ANNUAL REPORT 2017

SOMERO ENTERPRISES, INC

Welcome to Somero Enterprises, Inc.

WE ARE THE LEADING PROVIDER OF ADVANCED CONCRETE PLACING SOLUTIONS.

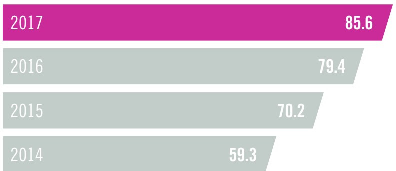
Contents

Financial highlights

Revenue

US$ 85.6m

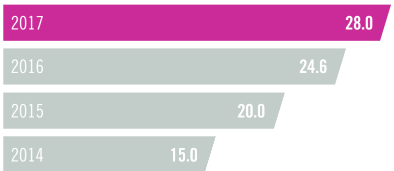
+8.0%



Adjusted EBITDA[1, 2]

US$ 28.0m

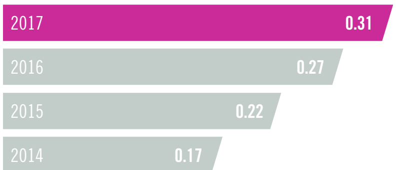
+14.0%



Diluted adjusted net income per share[1,3]

US$ 0.31

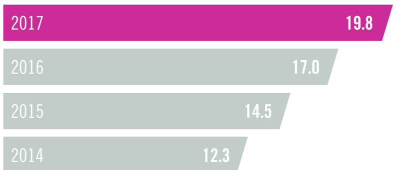
+15.0%



Cash flows from operations

US$ 19.8m

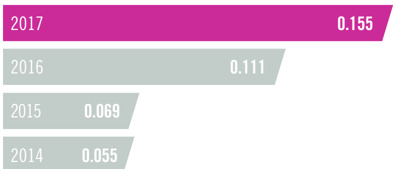
+14%



Ordinary dividend per share

US$ 0.155

+40.0%



Net cash[4]

US$ 19.0m

-6.0%

Financial highlights

- Annual revenues grew to a record US$ 85.6m, up 8% from 2016
- Healthy profit conversion and cash flow generation:
  - Adjusted EBITDA increased 14% to a record US$ 28.0m (2016: US$ 24.6m)
  - Adjusted EBITDA margin improved to 33% (2016: 31%)
  - Cash flow from operating activities increased 16% to US$ 19.8m (2016: US$ 17.0m)
- Strong, secure financial position:
  - Debt-free balance sheet
  - Strong cash flow generation leading to a net cash position at 31 December 2017 of US$ 19.0m despite US$ 13.9m of dividend payments
- Increased dividend payout ratio to 50% of adjusted earnings for 2017:
  - Final dividend of 12.75 US cents per share declared for a total 2017 dividend of 15.5 US cents per share, a 40% increase over last year
  - Supplemental dividend of 3.6 US cents per share declared to be paid with final 2017 dividend

Operational highlights

- Growing contribution from international markets and healthy demand across entire product line:
  - Four of six regions grew in 2017 led by Europe, North America, Latin America and Rest of World territories
  - Sales of Ride-on screeds grew 29% to US$ 18.6m (2016: US$ 14.4m)
  - 3-D Profiler System® revenues grew 11% to US$ 6.8m (2016: US$ 6.1m)
  - Other revenues, driven by sales of parts and accessories grew 12% to US$ 18.7m (2016: US$ 16.7m)
- New products contributed meaningfully to growth
- Planned move into a new leased facility in Chesterfield, UK in Q2 2018 to accommodate growth

Notes:
1. The Company uses non-US GAAP financial measures 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.

Visit us online at
www.somero.com/investors

At a glance

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.

Customers in

90+ countries

Revenue

US$ 85.6m

What we do

Our concrete placing and leveling equipment employs proprietary laser-guided technology to achieve a high level of precision in horizontal concrete surface flatness at a higher rate of efficiency than conventional, manual methods. By using Somero equipment, concrete flooring contractors can attain the highest level of flat-floor precision at the lowest cost.

Somero pioneered the Laser Screed® machine market in 1986 and has led the market ever since through continued innovation, growing our product offering from a single model to a portfolio of 13 products. Our proprietary designs are protected by 62 patents and patent applications.

With minimal direct competition, we offer customers equipment with unsurpassed quality and performance and unparalleled global service, technical support, training and education.

Locations

North America

Fort Myers, Florida:
Global headquarters and Somero Concrete Institute training facility

Houghton, Michigan:
Production, operations and support

United Kingdom

Chesterfield:
Sales and service office

India

New Delhi:
Sales and service office

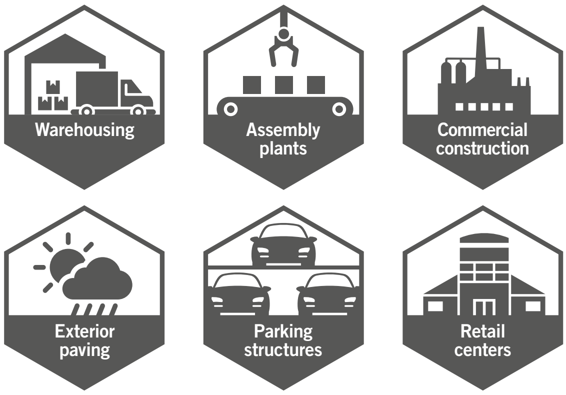
China

Shanghai:
Sales, service and Somero Concrete College training facility

Our applications

Somero equipment is used to place and screed the concrete slab in all commercial building types, including all floors in multi-story buildings.

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



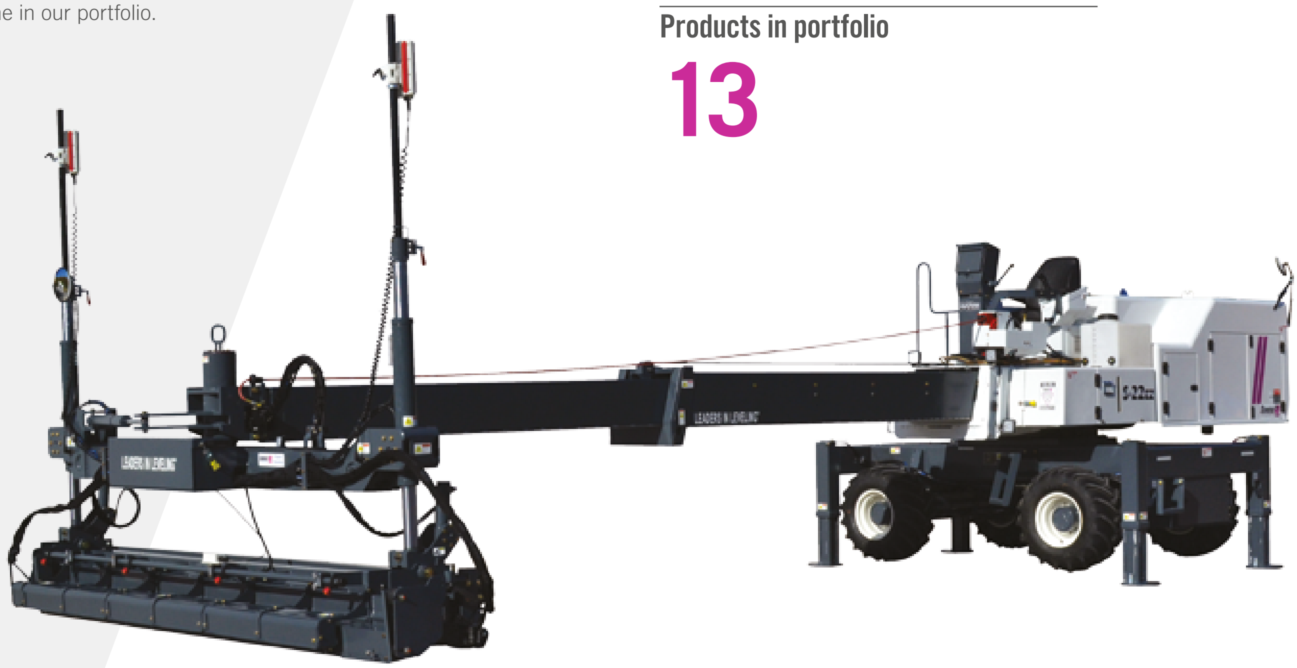
Patents and patent applications

62

Products in portfolio

13

Driven by customer feedback, the S-22EZ released in November 2017 introduced a wide range of features and enhancements aimed to increase the performance, ease of use and efficiency of operation of the largest machine in our portfolio.



