ANNUAL REPORT 2016

SOMERO ENTERPRISES, INC

SOMERO ENTERPRISES®, INC. IS A LEADING PROVIDER OF TECHNOLOGICALLY ADVANCED CONCRETE PLACING SOLUTIONS.

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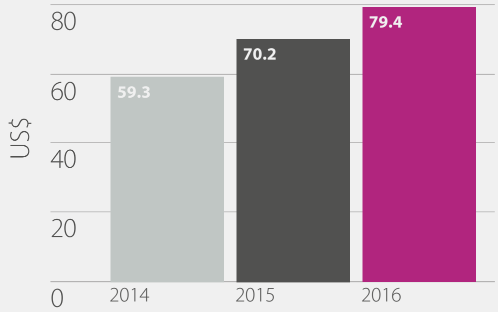
Contents

2016 RESULTS

Revenue

US$ 79.4m

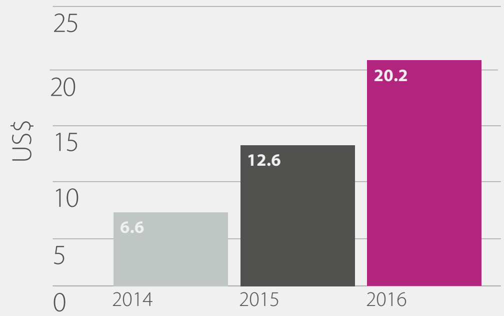
+13.0%



Net cash [4]

US$ 20.2

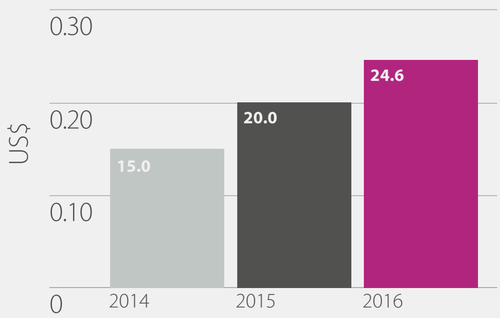
+60.0%



Adjusted EBITDA (1, 2)

US$ 24.6m

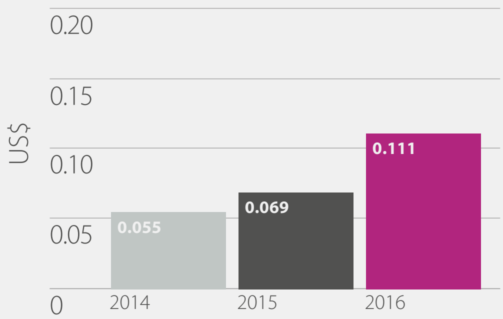
+23.0%



Dividend per share

US$ 0.111

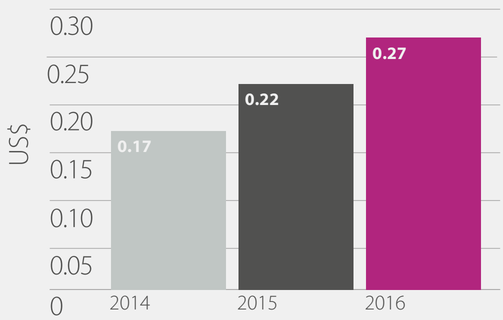
+61.0%



Diluted adjusted net income per share (1, 3)

US$ 0.27

+23.0%



Financial Highlights

- Annual revenues grew to a record US$ 79.4m, up 13% from 2015, driven by strength in the Company's core geographic markets and strong demand for new products
- Revenue growth converted efficiently into profit and cash flows:
  - Adjusted EBITDA increased 23% to a record US$ 24.6m (2015: US$ 20.0m)[1] [2]
  - Adjusted EBITDA margin improved to 31% (2015: 29%) driven by gross margin expansion and operating cost controls
  - Profits before tax grew 22% to US$ 21.3m (2015: US$ 17.4m)
  - Cash flow from operating activities increased 17% to US$ 16.9m (2015: US$ 14.5m)
- Balance sheet continues to strengthen:
  - Net cash at 31 December 2016 grew to US$ 20.2m, a US$ 7.6m increase over 2015[4]
  - The Company fully paid off its US$ 1.0m mortgage in January 2017
- Increased dividend payout ratio to 40% of adjusted earnings for 2016
  - Final dividend of 8.6 US cents per share declared for a total 2016 dividend of 11.1 US cents per share, a 61% increase over last year

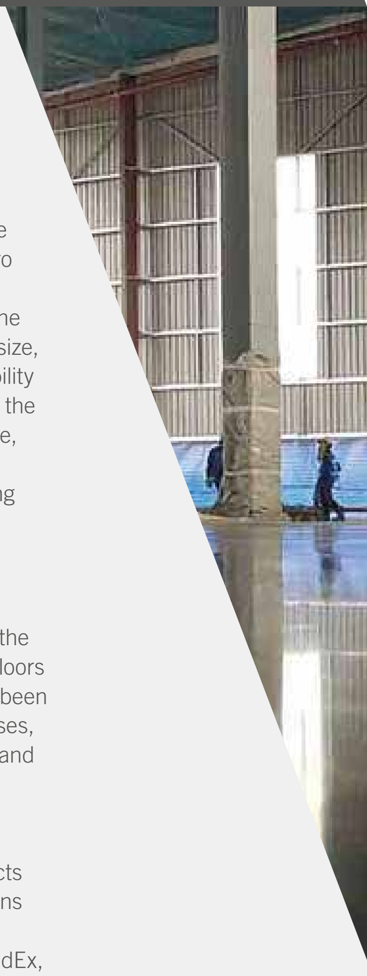
Operational Highlights

- Broad geographic growth and solid demand across the product line:
  - 6 of 11 geographic markets grew in 2016 led by North America, Europe, Australia and China which grew US$ 7.4m, US$ 2.3m, US$ 1.3m and US$ 0.3m, respectively compared to 2015
  - Boomed and Ride-on screed product lines grew US$ 2.2m and US$ 1.9m, respectively compared to 2015
  - 3-D Profiler System® revenues grew US$ 1.7m compared to 2015
  - Other revenues, driven by sales of parts, accessories and the STS-11M Topping Spreader, grew US$ 3.8m from 2015
- New product pipeline continues to contribute significantly to growth:
  - S-940 and S-10A Laser Screed® machine sales combined for US$ 10.6m in 2016 revenue, which represented US$ 4.6m in net growth from 2015
  - Launched the entry-level S-158 Laser Screed machine in China in Q4 2016
  - Launched the SP-16 Concrete Hose Line-Pulling and Placing System and next generation 3-D Profiler System at the World of Concrete Trade Show in January 2017
- Completed construction of 14,000 sq. ft. Global Headquarters and Training Facility in Fort Myers, Florida in April 2016:
  - Construction underway of a hands-on training facility on the Fort Myers campus that will be the future home of the Somero Concrete Institute scheduled to open in Q2 2017

1. The Company uses non-US Generally Accepted Accounting Principles (GAAP) financial measures in order to provide supplemental information regarding the Company's operating performance. See further information regarding non-GAAP measures below.
2. Adjusted EBITDA as used herein is a calculation of the Company's net income plus tax provision, interest expense, interest income, foreign exchange 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 exclusive of deferred financing costs.

FASTER. FLATTER. FEWER®

Somero provides industry-leading concrete-leveling equipment, training, education and support to customers in over 90 countries. By using Somero technology, our customers can install high-quality horizontal concrete floors faster, flatter and with fewer people.



Our Mission

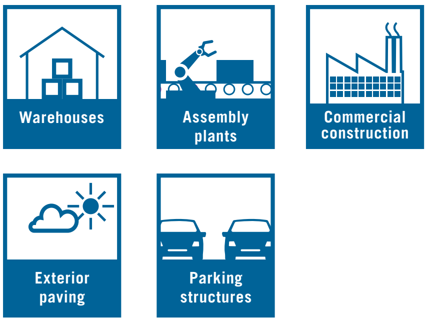
Somero is passionate about our customers' success. Somero's innovative equipment, training, education and support help our customers achieve their business and profitability goals, earning their loyalty and retaining them as a customer for life.

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.

Our Unique Strengths

Somero pioneered the Laser Screed® machine market in 1986 and has since led through continued innovation by growing our product offering from a single product in 1986 to a broad portfolio of 13 products and by developing proprietary designs that are protected by a portfolio of 63 patents and patent applications. Somero offers customers equipment with unsurpassed quality and performance and unparalleled global service, technical support, training and education. Somero operates in markets across the globe with minimal direct competition.



Our Customers

Somero's customers are a specialized group consisting of concrete contractors who specialize in commercial projects all over the globe. Somero products have been sold in over 90 countries across every time zone. 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 high level of service, education and training we provide, and the investments we make in developing long-standing customer relationships.

