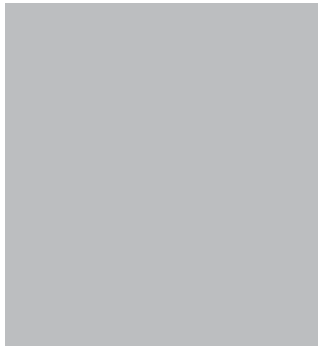




SOMERO
ENTERPRISES, INC



**PROVIDING
A PLATFORM
FOR SUCCESS.**

ANNUAL REPORT 2021

WE ARE THE

LEADERS IN LEVELLING



At Somero we provide industry-leading concrete-leveling equipment, training, education and support to customers in over 90 countries.

Our innovative technology allows contractors to complete every concrete floor installation faster, flatter and with fewer people, **providing a platform for customers to build successful businesses.**

CONTENTS

Strategic report

- 1 Highlights
- 2 At a glance
- 4 Product Innovation
- 6 Chairman's statement
- 7 Investment case
- 8 Chief Executive Officer's review
- 12 Market overview
- 14 Business model
- 16 Our strategy
- 18 Financial review
- 22 Risk management
- 23 Principal risks and uncertainties
- 24 Responsible business
- 26 Stakeholder engagement

Corporate governance

- 28 Board of Directors
- 30 Corporate governance report
- 32 Directors' remuneration report
- 34 Directors' report

Financial statements

- 37 Report of the independent auditors
- 38 Consolidated balance sheets
- 39 Consolidated statement of comprehensive income
- 40 Consolidated statements of changes in stockholders' equity
- 41 Consolidated statements of cash flows
- 42 Notes to the consolidated financial statements

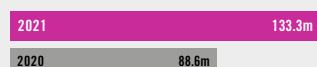
HIGHLIGHTS

OUR PERFORMANCE

Financial

Revenue

US\$ 133.3m
51%

Adjusted EBITDA^(1,2)

US\$ 47.8m
83%

Diluted adjusted net income per share^(1,3)

US\$ 0.61
85%



Cash flow from operating activities

US\$ 36.9m
21%

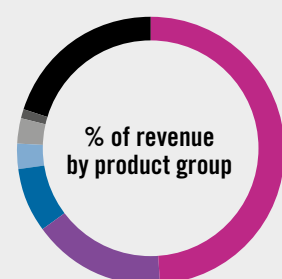
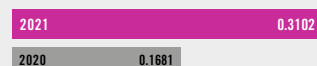
Net cash⁽⁴⁾

US\$ 42.1m
19%

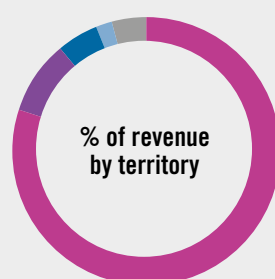


Ordinary dividend per share

US\$ 0.3102
85%



Boomed screeds	49%	Remanufactured machines	3%
Ride-on screeds	16%	Sky Screed	1%
3-D Profiler System	8%	Other	20%
Somero Line Dragon	3%		



North America	80%	China	2%
Europe	9%	Rest of World	4%
Australia	5%		

Operational

- Investing for long-term growth
 - Accelerated plans to expand the Houghton, Michigan Operations and Support Offices adding 35% more operational capacity with targeted completion in mid-year 2022
 - The Australian direct sales and support team, established in late 2020, drove an annual sales increase to US\$ 6.1m (2020: US\$ 1.1m)
 - The Company added over 40 employees in 2021 with focus on global sales, global customer support, and domestic operational roles
- Executing the long-term product strategy to expand the addressable market
 - The two newest products, the Somero Broom+Cure™ and the SkyStrip™, combined to contribute US\$ 2.3m in 2021 revenues, a US\$ 1.0m increase over 2020
 - Launched the SkyStrip™ a plywood stripping solution that targets the high-rise market segment in June 2021
 - Completed development of the S-PS50, a large boomed-screed used to level concrete in tilt-up panel casting applications, ahead of an expected Q1 2022 launch
 - Completed development of the S-28EZ, the next generation large boomed-screed to replace the S-22EZ, ahead of an expected Q1 2022 launch

Post-period

- Declared a 22.02 US cents per share final 2021 ordinary dividend and a 19.70 US cents per share supplemental dividend, totaling a combined US\$ 23.4m, payable on May 6, 2022 to shareholders on the register at April 8, 2022
- Authorized a new share buyback program of an aggregate value of up to US\$ 2m to offset dilution from on-going equity award programs, expected to be completed by the end of 2022

Notes:

- 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.
- Adjusted EBITDA as used herein is a calculation of the Company's net income plus tax provision, interest expense, interest income, foreign exchange gain (loss) other income (expense), depreciation, amortization, stock-based compensation and non-cash lease expense.
- 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.
- Net cash is defined as cash and cash equivalents less borrowings under bank obligations exclusive of deferred financing costs.

AT A GLANCE

WHO WE ARE



↑ Global Headquarters & Training Center

OUR PURPOSE

WE WORK HARD TO DELIVER WORLD-CLASS PRODUCTS AND SERVICES BECAUSE WE'RE PASSIONATE ABOUT HELPING OUR CUSTOMERS ACHIEVE THEIR BUSINESS AND PROFITABILITY GOALS.

VISION

Somero's vision is for our innovative, cutting-edge technology and processes to be in use wherever a ready-mix truck is discharging concrete for a horizontal concrete slab.

VALUES

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:

- A commitment to teaching and learning
- An ability to solve problems in creative ways
- Being accountable and taking ownership
- Operating with a sense of urgency
- Proactive honest communication
- Embracing and driving change
- Expressing our passion through amazing service
- Having fun

CULTURE

At Somero, we are always striving to be great ... providing great equipment and service for our customers and creating a great place to work for our employees, and operating a sustainable and responsible business.

OUR 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:

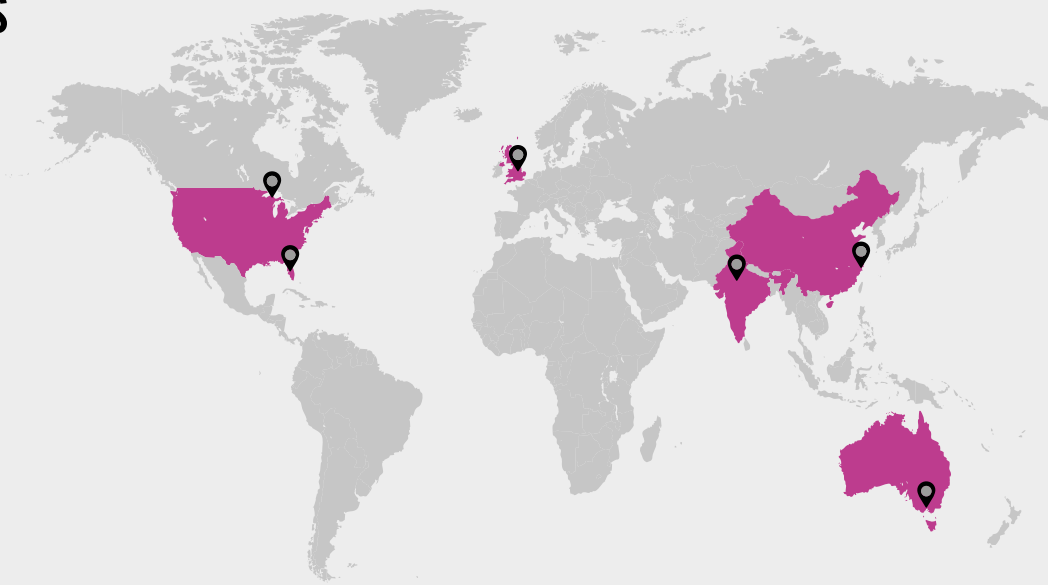
Sales and service office

China, Shanghai:

Sales, service and Somero Concrete College training facility

Australia, Melbourne:

Sales and service office



OUR PRODUCTS

Somero products are technologically innovative machinery used in the process of horizontal concrete placement. By using Somero products, customers can expect flatter floors, increased productivity, and higher efficiency.

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 nearly 20 products. Our proprietary designs are protected by over 90 patents and patent applications.



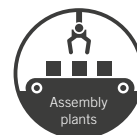
OUR SERVICES

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.

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.



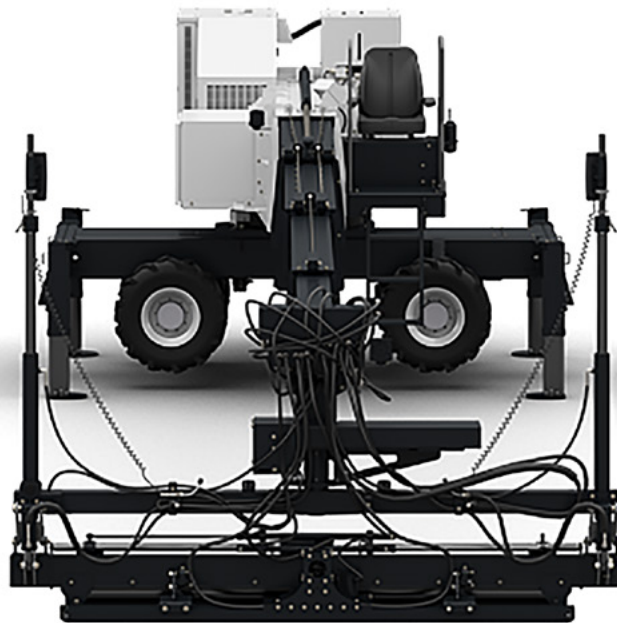


PRODUCT INNOVATION

S-PS50 LASER SCREED®

SCREED

REACHING FURTHER





OUR LATEST INNOVATION

Somero® is proud to introduce the Somero® S-PS50 Laser Screed® Machine.

Somero's latest innovation tackles the demands of tilt-up panel casting and applies the FASTER. FLATTER. FEWER™ benefits that come with our patented Laser Screed® Technologies.

As with all our new products, development of the S-PS50 started on the jobsite with the customer. The end result is a ground breaking design that provides valuable, mechanical solution for customers completing tilt-up panel projects.

INNOVATION IS
A KEY ELEMENT OF
OUR LONG-TERM
GROWTH STRATEGY,
THE S-PS50 IS THE
LATEST EXAMPLE
OF THIS STRATEGY
IN ACTION

50%

Longer boom reach
than our S-28EZ



↑ S-PS50 Laser Screed® in action

CHAIRMAN'S STATEMENT

INVESTING IN GROWTH

Introduction

The growth we experienced in 2021 was truly remarkable. Growing revenue by 51% and EBITDA by 83% compared to 2020 is a tremendous accomplishment by any measure, and these results were directly the result of extraordinary effort by Somero employees throughout the year. While non-residential construction activity in our key markets was strong throughout 2021, particularly in the US, it was the stellar execution by our employees across all functions that enabled the Company to capitalize on the strong demand to deliver extraordinary revenue growth in 2021. On behalf of our Board, I want to thank all our Somero employees for their impressive performance and tireless work to overcome the obstacles we faced so that we could reliably deliver needed equipment to our customers. This performance was even more impressive as this was all accomplished with the health and well-being of each other, our customers, and our suppliers remaining our top priority.

Performance and Dividend

With strong trading in H2 2021, Somero finished the year with revenues of US\$ 133.3m, adjusted EBITDA of US\$ 47.8m, and year-end net cash of US\$ 42.1m, all at the highest level in Company history. Driven by these remarkable results, we ended the year with the strongest financial position in our history. This financial strength provides us with the flexibility to make investments to develop new products, add resources domestically and internationally to sell and support our products, and to expand our operational capacity to support the future growth of the business. These investments underpin the long-term success of our business, and we are pleased to be in a position to make them while maintaining a disciplined return of cash to shareholders.

In 2021, we paid US\$ 22.4m in dividends and substantially completed the US\$ 1.0m share repurchase program authorized by the Board in February 2021. I am pleased to report that based on our 2021 results and with confidence in the business outlook, the Board has approved a final 2021 ordinary dividend of 22.02 US cents per share and a supplemental dividend of 19.70 US cents per share, which on a combined basis represents a US\$ 23.4m payment to shareholders. Both amounts are payable on May 6, 2022 to shareholders of record on April 8, 2022. Together with the interim dividend paid in October 2021 of 9.00 US cents per share, the 2021 full-year ordinary dividend is 31.02 US cents per share.

The supplemental dividend declared is in accordance with the Company's supplementary dividend policy adopted on March 10, 2021, that stated the Company intends to distribute 50% of the excess of net cash over the year-end target of US\$ 20.0m. The Board has reviewed the net cash target for year-end for 2022, that will be used to determine a 2022 supplemental dividend that would be paid in 2023. Commensurate with the significant growth and increased complexity of the business, the Board now considers it prudent to raise the net cash target to US\$ 25.0m for year-end 2022, and intends to distribute 50% of the excess of net cash over this amount as a supplemental dividend.

