charges	**409**	397
Accruals	**(523)**	(411)
Balance, December 31	**(307)**	(193)

Property, plant, and equipment

Property, plant and equipment is stated 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.

2. Summary of significant accounting policies continued

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 2015 and 2014. The Company is subject to a three year statute of limitations by major tax jurisdictions, and currently 2012 through 2014 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, 2015 US$ 000	Year ended December 31, 2014 US$ 000
Income available to stockholders	**11,550**	14,541
Basic weighted shares outstanding	**56,145,563**	56,274,097
Net dilutive effect of stock options and restricted stock units	**1,545,716**	1,641,129
Diluted weighted average shares outstanding	**57,691,279**	57,915,226

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

	US$ 000	Quoted prices in active markets identical assets Level 1 US$ 000	Significant other observable inputs Level 2 US$ 000	Significant other unobservable inputs Level 3 US$ 000
Year ended December 31, 2014				
Asset:				
Goodwill	2,878			2,878
Interest rate swap	–			–
Year ended December 31, 2015				
Asset:				
Goodwill	2,878			2,878
Interest rate swap	(4)			(4)

New accounting pronouncements

In August 2015, the FASB deferred the effective dates by 1 year for 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 new effective date for annual periods beginning after December 15, 2017, 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.

2. Summary of significant accounting policies continued

New accounting pronouncements continued

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Simplifying the Measurement of Inventory. The amendment applies to inventory that is measured using first-in, first-out (FIFO) or average cost. An entity should measure inventory within the scope of this Update at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this Update are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company plans to adopt this standard with the interim period beginning January 1, 2016 and expects no material adjustments as a result of the adoption of this standard.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 Balance Sheet Classification of Deferred Taxes. To simplify the presentation of deferred income taxes, the amendments in this Update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this Update. The amendments in the Update are effective for financial statements issued for annual periods beginning after December 15, 2017. The Company plans to adopt this standard with the fiscal period beginning January 1, 2018 and expects no material adjustments as a result of the adoption of this standard.

3. Inventories

Inventories consisted of the following at December 31, 2015 and 2014:

	Year ended December 31, 2015 US$ 000	Year ended December 31, 2014 US$ 000
Raw material	**2,576**	2,312
Finished goods and work in process	**2,259**	2,970
Remanufactured	**3,644**	3,108
Total	**8,479**	8,390

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, 2015 and 2014, and that the value of patents was not impaired as of December 31, 2015 and 2014.

The following table reflects other intangible assets:

	Weighted average amortization period	**Year ended December 31, 2015 US$ 000**	Year ended December 31, 2014 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	**16,092**	14,547
Intangible assets not subject to amortization	–	**–**	–
		16,092	14,547
Net carrying costs			
Patents	12 years	**2,446**	3,991
Intangible assets not subject to amortization	–	**49**	49
		2,495	4,040

Amortization expense associated with the intangible assets in each of the years ended December 31, 2015 and 2014 was approximately US$ 1,545,000. Future amortization of intangible assets is expected to be as follows for the years ended:

	December 31 US$ 000
2016	1,545
2017	901
Thereafter	–
	2,446

5. Property, plant, and equipment

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

	Year ended December 31, 2015 US$ 000	Year ended December 31, 2014 US$ 000
Land	**864**	207
Building and improvements	**6,325**	3,686
Machinery and equipment	**4,599**	3,760
	11,788	7,653
Less: accumulated depreciation and amortization	**(3,522)**	(2,830)
	8,266	4,823

Depreciation expense for the years ended December 31, 2015 and 2014 was approximately US$ 719,000 and US$ 553,000, respectively.

6. Notes payable

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

	2015 US$ 000	2014 US$ 000
March 2016 secured revolving line of credit	**–**	–
March 2018 delayed draw term loan	**–**	218
March 2018 commercial real estate mortgage	**1,072**	1,120
Total bank debt	**1,072**	1,338
Less debt due within one year	**(48)**	(266)
Obligations due after one year	**1,024**	1,072

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:

	US$ 000
2016	48
2017	48
2018	976
Thereafter	–
Total	1,072

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 revolving line of credit is based on the 1-month LIBOR rate plus 2.75%. The interest rate on the delayed draw term loan was 3.17% as of December 31, 2015 and was based on the 3-month LIBOR rate plus 2.75%. The interest rate on the commercial real estate mortgage was 2.99% as of December 31, 2015 and was based on the 1-month LIBOR rate plus 2.75%. The Company's loan facility is secured by substantially all of its business assets.

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$ 397,000 to the savings and retirement plan during 2015 and contributed US$ 259,000 during 2014.

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 represent the full 12 months of each successive period as follows:

	US$ 000
2016	565
2017	382
2018	260
2019	144
Thereafter	–
	1,351

9. Capital leases

Interest rates on capital leases are variable and range from 3.6% to 5.9% at December 31, 2015. Future minimum payments by year represent the full 12 months of each successive period as follows:

	US$ 000
2016	16
2017	15
2018	3
Thereafter	–
	34

10. Supplemental cash flow and non-cash financing disclosures

	Year ended December 31, 2015 US$ 000	Year ended December 31, 2014 US$ 000
Cash paid for interest	**83**	71
Cash paid for taxes	**4,700**	1,697
Non-cash financing activities – change in fair value of derivative instruments	**(4)**	–

11. 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, 2015 and 2014, the Company had two customers which represented 11% and 10% of total accounts receivable, respectively.

12. 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.