Our Applications

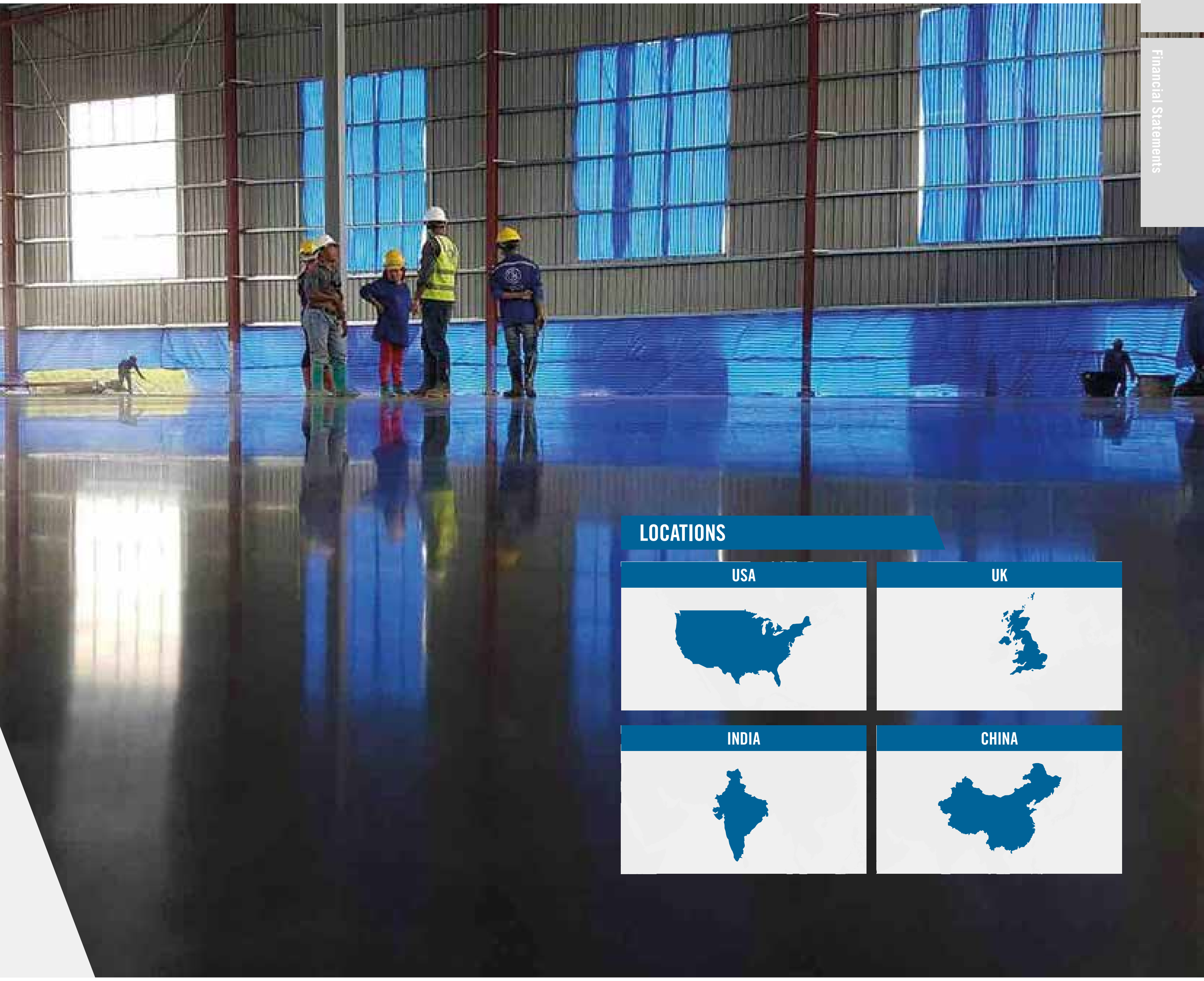
Somero equipment is used to place and screed the concrete slab in all building types, including all floors in multi-story buildings. Somero equipment has been specified for use in the construction of warehouses, manufacturing assembly plants, exterior paving and parking structures, retail centers, and other commercial construction projects that require extremely flat concrete-slab floors. Somero equipment has been used in construction projects for a wide array of the world's largest organizations including Costco, Walmart, Home Depot, B&Q, Carrefour, IKEA, Mercedes-Benz, Coca-Cola, FedEx, the United States Postal Service, Lowe's, Toys 'R' Us, Tesla and Prologis.

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. By using Somero equipment, flooring contractors can attain the highest level of flat-floor precision at the lowest cost. Somero's innovative, proprietary products include the CopperHead®, Mini Screed™ C, S-840, S-15R, S-22E, S-485, S-940, S-10A, and the S-158 Laser Screed® machines; STS-11M Topping Spreader; as well as the 3-D Profiler System® software, the Somero Floor Levelness System™, and the SP-16 Concrete Hose Line-Pulling and Placing System.

Our Locations

Somero's Global Headquarters and Training Facility, and the future home of the Somero Concrete Institute, is located in Fort Myers, Florida while the Company's Operations and Support Center is located in Houghton, Michigan. Somero also maintains a Sales, Service and Training Facility that is home to the Somero Concrete College in Shanghai, China as well as sales and service offices located in Chesterfield, England and New Delhi, India.



OUR INVESTMENT CASE IS BASED ON 6 CORE STRENGTHS

1.
Industry leader in introducing customer driven, technologically advanced new products

2.
Minimal direct competition

3.
Significant barriers to entry based on technology, education, and global technical support

4.

Skilled management team with extensive industry experience

5.

Attractive global geographic growth opportunity:

- Solid growth and market dynamics in developed markets
- Strong potential for growth in emerging markets

6.

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

RECORD RESULTS

Somero delivered excellent results in 2016, achieving record revenues of US$ 79.4m, a 13% increase over 2015, and profits before tax of US$ 21.3m, a 22% increase over 2015. In 2016, 6 of our 11 geographic markets grew compared to 2015 led by our core markets of North America, Europe, and China.

Performance and dividend

Somero delivered excellent results in 2016, achieving record revenues of US$ 79.4m, a 13% increase over 2015, and profits before tax of US$ 21.3m, a 22% increase over 2015. In 2016, 6 of our 11 geographic markets grew compared to 2015 led by our core markets of North America, Europe, and China along with a significant contribution from Australia. On a product basis, we saw broad-based demand in 2016 which led to sales growth in our Boomed and Ride-on screeds and 3-D Profiler System® product categories, as well as growth in Other revenues which was attributable to strong sales of parts, accessories and the STS-11M Topping Spreader. Growth in both the Boomed and Ride-on screed machine categories highlight the wide range of project types, large and small, that drove demand for our equipment in 2016. Importantly, this growth translated into a record level of profit and free cash flow for the Company, a result of disciplined cost control and working capital management. While we are pleased to deliver these exceptional results to our shareholders, we are equally pleased that each of our Somero employees understands these results are only possible with an unrelenting commitment to deliver innovative products, solutions and services to our customers.

Based on the stellar 2016 performance, the Company's sound financial position, and the Board's confidence in the Company's future, we are pleased to report that the Board has approved increasing the dividend payout ratio to 40% of adjusted net income for 2016. The increase results in a final 2016 dividend of 8.6 US cents per share which has been approved by the Board and will be payable on 17 April 2017 to shareholders on the register at 31 March 2017. Together with the interim dividend paid in October 2016 of 2.5 US cents per share, the 2016 full year dividend payment to shareholders is 11.1 US cents per share, a 61% increase from 2015.

Strategic progress

Our entire organization is focused and aligned on what makes Somero a truly exceptional business: (1) our commitment to provide our customers access to unparalleled industry expertise, service, training and support, and (2) our commitment to develop innovative products and solutions that help our customers improve their processes, quality and efficiency. Our objective is to prioritize investment in these value drivers. In 2016, we completed our new Global Headquarters and Training Facility in Fort Myers to provide a state-of-the-art venue for customer training and product demonstration. In 2017, we plan to take the next step by constructing a hands-on training facility located on our Fort Myers campus. This added investment is expected to enable Somero to launch the Somero Concrete Institute in the second quarter of 2017. We expect the Somero Concrete Institute to provide a comprehensive educational opportunity for students from across the globe to become certified in concrete placing and finishing, reinforcing Somero's commitment to training and education, and helping address the growing shortage of skilled labor in the North American concrete contractor industry. We also plan to continue to invest in identifying new, innovative products and solutions that help our customers achieve their profitability goals, such as with our SP-16 Concrete Hose Line-Pulling and Placing System which launched in January 2017 at the World of Concrete Trade Show in Las Vegas.

Dividend increase since 2015

+61%

11.1 US cents per share

Our people

The dedication and hard work of Somero's 178 employees around the globe is fundamental to our success. We could not deliver these record-setting results for our shareholders without our most valuable asset, our employees. On behalf of the Board, I would like to thank all our employees across the globe for their tireless commitment and passion for our customers' success. In return, I look forward to working with the Board to ensure we create the most productive and rewarding work environment possible so each of our employees can realize their full potential.

Current trading and outlook

The solid momentum in North America at the end of 2016 has carried over into 2017 driven by demand for replacement equipment, technology upgrades, and interest in new products. We remain encouraged by the solid level of non-residential construction activity in the US, a view that is supported by reports from our customers of lengthy project backlogs that extend well into 2017. Proposals for US corporate tax reform and fiscal policy programs to invest in US infrastructure are additional factors reinforcing our confidence in North American growth prospects.

In Europe, the 2016 acceleration of recovery from the recessionary low point in 2011 is expected to carry forward into 2017, driven by demand for replacement equipment, technology upgrades, and interest in new products, much like we see in the US which is encouraging for the future.

In China, the interest level in our products remains healthy and we are excited by the growth opportunity in front of us. In particular, we see solid interest in our S-158 entry level product, which opens up the productivity oriented market segment to us that we expect to help us grow our customer base and offer future up-sell opportunities. We also continue to see traction with our market development efforts to promote wide-placement methods and flatness, levelness standards. These factors, along with our very low market penetration in China, point to solid growth prospects for 2017 and beyond.

In Latin America, we are expecting stable performance from Mexico and Chile, and we have begun to see modestly increased activity in Brazil, and are optimistic for a satisfactory contribution to growth from the other countries in the region. In our other markets, including the Middle East, Australia, India, Scandinavia, Korea, and Southeast Asia, we expect to see significant opportunities in 2017 and are encouraged by the market climate across this broad territory.

The Board believes the Company is well-positioned to capitalize on the many opportunities we see across our portfolio of markets and products and we remain confident Somero is poised to deliver another year of profitable growth to our shareholders in 2017.

Larry Horsch
Non-Executive Chairman
March 15, 2017

GLOBAL MARKET OPPORTUNITY

Demand for Somero's equipment is driven by factors that apply across all the regions we serve – the need for quality floors and a shortage of skilled workers.

NORTH AMERICA

Market Dynamics

- Largest market
- Strong recovery in equipment pricing and sales since recessionary low point in 2011
- Non-residential construction industry fundamentals remain sound in the US
- Proposed corporate tax reform and fiscal policy proposals driving infrastructure investment, positive factors for US construction industry outlook
- Cement consumption from non-residential building construction increased 10.9% in 2016[1]

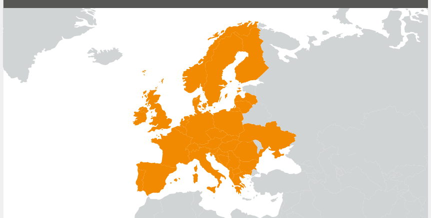
Estimated 2018 global cement consumption[2]

3.5%

Drivers of Growth

- US non-residential construction spend forecast to grow by 4%–7% annually through to 2020[3]
- Technology upgrades of aging fleet of installed equipment
- Fleet additions
- New product introductions
- Shortage of skilled labor in concrete construction industry

EUROPE



Market Dynamics

- Second largest installed base of equipment
- Accelerating improvement from the recessionary low-point in 2011, though region's recovery has lagged behind North America.

