



TRANSFORMATION

ENERGY FOR CHANGE



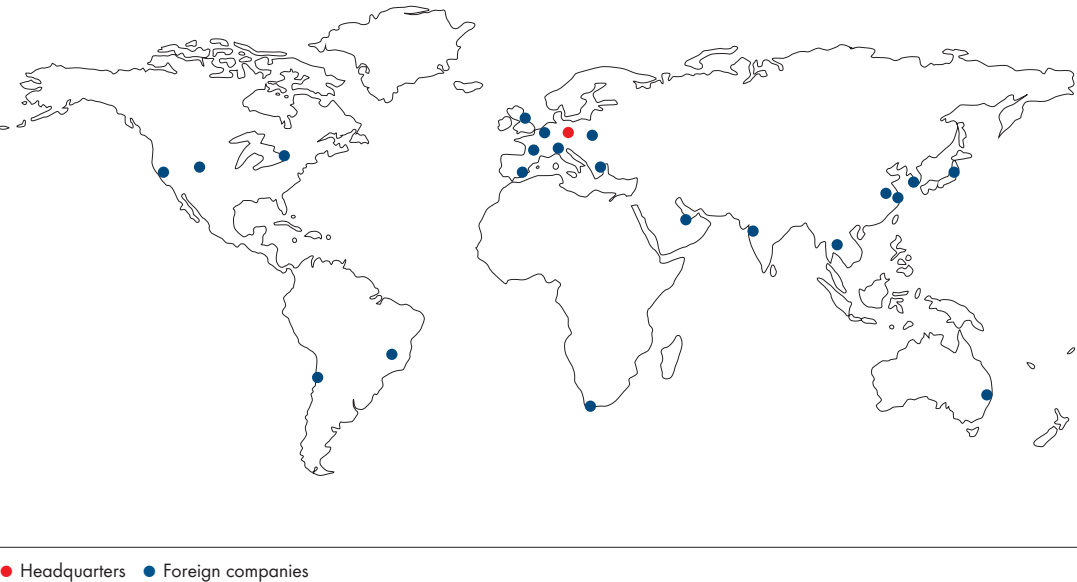
SMA AT A GLANCE

SMA Group		2015	2014	2013	2012	2011
Sales	€ million	999.6	805.4	932.5	1,463.4	1,676.3
International share ¹	%	87.3	78.3	71.0	56.3	53.6
Inverter output sold	MW	7,260	5,051	5,361	7,188	7,591
Capital expenditure	€ million	50.6	75.5	53.2	100.2	160.2
Depreciation and amortization	€ million	79.0	106.5	83.6	69.6	50.4
EBITDA	€ million	113.3	-58.4	-5.5	171.9	290.7
EBITDA margin	%	11.3	-7.3	-0.6	11.7	17.3
Consolidated net result	€ million	14.3	-179.3	-66.9	75.1	166.1
Earnings per share ²	€	0.41	-5.16	-1.92	2.16	4.79
Employees ³		4,088	5,037	5,141	5,584	5,532
in Germany		2,758	3,515	3,736	4,649	4,670
abroad		1,330	1,522	1,405	935	862

SMA Group		2015/12/31	2014/12/31	2013/12/31	2012/12/31	2011/12/31
Total assets	€ million	1,160.5	1,180.3	1,259.9	1,328.7	1,374.3
Equity	€ million	570.2	552.0	724.4	820.7	789.3
Equity ratio	%	49.1	46.8	57.5	61.8	57.4
Net working capital ⁴	€ million	223.0	251.0	247.6	268.0	281.7
Net working capital ratio ⁵	%	22.3	31.2	26.6	18.3	16.8
Net cash ⁶	€ million	285.6	225.4	329.7	446.3	473.3

¹ International share is calculated by assigning sales to countries using the destination principle. The previous year's figure was adjusted accordingly.
² Converted to 34,700,000 shares
³ Average during the period, without temporary employees
⁴ Inventories and trade receivables minus trade payables
⁵ Relating to the last twelve months (LTM)
⁶ Total cash minus interest bearing financial liabilities

SMA WORLDWIDE



COMPANY PROFILE

SMA Solar Technology AG is a global leader in the development, production and sale of high-quality PV inverters and innovative technologies for intelligent management and efficient use of energy. SMA is represented in 20 countries. The Company has a staff of over 3,500 and generated about €1 billion in sales in 2015.

BUSINESS UNITS

Residential

The Residential business unit focuses on the attractive long-term market of small PV systems for private applications with micro and string inverters, energy management solutions, storage systems and communication products and accessories. In 2015, the Residential business unit's share of SMA Group's total sales was about 25%.

Commercial

With three-phase string inverters, complete energy management solutions, medium-voltage technology and other accessories, the Commercial business unit focuses on the fast-growing market of medium-sized PV systems for commercial applications. In 2015, the Commercial business unit's share of SMA Group's total sales was about 21%.

1 MILLION

Sunny Boy TL inverters sold

13 GW

of installed power with Sunny Tripower inverters

Utility

The Utility business unit serves the growth market for large-scale PV power plants with central inverters. In addition to medium- and high-voltage technology, the product and service portfolio also comprises grid service and monitoring functions as well as accessories. In 2015, the Utility business unit's share of SMA Group's total sales was about 42%.

Off-Grid and Storage

The Off-Grid and Storage business unit provides system technology for the integration of different battery technologies and power classes and collaborates with renowned battery manufacturers and companies in the automotive industry. The portfolio includes solutions for both grid-connected and off-grid as well as hybrid solutions.

48%

increase in sales compared to the previous year

80 MW

of newly installed battery inverter output in 2015

Service

The Service business unit's portfolio includes commissioning, warranty extensions, service and maintenance contracts, operational management, remote system monitoring and spare parts business. SMA's installed capacity of nearly 50 GW worldwide gives the Service business unit great potential for growth.