13. Income taxes

Income tax provision

	Year ended December 31, 2015 US$ 000	Year ended December 31, 2014 US$ 000
Current income tax		
Federal	**4,876**	954
State	**468**	123
Foreign	**315**	32
Total current income tax expense	**5,659**	1,109
Deferred tax (benefit)/expense		
Federal	**141**	(3,083)
State	**9**	43
Foreign	**-**	(211)
Total deferred tax (benefit)/expense	**150**	(3,251)
Total (benefit)/provision	**5,809**	(2,142)

The components of the net deferred income tax asset at December 31, 2015 and 2014 were as follows:

	Year ended December 31, 2015 US$ 000	Year ended December 31, 2014 US$ 000
Bad debt allowance	**248**	115
Inventory reserve	**147**	39
Accrued expenses	**–**	5
UNICAP – Sec 263A	**157**	124
Current deferred tax assets	**552**	283
Prepaid insurance	**(48)**	(53)
Prepaid other	**(94)**	(56)
Current deferred tax liabilities	**(142)**	(109)
Accrued warranty	**134**	97
Stock compensation expense (options and RSUs)	**261**	243
Intangible assets	**2,766**	3,181
UK intangibles	**134**	134
Italy – NOL	**76**	76
Foreign tax credit	**237**	237
Noncurrent deferred tax assets	**3,608**	3,968
Fixed assets	**(489)**	(463)
Noncurrent deferred tax liabilities	**(489)**	(463)
Total net deferred tax assets	**3,529**	3,679
Rate reconciliation		
Consolidated income before tax	**17,359**	12,399
Statutory rate	**34%**	34%
Statutory tax expense	**5,902**	4,216
State taxes	**315**	110
Foreign taxes	**(107)**	(179)
Meals and entertainment	**53**	50
Permanent differences due to stock options and RSUs	**(129)**	(1,897)
Permanent differences due to other items	**(402)**	10
Valuation allowance	**–**	(4,056)
Other	**177**	(396)
Tax (benefit)/expense	**5,809**	(2,142)

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

14. Revenues by geographic region

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

	Year ended December 31, 2015 US$ 000	Year ended December 31, 2014 US$ 000
United States and US possessions	**47,621**	36,314
Canada	**1,547**	841
Rest Of World	**21,054**	22,122
Total	**70,222**	59,277

15. 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$ 197,000 and US$ 262,000 for the years ended December 31, 2015 and 2014, respectively. The income tax effect recognized for stock based compensation was US$ 0.1m and US$ 1.9m, respectively, for the years ended December 31, 2015 and 2014. 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 US 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 2015 and 2014.

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, 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	–
Outstanding at January 1, 2015	1,840,627	0.44	5.02	–
Granted	–	–	–	–
Exercised	(154,266)	0.47	4.13	–
Forfeited	–	–	–	–
Outstanding at December 31, 2015	1,686,361	0.44	4.01	–
Exercisable at December 31, 2015	1,686,361	0.44	4.01	–

Options exercised in 2015 and 2014 were settled for cash of US$ 0.3m and US$ 1.0m, respectively.

As of December 31, 2015 the Company's stock options have all been vested with no 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 2015 and 2014 was US$ 0 and US$ 0 respectively.

A summary of restricted stock units activity is presented below:

	Shares	Grant date fair market value US$
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
Outstanding at January 1, 2015	450,350	553,999
Granted	119,522	232,673
Vested or settled for cash	(140,788)	(145,165)
Forfeited	(5,183)	(10,000)
Outstanding at December 31, 2015	423,901	631,507

RSUs settled for cash were US$ 0.3m in 2015 and US$ 4.9m in 2014.

As of December 31, 2015, there was US$ 275,000 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 1.03 years.

16. Employee compensation

The Board approved management bonuses and profit sharing dollars totaling US$ 1.2m to be paid in December 2015 and early 2016 based upon the Company meeting certain profitability targets.

17. Subsequent events

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 a final 2015 dividend of 5.0 US cents per share that will be payable on April 4, 2016 to shareholders on the register at March 18, 2016. Together with the interim dividend paid in October 2015 of 1.9 US cents per share, this represents a full year dividend to shareholders of 6.9 US cents per share. Both the full year dividend and the final dividend represent a 25% increase over the previous year.

Change in credit facility

In February 2016 the Company amended the US$ 5,000,000 secured revolving line of credit set to expire in March 2016. Under the amended terms, the line of credit was increased to US$ 10,000,000 and is now set to expire in February 2021. There were no changes to assets pledged as collateral under the credit facility or to the terms of the US$ 1,447,000 Commercial Real Estate Mortgage due in April 2018.

Annual General Meeting

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, UK on June 7, 2016 at 11:00 am local time.

ADVISERS AND CORPORATE INFORMATION

Directors
Lawrence Horsch – Chairman and Non-Executive Director
John T. Cooney – President and Chief Executive Officer and Director
John Yuncza – Chief Financial Officer and Secretary and Director
Howard E. Hohmann – Executive Vice President of Sales Worldwide and Director
Thomas M. Anderson – Non-Executive Director
Robert Scheuer – 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

Joint Broker
FinnCap Ltd
60 New Broad Street
London EC2M 1JJ
UK

Financial PR Advisor
Redleaf Communications Ltd
First Floor
4 London Wall Buildings
Blomfield Street
London EC2M 5NT
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

NOTES

Designed and produced by Emperor
www.emperordesign.co.uk +44 (0)121 262 3830

GLOBAL LEADERS IN LEVELING

Registered and Head Office
Somero Enterprises, Inc.
16831 Link Court
Fort Myers, Florida 33912
USA

Somero.com