BUILT ON OUR CORE STRENGTHS

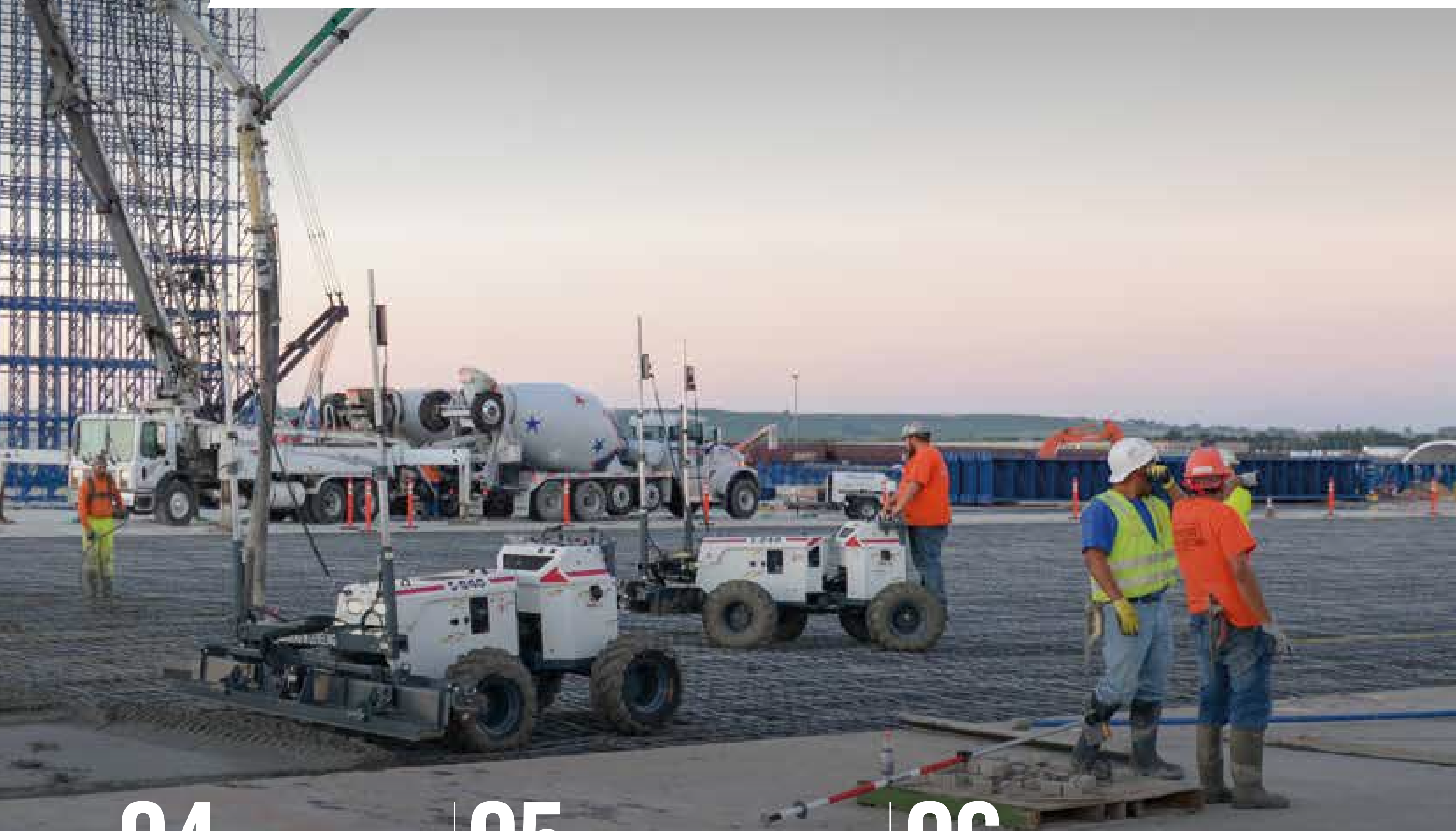
01.
Industry leader in introducing customer driven, technologically advanced new products

02.
Minimal direct competition

03.
Significant barriers to entry based on technology, education, and global technical support

> **Somero's S-15R opened up a whole new dimension to the work we can perform, the time frame we can get it done, and the quality we can achieve. Before the machine, it might take us three or four days to pour a parking lot. Now we achieve it in one day. What you can achieve with 15 guys doing it by hand can now be comfortably performed with 8 or 9.**

Charlie Caligiuri
Founder and President
Caligiuri Concrete LLC, Des Moines, Iowa



04.
Skilled management team with extensive industry experience

05.
Attractive growth opportunity from international markets and from new products:
- Solid growth and market dynamics in developed markets
- Strong potential for growth in emerging markets
- Proven track record of introducing new products to the market

06.
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 REVENUES, PROFITS AND CASH FLOWS

Overview

A lot of hard work goes into delivering such outstanding results, and I am so proud of our employees who once again rose to the challenge.

In 2017, growth was well-balanced across our global markets with revenues generated from our non-US markets growing to 32% of total revenues in 2017, and four of our six regions increasing compared to 2016 with North America, Europe, Latin America and our Rest of World territories all contributing to growth. On a product basis, our growth was led by our sales of Ride-on screeds, 3-D Profiler Systems®, and Other revenues which include sales of parts, accessories and our new SP-16 Concrete Hose Line-Pulling and Placing System. We are pleased with the diversification in revenues across our markets and product range, as the Company has benefitted from an expanded global footprint and from efforts to expand the product range to meet the needs of customers regardless of project type or size.

Finally, having retired all our debt in 2017, we enter 2018 with the strongest balance sheet in our history. This provides needed flexibility to make strategic investments that will support long-term growth. We will continue to strike an appropriate balance between optimizing profits and returning capital to shareholders by making meaningful long-term investments to grow the business, such as the construction and launch of the Somero Concrete Institute in 2017. As we continue to explore new product opportunities and work to increase penetration in our international markets, we believe having the financial flexibility to make well-timed investments will be critical in the coming years.

While 2017 was a remarkable year, we are excited to explore a wide-range of significant new opportunities in 2018.

Profits before tax

US$ 25.7m

Region Reviews

In 2017, sales in North America grew 2% compared to 2016 to reach US$ 57.8m, with strong H2 trading reflecting the strength in the underlying commercial construction industry and the strong pipeline of projects that remain in front of our US customer base. The market drivers for the North American market continue to be demand for replacement equipment, technology upgrades, fleet additions, and new products such as the SP-16 Concrete Hose Line-Pulling and Placing System. The high volume of commercial construction activity in 2017 combined with a growing shortage of skilled labor added to the demand for Somero equipment and the labor savings our equipment provides.

Cash flow from operations

US$ 19.8m

In Europe, 2017 sales grew 53% compared to 2016 to reach US$ 12.2m with well-balanced demand across the region and particularly strong trading in the UK, Italy, Poland, Spain and the Czech Republic. Importantly, sales across our product range was also balanced with notable growth in the Boomed screed and Ride-on screed product lines.

In China, while 2017 sales declined 14% compared to 2016 to US$ 5.5m, H2 2017 trading improved year-over-year due to the positive impact from marketing and demand-generation initiatives. In our view, China represents a significant market opportunity in which Somero currently has very small market penetration. The market fundamentals and long-term growth prospects in the commercial construction industry in China remain positive and Somero intends to continue its training and educational efforts to advance acceptance and demand for higher-quality floors through wide-placement methods. This quality segment of the China market will be Somero's area of focus in 2018. In addition, we will continue to grow our customer base by offering competitive entry-level machines, such as the S-158C, that target the productivity-oriented market and provide future up-sell opportunities. Finally, our long-term financing program in China supported by our equipment shut-off capability remains a positive and effective program.

In Latin America, sales increased 35% from 2016 to US$ 2.3m for the year driven by strong project activity in Mexico in H1 2017, along with good contributions from Chile, and Panama throughout the year.

While sales in the Middle East were down 28% compared to 2016 to US$ 2.1m, the activity level in the region was strong throughout the year despite several opportunities slipping into 2018. The Middle Eastern countries with meaningful contributions to 2017 sales were Turkey, the United Arab Emirates, and Saudi Arabia.

In our Rest of World region, 2017 sales were particularly strong with a 50% increase from 2016 to US$ 5.7m. While the region covers a wide range of territories, the most significant contributors to growth were India, Scandinavia and Korea. For India, a meaningful future market opportunity for Somero, the positive results were driven by the addition of in-country sales leadership in 2017.

