SOMERO ENTERPRISES, INC

LEADERS IN LEVELING

ANNUAL REPORT 2018

THE CONCRETE FLOOR IS THE MOST CRITICAL COMPONENT OF ANY BUILDING. IT CARRIES THE LOAD OF THE ENTIRE BUSINESS OPERATION.

Our world-class products and services allow contractors to complete every installation faster, flatter and with fewer people.

THEIR SUCCESS IS OUR SUCCESS.

Financial highlights

Revenue

US$ 94.0m

+10.0%

2018	94.0
2017	85.6
2016	79.4
2015	70.2

Adjusted EBITDA[1,2]

US$ 30.8m

+10.0%

2018	30.8
2017	28.0
2016	24.6
2015	20.0

Diluted adjusted net income per share [1,3]

US$ 0.38

+23.0%

2018	0.38
2017	0.31
2016	0.27
2015	0.22

Cash flows from operating activities

US$ 23.8m

+19.0%

2018	23.8
2017	20.0
2016	17.0
2015	14.5

Ordinary dividend per share

US$ 0.190

+23.0%

2018	0.190
2017	0.155
2016	0.111
2015	0.069

Net cash[4]

US$ 28.2m

+48.0%

2018	28.2
2017	19.0
2016	20.2
2015	12.6

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.

Operational highlights

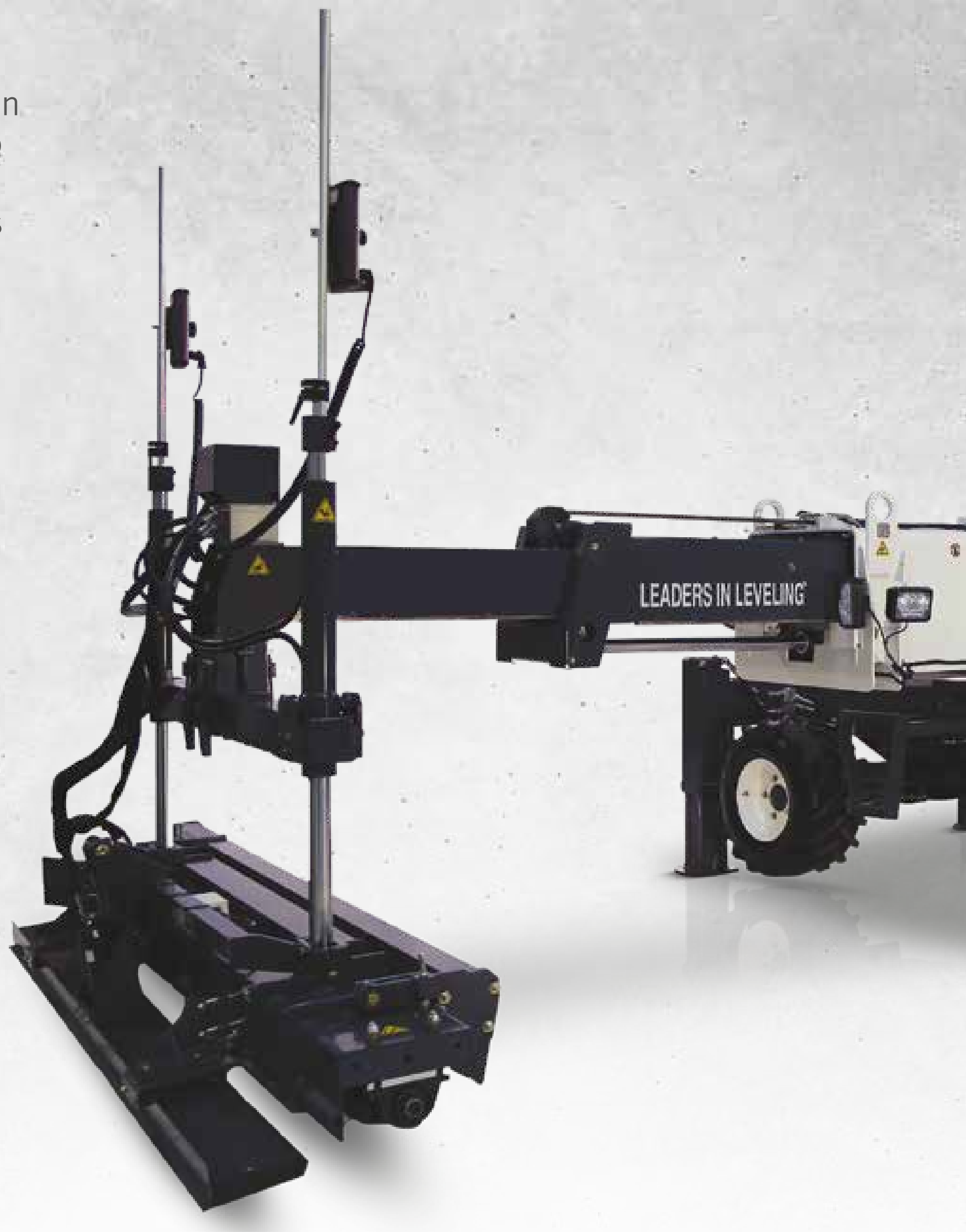
- Healthy demand across markets and product lines:
  - Growth in 2018 predominately led by North America and the Rest of World markets
  - Sales of Boomed screeds grew 9% to US$ 39.2m (2017: US$ 35.9m)
  - Sales of Ride-on screeds grew 23% to US$ 22.9m (2017: US$ 18.6m)
- New products contributed meaningfully to growth:
  - Sales of the S-22EZ and SP-16 Line Pulling & Placing System combined to contribute US$ 3.0m to 2018 growth

Visit us online at
www.somero.com/investors

Somero at a glance

WORLD-CLASS PRODUCTS AND SERVICES

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 efficiently and with confidence.



Our products

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 14 products. Our proprietary designs are protected by 63 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.

Our services

Every piece of Somero equipment is designed and built to provide maximum productivity and operation economy throughout its working life. Somero helps customers maintain that built-in value with a variety of services that include in-depth training, service contracts, extended warranty, equipment evaluation, and mechanical repairs. All of these offerings are in addition to our guaranteed 24 x 7 x 365 troubleshooting over the phone with our expert Somero technicians.

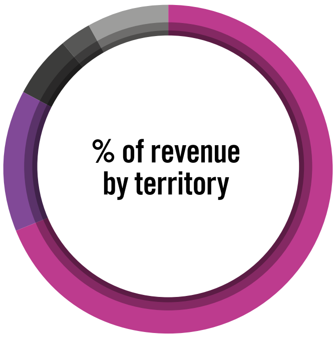
High-performance

By using Somero equipment, our customers can install high-quality concrete floors faster, flatter and with fewer workers.

Customers in

90+

countries



North America	69%	Middle East	03%
Europe	14%	Rest of World	08%
China	06%		

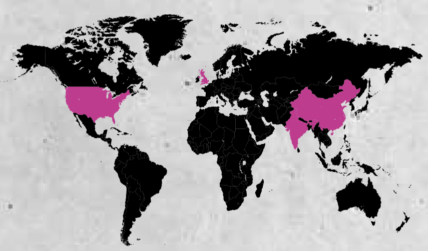
Patents and patent applications

63

Products in portfolio

14

Boomed screeds	42%	3-D Profiler System	07%
Ride-on screeds	24%	Other	22%
Remanufactured machines	05%		



Locations

North America

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

Houghton, Michigan: Production, operations and support

UK

Chesterfield: Sales and service office

India

New Delhi: Sales and service office

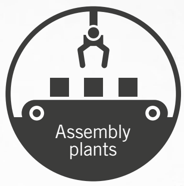
China

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.



Investment case

BUILT ON OUR CORE STRENGTHS

Somero begins 2019 financially stronger than ever and well-positioned to capture growth in new and existing markets. With the opportunities that lie ahead and the steps taken to position the Company for the future, Somero is poised to deliver strong results and dividends for shareholders.

Dominant market position with minimal direct competition

Significant barriers to entry for competitors based on technology, education and global technical support

Customer-driven product development

See more information on page 15

Solid growth and market dynamics in developed markets

See more information on pages 10-11

Knowledgeable and experienced senior management team

See more information on page 22

Strong potential for growth from new products and international markets

See more information on pages 10-11

Financial performance

- Profitable growth with excellent margins
- Highly cash-generative business
- Strong, unleveraged balance sheet
- Disciplined return of cash to shareholders through dividends

See more information on pages 01, 16-19

Chairman's statement

PRIORITIZING INVESTMENTS TO EXECUTE OUR GROWTH STRATEGY

Performance and dividend

I am delighted to report that Somero delivered another year of outstanding results for our shareholders in 2018, alongside taking important steps to execute its strategy and position the Company for future growth. The Company's strong operational and financial performance supports continuing investment in new opportunities such as the design and development of the SkyScreed® 25 in 2018, and the acquisition of Line Dragon in January 2019.

We continue to prioritize investments that support the execution of our growth strategy while remaining committed to a disciplined return of cash to shareholders. Accordingly, I am also delighted to report that with the Company's impressive 2018 results, healthy financial position, and the Board's confidence in the business outlook, the Board has approved a final 2018 ordinary dividend of 13.5 US cents per share and a supplemental dividend of 11.7 US cents per share, both payable on April 26, 2019 to shareholders on the register at April 5, 2019. Together with the interim dividend paid in October 2018 of 5.5 US cents per share, the 2018 full year regular dividend payment to shareholders is 19.0 US cents per share, a 23% increase from 2017. The supplemental dividend declared is in accordance with the Company's supplementary dividend policy adopted on March 14, 2018 that states the Company intends to distribute 50% of the excess of net cash over the year-end target of US$ 15.0m.