Estimated 2018 global cement consumption[2]

5.6%

Drivers of Growth

- Continued recovery of non-residential construction market across mainland Europe
- Technology upgrades
- Fleet additions
- New product introductions
- Shortage of skilled labor in concrete construction industry

CHINA

Market Dynamics

- Greatest market opportunity for growth outside North America
- Massive quantity of cement consumption – forecast to represent over 50% of 2018 world cement consumption compared to 3.5% for North America[2]
- Current market penetration very low

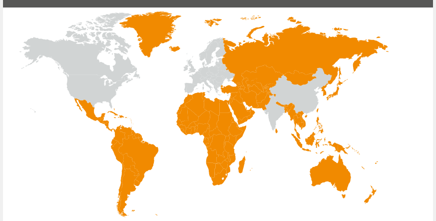
Estimated 2018 global cement consumption[2]

50.4%

Drivers of Growth

- 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
- New product introductions
- Increasing shortage of skilled labor

REST OF WORLD



Market Dynamics

- Current market penetration very low
- Most significant opportunity in region is India, with cement consumption second only to China and forecast to represent over 15% of 2018 world cement consumption (more than 4 times that of North America)[2]
- Significant opportunities in the Middle East, Southeast Asia, Latin America and Australia

Estimated 2018 global cement consumption[2]

40.5%

Drivers of Growth

- Increased demand for higher-quality concrete floors
- Large multi-national corporations requiring Western standards
- Increasing shortage of skilled labor

1. Percentage derived from Portland Cement Association Market Intelligence Fall Cement Outlook report dated November 2016.
2. Percentage derived from Portland Cement Association Market Intelligence World Cement Consumption report dated May 2015.
3. Estimates obtained from FMI Research Services Group 2017 US Markets Construction Overview Report.

SIGNIFICANT PROGRESS TOWARDS OUR OBJECTIVE

In 2014, Somero outlined its strategic objective to reach $90m in revenues in 2018. We have made significant progress towards this target, growing revenues to US$ 79m in 2016. Our objective in view, we are more focused than ever on executing our strategy.

It all starts with "Why?"

Our mission revolves around a simple question, "Why?". For every Somero employee the answer is clear. We work hard to deliver world-class products and services because we're passionate about our customers' success and we strive to ensure our customers achieve their business and profitability goals.

Our customers see this passion day-in and day-out, and as a result, we earn their loyalty and are able to retain them as a customer for life.

How we pursue our mission makes us unique

Our technology and equipment enables our customers to install every concrete slab faster, flatter and with fewer people.

Somero technology was developed based on a deep understanding of the industry and direct customer engagement that, to this day, drives us to develop innovative products and services that enable our customers to produce higher-quality floors and increase their productivity and ultimately their bottom line.

Somero's business is far more than simply selling equipment. Providing customers access to unparalleled industry expertise, training and support is core to our success as an educator and innovator in the concrete industry.

What we provide

Somero offers customers equipment with unsurpassed quality and performance combined with unparalleled global service, technical support, training and education.

Somero offers a wide portfolio of products that cover concrete slab placements in all types of construction projects. In addition to equipment and software products, Somero also sells parts, accessories and provides service and training to customers to keep their machines up and running and operating optimally.

Our model

Somero Customers

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

Somero operates in markets across the globe, selling products in 90+ countries with minimal direct competition.

Key benefits to our customers

- Increases quality
- Productivity
- Profit
- Direct access to Somero expertise, training and support

Applications

Somero laser-guided technology and wide-placement methods have been specified for use in a wide range of construction projects including:

- Warehousing
- Industrial/ Manufacturing
- Schools/Hospitals
- Commercial
- Retail
- Parking Structures

Building owners and end users

Somero equipment has been used in construction projects for a wide array of the world's largest organizations including Walmart, Home Depot, B&Q, Carrefour, IKEA, Mercedes-Benz, Coca-Cola, FedEx, Tesla and Prologis.

Multi-faceted value proposition

Key outcomes for building owners and end users

- ↗ Operational efficiency
- ↗ Improved physical appearance
- ↘ Lower floor maintenance cost
- ↘ Lower forklift repair cost

Key differentiators/competitive advantages

Innovative Product Leadership

- Pioneered Laser Screed® machine market in 1986
- Product portfolio grown to 13 products
- Designs protected by 63 patents/applications
- Product development fueled by customer engagement

Industry Expertise, Training and Support

- Proven commitment to exceptional classroom/job-site training
- 24/7 direct global support (in 10 minutes, all major languages)
- Overnight spare parts delivery, next day world travel
- Somero Concrete College & Institute

ROADMAP FOR SUSTAINABLE GROWTH

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.

Our strategy

Our strategy is to leverage these strengths to grow our business through geographic 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, the vast majority of our staffing increases have been employees based outside of North America. We'll continue to make selective investments to expand our global sales and support coverage as we pursue this strategy.

See Market Overview on page 10

Product innovation

2016 was another productive year for our Engineering team as we launched a new low-cost entry level machine, S-158 Laser Screed Machine, in China in the fourth quarter 2016, we completed the design of the SP-16 Concrete Hose Line-Pulling and Placing System and the next generation 3-D Profiler System, both of which were launched at the World of Concrete Trade Show 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.

See Case Study on page 24

CONTINUED MOMENTUM

Strong performance in the US and Europe, and contribution from new products has put us ahead of our five-year growth plan projections.

Overview

I am very pleased to report that 2016 was an exceptional year for Somero. Our financial results were outstanding as we ended the year with record revenues, profits, and the strongest balance sheet and net cash[1] position in the Company's history. We also made meaningful investments in order to execute our growth strategy in the years to come. We finished construction and moved into our new 14,000 square foot Global Headquarters and Training Facility in Fort Myers, we broke ground on a new hands-on training facility on our Fort Myers campus, we completed development of three new products, and most importantly, we added key talent to the organization to help lead the Company forward. As good a year as 2016 was, we are even more excited about the opportunities that lie ahead.

Region reviews

The performance in the North American market continues to be strong, reflecting a healthy commercial construction environment supported by the new political establishment. Market estimates indicate that in 2016 North American cement consumption from non-residential building construction grew an estimated 10.9%[2] compared to 2015 which is consistent with the extensive project backlogs our customers have reported. Also in 2016, North American sales increased a robust 15% compared to 2015 to reach US$ 56.6m, driven by an abundance of commercial construction activity combined with a growing shortage of skilled labor in the concrete contractor industry that in turn increased demand for Somero equipment. New products have also been a key contributor to growth in North America as the new S-10A and S-940 Laser Screed machines have gained considerable traction in the market.

Our European market accelerated its recovery in 2016 with sales growing 40% compared to 2015 to reach US$ 8.0m. Importantly, this growth was well-balanced across our product line and on a geographic basis, with particularly solid trading activity in Italy, Poland, UK, Spain and the Czech Republic.

The China market stabilized in 2016 contributing US$ 6.4m in sales for the year, a 5% increase compared to 2015. The positive underlying market fundamentals and long-term growth prospects in China remain intact and we have seen continued traction from our training and educational efforts to advance awareness, acceptance and demand for higher-quality floors through wide-placement methods. We took several important steps in 2016 to position ourselves for future growth in China: we recruited an experienced manager based in Shanghai to lead our sales team in China; we successfully brought our training and educational efforts to the job-site by hosting a Mega Product Demonstration on a high-visibility job with one of our largest customers; and, late in 2016, we introduced our newly designed entry-level S-158 Laser Screed machine and the S-940 Laser Screed machine to the China market, two products that we believe will attract new productivity-oriented customers, which is an important, incremental market segment. Finally, while not new in 2016, our long-term financing program continues to be a success with our equipment shut-off capability proving to be an effective tool to secure timely payments from customers who require a financing option. All sales under the long-term financing program that began in Q4 2015 have either been paid in full or are current on scheduled payments as of 31 December 2016, and the Company has earned over US$ 0.2m in interest income in 2016 from financing these sales.

Sales in Australia improved substantially in 2016, growing 130% from 2015 to reach US$ 2.3m. The considerable improvement in Australia was driven in part by improved economic conditions combined with the strengthening of the Australian dollar in 2016.

Sales in the Middle East grew 7% from 2015 to reach US$ 2.9m for the year, another healthy year for the region. Driving the performance in 2016 were strong contributions from Turkey, the United Arab Emirates, and Saudi Arabia.

In Latin America, while sales declined 15% from 2015 to US$ 1.7m for the year, the second half of 2016 was considerably improved from the start of the year, reflecting noticeably improved activity levels across the region, including modest improvement in Brazil.

In Southeast Asia, sales declined to US$ 0.4m in 2016 from US$ 1.3m in 2015. However, despite the sluggish performance in 2016, we continue to view Southeast Asia as a significant future growth opportunity given our very low current market penetration and the growing demand for higher-quality floors in the region.

While sales in India in 2016 declined to US$ 0.1m from US$ 0.6m in 2015, we exited the year with a solid pipeline of opportunities, some of which were delayed as a result of the Indian banking system reforms that slowed bank financing approvals. We also view India as a significant future growth opportunity for Somero and will continue to develop the market through marketing activities and by hosting educational seminars for potential customers, engineers, architects and building owners that promote the benefits of higher-quality concrete floors.

As expected, sales in Russia improved only modestly to US$ 0.2m in 2016 given the continued unstable economic and geo-political climate in the country.

Cashflow and Balance Sheet

Driven by record revenues and profits combined with effective working capital management, 2016 was also a year of record operating cash flows for Somero. Operating cash flows grew to US$ 16.9m, up from US$ 14.5m in 2015, and year-end 2016 net cash balances increased to US$ 20.2m from US$ 12.6m a year ago[1]. The growth in net cash is remarkable considering in 2016 we also paid US$ 4.2m in dividends to shareholders and invested US$ 4.4m in capital expenditures related largely to our expansion projects. On top of this, I am particularly pleased that we have also increased our dividend payout ratio to 40% of adjusted net income to return even more of our profits to shareholders beginning with the dividend to be paid in April 2017. The Board plans to review the Company's cash position alongside cash requirements for current business needs and future investment during the first half of 2017. The Board will then assess the level of excess cash that may be subject to distribution back to shareholders through a special dividend later in 2017.

People

During 2016, we increased our staffing by 13 to reach 178 employees at the end of the year as we made key investments to bring new talent into the organization to drive and support our growth. We will continue to work on striking the right balance between investing in new talent and leveraging our operational scale. We are highly selective in the quality and fit of the individuals we hire and devote a large part of the hiring process to determine if a candidate fits the Somero culture, embraces our core values, and will be a significant, productive contributor.

"I am excited at the opportunities that lie ahead for Somero in 2017. We are financially stronger than ever, have the broadest portfolio in our history and have made significant investments to increase our global reach."