Cashflow and Balance Sheet

Somero's cash generation remains healthy, and 2017 was a year of record operating cash flows. The Company managed working capital effectively throughout the year, and even with the year-end increase to accounts receivable driven by particularly strong sales in December 2017, the overall increase in net working capital investment was in line with the growth in sales. For the year, operating cash flows grew to US$ 19.8m, up from US$ 17.0m in 2016. This cash flow allowed the Company to fully retire its debt in early 2017, to raise the dividend pay-out ratio on the final 2016 dividend paid in April 2017 and to pay a US$ 7.5m special dividend in August 2017. In total, Somero paid US$ 13.9m in dividends to shareholders for the year. In addition to the increased dividends, in 2017 Somero funded US$ 0.8m construction of the Somero Concrete Institute and settled US$ 5.3m in stock options and restricted stock units for cash. Following these outflows, the Company ended the year with a US$ 19.0m net cash(1) balance. Reflecting the Board's confidence in the continued growth prospects of the Group, the Board has resolved to further raise the dividend pay-out ratio to 50% of adjusted net income to return even more of profits to shareholders beginning with the 2017 final dividend to be paid in April 2018. Furthermore, as detailed above, the Board has adopted a supplementary dividend policy and has declared a supplemental dividend of US$ 2.0m or 3.6 US cents per share to be paid alongside the 2017 final dividend.

> **"2017 was a truly exceptional year for Somero as we set another record for revenues, profits, cash flows, and returned nearly US$ 14m in dividends to our shareholders.**
>
> **Jack Cooney**
> **President and Chief Executive Officer**

People

During the year we successfully drove greater efficiencies throughout our operations and support functions, while delivering a period of record results. These efficiency gains have offset the investments to bring new talent into the organization, with this rebalancing providing the right support for our continued growth. As a result, our employee count decreased by 1 compared to year-end 2016 with 177 employees at year end. In 2018 we expect to add resources to the organization, particularly in the sales, customer support and product development areas, while also working to increase our operational efficiency and scale. We remain highly selective in the quality and fit of the individuals we hire and devote a large part of the hiring process to identifying individuals that embrace the Somero culture and core values.

Product Development

Somero's goal is to introduce at least one new product every year, and in 2017 we met this goal with the introduction of the S-22EZ at the end of 2017 that was formally introduced to the market at the January 2018 World of Concrete Trade Show in Las Vegas, USA. The S-22EZ adds improvements to the legacy S-22E Boomed screed centered on increasing the weight and balance of the machine and improving its ease of use and ease of maintenance. As with all our product improvements, the changes to the S-22E were the result of ideas on ways to deliver even better products and solutions that came directly from our strong customer relationships. Additionally in 2017, products that were developed the previous year, the S-158C and SP-16 Concrete Hose Line-Pulling and Placing System machine, contributed meaningfully to growth with a combined US$ 1.1m contribution to 2017 sales.

With a secure financial position and a broad range of opportunities available that Somero is well-placed to capitalize on, the Board has made the decision to moderately increase investment to enable us to accelerate product development initiatives over the next year. Somero's technical expertise, resources, scale and close customer relationships provides us with a unique opportunity to enter into related market segments. We are confident in our ability to accelerate product development alongside continuing to deliver profitable growth for our shareholders, and look forward to updating the market in due course.

Progress Towards our 2018 Strategic Objective

We have completed the fourth year of our five-year plan that targets reaching revenue of US$ 90m in 2018. With one year remaining on the plan, and based on solid fundamentals in the US, Europe and meaningful growth opportunities across our remaining international markets, we remain confident in our ability to meet our strategic target in 2018.

Expansion Update

In September 2017, the Company announced that the Board had approved plans to build a US $1.3m expansion to the Company's Fort Myers headquarters with a target to complete in H1 2018 to accommodate planned future growth of the business. Following the high level of activity and potential site development requirements, the Company is reviewing the plans to ensure that this expansion covers all of the anticipated business needs.

Also, with the significant growth we have experienced in our European region, the Company is moving into a larger, leased facility in Chesterfield, UK near our current leased site. The Company expects the move will be completed in Q2 2018, and the larger facility will better accommodate the added personnel and increased sales volume in our UK and larger European region. The Company does not expect to incur material capital expenditure from the move, nor incur meaningful increased operating costs from the new facility.

Conclusion

2017 was an outstanding year for Somero. The Company delivered a strong financial performance which provided a significant return of cash to shareholders through dividends and further strengthened the Company's financial position. Most importantly, we took real strides to advance our long-term strategy of growing the business globally and through innovative, new products. Our talented management team led the way and met the challenge of managing business growth while keeping focused on improving the products, solutions and services we offer our customers. I am proud of our team's performance this year and understand the significant effort from each team member to deliver these outstanding results.

While 2017 was a great year for the Company, we see many opportunities ahead as we work to develop new products and market segments and to increase penetration in our international markets. This will bring new challenges for the Company, but I believe that the execution of our strategy has positioned us well to capitalize on these opportunities and I am certain our management team is up to the task. All the while, as we work to grow the business, I look forward to delivering another year of progress for our shareholders.

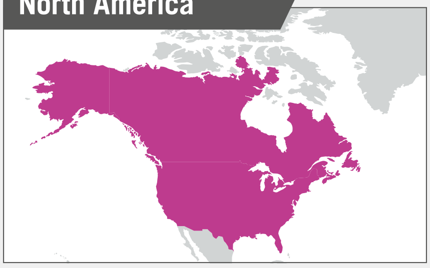
Jack Cooney
President and Chief Executive Officer
March 14, 2018

Note:
1. Net Cash is defined as total cash and cash equivalents less borrowings under bank obligations exclusive of deferred financing costs.

Market overview

GLOBAL MARKET OPPORTUNITY

North America



Market Dynamics

- Largest market
- Commercial construction industry fundamentals remain sound in the US
- Healthy economy supported by corporate tax reform are positive factors for US construction industry outlook

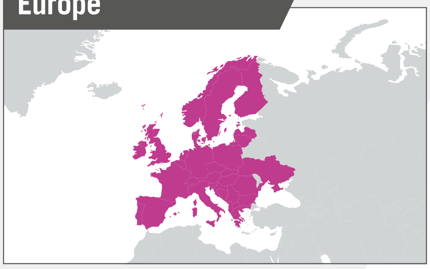
Estimated 2018 global cement consumption(1)

3.5%

Drivers of Growth

- US non-residential construction spend forecast to grow by 4%–6% annually through to 2020(2)
- New technology to upgrade 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
- Healthy economic and commercial construction outlook across the European region

Estimated 2018 global cement consumption(1)

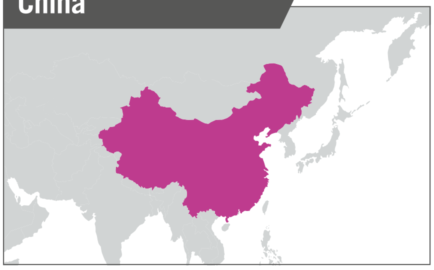
5.6%

Drivers of Growth

- Accelerating commercial construction activity across mainland Europe
- New technology to upgrade installed base of equipment
- Fleet additions
- New product introductions
- Shortage of skilled labor in concrete construction industry

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.

China



Market Dynamics

- Most significant opportunity for long-term growth outside North America
- Cement consumption forecast to represent over 50% of 2019 world cement consumption
- Current market penetration very low

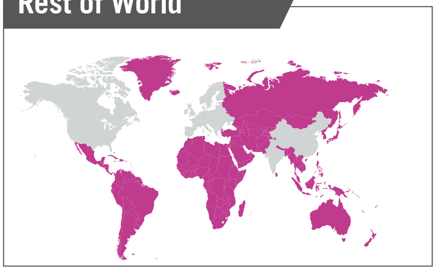
Estimated 2018 global cement consumption(2)

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 that is forecast to represent 15.9% of 2018 world cement consumption
- Significant opportunities in the Middle East, Southeast Asia, Latin America and Australia

Estimated 2018 global cement consumption(2)

40.5%

Drivers of Growth

- Accelerating Commercial construction activity across mainland Europe
- New technology to upgrade installed base of equipment
- Fleet additions
- New product introductions
- Shortage of skilled labor in concrete construction industry

Notes:

1. Estimates obtained from Portland Cement Association Market Intelligence World Cement Consumption report dated May 2015.
2. Estimates obtained from FMI Research Services Group 2018 Construction Outlook Report.

A SIMPLE, PROVEN MODEL

Why

It all starts with "Why?" Our mission revolves around this simple question. 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

How we pursue our mission makes us unique.

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 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 running and operating optimally.

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.

Applications

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

Building owners and end users

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

What makes us different

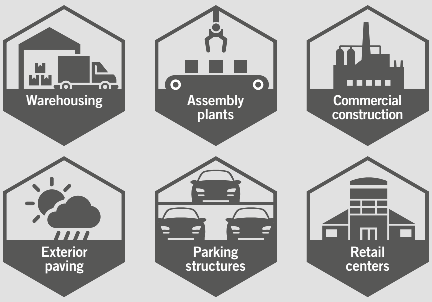
Innovative Product Leadership

- Pioneered Laser Screed® machine market in 1986
- Product portfolio grown to 13 products
- Designs protected by 62 patents and patent applications
- Product development fueled by customer engagement

The use of Somero equipment and service delivers significant benefits to our customers and the owners and end-users of the completed construction projects, a true win-win proposition.