Strategic progress

At the core of our strategy is innovation. Somero has a long track record of delivering innovative solutions that started with the introduction of the first Laser SkyScreed® machine in 1986, the product that transformed the concrete contractor industry. Our latest innovation, the SkyScreed® 25, is a truly unique product that opens an exciting new market for Somero and, we believe, begins a new chapter of product development. Bringing the SkyScreed® 25 to market was the result of dedicated market research and direct engagement with customers to understand their challenges that formed the basis for designing an innovative solution to these challenges. Through the years, Somero's new product launches have been successful because our product development effort 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.

Core values

At Somero® we believe in a set of core values for how we do business, how we innovate, how we treat our customers and employees. Our values include:

01 A commitment to teaching and learning

02 An ability to solve problems in creative ways

03 Being accountable and taking ownership

04 Operating with a sense of urgency

05 Proactive honest communication

06 Embracing and driving change

07 Having fun

08 Expressing our passion through amazing service

09 Making things simple

Read more about our values at www.somero.com/about-us/our-core-values

The Company's acquisition of Line Dragon is another example of the Company's focus on adding innovations to our product offerings. We believe the combined best features of the SP-16 and Line Dragon's products will increase the value we provide customers and enhance Somero's product offering.

In 2018, Somero also continued to diversify by geography. Revenues from outside North America grew by US$ 1.5m compared to 2017 to reach US$ 29.3m, or 31% of total revenues for the year. Underlying this growth is Somero's continued effort to deepen our penetration of international markets by promoting the adoption of wide-placement theory and quality concrete flooring standards. The demand for quality concrete floors from building owners and end-users is the key driver of market adoption of Somero technology, and we will continue to focus our market development efforts to drive this demand.

Our people

This year the Board was delighted to again meet with the full management team, review the plans and objectives for each function, and see first-hand the energy and commitment of the teams that run the business. Somero's success would not be possible without our employees' unrelenting commitment to Somero's mission of helping our customers build successful, profitable businesses. The positive outcomes we generate for our customers fuel our financial and operational success and support our demonstrated ability to create shareholder value. On behalf of the Board, I would like to thank the management team and all 190 Somero employees located throughout the world for delivering these outstanding results.

Outlook

The Board believes the Company has numerous meaningful growth opportunities in 2019 across its broad portfolio of markets and products that are supported by positive non-residential construction market conditions and reinforced by customers reporting project backlogs that extend beyond 2019. Based on this positive environment and the momentum of the business, the Board is confident that Somero is poised to deliver another year of profitable growth to shareholders in 2019.

Larry Horsch
Non-Executive Chairman
March 13, 2019

A strong culture

Every Somero employee is committed to delivering world-class products and services that enable customers to meet their business and profitability goals.

Product innovation

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

President & Chief Executive Officer's review

THE NEXT PHASE OF PRODUCT DEVELOPMENT

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.

Product development

2018 was a very productive year for Somero's product development effort, and new products continued to be significant contributors. We gained traction in the Boomed screed category in 2018 with the introduction of the S-22EZ that provided performance enhancement, ease of use and ease of maintenance features that were well-received by the market. The S-22EZ contributed US$ 2.2m in incremental sales in 2018, a significant portion of the US$ 3.3m in growth from the Boomed screed category. In addition, the SP-16 Line-Pulling and Placing System, a product launched in January 2017, contributed US$ 0.8m in 2018 growth as the product gains broader acceptance.

A significant portion of our product development resources have been focused on the designing and developing of solutions for the high-rise structural market. This is a new, unpenetrated market for Somero and the development effort includes gaining a deeper understanding of the unique job site challenges of this particular market segment. Not only have we been able to launch a product to begin penetrating this untapped market with the SkyScreed® 25, we have also gained clarity on the long-term opportunity the market represents. We are pleased with the early interest in the SkyScreed® 25, but also understand this represents only the first step in a long journey of product development. With a secure financial position and the range of long-term opportunities that Somero is well-placed to pursue, the Board has made the decision to moderately increase investment to enable us to accelerate product development initiatives in 2019. We are confident in our ability to deliver on these initiatives alongside continuing to deliver profitable growth for our shareholders.

Patents and patent applications

63

Products in portfolio

14

Overview

In so many ways, 2018 was an exceptional year for Somero. We set another record for revenues, profits, cash flow from operations, returned US$ 12.3m in dividends to our shareholders, ended the year with a strong and secure balance sheet, and most importantly took significant steps to execute our strategy and position the Company for future growth. We also comfortably surpassed the strategic target we set in 2014 to grow the business to US$ 90.0m by 2018, a milestone for the Company.

2018 was a year of balanced, profitable growth. Strength in our North American market was complemented by contributions from our Rest of World territories and the Middle East. In total, four of our six markets grew compared to 2017 with revenues from outside of North America increasing US$ 1.5m compared to 2017. On a product basis, our growth was balanced as well, with growth in four of our six product categories led by particularly strong sales of Ride-on screeds and Boomed screeds. We are pleased with the diversification in revenues geographically and across the product range and we are confident that we can provide solutions that meet the needs of customers regardless of project type, size or location.

Region reviews

In 2018, sales in North America, our largest market, grew 12% compared to 2017 to reach US$ 64.7m. This was driven by strong H2 2018 trading in which sales grew 16% compared to the H2 2017. The high-level of non-residential construction activity in 2018, along with a shortage of skilled labor, increased demand for Somero equipment. We see continued strength in the underlying non-residential construction industry in the US and an extended pipeline of projects that remain in front of our US customer base. Going into 2019, market drivers in North American continue to be demand for replacement equipment, technology upgrades, fleet additions, and new products.

In Europe, 2018 sales grew to US$ 13.5m compared to US$ 13.2m in 2017, driven by a solid performance throughout the year and in spite of a strong second half comparable from 2017 in the region. Reflecting the well-balanced demand, equipment was sold into eighteen countries across Europe in 2018, with the most significant contributors being UK, Germany, France, Spain and Portugal. European market conditions and activity levels remain positive with well-balanced demand, and we continue to see significant opportunities across the region.

In China, 2018 sales were US$ 5.3m, representing a US$ 0.2m decline compared to 2017. We believe we are taking the appropriate steps to position ourselves for future growth in this important, and significant, market. This includes a narrowed product line focus supported by marketing and demand generation initiatives, combined with the expected increasing benefit from our in-country sales leadership. We continue to see longer-term opportunity in the quality-oriented market segment in China and understand that the catalyst for growth in the segment will be acceptance of and demand for quality concrete floors by building owners and end-users. We will continue to pursue market development efforts to drive this acceptance and demand.

2018 sales in the Middle East were US$ 2.4m, an increase of US$ 0.3m compared to 2017. Activity levels in the region were solid throughout the year, and the Middle Eastern countries with meaningful contributions to 2018 sales were Turkey, the United Arab Emirates and Egypt.

In Latin America, 2018 sales were US$ 1.7m, down US$ 0.6m compared to 2017, as 2018 project activity remained solid but did not translate into equipment sales as expected due in part to the impact of election cycles in the region. During the year, the most significant contributions in the region came from Mexico and Chile. We remain encouraged by the activity seen throughout the year in the region, particularly in Mexico, and expect to see improvement in 2019.

In our Rest of World region, 2018 sales were particularly strong with a 36%, or US$ 1.7m, increase from 2017. The most significant contributors to growth from this region were Australia and India. We are particularly encouraged by early signs of increasing demand for quality concrete floors in India, and the investments we have made with in-country leadership and resources are helping to drive these positive results.

Cashflow and balance sheet

Somero's earnings growth and the cash flow generated from these profits remain healthy as the Company delivered a year of record operating cash flow in 2018. Combined with effective working capital management, cash flow from operations increased to US$ 23.8m, a US$ 3.8m increase from US$ 20.0m in 2017. This cash flow allowed the Company to raise the dividend pay-out ratio to 50% on the final 2017 ordinary dividend paid in April 2018. With this increased ordinary dividend, the US$ 2.0m supplemental dividend, also paid in April 2018, and the increased interim dividend of US$ 3.1m paid in October 2018, Somero paid a total of US$ 12.3m in dividends to shareholders in 2018. The cash generation of the Company was able to fund the 2018 dividend payments and still end the year with a US$ 28.2m net cash[1] balance, a US$ 9.2m increase from the US$ 19.0m at year-end 2017. I am pleased to report that reflecting the Board's confidence in the health of the business and growth prospects for the Company, the Board has declared a final 2018 ordinary dividend of 13.5 US cents per share and a supplemental dividend of 11.7 US cents per share, both payable on April 26, 2019 that combined will result in a US$ 14.2m dividend payment to shareholders.

People

During the year we continued to benefit from increased scale and greater efficiencies in our operations, which partially offset the investment to bring new talent into the organization. We ended 2018 with 190 employees, an increase of 13 from 2017, and with this increase have enhanced our talent level and expanded our capabilities. In 2019 and beyond, as the business continues to grow, we expect to continue to add personnel. We will 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 who embrace the Somero culture and core values.

Achievement of our 2018 strategic objective

We completed the fifth year of our five-year plan that targeted a doubling of 2013 revenues to US$ 90m in 2018. Along the way, our management team reacted to changing conditions in each of our markets to identify areas for growth and allocate resources to capitalize on opportunities. We are proud to have achieved this target, and we begin 2019 a different, and significantly more diversified, company than when we started the five-year journey. We are excited to begin the next chapter of growth and are pleased with the opportunities that lie ahead in our underpenetrated global markets, in new market segments, and from new products. Going forward, while we will not be issuing a three-year strategic objective target, we do expect to see consistent, solid growth in our legacy business supplemented by additional growth from new products and penetration of new market segments.