Product Development

Each year, Somero invests approximately 2% of sales on product development with a goal of introducing at least one new product every year. The efficiency of our product development effort is due to our customer-focused approach that relies on a high level of customer engagement through focus groups, surveys, and feedback we routinely gather through interactions with our direct sales and support staff. 2016 was another efficient year as our Engineering team completed development of three new products: our entry-level S-158 Laser Screed machine targeted for the Chinese market, our new SP-16 Concrete Hose Line-Pulling and Placing System and our next generation 3-D Profiler System. All three new products have been well-received by the market, with the S-158 launching at the end of 2016 in China, and the SP-16 and next generation 3-D Profiler System launching in January 2017 at the World of Concrete Trade Show in Las Vegas, Nevada. Additionally, in 2016 we gained significant sales traction with products that were developed in the previous year, the S-10A and the S-940 Laser Screed machines. These two products contributed, on a combined basis, US$ 10.6m in sales in 2016, which represented US$ 4.6m in net growth from 2015.

Progress Towards our 2018 Strategic Objective

This was the third year of our five-year plan that targets reaching revenues of US$ 90m in 2018. We have now roughly met 75% of the target by reaching just over US$ 79m in revenues in 2016 with two years of the plan remaining. Given solid fundamentals in the US and European markets, strong growth prospects in China, and meaningful additional growth opportunities across our portfolio of products and geographic markets, we remain confident in our ability to meet our strategic target in 2018.

Expansion Update

In April 2016, we completed construction and moved into our new 14,000 square-foot Global Headquarters and Training Facility in Fort Myers, Florida. The new Training Facility provides us with a state of the art classroom environment that we have already used to train and educate nearly 150 customer operators since we first opened the new facility. In addition, due to increasing industry demand for enhanced training and education, we have accelerated plans to construct a hands-on training environment on our Fort Myers campus. This will become part of the Somero Concrete Institute which is planned to launch in Q2 2017. This investment highlights Somero's continued commitment to the industry, and further distinguishes Somero as an industry leader in training and education. We expect to complete the project by the end of Q1 2017 for a total building cost of US$ 0.7m.

Conclusion

This was a record setting year for Somero in terms of our financial performance, but that is only part of the story. We have also made real strides in executing our strategy to grow the business globally through innovative new products, expanding our operational and training capabilities to meet the future needs of our customers, and adding critical new talent to the organization. We have done this while also delivering remarkable financial results, strengthening our balance sheet and increasing our dividend to return more cash to our shareholders.

These achievements would not be possible without our talented management team leading the effort. I want to personally highlight the tremendous performance of our Managers in 2016 who each excelled at managing another year of rapid growth while keeping focus on improving the products, solutions, and levels of service we offer our customers. Somero's success begins with our employees' passion and dedication to ensuring our customers achieve their business and profitability goals. I am most proud that we have not lost sight of that.

We anticipate another exciting year ahead for Somero, and are looking forward to capitalizing on the significant opportunities ahead. Through the investments we have made in 2016 and plan to make in 2017, we believe we are well-positioned to capitalize on expected growth in our core markets of the US, Europe and China, capture revenues from new products and new markets, and continue to extend and deepen our global footprint. Most importantly, we look forward to delivering another year of remarkable results for our shareholders.

Jack Cooney
President and Chief Executive Officer
March 15, 2017

1. Net cash is defined as total cash and cash equivalents less borrowings under bank obligations exclusive of deferred financing costs.
2. Percentage derived from Portland Cement Association Market Intelligence Fall Cement Outlook report dated November 2016.

CHINA

Providing our Customers Tools for Success through Education and Training

Somero's entry into the China market began with concentrated efforts to educate the concrete industry about the benefits of producing high-quality, flat, and level concrete floors. This included focusing on the efficiencies and cost savings attainable by using wide-placement methods in concrete floor placement. As we've experienced in other markets, encouraging the industry to adopt higher-quality standards and wide-placement methods ultimately benefits Somero, our customers, building owners and end-users, and the entire industry.

Our educational efforts continually evolve as we further develop our services. Initially, our team of Sales Engineers concentrated on conducting seminars focused on expanding awareness of wide-placement theory and the benefits of quality, flat and level floors. In 2015, we established the Somero Concrete College in Shanghai, to provide in-depth training and hands-on experiences essential to reinforcing concepts presented in our early seminars.

In May 2016, we furthered our efforts by traveling to a job-site to host a week-long Mega Product Demonstration. The 'Mega-Demo' was held in conjunction with one of our largest and most successful customers in China, Shenyang Nester on a 500,000 square foot GLP Prologis warehouse project in Jiaozhou, Qingdao, Shandong Province. With over 150 attendees consisting of current and potential customers, design firms, and commercial developers, this event was the perfect opportunity for attendees to see our theories in practice.

Shenyang Nester highlights Somero's strategy to grow the market by providing customers in China with the needed equipment, training, and education for them to build businesses. We believe this will, in turn, increase future demand for Somero equipment. Shenyang Nester started in the industry as a material applicator. In 2014, the owner of Shenyang Nester made the decision to expand his business and become a concrete flooring contractor with a purchase of their first Somero machine, an S-840 Laser Screed machine. Since that time, with the support and training provided by Somero, Shenyang Nester has become one of China's most respected concrete flooring contractors. He has completed numerous projects for multinational corporations, and employs 80 full-time employees.

Provided nearly

4,500

hours of training and education to Chinese customers in 2016

SOMERO CONCRETE INSTITUTE

Building on the success of our educational endeavors at the Somero Concrete College in Shanghai, China, Somero is proud to announce the development of the Somero Concrete Institute (SCI). Somero has a long and proven commitment to providing exceptional training, both in the classroom and on the job site, in order to ensure our customers' success upon their investment in a Laser Screed machine. In 2016, Somero successfully trained and certified nearly 470 individuals in the US alone on the proper use and maintenance of our equipment. The launch of the SCI in 2017 is a natural extension of our commitment to training and education.

Late in 2016, driven by strong industry demand, Somero decided to accelerate plans to launch the SCI to provide a solution to the growing shortage of skilled labor in the North American concrete contractor industry. Partnering with leaders in the industry, including the American Concrete Institute and the American Society of Concrete Contractors, Somero is developing a broad curriculum for the SCI that will go far beyond training on proper maintenance and operation of Somero Laser Screed equipment. The SCI will cover a range of topics spanning all phases of a project, including job site management, concrete mix design, and methods and techniques in preparing, pouring and finishing concrete. Offering both theoretical classes and hands-on instruction, the SCI will provide a comprehensive educational opportunity for all different types of adult learners from across the globe to become certified in concrete placing and finishing.

A key element of the SCI is training and experience with live placement of concrete. As such, Somero broke ground in late 2016 with a freestanding facility on our Fort Myers campus where students will be able to pour concrete and gain valuable hands-on training in a controlled environment. Construction of the new facility will be completed at the end of Q1 2017 and the first classes of the SCI are scheduled to take place in Q2 2017.

470

Customer operators trained and certified on Somero equipment in the U.S. in 2016


CONCRETE
CONCRETE
CONCRETE
CONCRETE

CASE STUDY

PRODUCT DEVELOPMENT

Driven by Customer Engagement

Somero was founded on innovation. We revolutionized the concrete flooring industry when we introduced the first Laser Screed machine in 1986. Since our beginnings as a single product company, we have continued to develop proprietary designs and technology to grow our product portfolio to 13 innovative products, all geared towards helping our customers improve their processes, efficiency and quality so they can achieve their business and profitability goals. Along the way we've accumulated a portfolio of 63 patents and patent applications to protect these designs.

2016 was another highly productive year for our product development effort as we completed development on three new products: Our entry-level S-158 Laser Screed machine for China launched in Q4 2016, and our SP-16 Concrete Hose Line-Pulling and Placing System and next generation 3-D Profiler System, both launched at our largest industry trade show, the World of Concrete held in Las Vegas, Nevada in January 2017.

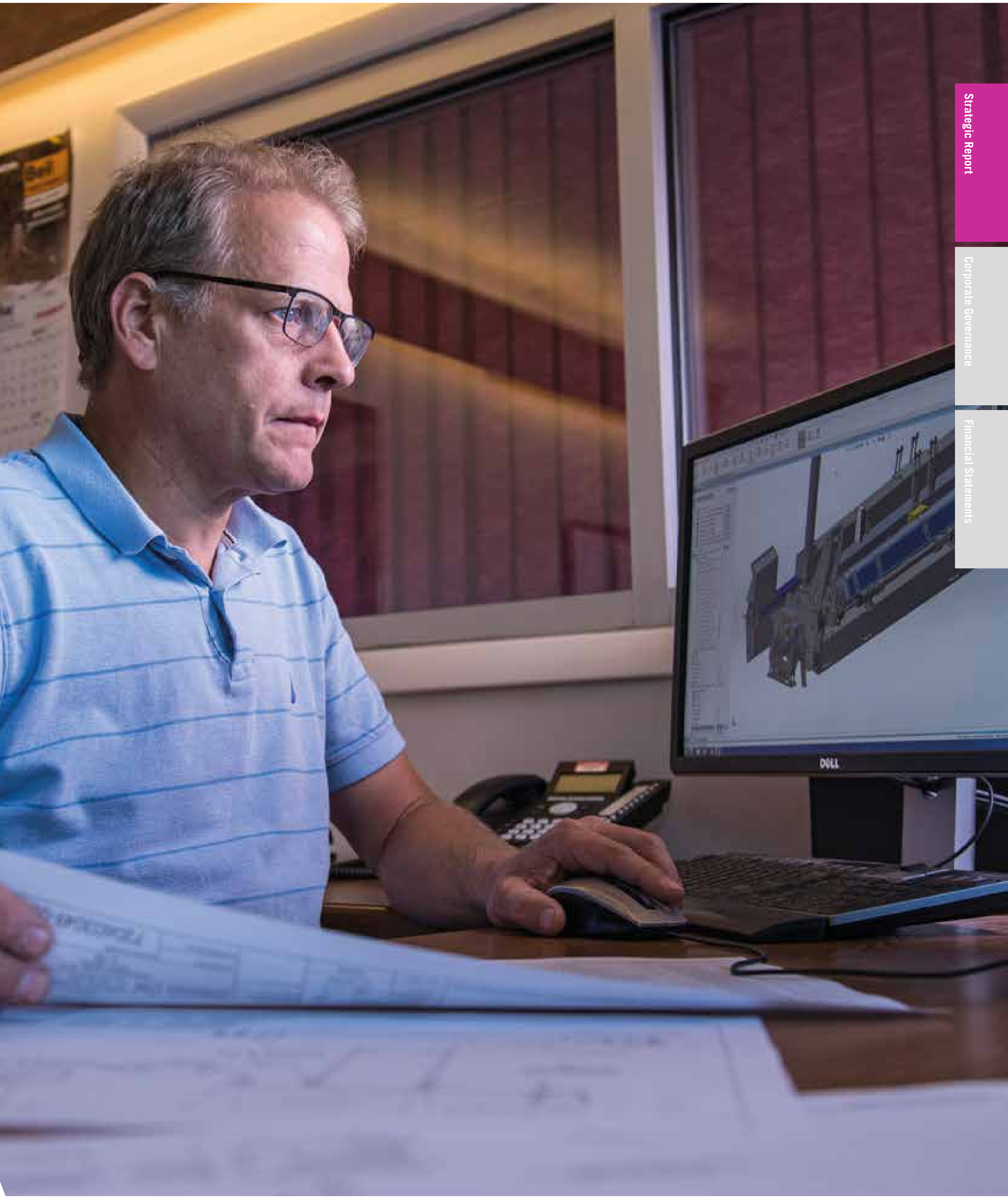
As a direct sales and support organization, Somero understands the benefits of involving our customers in the product development effort. We also understand that to do this effectively it's critical to funnel all the ideas and creative energy on the front end into focused efforts on new products and services that are solidly supported by a business case. The payoff of turning customers' ideas into tangible products with a strong value proposition is how we build incredible customer loyalty and engagement.