Global customers

4,000+



Golden Trowel® Awards for industrial concrete floor production won using Somero equipment since 2007(1)

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MULTI-FACETED VALUE PROPOSITION

Key benefits to our customers

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

Key outcomes for building owners and end users

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

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

Note:

1. The Golden Trowel® Award is given annually to commercial concrete contractors that achieve the highest industry standards in concrete floor construction and produce the flattest and most level floor slabs in the world.

Our vision & strategy

ROADMAP FOR SUSTAINABLE GROWTH

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.

Strategic priorities

Our strategy is to grow our business by expanding and deepening our global footprint and through continued product innovation.

International expansion

A key element of our growth strategy is to expand our global footprint and deepen our global market penetration.

Supporting this commitment is our investment in hiring international employees. Since 2007, the vast majority of our staffing increases have been employees based outside of North America.

See more information on pages 16-17

Product innovation

Since our beginning as a single product company in 1986, Somero has continued to develop proprietary designs and technology growing our portfolio to 13 innovative products with 62 patents and patent applications protecting these designs.

In late 2017, we introduced the S-22EZ, another example of funneling customer feedback into tangible improvements that increase the value proposition of our products.

See more information on pages 18-19

Strategy in action

INTERNATIONAL EXPANSION

Non-US markets represent

32%

of total revenues

A deepening international footprint

Somero applies lessons learned from building a successful business in North America to our international markets.

While the world is full of many cultural differences, we believe the importance of quality, flat and level floors and efficiency in the construction process applies to our customers, building owners and end-users in all our markets.

We also believe there is no substitute for having strong local teams who work closely with customers, understand the local market, and provide teaching and education to all stakeholders, including design firms, building owners, and building end-users, at our training facilities, in seminars, and at job-sites.

Petronas Lubricants International Pvt Ltd India Plant job site training event, Mumbai, India.

PRODUCT INNOVATION

Pioneering the industry, leading through innovation since

1986

A history of product leadership

Product innovation for Somero means two things, new products and better products, and in both cases the effort is customer driven.

Somero understands the benefit of involving our customers in the product development effort. We ask for and receive significant feedback from customers on how to provide better products and services and funnel these ideas into tangible new products that are solidly supported by a business case. We believe this builds incredible customer loyalty and engagement.

S-22EZ, EZ Clean Screed Head designed to reduce clean-up time.

In late 2017, we introduced the S-22EZ with features and enhancements to our legacy model that were the direct result of customer feedback. The increased performance, ease of use, and efficiency of maintenance and operation strengthen the value proposition of the machine.

Also in 2017, we continued our efforts to identify attractive market segments where we can leverage our core technology and expertise to develop a compelling product or service. Over the past 2 years, by adding key personnel and creating customer focus groups such as the Somero Innovation Council, to guide us, we are pleased with the volume of promising opportunities we have identified.

Somero Innovation Council meeting in Naples, Florida.

Summary of Financial Results

	Year ended December 31, 2017 US$ 000	Year ended December 31, 2016 US$ 000
Revenue	**85,634**	79,353
Cost of sales	**36,870**	34,270
Gross profit	**48,764**	45,083
Operating expenses		
Sales, marketing and customer support	**10,426**	10,056
Engineering and product development	**1,222**	1,071
General and administrative	**11,683**	12,768
Total operating expenses	**23,331**	23,895
Operating income	**25,433**	21,188
Other income (expense)		
Interest expense	**(80)**	(95)
Interest income	**262**	267
Foreign exchange impact	**477**	(117)
Other	**(354)**	34
Income before income taxes	**25,738**	21,277
Provision for income taxes	**7,322**	7,019
Net income	**18,416**	14,258
Other data		
Adjusted EBITDA(1) (2) (4)	**28,000**	24,579
Adjusted net income(1) (3) (4)	**17,504**	15,637
Depreciation expense	**1,199**	1,121
Amortization of intangibles	**901**	1,545
Capital expenditures	**1,959**	4,435

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 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 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, 2017 US$ 000	Year ended December 31, 2016 US$ 000
Adjusted EBITDA reconciliation		
Net income	18,416	14,258
Tax provision	7,322	7,019
Interest expense	80	95
Interest income	(262)	(267)
Foreign exchange impact	(477)	117
Other	354	(34)
Depreciation	1,199	1,121
Amortization	901	1,545
Stock based compensation	467	725
Adjusted EBITDA	**28,000**	24,579
Adjusted net income reconciliation		
Net income	18,416	14,258
Amortization	901	1,545
Tax impact of stock option & RSU settlements	(1,813)	(166)
Adjusted net income	**17,504**	15,637

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 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 8% to US$ 85.6m (2016: US$ 79.4m). Company revenues consist primarily of sales from Boomed screed products, which include the S-22E, S-22EZ, 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-158C 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 Ride-on screeds, 3-D Profiler Systems, along with an increase in Other revenues.

Ride-on screed sales increased to US$ 18.6m (2016: US$ 14.4m) due to higher volume and price increases, 3-D Profiler System sales increased to US$ 6.8m (2016: US$ 6.1m) due to increased unit sales and Other revenues increased to US$ 18.7m (2016: US$ 16.7m) primarily due to increased sales of parts and accessories and increased sales of other equipment including the Mini C and SP-16.

Revenue breakdown by geography	North America US$ in millions		EMEA[1] US$ in millions		ROW[2] US$ in millions		Total US$ in millions			
							2017		2016	
	2017	2016	**2017**	2016	**2017**	2016	**Net sales**	**% of Net sales**	Net sales	% of Net sales
Boomed screeds[3]	**24.0**	27.0	**9.1**	6.0	**2.8**	3.3	**35.9**	**41.9%**	36.3	45.7%
Ride-on screeds[4]	**11.6**	10.4	**4.4**	2.3	**2.6**	1.7	**18.6**	**21.7%**	14.4	18.1%
Remanufactured machines	**3.5**	3.7	**–**	0.4	**2.1**	1.8	**5.6**	**6.6%**	5.9	7.5%
3-D Profiler System	**6.5**	5.4	**–**	0.2	**0.3**	0.5	**6.8**	**7.9%**	6.1	7.7%
Other[5]	**12.2**	10.1	**2.5**	2.8	**4.0**	3.8	**18.7**	**21.9%**	16.7	21.0%
Total	**57.8**	56.6	**16.0**	11.7	**11.8**	11.1	**85.6**	**100.0%**	79.4	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-22EZ, S-15R and S-10A.
4. Ride-On Screeds include the S-840, S-940, S-485 and S-158C.
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	**2017**	2016
Boomed screeds	**120**	130
Ride-on screeds	**189**	159
Remanufactured machines	**39**	42
3-D Profiler System	**66**	61
Total	**414**	392

Sales to customers located in North America contributed 68% of total revenue (2016: 71%), sales to customers in EMEA (Europe, India, Middle East, Scandinavia and Russia) contributed 19% (2016: 15%) and sales to customers in ROW (Southeast Asia, Australia, Latin America and China) contributed 13% (2016: 14%).

Sales in North America were US$ 57.8m (2016: US$ 56.6m) up 2% driven by higher sales of Ride-on screeds, 3D Profiler Systems, and an increase in Other revenues. Sales in EMEA were US$ 16m (2016: US$ 11.7m) which is up 37% primarily due to an increase in Boom screed and Ride-on screed sales. Sales in ROW were US$ 11.8m (2016: US$ 11.1m) which is up 6% driven by an increase in sales of Ride-on screeds and other revenues.

	US$ in millions	
Regional sales	**2017**	2016
North America	**57.8**	56.6
Europe	**12.2**	8.0
China	**5.5**	6.4
Middle East	**2.1**	2.9
Latin America	**2.3**	1.7
Rest of World	**5.7**	3.8
Total	**85.6**	79.4

Gross profit

Gross profit increased to US$ 48.8m (2016: US$ 45.1m), with gross margins improving to 56.9% (2016: 56.8%) supported by price increases, product cost reductions and productivity gains.

Operating expenses

Operating expenses decreased by US$ 0.6m to US$ 23.3m (2016: US$ 23.9m). This decrease is due to lower amortization expense in the current year as the intangible asset being amortized became fully amortized during the year.

Other income (expense)

Other income increased to US$ 0.3m, compared to other income of US$ 0.1m in 2016, due to an increase in foreign exchange gains offset partly by loss on disposal of fixed assets which comprises the majority of other expense in 2017.

Provision for income taxes

The provision for income taxes was US$ 7.3m in 2017 compared to US$ 7.0m in 2016. Overall, Somero's effective tax rate changed from 33.0% in 2016 to 28.4% in 2017.