Expansion update

In April 2018, Somero completed the move into a new leased facility in Chesterfield, UK. The new facility provides increased capacity to store equipment, parts and accessories for the UK and European market in addition to providing more office space for sales and customer support personnel in the region. Importantly, the new facility enhances Somero's ability to service the European installed base of equipment and provides a suitable facility to remanufacture, on a modified basis, equipment received in on trade for resale to the UK and broader European market.

The Company has also reviewed future operational capacity requirements to support the business considering the impact of new products and core business growth. As a result of this review, the Company is moving forward in 2019 with plans for a US$ 3.5m expansion to our Houghton, Michigan facility. This expansion will add 35,000 square feet to the facility, providing our assembly operations with needed space to accommodate our broadening product line. In addition, the Houghton expansion will add needed office space and engineering testing areas. With regard to the Fort Myers, Florida facility, the Company will not be proceeding with the previously announced US$ 1.3m expansion project in light of the Houghton expansion. However, in 2019 the Company will review options to modestly expand training and office space in Fort Myers at a cost that is expected to be significantly less than previously announced.

Conclusion

2018 was an outstanding year for Somero and we are looking to build on that momentum as we enter 2019. Our business has positive momentum, supported by favorable market conditions across our geographic footprint and the broad range of opportunities in new and existing markets. Our talent base is deep, our operating platform is becoming stronger, and our employees are aligned with our strategy and energized by the opportunities in front of us. I am certain our management team is up to the task to meet whatever challenges we face and capitalize fully on the opportunities we see. We are well prepared to enter the next phase of growth for our Company, to work to execute our strategy, and most importantly to deliver another year of progress for our shareholders.

Jack Cooney
President and Chief Executive Officer
March 13, 2019

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

Market overview

OPPORTUNITY FOR GROWTH

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.

> **Somero begins 2019 financially stronger than ever and well-positioned to capture growth in new and existing markets with a strong product offering.**
>
> **Jack Cooney**
> President and Chief Executive Officer

New Somero China facility – opened 2018
Qingpu District, Shanghai, China

Location

NORTH AMERICA

Estimated 2020 global cement consumption(1)

03%

EUROPE

Estimated 2020 global cement consumption(1)

05%

CHINA

Estimated 2020 global cement consumption(1)

55%

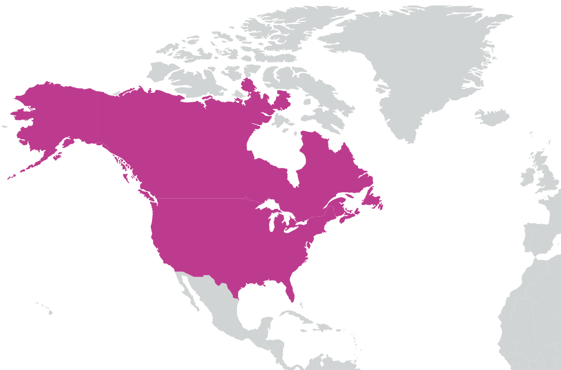
REST OF WORLD

Estimated 2020 global cement consumption(1)

36%

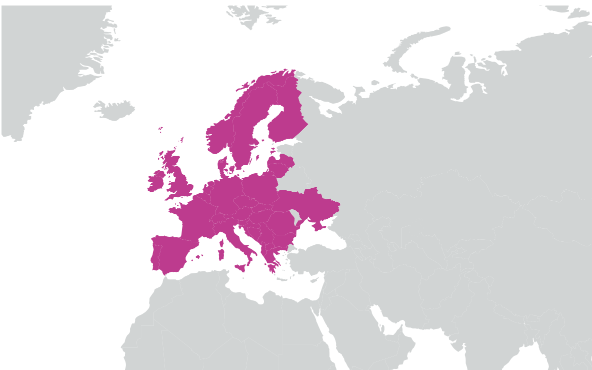
Market dynamics

Drivers of growth



- Largest market
- Commercial construction industry fundamentals remain positive in the US
- Healthy economy supported by extended customer project backlogs are positive factors for US construction industry outlook

- US non-residential construction spend forecast to grow by 3% 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

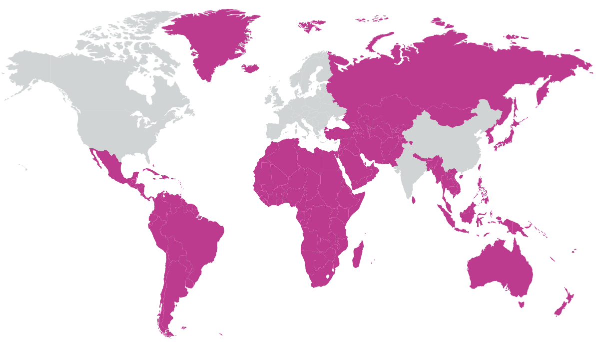


- Second largest installed base of equipment
- Healthy economic and commercial construction outlook across the European region

- Increased 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

- Most significant opportunity for long-term growth outside North America
- Cement consumption forecast to represent over 50% of 2020[2] world cement consumption
- Current market penetration very low

- 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



- Current market penetration very low
- Most significant opportunity in region is India that is forecast to represent 8% of 2020[2] world cement consumption
- Significant opportunities in the Middle East, Southeast Asia, Latin America and Australia

- 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. Source: Cembureau, Cemnet and Morgan Stanley.
2. FMI Research Services Group 2019 Construction Outlook Report.

OUR SIMPLE & PROVEN MODEL

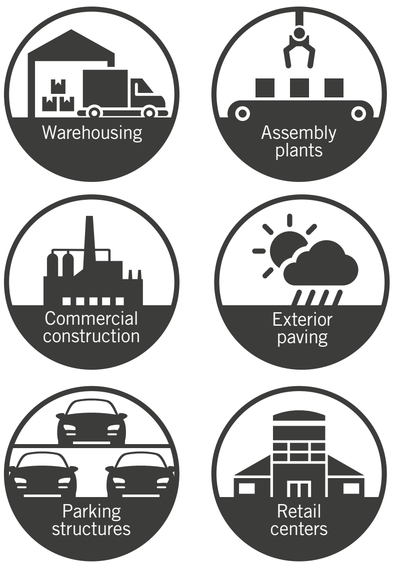
The use of Somero equipment and service delivers significant benefits to our customers and the owners and end-users of the completed construction projects, a true win-win proposition.

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's laser-guided technology and wide-placement methods have been specified for use in a wide range of construction projects.



Building owners and end-users

Somero equipment has been used in construction projects for a wide array of the world's largest organizations.

"Somero is much more than simply a seller of equipment. We are committed to making our customers successful in their businesses by providing unparalleled industry expertise, service, training and support and by developing innovative new products that address our customers' needs.

Jack Cooney
President and Chief Executive Officer

MULTI-FACETED VALUE PROPOSITION

Key benefits to our customers

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

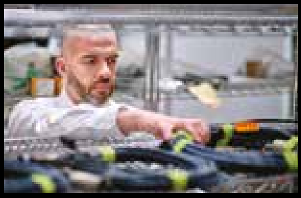
Key outcomes for building owners and end-users

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

What makes us different

Innovative product leadership

- Pioneered Laser Screed® machine market in 1986
- Product portfolio grown to 14 products
- Designs protected by 63 patents/applications
- Product development fueled by customer engagement



Industry expertise, training and support

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

Our vision & strategy

A ROADMAP FOR SUSTAINABLE GROWTH

We are proud to have achieved our five-year revenue target of US$ 90.0m in 2018 and enter 2019 a significantly more diversified company than when we started the five-year journey. As we begin our next chapter of growth, our employees are aligned with our growth strategy and energized by the opportunities that lie ahead in underpenetrated global markets, new market segments, and new products.

Our strategy

Our strategy for growth is to leverage our strengths, expand and deepen our global footprint, and continue to provide innovative products.

Product innovation

Since our beginning as a single product company in 1986, Somero® has developed proprietary designs and technology to grow our portfolio to 14 innovative products protected by 63 patents and patent applications.

In 2018, we completed the design and development of the SkyScreed® 25, the world's first laser screed for use in structural high-rise applications. This opens an exciting new market segment for the Company and starts the next chapter in Somero's product development.

International expansion

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

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

Product innovation

INTRODUCING OUR LATEST PRODUCT

Somero Sky Screed® 25

The SkyScreed® 25 was developed utilizing advancements in technology and feedback from our customers. The SkyScreed® 25 is the first Laser Screed® machine in the world to allow screeding on structural high-rise and slab-on grade applications with the unparalleled versatility provided by 360° upper frame and screed head rotation.

The SkyScreed® 25 provides labor savings, improved floor quality and increased productivity that will allow customers to save time and money on their next project. Importantly, the SkyScreed® 25 is the first step in a longer-term product development journey to penetrate a completely new market segment for Somero.

