Annual Report & Accounts 2008

Somero Enterprises, Inc

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Who We Are

Somero® designs, manufactures and sells equipment that automates the process of spreading and leveling large volumes of concrete for commercial flooring and other horizontal surfaces, such as paved parking lots. Somero's innovative, proprietary products, including the large SXP®-D, CopperHead®, and new Mini Screed™ C Laser Screed® machines employ laser-guided technology to achieve a high level of precision.

Somero's products have been sold primarily to concrete contractors for use in non-residential construction projects in over 60 countries across every time zone around the globe. Laser Screed equipment has been specified for use in constructing warehouses, assembly plants, retail centers and in other commercial construction projects requiring extremely flat concrete floors by a variety of companies, such as Costco, Home Depot, B&Q, DaimlerChrysler, various Coca-Cola bottling companies, the United States Postal Service, Lowe's, Toys 'R' Us and ProLogis.

Somero's headquarters and manufacturing operations are located in Michigan, USA with Executive offices in Florida. It has a sales and service office in Chesterfield, England. Somero has approximately 90 employees and markets and sells its products through a direct sales force, external sales representatives and independent dealers in North America, Latin America, Europe, the Middle East, South Africa, Asia and Australia. Somero is listed on the Alternative Investment Market of the London Stock Exchange and its trading symbol is SOM.L.

Business Highlights

- Successful operational restructuring resulting in a planned US$10.0m reduction in operating costs
- Successful modification of bank agreements providing added covenant flexibility
- Continued focus on product development, introduction of the new Mini Screed Commercial in November 2008 and the new SXP-D in January 2009
- Broadening revenue base, with international sales accounting for 50% of group revenue
- Continued investment in emerging markets, increasing market penetration

Financial Highlights

- Significant reduction in net debt to US$9.7m (2007: US$11.1m)[1]
- Revenue decreased by 21.8% to US$51.9m (2007: US$66.4m)
- Adjusted EBITDA decreased by 63.7% to US$6.0m (2007: US$16.5m) which includes a US$0.6m restructuring charge[2]
- Pre-tax income decreased by 79.8% to US$2.2m (2007: US$10.7m)
- Adjusted net income before amortization decreased by 63.1% to US$4.0m (2007: US$10.8m)[3]
- EPS before amortization down 62.2% to US$0.12 (Basic EPS: US$0.05) vs. US$0.31 in 2007 (Basic EPS: US$0.20)

[1]Net Debt is defined as total borrowings under bank obligations less cash and cash equivalents.[2]The Company uses non-US GAAP financial measures in order to provide supplemental information regarding the Company's operating performance.

[2]Adjusted EBITDA as used herein is a calculation of its net income plus tax provision, interest expense, interest income, foreign exchange gain, other expense, depreciation, amortization and stock based compensation.

[3]Adjusted net income before amortization as used herein is a calculation of Net Income plus Amortization of Intangibles plus Loss on extinguishment of debt.

Chairman's Statement

"As the financial crisis intensified during the year, we took immediate and decisive action to reduce our cost base, and achieved a total saving in 2009 operating costs of US$10.0m. This proactive restructuring allowed us to modify our bank agreements to obtain added covenant flexibility and stability in the year ahead."

"Despite the current uncertainty in the markets, and our cautious outlook on the out-turn for 2009, I believe we are well placed to deliver a profitable year. We remain committed to driving improved performance from our growth markets, and expect to continue to make investments in these markets. We also expect to benefit from our new product development program which has developed a new Mini Screed and a redesigned and updated Large line SXP."

"We remain focused on maximizing our cash generation, maintaining high levels of customer support and providing continued training to our employees and clients alike."

Overview

As the depth of the financial collapse became more apparent throughout 2008 our focus altered from growth to stability, and we acted quickly to reduce our cost structure while continuing to make investments in our growth markets. Somero's core principles – high-quality engineering, product development and high levels of customer service – have served us well, and our products continue to be in demand and essential to produce quality flooring for projects globally. We are confident that Somero is structured to maintain market share and remains ready to take advantage of opportunities as they present themselves around the world.

Markets

The US led economic downturn particularly affected Large line sales and spares. Small line products were less affected due to their lower capital cost. Europe, Middle East and Africa enjoyed a strong first half, however, sales tailed off in the second half of the year. In line with our strategic ambitions for our business, we remain committed to our development in China and the Middle East, maintaining our position to gain market penetration in both those areas.

Historically, in difficult economic times, we have seen growth in the used equipment line as it becomes increasingly in demand by customers continuing to work but not in a position to add new equipment to their fleets. We have begun an aggressive campaign in this market niche with a refurbishing program suited to all price points in the marketplace. The Somero As Is program, in addition to our traditional refurbishing program, includes a Somero warranty, training and customer service with all equipment. We are confident this program will allow us to prevail in competitive situations in sales of as is equipment.

Whilst we remain of the view that opportunities will again exist for us to successfully expand our product offering into the residential arena, we have re-focused in the non-residential construction market and have introduced a more powerful Mini Screed™. Since its introduction in late 2008, the Mini Screed Commercial has gained wide acceptance.

People

It is often in times of difficult economic and market conditions that the true measure of a team can be assessed. As a Board, we are continually impressed with the ingenuity and resilience of our employees and would like to take this opportunity to thank all employees for their performance, commitment and dedication throughout the past year in these most unusual and unchartered times.

Current Trading and Outlook

Despite the global slowdown, construction demand continues in specific sectors and demand for ever higher building quality standards is rising. We remain committed to investing in important new markets, whilst being mindful of the need to regularly review our cost base against prevailing market conditions. We continue to focus on maximizing our cash generation, maintaining high levels of customer support and developing new products to keep Somero at the forefront of this industry. After the downturn runs its course, I remain confident Somero will emerge as a stronger Company, better-equipped to benefit from the ensuing period of economic recovery.

The first quarter of 2009 was below expectations but still within bank covenants. We did see a progressive increase in activity each month which is the normal springtime trend and countries that had been slow or dormant are showing increased levels of activity. These trends seem to be gaining momentum and whilst it is too early to see if we have experienced the bottom, the increase in activity is encouraging. Notwithstanding these encouraging trends, the Board remains cautious on the out-turn for 2009.

Stuart Doughty
Non-Executive Chairman

President and Chief Executive Officer's Statement

"There is no doubt that 2008 was a particularly difficult year. I was impressed with how quickly our experienced management team reacted to the rapidly changing market conditions. We finished the year in a position to gain from our investments in growth markets and new products. Our brand recognition, market position and products, together with an experienced management team, provide us with a solid platform to remain profitable, generate cash and continue debt reduction in the year ahead."

Overview

The effect of the sudden and extensive worldwide shutdown of the financial system on construction activity was mitigated with the experience of our management team. We recognized the impact on our customers very early in the process and acted to make swift and significant reductions to our cost structure in the US and Europe. The Group is now sized to the realities of the marketplace as it is operating today and has continued to make investments in China and the Middle East to take advantage of growth opportunities.

Our ability to move quickly has allowed us to meet all our debt obligations and, in early 2009, we modified our banking facilities to provide significant flexibility in the coming years. These are unprecedented times, nevertheless management is confident that Somero's fundamentals remain strong and that the strategies in place combined with our market leading position will result in continued long-term growth for Somero.

Group revenues are US$51.9m, but the Board is pleased that the management has reacted quickly to the changing market conditions by taking out costs, resulting in full year adjusted EBITDA of US$6.0m and maintaining bank covenant compliance at lower turnover levels.

As part of our overall strategic plan, the Company made further progress in 2008 towards our goal of decreasing our dependence on North American markets and broadening our revenue base. International sales now account for 50% of group revenue, up from 40% in 2007. Our focus on cash generation has resulted in a further reduction in net debt at the year end to US$9.7m (2007: US$11.1m).

We continue to invest in training to give our team the tools to help them work effectively and efficiently to get through these difficult times.

Operational Performance

Total revenue decreased US$14.5m to US$51.9m (2007: US$66.4m). As expected the US suffered the vast majority of this revenue reduction (US$13.4m). Out of the product groups, Large line accounted for 65.7% of the reduction with Small line and Other accounting for 15.7% and 18.7% respectively.

We realized strong sales of the three dimensional system for concrete parking lots at US$2.8m (2007: US$2.4m). The introduction of the Mini Screed Commercial product in the final 2 months of the year was strong. Refurbished sales remained robust at US$3.0m (2007: US$3.3m).

EMEA had a very strong H1 with a 27.2% increase. As the financial crises shifted to Europe in H2, sales declined. Full year revenue was US$20.5m, broadly in line with 2007 (US$20.7m). Australia, South Africa and Korea were impacted by a dramatic currency change with 2008 revenue of US$2.3m (2007: US$4.2m) but our emerging markets of China, Middle East and Latin and South America showed strong growth. Latin and South America generated revenue of US$2.9m (2007: US$1.8m) and China and the Middle East benefited from our additional investment in sales personnel to generate total sales of US$2.1m (2007: US$0.4m).

These emerging markets remain a key area of focus for Somero. A central component of our business strategy continues to be our entry into and growth within emerging international markets. We will continue to position ourselves to identify and take advantage of these trends by adding additional investments in these markets.

The implementation of our emerging markets strategy is centered on three core aims:

To identify international logistics companies, development companies and building operators with a view to ensuring Western floor flatness specifications are carried through to new markets;

To target local contractors who are tendering for projects for these major international players and local contractors with a Western joint venture partner; and

To develop a package whereby we can provide in-depth floor construction training, beyond the operator training that we currently provide, and selling this training as part of the overall package of equipment and services to install a concrete floor.

We continue to pursue these three aims and it is encouraging that international refurbished sales – a key indicator of progress in these emerging markets – have remained robust.

Product Development

During the year we continued to invest in product development and launched a new commercial Mini-Screed product in November 2008 and subsequently introduced it at our industry's premier tradeshow, the 2009 World of Concrete, where it was well received. Also at the World of Concrete, we introduced the new SXP-Diagnostic machine. This new innovation gives full-time electrical system, hydraulic system and engine performance diagnostics alerts to the operator instantly should faults occur within the machine while performing on the jobsite. The development of this machine came from customer input as a result of our close relationship with our customers.