In 2016, in addition to developing new product designs, we also took the next step to elevate our product development process by establishing the Somero Innovation Council. We approached a broad group of industry experts to join the Innovation Council to create a structured forum where we can regularly discuss industry trends, opportunities to create value, and most importantly to review new product concepts that form the basis of our future product roadmap.

We kicked off the Innovation Council in December 2016 with our first-ever Innovation Summit held in Naples, Florida. The session was facilitated by Phillips & Company whose diverse portfolio of clients includes blue-chip companies such as Verizon, Ziploc and Paramount. The Summit was a highly successful day-long ideation session focused on discussing market opportunities and generating potential product ideas. At the end of the session the Council had generated over 50 different product concepts to add to our pipeline of ideas which we will continue to explore.

$10.6m

in Revenues from New Products in 2016



Summary of Financial Results

	Year ended December 31, 2016 US$ 000	Year ended December 31, 2015 US$ 000
Revenue	**79,353**	70,222
Cost of sales	**34,270**	31,059
Gross profit	**45,083**	39,163
Operating expenses		
Sales, marketing and customer support	**10,056**	9,438
Engineering	**1,071**	1,031
General and administrative	**12,768**	11,121
Total operating expenses	**23,895**	21,590
Operating income	**21,188**	17,573
Other income (expense)		
Interest expense	**(95)**	(191)
Interest income	**267**	20
Foreign exchange loss	**(117)**	(43)
Other	**34**	–
Income before income taxes	**21,277**	17,359
Provision for income taxes	**7,019**	5,809
Net income	**14,258**	11,550
Other data		
Adjusted EBITDA (1) (2) (4)	**24,579**	20,034
Adjusted net income (1) (3) (4)	**15,637**	12,966
Depreciation expense	**1,121**	719
Amortization of intangibles	**1,545**	1,545
Capital expenditures	**4,435**	4,162

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 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 reconciliation

	Year ended December 31, 2016 US$ 000	Year ended December 31, 2015 US$ 000
Adjusted EBITDA reconciliation		
Net income	**14,258**	11,550
Tax provision	**7,019**	5,809
Interest expense	**95**	191
Interest income	**(267)**	(20)
Foreign exchange loss	**117**	43
Other	**(34)**	–
Depreciation	**1,121**	719
Amortization	**1,545**	1,545
Stock based compensation	**725**	197
Adjusted EBITDA	**24,579**	20,034
Adjusted net income reconciliation		
Net income	**14,258**	11,550
Amortization	**1,545**	1,545
Tax impact of stock option & RSU settlements	**(166)**	(129)
Adjusted net income	**15,637**	12,966

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 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 13% to US$ 79.4m (2015: US$ 70.2m). Company revenues consist primarily of sales from Boomed screed products, which include the S-22E, S-15R and S-10A Laser Screed machines, sales from Ride-on screed products, which are drive through the concrete machines that include the S-840, S-485, S-940 and S-158 Laser Screed machines, Remanufactured machines sales, 3-D Profiler System, and Other Revenues which consist primarily of revenue from sales of parts and accessories, sales of other equipment, service, training and shipping charges. The overall increase for the year was driven by sales of Boomed screeds, Ride-on screeds, 3-D Profiler Systems, along with an increase in Other revenues.

Boomed screed sales increased to US$ 36.3m (2015: US$ 34.1m) as a result of increased volume and price increases, Ride-on screed sales increased to US$ 14.4m (2015: US$ 12.5m) also due to higher volume and price increases, 3-D Profiler System sales increased to US$ 6.1m (2015: US$ 4.4m) due to increased unit sales and Other revenues increased to US$ 16.7m (2015: US$ 12.9m) primarily due to increased sales of parts and accessories and increased sales of other equipment including the STS-11M Topping Spreader.

Revenue breakdown by geography	North America US$ in millions		EMEA[(1)] US$ in millions		ROW[(2)] US$ in millions		Total US$ in millions			
							2016		2015	
	2016	2015	2016	2015	2016	2015	Net sales	% of Net sales	Net sales	% of Net sales
Boomed screeds [(3)]	27.0	27.3	6.0	3.5	3.3	3.3	36.3	45.7%	34.1	48.6%
Ride-on screeds [(4)]	10.4	8.3	2.3	3.0	1.7	1.2	14.4	18.1%	12.5	17.8%
Remanufactured machines	3.7	2.6	0.4	0.6	1.8	3.1	5.9	7.5%	6.3	9.0%
3D Profiler System	5.4	3.8	0.2	0.3	0.5	0.3	6.1	7.7%	4.4	6.2%
Other [(5)]	10.1	7.2	2.8	2.2	3.8	3.5	16.7	21.0%	12.9	18.4%
Total	56.6	49.2	11.7	9.6	11.1	11.4	79.4	100.0%	70.2	100.0%

Notes:
1. EMEA includes the Europe, India, Middle East, Scandinavia and Russia markets.
2. ROW includes the China, Australia, Latin America, Korea, and Southeast Asia markets.
3. Boomed Screeds include the S-22E, S-15R, and S-10A.
4. Ride-On Screeds include the S-840, S-940, S-485, and S-158.
5. Other includes parts, accessories, services and freight, as well as other equipment such as the STS-11M, Copperhead, and Mini Screed C.

Units by product line	2016	2015
Boomed screeds	**130**	109
Ride-on screeds	**159**	146
Remanufactured machines	**42**	43
3D Profiler System	**61**	47
Total	**392**	345

Sales to customers located in North America contributed 71% of total revenue (2015: 70%), sales to customers in EMEA (Europe, India, Middle East, Scandinavia, and Russia) contributed 15% (2015: 14%) and sales to customers in ROW (Southeast Asia, Australia, Latin America, and China) contributed 14% (2015: 16%).

Sales in North America were US$ 56.6m (2015: US$ 49.2m) up 15% driven by higher sales of Ride-on screeds, Remanufactured machines, and an increase in Other revenues. Sales in EMEA were US$ 11.7m (2015: US$ 9.6m) which is up 22% primarily due to an increase in Boom screed sales. Sales in ROW were US$ 11.1m (2015: US$ 11.4m) down modestly due to a decline in Remanufactured sales offset partly by an increase in sales of Ride-on screeds.

Regional sales	US$ in millions 2016	2015
North America	**56.6**	49.2
Europe	**8.0**	5.7
China	**6.4**	6.1
Middle East	**2.9**	2.7
Australia	**2.3**	1.0
Latin America	**1.7**	2.0
Scandinavia	**0.5**	0.5
Southeast Asia	**0.4**	1.3
Korea	**0.3**	1.0
Russia	**0.2**	0.1
India	**0.1**	0.6
Total	**79.4**	70.2

Gross profit

Gross profit increased to US$ 45.1m (2015: US$ 39.2m), with gross margins improving to 56.8% (2015: 55.8%) due to price increases, product cost reductions and productivity gains.

Operating expenses

Operating expenses increased by 11% to US$ 23.9m (2015: US$ 21.6m). This increase was driven by increased commissions and insurance associated with higher sales volume, higher personnel costs due to wage inflation and increased average headcount, increased benefits costs, and increased bonuses in 2016.

Other income (expense)

Other income increased to US$ 0.1m, compared to other expense of US$ 0.2m in 2015, due to a decrease in interest expense and an increase in interest income offset partly by an increase in foreign exchange loss.

Provision for income taxes

The provision for income taxes was US$ 7.0m in 2016 as compared to US$ 5.8m in 2015. Overall, Somero's effective tax rate changed from 33.5% in 2015 to 33.0% in 2016.

Net income

Net income increased to US$ 14.3m from US$ 11.6m in 2015 due primarily to increased sales volume, gross margin improvement and operating cost controls. On an adjusted basis, excluding amortization and tax benefits associated settlements of RSUs and stock options, adjusted net income increased to US$ 15.6m from US$ 13.0m in 2015. Basic earnings per share represents income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options. Earnings per common share have been computed based on the following:

	Year ended December 31, 2016 US$ 000's	Year ended December 31,2015 US$ 000's
Income available to stockholders	**14,258**	11,550
Basic weighted shares outstanding	**56,178,723**	56,145,563
Net dilutive effect of stock options and restricted stock units	**1,708,228**	1,545,716
Diluted weighted average shares outstanding	**57,886,951**	57,691,279

The Company had 56,203,602 shares outstanding at December 31, 2016. Earnings per share at December 31, 2016 and 2015 are as follows:

	Year Ended December 31, 2016 Per Share US$	Year Ended December 31, 2015 Per Share US$
Basic earnings per share	**0.25**	0.21
Diluted earnings per share	**0.25**	0.20
Basic adjusted earnings per share	**0.28**	0.23
Diluted adjusted earnings per share	**0.27**	0.22

BOARD OF DIRECTORS

Lawrence L. Horsch

Non-Executive Chairman of the Board

Mr. Horsch, age 82, 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 five years has also served on the board of Medical CV Inc. and Gillette Children's Specialty Healthcare. Mr. Horsch has been a business consultant since 1990. He is a graduate of the University of St. Thomas, received an MBA in Finance from Northwestern University, and is a Chartered Financial Analyst.

John T. (Jack) Cooney

President, Chief Executive Officer and Director

Mr. Cooney, age 70, 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 33 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 Master of Business Administration degree from College of St. Thomas.