Find out more at
www.somero.com/products

Financial review

Summary of financial results

	Year ended December 31, 2018 US$ 000 Except per share data	Year ended December 31, 2017 US$ 000 Except per share data
Revenue	**94,001**	85,634
Cost of sales	**40,375**	36,870
Gross profit	**53,626**	48,764
Operating expenses		
Selling, marketing and customer support	**11,059**	10,426
Engineering and product development	**1,357**	1,222
General and administrative	**12,037**	11,683
Total operating expenses	**24,453**	23,331
Operating income	**29,173**	25,433
Other income (expense)		
Interest expense	**(54)**	(80)
Interest income	**188**	262
Foreign exchange impact	**(42)**	477
Other	**(191)**	(354)
Income before income taxes	**29,074**	25,738
Provision for income taxes	**7,531**	7,322
Net income	**21,543**	18,416

	Per Share US$	Per Share US$
Basic earnings per share	**0.38**	0.33
Diluted earnings per share	**0.38**	0.33
Basic adjusted net income per share(1) (2) (4)	**0.38**	0.31
Diluted adjusted net income per share(1) (2) (4)	**0.38**	0.31
Other data		
Adjusted EBITDA(1) (2) (4)	**30,837**	28,000
Adjusted net income(1) (3) (4)	**21,407**	17,504
Depreciation expense	**1,175**	1,199
Amortization of intangibles	**–**	901
Capital expenditures	**803**	1,959

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, 2018 US$ 000	Year ended December 31, 2017 US$ 000
Adjusted EBITDA reconciliation		
Net income	**21,543**	18,416
Tax provision	**7,531**	7,322
Interest expense	**54**	80
Interest income	**(188)**	(262)
Foreign exchange impact	**42**	(477)
Other	**191**	354
Depreciation	**1,175**	1,199
Amortization	**–**	901
Stock-based compensation	**489**	467
Adjusted EBITDA	**30,837**	28,000
Adjusted net income reconciliation		
Net income	**21,543**	18,416
Amortization	**–**	901
Tax impact of stock option & RSU settlements	**(136)**	(1,813)
Adjusted net income	**21,407**	17,504

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 excluding tax provision, interest expense, interest income, foreign exchange gain(loss), other expense, depreciation, amortization, and stock based compensation.
3. Adjusted net income as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and RSU settlements and other special items.
4. The Company uses non-US GAAP financial measures in order to provide supplemental information regarding the Company's operating performance. The non-US GAAP financial measures presented herein should not be considered in isolation from, or as a substitute to, financial measures calculated in accordance with US GAAP. Investors are cautioned that there are inherent limitations associated with the use of each non-US GAAP financial measure. In particular, non-US GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and many of the adjustments to the US GAAP financial measures reflect the exclusion of items that may have a material effect on the Company's financial results calculated in accordance with US GAAP.

Revenues

The Company's consolidated revenues increased by 10% to US$ 94.0m (2017: US$ 85.6m). 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, SP-16 Concrete Hose Line-Pulling and Placing Systems and Other Revenues which consist primarily of revenue from sales of parts and accessories, sales of other equipment, service, training and shipping charges. The overall increase for the year was driven by Ride-on screeds, Boomed screeds, SP-16 Concrete Hose Line-Pulling and Placing Systems, along with an increase in Other revenues.

Ride-on screed sales increased to US$ 22.9m (2017: US$ 18.6m) due to higher volume and price increases, Boomed screed sales increased to US$ 39.2m (2017: US$ 35.9m) due to higher volume and price increases, SP-16 Concrete Hose Line-Pulling and Placing Systems sales increased to US$ 1.6m (2017: US$ 0.8m) due to higher volume and Other revenues increased to US$ 19.1m (2017: US$ 17.9m) primarily due to increased sales of parts and accessories and increased sales of other equipment including the Mini C, offset by 3-D Profiler System sales decreased to US$ 6.1m (2017: US$ 6.8m) due to decreased unit sales.

Financial review continued

Revenue breakdown by geography	North America US$ in millions		EMEA[1] US$ in millions		ROW[2] US$ in millions		Total US$ in millions			
							2018		2017	
	2018	2017	2018	2017	2018	2017	Net sales	% of Net sales	Net sales	% of Net sales
Boomed screeds[3]	27.0	24.0	8.9	9.1	3.3	2.8	39.2	41.7%	35.9	41.9%
Ride-on screeds[4]	16.6	11.6	4.6	4.4	1.7	2.6	22.9	24.4%	18.6	21.7%
Remanufactured machines	2.3	3.5	0.5	–	2.3	2.1	5.1	5.4%	5.6	6.6%
3D Profiler System	5.3	6.5	0.2	–	0.6	0.3	6.1	6.5%	6.8	7.9%
SP-16	1.5	0.7	0.1	0.1	–	–	1.6	1.7%	0.8	1.0%
Other[5]	12.0	11.5	2.8	2.4	4.3	4.0	19.1	20.3%	17.9	20.9%
Total	64.7	57.8	17.1	16.0	12.2	11.8	94.0	100.0%	85.6	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 Topping Spreader, Copperhead, and Mini Screed C.

Units by product line	2018	2017
Boomed screeds	132	120
Ride-on screeds	234	189
Remanufactured machines	35	39
3D Profiler System	59	66
Total	460	414

Sales to customers located in North America contributed 69% of total revenue (2017: 68%), sales to customers in EMEA (Europe, India, Middle East, Scandinavia, and Russia) contributed 18% (2017: 19%) and sales to customers in ROW (Southeast Asia, Australia, Latin America, and China) contributed 13% (2017: 13%).

Sales in North America were US$ 64.7m (2017: US$ 57.8m) up 12% driven by higher sales of Ride-on screeds, Boomed screeds, SP-16, and an increase in Other revenues. Sales in EMEA were US$ 17.1m (2017: US$ 16.0m) which is up 7% primarily due to an increase in Ride-on screed sales, sales of Remanufactured machines and an increase in Other revenues. Sales in ROW were US$ 12.2m (2017: US$ 11.8m), representing a 3% increase driven by sales of Boomed screeds, 3D Profiler Systems and Other revenues.

	US$ in millions	
Regional sales	2018	2017
North America	64.7	57.8
Europe[1]	13.5	13.2
China	5.3	5.5
Middle East	2.4	2.1
Latin America	1.7	2.3
Rest of World[1]	6.4	4.7
Total	94.0	85.6

Notes:
1. ROW includes Australia, India, Southeast Asia, Korea and Russia. Scandinavia has been reclassified to be included in Europe for 2018 and 2017.

Gross profit

Gross profit increased to US$ 53.6m (2017: US$ 48.8m), with gross margins remaining steady at 57.0% (2017: 56.9%) due to price increases, and productivity gains, offset by material cost increases related to tariffs and surcharges.

Operating expenses

Operating expenses increased by US$ 1.1m to US$ 24.5m (2017: US$ 23.3m). This increase is due to higher selling costs related to the increase in revenue, as well as higher administrative costs.

Debt

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

Other income (expense)

Other income (expense) was US$ 0.1m of other expense, compared to other income of US$ 0.3m in 2017, due to an increase in foreign currency exchange impact.

Provision for income taxes

The provision for income taxes was US$ 7.5m in 2018 compared to US$ 7.3m in 2017. Overall, Somero's effective tax rate changed from 28.4% in 2017 to 25.9% in 2018.

The Tax Cuts and Jobs Act (TCJA) passed on December 22, 2017 lowered the US corporate tax rate to 21% from 35% effective January 1, 2018. The lowering of the US corporate income tax rate to 21% required revaluation of the Company's net deferred tax asset as of December 31, 2017 that resulted in a one-time non-cash tax charge of US $0.6m included in the Company's 2017 results. In addition, the TCJA includes a provision that will result in a one-time deemed repatriation tax on the Company's cumulative unrepatriated foreign profits primarily relating to historical profits earned by the Company's UK entity. The Company has elected the option to pay the deemed repatriation tax over an eight-year period. The final amount of the tax was $148,000.

Earnings per share

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, as well as any adjustments to income that would result from the assumed issuance.

Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock units. Earnings per common share has been computed based on the following:

	Year ended December 31, 2018 US$ 000	Year ended December 31, 2017 US$ 000
Income available to stockholders	**21,543**	18,416
Basic weighted shares outstanding	**56,276,778**	56,233,912
Net dilutive effect of stock options and restricted stock units	**451,573**	401,697
Diluted weighted average shares outstanding	**56,728,351**	56,635,609

The Company had 56,288,329 shares outstanding at December 31, 2018. Earnings per share at December 31, 2018 and 2017 are as follows:

	Year ended December 31, 2018 Per Share US$	Year ended December 31, 2017 Per Share US$
Basic earnings per share	**0. 38**	0.33
Diluted earnings per share	**0. 38**	0.33
Basic adjusted net income per share	**0. 38**	0.31
Diluted adjusted net income per share	**0. 38**	0.31

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 entered into an amended credit facility that included a US$ 10.0m secured revolving line of credit that will mature in February 2021. The Company's credit facility is secured by substantially all its business assets. On January 31, 2017, the Company paid off the remaining outstanding principal totaling US$ 1.0m on its commercial real estate mortgage along with accrued interest using cash on hand.

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. New products are meaningful contributors to the Company's growth. In 2018, sales of the S-22EZ and SP-16 Line Pulling & Placing System, two products launched in 2017, combined to contribute US$ 3.0m to annual sales growth compared to 2017.

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.

Global market penetration

Somero's financial performance is impacted by its ability to successfully enter and penetrate international markets. Europe and China represent Somero's primary markets outside the US, and Somero has primarily focused on developing these markets with a secondary focus on Latin America, Australia, Middle East, Southeast Asia and India. Somero's primary market development activities are to promote the benefits of the Company's technology, wide-placement theory, and the demand for quality flat and level floors 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 entered into an amended credit facility that included a US$ 10.0m secured revolving line of credit that will mature in February 2021. The Company's credit facility is secured by substantially all its business assets. On January 31, 2017, the Company paid off the remaining outstanding principal totaling US$ 1.0m on its commercial real estate mortgage along with accrued interest using cash on hand.

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, 2018, 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 credit facility so that it matures in February 2021. The amended facility allows management access to funding if needed to implement 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 2018. 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 twelve 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 2019.

Somero had capital expenditures of US$ 0.8m in 2018 and US$ 2.0m in 2017. The majority of the expenditures during these periods were 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.

This Strategic Report was approved by the Board on March 13, 2019 and signed on its behalf by:

Jack Cooney
President and Chief Executive Officer
March 13, 2019

Board of Directors

LAWRENCE L. HORSCH

Non-Executive Chairman of the Board

Mr. Horsch, age 84, 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 72, 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 48, 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 57, 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 68, 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 60, 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 six 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.