Somero Total Care warranty program was also introduced at the World of Concrete. Somero 'Total Care' is an all-inclusive warranty and training package for the SXP™-D Laser Screed® and includes a 3-year warranty on all non-wear parts, scheduled 6 monthly inspection & calibration visits for 3 years, classroom training for up to 4 operators and 1 day on-site advanced/additional operator training per year. This new innovative program is a first in the construction equipment industry and provides a high value benefit to ownership with no costs in the first 3 years of ownership except for wear items and consumables. The Total Care program is only available for purchase at the time of the initial sale of the SXP-D, at a cost of US$15,000.

Additional products are also in the prototyping stage. We remain confident that the launch of these products will continue to provide growth opportunities for Somero over the medium and longer term.

New Training Facility

The Company successfully completed the relocation of its executive offices and customer training to Fort Myers, Florida, in July 2008. The manufacturing plant and majority of customer service personnel remain in Houghton, Michigan. With the training located in Florida, we can now offer year-round classes to our customers who come from all over the world. Combining our executive offices with customer training enables senior management to interact with customers, giving them valuable insight into understanding their businesses and markets. As of December 2008 we had 40 customers come through training.

In 2009 we will look to expand our presence in emerging markets with all product offerings. The Company's attractive fundamentals including strong cash flow, good market position and products, together with an experienced management team, provide us with a solid platform on which to weather the global recession.

We look forward to delivering further on our strategic goals in the year ahead.

Jack Cooney
President and Chief Executive Officer

Financial Review

Summary of Financial Results (1) (2) (3) (4)

	12 months ended 31-Dec-07 US$ 000	12 months ended 31-Dec-08 US$ 000
Revenue	66,436	51,941
Cost of sales	28,828	23,116
Gross profit	37,608	28,825
Operating expenses:		
Selling expense	11,949	11,518
Engineering expense	1,831	1,384
General and administrative expense	10,514	12,477
Restructuring	-	582
Total operating expenses	24,294	25,961
Operating income	13,314	2,864
Other income (expense)		
Interest expense	(1,472)	(856)
Interest income	74	67
Foreign exchange gain/(loss)	279	99
Other	(1,479)	(12)
Income before taxes	10,716	2,162
Provision for income taxes	3,789	505
Net income	6,927	1,657
Other data:		
Adjusted EBITDA(1)(2)(4)	16,494	5,984
Adjusted net income before amortization (1)(3)(4)	10,792	3,989
Depreciation expense	378	373
Amortization of intangibles	2,384	2,332
Capital expenditures	491	589

Notes:

1. Adjusted EBITDA and Adjusted Net Income Before Amortization 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 Before Amortization are presented herein because management believes they are useful analytical tools for measuring the profitability and cash generation of the business. Adjusted EBITDA is also used to determine pricing and covenant compliance under the Company's credit facility and as a measurement for calculation of management incentive compensation. The Company understands that although Adjusted EBITDA is frequently used by securities analysts, lenders and others in their evaluation of companies, its calculation of Adjusted EBITDA may not be comparable to other similarly titled measures reported by other companies.
2. Adjusted EBITDA as used herein is a calculation of its net income plus tax provision, interest expense, interest income, foreign exchange gain, other expense, depreciation, amortization and stock based compensation.
3. Adjusted net income before amortization as used herein is a calculation of Net Income plus Amortization of Intangibles plus Loss on extinguishment of debt.
4. The Company uses non-US GAAP financial measures in order to provide supplemental information regarding the Company's operating performance. The non-US GAAP financial measures presented herein should not be considered in isolation from, or as a substitute to, financial measures calculated in accordance with US GAAP. Investors are cautioned that there are inherent limitations associated with the use of each non-US GAAP financial measure. In particular, non-US GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and many of the adjustments to the US GAAP financial measures reflect the exclusion of items that may have a material effect on the Company's financial results calculated in accordance with US GAAP.

Net Income to Adjusted EBITDA Reconciliation and Adjusted Net Income Before Amortization Reconciliation

	12 months ended 31-Dec-07 US$ 000	12 months ended 31-Dec-08 US$ 000
Adjusted EBITDA reconciliation		
Net income	6,927	1,657
Tax provision	3,789	505
Interest expense	1,472	856
Interest income	(74)	(67)
Foreign exchange gain	(279)	(99)
Other expense	1,479	12
Depreciation	378	373
Amortization	2,384	2,332
Stock based compensation	418	415
Adjusted EBITDA	16,494	5,984
Adjusted net income before amortization reconciliation		
Net income	6,927	1,657
Amortization	2,384	2,332
Loss on extinguishment of debt	1,481	-
Adjusted net income before amortization	10,792	3,989

Notes:
References to "Adjusted Net Income Before Amortization" in this document are to Somero's net income plus amortization of intangibles plus loss on extinguishment of debt. Although Adjusted net income before amortization is not a measure of operating income, operating performance or liquidity under US GAAP, this financial measure is included because management believes it will be useful to investors when comparing Somero's results of operations both before and after the Somero Acquisition, including by eliminating the effects of increases in amortization of intangibles that have occurred as a result of the write-up of these assets in connection with the Somero Acquisition. Adjusted net income before amortization should not, however, be considered in isolation or as a substitute for operating income as determined by US GAAP, or as an indicator of operating performance, or of cash flows from operating activities as determined in accordance with US GAAP. Since Adjusted net income before amortization is not a measure determined in accordance with US GAAP and is thus susceptible to varying calculations, Adjusted net income before amortization, as presented, may not be comparable to other similarly titled measures of other companies. A reconciliation of net income to Adjusted EBITDA and Adjusted net income before amortization is presented above.

Revenues

Somero's consolidated revenues decreased by 21.8% to US$51.9m (2007: US$66.4m). Somero's revenues consist primarily of sales from new Large line products (the SXP-D Large Laser Screed and its predecessors), sales from new Small line products (the CopperHead and PowerRake) and other revenues, which consist of, among other things, revenue from sales of spare parts, refurbished machines, Topping Spreaders, Mini Screeds, 3D systems and accessories. The overall decrease in revenues for the year was driven by reductions in each of Large line sales, Small line sales and other revenues.

The table below shows the breakdown between Large line sales, Small line sales and other revenues during the 12 months ended 31 December 2007 and 2008:

	12 months ended 31 December 2007		12 months ended 31 December 2008	
	(US$ in millions)	Percentage of net sales	(US$ in millions)	Percentage of net sales
Large line sales	30.5	45.9%	21.3	41.1%
Small line sales	18.1	27.3%	15.4	29.6%
Other revenues	17.8	26.8%	15.2	29.3%
Total	66.4	100%	51.9	100%

Large line sales decreased to US$21.3m (2007: US$30.5m) as a result of a 33.6% decrease in volume to 71 units (2007: 107), Small line sales decreased to US$15.4m (2007: US$18.1m) as volumes decreased to 320 (2007: 394) and other revenues, including sales of spare parts, refurbished machines, Topping Spreaders, Mini Screeds, 3D systems and accessories, decreased to US$15.2m (2007: US$17.8m).

Sales to customers located in North America comprise the majority of Somero's revenue, constituting 50.5% of total revenue (2007: 59.9%), while sales to customers in Europe, South Africa and the Middle East combined contributed 39.6% (2007: 31.3%). The remaining sales in these periods were to customers in Asia, Australia, Central America and South America. The Company has been focused on international sales, with revenues outside North America decreasing by 3.4% to US$25.7m (2007: US$26.6m). Sales in Europe, South Africa and the Middle East generated US$20.5m (2007: US$20.7m) and sales of Large line and Small line products in these regions increased by 2% and 3.6% in the comparable periods.

Sales in Asia, Australia and Latin and South America decreased to US$5.2m (2007: US$5.9m) driven by a decrease in Large line volumes to 9 units (2007: 12 units) and in Small line units to 28 (2007: 52 units).

Sales to customers in North America decreased by 33.8% to US$26.2m (2007: US$39.6m).

Gross Profit

Gross profit decreased by 23.4% to US$28.8m (2007: US$37.6m), with gross margins declining to 55.5% (2007: 56.6%). The decrease in gross margins was a result of several factors including a change in sales mix from higher margin Large line to lower margin Other, and lower production volumes leading to less cost absorption.

Operating Expenses

Operating expenses increased by 6.9% to US$26.0m (2007: US$24.3m). This increase included US$0.8m of increased legal expenses, US$0.7m in relocation costs and US$0.6m in restructuring expenses.

Selling expenses decreased by 3.6% to US$11.5m (2007: US$11.9m). The decrease in selling expenses was primarily due to lower sales, which resulted in decreased sales commissions.

Engineering expenses decreased by US$0.4m, or 24.4%, to US$1.4m (2007: US$1.8m). The decrease was due to fewer projects being worked on in 2008 as compared to 2007.

General and administrative expenses increased US$2.0m, or 18.7% to US$12.5m (2007: US$10.5m). A substantial amount of the increase in general and administrative expenses resulted from US$0.8m in increased legal expenses, US$0.7 million in relocation costs and increased bad debt expenses.

Restructuring expenses amounted to US$0.6m as the Company streamlined its operations with the onset of the global credit crises and recession.

Other Income (Expense)

Other expenses were US$0.7m (2007: US$2.6m). Other expenses consisted of interest income, interest expense, foreign exchange gains and losses and gains and losses on the disposal of assets.

Interest expenses were US$0.9m (2007: US$1.5m), resulting primarily from continued reductions in debt as excess cash was used to pay down debt.

Foreign exchange gains were US$0.1m (2007: US$0.3m) resulting primarily from a changing US Dollar compared to the Pound Sterling and the Euro.

Other expenses included US$12k (2007: US$1.5m), primarily resulting from fewer gains and losses on the disposal of assets.

Provision for Income Taxes

The provision for income taxes decreased by US$3.3m, or 86.7%, to US$0.5m (2007: US$3.8m) due to lower profitability levels. Overall, Somero's effective tax rate decreased from 35.4% to 23.4% due to foreign tax items.

Net Income

Net income decreased by 76.1% to US$1.7m (2007: US$6.9m). The primary cause of the decrease in net income was decreased sales and increased operating expenses.

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

	2007 US$ 000	**2008** **US$ 000**
Net income	6,927	**1,657**
Basic weighted shares outstanding	34,281,968	**34,281,968**
Net dilutive effect of stock options	-	**-**
Diluted weighted average shares outstanding	34,281,968	**34,281,968**

The Company had 34,281,968 shares outstanding at 31 December 2008.