John Yuncza

Chief Financial Officer, Secretary and Director

Mr. Yuncza, age 46, 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, 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, Director

Mr. Hohmann, age 55, 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 & 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 was also a concrete flooring consultant, teaching procedures, practices and designs, alongside the inventors of the Somero Laser Screed. Additionally, he has developed and managed sales in emerging markets, and managed both marketing and inside sales departments. Mr. Hohmann also served in the U.S. Marine Corps.

Thomas M. Anderson

Non-Executive Director

Mr. Anderson, age 65, 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 59, has served in a series of senior executive roles at Dover Corporation, an $8 billion Fortune 500 company. Most recently, from 2011 to 2014, Mr. Scheuer was Chief Financial Officer and Vice President of Finance of Dover Engineered Systems, a $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 $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 $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 $1.7 billion multi-brand portfolio with 6 major product lines.

DIRECTORS' REPORT

The directors present their Annual Report and the audited financial statements for the year ended December 31, 2016.

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 along with 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$ 4.2m were paid in 2016. An 8.6 US cents per share dividend was declared for the period ending December 31, 2016, with a record date of March 31, 2017, payable on April 17, 2017.

Share Capital

	Ordinary Shares	
	January 1, 2016	**December 31, 2016**
L Horsch	92,000	**92,000**
J Cooney	2,814,634	**1,414,634**
J Yuncza	–	**39,613**
H Hohmann	7,046	**47,703**
T Anderson	–	**–**
R Scheuer	–	**25,000**

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, 2016 was 224.8p. The range during the 2016 period of trading was 118.5p to 230.0p.

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 December 31, 2016

	Amount	% holding
Artemis Investment Management	8,414,208	14.97%
Hargreave Hale	7,250,009	12.90%
Unicorn Asset Management	4,000,000	7.12%
Henderson Global Investors	3,760,423	6.69%
Close Asset Management	3,683,507	6.55%
River & Mercantile Asset Management	2,842,348	5.06%
Blackrock Investment Management	2,804,476	4.99%
Lazard Freres Gestion	2,400,000	4.27%

Director stock options

Director	January 1, 2016	Award/(Exercise)	Cancelled	**December 31, 2016**	Exercise price US$	Earliest date exercisable	Expiry date
L Horsch	154,268	–	–	**154,268**	0.47	2/16/2011	2/17/2020
J Cooney	249,394	–	–	**249,394**	0.24	1/19/2010	1/20/2019
J Cooney	1,000,000	–	–	**1,000,000**	0.47	2/16/2011	2/17/2020
J 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

Director restricted stock units

Director	January 1, 2016	Award/(Exercise)	Cancelled	**December 31, 2016**	Weighted average grant date fair market value	Vesting date	Fully vested date
L Horsch	6,148	(6,148)	–	–	–	–	–
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
L Horsch	–	8,395	–	8,395	2.10	3/24/2019	3/24/2019
J Cooney	149,046	(149,046)	–	–	–	–	–
J Cooney	59,977	–	–	59,977	1.93	1/29/2017	1/29/2017
J Cooney	64,271	–	–	64,271	1.87	1/21/2018	1/21/2018
J Cooney	–	60,049	–	60,049	2.10	3/24/2019	3/24/2019
T Anderson	4,391	(4,391)	–	–	–	–	–
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
T Anderson	–	5,995	–	5,995	2.10	3/24/2019	3/24/2019
J Yuncza	32,639	–	–	32,639	2.16	5/18/2018	5/18/2018
J Yuncza	–	35,178	–	35,178	2.10	3/24/2019	3/24/2019
B Scheuer	–	1,770	–	1,770	2.10	3/24/2019	3/24/2019

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 2016. In January 2017, the Company paid off the remaining outstanding principal totaling US$ 1.0m on its commercial real estate mortgage along with accrued interest using cash on-hand. There was no prepayment penalty. There were no changes to the Company's US$ 10.0m secured revolving line of credit which will expire in February 2021.

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 its geographic markets Somero's primary geographic markets are North America, Europe and China, however, the Company has a growing presence in Southeast 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.

Product development

Somero invests approximately 2.0% of sales on product development and introduces new products each year. Somero's product development effort is a customer driven process focused on customer needs and value requirements. In 2016, Somero introduced three new products: the entry-level S-158 Laser Screed machine targeted for the Chinese market, the SP-16 Concrete Hose Line-Pulling and Placing System and the next generation 3-D Profiler System. In 2016, Somero also gained significant sales traction with products that were developed in the previous year, the S-10A and the S-940 Laser Screed machines. These two products contributed, on a combined basis, US$ 10.6m in sales in 2016, which represented US$ 4.6m in net growth from 2015.

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 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 with advanced technology that encourage customers to replace older machines.

Geographic expansion

Somero's financial performance is impacted by 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, Southeast Asia, and India. Somero continues to promote acceptance of the Company's technology, methods and products through 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. In January 2017, the Company paid off the remaining outstanding principal totaling US$ 1.0m on its commercial real estate mortgage along with accrued interest using cash on hand.

Liquidity and capital resources

Liquidity

The Company's principal liquidity needs are for payroll, lease obligations, purchases of component parts and other inventory items, payments for professional services from third party providers, 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 construction of a hands-on training facility on the Company's Fort Myers, Florida campus, investment in tools and equipment to increase the efficiency of the assembly and remanufacturing processes, and regular replacement of information technology equipment. 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, 2016, the Company had US$ 1.0m 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. This principal was paid off in full in In January 2017, along with accrued interest, using cash on hand.

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 2016. 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, 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 2017.

Somero had capital expenditures of US$ 4.4m in 2016 and US$ 4.2m in 2015. The majority of this expenditure was related to construction of 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 information technology 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$ 36,198 for 2016.

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 Opportunity 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 15, 2017

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 April 2016 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 2016, relationships with the majority of all major shareholders 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 2016 were US$ 139,000 and for 2015 were US$ 143,000.

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 shareholders, 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 responsible for determining the 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, 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 permanent 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, who has broad and extensive accounting and audit experience that includes previously serving as Chief Financial Officer of Dover Engineered Systems, a US$ 3.8 billion segment of Dover Corporation. 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 share options to the Board for final determination. The Remuneration Committee also makes recommendations to the Board concerning the allocation of share 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 Opportunity Employer, all our benefits are accessible to every staff member and we encourage and support personal and professional development.

In addition to the three permanent committees discussed above, in accordance with applicable law and best practice the Board establishes ad hoc committees from time to time to deal with discrete matters within the Board's remit in an efficient and effective manner.

The Company adopted a code for directors' and applicable employees' share 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. In 2016, the Company updated its dealing code to ensure compliance with the EU Market Abuse Regulations which came into effect in 2016 and apply to companies listed on AIM.

Relations with shareholders

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

All shareholders 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 shareholders 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 of this annual report.

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, 2016 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 2016 and 2015.

	Year ended December 31, 2016 US$ 000	Year ended December 31, 2015 US$ 000
Audit	**139**	143
Tax	**43**	35
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, 2016 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 of this annual report.

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 shareholders. This report is unaudited.

The members of the Remuneration Committee at year-end were Thomas Anderson (Chairman), Robert Scheuer and Larry Horsch. The Remuneration Committee makes recommendations to the Board, within existing terms of reference, on remuneration policy and determines, on behalf of the Board, specific remuneration packages for each of the executive directors.

	Salary paid 2016	Cash bonus 2016	Equity bonus common shares issued 2016	Salary 2017	Bonus opportunity 2017	Options held	Restricted stock units held
L Horsch	$91,790	–	–	$91,790(1)		154,268	19,665
J Cooney	$420,424	$289,321	–	$442,255	50%-100% of salary	1,312,109	184,297
J Yuncza	$246,298	$123,816	19,613	$259,088	50% of salary(2)	–	67,817
H Hohmann	$238,673	$256,658	40,657	$283,800	Commission(2)(3)	–	–
T Anderson	$65,550	–	–	$65,550(1)		85,704	14,043
R Scheuer	$74,500	–	–	$74,500(1)		–	1,770

Notes:
1. Annual director fee increases have been paid in the form of RSUs.
2. Up to 25% of bonuses and commissions can be paid in the form of company stock.
3. Commission of 1.0%-1.5% on sales that exceed annual base-year target.

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; and
- stock option and restricted stock unit 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, 2016, the executive directors received bonuses as shown in the table above.

Directors' contracts

The Company has entered into employment agreements with executive directors and 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

Annually, the Board approves restricted stock unit ("RSU") awards to executive and non-executive directors under the terms of its 2010 Equity Incentive Plan. Non-executive directors are awarded RSUs in lieu of annual director's fee increases, while certain executive directors are awarded RSUs as part of their annual incentive compensation plans. Awarded RSUs vest three years from the date of the grant and require continued employment for the period. In 2016, 159,585 RSUs were exercised or forfeited, 148,593 units issued, leaving a balance of 417,353 units as of December 31, 2016. For more information, see Note 15 within the Notes to the Financial Statements.