Share Buyback

In February 2022, the Board approved a 2022 share buyback program, pursuant to which, the Board intends to carry out a buyback US\$ 2.0m of common shares in order to mitigate future dilution resulting from share issuances under the Company's equity award programs. The Company expects to complete this program by the end of 2022.

Strategic Progress

Somero is committed to leading the industry forward by introducing innovative solutions that help our customers build better, safer, and more profitable businesses. Bringing new products to market not only brings more value to our customers, but it also expands our addressable market and long-term growth opportunity. 2021 was a productive year for our product development team. In addition to completing development of three new products, the team also progressed to develop the pipeline of future products encompassing both next generation enhancements of existing products and entirely new products geared toward new market segments.

In June 2021, Somero introduced disruptive technology to the market, the SkyStrip™, a stripping machine for plywood sheets used to shore concrete slabs in structural high-rise buildings. Also in the year, we completed development of the S-28EZ, the next generation large boomed-screed replacing the S-22EZ, and completed design of the S-PS50, a large boomed-screed used to level concrete in tilt-up panel casting applications. The addition of these three new products, with the S-28EZ and the S-PS50 expected to be commercially available in Q1 2022, expands our offering portfolio to nearly 20 products. New products also contributed to 2021 revenue growth, with the two most recent introductions, the Somero Broom+Cure™ and SkyStrip™ combining for US\$ 2.3m in 2021 revenues, a US\$ 1.0m increase over 2020. We were pleased that job-site demonstrations began to resume in H2 2021 for the SkyScreed® product line that translated to US\$ 0.9m in H2 2021 SkyScreed® sales bringing total 2021 sales for this product to a comparable level with 2020. We remain confident in the long-term growth opportunity for this product line and the broader high-rise structural segment.

Growth from outside North America was meaningful in 2021. International revenues grew US\$ 8.8m, or 50%, in 2021 compared to 2020 to reach US\$ 26.7m for the year as our efforts to educate markets on the benefits of quality, flat and level concrete slabs, to increase market awareness of the strength of Somero's value proposition and to gain traction with new products were effective despite the overhang of COVID restrictions. Our international strategy is to focus on markets where our value proposition is strongest, such as Europe and Australia, and to add or reallocate resources to these markets. Consequently, Europe and Australia were the source of the vast majority of international growth, reporting a combined US\$ 18.2m in 2021 sales, increasing US\$ 8.5m, or 88%, compared to 2020.

Senior Management Changes and Board Appointments

I am pleased to report that at the end of 2021, the Board and Senior Management began the orderly transition of responsibilities from Jack Cooney, who has served as President and Chief Executive Officer since 1997, to other members of the Senior Management team.

John Yuncza, who held the position of Chief Financial Officer, was appointed President in January 2022, assuming responsibility of the execution of the strategy and daily operations of the business from Mr. Cooney. At the same time, Vincenzo (“Enzo”) LiCausi, who held the position of Vice President of Finance, was appointed Chief Financial Officer and to the Board. Mr. Cooney will continue to serve as Chief Executive Officer and as an executive director on the Company’s Board, guiding the long-term vision and strategy of the business with particular focus on new product development initiatives and assuring an effective and seamless transition of leadership to Mr. Yuncza.

I am also pleased to report that our extensive search in 2021 to add a fourth non-executive director to the Board culminated with Anne Ellis, an accomplished, experienced senior business executive with tremendous construction engineering experience, being appointed to the Board at the beginning of 2022.

Outlook

The Board is confident in the outlook for 2022 based on the positive momentum of an active US non-residential construction market that is carrying forward from a strong finish to 2021, the positive momentum and market conditions in our targeted international markets, and on the opportunities for growth from new products. The Board’s view is supported by direct feedback from US customers that report healthy, extended project backlogs.

With the Board’s confidence in the long-term growth opportunity from new products and new market segments, it has committed to increase investment in product development, sales and support staff that are engaged with new products and new market segments both in the US and abroad. With these planned investments, primarily in the form of staffing additions, we expect an increase in 2022 operating costs that will exceed our traditionally targeted US\$ 2.0m. We are pleased to be able to make these investments now to capture future growth thanks to our strong financial position and the positive outlook for the business.

Momentum has continued into the current fiscal year and the Board expects 2022 will be a profitable year with healthy cash generation. Following an extraordinary year in 2021, with remarkable growth and record revenues and profits, 2022 revenues are expected to grow at a modest rate, and with the investments for future growth being made, 2022 EBITDA is expected to be comparable to 2021. This outlook also reflects the annualized impact in 2022 of 2021 hires that were required to keep pace with significantly increased demand, and of the aforementioned decision to add product development, sales and support staff in 2022 to benefit future growth.

Larry Horsch

Non-Executive Chairman
March 9, 2022

INVESTMENT CASE

OUR CORE STRENGTHS

Our performance in 2021 is a great illustration of the strength of our management team, the flexibility of our operating model, and our commitment to driving long-term growth.

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

02 Dominant market position

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

04 Skilled management team with extensive industry experience

05 Attractive global growth opportunity:

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

06 Strong and consistent financial performance:

- Superior margins
- Strong conversion of revenue growth into free cash flow
- Strong, unleveraged balance sheet
- Disciplined return of cash to shareholders through dividends

CHIEF EXECUTIVE OFFICER'S REVIEW

PROVIDING SOLUTIONS FOR OUR CUSTOMERS

Overview

2021 was an outstanding year, with record breaking revenue, profits and cash flow. The strong trading was consistent throughout the year, due to steady demand particularly in the US, and due to the remarkable performance of our operational team to convert this demand into sales. Reliable delivery of equipment to customers was a tremendous accomplishment that set Somero apart from many other companies. Our team overcame many challenges during the year, not the least of which were supply chain delays and the loss of manpower due to COVID quarantines, to meet our customers' equipment requirements so they could continue work on their projects.

Total revenues grew an outstanding 51% from 2020 to reach US\$ 133.3m, the highest in Somero's history, with North America the most significant contributor to growth. The record trading in 2021 converted into record profits. 2021 EBITDA increased 83% from 2020 to reach US\$ 47.8m for the year with the highly efficient conversion of growth to profit due to lean operation in 2021 as actual staffing levels lagged levels required to sustainably support the higher volume of trading. Much of the understaffing gap was resolved by year-end 2021. Record profits in turn led to record operating cash flow that grew 21% compared to 2020 to reach US\$ 36.9m in 2021. That led to net cash at year-end of US\$ 42.1m, a record level for the Company. The final 2021 results fell in line with guidance provided on 26 January 2022.

During 2021 the Company was able to pay dividends of US\$ 22.4m, repurchased US\$ 1.0m in common shares, and spent US\$ 6.2m on capital expenditures, the vast majority of which relates to the Houghton, Michigan expansion project, and still end 2021 with a record level of net cash. The strong cash position to start 2022 enables the company to return a US\$ 23.4m to shareholders through a dividend payment in May 2022 and provides the Company with the capability and flexibility to make investments in support of executing its long-term growth strategy.

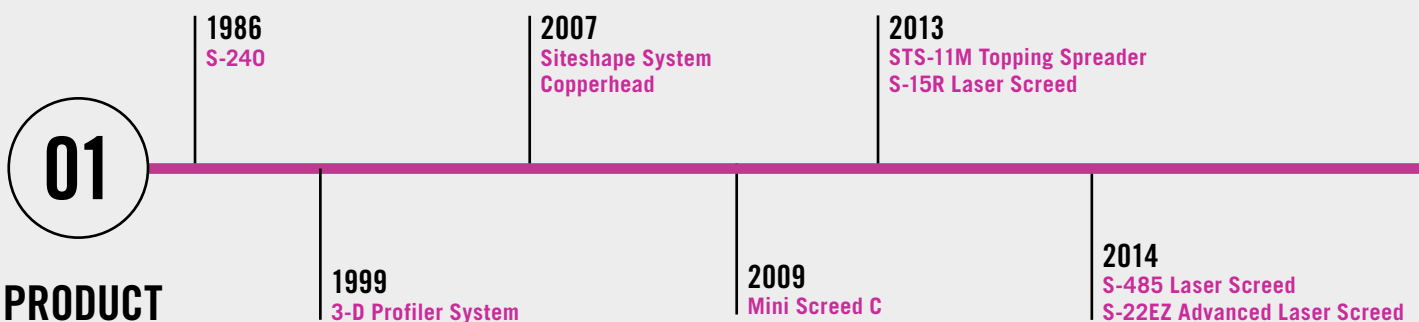
Region Reviews

In 2021, four of the Company's five regions grew compared to 2020. North America reported 2021 sales increased US\$ 35.9m, or a remarkable 51%, from 2020 to reach US\$ 106.6m in sales for the year in our largest market. The remaining three regions comprised of Europe, Australia and the Rest of World group, combined to contribute US\$ 24.0m to 2021 sales, an increase of US\$ 10.0m, or 71%, compared to 2020. This strong global revenue contribution highlights positive momentum and solid non-residential construction activity across a large portion of our geographic footprint.

The tremendous growth in North America in 2021 was driven by strong non-residential construction activity in the US encompassing a wide range of projects but with particularly strong demand for new warehousing due to rapid acceleration of e-commerce transaction volume. We also saw strong take rates across our product portfolio indicating a broad range of project activity in the market. Increased volume of large footprint commercial and industrial projects, such as new warehousing, led to customers demanding highly-productive equipment such as the S-22EZ to complete these projects and drove sales of boomed screed equipment to reach US\$ 50.4m in 2021, more than doubling the US\$ 24.3m reported in 2020. The vast majority of these boomed-screed sales were in North America.

Somero's journey

Somero started as a single product company in 1986 and has grown its portfolio to nearly 20 products over 30 years; significantly expanding our addressable market. We are always looking for ways to improve the construction industry and what we can provide.



The outlook for North America is positive supported by expected continuation of an active US non-residential construction market and supported by customer feedback indicating project backlogs extend well into 2022.

Europe reported a significant increase in 2021 revenues, reaching US\$ 12.1m in annual revenues, an increase of US\$ 3.5m, or 41%, from 2020. Non-residential construction activity in Europe was also positive and corroborated by input from European customers solicited during our frequent direct contact. Our customer feedback in Europe indicates project workloads are strong entering 2022. We are also pleased with the broad-based contribution to sales from across the region, with equipment sales in 2021 to thirteen countries, with the most significant contributors being UK, Poland, Spain, and Italy. We are continuing to focus intently on markets within the European region where our value proposition is strongest.

In Australia, our decision to change our go-to-market approach in Q4 2020 and establish a direct sales and support team resulted in meaningful improvement in 2021. Australia reported 2021 sales of US\$ 6.1m, an increase of US\$ 5.0m, or 455%, compared to 2020. The tremendous improvement in 2021 was attributable to positive levels of non-residential construction activity, to more intense coverage of the market that represented a broader portion of our product offering, and to the positive impact of favorable local currency exchange rates.

In China, 2021 revenues declined to US\$ 2.7m compared to US\$ 3.9m in 2020. The primary obstacle to growth in China is delayed acceptance and demand for quality standards of concrete slabs by domestic commercial building developers which consequently limits our near to medium term opportunity within this targeted quality market segment. As a result of the market climate and recent performance, at the end of 2021 we finalized plans to



2015
S-10A Laser Screed

2019
Somero Line Dragon
SkyScreed® 25

2021
S-PS50
S-28EZ
S-15R Base Broom + Cure

2016
S-158c
S-940 Laser Screed

2020
SkyScreed® 36
SRS-4 Laser Screed
Somero Broom + Cure™

20

PRODUCTS

CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

reduce our operational cost structure in China to align to anticipated trading volume. These cost reduction actions will begin in 2022 and include reducing the size of our in-country team and limiting market development, direct field sales and marketing activities. Consequently, we anticipate the revenue contribution from this market will lessen in 2022 and going forward until domestic demand for quality concrete slabs increases. We will continue to evaluate our longer-term strategy in this market and adjust appropriately as conditions change.

Our Rest of World group, is comprised of Latin America, India, Southeast Asia, Middle East, Korea and Russia, with Russia contributing immaterially to annual trading at less than US\$ 0.2m in 2021 revenues. In 2021, combined revenues from the Rest of World group increased US\$ 1.5m, or 35%, compared to 2020 to reach US\$ 5.8m for the year. Market conditions seen throughout these territories in 2021 were generally positive. The largest contributors to the Rest of World performance were Latin America reporting 2021 revenues of US\$ 2.2m compared to US\$ 1.1m in 2020, and India reporting 2021 revenues of US\$ 1.9m compared to US\$ 1.2m in 2020. The improved performance in Latin America was due to incremental contribution from Brazil, despite unfavorable local currency exchange rates. In India, we are pleased with the contribution to revenue, despite more severe COVID impacts than in other parts of the world, and we expect to see opportunities for continued growth in the future.