Earnings Per Share

Earnings per share at 31 December 2008 is as follows:

	US$
Basic earnings per share	0.05
Diluted earnings per share	0.05
Adjusted net income before amortization of earnings per share (1)	0.12

(1) See notes on page 7.

Stuart J. Doughty
CMG Bsc Ceng FICE, FIHE
Non-Executive Chairman of the Board

Mr. Doughty, age 65, whose term of office will expire at the Company's 2011 annual meeting of shareholders. From 2001 to 2005, Mr. Doughty served as chief executive officer of Costain Group Plc. He has over 40 years' experience in the construction industry, including positions as non-executive chairman of Alstec Group Limited, non-executive chairman of Beck & Pollitzer Limited, non-executive chairman of Kennedy Construction Group Limited, director of Hyder Plc., director of Alfred McAlpine Construction Limited, director of Tarmac Construction Limited and managing director of John Laing Construction Limited. Currently Mr. Doughty serves as senior non-executive director of Scott Wilson Group Plc, where he is chairman of the Remuneration Committee and a member of the Audit and Nominations Committees, and as senior non-executive director of Aigis Blast Protection Ltd. Mr. Doughty is also Executive Chairman of Silverdell Plc. He holds a Bachelor of Science in Civil Engineering from Cardiff University.

John T. (Jack) Cooney
President, Chief Executive Officer and Director

Mr. Cooney, age 62, joined Somero in December 1997 and has served as its Chief Executive since that time. He has been a director of the Company since 10 August 2005. Mr. Cooney has 32 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 Associates degree in Industrial Engineering from Central New England College and a Master of Business Administration degree from College of St. Thomas.

Michael F. Niemela
Chief Financial Officer, Secretary and Director

Mr. Niemela, age 44, joined Somero in 1997 as manager of information systems and led Somero's implementation of its current enterprise resource planning system and other information technology infrastructure. In 2000, he began managing Somero's accounting and information systems functions and was named treasurer and controller in 2001, and in 2006 was named Chief Financial Officer and Vice President of Finance. Mr. Niemela is also responsible for the Company's Human Resources and Administration functions. Mr. Niemela earned a Bachelor of Science degree in Business Management from Keene State College. Mr. Niemela is the Secretary of the Company and joined the Board shortly prior to admission. Mr. Niemela is also a director of Somero Enterprises Limited, Somero Enterprises SRL and Somero Enterprises GmbH.

Thomas M. Anderson
Non-Executive Director

Mr. Anderson, age 57, whose term of office will expire at the Company's 2011 annual meeting of shareholders. Mr. Anderson recently retired after 30 years of service as president and chief executive officer of Schwing America, Inc. and became the president and managing partner of Schwing Bioset, Inc.. Since 1989, he has served as the president and managing partner of Concrete Pump Repair. 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.

Ronald Maskalunas
Non-Executive Director

Mr. Maskalunas, age 68, whose term of office will expire at the Company's 2010 annual meeting of shareholders. For the past five years, Mr. Maskalunas has been a self-employed corporate consultant, focused on performing due diligence on corporate acquisitions, serving as an expert witness in litigation matters, performing forensic investigations and financial and operating reviews of companies, and assisting in the implementation of Sarbanes-Oxley controls and procedures for a company listed on the New York Stock Exchange. Mr. Maskalunas retired in 2001 after serving as a partner at PricewaterhouseCoopers LLP for 24 years. Mr. Maskalunas earned a Bachelor of Science degree from Purdue University and a Master of Business Administration from University of Chicago. He is also a Certified Public Accountant.


Stuart Doughty
Jack Cooney
Tom Anderson
Ron Maskalunas
Mike Niemela

The directors present their Annual Report and the audited financial statements for the year ended 31 December 2008.

Activities

The principal activity of the Company is to design, manufacture and sell equipment that automates the process of spreading and leveling large volumes of concrete for flooring and other horizontal surfaces, such as paved parking lots and provide support services for the same to its customers throughout the world. The Company is headquartered in the USA, with Executive Offices in Fort Myers, Florida and manufacturing facilities located in Houghton, Michigan,. It has sales and service operations in the United Kingdom, China and Dubai with distributors and direct sales representatives based throughout the world. In July of 2008, the Company completed the relocation of its Executive Offices and its training facilities to Fort Myers, Florida in order to allow for outdoor customer training on a year-round basis. The State of Florida will provide over US$70,000 in tax incentives to the Company provided certain employment levels are met through 2015.

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 Chief Executive's Statement on pages 4 to 6, the Financial Review on pages 7 to 10, the Directors' Report on pages 13 to 17 and the Corporate Governance Report on pages 18 to 22.

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 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 on pages 24 to 41. The Board paid dividends totaling US$2.1m during 2008.

Share Capital

	Ordinary shares	
	1 January 2008	31 December 2008
S. J. Doughty	72,000	72,000
J. T. Cooney	243,034	243,034
M. F. Niemela	47,339	47,339
T. M. Anderson	–	–
R. Maskalunas	–	–

Somero stock is traded on the LSE AIM exchange and is therefore quoted in Pounds Sterling. The market price of the shares at 31 December 2008 was 12.75p. The range during the 2008 period of trading was 11.5p to 94p and ended the year at 12.75p. The Graph on page 23 shows share movement in the year.

Apart from the shareholdings listed below the Company has not been notified of any shareholdings which are 3% or more of the total issued ordinary shares of the Company.

Shareholders who hold more than 3%	Amount	Percentage of Holding
Polar Capital European Forager Fund Ltd	5,250,000	15.32%
Royal Mail Pension Trustees (Dup)	4,911,130	14.33%
The Gores Group	4,213,417	12.29%
Ennismore Fund Mgmt	3,100,000	9.04%
Artemis UK Smaller Companies	2,719,830	7.93%
BT Pension Scheme (Dup)	2,713,387	7.92%
Tosca Asset Management	2,300,000	6.71%
River & Mercantile Asset Management LLP	903,800	5.55%

	Number of options					
	1 January 2008	Awarded (exercised)	31 December 2008	Exercise price US$	Earliest date from which exerciseable	Expiry date
S. J. Doughty	154,268		154,268	$2.34	1 Nov 2007	1 Nov 2016
J. T. Cooney	874,190		874,190	$2.34	1 Nov 2007	1 Nov 2016
M. F. Niemela	205,691		205,691	$2.34	1 Nov 2007	1 Nov 2016
T. M. Anderson	85,704		85,704	$2.34	1 Nov 2007	1 Nov 2016
R. Maskalunas	85,704		85,704	$2.34	1 Nov 2007	1 Nov 2016
J. T. Cooney	-	188,525	188,525	$1.83	19 Feb 2009	19 Feb 2018
M. F. Niemela	-	94,536	94,536	$1.83	19 Feb 2009	19 Feb 2018

Risks and Uncertainties

The key risks and uncertainties facing the Company are considered as part of the Company's established process for identifying, evaluating and managing risk. Impacts of significant risks and their mitigation are monitored at Board meetings throughout the year and are subject to annual review by the Audit Committee. The key risks facing the business and the processes in place to manage those risks are:

Bank Obligations

As previously noted, business conditions eroded in Q2 of 2008 and then again in Q4 of 2008. The result was to put the Company at risk of violating its debt covenants in 2009 under the terms of the loan agreement at that time. In early 2009, the Company gained additional flexibility by revising its loan agreements. While management believes there is adequate headroom in the new covenants, global economic uncertainties could be greater than expected and cause the Company to fall short of the renegotiated covenants. The Company continues to remain profitable and generate significant operating cash flow and under the renegotiated covenants has not changed its loan payback obligations. Therefore, to further mitigate this risk the Company is focused on meeting or exceeding the Company's revenue plan, continued operating cost reductions and reducing working capital usage.

Employee Retention

As part of its restructuring in 2008, the Company reduced its global workforce by half, increasing the dependence on key employees. Key employee retention is an increasing risk due to incentive stock options being significantly out of the money, and other compensation reductions implemented along with the restructurings.

Economic and Industry Conditions

Somero's financial performance is affected by a number of factors, including the cyclical nature of the non-residential concrete construction industry, as well as the varying economic conditions of the geographic markets Somero serves, primarily North America and Western Europe. Somero also has a growing presence in Asia, Eastern Europe, Australia, the Middle East, Africa and South and Central America. Demand in these markets continues to fluctuate in response to overall economic conditions and to the amount of private sector spending on commercial construction projects, especially by retailers such as Wal-Mart and Costco, where Somero's Large Laser Screed products have been utilized. In the second quarter of 2008 the US market began to decline suddenly. In October of 2008, all markets dramatically reacted to the global credit crises causing the Company to take significant restructuring action.

New Product Innovation

Somero's financial performance is also dependent upon the introduction of new products. The newest product introduced in late 2008, the Mini Screed Commercial, shows early signs of acceptance in the market. The Company also introduced the SXP-Diagnostic Large Laser Screed®, and the Somero Total Care Program, an optional supplemental service plan, only available at the time of purchase for US$15,000 for the SXP-D. This equipment, and optional warranty, also generated much enthusiasm and excitement at the industry's premiere tradeshow in February 2009.

Product Replacement Demand

Somero's financial performance is also dependent on the replacement or refurbishment of older products as they reach the end of their expected life cycles. Somero's first major product line, the Large Laser Screed, is in a period of demand for replacement and refurbishment, as older machines reach the end of their lifecycles. Somero's level of replacement demand is dependent on its ability to continue developing enhanced models that encourage customers to replace older machines. In 2008, replacement continued, although at lower levels, for the Large Laser Screed. While no trend has appeared, Somero management believes replacement demand will eventually develop for the Small line products as they age and new versions are introduced.

Geographic Expansion

Somero's financial performance is also dependent upon its ability to successfully enter and penetrate geographic markets outside the US. Currently, Europe and Canada represent Somero's primary markets outside the US, and Somero is focusing efforts on Asia, Eastern Europe, Australia, the Middle East, Africa and South and Central America. The Company's products continued to gain market acceptance in 2008 in the face of unfavorable currency movements and bad economic news.

Interest Rates

Somero's financial performance is also linked to prevailing interest rates. See "Liquidity and Capital Resources" below. In December 2008 and January 2009 the Company renegotiated its loan agreements with Citizens Bank to obtain concessions on its debt service covenant and its funded debt to EBITDA covenant. In return, the Company agreed to an immediate increase of 1.6% in its interest rate with a changed pricing grid that allows for a further maximum increase of 1.75%. The Company's maximum revolving line of credit is now set at $8.0m and no changes were made to its term loan repayment schedule.