Stock options

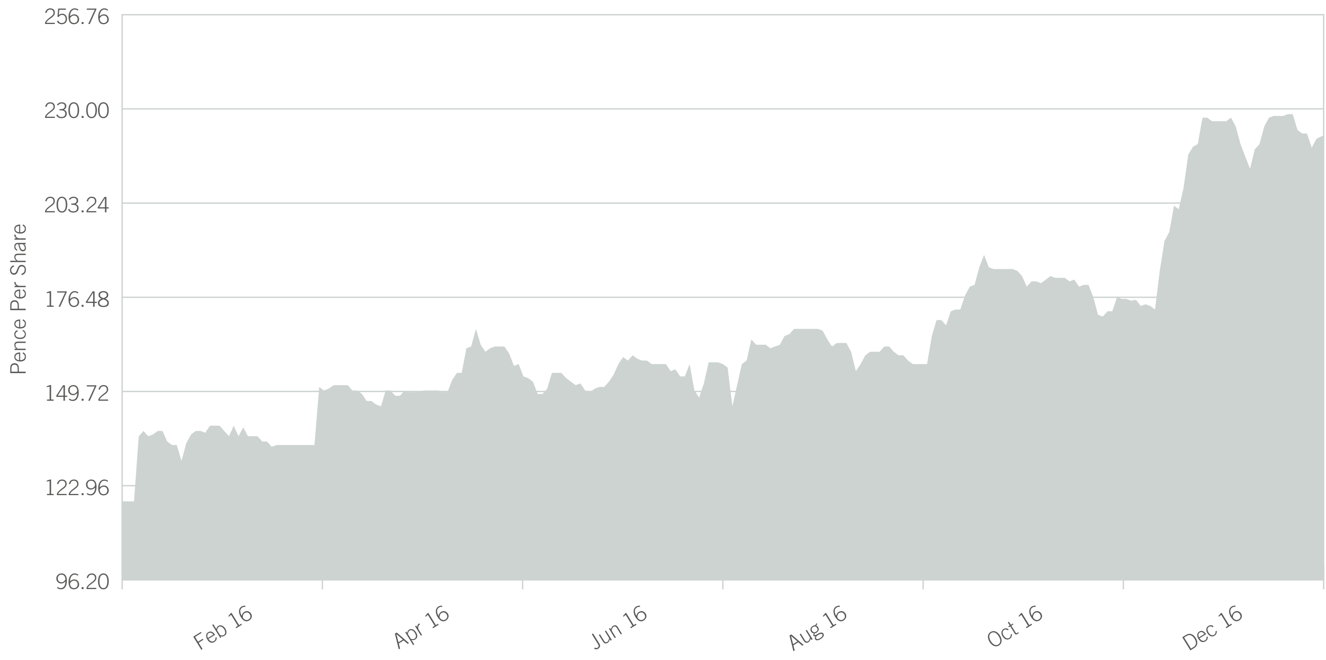
An initial grant was made in February 2010 for 2.3 million stock options as replacements for grants under the old option plan which was cancelled. The grants have a three-year vesting and a strike price of 30p, a 100% premium over the market price on the date of grant. The remaining options will only be issued for new key employees and superior performance. In 2016, 100,000 shares of stock options were exercised, leaving an outstanding balance of 1,586,361 shares as of December 31, 2016. 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, 2016 was 224.8p. The range during the 2016 period of trading was 118.5p to 230.0p.



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, 2016 was subject to Board approval. The letters of appointment and terms are listed in the following chart.

Director	Class	Date of appointment	Termination date
L Horsch	II	May 20, 2014	2017 AGM
T Anderson	II	May 20, 2014	2017 AGM
JT Cooney	III	May 19, 2015	2018 AGM
H Hohmann	III	May 19, 2015	2018 AGM
J Yuncza	I	June 7, 2016	2019 AGM
R Scheuer	I	June 7, 2016	2019 AGM

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

Thomas Anderson
Chairman of Remuneration Committee
March 15, 2017

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015

	As of December 31, 2016 US$ 000	As of December 31, 2015 US$ 000
Assets		
Current assets:		
Cash and cash equivalents	**21,216**	13,709
Accounts receivable – net	**6,310**	5,969
Inventories	**8,760**	8,479
Prepaid expenses and other assets	**2,428**	2,135
Total current assets	**38,714**	30,292
Accounts receivable, non-current – net	**254**	885
Property, plant and equipment – net	**11,558**	8,266
Intangible assets – net	**901**	2,446
Goodwill	**2,878**	2,878
Deferred tax asset	**3,351**	3,529
Other assets	**29**	75
Total assets	**57,685**	48,371
Liabilities and stockholders' equity		
Current liabilities:		
Notes payable – current portion	**16**	16
Accounts payable	**2,831**	3,705
Accrued expenses	**5,329**	4,330
Income tax payable	**147**	1,044
Total current liabilities	**8,323**	9,095
Notes payable, net of current portion	**970**	986
Other liabilities	**223**	84
Total liabilities	**9,516**	10,165
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 and 56,425,598 shares issued and 56,203,602 and 56,106,732 shares outstanding at December 31, 2016 and 2015, respectively	**26**	26
Less: treasury stock, 221,996 shares as of December 31, 2016 and 318,866 shares as of December 31, 2015 at cost	**(483)**	(614)
Additional paid in capital	**22,112**	22,008
Retained earnings	**28,480**	18,432
Other comprehensive loss	**(1,966)**	(1,646)
Total stockholders' equity	**48,169**	38,206
Total liabilities and stockholders' equity	**57,685**	48,371

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Year ended December 31, 2016 US$ 000 except per share data	Year ended December 31, 2015 US$ 000 except per share data
Revenue	**79,353**	70,222
Cost of sales	**34,270**	31,059
Gross profit	**45,083**	39,163
Operating expenses		
Sales, marketing and customer support	**10,056**	9,438
Engineering	**1,071**	1,031
General and administrative	**12,768**	11,121
Total operating expenses	**23,895**	21,590
Operating income	**21,188**	17,573
Other income (expense)		
Interest expense	**(95)**	(191)
Interest income	**267**	20
Foreign exchange loss	**(117)**	(43)
Other	**34**	–
Income before income taxes	**21,277**	17,359
Provision for income taxes	**7,019**	5,809
Net income	**14,258**	11,550
Other comprehensive income (loss)		
Cumulative translation adjustment	**(322)**	(280)
Change in fair value of derivative instruments – net of income tax	**2**	(8)
Total comprehensive income	**13,938**	11,262
Earnings per common share		
Earnings per share basic	**0.25**	0.21
Earnings per share diluted	**0.25**	0.20
Weighted average number of common shares outstanding		
Basic	**56,178,723**	56,145,563
Diluted	**57,886,951**	57,691,279

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Common Stock		Additional Paid-In Capital	Treasury Stock		Retained earnings	Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount US$ 000	US$ 000	Shares	Amount US$ 000	US$ 000	US$ 000	US$ 000
Balance – January 1, 2015	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
Cumulative translation adjustment	–	–	–	–	–	–	(322)	(322)
Change in fair value of derivative instruments	–	–	–	–	–	–	2	2
Net income	–	–	–	–	–	14,258	–	14,258
Stock based compensation	–	–	725	–	–	–	–	725
Dividend	–	–	–	–	–	(4,210)	–	(4,210)
Treasury stock	–	–	(131)	(96,870)	131	–	–	–
RSUs settled for cash	–	–	(345)	–	–	–	–	(345)
Stock options settled for cash	–	–	(145)	–	–	–	–	(145)
Balance – December 31, 2016	**56,425,598**	**26**	**22,112**	**221,996**	**(483)**	**28,480**	**(1,966)**	**48,169**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	Year ended December 31, 2016 US$ 000	Year ended December 31, 2015 US$ 000
Cash flows from operating activities:		
Net income	**14,258**	11,550
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	**178**	150
Depreciation and amortization	**2,666**	2,264
Bad debt	**400**	381
Amortization of deferred financing costs	**32**	33
Stock based compensation	**725**	197
Working capital changes:		
Accounts receivable	**(110)**	(1,909)
Inventories	**(281)**	(89)
Prepaid expenses and other assets	**(293)**	(128)
Other assets	**(3)**	6
Accounts payable, accrued expenses and other liabilities	**264**	1,036
Income taxes payable	**(897)**	1,019
Net cash provided by operating activities	**16,939**	14,510
Cash flows from investing activities:		
Proceeds from sale of property and equipment	**71**	–
Property and equipment purchases	**(4,435)**	(4,162)
Net cash used in investing activities	**(4,364)**	(4,162)
Cash flows from financing activities:		
Payment of dividend	**(4,210)**	(3,312)
RSUs settled for cash	**(345)**	(275)
Purchase of treasury stock	**–**	(198)
Stock options settled for cash	**(145)**	(250)
Repayment of notes payable	**(48)**	(266)
Net cash used in financing activities	**(4,748)**	(4,301)
Effect of exchange rates on cash and cash equivalents	**(320)**	(288)
Net increase in cash and cash equivalents	**7,507**	5,759
Cash and cash equivalents:		
Beginning of year	**13,709**	7,950
End of year	**21,216**	13,709

See notes to consolidated financial statements.

1. Organization and description of business

Nature of business

Somero Enterprises, Inc. (the "Company" or "Somero") designs, assembles, remanufactures, 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, England; 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. Certain prior year amounts have been reclassified to conform to the current year presentation.

Principles of consolidation

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

Cash and cash equivalents

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

Accounts receivable and allowances for doubtful accounts

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company's accounts receivable are derived from revenue earned from a diverse group of customers. The Company performs credit evaluations of its commercial customers and maintains an allowance for doubtful accounts receivable based upon the expected ability to collect accounts receivable. Allowances, if necessary, are established for amounts determined to be uncollectible based on specific identification and historical experience. As of December 31, 2016 and 2015, the allowance for doubtful accounts was approximately US$ 743,000 and US$ 698,000, respectively. Bad debt expense was US$ 400,000 and US$ 381,000 in 2016 and 2015, respectively.

Inventories

Inventories are stated using the first in, first out ("FIFO") method at the lower of cost or net realizable 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. Deferred financing costs, consisting of loan origination fees, are reflected as an offset to notes payable on the accompanying balance sheets.

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, 2016 or 2015. (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, 2016, 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.

	2016 **US$ 000**	2015 US$ 000
Balance, January 1	**(307)**	(193)
Warranty charges	**478**	409
Accruals	**(718)**	(523)
Balance, December 31	**(547)**	(307)

Property, plant, and equipment

Property, plant and equipment is stated at cost 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 for income taxes in general and administrative expenses in the accompanying consolidated financial statements. The Company is subject to a three-year statute of limitations by major tax jurisdictions.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision for income taxes in general and administrative expenses in the accompanying consolidated financial statements, which there were none in 2016 and 2015.

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.

2. Summary of significant accounting policies continued

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 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, 2016 US$ 000's	Year ended December 31, 2015 US$ 000's
Income available to stockholders	**14,258**	11,550
Basic weighted shares outstanding	**56,178,723**	56,145,563
Net dilutive effect of stock options and restricted stock units	**1,708,228**	1,545,716
Diluted weighted average shares outstanding	**57,886,951**	57,691,279

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, 2015				
Asset:				
Non-recurring				
Goodwill	2,878			2,878
Recurring				
Interest rate swap	(4)			(4)
Year ended December 31, 2016				
Asset:				
Non-recurring				
Goodwill	2,878			2,878
Recurring				
Interest rate swap	(2)			(2)

New accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under US GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing US GAAP. The standard is effective for annual periods beginning after December 15, 2018, 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 2019.

In April 2015, the FASB released Accounting Standards Update No. 2015-03 – Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. To simplify the presentation of debt issuance costs, the update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The update is effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within fiscal years beginning after December 15, 2016. The Company has applied the new guidance for the current period and prior periods reflected on the balance sheet.

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 price 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 has chosen early adoption. The balance sheet reflects the new guidance for all periods.

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 non-current 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 has chosen early adoption. The balance sheet reflects the new guidance for all periods.