Corporate governance report

The Board recognizes the value and importance of, and is committed to high standards of corporate governance, and all Directors are fully aware of their duties and responsibilities. In accordance with Rule 26 of the AIM Rules for Companies, the Company confirms that it observes the UK Corporate Governance Code (the "Code"). The Board considers that the Company complies with the requirements of the Code, except as set out below. The Company continues to implement a robust governance structure to ensure compliance with the Code.

We welcomed the publication of the new UK Corporate Governance Code 2018 (the "2018 Code") by the Financial Reporting Council. We are preparing for the implementation of the 2018 Code and while this Annual Report provides some additional information on engagement and other issues, we expect to report in more detail on these matters in the next financial year.

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.

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. He is also responsible for ensuring that the Directors receive accurate, timely and clear information, and appropriate induction and training.Effective communication with shareholders, facilitating the effective contribution of Non-Executive Directors , and ensuring constructive relations between the Executive and Non-Executive Directors are also part of his role.

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. They also monitor the reporting of performance, satisfy themselves on the integrity of financial information, and ensure that financial controls and systems of risk management are robust and defensible. The Non-Executive Directors are also responsible for determining the appropriate levels of remuneration of Executive Directors, and have a prime role in appointing, and where necessary removing, Executive Directors, and in succession planning. The Directors are provided with regular and timely information on the financial performance of the Company together with other reports from functional areas within the Company as requested.

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

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 and the Company's constitutional documents, 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. It also 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. It 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. 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 has adopted a code for Directors' and applicable employees' share dealings. The Directors comply with Rule 21 of the AIM rules relating to Directors' dealings and take all reasonable steps to ensure compliance by Somero's applicable employees. The Company's dealing code ensures compliance with the EU Market Abuse Regulations which came into effect in 2016 and apply to companies listed on AIM.

Corporate governance report continued

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.The Board also adopted a retirement policy to provide access to new qualified Directors and to ensure the appropriate overall Board composition and effectiveness. The retirement policy states that Directors shall not be re-nominated for election after reaching 75 years of age and shall offer to resign if he or she reaches the age of 75 during his or her term.The Board may approve exceptions to the policy based on a recommendation from the Nominating Committee. 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 on pages 16 to 19 of this Annual Report. 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, 2018 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 2018 and 2017.

	Year ended December 31, 2018 US$ 000	Year ended December 31, 2017 US$ 000
Audit	**173**	176
Tax	**91**	60
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

The Board reports on compliance with the Code throughout the accounting period. The Company has complied throughout the accounting period ended December 31, 2018 with the main principles outlined in the Code. The exceptions to the Code are noted below.

This report sets out in broad terms how the Company currently complies with the principles of the April 2016 version of the Code. We are aware that a new version of the Code was published in July 2018 and we intend to report compliance against that version of the Code for the financial year commencing on or after January 1, 2019.

Compliance with the Code

A Leadership

A.1 Role of the Board

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions, and is collectively responsible for the long-term success of the Company. Certain matters are specifically reserved for decision by the Board and documented in a written schedule which will also be reviewed annually, and these include:

- setting the Company's values and standards;
- reviewing and approving risk appetite and determining the nature and extent of the significant risks it is willing to take to achieve strategic objectives;
- overseeing controls, audit processes and risk management policies;
- approving the financial statements, revenue and capital expenditure; and
- approving material agreements.

The Board has established an Audit Committee, a Remuneration Committee and Nomination Committee, each with formally delegated duties and responsibilities and with written terms of reference which can be found on the Company's website.

The Company has arranged appropriate insurance cover in respect of legal action against its Directors.

A.2 Division of responsibilities

There is a clear division of responsibilities at the head of the Company, with the roles of the Chairman and CEO not exercised by the same individual and the responsibilities of those roles documented in writing and approved by the Board. The CEO and the CFO, supported by an Executive Committee, are responsible for the day-to-day management of the Company's operational activities, and for the proper execution of strategy, as set by the Board.

A.3 The Chairman

The Chairman's responsibilities are as set out in his letter of appointment and include ensuring the effectiveness of the Board in all aspects of its role, facilitating the effective contribution of the Executive Directors and promoting a culture of openness and debate.

A.4 Non-Executive Directors

The responsibilities of the Non-Executive Directors are set out in their individual letters of appointment and above on page 23 is a description of the Non-Executive Directors' roles to the Board.

Due to the Company's size and because the Board includes three independent Non-Executive Directors, it has not named a senior independent director in compliance with the provision A.1.2.

B Effectiveness

B.1 Composition of the Board

The Board comprises six Directors, three of whom are Executive Directors and three of whom are Non-Executive Directors. For the purposes of the Code, the Board regards the Non-Executive Chairman, Lawrence Horsch, and each of Thomas Anderson and Robert Scheuer as independent Non-Executive Directors. Code provision B.1.2 requires that at least half of the Board (excluding the Chairman) is comprised of independent Non-Executive Directors. As a smaller company (being a company that is below the FTSE 350 throughout the year) the Company is excepted from fully complying with this provision.

Corporate governance report continued

The Board believes that the current composition is sufficient for the Company's current size (the Company is a smaller company) and the Board has been structured to ensure that an appropriate mix of skills and experience are in place to allow it to operate effectively and to support the development of the Company's strategy and long-term objectives. The composition of the Board will be regularly reviewed by the Nomination Committee to ensure this balance of skills, experience and knowledge is maintained and will continue to review Code provision B.1.2.

B.2 Appointments to the Board
Any future appointments will be subject to a formal, rigorous and transparent procedures which will be led by the Nomination Committee.

B.3 Commitment
The time commitment required from each Director is set out in his/her letter of appointment. The Nomination Committee is responsible for considering annually whether each Director is able to devote sufficient time to his/her duties.

B.4 Development
On joining the Board, new Directors will receive a comprehensive induction and regular updates on legal, regulatory and governance issues thereafter.

B.5 Information and Support
Board and Committee materials are distributed to Directors in a timely manner and in a form and quality to enable the Directors to discharge their duties. The CEO and CFO provide reports to the Board and other members of the Executive Committee prepare reports to the Board and may be invited to attend Board meetings to present on their activities. The Company Secretary is responsible for advising the Board on corporate governance matters.

B.6 Evaluation
The Board periodically conducts a formal performance evaluation and considers the balance of skills, experience, independence and knowledge of the Company on the Board and its diversity, including gender, how the board works as a unit, and other factors relevant to its effectiveness. Although the Company does not undertake annual evaluations of its performance pursuant to Code principle B.6, it considers the intervals at which such evaluations takes place sufficient to ensure continuous Board effectiveness.

B.7 Re-election
The Directors submit themselves for re-election at regular intervals, at least once every three years. Pursuant to provision B.7.1 of the Code, newly appointed Directors are subject to election by shareholders at the first AGM after their appointment.

C Accountability

C.1 Financial and business reporting
The Board is aware of its responsibility to present a fair, balanced and understandable assessment of the Company's position and prospects, and appropriate disclosures are made in the Company's annual and half-year financial statements in compliance with Code provisions C.1.1, C.1.2 and C.1.3. The financial review for this year can be found on pages 16 to 19 of this Annual Report.

C.2 Risk management and internal control
The Board has overall responsibility for maintaining and reviewing the Company's systems of internal controls and ensuring that those controls are robust and effective in enabling risks to be properly assessed and managed.

The Audit Committee has delegated responsibility from the Board to review annually the effectiveness of the risk management and internal control systems.

C.3 Audit Committee and Auditors
The responsibilities of the Audit Committee are set out in its terms of reference and approved by the Board. The terms of reference for the Audit Committee can be found on the Company's website.

A separate section of the annual report will describe the work of the Audit Committee in discharging its responsibilities.

Whilst the Company currently has no internal audit function, the Audit Committee does consider annually whether there is a need for an internal audit function in accordance with Code provision C.3.6. At present the Company considers that the regular review of its internal controls by the Audit Committee and the function of its independent external auditors are a sufficient review of the effectiveness of the Company's audit activities.

D Remuneration
The Board has established a Remuneration Committee comprising three independent Non-Executive Directors and chaired by Thomas Anderson. The responsibilities of the Remuneration Committee are set out in its terms of reference and approved by the Board. The terms of reference for the Remuneration Committee can be found on the Company's website.

The activities of the Remuneration Committee in discharging its specific responsibilities under the Code can be found on page 23 of this Annual Report.

As an AIM company, the Company is not required to have a shareholder-approved Directors' remuneration policy nor approval by shareholders of any long-term incentive plan.

E Relations with shareholders
As described above, the Directors are committed to maintain good communications with shareholders.The Chairman is contactable at the Company's registered office, and all of the Directors are expected to attend the AGM.

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 2018	Cash bonus 2018	Equity bonus common shares issued 2018	Salary 2019	Bonus opportunity 2019	Options held	Restricted stock units held
L Horsch	$91,790(1)	—	—	$91,790(1)		—	20,545
J Cooney	$464,368	$281,938	—	$464,368	50%–100% of salary	—	124,738
J Yuncza	$272,042	$78,554	16,319	$299,246	50% of salary(2)	—	82,640
H Hohmann	$297,990	$21,266	—	$312,890	Commission(2) (3)	—	11,284
T Anderson	$65,550(1)	—	—	$65,550(1)		—	24,139
R Scheuer	$74,500(1)	—	—	$74,500(1)		—	6,197

Notes:
1. Annual director fee increases have been paid in the form of RSUs.
2. Up to 50% 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, 2018, 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.

Directors' remuneration report continued

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 2018, 147,467 RSUs were exercised or forfeited, 200,971 units issued, leaving a balance of 440,476 units as of December 31, 2018. For more information, see Note 15 within the Notes to the Financial Statements.