Liquidity and Capital Resources

Liquidity

The Company's principal liquidity needs are for payroll, lease obligations, purchases of component parts and interest and principal payments on its long-term debt. The Company does not maintain a significant product inventory, as products are assembled following customer orders. The Company's primary sources of liquidity are cash balances, cash provided by operations and its available revolving line of credit with Citizen's Bank of up to US$8.0m. Operations are primarily funded through excess cash or draw-downs under the Citizen's revolving line of credit.

At 31 December 2008 the Company had US$0.8m in cash and cash equivalents compared to US$3.8m at 31 December 2007. Cash provided by operating activities in 2008 was US$3.5m compared to US$10.3m in 2007 caused primarily by lower earnings. Cash used in financing activities was US$6.5m in 2008 compared to US$8.0m in 2007. Net cash flows provided by investing activities was US$0.1m in 2008 compared to US$0.4m used in 2007. This change is primarily due to the sale of a building the Company owned in New Hampshire.

Capital Resources

Currently, the Company does not have any specific plans for significant capital expenditures. However, one element of Somero's strategy is to identify and acquire businesses that have complementary products and services. Somero may finance such future acquisitions from internally generated funds, bank borrowings, public or private securities offerings, or some combination of these methods. In addition, the Company may issue debt or equity securities as some or all of the consideration for such acquisitions. Somero cannot predict the level of financing that may be required in connection with future acquisitions. As of 31 December 2008, the Company had

US$7.5m in aggregate principal amount outstanding in term loans under its Citizens Bank Financing Agreement, and US$3.0m drawn under the revolving portion of its Citizens Bank Financing Agreement. The Company's financing agreement with Citizens Bank imposes various restrictions and covenants on the Company which could potentially limit its ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business opportunities. The restrictive covenants include limitations on the incurrence of additional indebtedness, limitations on the creation of liens and limitations on asset sales and other fundamental changes, limitations on payment of dividends and limitations on the redemption or repurchase of outstanding capital stock, among other restrictions. The covenants also include financial measures such as a maximum ratio of debt to consolidated EBITDA.

The Company was in compliance with all debt covenants at the end of 2007 and 2008. The directors believe that funds generated from operations, together with existing cash, will be sufficient to meet the Company's debt obligations over the next 12 months. The directors also expect that existing cash and available funds from the financing agreement with Citizens Bank and funds generated from operations will be sufficient to meet anticipated operating requirements and to fund planned capital expenditures for the remainder of 2009. Somero had capital expenditures of US$0.6m in 2008 and US$0.5m for the 12 months ended 31 December 2007. This capital was primarily used for training facility fit up and systems in the Florida office relocation. The directors will, from time to time, evaluate opportunities to sell equity or debt securities, and/or obtain credit facilities from lenders, which could result in dilution to the Company's shareholders and increased interest expense.

Other Financial Arrangements

Quantitative and Qualitative Disclosure About Market Risk The Company is exposed to market risk from changes in interest rates and foreign currency exchange rates because it funds its operations through long- and short-term borrowings and receives revenues and incurs expenses in a variety of foreign currencies. The Company does not currently hedge against the risk of exchange rate fluctuations, but has hedged the majority of its interest rate exposure related to amounts owed to Citizens Bank. 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. Although Somero does not engage in hedging against currency exchange risk, it mitigates this risk by increasing its list prices in foreign currencies in order to maintain the rice level when converted into US dollars. historically, Somero has been able to increase prices to accommodate for fluctuations in exchange rates that would otherwise negatively impact its prices when converted into US dollars.

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 insure suppliers are informed of the terms of payment and to abide by these terms whenever possible.

Corporate Social Responsibility

Somero Enterprises believes, as a good corporate citizen, it must care about the communities it is involved in, keep the environment healthy, provide a safe and rewarding place to work and behave ethically in all its business dealings.

Donations

During the year the Company made no political donations. Charitable donations were made in amounts of US$15,885 primarily to local charities in New Hampshire and Michigan.

Employment Policies

The Company supports equal opportunities in employment and advancement and opposes all forms of unlawful or unfair discrimination on the grounds of color, race, religion, age, nationality, gender or marital status. Full and fair consideration is given to applications for employment from disabled people. As an equal opportunities employer all our benefits are accessible to every staff member and we encourage and support personal and professional development.

The Company has well established structures to communicate with employees at every level and to encourage their involvement regarding the Company's performance and future activities. As an organisation Somero Enterprises, Inc. prides itself on its honesty, integrity and high professional standards in everything it does to deliver its services to its customers and in dealing with its staff and the public. The Company 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 will 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

After receiving formal AIM compliance training in August 2007, it was determined that no training in 2008 would be needed.

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. Our internal Safety Committee monitors these issues and reports to senior management monthly. We maintain ISO 9000 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 minimised. The Company has an excellent track record of environmental performance supported by our ISO 14000 certification.

Disclosure of Information to Auditors

Each of the persons who is a director at the date of approval of the report claims that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. This confirmation is given and should be interpreted in accordance with the provision of section 234ZA of the Companies Act 1985.

Annual General Meeting

The notice of the AGM is included on page 43 in the Annual Report. Approved by the Board of Directors and signed on behalf of the Board.

Michael F. Niemela
Company Secretary
6 May 2009

While the Company is not required to comply with the provisions of the Combined Code, it is the intention of the directors that the Company will indeed comply with the code. With the exception of the following matters the Company is in compliance with 2006 FRC Combined Code on Corporate Governance.

Allowing for the size of the Company, there is currently no internal audit function as suggested by the Combined Code. The finance function continues to carry out regular and random internal checks on all systems and procedures to insure internal compliance. We do not feel the need, therefore, to appoint separate staff to carry out an internal audit function. Also, the Board has not undertaken a formal evaluation of its own performance and that of its committees and individual directors. The Board did not conduct a survey of shareholders in 2008. Lastly, the Company has not disclosed the insurance coverage for its Directors.

As suggested by the Combined Code, as of the end of 2008, relationships with the majority of all major shareholders have been maintained on a regular basis keeping them fully informed regarding the trading of the Company and any new developments.

Auditor's remuneration in 2008 was US$244,000 and in 2007 was US$261,000.

Board of Directors

The Company is controlled through the Board of Directors which is comprised of five members, three of whom are non-executive directors. The Board considers that the Non-Executive Chairman of the Board, Mr. Doughty, as well as Messrs Anderson and Maskalunas, who have been appointed as non-executive directors, are each independent in character and judgement and accordingly considers each of them to be an independent director for the purposes of the Combined Code. The names and biographical details of the directors are located on page 11 of this report.

The Company holds monthly Board meetings and more frequently as required. There is a separation of roles and responsibilities of the Chairman and the Chief Executive. As the Non-Executive Chairman, Mr. Doughty is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda; ensuring that the directors receive accurate, timely and clear information, and appropriate induction and training; ensuring effective communication with shareholders; and facilitating the effective contribution of non-executive directors in particular, and ensuring constructive relations between the executive and non-executive directors. Non-executive directors are responsible for constructively challenging and helping to develop proposals on strategy; scrutinising the performance of management in meeting agreed goals and objectives, and monitoring the reporting of performance; satisfying themselves on the integrity of financial information, and that financial controls and systems of risk management are robust and defensible; and responsibility for determining appropriate levels of remuneration of executive directors, and having a prime role in appointing, and where necessary removing, executive directors, and in succession planning. The directors are provided with regular and timely information on the financial performance of the Company together with other reports from functional areas within the Company as requested.

During the year there were 12 regularly scheduled monthly Board meetings, two Audit Committee meetings, two Remuneration Committee meetings and one Nominations Committee meeting, with nearly perfect attendance.

The Board is responsible for overall Company strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks, considers environmental and employee issues and key appointments. It ensures that all directors receive appropriate training on appointment and then subsequently as appropriate. A budget is established for this purpose. All directors, in accordance with the Code, will submit themselves for re-election at least once every three years.

The Board has three committees, the Audit Committee, the Remuneration Committee and the Nominations Committee with formally delegated rules and responsibilities. Each of these committees meets regularly, at least once each year.

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

The Remuneration Committee is comprised of Messrs Anderson, Maskalunas and Doughty, and is chaired by Mr. Anderson. The Remuneration Committee measures the performance of the executive directors and key members of senior management as a prelude to recommending their annual remuneration, bonus awards, and awards of share options to the Board for final determination. The Remuneration Committee also makes recommendations to the Board concerning the allocation of share options to employees.

The Nominations Committee is comprised of Messrs Doughty, Anderson and Maskalunas and is chaired by Mr. Doughty. The Nominations Committee regularly reviews the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and makes recommendations to the Board with regard to any changes; gives full consideration to succession planning for directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future; and is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Company adopted a code for directors' and applicable employees' share dealings. The directors will comply with Rule 21 of the AIM rules relating to directors' dealings and will take all reasonable steps to ensure compliance by Somero's applicable employees.

Relations with Shareholders

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

All shareholders have at least 20 working days' notice of the AGM at which all directors and committee chairs are introduced and available for questions. Institutional investors and analysts are invited to briefings by the Company immediately after the announcement of the Company's full year results and all shareholders are encouraged to participate in the Company's AGM.

Accountability and Audit

Financial Reporting

A review of the performance and financial position of the Company is included in the financial review. The Board uses this, together with the Chairman's Statement, the Chief Executive's Statement and the Directors' Report to present a balanced and understandable assessment of the Company's position and prospects. The statement of directors' responsibilities for the financial statements is described on page 17.

Internal Control

An ongoing process for identifying, evaluating and managing the significant risks faced by the Company has been established and that process is regularly reviewed by the Board and accords with the Internal Control Guidance to directors on the Combined code. Steps continue to be taken to embed internal control and risk management further into the operations of the business and deal with areas of improvement coming to management and Board attention. The Board implemented a review of 18 key risk areas starting in 2007 where one of the risks areas was reviewed with results reported to the entire Board. In 2008 there was one additional risk area reviewed with a report of the results to the Board.

The reporting systems include formal consideration of all significant business risks at the monthly Board meetings and are still subject to continuous review by the Board throughout the year. The monthly management information includes some key risk indicators with the emphasis on early warning systems. Risk management principles are embedded within all significant projects.