Cash flow and Balance Sheet

Somero delivered strong operating cash flow in 2021, totaling US\$ 36.9m, as a result of record profits and effective working capital management. Working capital was closely and effectively managed in 2021, but as expected the one-time working capital benefit of US\$ 6.7m realized in 2020 partly reversed in 2021 as accounts receivable and inventory reverted to more typical levels to end 2021, with the higher level of inventory in 2021 due in part to new product launches. The combined impact led to an increase in working capital investment of US\$ 4.6m in 2021, although even with the increased net working capital investment, 2021 operating cash flow grew 21% compared to 2020 and year-end net cash reached US\$ 42.1m, an all-time high for the Company.

In 2021, the Company invested US\$ 6.2m in capital expenditures, funding the investment with operating cash flow, with the vast majority of this spend relating to progress payments on the US\$ 9.5m Houghton, Michigan expansion project that began in H2 2021.

Based on the Company's secure financial position and the Board's confident outlook for the business, the Board has approved a final 2021 ordinary dividend of 22.02 US cents per share and a supplemental dividend of 19.70 US cents per share, which on a

combined basis represents a US\$ 23.4m payment to shareholders that is payable on May 6, 2022. This significant return of cash to shareholders in May 2022 follows the payment of US\$ 22.4m in dividends in 2021, reflective of the disciplined return of cash to shareholders in accordance with the Company's dividend policy.

Product Development

New products are central to the Company's long-term growth strategy and in 2021 the Company continued to execute this strategy by adding to the product portfolio and expanding the Company's addressable market.

In 2021, Somero introduced one new product and completed design of two additional products. In June 2021, the Company introduced the SkyStrip™, a disruptive mechanical solution to strip plywood sheets used to shore concrete slabs in structural high-rise buildings. Similar to the SkyScreed®, the SkyStrip™ represents a change to long-established manual processes and therefore at this early stage requires job site demonstration to gain acceptance. In 2021, the product development team completed the design of S-28EZ, the next generation boomed-screed to replace the S-22EZ, a product we expect will be commercially available in Q1 2022. The S-28EZ provides a meaningful increase in productivity to customers due to its extended boom reach enabling faster concrete placement that saves valuable time for the contractor. The product development team also completed the design of the S-PS50 in 2021. The S-PS50 is our largest boomed-screed with 50-foot extension and is targeted for leveling concrete in tilt-up panel casting applications historically a manual, labor intensive process. With the addition of these three new products, our portfolio expands to nearly 20 products.

The Company's two most recent product introductions, the Somero Broom+Cure™ and SkyStrip™ combined to contribute US\$ 2.3m in 2021 revenues, a US\$ 1.0m increase over 2020. As expected and consistent with most entirely new products introduced to the market, market acceptance grows at a measured pace building toward more wide-spread adoption that drives meaningful sales growth.

We were also pleased that job-site demonstrations began to resume in H2 2021 in the structural high-rise market segment that translated to US\$ 0.9m in SkyScreed® sales during H2 2021 to bring total sales for 2021 to a comparable level with 2020, and to enable building early market awareness of the newly introduced SkyStrip™. We remain confident that this product line and the broader high-rise structural segment represents a meaningful long-term growth opportunity.

Beyond these new 2021 products, our product development team made progress to develop the pipeline of future products that consists of enhancing existing products and developing entirely new concepts that target new market segments and applications.

Our development process begins on the job site where our team identifies opportunities to deliver value to our customers by eliminating pain points, replacing inefficient manual processes with mechanical solutions, increasing the quality of concrete slab, and improving the safety of the construction process. The Board is committed to adding necessary resources to support this effort, as well as to selling and providing customer support for the expanding line-up of new products in targeted markets across the globe. We expect this incremental investment will increase operating expenses at a faster pace than seen in previous years but will provide the benefit of capturing growth from new products in the US and abroad in the years to come.

Expansion Update

The Company has made substantial progress toward completion of the planned US\$ 9.5m expansion of our Global Operations and Support Offices in Houghton, Michigan. The project will increase the operational capacity of the facility by 35%, enough to support a business with US\$ 175.0m in annual revenues. The expansion is required to accommodate higher volumes as well as significantly larger new products such as S-PS50 and S-28EZ. Approximately US\$ 4.5m of the project cost was expended in H2 2021, with the majority of the remaining cost expected to be expended in H1 2022. Anticipated completion of the project is H2 2022.

Conclusion

The talent, dedication and resolve of our management team and employees drove these tremendous results by overcoming many challenges we faced this year. In addition to delivering record results and returning US\$ 23.4m in cash to shareholders in 2021 through dividends, we continued to progress on our product development initiatives and in investing in driving future growth in targeted international markets. As we enter 2022, we have the positive momentum of healthy North American market, opportunities for growth in our targeted international markets, and meaningful growth prospects from new products in our domestic and international markets in front of us. With all of this in place, we are extremely well positioned for our next phase of growth and look forward to delivering another year of substantial progress for our shareholders.

Jack Cooney

Chief Executive Officer
March 9, 2022

PREPARING FOR OUR NEXT PHASE OF GROWTH

Somero is positioned well to capture growth from new products and deepened penetration of our targeted international markets. In 2021, the Company made a significant investment to expand our operational capacity and support future growth.

Houghton, Michigan Facility Expansion

In 2021, the Board approved acceleration of plans to expand its Global Operations and Support Facility in Houghton, Michigan by adding approximately 35% more operational capacity to the facility, sufficient to support a business with approximately US\$ 175m in annual revenue. Total projected cost for the project is US\$ 9.5m with anticipated completion in early H2 2022.



Houghton, USA

MARKET OVERVIEW

OPPORTUNITY FOR GROWTH



WE SEE SIGNIFICANT LONG-TERM OPPORTUNITIES FOR GROWTH IN TARGETED INTERNATIONAL MARKETS AND FROM NEW PRODUCTS THAT EXPAND OUR ADDRESSABLE MARKET.

Jack Cooney

Chief Executive Officer



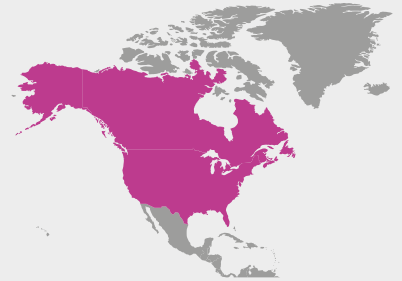
↑ Somero Broom + Cure™

OUR LOCATIONS

NORTH AMERICA

Percentage of total 2021 revenues

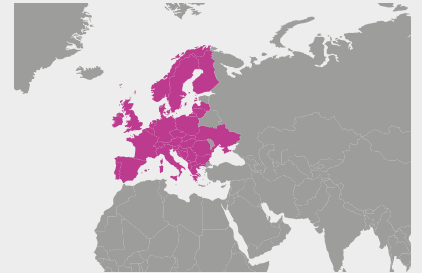
80%



EUROPE

Percentage of total 2021 revenues

9%



AUSTRALIA

Percentage of total 2021 revenues

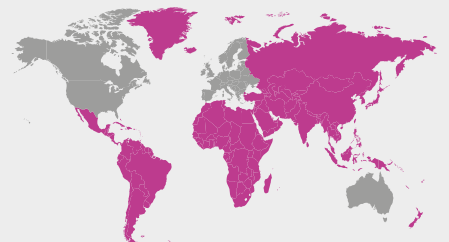
5%



REST OF WORLD

Percentage of total 2021 revenues

6%



Drivers of growth

- New product introductions
- New technology to upgrade fleet of installed equipment
- Fleet additions
- Shortage of skilled labor in concrete construction industry
- Accelerated shift toward e-commerce driving demand for warehousing

Market dynamics

- Largest market and installed base of equipment
- Non-residential construction market fundamentals remain positive in the US
- Healthy economy supported by extended customer project backlogs

Ongoing Priorities

- Introducing product innovations to the market
- Increasing the efficiency and depth of sales and support coverage
- Increasing the reach of our training capabilities and industry expertise

Drivers of growth

- New product introductions
- New technology to upgrade installed base of equipment
- Fleet additions
- Shortage of skilled labor in concrete construction industry
- Accelerated shift toward e-commerce driving demand for warehousing

Market dynamics

- Second largest installed base of equipment
- Positive non-residential construction market conditions in the European region

Ongoing Priorities

- Introducing product innovations that resonate with the local market
- Increasing market penetration of new products
- Increasing efficiency and depth of sales and support coverage in targeted portions of the region
- Increasing the reach of our training capabilities and industry expertise

Drivers of growth

- New product introductions
- New technology to upgrade installed base of equipment
- Fleet additions
- Shortage of skilled labor in concrete construction industry
- Accelerated shift toward e-commerce driving demand for warehousing

Market dynamics

- Meaningful installed base of equipment
- Positive non-residential market conditions
- Stable economic environment

Ongoing Priorities

- Introducing product innovations that resonate with the local market
- Increasing market penetration of new products
- Increasing efficiency and depth of sales and support coverage
- Increasing the reach of our training capabilities and industry expertise

Drivers of growth

- New product introductions
- Growing demand for quality concrete flooring
- Move toward e-commerce driving demand for warehousing
- Increasing shortage of skilled labor in concrete construction industry

Market dynamics

- Current market penetration very low
- Meaningful opportunities in the Middle East, Latin America and India

Ongoing Priorities

- Increasing market penetration of new and legacy products
- Increasing efficiency of sales and support coverage in targeted portions of the region
- Supporting promotion of wide-placement theory and quality standards for concrete floors

OUR BUSINESS MODEL

A PROVEN VALUE PROPOSITION



SOMERO IS MUCH MORE THAN SIMPLY A SELLER OF EQUIPMENT. WE ARE COMMITTED TO MAKING OUR CUSTOMERS SUCCESSFUL IN THEIR BUSINESSES BY PROVIDING THEM ACCESS TO UNPARALLELED INDUSTRY EXPERTISE, SERVICE, TRAINING AND SUPPORT.

Jack Cooney
Chief Executive Officer

WHAT WE DO

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



WHO WE WORK WITH

Somero operates in markets across the globe, selling products in 90+ countries.

We work with small, medium and large concrete contractors and self-performing general contractors. Our equipment has been used in construction projects for a wide array of the world's largest organizations.

WHAT MAKES US DIFFERENT



Innovative product leadership

- Pioneered Laser Screed® machine market in 1986
- Product portfolio grown to nearly 20 products
- Designs protected by over 90 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 BENEFICIARIES



Key benefits to our employees

- Challenging and rewarding work environment full of opportunity
- Investment in training to help each employee reach their full potential

Key benefits to our customers

- 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

Key benefits to our investors

- Strong, consistent financial performance
- Significant growth opportunity in new and existing markets
- Strong, unleveraged financial position
- Disciplined return of cash to shareholders

OUR STRATEGY

LONG TERM GROWTH

STRATEGIC OBJECTIVE



PRODUCT INNOVATION

Pushing the industry forward with proprietary, innovative designs that help customers reduce manpower, increase speed & safety and deliver the highest quality concrete slabs for building owners.

PROGRESS DURING THE YEAR

- Launched SkyStrip™ June 2021
- Completed S-28EZ design, successor to S-22EZ
- Completed S-PS50 design for tilt-panel applications, expanding addressable market

2021 New Product Revenues*

US\$ 2.3m

Current Patents & Applications

90+

* Sales of SkyStrip™ & Broom+Cure™



INTERNATIONAL EXPANSION

Deepening our presence in targeted markets by promoting wide-placement theory & quality concrete flooring standards, and increasing market penetration across the full range of our product portfolio.

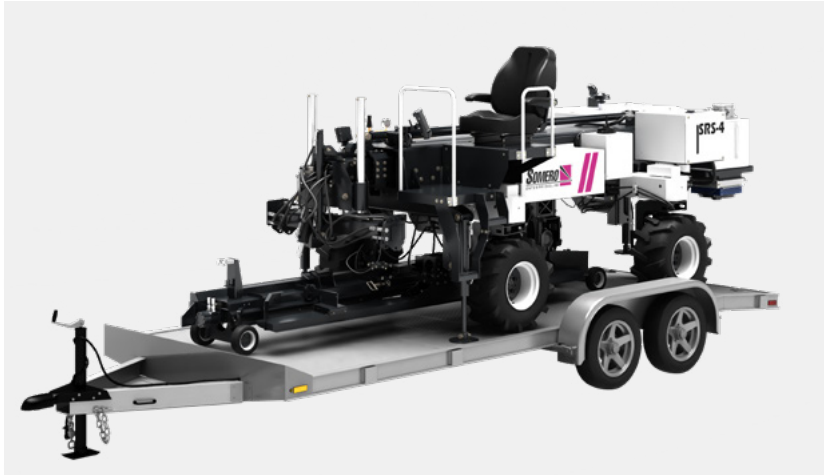
- Increased size of in-country team directly serving Australia
- Introduced SRS-4 in Australia, planning 2022 SkyScreed introduction in Europe & Australia

Non-Operational Staff Based Outside US

25%

2021 International Revenue Growth %

50%



OUR VISION

For our innovative technology to be deployed whenever horizontal concrete slabs are placed. We remain focused on developing customer solutions that expand the market segments and applications we address.