Stock options

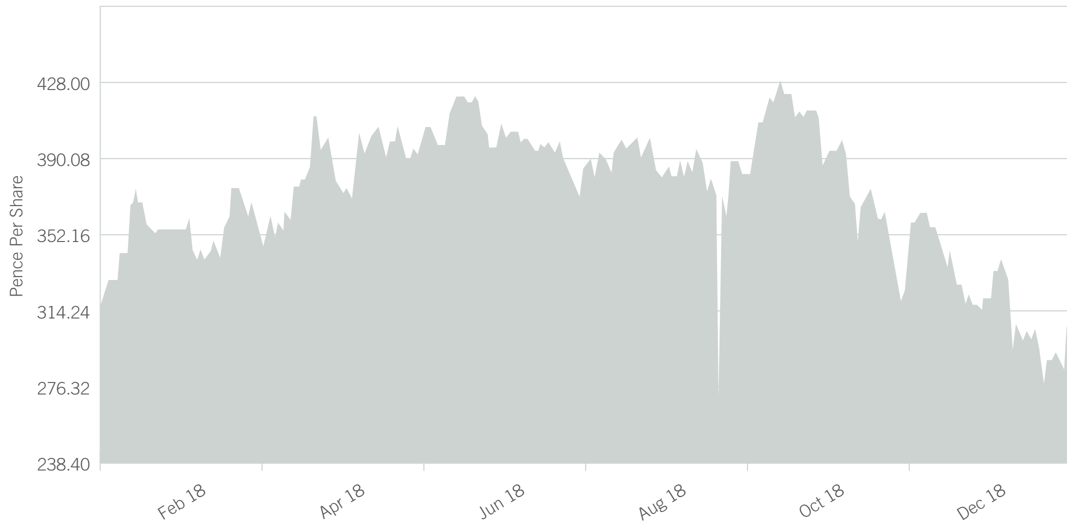
An initial grant was made in February 2010 for 2.3 million stock options as replacements for grants under the old option plan which was cancelled. The grants have a three-year vesting and a strike price of 30p, a 100% premium over the market price on the date of grant. The remaining options will only be issued for new key employees and superior performance. In 2018, 17,140 shares of stock options were exercised, leaving no shares outstanding as of December 31, 2018. 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, 2018 was 301.05p. The range during the 2017 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, 2018 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 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
J Cooney	III	June 12, 2018	2021 AGM
H Hohmann	III	June 12, 2018	2021 AGM

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

Thomas Anderson
Chairman of Remuneration Committee
March 13, 2019

Directors' report

The directors present their Annual Report and the audited financial statements for the year ended December 31, 2018.

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$ 12.3m were paid in 2018. A 25.2 US cents per share dividend was declared for the period ending December 31, 2018, with a record date of April 5, 2019, payable on April 26, 2019.

Share capital

	Ordinary Shares	
	January 1, 2018	**December 31, 2018**
L Horsch	92,000	**46,000**
J Cooney	1,414,634	**1,414,634**
J Yuncza	52,977	**84,169**
H Hohmann	54,067	**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, 2018 was 301.1p. The range during the 2018 period of trading was 278.0p to 428.0p.

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, 2018

	Amount	% holding
Canaccord Genuity Group	6,181,567	10.99%
Unicorn Asset Management	6,160,856	10.95%
Close Asset Management	4,977,050	8.85%
Polar Capital	3,627,285	6.45%
Artemis Investment Management	3,686,500	6.56%
River & Mercantile Asset Management	2,590,867	4.61%
Jupiter Asset Management	2,561,980	4.56%
Lazard Freres Gestion	2,500,591	4.45%
Old Mutual Global Investors	1,743,017	3.10%
Aberdeen Standard Investments	1,740,573	3.09%
Janus Investment Management	1,732,491	3.08%

Director restricted stock units

Director	January 1, 2018	Award/ (Exercise)	Cancelled	**December 31, 2018**	Weighted average grant date fair market value (US$)	Vesting date	Fully vested date
L Horsch	9,312	(9,312)	—	**—**	—	—	—
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
L Horsch	—	5,469	—	**5,469**	5.28	3/16/2021	3/16/2021
H Hohmann	—	11,284	—	**11,284**	5.28	3/16/2021	3/16/2021
J Cooney	64,271	(64,271)	—	**—**	—	—	—
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
J Cooney	—	26,377	—	**26,377**	5.28	3/16/2021	3/16/2021
T Anderson	6,650	(6,650)	—	**—**	—	—	—
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
T Anderson	—	13,373	—	**13,373**	5.28	3/16/2021	3/16/2021
J Yuncza	32,639	(32,639)	—	**—**	—	—	—
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
J Yuncza	—	25,018	—	**25,018**	5.28	3/16/2021	3/16/2021
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
B Scheuer	—	2,223	—	**2,223**	5.28	3/16/2021	3/16/2021

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 may elect to fund its operations through long- and short-term borrowings and it 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$ 46,557 for 2018.

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 13, 2019

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, 2018 and 2017, 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 includes 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, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in conformity with GAAP.

Whitley Penn LLP

Plano, Texas
March 13, 2019

Consolidated balance sheets
As of December 31, 2018 and 2017

	As of December 31, 2018 US$ 000	As of December 31, 2018 US$ 000
Assets		
Current assets:		
Cash and cash equivalents	**28,233**	19,038
Accounts receivable – net	**10,231**	11,026
Inventories	**10,813**	8,697
Prepaid expenses and other assets	**1,501**	2,540
Total current assets	**50,778**	41,301
Accounts receivable, non-current – net	**346**	54
Property, plant and equipment – net	**12,001**	12,306
Goodwill	**2,878**	2,878
Deferred tax asset	**850**	1,596
Other assets	**226**	268
Total assets	**67,079**	58,403
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	**2,146**	3,181
Accrued expenses	**6,391**	6,103
Income tax payable	**3,012**	1,740
Total current liabilities	**11,549**	11,024
Other liabilities	**430**	513
Total liabilities	**11,979**	11,537
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 56,288,329 and 56,242,121 shares outstanding at December 31, 2018 and 2017, respectively	**26**	26
Less: treasury stock, 137,269 shares as of December 31, 2018 and 183,477 shares as of December 31, 2017 at cost	**(326)**	(407)
Additional paid in capital	**16,969**	17,169
Retained earnings	**41,255**	32,007
Other comprehensive loss	**(2,824)**	(1,929)
Total stockholders' equity	**55,100**	46,866
Total liabilities and stockholders' equity	**67,079**	58,403

See notes to consolidated financial statements.

Consolidated statements of comprehensive income

For the years ended December 31, 2018 and 2017

	Year ended December 31, 2018 US$ 000 except per share data	Year ended December 31, 2017 US$ 000 except per share data
Revenue	**94,001**	85,634
Cost of sales	**40,375**	36,870
Gross profit	**53,626**	48,764
Operating expenses		
Sales, marketing and customer support	**11,059**	10,426
Engineering and product development	**1,357**	1,222
General and administrative	**12,037**	11,683
Total operating expenses	**24,453**	23,331
Operating income	**29,173**	25,433
Other income (expense)		
Interest expense	**(54)**	(80)
Interest income	**188**	262
Foreign exchange impact	**(42)**	477
Other	**(191)**	(354)
Income before income taxes	**29,074**	25,738
Provision for income taxes	**7,531**	7,322
Net income	21,543	18,416
Other comprehensive income		
Cumulative translation adjustment	(895)	37
Comprehensive income	20,648	18,453
Earnings per common share		
Earnings per share – basic	0.38	0.33
Earnings per share – diluted	0.38	0.33
Weighted average number of common shares outstanding		
Basic	**56,276,778**	56,233,912
Diluted	**56,728,351**	56,635,609

See notes to consolidated financial statements.

Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2018 and 2017

	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 income (loss) US$ 000	Total stockholders' equity US$ 000
Balance – January 1, 2017	56,425,598	26	22,112	221,996	(483)	27,453	(1,966)	47,142
Cumulative translation adjustment	–	–	–	–	–	–	37	37
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)	32,007	(1,929)	46,866
Cumulative translation adjustment	–	–	–	–	–	–	(895)	(895)
Net income	–	–	–	–	–	21,543	–	21,543
Stock based compensation	–	–	489	–	–	–	–	489
Dividend	–	–	–	–	–	(12,295)	–	(12,295)
Treasury stock	–	–	(81)	(46,208)	81	–	–	–
RSUs settled for cash	–	–	(525)	–	–	–	–	(525)
Stock options settled for cash	–	–	(83)	–	–	–	–	(83)
Balance – December 31, 2018	**56,425,598**	**26**	**16,969**	**137,269**	**(326)**	**41,255**	**(2,824)**	**55,100**

See notes to consolidated financial statements.

Consolidated statements of cash flows

For the years ended December 31, 2018 and 2017

	Year ended December 31, 2018 US$ 000	Year ended December 31, 2017 US$ 000
Cash flows from operating activities:		
Net income	**21,543**	18,416
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	**748**	1,754
Depreciation and amortization	**1,175**	2,100
Bad debt	**150**	141
Amortization of deferred financing costs	**–**	38
Stock based compensation	**489**	467
Loss on disposal of property and equipment	**114**	203
Working capital changes:		
Accounts receivable	**353**	(4,657)
Inventories	**(2,116)**	63
Prepaid expenses and other assets	**1,039**	(112)
Other assets	**41**	(239)
Accounts payable, accrued expenses and other liabilities	**(963)**	1,282
Income taxes payable	**1,271**	566
Net cash provided by operating activities	**23,844**	20,022
Cash flows from investing activities:		
Proceeds from sale of property and equipment	**47**	–
Property and equipment purchases	**(803)**	(1,959)
Net cash used in investing activities	**(756)**	(1,959)
Cash flows from financing activities:		
Payment of dividend	**(12,295)**	(13,862)
RSUs settled for cash	**(525)**	(464)
Stock options settled for cash	**(83)**	(4,870)
Payments under capital leases	**(95)**	(58)
Repayment of notes payable	**–**	(1,024)
Net cash used in financing activities	**(12,998)**	(20,278)
Effect of exchange rates on cash and cash equivalents	**(895)**	37
Net increase (decrease) in cash and cash equivalents	**9,195**	(2,178)
Cash and cash equivalents:		
Beginning of year	**19,038**	21,216
End of year	**28,233**	19,038

See notes to consolidated financial statements.