The directors are responsible for the system of internal control and reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable but not absolute assurance against material misstatement or loss.

The key risk management activities are described under the following headings:

Strategic control – The Board reviews the Company's strategic plans each year. On a regular basis, the Company's significant risks are updated and appropriate control strategies and accountabilities are agreed.

Allocation of responsibilities and control environment – The Board has set clear terms of reference for each of its committees and the Company has an organisational structure with clearly defined and documented delegation of authority to executive management and reporting systems for financial results, risk exposure and control assessment.

Financial control – The Company has a comprehensive system for reporting financial results to the Board.

Quality and integrity of personnel – The Company is committed to competence and integrity of management and staff at all levels, through its values statement, comprehensive recruitment, training and appraisal programs.

IT Systems – The Company has established controls and procedures over the security of data held on computer systems and has put in place suitable disaster recovery arrangements.

Controls over central functions – A number of the Company's key functions, including treasury and taxation, are dealt with centrally. The Chief Financial Officer reports on an as needed basis to keep the Board updated.

Internal audit – There is no dedicated resource for internal audit functions which is considered sufficient for the Company due to its size.

Role of the Executive Committee – Day-to-day management of the Company's activities is delegated to senior management which is considered sufficient for the Company.

Risk management reporting and Board review – The Board has overall responsibility for identifying, evaluating and managing major business risks facing the Company. It annually reviews all operating unit assessments of business risk exposure and control, including compliance assessments, and determines appropriate action, taking into account the recommendations of senior management.

An ongoing review of the effectiveness of the system of internal control for the year ended 31 December 2008 has been maintained and has taken account of any material developments since the year end.

Audit Committee

A summary of the process the Board (where applicable, through its committees) has applied in reviewing the effectiveness of the system of internal control is set out as follows:

During the year, the Audit Committee of the Board, comprising three non-executive directors;

- **a** meets regularly with the external auditors and executive directors attending by invitation;
- **b** receives and considers reports relating to the monitoring of the adequacy of the Company's internal controls, the suitability of its accounting policies and financial reporting and matters arising from the external auditors work;
- **c** monitors the nature and extent of non-audit work undertaken by the external auditors; and
- **d** makes recommendations to the Board on these matters. In forming their opinion of the independence and objectivity of the external auditors, the Audit Committee takes into account the safeguards operating within the external auditors and that the level of auditor fee is sufficient to enable them to fulfill their obligations in accordance with the audit Letter of Engagement.

The Chairman of the Audit Committee makes a report to the Board following each committee meeting and the Board receives the minutes of all Audit Committee meetings.

The following table summarizes audit, tax and other fees paid in 2008 by the Company.

	2007	2008
Audit	US$261,000	US$244,000
Tax	US$139,000	US$180,000
Other	US$1,250,000	US$1,382,000
	US$1,650,000	US$1,806,000

Audit service fees included Company audit fees and statutory audit fees for various foreign entities. Tax service fees included fees for the preparation of federal, state, local and foreign tax returns and FIN 48 analysis. Other service fees included US$1,175,000 for legal expenses, US$147,000 for investor relations, US$26,000 for recruitment expenses, US$34,000 in foreign company registration fees.

Going Concern Basis

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Director's report on pages 13 to 17. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Director's report on pages 13 to 17. After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Compliance Statement

Although not required to, the Board reports on compliance with the Combined Code throughout the accounting period. Save for the exceptions outlined below, the Company has complied throughout the accounting period ended 31 December 2008 with the provisions set out in Section 1 of the Combined Code. The exceptions to the Combined Code were as follows:

A.6 The Board has not undertaken a formal evaluation of its own performance and that of its committees and individual directors.

D.1 The Board did not conduct a survey of shareholders in 2008.

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare the accounts for the Company in accordance with US Generally Accepted Accounting Principles ("US GAAP").

The AIM rules require the directors to prepare such financial statements for each financial year which give a true and fair view in accordance with US GAAP of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period and comply with US GAAP. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (even though such regulations do not apply to companies listed on the AIM) and has been approved by the Board and adopted for submission for ratification by the shareholders. This report is unaudited.

Remuneration Committee

The members of the Remuneration Committee during the year were Tom Anderson (Chairman), Ron Maskalunas and Stuart Doughty. 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.

The following table summarizes all salaries paid to Directors during 2008 and the number of options held by Directors at the end of 2008.

Director	Salary 2008	Options
Stuart Doughty	£57,500 per annum	154,268
Ron Maskalunas	US$65,550 per annum	85,704
Tom Anderson	US$65,550 per annum	85,704
Jack Cooney	US$345,000 per annum	1,062,715
Michael Niemela	US$173,000 per annum	300,227

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 shareholders. 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 remuneration of the non-executive directors is determined by the full Board.

In framing remuneration policy the Remuneration Committee has given consideration to the requirements of the Combined Code.

Components of Remuneration

The components of remuneration are;

a basic salary and benefits determined by the Remuneration Committee and reviewed annually;

b performance related bonuses having regard to profitability of the Company; and

c share option incentives.

Basic Salary

An executive director's basic salary is determined by the Remuneration Committee at the beginning of each year and when an individual changes position or responsibility.

Bonus Payments

In the year ended 31 December 2008, the executive directors received bonuses as shown in the table which reflected an amount relating to the financial performance of the year ended 31 December 2007. Bonus awards are discretionary amounts based upon Company performance and other criteria, after consideration by the Remuneration Committee..

Director	Salary 2008	Bonus
Jack Cooney	US$345,000 per annum	US$140,906
Michael Niemela	US$173,000 per annum	US$57,750

Directors' Contracts

The Company has entered into employment agreements with certain members of senior management. The terms of these agreements range from six months to one year 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 his obligation to mitigate his losses and will also give consideration to phased payments where appropriate.

Details of the service contracts of the executive directors are show in the table below:

Director	Salary 2008	Bonus	Options
Jack Cooney	US$345,000 per annum	50-100% of salary	1,062,715
Michael Niemela	US$173,000 per annum	40-80% of salary	300,227

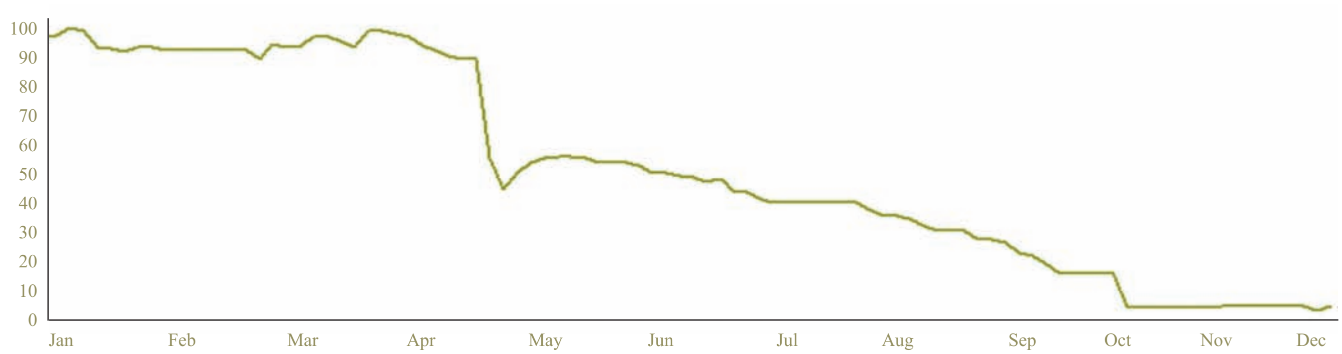
With the approval of the Remuneration Committee, executive directors are entitled, under their service agreements to perform duties outside the Company and to receive fees for those duties.

Share Options

The Remuneration Committee approves the grant of options to executive directors under the Company's discretionary share option schemes. Other than as disclosed above, the share options issued to executive directors do not have any performance criteria attached as at the time they were first issued it was not felt that performance criteria were appropriate. For more information see footnote #15 within the Notes to the Financial Statements.

Performance Graph

For the 12 months of 2008 Company stock traded at a high of 94p and a low of 11.5p and ended trading 31 December 2008 at 12.75p which represented a 86% decrease over the 31 December 2007 price of 91.5p.



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 31 December 2008 was subject to Board approval. The letters of appointment and terms are listed in the chart below.

Director	Date of appointment	Termination date
Stuart Doughty	5 June 2008	2011 AGM
Ron Maskalunas	21 June 2007	2010 AGM
Tom Anderson	5 June 2008	2011 AGM
Jack Cooney	1 November 2006	2009 AGM
Mike Niemela	18 June 2007	2010 AGM

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

Tom Anderson
Chairman of Remuneration Committee

To the Board of Directors and Stockholders of Somero Enterprises, Inc, Fort Myers, FL

We have audited the accompanying consolidated balance sheets of Somero Enterprises, Inc. and subsidiaries (the "Company") as of 31 December 2007 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and their subsidiaries as of 31 December 2007 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Certified Public Accountants
Tampa, FL
May 1, 2009

Consolidated Balance Sheets
As of 31 December 2007 and 2008

	2007 US$ 000	2008 US$ 000
Assets		
Current assets:		
Cash and cash equivalents	3,842	789
Accounts receivable - net	4,279	2,434
Inventories	6,948	5,819
Prepaid expenses and other assets	860	800
Income tax receivable	-	137
Deferred tax asset	594	466
Assets held for sale	618	-
Total current assets	17,141	10,445
Property, plant and equipment - net	4,103	4,260
Intangible assets - net	19,236	16,872
Goodwill	16,400	16,400
Deferred financing costs	94	52
Other assets	135	75
Total assets	57,109	48,104
Liabilities and stockholders' equity		
Current liabilities:		
Notes Payable - current portion	1,429	1,429
Accounts payable	4,051	1,960
Accrued expenses	2,453	1,279
Income taxes payable	374	-
Other liabilities	152	360
Total current liabilities	8,459	5,028
Notes payable, net of current portion	13,500	9,026
Deferred income taxes	467	239
Other liabilities, net of current portion	455	422
Total liabilities	22,881	14,715
Commitments and contingencies	-	-
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, 34,281,968 shares issued and outstanding at 31 December 2007 and 2008	4	4
Additional paid in capital	22,344	22,759
Retained earnings	12,128	11,728
Other comprehensive income (loss)	(248)	(1,102)
Total stockholders' equity	34,228	33,389
Total liabilities and stockholders' equity	57,109	48,104

See notes to consolidated financial statements.