Net income

Net income increased to US$ 18.4m from US$ 14.3m in 2016 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$ 17.5m from US$ 15.6m in 2016. 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, 2017 US$ 000	Year ended December 31, 2016 US$ 000
Income available to stockholders	**18,416**	14,258
Basic weighted shares outstanding	**56,233,912**	56,178,723
Net dilutive effect of stock options and restricted stock units	**401,697**	1,708,228
Diluted weighted average shares outstanding	**56,635,609**	57,886,951

The Company had 56,242,121 shares outstanding at December 31, 2017. Earnings per share at December 31, 2017 and 2016 are as follows:

	Year ended December 31, 2017 Per Share US$	Year ended December 31, 2016 Per Share US$
Basic earnings per share	**0.33**	0.25
Diluted earnings per share	**0.33**	0.25
Basic adjusted net income per share	**0.31**	0.28
Diluted adjusted net income per share	**0.31**	0.27

Chairman's statement

CONTINUING OUR MOMENTUM

Performance and Dividend

I am pleased to report that Somero has delivered another year of outstanding results for our shareholders in 2017. It was a very successful year, with record sales and profits, growing contributions from our international markets, new product launches contributing meaningfully to growth, a significant and meaningful return of cash to shareholders through dividends, and most importantly, continued progress on identifying new product and new market opportunities.

I am also delighted to report that with the Company's impressive 2017 results, healthy financial position, and the Board's confidence in the business outlook, the Board has approved increasing the dividend payout ratio to 50% of 2017 adjusted net income. The increased payout results in a final 2017 dividend of 12.75 US cents per share payable on April 20, 2018 to shareholders on the register at April 3, 2018. Together with the interim dividend paid in October 2017 of 2.75 US cents per share, the 2017 full year regular dividend payment to shareholders is 15.5 US cents per share, a 40% increase from 2016.

In addition, upon completing the review of the Company's year-end cash position and cash requirements for the coming year, the Board has also decided to adopt a supplementary dividend policy. Going forward, the Board will look to maintain a target net cash balance of at least US$ 15.0m, measured at each year end and intends to distribute 50% of the excess of net cash over the year-end target in the form of a supplemental dividend. The cash reserve figure has been raised from US$ 10.0m previously held to be acceptable, reflecting the increased scale of the business and capital requirements for future investment. The Board believes this policy strikes the appropriate balance between maintaining an adequate cash reserve to manage the business and providing a disciplined return of capital to shareholders. This policy will be subject to periodic review.

The Board has therefore approved a supplemental dividend of 3.6 US cents per share that will be paid at the same time as the final 2017 dividend. The combined regular and supplemental dividend to be paid on April 20, 2018 will be 16.35 US cents per share, a significant and meaningful return of cash to our shareholders.

Sales growth

US$ 6.2m

Strategic Progress

2017 was important year of progress. Revenues from our international markets contributed meaningfully to growth during the year representing US$ 5.0m in net growth for 2017. In 2017, 32% of total revenues came from regions outside of North America combined, up from 29% in 2016. We are focused on driving international growth and further diversifying the Company's geographic revenue base. We will do this by adding additional resources, such as we did in Europe and India in 2017, and by continuing to promote adoption of wide-placement theory and quality concrete flooring standards across the globe.

Ordinary dividend increase

+40%

to 15.5 US cents per share

We have also enhanced our product development process. In 2017, Somero allocated more resources to developing innovative, new solutions for our customers with focus on identifying new market segments, such as structural high-rise buildings, where the Company can leverage its core technology. 2017 also represented a full-year of meetings of the Somero Innovation Council, which is comprised of a broad group of industry experts that provide input on new product concepts. The Somero Innovation Council has been an invaluable resource to understand customer challenges and needs, and ultimately to identify potential innovative solutions. Somero new product development is and always has been a customer led process. We understand customer involvement throughout the development cycle is critical to ensure our ideas turn into tangible products that create meaningful value for our customers.

Lastly, Somero took another step forward in its commitment to training and education in the concrete contractor industry with the launch of the Somero Concrete Institute ("SCI") in 2017. The SCI combines classroom education with hands-on training in the placement and finishing of concrete floors. The SCI is a unique endeavor, and we believe a strategically important one as well, to help address the significant shortage of skilled labor in the concrete contractor industry.

It was a very successful year, with record sales and profits, growing contributions from our international markets, new product launches, and most importantly, continued progress on identifying new product and new market opportunities.

Larry Horsch
Non-Executive Chairman

Our People

Somero's 177 employees around the globe are the engine that drives the Company. Somero is a people business built on strong employee and customer relationships. Our passionate and dedicated workforce is the foundation of our success, and the Board remains committed to ensuring we create the most productive and rewarding work environment possible for each of our employees.

Current Trading and Outlook

The high level of activity in North America during the latter part of 2017 has continued in 2018. We continue to see strong interest in our equipment and remain encouraged by the positive non-residential construction outlook in the US for 2018. The expected positive impact from US corporate tax reform is an additional factor reinforcing our confidence in North American growth prospects.

In Europe, the strong performance of 2017 is also expected to carry forward into 2018. Similar to conditions we see in the North American market, European interest in our equipment remains strong, driven by demand for replacement equipment, technology upgrades and new products. Our confidence in the growth prospects in Europe is supported by improved economic conditions across the territory.

In China, healthy interest in our products continues and we expect to see improvement in 2018 driven in part by our marketing and demand generation initiatives that gained traction in H2 2017. Although it has taken longer than expected to gain a significant foothold in this region, longer-term we see a sizable opportunity in the quality-oriented market segment and plan to continue our market development efforts to promote wide-placement methods and flatness, levelness standards to target this segment. In addition, we will continue to grow our customer base by offering competitive entry-level machines, such as the S-158C, that targets the productivity-oriented market and provides future up-sell opportunities.

In Latin America, we expect solid performance from Mexico and growth opportunities from the other countries in the region. In our other regions, including the Middle East and our Rest of World territory, we expect to see significant opportunities in 2018 and beyond and, importantly, are encouraged by the positive economic climate across this broad territory.

The Board believes the Company has many meaningful growth opportunities in 2018 across its broad portfolio of markets and products and is confident that Somero is poised to deliver another year of profitable growth to shareholders in 2018.

Larry Horsch
Non-Executive Chairman
March 14, 2018

Somero's SP-16, featuring remote-controlled hose handlers, enhances productivity, generates labor savings, and reduces the risk of injury associated with moving concrete pump hoses on the job site.

Board of Directors

Lawrence L. Horsch

Non-Executive Chairman of the Board

Mr. Horsch, age 83, 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. 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 71, 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 47, 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 56, 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 67, 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. Along with his affiliation with Somero, Mr. Anderson stays active in the concrete industry with an investment in Southwest Concrete Pumping based in Colorado.

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 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. Mr. Scheuer received a Bachelor of Science degree from DePaul University and an MBA from Northwestern University J.L. Kellogg School of Management.

Directors' Report

The directors present their Annual Report and the audited financial statements for the year ended December 31, 2017.

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$ 13.9m were paid in 2017. A 12.75 US cents per share dividend was declared for the period ending December 31, 2017, with a record date of April 3, 2018, payable on April 20, 2018.

Share capital

	Ordinary Shares	
	January 1, 2017	**December 31, 2017**
L Horsch	92,000	**92,000**
J Cooney	1,414,634	**1,414,634**
J Yuncza	39,613	**52,977**
H Hohmann	47,703	**54,067**
T Anderson	–	**–**
R Scheuer	25,000	**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, 2017 was 229.5p. The range during the 2017 period of trading was 217.5p to 334.0p.

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, 2017

	Amount	% holding
Artemis Investment Management	6,181,567	10.99%
Canaccord Genuity Group	6,160,856	10.95%
Unicorn Asset Management	4,977,050	8.85%
Close Asset Management	3,627,285	6.45%
River & Mercantile Asset Management	2,590,867	4.61%
Janus Henderson Investors	2,561,980	4.56%
Standard Life	2,500,591	4.45%
Lazard Freres Gestion	2,200,000	3.91%
JP Morgan Asset Management	1,743,017	3.10%
Directors, Employees, & Related Parties	1,740,573	3.09%
Hargreaves Lansdown Asset Management	1,732,491	3.08%
Jupiter Asset Management	1,686,500	3.00%

Director stock options

Director	January 1, 2017	Award/(Exercise)	Cancelled	**December 31, 2017**	Exercise price US$	Earliest date exercisable	Expiry date
L Horsch	154,268	(154,268)	–	–	–	–	–
J Cooney	249,394	(249,394)	–	–	–	–	–
J Cooney	1,000,000	(1,000,000)	–	–	–	–	–
J Cooney	62,715	(62,715)	–	–	–	–	–
T Anderson	85,704	(85,704)	–	–	–	–	–

Director restricted stock units

Director	January 1, 2017	Award/(Exercise)	Cancelled	**December 31, 2017**	Weighted average grant date fair market value	Vesting date	Fully vested date
L Horsch	1,958	(1,958)	–	–	–	–	–
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
L Horsch	–	6,681	–	6,681	3.46	3/17/2020	3/17/2020
J Cooney	59,977	(59,977)	–	–	–	–	–
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
J Cooney	–	38,312	–	38,312	3.46	3/17/2020	3/17/2020
T Anderson	1,398	(1,398)	–	–	–	–	–
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
T Anderson	–	4,771	–	4,771	3.46	3/17/2020	3/17/2020
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
J Yuncza	–	22,444	–	22,444	3.46	3/17/2020	3/17/2020
B Scheuer	1,770	–	–	1,770	2.10	3/24/2019	3/24/2019
B Scheuer	–	2,204	–	2,204	3.46	3/17/2020	3/17/2020

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 2017. 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 2017, Somero introduced the S-22EZ, which was an improvement on the legacy S-22 Boomed screed. The upgrades centered on improving the performance, ease of use and efficiency of operation of the machine. In 2017, Somero also gained significant sales traction with products that were developed in the previous year, the S-158C and the SP-16 Concrete Hose Line-Pulling and Placing System. The two products combined contributed US$ 1.1m to 2017 revenues.