1.4 GW

operation and maintenance contracts

Dear Shareholders,

2015 was a challenging and eventful year for us, which is why I would like to thank all those whose work, commitment and support have contributed to SMA's turnaround. The tremendous dedication of our employees and high level of trust have paid off. SMA has found itself back on the road to long-term profitability much earlier than originally planned. Not only have we delivered more than we promised, but we did so while the Group was undergoing its biggest restructuring ever. In these times of technological and structural change in the global solar industry, reliability is a key asset—and we here at SMA stand for reliability. In 2015, we far exceeded our original sales and earnings forecast. At the start of the year, nearly no one expected sales of around €1 billion, a positive annual net income and even a dividend.

SMA MAINTAINS ITS HIGH CAPACITY FOR INNOVATION

We used the company transformation as an opportunity to further improve our position in one of the most exciting, future-oriented sectors of the 21st century. As a specialist provider, SMA not only serves the growth market of PV system technology but also offers additional services in the stable service business and the highly promising field of energy management.

Our PV system technology portfolio continues to grow apace. For example, we launched the new Sunny Central with an output of 2.5 MW. In 2015, we entered into a strategic partnership with Siemens' energy management division, which enables us to offer a holistic solution from the DC side to grid connection. The fully integrated, turn-key solution comprises a central inverter, a medium-voltage transformer and a medium-voltage switchgear. It can be used in large-scale PV power plants, and is the most power-dense and compact of its kind on the market. Through the technological advances and strategic development of the Utility business unit, we are able to set ourselves apart from the competition better than ever before and equip the biggest solar projects in the world with our technology.

Our service business has also continued to grow, despite the Group's restructuring. SMA has a unique service infrastructure in all major photovoltaic markets worldwide and can therefore offer comprehensive services. Thanks to our high level of expertise and technical monitoring options, we now have contractually agreed orders for maintenance and operational management of large-scale PV power plants with an output of 1.4 GW. As a result, we are already the world's fourth biggest provider—a tremendous success, of which we can all be very proud.

Our sights are already set on the future. At the end of January 2016, we presented the new Sunny Boy Storage, a storage solution specifically designed for cost-effective and flexible integration of high-voltage batteries into household systems. This SMA solution allows the Tesla Powerwall, for example, to be easily integrated into existing and new PV systems.

Following the pioneering technological work involved in generating sufficient volumes of renewable energy cost-efficiently, the next phase is to focus on the service aspect. The digitization of the energy industry is a task that calls upon all market players. Thanks to our partnership with TenneT, Germany's biggest grid operator, we can position ourselves right at the forefront of this development. With data-based business models, we intend to capitalize on the networks of the many decentralized energy producers and make a key contribution to grid stability.



Pierre-Pascal Urban, Chief Executive Officer SMA Solar Technology AG

COMPANY TRANSFORMATION COMPLETE

In an industry where change is the only thing that stays the same, flexibility must be an important part of the corporate strategy. We used the company transformation as an opportunity to increase our operational and financial flexibility. One key factor driving this development was the more efficient setup of processes along the value chain. For example, we have shortened process lead times, reduced our inventories and systematically realized the synergies in purchasing arising from our partnership with Danfoss. Another element of the company transformation was to adjust personnel structures in line with expected future sales. Within just a few months, we implemented a considerable staff reduction in a socially responsible manner. This was an extremely difficult but unavoidable step. However, it was made possible thanks to a process characterized by openness, fairness and cooperativeness. The company transformation is now largely complete. We have come out of this process stronger because we have increased our long-term flexibility. SMA can now generate profits even with much lower sales.

INVESTMENT IN MARKETS AND CUSTOMERS

We are proud that, for the fourth year in succession, according to a study by IHS, an independent U.S. information and analysis company, SMA is the world's most preferred inverter brand. The growing trust that our customers have in us is also reflected in our business successes on the market. SMA has not only defended its global market leadership but also, in fact, increased its market share by four percentage points to 21%. We would like to extend our thanks to our customers: Your loyalty and trust are both an accolade and an incentive.

Future growth will be driven by foreign markets. For 2016, we are expecting to see a significant increase in new PV installations of almost 20% to 60 GW. Due to strong price pressure in all regions and segments, however, global sales will rise only slightly to €4.9 billion. SMA is represented with its own sales and service companies in 20 countries. No other competitor has a comparable infrastructure with skilled staff. The most important foreign markets for SMA are North America, Japan and India, which is why we intend to further expand our existing structures in these growth markets in order to leverage the opportunities available to us and increase our market share.

WELL POSITIONED FOR THE FUTURE

SMA is well positioned in its role as a specialist in a fast-growing market. Last year, the SMA Managing Board implemented structural changes and increased the Company's flexibility. Following this company transformation, we are better positioned than ever before to meet future challenges and are absolutely clear about our strengths and goals.

SMA has the technical expertise and partners required to offer holistic solutions to the world's biggest PV power plants. With our innovative solutions for intelligent energy management, we are extremely well prepared to meet future demand in the energy supply sector. Our sales and service are second to none in the solar industry. We have an international presence that remains unsurpassed by any competitor and, in a dynamic market environment, we benefit from our flexible production and international production facilities. Furthermore, with an equity ratio of almost 50% and net cash of more than €285 million, SMA is financially sound with a strong balance sheet.

It is our strengths that make us clearly stand out from others in the solar industry. We will build on these strengths and design product solutions for decentralized energy supplies based on renewable energy. For the current fiscal year, we aim to achieve sales of between €950 million and €1,050 million. Following the successful transformation of the Company, we expect a significant increase in earnings to between €80 million and €120 million and a high positive free cash flow. Above all, it is our employees both here in Germany and abroad who will make a crucial contribution here. On behalf of the entire Managing Board, I would like to thank each and every employee here at SMA for their extraordinary commitment and trust. 2015 has proven to us that, even in difficult times, our unique corporate culture is a strong foundation for success. And we intend to continue building on this foundation.



Pierre-Pascal Urbon
Chief Executive Officer
SMA Solar Technology AG

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THE MANAGING BOARD TEAM

ROLAND GREBE

Board Member for Human Resources and IT

Roland Grebe (b. 1960) studied electrical engineering and has been working in various managerial positions primarily in the development area at SMA since 1984. He developed the first PV inverters that form the basis of SMA's Sunny Boy and Sunny Central inverters. Grebe also transformed the central inverter area from an individual project processor into a serial manufacturer for power plant technology and grew SMA's grid integration competencies to secure the future commercial viability of our products. He has been a member of the Managing Board since June 2009 and responsible for Human Resources and IT since March 2015. In addition, he is responsible for the subsidiaries SMA Railway Technology GmbH and SMA Sunbelt Energy GmbH and serves as labor director at SMA.