OUR STRATEGY

To bring innovative solutions and training, support and industry expertise to concrete flooring contractors to support them in producing the highest quality results in the most efficient, cost-effective and safe manner possible. **Faster, Flatter, Fewer® and safer.**

← Somero SRS-4

ONGOING PRIORITIES

To expand Somero's product offering, and consequently increase the Company's addressable market opportunity, by developing proprietary, innovative and often disruptive solutions for customers that improve the efficiency, productivity, quality and safety of their work

To allocate resources to targeted international markets where the value proposition of the Company's products is strongest in order to promote the benefits wide-placement and quality concrete flooring standards and increase market penetration with new and existing products



STRATEGY IN ACTION

S-28EZ Laser Screed® Machine

Somero completed the design of the S-28EZ in 2021 with commercial availability expected in early 2022. The S-28EZ will replace the S-22EZ in the product line-up.



↑ Somero S-28EZ

Australia

In 2021, Somero added sales & support resources to the team in Australia and is focused on gaining further traction across the full product portfolio, particularly from products new to the Australian market, such as the SRS-4 and soon the SkyScreed® and SkyStrip™.



FINANCIAL REVIEW

Summary of financial results

	Year ended December 31	
	2021 US\$ 000 Except per share data	2020 US\$ 000 Except per share data
Revenue	133,334	88,572
Cost of sales	56,454	39,758
Gross profit	76,880	48,814
Operating expenses		
Selling, marketing and customer support	12,644	10,312
Engineering and product development	2,106	1,826
General and administrative	16,989	12,821
Total operating expenses	31,739	24,959
Operating income	45,141	23,855
Other income (expense)		
Interest expense	(45)	(45)
Interest income	171	244
Foreign exchange impact	(239)	47
Other	(408)	511
Income before income taxes	44,620	24,612
Provision for income taxes	9,788	5,839
Net income	34,832	18,773
	Per Share	Per Share
	US\$	US\$
Basic earnings per share	0.62	0.33
Diluted earnings per share	0.61	0.33
Basic adjusted net income per share ^{(1), (3), (4)}	0.62	0.34
Diluted adjusted net income per share ^{(1), (3), (4)}	0.61	0.33
Other data		
Adjusted EBITDA ^{(1), (2), (4)}	47,780	26,106
Adjusted net income ^{(1), (3), (4)}	34,835	18,873
Depreciation expense	1,173	965
Amortization of intangibles	153	153
Capital expenditures	6,245	3,734

Notes:

- 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.
- Adjusted EBITDA as used herein is a calculation of net income plus tax provision, interest expense, interest income, foreign exchange gain(loss), other income (expense), depreciation, amortization, stock-based compensation and non-cash lease expense.
- 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.
- 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	
	2021 US\$ 000	2020 US\$ 000
Adjusted EBITDA reconciliation		
Net income	34,832	18,773
Tax provision	9,788	5,839
Interest expense	45	45
Interest income	(171)	(244)
Foreign exchange impact	239	(47)
Other	408	(511)
Depreciation	1,173	965
Amortization	153	153
Stock-based compensation	1,052	911
Non-cash lease expense	261	222
Adjusted EBITDA	47,780	26,106
Adjusted net income		
Net income	34,832	18,773
Amortization	153	153
Tax impact of stock option & RSU settlements	(150)	(53)
Adjusted net income	34,835	18,873

Revenues

The Company's consolidated revenues increased by 51% to US\$ 133.3m (2020: US\$ 88.6m). Company revenues consist primarily of sales from Boomed screed products, which include the S-22E, S-22EZ, S-15R, S-10A and SRS-4 Laser Screed® machines, sales from Ride-on screed products, which are drive through concrete machines that include the S-485, S-940 and S-158C Laser Screed® machines, Remanufactured machine sales, 3-D Profiler System®, Somero Line Dragon® (formerly SP-16 Concrete Hose Line-Pulling and Placing Systems), SkyScreed® and Other revenues which consist primarily of revenue from sales of parts and accessories, sales of other equipment, including the Broom + Cure™, SkyStrip™, service, training and shipping charges.

Boomed screed sales increased to US\$ 65.4m (2020: US\$ 31.7m) due to strong demand for machines used for large slab on grade placements, particularly the S-22EZ. Ride-on screed sales also increased to US\$ 21.3m (2020: US\$ 17.6m), while Remanufactured sales decreased to US\$ 4.8m (2020: US\$ 5.8m). Further contributions came from an increase in the 3D Profiler System to US\$ 10.0m (2020: US\$ 7.5m) due to higher volume. Sales of the SkyScreed® remained consistent contributing slightly under US\$ 1.0m, and Other revenues increased to US\$ 26.7m (2020: US\$ 20.3m) primarily due to sales of the Somero Broom + Cure™ and parts revenue.

FINANCIAL REVIEW

CONTINUED

Revenues continued

Revenue breakdown by geography

	North America US\$ in millions		EMEA ⁽¹⁾ US\$ in millions		ROW ⁽²⁾ US\$ in millions		Total US\$ in millions			
	2021	2020	2021	2020	2021	2020	2021	% of Net sales	2020	% of Net sales
Boomed screeds ⁽³⁾	50.4	24.3	8.9	5.2	6.1	2.2	65.4	49.1%	31.7	35.8%
Ride-on screeds ⁽⁴⁾	16.8	13.8	1.3	2.0	3.2	1.8	21.3	16.0%	17.6	19.7%
Remanufactured machines	4.4	5.1	–	0.2	.4	0.5	4.8	3.6%	5.8	6.5%
3-D Profiler System	9.6	6.9	.1	0.1	.3	0.5	10.0	7.5%	7.5	8.5%
Somero Line Dragon ⁽⁵⁾	4.1	4.3	.1	0.3	–	0.1	4.2	3.1%	4.7	5.3%
SkyScreed	.9	1.0	–	–	–	–	.9	.7%	1.0	1.1%
Other ⁽⁶⁾	20.4	15.3	2.2	2.1	4.1	2.9	26.7	20.0%	20.3	23.1%
Total	106.6	70.7	12.6	9.9	14.1	8.0	133.3	100.0%	88.6	100.0%

Notes:

- EMEA includes Europe, Middle East, Scandinavia and Russia.
- ROW includes China, Australia, Latin America, India, Southeast Asia and Korea.
- Boomed Screeds include the S-22E, S-22EZ, S-15R, S-10A and SRS-4.
- Ride-on Screeds include the S-940, S-485, and S-158C.
- Includes sales of the Somero Line Dragon and its predecessor the SP-16 Concrete Hose Line-Pulling and Placing Systems.
- Other includes parts, accessories, services and freight, as well as other equipment such as the SkyStrip™, Somero Broom + Cure™, STS-11M Topping Spreader, Copperhead, and Mini Screed C.

Units by product line	2021	2020
Boomed screeds	218	125
Ride-on screeds	181	157
Remanufactured machines	26	37
3D Profiler System	84	67
Somero Line Dragon ⁽¹⁾	110	132
SkyScreed ⁽²⁾	3	3
Other ⁽²⁾	50	46
Total	672	567

Notes:

- Includes sales of the Somero Line Dragon and its predecessor the SP-16 Concrete Hose Line-Pulling and Placing Systems.
- Other includes equipment such as the SkyStrip™, Somero Broom + Cure™, STS-11M Topping Spreader, Copperhead, and Mini Screed C.

Sales to customers located in North America contributed 80% of total revenue (2020: 80%), sales to customers in EMEA (Europe, Middle East, Scandinavia, and Russia) contributed 9% (2020: 11%) and sales to customers in ROW (Southeast Asia, Australia, Latin America, India and China) contributed 11% (2020: 9%).

Sales in North America were US\$ 106.6m (2020: US\$ 70.7m) up 51% driven mostly by sales volume growth of legacy Boomed Screeds, followed by Ride-on Screeds and new products, including the SRS-4, the Somero Broom + Cure™ and the SkyStrip™, partially offset by a decrease in Remanufactured machines and price increases across most of the product lines. Sales in EMEA were US\$ 12.6m (2020: US\$ 9.9m), which is an increase of 27% primarily due to an increase in Boom screeds, led by growth in sales of the SRS-4, partly offset by a decrease in Ride-on Screeds. Sales in ROW were US\$ 14.1m (2020: US\$ 8.0), representing a 76% increase driven primarily by higher sales across most of the product lines, particularly in Australia.

Regional sales	US\$ in millions	
	2021	2020
North America	106.6	70.7
Europe	12.1	8.6
Australia	6.1	1.1
China	2.7	3.9
Rest of World ⁽¹⁾	5.8	4.3
Total	133.3	88.6

Notes:

- Includes Latin America, India, Southeast Asia, Middle East, Korea and Russia.

Gross profit

Gross profit increased to US\$ 76.9m (2020: US\$ 48.8m), with gross margins increasing to 58% (2020: 55%) primarily due to favorable product mix mostly driven by the increase in sales of Boomed screeds.

Operating expenses

Operating expenses increased by US\$ 6.7m to US\$ 31.7m (2020: US\$ 25.0m). This increase is due to higher general and administrative, selling, marketing and customer support expense.

Debt

As of December 31, 2021, the Company had no outstanding debt. The Company renewed its US\$ 10.0m secured revolving line of credit extending the term to mature in September 2024 with no other material changes.

Other income (expense)

Other income (expense) was US\$ 0.5m of other expense, compared to US\$ 0.8m of other income in 2020, primarily due to a higher realized and unrealized foreign currency exchange loss.

Provision for income taxes

The provision for income taxes was US\$ 9.8m in 2021 compared to US\$ 5.8m in 2020. Overall, Somero's effective tax rate changed to 21.9% in 2021 from 23.7% in 2020.

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 restricted stock units.

Earnings per common share has been computed based on the following:

	Year ended December 31	
	2021 US\$ 000	2020 US\$ 000
Income available to stockholders	34,832	18,773
Basic weighted shares outstanding	56,133,366	56,336,687
Net dilutive effect of stock options and restricted stock units	692,173	636,909
Diluted weighted average shares outstanding	56,825,539	56,973,596
	Per Share US\$	Per Share US\$
Basic earnings per share	0.62	0.33
Diluted earnings per share	0.61	0.33
Basic adjusted net income per share	0.62	0.34
Diluted adjusted net income per share	0.61	0.33

RISK MANAGEMENT

Active risk management is essential for Somero to drive successful operations. The Company is impacted by various types of risks including strategic and external risks as well as business risks such as operational and financial risks. Somero monitors and minimizes these risks in a structured and proactive manner.

Risk management framework

Somero faces different types of risks that can be divided into strategic risks and manageable business risks.

STRATEGIC RISKS



Our strategic priorities in combination with the external environment impact how we assess and manage business risks and opportunities

Our strategic priorities are related to the Company's strategy and are impacted by the external environment, while the business risks are related to operational and financial risks.

Senior management identifies and evaluates major business risks, then designs and implements internal control systems to mitigate these risks. On an annual basis, an evaluation of the effectiveness of the Company's internal control systems is reported and discussed with the Board of Directors and the Audit Committee.

MANAGEABLE RISKS



**Policies
Corporate governance**

The evaluation includes consideration of how internal control systems can be improved. In 2021, we continued to enhance our data security measures that included additional front-end protection to reduce the risk of unauthorized access to Company data and more robust data storage and recovery capabilities.

PRINCIPAL 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.

- ER External Risks
- SR Strategy Risks
- OR Operational Risks
- FR Financial Risks

Flexible cost structure OR

A large portion of Somero's cost structure is variable and comprised mainly of costs related to raw materials and components as well as personnel and personnel-related costs. Somero aims to maintain a flexible cost structure that enables the Company to be agile and adopt quickly to fluctuations in market demand.

Data security FR

All business sectors are targeted by increasingly sophisticated cyber security attacks, a risk that is elevated with an increased number of employees working remotely as a result of the COVID-19 pandemic. The risk of unauthorized access to or loss of data in respect to our company, employees or suppliers could result in financial exposure or business interruption.