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 life cycles. 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, Europe and China represent Somero's primary markets outside the US. Somero has primarily focused efforts on Europe and China, 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 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, 2017, the Company had not drawn any amounts under the revolving portion of its Citizens Bank Financing Agreement.

The strong performance and relationship with its bank enabled the Company to amend its loan facilities so that they mature between April 2018 and February 2021. The amended facility will allow management to focus on implementation of its strategic plan, successfully introduce new products into the market and maximize opportunities from investments in emerging markets.

The Company's financing agreement with Citizens Bank imposes various restrictions and covenants on the Company which could potentially limit its ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business opportunities. The restrictive covenants include limitations on the incurrence of additional indebtedness, limitations on the creation of liens and limitations on asset sales and other fundamental changes, limitations on payment of dividends and limitations on the redemption or repurchase of outstanding capital stock, among other restrictions. The covenants also include financial measures such as a minimum debt service ratio, minimum net tangible asset ratio and a maximum funded debt to EBITDA ratio. The Company was in compliance with all debt covenants at the end of 2017. 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 2018.

Somero had capital expenditures of US$ 2.0m in 2017 and US$ 4.4m in 2016. The majority of this expenditure was related to construction of the new Somero Concrete Institute building in Florida, computer hardware and software upgrades 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$ 45,060 for 2017.

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 14, 2018

While the Company is not required to comply with the provisions of the UK Corporate Governance Code (the "Code"), it is the intention of the directors that the Company will indeed comply with the Code to the extent they consider it practicable and appropriate and having regard to the Company's size, Board structure and resources. With the exception of the following matters, the Company is in compliance with the Code.

A.1.2 Senior independent director has not been named.

C.3.6 Allowing for the size of the Company, there is currently no internal audit function as suggested by the 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 were US$ 176,000 and US$ 139,000 for 2017 and 2016, respectively.

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 Code.

In November 2017, the Board conducted a formal performance evaluation and considered the balance of skills, experience, independence and knowledge of the Company on the Board and its diversity, including gender. Based on the results of the performance evaluation, the Board adopted a retirement policy in order to provide access to new qualified directors and to ensure the appropriate overall Board composition and effectiveness. The Board further resolved to regularly and informally evaluate its composition against these objectives.

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, two Remuneration Committee meetings and three Nominations Committee meetings.

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.

In November 2017, the Board adopted a retirement policy stating that directors shall not be re-nominated for election after reaching 75 years of age, provided that the Board may approve exceptions to the policy based on a recommendation from the Nominating Committee. If a director reaches the age of 75 during his or her term, the director will offer to resign in writing. The Board may choose to accept, defer, or reject the offer to resign.

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 Guidance on Risk Management Internal Control and Related Financial and Business Reporting to directors as published by the Financial Reporting Council. 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, 2017 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 2017 and 2016.

	Year ended December 31, 2017 US$ 000	Year ended December 31, 2016 US$ 000
Audit	**176**	139
Tax	**60**	43
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 Code throughout the accounting period. The Company has complied throughout the accounting period ended December 31, 2017 with the main principles outlined in the Code. The exceptions to the 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.

Directors' remuneration report

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 2017	Cash bonus 2017	Equity bonus common shares issued 2017	Salary 2018	Bonus opportunity 2018	Options held	Restricted stock units held
L Horsch	$91,790	–	–	$91,790(1)		–	24,388
J Cooney	$442,255	$158,048	–	$464,368	50%–100% of salary	–	162,632
J Yuncza	$259,088	$138,840	13,364	$272,042	50% of salary(2)	–	90,261
H Hohmann	$283,800	$601,807	6,364	$297,990	Commission(2)(3)	–	–
T Anderson	$65,550	–	–	$65,550(1)		–	17,416
R Scheuer	$74,500	–	–	$74,500(1)		–	3,974

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 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, 2017, 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 2017, 151,444 RSUs were exercised or forfeited, 121,063 units issued, leaving a balance of 386,972 units as of December 31, 2017. For more information, see Note 15 within the Notes to the Financial Statements.

Stock options

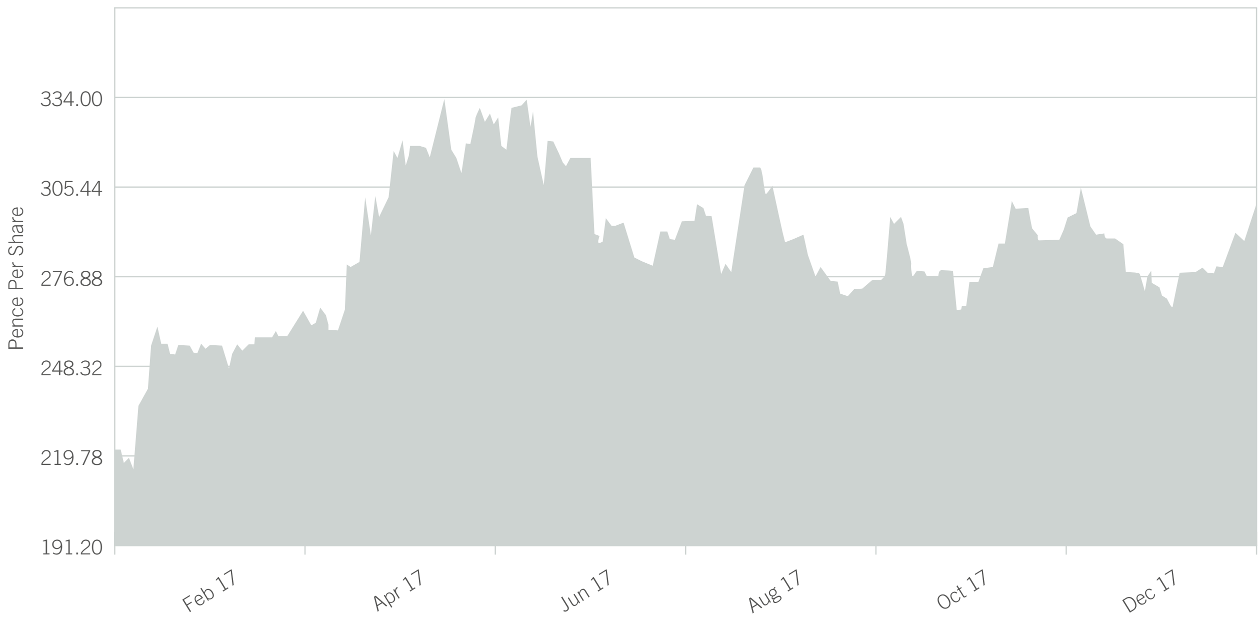
An initial grant was made in February 2010 for 2.3 million stock options as replacements for grants under the old option plan which was cancelled. The grants have a three-year vesting and a strike price of 30p, a 100% premium over the market price on the date of grant. The remaining options will only be issued for new key employees and superior performance. In 2017, 1,569,221 shares of stock options were exercised, leaving an outstanding balance of 17,140 shares as of December 31, 2017. 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, 2017 was 229.5p. The range during the 2016 period of trading was 217.5p to 334.0p.



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, 2017 was subject to Board approval. The letters of appointment and terms are listed in the following chart.

Director	Class	Date of appointment	Termination date
J 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
L Horsch	II	June 6, 2017	2020 AGM
T Anderson	II	June 6, 2017	2020 AGM

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

Thomas Anderson
Chairman of Remuneration Committee
March 14, 2018

Report of Independent Auditors

To the Board of Directors and Stockholders of Somero Enterprises, Inc.

We have audited the accompanying consolidated financial statements of Somero Enterprises, Inc., a Delaware corporation, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"); this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Somero Enterprises, Inc. as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in conformity with GAAP.