In February 2016, the FASB released Accounting Standard Update 2016-02, Leases. The new guidance requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. Lessees are required to recognize a single lease cost, amortized on a straight-line basis over the lease term for operating leases. All cash payments are to be classified as operating activities on the cash flow statement. The update is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Lessees are required to measure leases under the new guidance at the beginning of the earliest period presented using a modified retrospective approach. We are currently evaluating adoption of the guidance.

2. Summary of significant accounting policies continued

New accounting pronouncements continued

In March 2016, the FASB released Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC 718, Compensation – Stock Compensation. Under the new guidance, because there will no longer be any excess tax benefits from the exercise of stock options recognized in APIC, when applying the treasury stock method for computing diluted EPS, the assumed proceeds will not include such windfall tax benefits.

The update is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The Company has chosen early adoption. The diluted EPS information for the years ended December 31, 2016 and 2015 reflect the adoption of this guidance.

3. Inventories

Inventories consisted of the following at December 31, 2016 and 2015:

	Year ended December 31, 2016 US $ 000	Year ended December 31, 2015 US $ 000
Raw material	**2,574**	2,576
Finished goods and work in process	**3,583**	2,259
Remanufactured	**2,603**	3,644
Total	**8,760**	8,479

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, 2016 and 2015, and that the value of patents was not impaired as of December 31, 2016 and 2015.

The following table reflects other intangible assets:

	Weighted average Amortization Period	**Year ended December 31, 2016 US$ 000's**	Year ended December 31, 2015 US$ 000's
Capitalized cost			
Patents	12 years	**18,538**	18,538
Accumulated amortization			
Patents	12 years	**17,637**	16,092
Net carrying costs			
Patents	12 years	**901**	2,446

Amortization expense associated with the intangible assets in each of the years ended December 31, 2016 and 2015 was approximately US$ 1,545,000. Remaining net intangible assets totaling approximately US$ 901,000 will be fully amortized in 2017.

5. Property, plant, and equipment

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

	2016 US$ 000	2015 US$ 000
Land	**864**	864
Building and improvements	**9,483**	6,325
Machinery and equipment	**5,769**	4,599
	16,116	11,788
Less: accumulated depreciation and amortization	**(4,558)**	(3,522)
	11,558	8,266

Depreciation expense for the years ended December 31, 2016 and 2015 was approximately US$ 1,121,000 and US$ 719,000, respectively.

6. Notes payable

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

	2016 US$ 000's	2015 US$ 000's
April 2018 commercial real estate mortgage	**1,024**	1,072
February 2021 secured revolving line of credit	**–**	–
Total bank debt	**1,024**	1,072
Less debt due within one year	**(48)**	(48)
Obligations due after one year	**976**	1,024

The Company's revolving line of credit is collateralized by all inventories and accounts receivable.
The future payments under the Company's amended loan and scheduled related loan amortization fees are as follows for the years ended:

	2016 US$ 000's Term loan principal	Loan origination fees	Net long term debt
2017	**48**	32	16
2018	**976**	6	970
Thereafter	**–**	–	–
Total	**1,024**	38	986

The Company entered into an amended credit facility in February 2016. The new agreement matures between April 2018 and February 2021.

- US$ 1,447,000 April 2018 commercial real estate mortgage
- US$ 10,000,000 February 2021 secured revolving line of credit

The interest rate on the commercial real estate mortgage was an effective 1.87% as of December 31, 2016 and was based on the swap rate of 1.19% plus the applicable LIBOR margin of 1.25%. The interest rate on the revolving line of credit is based on the 1-month LIBOR rate plus 1.25%. No amounts were drawn under the secured revolving line of credit in 2016 or 2015. The Company's credit 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's matching contributions vest immediately. The Company contributed approximately US$ 350,000 to the savings and retirement plan during 2016 and contributed US$ 397,000 during 2015.

8. Operating leases

The Company leases property, vehicles, and office equipment under leases accounted for as operating leases without renewal options. Future minimum payments are as follows for the years ended:

	December 31 US$ 000
2017	293
2018	255
2019	138
2020	–
Thereafter	–
	686

9. Capital leases

Interest rates on capital leases are variable and range from 3.6% to 5.9% at December 31, 2016. This is included in accrued expenses on the accompanying balance sheets. Future minimum payments are as follows for the years ended:

	December 31 US$ 000
2017	58
2018	49
2019	32
2020	21
Thereafter	–
	160

10. Supplemental cash flow and non-cash financing disclosures

	Year ended December 31, 2016 US$ 000	Year ended December 31, 2015 US$ 000
Cash paid for interest	**58**	83
Cash paid for taxes	**7,747**	4,700
Non-cash financing activities – change in fair value of derivative instruments	**2**	(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, 2016 and 2015, the Company had two customers which represented 20% and 11% 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 non-disclosure 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, 2016 US$ 000	Year ended December 31, 2015 US$ 000
Current income tax		
Federal	**5,764**	4,876
State	**774**	468
Foreign	**303**	315
Total current income tax expense	**6,841**	5,659
Deferred tax expense		
Federal	**167**	141
State	**11**	9
Foreign	**–**	–
Total deferred tax expense	**178**	150
Total tax provision	**7,019**	5,809

The components of the net deferred income tax asset at December 31, 2016 and 2015 were as follows:

	Year ended December 31, 2016 US$ 000	Year ended December 31, 2015 US$ 000
Bad debt allowance	**263**	248
Inventory reserve	**109**	147
UNICAP – Sec 263A	**179**	157
Prepaid insurance	**(65)**	(48)
Prepaid other	**(104)**	(94)
Fixed assets	**(517)**	(489)
Intangible assets	**2,343**	2,766
UK intangibles	**134**	134
Accrued warranty	**223**	134
Stock based compensation expense (options & RSUs)	**473**	261
Italy – NOL	**76**	76
Foreign tax credit	**237**	237
Total net deferred tax assets	**3,351**	3,529

Rate reconciliation		
Consolidated income before tax	**21,277**	17,359
Statutory rate	**34%**	34%
Statutory tax expense	**7,234**	5,902
State taxes	**518**	315
Foreign taxes	**(221)**	(107)
Meals and entertainment	**44**	53
Permanent differences due to stock options & RSUs	**(125)**	(129)
Permanent differences due to other items	**(409)**	(402)
Other	**(22)**	177
Tax expense	**7,019**	5,809

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

14. Revenues by geographic region

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

	Year ended December 31, 2016 US$ 000	Year ended December 31, 2015 US$ 000
United States and U.S. possessions	**55,805**	47,621
Canada	**791**	1,547
Rest of World	**22,757**	21,054
Total	**79,353**	70,222

15. Stock based compensation

The Company has stock based compensation plans which are described below. The compensation cost that has been charged against income for the plans was approximately US$ 725,000 and US$ 197,000 for the years ended December 31, 2016 and 2015, respectively. The income tax effect recognized for stock based compensation was US$ 0.2m and US$ 0.1m, respectively, for the years ended December 31, 2016 and 2015.

Stock options

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

Options granted under the Plan have a term of up to 10 years and generally vest over a three-year period beginning on the date of the grant. Options under the Plan must be granted at a price not less than the fair market value at the date of grant. The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The risk-free interest rate is based on the U.S. Treasury rate for the expected term at the time of grant, volatility is based on the average long-term implied volatilities of peer companies as our Company has limited trading history and the expected life is based on the average of the life of the options of 10 years and an average vesting period of 3 years. No new options were granted in 2016 and 2015.

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, 2015	1,840,627	0.44	5.02	4,246,248
Granted	–	–	–	–
Exercised	(154,266)	0.47	4.13	(350,879)
Forfeited	–	–	–	–
Outstanding at December 31, 2015	1,686,361	0.44	4.01	3,895,369
Exercisable at December 31, 2015	1,686,361	0.44	4.01	3,895,369
Outstanding at January 1, 2016	1,686,361	0.44	4.01	3,895,369
Granted	–	–	–	–
Exercised	(100,000)	0.47	3.13	(227,451)
Forfeited	–	–	–	–
Outstanding at December 31, 2016	1,586,361	0.44	3.00	3,667,918
Exercisable at December 31, 2016	1,586,361	0.44	3.00	3,667,918

Options exercised in 2016 and 2015 were settled for cash of US$ 0.1m and US$ 0.3m, respectively. As of December 31, 2016 and 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.

Restricted Stock Units

The Company also regularly issues restricted stock units to employees and non-executive Directors, subject to Board approval. A summary of restricted stock unit activity in 2015 and 2016 is presented below:

	Shares	Grant date fair market value US$
Outstanding at January 1, 2015	450,350	553,999
Granted	123,966	242,673
Vested or settled for cash	(140,788)	(145,165)
Forfeited	(5,183)	(10,000)
Outstanding at December 31, 2015	428,345	641,507
Outstanding at January 1, 2016	428,345	641,507
Granted	148,593	313,894
Vested and settled for cash	(159,585)	(119,130)
Forfeited	–	–
Outstanding at December 31, 2016	417,353	836,271

RSUs settled for cash were US$ 0.3m in 2016 and US$ 0.3m in 2015.

As of December 31, 2016, there was US$ 334,000 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 1.17 years.

Equity Bonus Plan

In 2015, the Company established the 2015 Equity Bonus Plan, under which eligible senior managers were able to choose to receive 25% of their 2015 annual performance bonus in shares of common stock. In March 2016, the Company issued 96,870 shares of common stock, valued at $204,000 at the time of grant, for awards under the 2015 Equity Bonus Plan. In November 2016, the Board approved the 2016 Equity Bonus Plan under which eligible senior managers can elect to receive up to 25% of their 2016 annual performance bonus in shares of common stock. The Company expects to issue shares for awards under the 2016 Equity Bonus Plan in 2017.

16. Employee compensation

The Board approved management bonuses and profit sharing dollars totaling US$ 1.5m to be paid in December 2016 and early 2017 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 approved an increase to the dividend payout ratio to 40% of adjusted net income and is pleased to announce a final 2016 dividend of 8.6 US cents per share that will be payable on April 17, 2017 to shareholders on the register at March 31, 2017. Together with the interim dividend paid in October 2016 of 2.5 US cents per share, this represents a full year dividend to shareholders of 11.1 US cents per share, a 61% increase over the previous year.

Payoff of Mortgage

On January 31, 2017, the Company paid off the remaining outstanding principal totaling US$ 1.0m on its commercial real estate mortgage along with accrued interest using cash on hand. There was no prepayment penalty. There were also no changes to the Company's US$ 10.0m secured revolving line of credit which will expire in February 2021.

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 finnCap, 60 New Broad Street, London EC2M 1JJ on June 6, 2017 at 11:00 am local time.

NOTES

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