DR.-ING. JÜRGEN REINERT

Board Member for Operations and Technology

Dr.-Ing. Jürgen Reinert (b. 1968) earned his doctorate at the Institute for Power Electronics and Electrical Drives (ISEA) in Aachen, Germany, and began his career as senior engineer there. From 1999 to 2011, he worked for the Emotron company, where in his last position as General Manager he was responsible for Technology and Operations. From 2011 to 2014, as Executive Vice President Technology, he was responsible for the Power Plant Solutions division at SMA. Under his leadership, SMA was successful in expanding its worldwide project business and developing turnkey system solutions for large-scale PV power plants. Dr.-Ing. Jürgen Reinert has been a member of the Managing Board since April 2014 and responsible for Operations, Development as well as the business units since January 2016. Dr.-Ing. Jürgen Reinert is in charge of the partnership with Danfoss and a member of the Danfoss A/S Supervisory Board.

PIERRE-PASCAL URBON

CEO, Board Member for Finance/Legal and Sales

Pierre-Pascal Urbon (b. 1970) studied business administration and was active in mergers and acquisitions (M&A) consulting until 2005, when he joined SMA. In 2006, he was appointed to the Managing Board and in 2011 he became Chief Executive Officer. Pierre-Pascal Urbon planned SMA's initial public offering and partnership with Danfoss A/S. He has also decisively advanced the Group's internationalization and the Company's transformation in 2015. As Chief Executive Officer, he has been responsible for Strategy, Finance/Legal and Sales since January 2016.

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From top to bottom: Roland Grebe, Dr.-Ing. Jürgen Reinert, Pierre-Pascal Urbon

SUPERVISORY BOARD REPORT

Dear Shareholders,

For the Supervisory Board, fiscal year 2015 began with the terrible news of the death of its Chairman and co-founder of the Company, Dr.-Ing. h. c. Günther Cramer. Dr. Günther Cramer had acted as Chairman of the Supervisory Board since he left the Managing Board in 2011 and made a vital contribution to SMA's success story.

Fiscal year 2015 was dominated by a far-reaching organizational restructuring of the Company, focusing on a wide range of cost reduction activities. The Supervisory Board therefore dealt intensively with the overall situation at the Company and its prospects, continuously monitoring and regularly advising the Managing Board on the management of the Company during the 2015 fiscal year in accordance with the law, the Articles of Incorporation and the Rules of Procedure. The Managing Board involved the Supervisory Board early on in all decisions of fundamental importance to SMA. It kept the Supervisory Board and its committees regularly, promptly and comprehensively informed by means of written and oral reports about all Company strategies, the market and competition, business developments and the Company's and Group's situation, sales and results of operations. Furthermore, the Managing Board presented the proposed business policies and other important questions concerning corporate planning, in particular financial, investment, production and personnel planning, as well as significant business transactions, providing any deviations in how events actually transpired in comparison to previously reported objectives, which included reasons for the variances.

In addition, the Supervisory Board was informed about the Company's and the Group's profitability, in particular the return on equity, risk and opportunity management, risk status and compliance. The Managing Board also reported on product developments and the level of product quality. Between meetings, the Chairman of the Supervisory Board and his deputy were in regular and frequent contact with the Managing Board, especially the Chairman of the Managing Board, and discussed issues concerning strategy, planning, business development, position of risk, risk management and compliance as well as significant business transactions and upcoming decisions. The members of the Supervisory Board took both general and specialized trainings necessary for their tasks, of their own accord, such as current company compliance requirements, and in doing so received appropriate support from the Company.

Cooperation within the Supervisory Board, and between the Supervisory Board and the Managing Board in 2015 was always characterized by openness, constructive dialogue and trust.

Focus of the Supervisory Board Consultations

The Supervisory Board examined all material events and discussed them with the Managing Board at six regular meetings and four extraordinary meetings and adopted necessary resolutions in accordance with the law, Articles of Incorporation and Rules of Procedure.

In preparation for the meetings, the Supervisory Board received written reports from the Managing Board on a regular basis and on time. At each regular meeting, the subject matter of the deliberations was current business developments, the evolution of markets of particular importance to the Group and corporate planning. Members of the Managing Board participated in all regular Supervisory Board and Audit Committee meetings, but were not present for discussions of agenda items relating to the Managing Board itself.

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At three extraordinary meetings in January 2015, the Supervisory Board intensively discussed the assumptions and planned approach for the Company's transformation. These discussions particularly focused on the planning premises for the fiscal year and the planned implementation steps. The meetings also dealt with the appropriateness of the Managing Board remuneration.

At its meeting on February 11, 2015, the Supervisory Board dealt with the Corporate Governance Report included in the 2014 Annual Report, as well as the Supervisory Board Report for 2014. In addition, the Supervisory Board addressed the current development of the Company and the budget for 2015, including future planning and the Company's ongoing restructuring. The meeting and resolutions also dealt with the reorganization of the Managing Board and the appointment of a new Supervisory Board Chairman and Deputy Chairman required as a result of Dr. Günther Cramer's death.

At its meeting convened to adopt the accounts on March 5, 2015, the Supervisory Board acknowledged the 2014 Annual Financial Statements, approved the 2014 Consolidated Financial Statements after in-depth consultation and also passed the proposal to the Annual General Meeting on profit appropriation for 2014. In addition, it reviewed the proposal for selection of the Financial Statements and the Consolidated Financial Statements auditor for 2015. The Supervisory Board also adopted the candidate proposal for election of shareholder representatives to the Supervisory Board at the Annual General Meeting.

At its meeting on May 20, 2015, the Supervisory Board dealt in depth with the interim status of the Company's transformation. The discussions also focused on topics relating to product quality.