Whitley Penn LLP

Dallas, Texas
March 14, 2018

Consolidated balance sheets

As of December 31, 2017 and 2016

	As of December 31, 2017 US$ 000	As of December 31, 2016 US$ 000
Assets		
Current assets:		
Cash and cash equivalents	**19,038**	21,216
Accounts receivable – net	**11,026**	6,310
Inventories	**8,697**	8,760
Prepaid expenses and other assets	**2,540**	2,428
Total current assets	**41,301**	38,714
Accounts receivable, non-current – net	**54**	254
Property, plant and equipment – net	**12,306**	11,558
Intangible assets – net	**–**	901
Goodwill	**2,878**	2,878
Deferred tax asset	**1,596**	3,351
Other assets	**268**	29
Total assets	**58,403**	57,685
Liabilities and stockholders' equity		
Current liabilities:		
Notes payable – current portion	**–**	16
Accounts payable	**3,181**	2,831
Accrued expenses	**6,103**	5,329
Income tax payable	**713**	147
Total current liabilities	**9,997**	8,323
Notes payable, net of current portion	**–**	970
Other liabilities	**513**	223
Total liabilities	**10,510**	9,516
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 56,242,121 and 56,203,602 shares outstanding at December 31, 2017 and 2016, respectively	**26**	26
Less: treasury stock, 183,477 shares as of December 31, 2017 and 221,996 shares as of December 31, 2016 at cost	**(407)**	(483)
Additional paid in capital	**17,169**	22,112
Retained earnings	**33,034**	28,480
Other comprehensive loss	**(1,929)**	(1,966)
Total stockholders' equity	**47,893**	48,169
Total liabilities and stockholders' equity	**58,403**	57,685

See notes to consolidated financial statements.

Consolidated statements of comprehensive income

For the years ended December 31, 2017 and 2016

	Year ended December 31, 2017 US$ 000 except per share data	Year ended December 31, 2016 US$ 000 except per share data
Revenue	**85,634**	79,353
Cost of sales	**36,870**	34,270
Gross profit	**48,764**	45,083
Operating expenses		
Sales, marketing and customer support	**10,426**	10,056
Engineering and product development	**1,222**	1,071
General and administrative	**11,683**	12,768
Total operating expenses	**23,331**	23,895
Operating income	**25,433**	21,188
Other income (expense)		
Interest expense	**(80)**	(95)
Interest income	**262**	267
Foreign exchange impact	**477**	(117)
Other	**(354)**	34
Income before income taxes	**25,738**	21,277
Provision for income taxes	**7,322**	7,019
Net income	**18,416**	14,258
Other comprehensive income (loss)		
Cumulative translation adjustment	**37**	(322)
Change in fair value of derivative instruments – net of income tax	**–**	2
Total comprehensive income	**18,453**	13,938
Earnings per common share		
Earnings per share basic	**0.33**	0.25
Earnings per share diluted	**0.33**	0.25
Weighted average number of common shares outstanding		
Basic	**56,233,912**	56,178,723
Diluted	**56,635,609**	57,886,951

See notes to consolidated financial statements.

Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2017 and 2016

	Common Stock			Treasury Stock				
	Shares	Amount US$ 000	Additional Paid-In Capital US$ 000	Shares	Amount US$ 000	Retained earnings US$ 000	Other Compre-hensive Loss US$ 000	Total Stockholders' Equity US$ 000
Balance – January 1, 2016	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
Cumulative translation adjustment	–	–	–	–	–	–	37	37
Change in fair value of derivative instruments	–	–	–	–	–	–	–	–
Net income	–	–	–	–	–	18,416	–	18,416
Stock based compensation	–	–	467	–	–	–	–	467
Dividend	–	–	–	–	–	(13,862)	–	(13,862)
Treasury stock	–	–	(76)	(38,519)	76	–	–	–
RSUs settled for cash	–	–	(464)	–	–	–	–	(464)
Stock options settled for cash	–	–	(4,870)	–	–	–	–	(4,870)
Balance – December 31, 2017	**56,425,598**	**26**	**17,169**	**183,477**	**(407)**	**33,034**	**(1,929)**	**47,893**

See notes to consolidated financial statements.

Consolidated statements of cash flows

For the years ended December 31, 2017 and 2016

	Year ended December 31, 2017 US$ 000	Year ended December 31, 2016 US$ 000
Cash flows from operating activities:		
Net income	**18,416**	14,258
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	**1,755**	178
Depreciation and amortization	**2,100**	2,666
Bad debt	**141**	400
Amortization of deferred financing costs	**38**	32
Stock based compensation	**467**	725
Working capital changes:		
Accounts receivable	**(4,657)**	(110)
Inventories	**63**	(281)
Prepaid expenses and other assets	**(112)**	(293)
Other assets	**(239)**	(3)
Accounts payable, accrued expenses and other liabilities	**1,282**	278
Income taxes payable	**566**	(897)
Net cash provided by operating activities	**19,820**	16,953
Cash flows from investing activities:		
Proceeds from sale of property and equipment	**202**	71
Property and equipment purchases	**(1,959)**	(4,435)
Net cash used in investing activities	**(1,757)**	(4,364)
Cash flows from financing activities:		
Payment of dividend	**(13,862)**	(4,210)
RSUs settled for cash	**(464)**	(345)
Stock options settled for cash	**(4,870)**	(145)
Payments under capital leases	**(58)**	(14)
Repayment of notes payable	**(1,024)**	(48)
Net cash used in financing activities	**(20,278)**	(4,762)
Effect of exchange rates on cash and cash equivalents	**37**	(320)
Net increase (decrease) in cash and cash equivalents	**(2,178)**	7,507
Cash and cash equivalents:		
Beginning of year	**21,216**	13,709
End of year	**19,038**	21,216

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

As of December 31, 2017 and 2016

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 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, 2017 and 2016, the allowance for doubtful accounts was approximately US$ 859,000 and US$ 743,000, respectively. Bad debt expense was US$ 141,000 and US$ 400,000 in 2017 and 2016, 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, 2017 or 2016. (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, 2017, 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.

2. Summary of significant accounting policies continued

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.

	2017 US$ 000	2016 US$ 000
Balance, January 1	**(547)**	(307)
Warranty charges	**447**	478
Accruals	**(451)**	(718)
Balance, December 31	**(551)**	(547)

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, of which there were none in 2017 and 2016.

The Tax Cuts and Jobs Act (the "Act") was enacted in December 2017. The Act changes existing United States tax law and includes numerous provisions that will affect businesses. The Act, for instance, introduces changes that impact U.S. corporate tax rates, business-related exclusions, and deductions and credits. The Act will also have international tax consequences for companies that operate internationally. Although the Act generally applies to tax years beginning January 1, 2018, certain provisions of the Act apply to tax years ending December 31, 2017.

Prior to this reporting period, the Company did not recognize a deferred tax liability related to unremitted foreign earnings because it overcame the presumption of the repatriation of foreign earnings. Upon enactment, the Act imposes a tax on certain historical foreign earnings and profits at various tax rates. The Company was not able to determine a reasonable estimate of the tax liability for this item for the 2017 reporting period by the time it issued its 2017 financial statements. The Company did not have the necessary information available, prepared, or analyzed to develop a reasonable estimate of the tax liability for this item (or evaluate how the Act will impact the Company's existing accounting position to indefinitely reinvest unremitted foreign earnings). As a result, the Company did not include an estimate for this item in its 2017 financial statements but will do so in its financial statements for the first reporting period in which the Company is able to obtain, prepare, and analyze the necessary information to complete the accounting under ASC Topic 740.

The Act also reduces the corporate tax rate to 21 percent, effective January 1, 2018. Consequently, we have recorded decreases related to deferred tax assets of US$ 1,093,000 and to deferred tax liabilities of US$ 448,000, with a corresponding adjustment to deferred income tax expense of US$ 645,000.

Use of estimates

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

Stock based compensation

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

Transactions in and translation of foreign currency

The functional currency for the Company's subsidiaries outside the United States is the applicable local currency. Balance sheet amounts are translated at December 31 exchange rates and statement of operations accounts are translated at average rates. The resulting gains or losses are charged directly to accumulated other comprehensive income. The Company is also exposed to market risks related to fluctuations in foreign exchange rates because some sales transactions, and some assets and liabilities of its foreign subsidiaries, are denominated in foreign currencies other than the designated functional currency. Gains and losses from transactions are included as foreign exchange 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, 2017 US$ 000	Year ended December 31, 2016 US$ 000
Income available to stockholders	**18,416**	14,258
Basic weighted shares outstanding	**56,233,912**	56,178,723
Net dilutive effect of stock options and restricted stock units	**401,697**	1,708,228
Diluted weighted average shares outstanding	**56,635,609**	57,886,951

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, 2016				
Asset:				
Non-recurring				
Goodwill	2,878			2,878
Recurring				
Interest rate swap	(2)			(2)
Year ended December 31, 2017				
Asset:				
Non-recurring				
Goodwill	2,888			2,888
Recurring				
Interest rate swap	–			–

2. Summary of significant accounting policies continued

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, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company plans to adopt the new standard using the full retrospective approach.