Bank obligations FR

In November 2020, the Company entered into an amended credit facility that included a US\$ 10.0m secured revolving line of credit that will mature in September 2024. The Company's credit facility is secured by substantially all its business assets.

Employee retention OR

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 ER

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 Australia, however, the Company has a meaningful presence in India, China, Southeast Asia, the Middle East, 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 SR

Somero invests significantly in 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 2021, sales of the SkyStrip™, and the Somero Broom + Cure™ combined to contribute US\$ 2.3m in incremental 2021 sales.

Product replacement demand SR

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 SR

Somero's financial performance is impacted by its ability to successfully enter and penetrate international markets. Europe and Australia represent Somero's primary markets outside the US, and Somero has primarily focused on developing these markets with a secondary focus on Latin America, Middle East, Southeast Asia, India and China. 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 FR

Somero's financial performance is also linked to prevailing interest rates; see "Liquidity and Capital Resources" below.

Liquidity FR

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. Operations are primarily funded through existing cash.

Capital resources FR

Currently, the Company's capital expenditure plans include the expansion of its operations facility in Houghton, Michigan, 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. The amended credit 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. As of December 31, 2021, the Company had not drawn any amounts under the revolving portion of its Citizens Bank Financing Agreement.

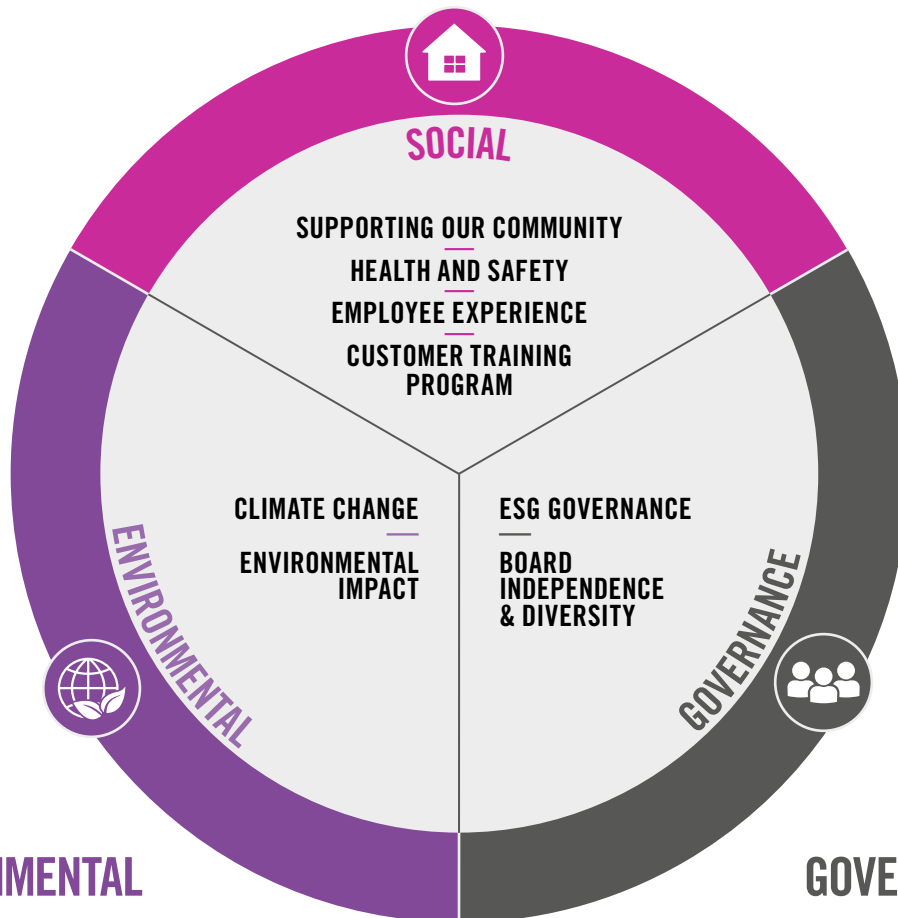
RESPONSIBLE BUSINESS

OUR ESG FRAMEWORK

Our goal is to strike the right balance between shareholder expectations and the needs and concerns of our employees and customers, the communities we live in, and the environment. In 2021, we made meaningful progress in the early stages of our long-term ESG journey.

SOCIAL

Somero is dedicated to fostering an open and inclusive working environment for our employees, ensuring their safety and wellbeing at all times, supporting a training program for our customers and giving back to the community in which we operate.



ENVIRONMENTAL

Somero is committed to making a lasting positive impact on the environment in which we operate and doing our bit to reduce our environmental footprint.

GOVERNANCE

Maintaining strong, diverse leadership and accountability on ESG issues is critical and Somero takes this responsibility seriously in how we manage ESG across our business.

ENVIRONMENTAL CLIMATE CHANGE

Climate change is a critical issue facing humanity today and Somero is committed to ensuring our own operations maintain a low carbon footprint and optimal energy efficiency in support of this effort.

Our products generally help the broader environment by minimizing concrete waste in construction projects avoiding excess emission of CO₂.

Commitment: To reduce our carbon footprint and improve energy efficiency across our operations.

Metrics we monitor: Total energy consumption, CO₂ production.

Action for FY22: Commission a study to evaluate impact of Somero equipment on the environment.

Action for FY22/23: Establish baseline current energy consumption from operations and evaluate opportunities to increase efficiency.

Action for FY22/23: Develop an environmental policy.

ENVIRONMENTAL IMPACT

Somero understands that natural resources are finite and our business has a responsibility to protect the environment by minimizing waste and water use.

Commitment: To reduce the amount of waste across our operations and minimize our water consumption.

Metrics we are beginning to monitor: % waste to landfill, % recycled, total water consumption.

Action for FY22/23: Establish baseline of current waste levels and water consumption from operations and evaluate opportunities to increase efficiency.

SOCIAL SUPPORTING OUR COMMUNITY

Somero cares deeply about our community and supporting local charities is an important part of that.

Commitment: To financially support local charities and communities in the areas where we operate and support our employees with volunteering and fundraising efforts wherever possible.

Metrics we monitor: % funds donated to charitable causes, hours donated to volunteering.

Current Action: Providing financial support to local charities.

Current Action: Providing "days of service" where the Company / employees give time in support of the charities.

HEALTH AND SAFETY

The health and safety of our team, both in the workplace and on site, is of the highest priority at Somero and we work meticulously to ensure the highest safety standards possible to protect the welfare of our people.

Commitment: We monitor and constantly improve all aspects of health and safety in the workplace and onsite; providing employees with the appropriate training, equipment and support to do their jobs safely.

Metrics we monitor: Recordable incidents, maintain ISO 9001 accreditation, safety training delivered

Current Action: Workplace training at Somero facilities to educate employees on safety with a goal to limit/reduce workplace injuries.

Current Action: Developing new products/solutions for customers that improve job-site safety.

EMPLOYEE EXPERIENCE

Fostering a positive company culture and environment where our employees have ample opportunity to learn and develop is key for retaining our team and growing our workforce.

Commitment: We grow and maintain a strong and supportive company culture and provide training and development opportunities to our colleagues to support their growth and progression.

Metrics we monitor: Employee feedback, number of internal training hours delivered to employees.

Current Action: Regular, open engagement with employees through Company-wide meetings, bi-annual performance reviews, and through a variety of social events.

CUSTOMER TRAINING PROGRAM

Somero are proud to support our customers by providing unique training opportunities that develop a strong pipeline of skilled workers, benefiting the industry as a whole.

Commitment: We deliver a training program to our customer base that supports a pipeline of skilled talent within the concrete construction industry.

Metrics we monitor: Number of external training hours delivered.

Current Action: Providing training opportunities that leverage the Somero Concrete Institute to increase the pool of skilled labor for the concrete construction industry.

GOVERNANCE BOARD INDEPENDENCE & DIVERSITY

Ensuring our board is independent, operates honestly and is representative of the diverse voices in our company is key to our success.

Commitment: To ensure equal and fair opportunities among our Board members with appropriate levels of independence.

Metrics we monitor: % of Board by gender, % of Board by ethnicity, number of independent Board members.

Action for FY22: Appointment of a 4th independent Board member.

ESG GOVERNANCE

ESG topics are now a critical part of business as usual and ensuring strong leadership and accountability on these matters is of great importance to Somero.

Commitment: To have transparent accountability on ESG issues and report on performance each year for the benefit of our stakeholders.

Metrics to monitor: Executive sponsor assigned to each material issue ongoing ESG agenda item in Board meetings.

Ongoing Action: Enhance ESG reporting to increase awareness of ongoing Company efforts to balance shareholder/stakeholder interests.

STAKEHOLDER ENGAGEMENT

HOW WE ENGAGE

OUR APPROACH

Developing a comprehensive ESG strategy that includes regular engagement with stakeholders on material topics.

OUR STAKEHOLDERS

CUSTOMERS

Somero's customer relationships are built on years of providing solutions and world class training and support.

MATERIAL TOPICS

- New product development
- High-quality products and services
- Training and education
- Job-site safety

COMMUNITIES & ENVIRONMENT

Somero strives to make a lasting, positive impact in the community and on the environment. The net carbon impact of our operations is modest and use of our equipment reduces CO₂ emissions.

- Broader environmental goals
- Local charities

EMPLOYEES

Our dedicated and talented employees deliver great results for our customers and shareholders. We strive to create a work environment where employees thrive and grow.

- Working environment, culture and values
- Opportunities for learning and career development

INVESTORS

Somero prioritizes an open, transparent dialogue with shareholders regarding our business performance and strategy.

- Financial performance
- Business strategy
- Market conditions
- Risk management
- Return of capital
- Governance

ENGAGEMENT

- Direct sales/support
 - Customer led product development
 - Trade shows
 - Virtual information sessions
-
- Investing to increase energy efficiency of operations
 - Study on CO₂ environmental impact of Somero equipment
 - Supporting and donating to local charities, and industry education programs that include total donations of over \$370,00 in 2021, of which \$250,000 was directed towards the American Society of Concrete Contractors (ASCC) educational programs
-
- Training programs
 - Investing in remote working tools
 - Performance management
-
- Virtual roadshows
 - Recorded presentations
 - Trading updates
 - Enhancing Board independence and diversity

CASE STUDY

In 2021 Somero commissioned a research study by experts from Middle Tennessee State University, that concluded the use of Somero laser screed equipment to replace a manual process to place concrete slabs reduces CO₂ emissions by eliminating concrete waste and reducing remediation work after placement.



BOARD OF DIRECTORS

EXPANDING OUR TEAM

LAWRENCE L. HORSCH

Non-Executive Chairman of the Board

Mr. Horsch, age 87, 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

Chief Executive Officer and Director

Mr. Cooney, age 74, 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

President and Director

Mr. Yuncza, age 51, joined Somero in May 2015 to serve as Chief Financial Officer. Mr. Yuncza has nearly 30 years of experience in various finance and senior management roles. Most recently, Mr. Yuncza served as Chief Financial Officer of Datamax-O'Neil, a subsidiary of Dover Corporation. Prior to his role at Datamax-O'Neil, Mr. Yuncza held a variety of senior financial roles at Pegasus Communications, Legg Mason Wood Walker, and Fifth Third Bancorp, in addition to serving as an Audit Manager at KPMG LLP. Mr. Yuncza earned a Bachelor of Science degree from St. Joseph's University in Philadelphia and an MBA from the Yale School of Management.

HOWARD E. HOHMANN

Executive Vice President of Sales Worldwide, Director

Mr. Hohmann, age 59, joined Somero in 1997 and currently serves as Executive Vice President of Sales, Marketing and Customer Service Worldwide. Mr. Hohmann also developed and managed Somero's Field Support Team and was part of its Product Development Team. Mr. Hohmann brings nearly three decades of career expertise in the concrete industry, previously working as Founder, Owner and President of one of the eastern United States' largest and most successful concrete contractors, placing all aspects of concrete floors from coast to coast. Mr. Hohmann 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.

ENZO LICAUSI**Chief Financial Officer, Secretary and Director**

Mr. LiCausi, age 48, joined Somero in September 2018 as Vice President of Finance & Controller. Mr. LiCausi has over 20 years of experience in various finance and senior management roles. Most recently, Mr. LiCausi served as Vice President of Finance of Conformis Inc., a global NADAQ listed orthopedics manufacture and marketer. Prior to his role at Conformis, Mr. LiCausi held a variety of senior financial roles at Cambridge Heart, C.R. Bard, Gillette, and Tropicana (PepsiCo) in addition to serving as an Audit Senior at Deloitte & Touche LLP. Mr. LiCausi earned a Bachelor of Science degree in Accountancy from Bentley University in Boston, Massachusetts.