Consolidated Statements of Income

For the years ended 31 December 2007 and 2008

	Year ended 31 December 2007 US$ 000	Year ended 31 December 2008 US$ 000
Revenue	66,436	51,941
Cost of sales	28,828	23,116
Gross profit	37,608	28,825
Operating expenses		
Selling expenses	11,949	11,518
Engineering expenses	1,831	1,384
General and administrative expenses	10,514	12,477
Restructuring expense	0	582
Total operating expenses	24,294	25,961
Operating income	13,314	2,864
Other income (expense)		
Interest expense	(1,472)	(856)
Interest income	74	67
Foreign exchange gain	279	99
Other	(1,479)	(12)
Income before income taxes	10,716	2,162
Provision for income taxes	3,789	505
Net income	6,927	1,657
Earnings per common share		
Basic	0.20	0.05
Diluted	0.20	0.05
Weighted average number of common shares outstanding		
Basic	34,281,968	34,281,968
Diluted	34,281,968	34,281,968

See notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended 31 December 2007 and 2008

	Common Stock Series A		Common Stock Series B		Common Stock					
	Shares Number	Amount US$ 000	Shares Number	Amount US$ 000	Shares Number	Amount US$ 000	Additional paid in capital US$ 000	Retained earnings US$ 000	Other Comprehensive Income (loss) US$ 000	Total stockholders' equity US$ 000
Balance – 31 December 2006	-	-	-	-	34,281,968	4	21,926	6,343	2	28,275
Cumulative translation adjustment									(5)	(5)
Change in fair value of derivative instruments – net of income taxes									(245)	(245)
Net income								6,927		6,927
Stock based compensation							418			418
Dividends paid								(1,142)		(1,142)
Balance – 31 December 2007	-	-	-	-	34,281,968	4	22,344	12,128	(248)	34,228
Cumulative translation adjustment									(625)	(625)
Change in fair value of derivative instruments – net of income taxes									(229)	(229)
Net income								1,657		1,657
Stock based compensation							415			415
Dividends paid								(2,057)		(2,057)
Balance – 31 December 2008	-	-	-	-	34,281,968	4	22,759	11,728	(1,102)	33,389

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended 31 December 2007 and 2008

	Year ended 31 December 2007 US$ 000	Year ended 31 December 2008 US$ 000
Cash flows from operating activities:		
Net income	6,927	1,657
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	91	(100)
Depreciation and amortization	2,762	2,705
Amortization of deferred financing costs	1,380	42
(Loss)/gain on sale of assets	(5)	10
Share based compensation	418	415
Working capital changes:		
Accounts receivable	(178)	1,439
Inventories	(2,036)	222
Prepaid expenses and other assets	(276)	1
Other assets	(22)	60
Accounts payable and other liabilities	686	(2,416)
Income taxes	587	(511)
Net cash provided by operating activities	10,334	3,524
Cash flows from investing activities:		
Proceeds from sale of property and equipment	25	680
Property and equipment disposals	78	0
Property and equipment purchases	(491)	(575)
Net cash (used) in investing activities	(388)	105
Cash flows from financing activities:		
Borrowings from additional financing	22,254	5,837
Payment for financing costs	(125)	0
Repayment of notes payable	(28,325)	(10,311)
Payment of capital lease	(657)	0
Payment of dividends	(1,142)	(2,057)
Net cash used in financing activities	(7,995)	(6,531)
Effect of exchange rates on cash and cash equivalents	(4)	(151)
Net increase (decrease) in cash and cash equivalents	1,947	(3,053)
Cash and cash equivalents:		
Beginning of period	1,895	3,842
End of period	3,842	789

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements
As of 31 December 2007 and 2008

1. Organization and Description of Business

Nature of Business Somero Enterprises, Inc. (the "Company" or "Somero") designs, manufactures, refurbishes, sells and distributes concrete leveling, contouring and placing equipment, related parts and accessories, and training services worldwide. The operations are conducted from a corporate office in Houghton, Michigan, executive offices in Fort Myers, Florida, a European distribution office in the United Kingdom, and sales offices in Canada, Germany, Dubai and China.

2. Summary of Significant Accounting Policies

Basis of Presentation The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America.

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

Cash and Cash Equivalents Cash includes cash on hand, cash in banks, and temporary investments with a maturity of three months or less when purchased.

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 primarily located in the United States. 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 31 December 2007 and 2008, the allowance for doubtful accounts was approximately US$191,000 and US$650,000, respectively. Bad debts expense was US$93,000 and US$313,000 in 2007 and 2008, respectively.

Inventories Inventories are stated at the lower of cost, using the first in, first out ("FIFO") method, or market. Provision for potentially obsolete or slow-moving inventory is made based on management's analysis of inventory levels and future sales forecasts.

Deferred Financing Costs Deferred financing costs incurred in relation to long-term debt, are reflected net of accumulated amortization and are amortized over the expected repayment term of the debt instrument, which is four years from the debt inception date. These financing costs are being amortized using the effective interest method.

Intangible Assets and Goodwill Intangible assets consist principally of customer relationships and patents, and are carried at their fair value, less accumulated amortization. Intangible assets are amortized using the straight-line method over a period of three to twelve years, which is their estimated period of economic benefit. Goodwill is not amortized but is subject to impairment tests on an annual basis, and the Company has chosen 31 December as its periodic assessment date. Goodwill represents the excess cost of the business combination over the Group's interest in the fair value of the identifiable assets and liabilities. Goodwill arose from the Company's prior sale from Dover Corporation to The Gores Group in 2005.

The Company evaluates the carrying value of long-lived assets, excluding goodwill, whenever events and circumstances indicate the carrying amount of an asset may not be recoverable. For the years ended 31 December 2007 and 2008, no such events or circumstances were identified. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such asset (or asset group) are separately identifiable and less than the asset's (or asset group's) carrying value. In that event, a loss is recognized to the extent that the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. (See Footnote 4 for more information.)

Revenue Recognition The Company recognizes revenue on sales of equipment, parts and accessories when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectibility is reasonably assured. For product sales where shipping terms are F.O.B. shipping point, revenue is recognized upon shipment. For arrangements which include F.O.B. destination shipping terms, revenue is recognized upon delivery to the customer. Standard products do not have customer acceptance criteria. Revenues for training are deferred until the training is completed unless the training is deemed inconsequential or perfunctory.

Warranty Liability The Company provides warranties on all equipment sales ranging from three months 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.

Property, Plant and Equipment Property, plant and equipment is stated at estimated market value based on an independent appraisal at the acquisition date or at cost for subsequent acquisitions, net of accumulated depreciation and amortization. Land is not depreciated. Depreciation is computed on buildings using the straight-line method over the estimated useful lives of the assets, which is 31.5 to 40 years for buildings (depending on the nature of the building), 15 years for improvements, and 2 to 10 years for machinery and equipment.

Assets Held For Sale Assets held for sale are recorded at the lower of their carrying amount or fair value less cost to sell. Depreciation is not recorded on these assets once they are classified as held for sale. In November 2007, the Company received an offer for the sale of its Corporate Office in Jaffrey, New Hampshire which it eventually accepted. The sale was completed in January 2008 and a gain of US$5,000 was recorded.

Income Taxes The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, *Accounting for Income Taxes*. 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 carryforwards. 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 accounts for uncertainty in income taxes in accordance with FIN 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, *Accounting for Income Taxes* ("FIN 48"). See Note 13 for more information.

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

Stock Based Compensation The Company accounts for its stock option issuance under SFAS No. 123R, *Share Based Payment* ("SFAS 123R"). SFAS 123R requires recognition of 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). SFAS 123R also requires measurement of the cost of employee services in exchange for an award based on the grant-date fair value of the award.

Transactions in and Translation of Foreign Currency The functional currency for the Company's subsidiaries outside the United States is the applicable local currency. Balance sheet amounts are translated at 31 December exchange rates and statement of operations accounts are translated at average rates. The resulting gains or losses are charged directly to accumulated other comprehensive income. The Company is also exposed to market risks related to fluctuations in foreign exchange rates because some sales transactions, and some assets and liabilities of its foreign subsidiaries, are denominated in foreign currencies other than the designated functional currency. Gains and losses from transactions are included as foreign exchange gain (loss) in the accompanying consolidated statements of income.

Comprehensive Income Comprehensive income, which 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. OCI was composed of the following for the years ended 31 December 2007 and 2008. Total comprehensive income for the years was approximately US$6,677,000 and US$803,000, respectively.

	2007 US$000	2008 US$000
Net Income	$6,927	$1,657
Cumulative Translation Adjustment	(5)	(625)
Change in fair value of derivative instruments – net of income taxes	(245)	(229)
Total Comprehensive Income	$6,677	$ 803

Earnings Per Share Basic earnings per share represents income available to common stockholders divided by the weighted average number of 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. Potential common shares that may be issued by the Company relate to outstanding stock options. 84,210 shares have been excluded from the calculation because they are anti-dilutive. Earnings per common share have been computed based on the following:

	2007	**2008**
	US$ 000	US$ 000
Net income	6,927	1,657
Basic weighted average shares outstanding	34,281,968	34,281,968
Net dilutive effect of stock options	-	-
Diluted weighted average shares outstanding	34,281,968	34,281,968

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standard No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for financial assets and liabilities for fiscal years beginning after November 15, 2007. In February 2008, the FASB also issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS 157 to fiscal years beginning after November 15, 2008, for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Certain aspects of SFAS 157 were effective as of January 1, 2008 and affected certain note disclosures. We do not anticipate that the adoption of the deferred portion of SFAS 157 will have a material impact on the Company's financial condition, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 provides reporting entities an option to report selected financial assets and liabilities at fair value. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 also requires additional information to aid financial statement users' understanding of a reporting entity's choice to use fair value on its earnings and also requires entities to display the fair value of those affected assets and liabilities in the primary financial statements. SFAS 159 is effective as of the beginning of a reporting entity's first fiscal year beginning after November 15, 2007. Application of the standard is optional and any impacts are limited to those financial assets and liabilities to which SFAS 159 would be applied. The Company adopted SFAS 159 effective January 1, 2008 and has elected not to measure any of its current eligible financial assets or liabilities at fair value.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This statement requires companies to provide enhanced disclosures about (a) how and why they use derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows. SFAS No.161 is effective for financial statements for fiscal years and interim periods beginning after November 15, 2008. The Company will adopt the new disclosure requirements in the period beginning January 1, 2009. We do not believe the adoption of SFAS No.161 will have a material impact on the disclosure of the Company's Derivative Instruments and Hedging Activities.