At the meeting on May 21, 2015, the newly elected and re-elected members of the Supervisory Board met to decide on the Supervisory Board Chairman and Deputy Chairman and the members of the Supervisory Board committees. The Supervisory Board members also obtained information about the legal conditions and effects of an insider position and the associated reporting duties. In addition, the Supervisory Board issued the audit assignment to the auditor for 2015.

At the meeting on September 30, 2015, the Supervisory Board discussed the business performance in China and at Jiangsu Zeyersolar New Energy Co., Ltd., as well as product innovations and the product roadmap in the Utility and Commercial business units. The Supervisory Board also dealt with the status of the Company's transformation and with the Company's sustainability report. In addition, the discussions and resolutions also covered the change in the legal requirements for the proportion of women on the Company's corporate bodies and the Managing Board remuneration.

At the meeting on December 3, 2015, the Supervisory Board dealt with the product roadmap in the Off-Grid and Storage as well as Residential business units and the results achieved in the partnership with Danfoss A/S. The Supervisory Board also had in-depth discussions on the budget for 2016. In addition, the list of reservation of consent by the Supervisory Board and the future structure of the Company's Managing Board were discussed. The Managing Board and the Supervisory Board also adopted a new Declaration of Conformity pursuant to Section 161 (1) sentence 1 of the German Stock Corporation Act (AktG) to comply with the recommendations of the German Corporate Governance Code.

The extraordinary meeting of the Supervisory Board on December 11, 2015, reviewed and resolved the mutually agreed upon resignation of Martin Kinne from the Managing Board.

Focus of the Committee Meetings

See also Corporate Governance Report, page 20 et seqq.

To improve the efficiency of the work carried out by the Supervisory Board, the Supervisory Board maintains four permanent committees: the Presidial Committee, Audit Committee, Nomination Committee and Mediation Committee. You will find the names of the persons appointed to these committees on our website at www.IR.SMA.de as well as in the Corporate Governance Report 2015.

The committees prepare the topics and resolutions to be reviewed by the entire Supervisory Board and, within the framework of the competencies transferred to them, they resolve those matters they have been assigned instead of the Supervisory Board. The content of the committee meetings is reported on by the committee chairman at the next plenary session of the Supervisory Board. All members of the Supervisory Board receive the content and resolutions of the committees in writing.

The Presidial Committee met five times in 2015. The committee’s work focused in particular on dealing with matters relating to the Managing Board as well as preparing Supervisory Board resolutions on Managing Board composition, allocation of responsibilities, Managing Board remuneration and terminating Managing Board contracts.

The Audit Committee convened seven times in 2015, three times via telephone conferences. The meetings focused on discussing the Company’s business performance and cost efficiency and the quarterly and half-yearly reports. In addition, the committee familiarized itself with the main points and overall findings of the auditor for the 2014 Annual Financial Statements and upon review confirmed the auditor’s independence.

Another key area of the committee’s work was reviewing the internal risk management systems (Internal Control System, Internal Auditing and Compliance), with the committee members gathering comprehensive information about these systems’ methods and effectiveness.

Furthermore, the committee also dealt with the report prepared by the Internal Auditing department and the Compliance Report neither showed any significant irregularities in the business processes. The Audit Committee reviewed the recommendation for the entire Supervisory Board with regard to the profit appropriation, selecting the auditor for 2015 and granting the audit mandate.

The Nomination Committee held three meetings in the reporting period. The discussions focused on the shareholder representative candidates proposed to the Supervisory Board for election to the Supervisory Board by the 2015 Annual General Meeting, and on the search for suitable candidates.

The Mediation Committee did not convene in 2015.

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See also www.IR.SMA.de

See also Corporate Governance Report page 20, et seqq.

In 2015, the Supervisory Board also dealt with the content of the German Corporate Governance Code. In 2015, the Supervisory Board and the Managing Board issued four Declarations of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) in compliance with the recommendations of the German Corporate Governance Code. Two deviations were declared each time in the Declarations of Compliance from February 11, March 5 and May 21, 2015, and three deviations were declared in the Declaration from December 2015. The joint report issued by the Supervisory Board and the Managing Board in compliance with the rules of the German Corporate Governance Code pursuant to clause 3.10 of the German Corporate Governance Code (Corporate Governance Report) has been made permanently available on our website at www.IR.SMA.de and is also mentioned on pages 20 et seqq. of the Annual Report. This is also where you will find statements on conflicts of interest and how they are handled.

Annual Financial Statements and Consolidated Financial Statements

The Annual Financial Statements prepared by the Managing Board as of December 31, 2015, the Management Report for the 2015 fiscal year, the Consolidated Financial Statements as of December 31, 2015, and the Consolidated Management Report for the 2015 fiscal year were audited by the accounting firm Deloitte & Touche GmbH, Hanover. The Supervisory Board granted the audit assignment in accordance with the resolution adopted by the General Meeting on May 21, 2015. Prior to submitting the corresponding proposal to the General Meeting regarding appointment of the auditors, the Supervisory Board had obtained the auditor’s certificate of independence pursuant to clause 7.2.1 of the German Corporate Governance Code. The Supervisory Board also monitored the independence of the auditor. In addition, it handled the assignment of orders to the auditor for non-audit-related services.

The Consolidated Financial Statements of the Company were prepared in line with Section 315a of the German Commercial Code (HGB) on the basis of the International Financial Reporting Standards (IFRS) as applicable in the EU. The auditor granted an unqualified audit opinion for the Annual Financial Statements and the Management Report as well as for the Consolidated Financial Statements and the Consolidated Management Report.

The reporting documents and the Managing Board’s proposal on the appropriation of profits as well as the audit reports were made available to the Supervisory Board in good time. These were first discussed by the Audit Committee at its meetings on February 9, 2016, and March 15, 2016, with the auditors and then by the Supervisory Board at its meeting on March 16, 2016, on each occasion in the presence of the auditor’s representatives. The auditor’s representatives reported on the audit findings and provided detailed explanations of the assets, financial position and results of operations of the Company and the Group. The questions posed by the Supervisory Board were answered and the reporting documents were reviewed in detail with the auditor’s representatives and discussed and examined by the Supervisory Board. The Supervisory Board raised no objections after concluding its examination. Thereafter, the findings of the audit were approved. Accordingly, the Supervisory Board approved the Financial Statements prepared by the Managing Board and the related Management Reports for the 2015 fiscal year at its meeting convened to adopt the accounts on March 16, 2016. Hence, the Company’s Annual Financial Statements have been approved as set out in Section 172 of the German Stock Corporation Act (AktG).