ANNE ELLIS**Non-Executive Director**

Ms. Ellis, age 63, is a professional engineer with four decades of experience in the architecture, engineering, and construction industry. Ms. Ellis served as the 90th president (2013-2014) of the American Concrete Institute. She is coauthor of the "Concrete Design and Construction" section of the Standard Handbook for Civil Engineers, Fifth Edition. Currently, Ms. Ellis is the executive director of the Charles Pankow Foundation, and she serves as non-executive director on the board of GEI Consultants and Alpha Corporation. She also chairs the Board of Directors of the National Institute of Building Sciences and serves by invitation on the Industry Leaders Council of the American Society of Civil Engineers. From 2008-2016, she served in a series of growth-enabling corporate roles including director of innovation at AECOM, a \$20 billion publicly traded, professional services and construction company with 100,000 employees operating in 154 countries. From 2004-2018, Ms. Ellis served by appointment of five U.S. cabinet secretaries to their federal advisory committee addressing matters of energy and trade policy. Ms. Ellis was inducted into the National Academy of Construction in 2019.

THOMAS M. ANDERSON**Non-Executive Director**

Mr. Anderson, age 70, 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 62, has served in a series of senior executive roles at Dover Corporation, a US\$ 8bn Fortune 500 company. Most recently, from 2011 to 2014, Mr. Scheuer was Chief Financial Officer and Vice President Finance of Dover Engineered Systems, a US\$ 3.8bn business segment of Dover Corporation. In this role, Mr. Scheuer provided strategic guidance to the 14 operating company CEOs/COOs in the segment and directed over 140 global employees in FP&A, budgeting, forecasting, acquisitions, compliance, accounting and reporting. Prior to this role, from 2007 to 2011 Mr. Scheuer served as Chief Financial Officer and Vice President of Finance of Dover Industrial Products, a US\$ 2.4bn business segment of Dover Corporation and from 1998 to 2007 as Chief Financial Officer and Vice President of Finance of Dover Industries, a US\$ 1.2bn business segment of Dover Corporation. Prior to his tenure at Dover Corporation, from 1986 to 1998, Mr. Scheuer served in a variety of leadership roles at Kraft Foods, Inc., most recently as Controller of the Grocery Products Division, a US\$ 1.7bn 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 has adopted and observes the QCA Corporate Governance Code (the "Code"). The Board considers that the Company complies with the requirements of the Code and continues to implement a robust governance structure to ensure continued compliance with the Code. The information below (in conjunction with our corporate governance disclosures that can be found on our website at www.somero.com) sets out those disclosures that the Company is required to include in its annual report as well as information relating to how the Company may deviate from the Code.

In accordance with Principle 1 of the Code, the Company's business model and strategy, including key challenges in their execution and how these are addressed, are set out on pages 14-15 and 16-17 of this annual report.

Principle 2 requires that Somero seeks to understand and meet shareholder needs and expectations. The Directors are committed to maintaining good communications with the shareholders and quickly responding to all queries received. All shareholders will 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 Somero immediately after the announcement of Somero's interim and full-year results and all shareholders are encouraged to participate in Somero's AGM. In addition, retail investors are invited to a briefing immediately following announcement of Somero's interim and full-year results and this presentation is recorded and posted to Somero's Investor Relations website. The Chairman is contactable at Somero's registered office, and all of the Directors are expected to attend the AGM.

Principle 3 requires that Somero take into account wider stakeholder and social responsibilities and their implications for long-term success. Investors and shareholders are invited to learn more about Somero's business and relationship strategies on pages 24-27 of this annual report. Somero strives to develop long-standing relationships with customers and shareholders alike; maintaining open lines of communication, availability to conduct site tours and a robust library of online content that demonstrates the unique value proposition of our products. For further information, please contact Somero at www.somero.com.

In accordance with Principle 4 of the Code, 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. 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. The Company has a comprehensive system for reporting financial results to the Board. 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. 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. 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. There is no dedicated resource for internal audit functions,

which is considered sufficient for the Company due to its size. Day-to-day management of the Company's activities is delegated to senior management and is considered sufficient for the Company. 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, 2021 has been maintained and has taken account of any material developments since the year end.

In accordance with Principle 5 of the Code, the Board comprises eight Directors, four of whom are Executive Directors and four of whom are Non-Executive Directors.

The Board regards the Non-Executive Chairman, Lawrence Horsch, and each of Thomas Anderson, Robert Scheuer and Anne Ellis as independent Non-Executive Directors. The Board recognizes that Mr. Horsch and Mr. Anderson each has served as an independent Non-Executive Director for more than ten years. Notwithstanding, having carefully considered the individual circumstances, the Board has determined that both Mr. Horsch and Mr. Anderson continue to be independent. This determination is reviewed on an ongoing basis and is based on a range of factors including the Board's determination that (i) neither Mr. Horsch nor Mr. Anderson are dependent on his compensation as a Director of the Company and (ii) both Mr. Horsch and Mr. Anderson have the strength of character and integrity to remain unaffected by circumstances that, in theory, may compromise their independence.

All independent Non-Executive Directors are selected from outside the Company with due regard being given to their ability to contribute to the Board in light of knowledge, skills and experience required. The Board believes that the current composition is sufficient for the Company's current size (the Company is a small 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.

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. During the year, there were 12 regularly scheduled monthly Board meetings, two Audit Committee meetings, one Remuneration Committee meeting and one Nomination Committee meeting.

In accordance with Principle 6 of the Code, the Board's membership consists of the individuals whose credentials are outlined on page 28-29 of this report.

On joining the Board, new Directors will receive a comprehensive induction. It is expected that Directors will receive regular updates on legal, regulatory and governance issues.

In accordance with Principle 7 of the Code, 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. The composition and functioning of the Board were reviewed and evaluated by the Nomination Committee in 2021 and it was determined the Board as constructed serves the Company's needs for proper governance.

In respect of compliance with Principle 8 of the Code, a critical aspect of the Company's strategy is to be perceived as a trusted partner of our customers. In order to achieve this objective, a culture of teamwork, openness, integrity and professionalism forms a key element of our Company principles and values which sets out the standards of behavior we expect from all our employees. The Board supports and promotes the principles of equal opportunities in employment and promotes a culture where every employee is treated fairly, as discussed on page 26 of this report. The Board and management conduct themselves ethically at all times and promote a culture in line with the standards set out in the employee hand book. Principal risks and uncertainties facing the business, as outlined on pages 22-23 of this report, are regularly monitored by the Board along with the processes in place to mitigate those risks.

Principle 9 requires Somero to maintain governance structures and processes that are fit for purpose and support good decision-making by the Board. Somero has a number of committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. For further information on the individual roles of Board members or for information in respect of the roles of each committee, please refer to the additional information regarding Somero's Board of Directors on page 28 of this annual report, and the additional discussion regarding the committees to follow in this report. 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 Somero. Certain matters are specifically reserved for decision by the Board and documented in a written schedule which will also be reviewed annually.

In accordance with Principle 10 of the Code, the Company has a number of committees: the Audit Committee, the Remuneration Committee and the Nomination Committee.

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

The following table summarizes audit, tax and other fees paid by the Company to its auditor and tax service provider in 2021 and 2020.

	Year ended December 31, 2021 US\$ 000	Year ended December 31, 2020 US\$ 000
Audit	154	169
Tax	265	129
Other	–	–

The Remuneration Committee

The Remuneration Committee comprises Messrs. Anderson, Scheuer, Horsch and Mrs. Ellis, 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 Nomination Committee

The Nomination Committee comprises Messrs. Horsch, Anderson, Scheuer and Mrs. Ellis, and is chaired by Mr. Horsch.

The Nomination 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, and 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 Nomination 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.

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.

	Cash salary 2021	Bonus 2021 ⁽¹⁾	Bonus paid in common shares 2021 ⁽²⁾	Salary 2022	Bonus opportunity 2021	Options held	Restricted stock units held
L Horsch	\$137,035	–	–	\$150,739	–	–	6,843
J Cooney	\$502,214	\$426,497	–	\$552,436	0%-100% ^{(3),(4)}	–	144,853
J Yuncza	\$323,615	\$274,842	\$68,710	\$403,635	0%-100% ^{(3),(4)}	–	93,352
H Hohmann	\$338,390	\$287,372	–	\$372,229	0%-100% ^{(3),(4)}	–	97,609
T Anderson	\$97,862	–	–	\$107,648	–	–	4,887
R Scheuer	\$97,862	–	–	\$107,648	–	–	3,133

Notes:

1. Bonus earned for 2021 determined based on Company performance with variable payouts along a sliding scale ranging from 0%-100%. At year-end actual Company results were measured against established targets approved by the Remuneration Committee.
2. The amount included in the 2021 bonus that was paid in common shares in lieu of cash under the Company's Equity Bonus Plan, as described in Note 16 to the consolidated financial statements.
3. On-target bonus is 50% of base salary. Bonus determined solely by Company performance with variable payouts along a sliding scale ranging from 0%-100%. At year-end actual Company results are to be measured against established targets approved by the Remuneration Committee.
4. At the discretion of the Remuneration Committee, and based upon employee election, up to 100% of annual bonus and commission amounts can be paid in the form of common shares.

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 annual increases as determined by the full Board. At the end of 2019, the Company engaged an independent third-party consultant to benchmark the compensation structure and level for Executive and Non-Executive Directors. The results of this study were reviewed by the Remuneration Committee to assess the fairness and competitiveness of the Company's compensation for Executive and Non-Executive Directors in comparison to peer companies and with regard to the U.S. labor market.

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;
- bonuses that are based solely on the performance and 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. Base salaries and Non-Executive Director fees are set out in the table above.

Cash compensation

In the year ended December 31, 2021, the Executive Directors earned bonuses as shown in the table above. Bonuses paid to the Company's CEO and CFO are determined entirely based on Company performance. Each year, Company performance targets are established and approved by the Remuneration Committee. At year end, actual results are compared to established targets and the bonus earned is determined along a sliding scale that could result in no payout up to a maximum capped at two times the target bonus. Historically, under this bonus program, annual Company performance was determined based on actual EBITDA compared to the annual established target in 2021, and in support of the Company strategic initiatives, the annual established targets approved by the Remuneration Committee included revenue and cost targets. In 2022, the annual established targets approved by the Remuneration Committee include revenue and EBITDA targets.

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 6 to 18 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. All equity awards issued by the Company in 2021 are governed by Somero's 2020 Equity Incentive Plan (the "2020 Plan") that was adopted by the Remuneration Committee in 2019. The 2020 Plan is a ten-year Plan making up to 5.6 million of equity awards (stock options, restricted stock units or common shares) available to be granted over a ten-year period until 2030, which is 10% of the 56 million shares currently issued and outstanding.

The equity awards issued to Executive Directors do not have any performance criteria attached to them. The Remuneration Committee has determined that aside from service period requirements, performance criteria were not appropriate for equity awards issued under the 2010 Plan. The Remuneration Committee has determined that equity awards are critical incentives necessary to attract, retain and reward key organizational talent including Executive Directors. The Remuneration Committee made this assessment in recognition that the Company's key employees, including its Executive Directors, are US-based and do not participate in defined benefit pension schemes more prevalent in other regions of the world.

For more information, see Note 15 within the Notes to the Financial Statements.

Restricted stock units

The Board approves restricted stock unit ("RSU") awards to Executive and Non-Executive Directors under the terms of its 2020 Equity Incentive Plan. In 2021, 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 2021, 164,104 RSUs were exercised or forfeited, 184,890 units issued, leaving a balance of 686,856 units as of December 31, 2021. For more information, see Note 14 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, 2021 was 545p. The range during the 2021 period of trading was 308.0p to 560.0p.



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, 2021 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 11, 2019	2022 AGM
R Scheuer	I	June 11, 2019	2022 AGM
L Horsch	II	June 9, 2020	2023 AGM
T Anderson	II	June 9, 2020	2023 AGM
J Cooney	III	June 15, 2021	2024 AGM
H Hohmann	III	June 15, 2021	2024 AGM
A Ellis	III	January 3, 2022	2024 AGM
V LiCausi	III	January 3, 2022	2024 AGM

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

DIRECTORS' REPORT

The Directors present their Annual Report and the audited financial statements for the year ended December 31, 2021.

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. In addition, Somero maintains sales and service offices located in Chesterfield, UK, New Delhi, India, Melbourne, Australia and Shanghai, China.

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\$ 22.4m were paid in 2021. A 41.7 US cents per share dividend was declared for the period ending December 31, 2021, with a record date of April 8, 2022, payable on May 6, 2022.

Share capital

	Ordinary Shares	
	January 1, 2021	December 31, 2021
L Horsch	46,000	46,000
J Cooney	614,634	614,634
J Yuncza	116,051	130,867
H Hohmann	73,662	73,662
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, 2021 was 545.0p. The range during the 2021 period of trading was 308.0p to 560.0p.