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, 2018, and interim periods within fiscal years beginning after December 15, 2019. 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.

3. Inventories

Inventories consisted of the following at December 31, 2017 and 2016:

	Year ended December 31, 2017 US$ 000	Year ended December 31, 2016 US$ 000
Raw material	**3,159**	2,574
Finished goods and work in process	**4,007**	3,583
Remanufactured	**1,531**	2,603
Total	**8,697**	8,760

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, 2017 and 2016, and that the value of patents was not impaired as of December 31, 2016.

The following table reflects other intangible assets:

	Weighted average Amortization Period	**Year ended December 31, 2017 US$ 000**	Year ended December 31, 2016 US$ 000
Capitalized cost			
Patents	12 years	**18,538**	18,538
Accumulated amortization			
Patents	12 years	**18,538**	17,637
Net carrying costs			
Patents	12 years	–	901

Amortization expense associated with the intangible assets in each of the years ended December 31, 2017 and 2016 was approximately US$ 901,000 and US$ 1,545,000, respectively. Net intangible assets were fully amortized in 2017.

5. Property, plant and equipment

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

	2017 US$ 000	2016 US$ 000
Land	**864**	864
Building and improvements	**10,545**	9,483
Machinery and equipment	**5,098**	5,769
	16,507	16,116
Less: accumulated depreciation and amortization	**(4,201)**	(4,558)
	12,306	11,558

Depreciation expense for the years ended December 31, 2017 and 2016 was approximately US$ 1,199,000 and US$ 1,121,000, respectively.

6. Notes payable

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

	2017 US$ 000	2016 US$ 000
April 2018 commercial real estate mortgage	**–**	1,024
February 2021 secured revolving line of credit	**–**	–
Total bank debt	**–**	1,024
Less debt due within one year	**–**	(48)
Obligations due after one year	**–**	976

The Company's revolving line of credit of US$ 10,000,000 is collateralized by all inventories and accounts receivable.

The Company entered into an amended credit facility in February 2016. The new agreement matures February 2021 for the secured revolving line of credit.

The interest rate on the revolving line of credit is based on the one-month LIBOR rate plus 1.25%. No amounts were drawn under the secured revolving line of credit in 2017 or 2016. The Company's credit facility is secured by substantially all its business assets.

The Company fully paid off its commercial real estate mortgage in January 2017.

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$ 462,000 to the savings and retirement plan during 2017 and contributed US$ 350,000 during 2016.

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
2018	384
2019	243
2020	107
2021	105
2022	105
Thereafter	1,046
	1,990

9. Capital leases

Interest rates on capital leases are variable and range from 3.6% to 5.9% at December 31, 2017. 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
2018	83
2019	55
2020	17
2021	2
Thereafter	–
	157

10. Supplemental cash flow and non-cash financing disclosures

	Year ended December 31, 2017 US$ 000	Year ended December 31, 2016 US$ 000
Cash paid for interest	**42**	58
Cash paid for taxes	**4,944**	7,747
Non-cash financing activities – change in fair value of derivative instruments	**–**	2
Capital lease liabilities assumed	**190**	–

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, 2017 and 2016, the Company had two customers which represented 15% and 20% 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, 2017 US$ 000	Year ended December 31, 2016 US$ 000
Current income tax		
Federal	**4,336**	5,764
State	**326**	774
Foreign	**906**	303
Total current income tax expense	**5,568**	6,841
Deferred tax expense		
Federal	**1,688**	167
State	**66**	11
Foreign	**–**	–
Total deferred tax expense	**1,754**	178
Total tax provision	**7,322**	7,019

The components of the net deferred income tax asset at December 31, 2017 and 2016 were as follows:

	Year ended December 31, 2017 US$ 000	Year ended December 31, 2016 US$ 000
Bad debt allowance	**195**	263
Inventory reserve	**25**	109
Accrued Bonus	**73**	–
UNICAP – Sec 263A	**108**	179
Prepaid insurance	**(32)**	(65)
Prepaid other	**(106)**	(104)
Fixed assets	**(660)**	(517)
Intangible assets	**1,086**	2,343
UK intangibles	**134**	134
Accrued warranty	**134**	223
Stock based compensation expense (options & RSUs)	**326**	473
Italy – NOL	**76**	76
Foreign tax credit	**237**	237
Total net deferred tax assets	**1,596**	3,351
Rate reconciliation		
Consolidated income before tax	**25,738**	21,277
Statutory rate	**34%**	34%
Statutory tax expense	**8,751**	7,234
State taxes	**259**	518
Foreign taxes	**(171)**	(221)
Meals and entertainment	**61**	44
Permanent differences due to stock options & RSUs	**(1,630)**	(125)
Permanent differences due to other items	**(456)**	(409)
Permanent differences due to US tax rate change	**645**	
Other	**(137)**	(22)
Tax expense	**7,322**	7,019

The Company has US$ 246,185 in foreign loss carryforwards 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, 2017 US$ 000	Year ended December 31, 2016 US$ 000
United States and U.S. possessions	**55,504**	55,805
Canada	**2,365**	791
Rest of World	**27,765**	22,757
Total	**85,634**	79,353

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$ 467,000 and US$ 725,000 for the years ended December 31, 2017 and 2016, respectively. The income tax effect recognized for stock based compensation was US$ 1.8m and US$ 0.2m, respectively, for the years ended December 31, 2017 and 2016.

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 ten 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 ten years and an average vesting period of three years. No new options were granted in 2017 and 2016.

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, 2016	1,686,361	0.44	4.01	3,895,369
Granted	–	–	–	–
Exercised	(100,000)	0.47	3.13	(144,945)
Forfeited	–	–	–	–
Outstanding at December 31, 2016	1,586,361	0.44	3.00	
Exercisable at December 31, 2016	1,586,361	0.44	3.00	
Outstanding at January 1, 2017	1,586,361	0.44	3.00	3,667,918
Granted	–	–	–	–
Exercised	(1,569,221)	0.44	2.10	(4,870,392)
Forfeited	–	–	–	–
Outstanding at December 31, 2017	17,140	0.47	2.13	61,195
Exercisable at December 31, 2017	17,140	0.47	2.13	61,195

Options exercised in 2017 and 2016 were settled for cash of US$ 4.9m and US$ 0.1m, respectively. As of December 31, 2017 and 2016, 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 2016 and 2017 is presented below:

	Shares	Grant date fair market value US$
Outstanding at January 1, 2016	428,345	641,507
Granted	148,593	313,894
Vested or settled for cash	(159,585)	(119,130)
Forfeited	–	–
Outstanding at December 31, 2016	417,353	836,271
Outstanding at January 1, 2017	417,353	836,271
Granted	121,063	419,241
Vested and settled for cash	(151,444)	(292,007)
Forfeited	–	–
Outstanding at December 31, 2017	386,972	963,505

RSUs settled for cash were US$ 0.5m in 2017 and US$ 0.3m in 2016.

As of December 31, 2017, there was US$ 453,000 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 1.25 years.

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 50% of adjusted net income and is pleased to announce a final 2018 dividend of 12.75 US cents per share that will be payable on April 20, 2018 to shareholders on the register at April 3, 2018. Together with the interim dividend paid in October 2017 of 2.75 US cents per share, this represents a full year regular dividend to shareholders of 15.5 US cents per share, a 40% increase over the previous year. In addition, due to the strength of the Company's cash position at the end of the 2017, and upon the review of anticipated future cash requirements for the business, the Board of Directors' has adopted a new supplementary dividend policy and approved a supplemental dividend of 3.6 US cents per share that will be paid together with the final 2017 dividend, also payable on April 20, 2018 to shareholders on the register at April 3, 2018. The combined dividend payment on April 20, 2018 will total 16.35 US cents per share, representing a total dividend payment of US$ 9.2m.

Annual General Meeting

Notice is given that the Annual General Meeting of Stockholders (the "AGM") of the Company will be held at the Hyatt Regency at 5001 Coconut Road, Bonita Springs, Florida 34134 on June 12, 2018 at 9:00 am local time.

Equity Bonus Plan

The Company has an Equity Bonus Plan, under which eligible senior managers may choose to receive 25% of their annual performance bonus in shares of common stock. In March 2016, the Company issued 96,870 shares of common stock, valued at US$ 204,000 at the time of grant, for awards under the 2015 Equity Bonus Plan. In March 2017, the Company issued 38,519 shares of common stock, valued at US$ 133,000 at the time of grant, for awards under the 2016 Equity Bonus Plan.

In February 2018, the Board approved the 2017 Equity Bonus Plan, under which eligible senior managers can elect to receive up to 50% of their 2017 annual performance bonus in shares of common stock. The Company expects to issue shares for awards under the 2017 Equity Bonus Plan in 2018.

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