Finally, at its meeting held on March 16, 2016, the Supervisory Board approved the Managing Board’s proposal on the appropriation of the balance sheet profit. In this respect, the Supervisory Board discussed the Company’s liquidity position, the financing of planned investments and estimated business development. In doing so, the Supervisory Board came to the conclusion that the proposal was in the interests of the Company and the shareholders.

Changes to the Managing Board and Supervisory Board

Roland Bent was judicially appointed to fill the vacant position that arose on the Supervisory Board due to the death of Dr.-Ing. h. c. Günther Cramer on January 6, 2015. Dr. Erik Ehrentraut assumed chairmanship of the Supervisory Board on February 11, 2015.

Lydia Sommer left the Managing Board on February 28, 2015, and Martin Kinne on December 31, 2015. As a result of the election of new members to the Supervisory Board by the employees (employee representatives), Dr. Günther Häckl, Joachim Schlosser and Mirko Zeidler left the Supervisory Board. The Supervisory Board would like to thank Lydia Sommer, Martin Kinne, Dr. Günther Häckl, Joachim Schlosser and Mirko Zeidler for their dedicated and valuable work on behalf of the Company.

As a result of the elections to the Supervisory Board by the employees, on May 21, 2015, Yvonne Siebert, Dr. Matthias Victor and Hans-Dieter Werner joined as employee representatives. Both trade union representatives on the Supervisory Board were confirmed in office. The shareholder representatives were confirmed in office at the Annual General Meeting on May 21, 2015.

In the opinion of the Supervisory Board, the Managing Board did an excellent job of meeting the challenges of 2015 and turning the Company around. The Supervisory Board believes that the implemented restructuring and the sustainable improvement in the cost structure has positioned the Company well for the future. More specifically, streamlining its organizational structures enables it to react faster and more flexibly to the requirements of fluctuating markets. The Managing Board presented the measures required for this purpose to the Supervisory Board and implemented them transparently and in good time. The decision to cut jobs as part of the Company's transformation was not an easy one for the Managing Board, and in the opinion of the Supervisory Board it was implemented fairly and respectfully.

The Supervisory Board would like to thank the Managing Board and all employees for their outstanding work and incredible dedication in 2015.

Niestetal, March 16, 2016

The Supervisory Board

Dr. Erik Ehrentraut
Chairman

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Roland Bent
Shareholder Representative



Oliver Dietzel
Employee Representative



Peter Drews
Shareholder Representative



Dr. Erik Ehrentraut
Shareholder Representative
(Chairman)



Kim Fausing
Shareholder Representative
(Deputy Chairman)



Johannes Häde
Employee Representative



Heike Haigis
Employee Representative



Dr. Winfried Hoffmann
Shareholder Representative



Yvonne Siebert
Employee Representative



Matthias Victor
Employee Representative



Hans-Dieter Werner
Employee Representative



Reiner Wettlaufer
Shareholder Representative

THE SHARE

Turbulent Stock Markets During the Course of the Year

Investors will remember 2015 as a turbulent year on the stock markets. In the first months of the year, the stock markets initially performed positively. A major topic at the beginning of the year was the start of government bond buying by the European Central Bank (ECB), which thus reiterated its course of expansionary monetary policy. At least until September 2016, the ECB will pump €60 billion a month into the financial markets by buying government bonds to stimulate the economy in the single currency area and to counter potential deflation.

Since the start of the year, the DAX increased by 26.73% at its peak. The most important German stock market barometer exceeded 12,000 points in mid-March and reached a new record high of 12,219.05 points on March 16, 2015. On the same day, the index ended trading with its highest closing level of 12,167.72 points. However, due to the worries about Greece, the DAX could not hold onto its interim gains. The index was also weakened by fears about the state of the global economy. The DAX recovered over the course of the fourth quarter and at the end of the year, it was listed at 10,743.01 points – equating to growth of a good 10% over the year as a whole.

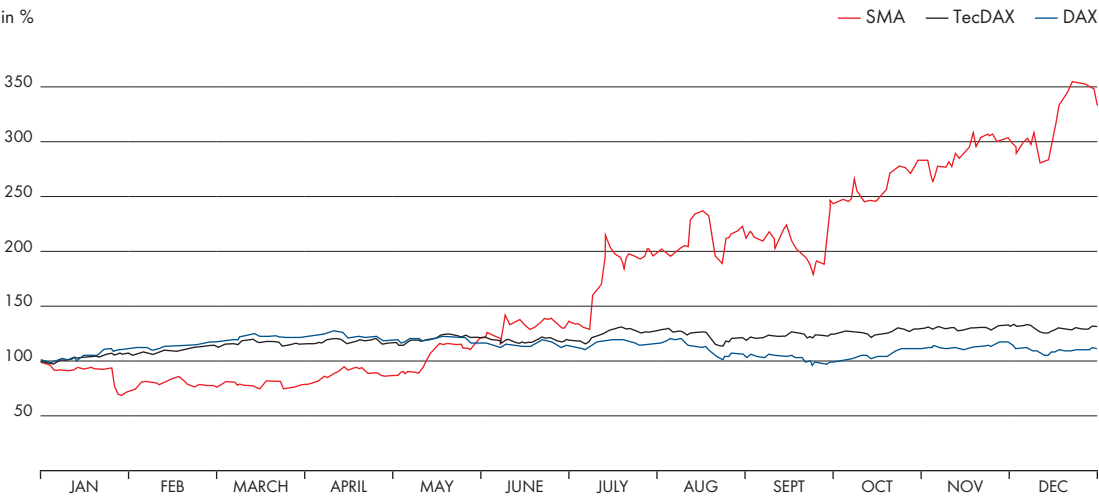
The TecDAX, the German stock market barometer for technology stocks, seemed less influenced by international events. The index started the stock market year at 1,370.92 points (opening price) and counted 1,830.74 points at the end of the year – an increase of 32.46%. The TecDAX reached its record high to date on the basis of closing prices on December 2, 2015, at 1,873.66 points.