In June 2008, the FASB ratified EITF Issue No. 08-3, *Accounting for Lessees for Maintenance Deposits Under Lease Arrangements* (EITF 08-3). EITF 08-3 provides guidance for accounting for nonrefundable maintenance deposits. It also provides revenue recognition accounting guidance for the lessor. EITF 08-3 is effective for fiscal years beginning after December 15, 2008. We are currently assessing the impact of EITF 08-3 on our financial position and results of operations.

3. Inventories

Inventories consisted of the following at 31 December:

	2007	**2008**
	US$ 000	US$ 000
Raw materials	3,223	2,078
Finished goods and work in process	3,725	3,741
Total	6,948	5,819

4. Goodwill and Intangible Assets

The following table reflects intangible assets that are subject to amortization under the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*:

	Weighted average amortization period	**2007 US$000**	**2008 US$000**
Capitalized cost			
Customer relationships	8 years	6,300	6,300
Patents	12 years	18,538	18,538
Other intangibles	3 years	159	4
		24,997	24,842
Accumulated amortization			
Customer relationships	8 years	1,903	2,691
Patents	12 years	3,735	5,278
Other intangibles	3 years	123	1
		5,761	7,970
Net carrying costs			
Customer relationships	8 years	4,397	3,609
Patents	12 years	14,803	13,260
Other intangibles	3 years	36	3
		19,236	16,872

Amortization expense associated with the intangible assets for the years ended 31 December 2007 and 2008 was approximately US$2,384,000 and US$2,332,000, respectively. Future amortization on intangible assets is expected to be as follows at:

	31 December US$ 000
2009	2,332
2010	2,332
2011	2,332
2012	2,332
	9,328
Thereafter	7,544
	16,872

As required, the Company performed its annual goodwill impairment analysis by comparing the fair value of the reporting unit with its carrying amount. As part of this test, the Company computed fair value by preparing a discounted cash flow analysis, and a comparison of its market capitalization to that of other comparable companies.

Under the discounted cash flow analysis, the cash flows were determined based on assumptions for revenue, expenses, working capital requirements, capital expenditures and were discounted at a weighted average cost of capital. These estimates were based on historical results and the available information as of 31 December 2008.

The Company calculated fair value by obtaining market data of comparable companies with similar assets and liabilities. The companies selected for comparison included AIM listed companies with proprietary technology and similar gross margins to that of the Company.

In addition, the Company calculated a weighted average fair value by placing a 90% weighting on the discounted cash flow approach and a 10% weighting on the comparable market approach. The analysis resulted in the weighted average fair value of the Compay exceeding the carrying value of the Company.

Based upon the fact that the Company's analysis resulted in the fair value of the Company exceeding the book value, management concluded that goodwill is not impaired at 31 December 2008 and no adjustments to goodwill were recorded.

5. Property, Plant and Equipment

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

	2007 US$ 000	2008 US$ 000
Land	207	207
Buildings and improvements	3,574	3,572
Machinery and equipment	975	1,410
Equipment sold under recourse contracts	178	-
	4,934	5,189
Less: accumulated depreciation and amortization	(831)	(929)
	4,103	4,260

Depreciation expense for the years ended 31 December 2007 and 2008, was approximately US$378,000 and US$373,000, respectively.

The Company previously offered a facility to customers whereby the Company guaranteed the financing on the sale of equipment. Equipment previously sold under recourse contracts continue to be included in Property, Plant and Equipment at a net book value at 31 December 2007 of approximately US$21,000. Revenue under these arrangements has been deferred and recognized over the life of the financing arrangement, approximately five years. Deferred revenue of approximately US$20,000 related to these transactions was included in accrued expenses at 31 December 2007. The Company has made no further sales under recourse arrangements since 2003.

6. Notes Payable

Summary The Company executed a credit facility with a bank in March 2007 (see section entitled "Credit Facility" below). The proceeds of the new term loan and the revolving line of credit were used to pay off in full existing debt balances. The Company incurred a loss in the early extinguishment of debt of approximately US$1,481,000 which included deferred financing cost of approximately US$1,245,000. Company's debt obligations consisted of the following at 31 December:

	2007 US$ 000	2008 US$ 000
Bank debt:		
Five year secured reducing revolving line of credit	6,000	2,954
Five year secured term loan	8,929	7,501
Less debt obligations due within one year	(1,429)	(1,429)
Obligations due after one year	13,500	9,026

Credit Facility The Company has a credit facility with a bank dated 16 March 2007 that was amended in December 2008 and composed of the following at 31 December 2008:

- US$8,000,000 five year secured reducing revolving line of credit
- US$10,000,000 five year secured reducing term loan

The Company has fixed the interest rate for the revolving facility through a series of interest rate swaps and the term loan. The revolver loan's interest rate swaps initial notional amount is US$6,000,000, pays a fixed 5.20%, and had a 31 December 2008 fair market value of approximately (US$140,000) which will amortize down by approximately US$87,000 in the next 12 months. The term loan's interest rate swaps initial notional amount is US$10,000,000, pays a fixed 5.15%, and had a 31 December 2008 fair market value of approximately (US$595,000) which will amortize down by approximately US$262,000 in the next 12 months. The interest rate swaps are designated as cash flow hedges. The revolver and term loan interest rates are Libor 1-month (fixed by the interest rate swaps) plus an amount determined by the ratio of "funded debt/last 12 months EBITDA," as defined in the loan agreement. The effective interest rate at 31 December 2007 and 2008 respectively, for the revolving line of credit was 6.05% and for the term loan 6.10%. The credit facilities are secured by substantially all of the Company's assets and contain a number of restrictive covenants that among other things limit the ability of the Company to incur debt, issue capital stock, change ownership and dispose of certain assets. The revolving line of credit available reduces over the five year term and as of 31 December 2008 the borrowed balance is below the credit line available. All derivative instruments including the interest rate swaps are recognized at each balance sheet date at fair value.

Future Payments The future payments by year under the Company's debt obligations are as follows:

	31 December US$ 000
2009	1,429
2010	1,429
2011	1,429
2012	6,168
Total payments	10,455

Interest Interest expense on the credit facility for the years ended 31 December 2007 and 2008, was approximately US$1,392,000 and US$861,000, respectively, related to the debt obligation.

In January 2009 the Company renegotiated its loan agreements with the bank to obtain concessions on its debt service covenant and its funded debt to EBITDA covenant. In return, the Company agreed to an immediate increase of 1.6% in its interest rate with a changed pricing grid that allows for a further maximum increase of 1.75%. The Company's maximum revolving line of credit is now set at US$8,000,000 and no changes were made to its term loan repayment schedule. The renegotiated loan agreement did not impact the interest rate swap agreements.

Fair Value Measurements Effective 1 January 2008, the Company adopted SFAS No. 157. This standard establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements of financial assets and financial liabilities. The Company recorded no change to 1 January 2008 retained earnings as a result of adopting SFAS No. 157.

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.

The following are the fair value measurements of the Company's swap agreements.

Fair Value Measurements at Reporting Date

Liabilities:	31 December 2008 US$000	Quoted Prices In Active Markets for Identical Assets (Level 1) US$000	Significant Other Observable Inputs (Level 2) US$000	Significant Unobservable Inputs (Level 3) US$000
March 2007 revolver loan interest rate swap arrangement with a base rate of 5.20% and a notional amount of US$3,000,000	($140)		($140)	
March 2007 term loan interest rate swap arrangement with a base rate of 5.15% and a notional amount of US$10,000,000	($595)		($595)	
Total interest rate swap arrangements (1)	($735)		($735)	

(1) The fair value of these instruments is recorded in Other Liabilities.

The Company holds interest rate swaps which are carried at fair value. The Company determines fair value based upon quoted prices when available or through the use of alternative approaches, such as model pricing, when market quotes are not readily accessible. In determining the fair value of the Company's obligations, various factors are considered including; closing exchange or over-the-counter market price quotations; time value and volatility of factors underlying options and derivative; price activity for equivalent instruments; and the Company's own credit standing.

Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. The assumptions used have a significant effect on the estimated amounts reported. The amounts reported in the accompanying consolidated balance sheets approximate fair value due to the nature and short-term maturities of such assets and liabilities, including cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities.

7. Retirement Program

The Company has a savings and retirement plan for its employees, which is intended to qualify under Section 401(k) of the Internal Revenue Code ("IRC"). This savings and retirement plan provides for voluntary contributions by participating employees, not to exceed maximum limits set forth by the IRC. The Company matched 75% of the employee's contribution up to the first 6% of the employee's compensation for the year ended 31 December 2007 and matched 100% of the employee's contribution, up to the first 6% of the employee's compensation for the year ended 31 December 2008. The Company match vests after one year of service with the Company. The Company contributed approximately US$178,000 and US$284,000 to the savings and retirement plan during the years ended 31 December 2007 and 2008, respectively.

8. Operating Leases

The Company leases property, vehicles and office equipment under leases accounted for as operating leases without renewal options. Future minimum payments by year under non cancellable operating leases with initial terms in excess of one year were as follows:

	31 December US$ 000
2009	358
2010	296
2011	196
2012	162
2013	82
Total	1,094

Total rent expense under operating leases was approximately US$238,000 and US$335,000 for the years ended 31 December 2007 and 2008, respectively.

9. Supplemental Cash Flow and Non-Cash Financing Disclosures

	2007 US$ 000	**2008** US$ 000
Cash paid for interest	1,294	856
Cash paid for taxes	3,061	1,242
Non-cash financing activities – Change in fair value of derivative instruments	245	229

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 foreign competitors. Any of the foregoing may significantly affect management's estimates and the Company's performance. At 31 December 2007 and 2008, the Company had receivables from two customers which represented approximately 22% and 16% 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 agreements range from six months to one year and include non-compete and nondisclosure provisions as well as providing for defined severance payments in the event of termination or change in control.

The Company has entered into a 5 year or minimum purchase obligation of US$625,000 with a supplier as of 31 December 2007. There is a related contingent liability of US$43,000 to cancel the contract as of 31 December 2008 which declines over 5 years on a pro-rated basis.