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, 2021

	Amount	% holding
Unicorn Asset Management	4,858,980	8.67
Close Brothers Asset Management	4,372,654	7.80
River and Mercantile Asset Management	2,957,959	5.28
Schroder Investment Management	2,718,831	4.85
abrdrn	2,567,252	4.58
Canaccord Genuity Wealth Management (Inst)	2,575,875	4.60
Artemis Investment Management	2,846,172	5.08
Chelverton Asset Management	2,262,274	4.04
Lazard Freres Banque (PB)	2,004,868	3.58

Director restricted stock units

Director	January 1, 2021	Award/ (Exercise)	Cancelled	December 31, 2021	Weighted average grant date fair market value (USD)	Vesting date	Fully vested date
L Horsch	5,469	(5,469)	-	-	5.28	3/16/2021	3/16/2021
L Horsch	6,843	-	-	6,843	5.10	3/14/2022	3/14/2022
H Hohmann	11,284	(11,284)	-	-	5.28	3/16/2021	3/16/2021
H Hohmann	24,525	-	-	24,525	5.10	3/14/2022	3/14/2022
H Hohmann	46,512	-	-	46,512	2.83	3/13/2023	3/13/2023
H Hohmann	-	26,572	-	26,572	5.09	3/12/2024	3/12/2024
J Cooney	26,377	(26,377)	-	-	5.28	3/16/2021	3/16/2021
J Cooney	36,397	-	-	36,397	5.10	3/14/2022	3/14/2022
J Cooney	69,030	-	-	69,030	2.83	3/13/2023	3/13/2023
J Cooney	-	39,426	-	39,426	5.09	3/12/2024	3/12/2024
T Anderson	13,373	(13,373)	-	-	5.28	3/16/2021	3/16/2021
T Anderson	4,887	-	-	4,887	5.10	3/14/2022	3/14/2022
J Yuncza	25,018	(25,018)	-	-	5.28	3/16/2021	3/16/2021
J Yuncza	23,455	-	-	23,455	5.10	3/14/2022	3/14/2022
J Yuncza	44,484	-	-	44,484	2.83	3/13/2023	3/13/2023
J Yuncza	-	25,413	-	25,413	5.09	3/12/2024	3/12/2024
B Scheuer	2,223	(2,223)	-	-	5.28	3/16/2021	3/16/2021
B Scheuer	3,133	-	-	3,133	5.10	3/14/2022	3/14/2022

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. For more information regarding Somero's approach to social responsibility, please refer to the Stakeholder Engagement section on pages 24-27 of this Annual Report.

Donations

During the year, the Company made no political donations. Charitable donations were made in the amount of US\$ 373,625 for 2021. For more information regarding Somero's community support, please refer to the Stakeholder Engagement section on pages 24-27 of this Annual Report.

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. While, as an assembly operation our energy consumption is comparably low and net carbon footprint minimal, Somero continues to evaluate and invest in ways to improve energy efficiency and reduce waste in our operations. For more information regarding Somero's approach to business sustainability, please refer to the Stakeholder Engagement section on pages 24-27 of this Annual Report.

Vincenzo LiCausi

Company Secretary
March 9, 2022

REPORT OF THE INDEPENDENT AUDITORS

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

Opinion

We have audited the consolidated financial statements of Somero Enterprises, Inc. a Delaware corporation, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Somero Enterprises, Inc. as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Somero Enterprises, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Somero Enterprises, Inc.'s ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Somero Enterprises, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Somero Enterprises, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Dallas, Texas
March 9, 2022

CONSOLIDATED BALANCE SHEETS

As of December 31, 2021 and 2020

	Year ended December 31	
	2021 US\$ 000	2020 US\$ 000
Assets		
Current assets:		
Cash and cash equivalents	42,146	35,388
Accounts receivable – net	7,691	6,411
Inventories – net	14,293	11,127
Prepaid expenses and other assets	1,590	1,676
Income tax receivable	2,376	–
Total current assets	68,096	54,602
Accounts receivable, non-current – net	461	736
Property, plant, and equipment – net	21,589	16,509
Financing lease right-of-use assets-net	383	485
Operating lease right-of-use assets-net	1,578	1,295
Intangible assets – net	1,392	1,545
Goodwill	3,294	3,294
Deferred tax asset	172	80
Other assets	394	303
Total assets	97,359	78,849
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	7,111	4,380
Accrued expenses	10,291	6,702
Financing lease liability – current	183	162
Operating lease liability – current	360	204
Income tax payable	–	888
Total current liabilities	17,945	12,336
Financing lease liability – long-term	127	228
Operating lease liability – long-term	1,255	1,133
Other liabilities	2,367	1,622
Total liabilities	21,694	15,319
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, 56,246,964 and 56,425,598 shares issued and 56,039,924 and 56,124,409 shares outstanding at December 31, 2021 and 2020, respectively	26	26
Less: treasury stock, shares 207,040 as of December 31, 2021 and 301,189 shares as of December 31, 2020 at cost	(848)	(1,040)
Additional paid in capital	16,769	17,598
Retained earnings	62,187	49,771
Other comprehensive loss	(2,469)	(2,825)
Total stockholders' equity	75,665	63,530
Total liabilities and stockholders' equity	97,359	78,849

See Notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2021 and 2020

	Year ended December 31	
	2021 US\$ 000 except per share data	2020 US\$ 000 except per share data
Revenue	133,334	88,572
Cost of sales	56,454	39,758
Gross profit	76,880	48,814
Operating expenses		
Sales, marketing and customer support	12,644	10,312
Engineering and product development	2,106	1,826
General and administrative	16,989	12,821
Total current assets	31,739	24,959
Operating income	45,141	23,855
Other income (expense)		
Interest expense	(45)	(45)
Interest income	171	244
Foreign exchange impact	(239)	47
Other	(408)	511
Income before income taxes	44,620	24,612
Provision for income taxes	9,788	5,839
Net income	34,832	18,773
Other comprehensive income		
Cumulative translation adjustment	356	(105)
Comprehensive income	35,188	18,668
Earnings per common share		
Earnings per share – basic	0.62	0.33
Earnings per share – diluted	0.61	0.33
Weighted average number of common shares outstanding		
Basic	56,133,366	56,336,687
Diluted	56,825,539	56,973,596

See Notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2021 and 2020

	Common stock			Treasury stock		Retained earnings US\$ 000	Other Comprehensive income (loss) US\$ 000	Total Stockholders' equity US\$ 000
	Shares	Amount US\$ 000	Additional paid-in capital US\$ 000	Shares	Amount US\$ 000			
Balance – January 1, 2020	56,425,598	26	17,001	77,530	(191)	44,923	(2,720)	59,039
Cumulative translation adjustment	–	–	–	–	–	–	(105)	(105)
Net income	–	–	–	–	–	18,773	–	18,773
Stock-based compensation	–	–	911	–	–	–	–	911
Dividend	–	–	–	–	–	(13,925)	–	(13,925)
Treasury stock	–	–	849	(44,354)	(849)	–	–	0
RSUs settled for cash	–	–	(223)	–	–	–	–	(223)
Share buy-back	–	–	(951)	268,013	–	–	–	(951)
Investment in Subsidiary	–	–	11	–	–	–	–	11
Balance – December 31, 2020	56,425,598	26	17,598	301,189	(1,040)	49,771	(2,825)	63,530
Cumulative translation adjustment	–	–	–	–	–	–	356	356
Net income	–	–	–	–	–	34,832	–	34,832
Stock-based compensation	–	–	1,052	–	–	–	–	1,052
Dividend	–	–	–	–	–	(22,416)	–	(22,416)
Treasury stock	(178,634)	–	(192)	(94,149)	192	–	–	–
RSUs settled for cash	–	–	(685)	–	–	–	–	(685)
Share buy-back	–	–	(1,004)	–	–	–	–	(1,004)
Balance – December 31, 2021	56,246,964	26	16,769	207,040	(848)	62,187	(2,469)	75,665

See Notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2021 and 2020

	Year ended December 31	
	2021 US\$ 000	2020 US\$ 000
Cash flows from operating activities:		
Net income	34,832	18,773
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	(91)	484
Depreciation and amortization	1,326	1,118
Non-cash lease expense	261	222
Bad debt	468	215
Stock-based compensation	1,052	911
Gain/Loss on disposal of property and equipment	(49)	(98)
Working capital changes:		
Accounts receivable	(1,473)	5,521
Inventories	(3,166)	1,162
Prepaid expenses and other assets	86	(385)
Other assets	(91)	(42)
Accounts payable, accrued expenses and other liabilities	7,025	2,945
Income taxes payable	(3,264)	(190)
Net cash provided by operating activities	36,916	30,636
Cash flows from investing activities:		
Proceeds from sale of property and equipment	41	80
Property and equipment purchases	(6,245)	(3,734)
Net cash used in investing activities	(6,204)	(3,654)
Cash flows from financing activities:		
Payment of dividend	(22,416)	(13,925)
RSUs settled for cash	(685)	(223)
Stock buy-back	(1,004)	(951)
Investment in subsidiary	-	11
Payments under financing leases	(205)	(158)
Net cash used in financing activities	(24,310)	(15,246)
Effect of exchange rates on cash and cash equivalents	356	(105)
Net increase in cash and cash equivalents	6,758	11,631
Cash and cash equivalents:		
Beginning of year	35,388	23,757
End of year	42,146	35,388

See Notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2021 and 2020

1. Organization and description of business

Nature of business

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

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 using the accrual basis of accounting.

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.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) 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.

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, 2021 and 2020, the allowance for doubtful accounts was approximately US\$ 1,637,000 and US\$ 1,187,000, respectively. Bad debt expense was US\$ 468,000 and US\$ 215,000 in 2021 and 2020, 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, 2021 and 2020, the provision for obsolete and slow-moving inventory was US\$ 1,212,000 and US\$ 361,000, respectively.

Intangible assets and goodwill

Intangible assets consist primarily of customer relationships, trademarks 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 seventeen years, which is their estimated period of economic benefit.

Goodwill is not amortized but is subject to impairment tests on an annual basis, and the Company has chosen December 31 as its periodic assessment date. Goodwill represents the excess cost of the business combination over the Company’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 and the purchase of the Line Dragon, LLC business assets in January 2019. The Company did not incur a goodwill impairment loss for the periods ended December 31, 2021 nor December 31, 2020.

Revenue recognition

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 at a point in time upon shipment. For arrangements which include FOB destination shipping terms, revenue is recognized at a point in time upon delivery to the customer. The Company recognizes the revenue for service agreements and training once the service or training has occurred.

As of December 31, 2021 and 2020 there are US\$ 507,000 and US\$ 371,000, respectively, of extended service agreement liabilities. During the years ended December 31, 2021 and 2020, US\$ 321,000 and US\$ 358,000, respectively, of revenue was recognized related to the amounts recorded as liabilities on the balance sheets in the prior year (deferred contract revenue).

As of December 31, 2021 and 2020, there are US\$ 4,009,000 and US\$ 3,009,000, respectively, in customer deposit liabilities for advance payments received during the period for contracts expected the following period. As of the year ended December 31, 2021 and 2020, 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 and is recorded in accrued expenses in the accompanying consolidated balance sheets.

	US\$ 000
Balance, January 1, 2020	(931)
Warranty charges	248
Accruals	(491)
Balance, December 31, 2020	(1,174)
Balance, January 1, 2021	(1,174)
Warranty charges	362
Accruals	(1,174)
Balance, December 31, 2021	(1,986)

Property, plant, and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and amortization. Land is not depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is 31.5 to 40 years for buildings (depending on the nature of the building), 15 years for improvements, and three to ten 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

As of December 31, 2021 and 2020

2. Summary of significant accounting policies continued

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\$ 1,052,000 and US\$ 911,000 for the years ended December 31, 2021 and 2020, respectively. In addition, the Company settled US\$ 685,000 and US\$ 223,000 in restricted stock units for cash during the years ended December 31, 2021 and 2020, 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	
	2021 US\$ 000	2020 US\$ 000
Income available to stockholders	34,832	18,773
Basic weighted shares outstanding	56,133,366	56,336,687
Net dilutive effect of stock options and restricted stock units	692,173	636,909
Diluted weighted average shares outstanding	56,825,539	56,973,596

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.