The euro suffered losses over the course of the year and came under additional pressure in the third quarter due to the variance in economic and interest rate prospects between the U.S. and the EU. At the end of the year, the common currency was listed at EUR/USD 1.0859 and thus lost around 10% compared to the previous year.

SMA Share Gathers Momentum

In 2015, SMA shareholders were able to look back at a spectacular price performance. By the end of the year, the share had risen by around 238%, making it the stock with the second-highest growth in the TecDax since the start of the year. On December 30, 2015, market capitalization was at €1.795 billion. Thus, SMA not only belongs to the top flight of PV inverter manufacturers worldwide regarding market capitalization, market capitalization is also above the value at the time of the IPO.

SMA SHARE PERFORMANCE IN 2015



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The SMA share started the 2015 stock market year at €15.32 (opening price on January 2, 2015, Xetra trading platform) but fell in value considerably during January. Shortly before the publication of the forecast for the current fiscal year, the share marked its lowest price since it was first listed at €10.28 (intraday value) on January 29, 2015. The price recovered following the 7th Capital Markets Day. During the event on January 30, 2015, SMA's Chief Executive Officer Pierre-Pascal Urbon announced details of the Company's transformation for the first time, including the planned savings of 40% of fixed costs and the global reduction of up to 1,600 full-time positions. In addition, SMA's management presented the corporate strategy, SMA's unique selling propositions and major product innovations to investors, analysts and members of the press.

Xetra
see also Glossary,
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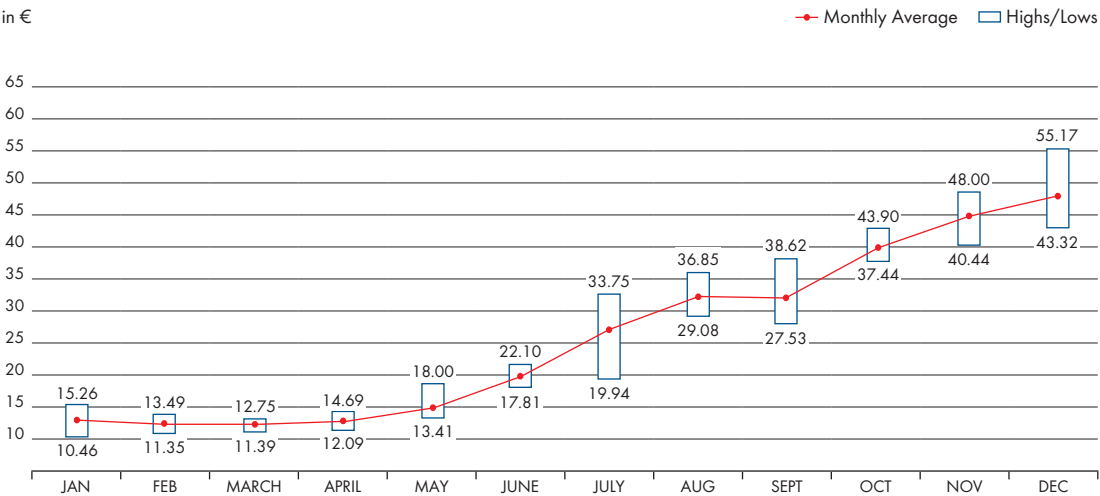
On May 13, 2015, SMA presented the results of the first quarter. The sales and earnings forecast the Managing Board had already presented at the press conference on financial statements on March 26, 2015, was achieved. The SMA share was therefore one of the day's winners in the TecDAX and gained in value over the following weeks to up to €19.12 (closing price on June 5, 2015, Xetra trading platform).

The share made another price jump on June 10, 2015. This was attributed to the announcement of the partnership between SMA and Siemens in the large-scale PV power plants segment during Intersolar Europe in Munich. The share climbed by 24.09% to €22.10, reaching its highest value in nearly nine months.

The share made its highest daily gain of the year on July 10, 2015, after the Managing Board raised the sales forecast for 2015 to between €800 million and €850 million (previously: €730 million to €770 million) and predicted operating earnings (EBIT) of €-25 million to €0 million (previously: €-30 million to €-60 million). The Managing Board identified the better than expected growth of the global market for PV inverters, a considerable improvement in SMA's competitiveness and a consistently high order backlog as reasons for the increase in the forecast. The share then rose by 24.30% to €24.78 (closing price on July 10, 2015, Xetra trading platform).

In mid-August, the share got another boost in momentum. The news that SMA is to supply seven large-scale PV power plants in California with central inverters totaling 700 MW of power raised the price temporarily to €36.85 (closing price on August 17, 2015, Xetra trading platform). The news is also evidence that SMA is benefiting from the consolidation in the U.S. market for PV inverters.

HIGHS AND LOWS OF THE SMA SHARE IN 2015



Profit-taking in the interim resulted in consolidation at around €30, before the new increases in the forecast at the end of September and the beginning of November led to further price increases. On September 29, 2015, the Managing Board raised the sales forecast for the 2015 fiscal year to between €850 million and €900 million (previously: €800 million to €850 million) and held out the prospect of a return to profitability in 2015 with operating earnings (EBIT) of €0 million to €10 million (previously: €–25 million to €0 million). The share price jumped 23.92% from €29.06 to €36.01 and temporarily climbed to €41 in the days following the announcement.

A similar dynamic was engendered by the third increase in the forecast announced on November 11, 2015, resulting from the extremely positive business performance, a significant year-on-year improvement in the sales and earnings development in the third quarter and a high order backlog. The new forecast predicted sales of €925 million to €975 million and operating earnings (EBIT) of €10 million to €30 million. The share then targeted its three-year high of €50, but repeatedly ricocheted off this marker.