The Company is subject to various unresolved legal actions which arise in the normal course of its business. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible losses, the Company believes these unresolved legal actions will not have a material effect on its financial statements.

12. Income Taxes

Somero adopted FIN 48 on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This pronouncement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

At 31 December 2008, the Company had a gross unrecognized tax benefit (including interest and penalties) of $4,000. Accrued interest and penalties related to unrecognized tax benefits are not included in tax expense.

Somero is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company began business in 2005 and therefore the statute of limitations for all federal, foreign and state income tax matters for tax years from 2005 forward are still open. Somero has no federal, foreign or state income tax returns currently under examination.

A reconciliation of the beginning and ending amounts of the Company's gross unrecognized tax benefits is as follows:

	2007 US$000	2008 US$000
Balance at January 1	-	128,000
Additions related to tax positions of prior years	81,000	
Additions related to tax positions of the current year	47,000	
Reductions related to tax positions of prior years	-	(124,000)
Balance at December 31	128,000	4,000

The Company's gross unrecognized tax benefit was reduced during 2008 by US$47,000 as a result of a settlement with a state and reduced by US$77,000 as a result of the filing of amended income tax returns for the years ended December 31, 2005 and December 31, 2006.

The provision for income taxes at 31 December, 2007 and 2008 includes the following:

	2007 US$ 000	2008 US$ 000
Current income tax		
Federal	3,021	(33)
State	315	69
Foreign	362	513
Total current income tax provision	3,698	549
Deferred tax expense		
Federal	88	62
State	3	10
Foreign	-	(116)
Total deferred tax provision	91	(44)
Total tax provision	3,789	505

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

	2007 US$ 000	2008 US$ 000
Deferred tax asset (liability)		
Depreciation	(24)	(347)
Intangibles	(345)	(472)
Prepaid expense	(98)	(174)
Share based compensation	173	318
Interest rate swap	159	262
Other	262	640
Net deferred tax asset	127	227
Current	164	466
Non-current	(37)	(239)
	127	227

The statutory federal income tax rate was 34% for the years ended 31 December 2007 and 2008. Differences between the income tax expense reported in the statement of operations and the amount computed by applying the statutory federal income tax rate to earnings before tax are due to the following items:

	2007 US$ 000	2008 US$ 000
Consolidated income before tax	10,716	2,162
Statutory rate	34%	34%
Statutory tax expense	3,644	735
State taxes	210	52
IRC Section 199 deduction	(197)	(35)
Meals and entertainment	60	57
Foreign tax items		(356)
Other	72	52
Actual tax expense	3,789	505

The Company expenses research and development costs as incurred. Total research and development expense for the research and development tax credit was approximately US$866,000 and US$683,000 for the years ended 31 December 2007 and 2008, respectively.

13. Revenues by Geographic Region

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

	2007 US$ 000	2008 US$ 000
United States and U.S. possessions	38,395	24,656
Canada	1,449	1,455
Rest of world	26,592	25,830
Total	66,436	51,941

A significant portion of the Company's long-lived assets are located in the United States.

14. Stock Based Compensation

The Company has one share-based compensation plan, which is described below. The compensation cost that has been charged against income for the plan was approximately US$418,000 and US$415,000 for the years ended 31 December 2007 and 2008, respectively. The income tax benefit recognized for share-based compensation arrangements was approximately US$152,000 and US$148,000 for the years ended 31 December 2007 and 2008, respectively.

In October 2006, the Company implemented the 2006 Stock Incentive Plan (the "Plan"). The Plan authorizes the Board of Directors to grant incentive and nonqualified stock options to employees, officers, service providers and directors of the Company for up to 3,428,197 shares of its common stock. Options granted under the Plan have a term of up to ten years and generally vest over a three-year period beginning on the date of the grant. Options under the Plan must be granted at a price not less than the fair market value at the date of grant.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The risk-free interest rate is based on the U.S. Treasury rate for the expected term at the time of grant, volatility is based on the average long-term implied volatilities of peer companies as our Company has limited trading history and the expected life is based on the average of the life of the options of 10 years and an average vesting period of 3 years. The following table illustrates the assumptions for the Black-Scholes model used in determining the fair value of options granted to employees for the years ended 31 December 2007 and 2008.

	2007	2008
Dividend yield	4.37%	1.64%
Risk-free interest rate	2.93%	2.90%
Volatility	25.00%	25.50%
Expected term	3.0	4.6

A summary of option activity under the stock option plans as of 31 December 2008, and changes during the year then ended is presented below:

Options	**Shares**	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contractual Term (yrs)**	**Aggregate Intrinsic Value**
Outstanding at 1 January 2008	2,666,046	2.32	-	-
Granted	532,967	1.83		
Exercised	-	-		
Forfeited	(370,118)	2.28		
Outstanding at 31 December 2008	2,828,895	2.24	8.10	--
Exercisable at 31 December 2008	1,646,057	2.33	7.86	--

The weighted-average grant-date fair value of options granted was US$.24 and US$.33 for the years ended December 31, 2007 and 2008, respectively.

A summary of the status of the Company's non-vested shares as of 31 December 2008, and changes during the year then ended is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Non-vested shares as of 31 December 2007	1,803,289	.47
Granted	532,967	.33
Vested	(783,300)	.48
Forfeited	(370,118)	.45
Non-vested shares as of 31 December 2008	1,182,838	.41

As of 31 December 2008, there was US$496,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock option plan. That cost is expected to be recognized over the expected term. The fair value of options vested in 2007 and 2008 was US$414,000 and US$375,000, respectively.

Advisers and Corporate Information

Directors

Stuart J. Doughty	Chairman and Non-Executive Director
John T. Cooney	President and Chief Executive Officer
Michael F. Niemela	Chief Financial Officer and Secretary
Ron Maskalunas	Non-Executive Director
Thomas M. Anderson	Non-Executive Director

Registered and Head Office

Somero Enterprises, Inc
16831 Link Court
Fort Myers, Florida 33912
USA

Registered Number

Incorporated in the State of Delaware, USA under the Delaware General Corporation Law with registered number 3589295

Advisers

Legal

Brown Rudnick LLP
8 Clifford Street
London W1S 2LQ
UK

Auditors

Deloitte & Touche LLP (US)
Suite 120
201 E. Kennedy
Tampa, FL 33613

Registrars

ComputerShare Trust Company, Inc.
350 Indiana Street, Suite 800
ComputerShare Investors Services
(Channel Islands) Limited
Ordnance House
31 Pier Road
St. Helier
Jersey JE4 8PW
Channel Islands

NOMAD

Hawkpoint Partners Ltd
41 Lothbury
London EC2R 7AE
UK

Broker

Collins Stewart Limited
9th Floor
88 Wood Street
London EC2V 7QR
UK

SOMERO ENTERPRISES, INC. (the "Company")

(Incorporated in the State of Delaware, USA under the Delaware General Corporation Law (the "DGCL") with registered number 3589295)

Notice is given that the Annual General Meeting of Stockholders (the "AGM") of the Company will be held at the offices of Collins Stewart Collins Stewart Limited, 88 Wood Street, London EC2V 7QR on 18 June 2009 at 11:00 am local time for the following purposes:

To consider and, if thought fit, to pass the following resolutions:

1. To ratify the Directors' Report and the Annual Report and the Company audited financial statements for the year ended 31 December 2008.
2. To ratify the Directors' Remuneration Report for the year ended 31 December 2008.
3. To re-elect Jack Cooney as a Class III Director.
4. To ratify the reappointment of Deloitte & Touche LLP as the auditors of the Company for the fiscal year ending 31 December 2009.
5. To consider and act upon any matters incidental to the foregoing purposes and any other matters which may properly come before the AGM or any adjourned session thereof.

Please refer to the Annual Report and form of proxy, which forms a part of this Notice and is incorporated in this Notice by reference, for further information with respect to the business to be transacted at the AGM.

Stockholders of record at the close of business on 8 May 2009 are entitled to receive notice of, and vote at, the AGM or any adjournment or postponement of the AGM.

Whether or not you expect to attend the AGM, please complete, date and return the enclosed proxy as promptly as possible in order to ensure your representation at the AGM. To be effective, proxies must be sent to or deposited at the office of the Company's registrars (ComputerShare Investors Services (Channel Islands) Limited, Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW, Channel Islands) so as to be received not later than 48 hours before the time for the AGM (provided that the Company may waive such requirement in its sole discretion). Even if you have given your proxy, you may still vote in person if you attend the AGM.

You may inspect a complete list of the stockholders eligible to vote at the AGM during normal business hours at our offices located at 16831 Link Court, Fort Myers, Florida 33912, USA, during the ten days prior to the date of the AGM and also at the location indicated above during the AGM.

The Board of Directors unanimously recommends a vote "FOR" each of the proposed resolutions.

All stockholders are cordially invited to attend the AGM.

By order of the Board of Directors.

Michael Niemela, Secretary
6 May 2009

Notes:

1. The Company's Board of Directors has approved the Annual Report (including the Director's Report and the Directors' Remuneration Report contained therein) and the Company's audited financial statements for the year ended 31 December 2008. Stockholder ratification of the Annual Report (including the Director's Report and the Directors' Remuneration Report contained therein) and the Company's audited financial statements for the year ended 31 December 2008 is not mandatory under Delaware law. However, the Board is submitting the Annual Report (including the Director's Report and the Directors' Remuneration Report contained therein) and the Company's audited financial statements for the year ended 31 December 2008 to the stockholders for ratification as a matter of good corporate practice. If ratification is not approved a majority of the shares of common stock voting at the AGM in person or by proxy, the Board will reconsider its approval thereof.
2. The Company's Board of Directors has selected Deloitte & Touche LLP to continue as the Company's auditors until the next Annual AGM of Stockholders. Stockholders ratification of the selection of Deloitte & Touche LLP as the Company's auditors is not mandatory under Delaware law. However, the Board is submitting the selectin of Deloitte & Touche LLP to the stockholders for ratification as a matter of good corporate practice. If ratification is not approved a majority of the shares of common stock voting at the AGM in person or by proxy, the Board will reconsider its approval thereof.
3. In accordance with the Company's Bylaws, the holders of one-third in voting power of all issued and outstanding stock entitled to vote at the AGM, present in person or presented by proxy, shall constitute a quorum for the transaction of business.

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