US GAAP 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, 2020				
Asset: Goodwill	3,294	–	–	3,294
Year ended December 31, 2021				
Asset: Goodwill	3,294	–	–	3,294

3. Inventories

Inventories consisted of the following:

	Year ended December 31	
	2021 US\$ 000	2020 US\$ 000
Raw material	8,679	5,543
Finished goods and work in process	3,462	2,933
Remanufactured	2,152	2,651
Total	14,293	11,127

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, 2021 and 2020, and that the value of patents was not impaired as of December 31, 2021. The following table reflects other intangible assets:

		Weighted average Amortization Period	Year ended December 31	
			2021 US\$ 000	2020 US\$ 000
Capitalized cost	Patents	12 years	19,247	19,247
	Intangible Assets		7,434	7,434
			26,681	26,681
Accumulated amortization	Patents	12 years	18,673	18,626
	Intangible Assets		6,616	6,510
			25,289	25,136
Net carrying costs	Patents	12 years	574	621
	Intangible Assets		818	924
			1,392	1,545

Amortization expense associated with the intangible assets in each of the years ended December 31, 2021 and 2020 was approximately US\$ 153,000 and US\$ 153,000, respectively. The amortization expense for each of the next five years will be US\$ 135,000 and the remaining amortization thereafter will be US\$ 717,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

As of December 31, 2021 and 2020

5. Property, plant, and equipment

Property, plant, and equipment consist of the following:

	Year ended December 31	
	2021 US\$ 000	2020 US\$ 000
Land	864	864
Building and improvements	20,191	15,278
Machinery and equipment	8,185	6,906
	29,240	23,048
Less: accumulated depreciation and amortization	(7,651)	(6,539)
	21,589	16,509

Depreciation expense for the years ended December 31, 2021 and 2020 was approximately US\$ 1,173,000 and US\$ 965,000, respectively.

6. Line of credit and note payable

In November 2020, the Company renewed its amended credit facility, which consists of a US\$ 10.0m secured revolving line of credit, extending the maturity to September 2024. The interest rate on the revolving line of credit is based on the one-month LIBOR rate plus 1.25%. The Company's credit facility is secured by substantially all its business assets. No amounts were drawn under the secured revolving line of credit in the years ended December 31, 2021 or 2020.

Interest expense for the years ended December 31, 2021 and 2020 was approximately US\$ 45,000 and US\$ 45,000, 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 US 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\$ 925,000 to the savings and retirement plan during 2021 and contributed US\$ 767,000 during 2020.

8. Leases

The Company leases property, vehicles, and equipment under leases accounted for as operating and finance leases. The leases have remaining lease terms of less than 1 year to 11 years, some of which include options for renewal. The exercise of these renewal options is at the sole discretion of the Company. The right-of-use assets and related liabilities presented on the Consolidated Balance Sheet, reflect management's current expectations regarding the exercise of renewal options. The components for lease expense were as follows as of December 31, 2021:

	US\$ 000
Operating lease cost	374
Finance lease cost:	
Amortization of right-of-use assets	243
Interest on lease liabilities	18
Total finance lease cost	261

As of December 31, 2021, the weighted average discount rate for finance and operating leases was 4.7% and 3.4%, respectively, and the weighted average remaining lease term for finance and operating leases was 1.8 years and 7.2 years, respectively.

Maturities of lease liabilities are as follows for the years ended:

	Operating Leases US\$ 000	Finance Leases US\$ 000
2022	411	198
2023	406	102
2024	233	25
2025	103	–
2026	103	–
Thereafter	614	–
Total	1870	325
Less imputed interest	(255)	(15)
Total	1,615	310

9. Supplemental cash flow and non-cash financing disclosures

	Year ended December 31	
	2021 US\$ 000	2020 US\$ 000
Cash paid for interest	45	45
Cash paid for taxes	12,547	5,491
Finance lease liabilities arising from obtaining right-of-use assets	(80)	(20)
Operating lease liabilities arising from obtaining right-of-use assets	278	108

10. Business and credit concentration

The Company's line of business could be significantly impacted by, among other things, the state of the general economy, the Company's ability to continue to protect its intellectual property rights, and the potential future growth of competitors. Any of the foregoing may significantly affect management's estimates and the Company's performance. At December 31, 2021 and 2020, the Company had two customers which represented 21% and five customers which represented 32% of total accounts receivable, respectively.

11. Commitments and contingencies

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

As of December 31, 2021 and 2020

12. Income taxes

	Year ended December 31	
	2021 US\$ 000	2020 US\$ 000
Current Income Tax		
Federal	8,344	4,320
State	1,195	824
Foreign	341	216
Total current income tax expense	9,880	5,360
Deferred tax expense (benefit)		
Federal	(91)	407
State	(1)	72
Total deferred tax expense	(92)	479
Total tax provision	9,788	5,839

As of December 31, 2021 and 2020, the effects of temporary differences that give rise to the deferred tax assets are as follows:

	Year ended December 31	
	2021 US\$ 000	2020 US\$ 000
Deferred tax assets		
Bad debt allowance	378	277
Inventory	284	128
Accrued expenses	458	303
UK intangibles	105	105
Stock compensation	394	382
Italy – NOL	268	196
Australia– NOL	–	36
Lease liability	47	41
Other	250	182
Total deferred tax assets	2,184	1,650
Deferred tax liabilities		
Prepaid insurance	(264)	(130)
Fixed assets	(838)	(571)
Intangible assets	(597)	(590)
Right of use asset	(45)	(47)
Total deferred tax liabilities	(1,744)	(1,338)
Valuation allowance	(268)	(232)
Total net deferred tax asset	172	80

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	
	2021 US\$ 000	2020 US\$ 000
Consolidated income before tax	44,620	24,612
Statutory rate	21%	21%
Statutory tax expense	9,370	5,169
State taxes	943	723
Foreign taxes	342	(33)
Permanent differences due to stock options and RSUs	6	34
Permanent differences due to other items	21	25
Foreign derived intangible income	(1,207)	(323)
Change in valuation allowance	36	42
Change in reserve	67	76
Other	210	126
Tax expense	9,788	5,839

As of December 31, 2021, the Company has US\$ 1.12m 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 is 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, 2021 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. The Company has open years for the tax year 2013 and forward. The Company has open years related to United Kingdom filings for the tax year 2018, and open years related to Italian filings for tax years 2014 forward.

The Company adopted the accounting standard for uncertain tax positions, ASC 740-10, in accordance with US GAAP, 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, 2020	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, 2020	958
Unrecognized tax benefits – January 1, 2021	958
Increases from positions taken during prior periods	492
Increases from positions taken during current period	–
Settled positions	–
Lapse of statute of limitations	–
Unrecognized tax benefits – December 31, 2021	1,450

The amount of unrecognized tax benefits as of December 31, 2021, if recognized, would favorably affect the Company's effective tax rate. These unrecognized tax benefits are classified as "Other long-term liabilities" 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\$ 73,000 and US\$ 76,000 as of December 31, 2021 and 2020, respectively. Interest and penalties related to unrecognized tax benefits are included in the provision for income tax expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

As of December 31, 2021 and 2020

13. Revenues by geographic region

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

	2021 US\$ 000	2020 US\$ 000
United States and U.S. possessions	106,627	70,683
Rest of World	26,707	17,889
Total	133,334	88,572

14. 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\$ 1,052,000 and US\$ 911,000 for the years ended December 31, 2021 and 2020, respectively. The income tax effect recognized for stock-based compensation was US\$ 0.2m and US\$ 0.05m, respectively, for the years ended December 31, 2021 and 2020.

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 2021 and 2020 is presented below:

	Shares	Grant date fair market value US\$
Outstanding at January 1, 2020	486,090	2,312,584
Granted	326,960	924,737
Vested or settled for cash	(115,759)	(411,661)
Forfeited	(31,221)	(138,633)
Outstanding at December 31, 2020	666,070	2,687,027
Outstanding at January 1, 2021	666,070	2,687,027
Granted	184,890	941,711
Vested or settled for cash	(156,644)	(826,618)
Forfeited	(7,460)	(30,000)
Outstanding at December 31, 2021	686,856	2,772,120

RSUs settled for cash were US\$ 0.7m in 2021 and US\$ 0.2m in 2020.

As of December 31, 2021, there was US\$ 1,109,000 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 1.2 years.

15. Employee compensation

The Board approved management bonuses and profit-sharing payments totaling US\$ 2.6m, partly paid in December 2021 and the remainder to be paid in early 2022, based upon the Company meeting certain financial targets. Amounts not paid during 2021, are included in accrued expenses in the accompanying consolidated balance sheets.

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 2021, the Company issued 37,014 shares of common stock, valued at US\$ 189,000 at the time of grant. In March 2020, the Company issued 35,247 shares of common stock, valued at US\$ 100,000 at the time of grant.

16. Share buyback

In February 2021 and August 2020, the Board authorized on-market share buyback programs each for such number of its listed shares of common stock as are equal to US\$ 1,000,000. The maximum price paid per Ordinary Share was no more than the higher of 105 percent of the average middle market closing price of an Ordinary Share for the five business days preceding the date of the share buyback, the price of the last independent trade and the highest current independent purchase bid. As of December 31, 2021, the Company purchased 141,266 shares of common stock for an aggregate value of US\$ 962,000 pursuant to the share buyback program authorized in 2021, and 6,521 shares of common stock for an aggregate value of US\$ 42,000, which completed the share buyback program authorized in 2020. The Company estimates the share buyback program authorized in 2021 will be completed by the end of H1 2022. In connection with the Company's share buyback programs authorized in 2021 and 2020, 178,634 shares held in treasury were canceled in 2021.

17. Subsequent events

Dividend

In recognition of Somero's strong performance and the Board of Directors' confidence in the continued growth of the Company, the Board approved a dividend payout ratio of 50% of adjusted net income and is pleased to announce a final 2021 dividend of 22.02 US cents per share that will be payable on May 6, 2022 to shareholders on the register at April 8, 2022. Together with the interim dividend paid in October 2021 of 9.00 US cents per share, this represents a full year regular dividend to shareholders of 31.02 US cents per share. In addition, due to the strength of the Company's cash position at the end of 2021, and upon the review of anticipated future cash requirements for the business, the Board of Directors' has approved a supplemental dividend of 19.7 US cents per share that will be paid together with the final 2021 dividend on May 6, 2022 to shareholders on the register at April 8, 2022. The combined dividend payment on April 30, 2022 will total 41.72 US cents per share, representing a total dividend payment of US\$ 23.4m.

Distribution amount:	\$0.4172 cents per share
Ex-dividend date:	7 April 2022
Dividend record date:	8 April 2022
Final day for currency election:	22 April 2022
Payment date:	6 May 2022

Further, any participant holding the Security on behalf of beneficial owners resident in a treaty country with the United States of America can facilitate claims for tax relief at source for its underlying beneficial owners. In order to ensure that the appropriate rate of US Withholding Tax is applied correctly, completed documentation must be provided to the Depository, Computershare Investor Services PLC.

All dividends, including both ordinary and supplemental, have the option of being paid in either GBP or USD subject to the underlying agreements between shareholders and their brokers which Somero cannot override. Payments in USD can be paid by Check or through Crest. Payments in GBP can be paid via Check, Crest and BACS. The default option if no election is made will be for a USD payment via check. Should shareholders wish to change their current currency or payment methods, forms are available through Computershare Investor Services PLC at <https://www-uk.computershare.com/Investor/Content/c057a8a7-f4f8-4fcb-a497-836ce2f708d5>. If shares are held as Depository Interests through a broker or nominee, the holding company must be contacted and advised of the payment preferences. Such requests are subject to the terms and conditions of the broker or nominee.

Additional information on currency election and tax withholding can be found at: <https://investors.somero.com/aim-rule-26>. Shareholders can also contact Computershare Investor Services PLC by telephone at +44 (0370) 702 0000 or email via webcorres@computershare.co.uk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

As of December 31, 2021 and 2020

17. Subsequent events continued

Equity bonus plan

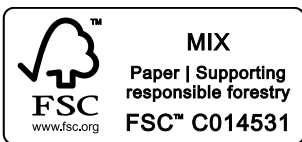
In February 2022, the Board approved the 2021 Equity Bonus Plan, under which eligible senior managers can elect to receive up to 100% of their 2021 annual performance bonus in shares of common stock. The Company expects to issue shares for awards under the 2021 Equity Bonus Plan in 2022.

Share buyback

In February 2022, the Board approved a share buyback program, pursuant to which, the Board intends to carry out an on-market buyback of such number of its listed shares of common stock as are equal to US\$ 2,000,000. The purpose of the program is to mitigate future dilution resulting from share issuances under the Company's equity award programs. The Company estimates that the program will be fulfilled by the end of 2022.

Annual General Meeting

The Annual General Meeting of Stockholders (the "AGM") of the Company will be held at 14530 Global Parkway, Fort Myers, FL 33913 USA on June 14, 2022 at 9:00 am local time. The notice of the AGM shall be released with the Annual Report and shall include instructions for remote participation. Stockholders of record at the close of business on April 18, 2022 will be entitled to receive notice of, and vote at, the AGM.



Registered and Head Office

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