Notes to the consolidated financial statements

As of December 31, 2018 and 2017

1. Organization and description of business

Nature of business

Somero Enterprises, Inc. (the "Company" or "Somero") designs, assembles, remanufactures, sells and distributes concrete levelling, contouring and placing equipment, related parts and accessories, and training services worldwide. Somero's Operations and Support Offices are located in Michigan, USA with Global Headquarters and Training Facilities in Florida, USA. Sales and service offices are located in Chesterfield, England; Shanghai, China; and New Delhi, India.

2. Summary of significant accounting policies

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America. Certain prior year amounts have been reclassified to conform to the current year presentation.

Principles of consolidation

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

Cash and cash equivalents

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

Accounts receivable and allowances for doubtful accounts

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company's accounts receivable are derived from revenue earned from a diverse group of customers. The Company performs credit evaluations of its commercial customers and maintains an allowance for doubtful accounts receivable based upon the expected ability to collect accounts receivable. Allowances, if necessary, are established for amounts determined to be uncollectible based on specific identification and historical experience. As of December 31, 2018 and 2017, the allowance for doubtful accounts was approximately US$ 785,000 and US$ 859,000, respectively. Bad debt expense was US$ 150,000 and US$ 141,000 in 2018 and 2017, respectively.

Inventories

Inventories are stated using the first in, first out ("FIFO") method at the lower of cost or net realizable value ("NRV"). Provision for potentially obsolete or slow-moving inventory is made based on management's analysis of inventory levels and future sales forecasts. As of December 31, 2018 and 2017, the provision for obsolete and slow moving inventory was US$ 343,000 and US$ 110,000, respectively.

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 amortized using the effective interest method.

Intangible assets and goodwill

Intangible assets consist primarily of customer relationships and patents, and are carried at their fair value when acquired, less accumulated amortization. Intangible assets are amortized using the straight-line method over a period of three to twelve years, which is their estimated period of economic benefit. Intangible assets are fully amortized as of December 31, 2017.

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 years ended December 31, 2018 nor December 31, 2017.

Revenue recognition

The Company adopted ASC 606 "Revenue from contracts with customers" on January 1, 2018. The new revenue recognition standard requires revenue recognition based on a five-step model that includes: identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price and recognizing the revenue. The standard results in the recognition of revenue depicting the transfer of promised goods or services to customers in an amount reflecting the expected consideration to be received from the customer for such goods and services, based on the satisfaction of performance obligations, occurring when the control of the goods or services transfer to the customer. The Company's contracts and customer orders originate with fixed determinable unit prices for each deliverable quantity of goods defined by the customer order line item (performance obligation) and include the specific due date for the transfer of control and title of each of those deliverables to the customer at pre-established payment terms. We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods.

The Company generates revenue by selling equipment, parts, accessories, service agreements and training. The Company recognizes revenue for equipment, parts and accessories when it satisfies the performance obligation of transferring the control to the customer. For product sales where shipping terms are FOB shipping point, revenue is recognized upon shipment. For arrangements which include FOB destination shipping terms, revenue is recognized upon delivery to the customer. The Company recognizes the revenue for service agreements and training once the service or training has occurred.

2. Summary of significant accounting policies continued

The change in accounting principle from ASC 605 to ASC 606 did not materially impact the amount of revenue recognized in the Company's financial statements.

Prior to the adoption of this standard the Company recognized revenue in accordance with ASC 605-10, "Revenue Recognition in Financial Statements". Revenue was recognized when persuasive evidence of an arrangement existed, delivery or service had occurred, the sale price was fixed or determinable and receipt of payment was probable.

The Company believes its previous recognition policy as related to the sale of equipment and training are consistent with the new revenue recognition standard defined within FASB ASC 606 which requires unique performance obligations be recognized upon satisfaction of the performance obligation at the point in time when the control of goods is transferred to the customer (sale of equipment) or services are performed (training).

During the year ended December 31, 2018 there was US$ 719,000 of revenue recognized during the period from customer deposit liabilities (deferred contract revenue).

As of December 31, 2018 there are US$ 315,000 in customer deposit liabilities for advance payments received during the period for contracts expected to ship in 2019. As of the year ended December 31, 2018 and 2017, there are no significant contract costs such as sales commissions or costs deferred. Interest income on financing arrangements is recognized as interest accrues, using the effective interest method.

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.

	2018 US$ 000	2017 US$ 000
Balance, January 1	**(551)**	(547)
Warranty charges	**475**	447
Accruals	**(537)**	(451)
Balance, December 31	**(613)**	(551)

Property, plant, and equipment

Property, plant and equipment is stated at estimated market value based on an independent appraisal at the acquisition date or at cost for subsequent acquisitions, net of accumulated depreciation and amortization. Land is not depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is 31.5 to 40 years for buildings (depending on the nature of the building), 15 years for improvements, and 3 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.

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. Compensation expense related to stock-based payments was US$ 489,000 and US$ 467,000 for the years ended December 31, 2018 and 2017, respectively.

The Company settled US$ 83,000 and US$ 4,870,000 in stock options for cash during the years ended December 31, 2018 and 2017, respectively. In addition, the Company settled US$ 525,000 and US$ 464,000 in restricted stock units for cash and conversion to common shares during the years ended December 31, 2018 and 2017, respectively.

Transactions in and translation of foreign currency

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

Comprehensive income

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

Earnings per share

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

	Year ended December 31, 2018 US$ 000	Year ended December 31, 2017 US$ 000
Income available to stockholders	**21,543**	18,416
Basic weighted shares outstanding	**56,276,778**	56,233,912
Net dilutive effect of stock options and restricted stock units	**451,573**	401,697
Diluted weighted average shares outstanding	**56,728,351**	56,635,609

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, 2017				
Asset:				
Non-recurring				
Goodwill	2,878			2,878
Year ended December 31, 2018				
Asset:				
Non-recurring				
Goodwill	2,878			2,878

Notes to the consolidated financial statements continued

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 adopted 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.

Correction of immaterial error in previously issued financial statements

In December 2018, the Company recorded an out of period adjustment to correct an error related to its U.S. federal taxes for fiscal years 2016, 2015 and 2014. The income reported in the U.S. federal tax filings for these years was erroneously offset by foreign currency translation adjustments resulting in an underreporting of taxable income and corresponding income taxes. The cumulative effect of this error was an understatement of income taxes of approximately US$ 958,000 and approximately US$ 263,000 of interest and penalties.

The Company concluded that this error was not material to any of the previously issued consolidated financial statements. Accordingly, the Company adjusted retained earnings and income taxes payable as of January 1, 2017 by approximately US$ 1,028,000 in aggregate for the taxes, interest and penalties related to years 2016, 2015 and 2014. In 2018, the Company recognized additional interest and penalties related to years 2018 and 2017 of approximately US$ 193,000 in aggregate, which is included in the provision for income taxes in the accompanying consolidated financial statements. The adjustment did not impact operating income or cash flows for the years presented in the accompanying consolidated financial statements.

3. Inventories

Inventories consisted of the following at December 31, 2018 and 2017:

	Year ended December 31, 2018 US$ 000	Year ended December 31, 2017 US$ 000
Raw material	**3,634**	3,159
Finished goods and work in process	**3,617**	4,007
Remanufactured	**3,562**	1,531
Total	**10,813**	8,697

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, 2018 and 2017, and that the value of patents was not impaired as of December 31, 2017.

The following table reflects other intangible assets:

	Weighted average amortization period	Year ended December 31, 2018 US$ 000	Year ended December 31, 2017 US$ 000
Capitalized cost			
Patents	12 years	**18,538**	18,538
Accumulated amortization			
Patents	12 years	**18,538**	18,538
Net carrying costs			
Patents	12 years	**–**	–

Amortization expense associated with the intangible assets in each of the years ended December 31, 2018 and 2017 was approximately US$ 0 and US$ 901,000, 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:

	Year ended December 31, 2018 US$ 000	Year ended December 31, 2017 US$ 000
Land	**864**	864
Building and improvements	**11,128**	10,545
Machinery and equipment	**5,022**	5,098
	17,014	16,507
Less: accumulated depreciation and amortization	**(5,013)**	(4,201)
	12,001	12,306

Depreciation expense for the years ended December 31, 2018 and 2017 was approximately US$ 1,175,000 and US$ 1,199,000, respectively.

6. Line of credit and note payable

In February 2016, the Company entered into an amended credit facility which consists of a US$ 10.0m secured revolving line of credit that will mature in February 2021. The interest rate on the revolving credit line is based on the one-month LIBOR rate plus 1.25%. No amounts were drawn under the secured revolving credit line in the years ended December 31, 2018 or in 2017. The Company's credit facility is secured by substantially all its business assets. On January 31, 2017, the Company paid off the remaining outstanding principal totaling US$ 1.0m on its commercial real estate mortgage along with accrued interest using cash on hand.

Interest

Interest expense for the years ended December 31, 2018 and 2017 was approximately US$ 54,000 and US$ 80,000, respectively, and relates primarily to interest costs on leased vehicles.

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$ 591,000 to the savings and retirement plan during 2018 and contributed US$ 462,000 during 2017.