Shortly before the New Year, two external factors finally ensured that the share also jumped this hurdle: the successful outcome of the climate summit in Paris and the news that the tax advantages for PV systems in the U.S. would be extended until 2020. The share climbed to €51 on December 17, 2015, and reached its high for the year on the basis of closing prices at €55.17 on December 22, 2015. At the end of the year, the share was priced at €51.72 (closing price on December 31, 2015, Xetra trading platform). The average trading volume was 212,931 shares per day.

Analysts Maintain Focus on SMA Share

As a worldwide leading specialist in PV system technology, SMA operates in a volatile market. Due to structural change, listed European solar stocks posted significant losses with regard to their market capitalization in recent years. In Germany, for example, SMA is the only remaining solar company in the TecDax. Many investment banks adjusted their European research activities in the solar sector accordingly. SMA is one of the few companies in the sector that a comparatively large number of banks and securities firms are still regularly reporting on. A total of 11 institutions are currently covering the Company.

RESEARCH COVERAGE

Institution	Name
Citi	Phuc Nguyen
Deutsche Bank	Felicitas von Bismarck
Independent Research	Sven Diermeier
Landesbank Baden-Württemberg	Erkan Aycicek
Macquarie Research	Gurpreet Gujral
MainFirst	Andreas Thielen
Matelan Research	Hartmut Moers
Natureo Finance	Ingo Queiser
Oddo Seydler Bank AG	Stephan Wulf
Raymond James Euro Equities	Emmanuel Rétif
Warburg Research	Arash Roshan Zamir

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Stable Shareholder Structure

The shareholder structure remained unchanged in the reporting period. 25.05% of the shares are in free float and 25.20% are bundled in a pooling agreement. The founders of SMA Solar Technology AG, their trusts and families hold 29.75% of the shares. With a shareholding of 20%, Danfoss A/S is an important anchor investor for SMA.

Annual General Meeting: Discharge of Managing Board and Supervisory Board Approved by Large Majority

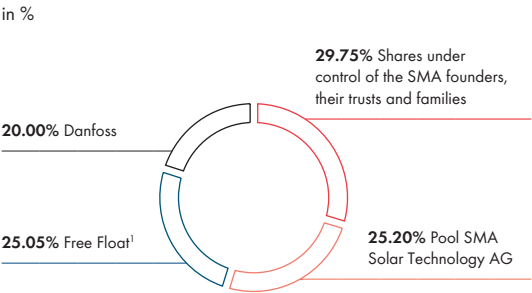
The SMA Annual General Meeting was held at the Kongress Palais Kassel on May 21, 2015. The shareholders granted discharge to the Managing Board and Supervisory Board for the 2014 fiscal year almost unanimously. The remaining agenda items also received the majority approval of the Annual General Meeting. The representatives of the German Society for the Protection of Securities Holders (Deutsche Schutzgemeinschaft für Wertpapiere, DSW) and the Association for the Protection of Private Shareholders (Schutzgemeinschaft der Kleinaktionäre, SdK) expressed their support for the strategy put forward by the Managing Board and the measures for the Company’s transformation. Around 300 shareholders attended the Annual General Meeting. Voter representation was 83%. The Annual General Meeting followed the Managing and Supervisory Boards’ proposal not to distribute a dividend for the 2014 fiscal year. The Company makes all information and documents available on its website at www.SMA.de/AnnualGeneralMeeting.

The next SMA Solar Technology AG Annual General Meeting will be held at the Kongress Palais Kassel on May 31, 2016.

Amended Communication With Analysts and Investors

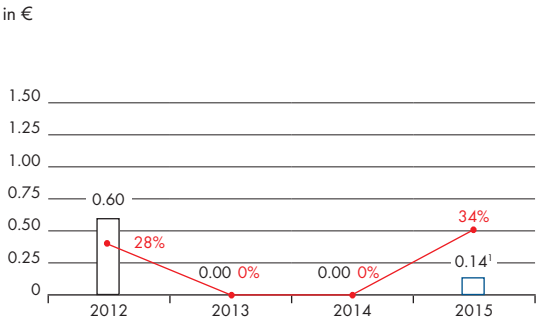
In terms of capital market communication, SMA concentrates on the main financial centers in Europe. In 2015, the SMA Managing Board visited institutional investors in London, Edinburgh, Zurich and Frankfurt and provided information about the current market and competitive situation, the Company’s unique selling propositions, the progress that the Company’s transformation was making and its financial development. Institutional investors welcomed the communication policy chosen by the Managing Board of continuing to seek regular dialogue with capital market participants even in difficult times. The roadshow presentations are available to all investors on the Investor Relations website www.IR.SMA.de.

SHAREHOLDER STRUCTURE



¹ Free Float calculated according to guidelines for stock indices of Deutsche Börse

DIVIDEND



¹ Dividend proposal Dividend
— Payout ratio of consolidated earnings (in %)

In order to process European investors’ queries more efficiently, SMA answers queries exclusively via a contact form on its website. SMA can no longer offer direct communication with investors from North America, Asia/Pacific and the Middle East because of reduced staffing. However, these investors can obtain comprehensive information about SMA via the Investor Relations website or the abovementioned research analysts.

SMA invites investors, analysts and members of the press to its Capital Markets Day at the beginning of every year. This event is held at its headquarters in Niestetal, near Kassel, Germany. On Capital Markets Day, SMA’s management presents its corporate strategy, key financial figures and strategically important innovations, among other things. In addition, attendees of Capital Markets Day regularly have the opportunity to visit SMA’s production plant at its headquarters in Niestetal. The 8th Capital Markets Day on January 29, 2016, proved to be popular with the 40 investors, analysts and members of the press in attendance.