Notes to the consolidated financial statements continued

8. Operating leases

The Company leases property, vehicles, and office equipment under leases accounted for as operating leases without renewal options. Total rent expense for the years ended December 31, 2018 and 2017, was approximately US$ 412,000 and US$ 434,000, respectively. Future minimum payments are as follows for the years ended:

	December 31 US$ 000
2019	312
2020	310
2021	162
2022	105
2023	99
Thereafter	891
	1,879

When a lease requires fixed escalations of the minimum lease payments, rental expense is recognized on a straight-line basis over the term of the lease.

9. Capital leases

Interest rates on capital leases are variable and range from 3.6% to 5.9% at December 31, 2018. Future minimum payments are as follows for the years ended:

	December 31, 2018 US$ 000
2019	88
2020	51
2021	29
2022	10
Thereafter	–
	178

10. Supplemental cash flow and non-cash financing disclosures

	Year ended December 31, 2018 US$ 000	Year ended December 31, 2017 US$ 000
Cash paid for interest	**34**	42
Cash paid for taxes	**6,013**	4,944
Capital lease liabilities assumed	**206**	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, 2018 and 2017, the Company had two customers which represented 23% and 15% 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, 2018 US$ 000	Year ended December 31, 2017 US$ 000
Current income tax		
Federal	**5,194**	4,336
State	**844**	326
Foreign	**745**	906
Total current income tax expense	**6,783**	5,568
Deferred tax expense		
Federal	**632**	1,688
State	**11**	66
Foreign	**105**	–
Total deferred tax expense	**748**	1,754
Total tax provision	**7,531**	7,322

As of December 31, 2018 and 2017, the effects of temporary differences that give rise to the deferred tax assets are as follows:

	Year ended December 31, 2018 US$ 000	Year ended December 31, 2017 US$ 000
Deferred tax assets		
Bad debt allowance	**185**	195
Inventory reserve	**81**	25
Accrued expenses	**242**	207
UNICAP – Sec 263(A)	**170**	108
Intangible assets	**485**	1,086
UK intangibles	**105**	134
Stock compensation	**178**	326
Italy – NOL	**129**	76
Other	**147**	237
Total deferred tax assets	**1,722**	2,394
Deferred tax liabilities		
Prepaid insurance	**(124)**	(138)
Fixed assets	**(619)**	(660)
Total deferred tax liabilities	**(743)**	(798)
Valuation allowance	**(129)**	–
Total net deferred tax asset (liability)	**850**	1,596

Notes to the consolidated financial statements continued

13. Income taxes continued

A reconciliation of the income tax provision with the amount of tax computed by applying the federal statutory rate to pretax income follows:

	Year ended December 31, 2018 US$ 000	Year ended December 31, 2017 US$ 000
Consolidated income before tax	**29,074**	25,738
Statutory rate	**21.00%**	34.00%
Statutory tax expense	**6,105**	8,751
State taxes	**677**	259
Foreign taxes	**(115)**	(171)
Permanent differences due to share based compensation	**(87)**	(1,630)
Permanent differences due to other items	**112**	(395)
Foreign derived intangible income	**(471)**	–
Tax credits	**(19)**	–
Change in valuation allowance	**129**	–
Permanent due to US tax rate change	**–**	645
Change in reserve	**193**	–
Out of period adjustment	**860**	–
Other	**147**	(137)
Tax expense	**7,531**	7,322

As of December 31, 2018, the Company has US$ 536,000 of foreign loss carryforwards with an indefinite carryforward life. Management assesses the recoverability of our deferred tax assets as of the end of each quarter, weighing all positive and negative evidence, and are required to establish and maintain a valuation allowance for these assets if we determine that it is more likely than not that some or all of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which the evidence can be objectively verified. If negative evidence exists, positive evidence is necessary to support a conclusion that a valuation allowance is not needed. As of December 31, 2018, management has determined that a valuation allowance is currently needed against the Company's net operating loss carryforward deferred tax assets.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. We have open years for the tax year 2012 and forward. The Company has open years related to United Kingdom filings for the tax year 2017, and open years related to Italian filings for tax years 2013 forward.

The FASB adopted Staff Accounting Bulletin 118 ("SAB 118") as part of US GAAP. SAB 118 provides additional clarification regarding the application of ASC Topic 740 in situations where a company does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act. As of December 31, 2017, the Company reported that a provisional amount of the Transition Tax was not able to be determined. Additional guidance was released during the SAB 118 remeasurement period, and the Company completed the analysis which resulted in additional expense of US$ 148,000 in the current year related to adjustments to the transition tax.

The Company adopted the accounting standard for uncertain tax positions, ASC 740-10, and as required by the standard, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Increases or decreases to the unrecognized tax benefits could result from management's belief that a position can or cannot be sustained upon examination based on subsequent information or potential lapse of the applicable statute of limitation for certain tax positions.

Unrecognized tax benefits – January 1, 2017	958
Increases from positions taken during prior periods	–
Increases from positions taken during current period	–
Settled positions	–
Lapse of statute of limitations	–
Unrecognized tax benefits – December 31, 2017	958
Increases from positions taken during prior periods	–
Increases from positions taken during current period	–
Settled positions	–
Lapse of statute of limitations	–
Unrecognized tax benefits – December 31, 2018	958

The amount of unrecognized tax benefits as of December 31, 2018, if recognized, would favorably affect the Company's effective tax rate. These unrecognized tax benefits are classified as "Income tax payable" in the Company's Consolidated Balance Sheets as the Company does not intend to make significant payments in the next twelve months. The interest and penalties related to the unrecognized tax benefits are US$ 263,000 and US$ 156,000 as of December 31, 2018 and December 31, 2017 respectively. Interest and penalties related to the unrecognized tax benefits are included in the provision for income tax expense.

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, 2018 US$ 000	Year ended December 31, 2017 US$ 000
United States and U.S. possessions	**64,661**	55,504
Canada	**–**	2,365
Rest of World	**29,340**	27,765
Total	**94,001**	85,634

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$ 489,000 and US$ 467,000 for the years ended December 31, 2018 and 2017, respectively. The income tax effect recognized for stock based compensation was US$ 0.1m and US$ 1.8m, respectively, for the years ended December 31, 2018 and 2017.

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 2018 and 2017.

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, 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
Outstanding at January 1, 2018	17,140	0.47	2.13	61,195
Granted	–	–	–	–
Exercised	(17,140)	0.47	1.13	(61,195)
Forfeited	–	–	–	–
Outstanding at December 31, 2018	–	–	–	–
Exercisable at December 31, 2018	–	–	–	–

Options exercised in 2018 and 2017 were settled for cash of US$ 0.1m and US$ 4.9m, respectively. As of December 31, 2018 and 2017, 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.

Notes to the consolidated financial statements continued

15. Stock based compensation continued

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 2017 and 2018 is presented below:

	Shares	Grant date fair market value US$
Outstanding at January 1, 2017	417,353	836,271
Granted	121,063	419,241
Vested or settled for cash	(151,444)	(292,007)
Forfeited	–	–
Outstanding at December 31, 2017	386,972	963,505
Outstanding at January 1, 2018	386,972	963,505
Granted	200,971	1,062,130
Vested and settled for cash	(117,316)	(230,371)
Forfeited	(30,151)	(129,878)
Outstanding at December 31, 2018	440,476	1,665,386

RSUs settled for cash were US$ 0.5m in 2018 and US$ 0.5m in 2017.

As of December 31, 2018, there was US$ 909,000 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 1.33 years.

Equity Bonus Plan

The Company has an Equity Bonus Plan, under which eligible senior managers may choose to receive a percentage of their annual performance bonus in shares of common stock. 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, which allowed up to 25% of annual performance bonuses to be settled in shares of common stock. In March 2018, the Company issued 34,157 shares of common stock, valued at US$ 180,000 at the time of grant, for awards under the 2017 Equity Bonus Plan, which allowed up to 50% of annual performance bonuses to be settled in shares of common stock.

16. Employee compensation

The Board approved management bonuses and profit-sharing payments totaling US$ 1.4m to be paid in December 2018 and early 2019 based upon the Company meeting certain profitability targets.

17. Subsequent events

Line Dragon business and asset acquisition

On January 15, 2019, the Company purchased the business assets of Line Dragon, LLC (“Line Dragon”), a Pennsylvania based provider of concrete placing and hose dragging equipment to the concrete industry. Line Dragon complements Somero’s SP-16 Concrete Line Placing & Pulling system. The acquisition includes all the business assets of Line Dragon, including all patents associated with Line Dragon equipment, in exchange for US$ 2m in cash paid at closing with on-going performance payments based on a percentage of future sales of the Company’s concrete line pulling and placing equipment.

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 13.5 US cents per share that will be payable on April 26, 2019 to shareholders on the register at April 5, 2019. Together with the interim dividend paid in October 2018 of 5.5 US cents per share, this represents a full year regular dividend to shareholders of 19.0 US cents per share, a 23% increase over the previous year. In addition, due to the strength of the Company’s cash position at the end of 2018, 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 11.7 US cents per share that will be paid together with the final 2018 dividend on April 26, 2019 to shareholders on the register at April 5, 2019. The combined dividend payment on April 26, 2019 will total 25.2 US cents per share, representing a total dividend payment of US$ 14.2m.

Equity Bonus Plan

In February 2019, the Board approved the 2018 Equity Bonus Plan, under which eligible senior managers can elect to receive up to 50% of their 2018 annual performance bonus in shares of common stock. The Company expects to issue shares for awards under the 2018 Equity Bonus Plan in 2019.

Annual General Meeting

Notice is given that the Annual General Meeting of Stockholders (the “AGM”) of the Company will be held in Fort Myers, on June 11, 2019 at 9:00 am local time.

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