BASIC DATA

Security code number	A0DJ6J9
ISIN	DE000A0DJ6J9
Stock market symbol	S92
Reuters	S92G.DE
Bloomberg	S92 GR
Listing	Prime Standard of the Frankfurt Stock Exchange
Initial public offering	June 27, 2008
Share class	No-par value ordinary bearer shares
Share capital	€34.7 million
Total number of shares	34.7 million
Index	TecDAX, ÖkoDAX, CDAX, Prime All Share

SMA SHARE KEY FIGURES

	2015	2014
Year’s closing price (Xetra)	€ 51.72	15.30
Annual high (Xetra)	€ 55.17	48.33
Annual low (Xetra)	€ 10.46	14.17
Number of shares	shares 34,700,000	34,700,000
Market capitalization at the end of the year	€ million 1,795	531
Earnings per share	€ 0.41	-5.16
Dividend per share	€ 0.14 ¹	0.00
Dividend amount	€ million 4.9	0.00
Dividend payout ratio	% 34.3	0.00
Dividend yield at the end of the year	% 0.27	0.00
Position on the TecDAX at the end of the year		
According to market capitalization	13	26
According to trading volume	11	14

¹ Dividend proposal

CORPORATE GOVERNANCE

20	Corporate Governance Report (Including Information on Corporate Governance Practices in accordance to Section 289a of the German Commercial Code (HGB); part of the Consolidated Management Report)
27	Information Concerning Takeovers Required by Sections 289 Paragraph 4 and 315 Paragraph 4 HGB (Part of the Consolidated Management Report)
28	Remuneration Report (Part of the Consolidated Management Report)

Corporate Governance Report

In this declaration, SMA Solar Technology AG reports on its corporate governance principles in accordance with Section 289a of the German Commercial Code (HGB) and on corporate governance in the Company in accordance with Section 161 of the German Stock Corporation Act (AktG) and clause 3.10 of the German Corporate Governance Code (DCGK). The declaration includes the declaration of compliance, information on corporate governance practices, which comprises information on where they can be accessed by the public, the composition and description of the function of the Managing Board, Supervisory Board and respective committees and material corporate governance structures.

Complying with the principles of good corporate governance is extremely important to SMA. SMA is guided by the recommendations and suggestions in the Deutscher Corporate Governance Kodex; DCGK (German Corporate Governance Code). The Managing Board and Supervisory Board dealt with meeting these requirements, in particular with the amendments to the DCGK in the version of May 5, 2015. Since the declaration of compliance of March 5, 2015, printed in the 2014 annual report, the Company has declared further emergent deviations from the German Corporate Governance Code in a total of two declarations of compliance, most recently in the declaration of December 3, 2015. The declaration of December 3, 2015, is reproduced below and published on our website at www.SMA.de.

See also
www.SMA.de

Declaration of Conformity to German Corporate Governance Code

In accordance with Section 161 of the German Stock Corporation Act, the Managing Board and Supervisory Board of SMA Solar Technology AG declare:

Since the last Declaration of Compliance dated May 21, 2015, SMA Solar Technology AG has complied with the recommendations of the Regierungskommission Deutscher Corporate Governance Kodex (Government Commission German Corporate Governance Code) in the version dated May 5, 2015, published in the Bundesanzeiger (Federal Gazette) on June 12, 2015, with the exceptions mentioned below and will continue to comply with them with the exceptions mentioned below:

(1) Notwithstanding Article 5.4.1 (2) sentence 1 clause 4 of the German Corporate Governance Code in conjunction with the targets adopted by the Supervisory Board on December 5, 2012, for its composition, the Supervisory Board includes with Dr. Erik Ehrentraut one member who will have reached the age of 75 by the end of the election period.

The Supervisory Board believes it is vital that Dr. Ehrentraut’s wealth of experience in managing a company with international operations and supporting the Company remains available to the Supervisory Board.

(2) Notwithstanding Article 5.2 (2) of the German Corporate Governance Code, the Chairman of the Supervisory Board, Dr. Erik Ehrentraut, is also Chairman of the Audit Committee.

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The Supervisory Board believes it is justifiable to once again assign the role of Chairman of the Audit Committee to Dr. Ehrentraut as an independent member of the Supervisory Board in addition to his role as Supervisory Board Chairman, due to his expertise in accounting and internal control processes as well as his experience managing a company with international operations and his many years of service at the Company.

(3) Notwithstanding Article 5.4.1 of the German Corporate Governance Code, the Supervisory Board has decided not to define any maximum limits for terms of office on the Supervisory Board. The Supervisory Board believes that a limit on the term of office does not account for the specific work of a member of the Supervisory Board and his/her specific knowledge of the Company and the market environment.

Niestetal, December 3, 2015

The Managing Board	The Supervisory Board
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Corporate Governance Practices

Our corporate mission statement explains the framework of our actions and our strategy for our customers, shareholders and especially for all employees. It is intended to portray our self-image and inspire enthusiasm for the Company, and to impart the values which are the foundation of our success. The mission statement illustrates the vision and mission of the Company and our corporate strategy and gives insight into our values: innovation, excellent quality, cooperative customer focus, engagement through employee participation, flexibility and constant improvement, economic success, ecological responsibility, fairness, and honesty. The mission statement, published at the start of 2009, is the result of an intense coordination process involving all employees, so they were able to contribute actively. The SMA corporate mission statement can be viewed on our website at www.SMA.de.

See also
www.SMA.de

SMA adopted the code of conduct of the German Association of Materials Management, Purchasing and Logistics (BME) in 2009. These behavioral guidelines commit SMA to fair dealings with suppliers. The guidelines are based on, among other things, the Global Compact of the United Nations, the conventions of the International Labour Organization (ILO) and the United Nations’ Universal Declaration of Human Rights. The objective is to enshrine general principles with regard to fairness, integrity and corporate responsibility in business relationships. For SMA, these behavioral guidelines complement its mission statement and corporate culture, in which fairness, integrity and corporate responsibility are deeply rooted. The BME’s code of conduct is accessible on its website at www.bme.de.

In 2010, SMA also created its own guidelines for suppliers, which are guided by SMA’s corporate principles and likewise by the United Nations Global Compact and the international labor standards of the ILO. The guidelines prescribe standards for sustainable activity and give expression to what SMA expects of suppliers and business partners with regard to social, ecological and ethical issues. The key points of the guidelines are the ban on child labor, forced labor, abuse and discrimination, the fight against corruption, fair working conditions, occupational health and safety, environmental protection, quality and product safety. The latest version of the guidelines (SMA Supplier Code) is reproduced on the SMA website.

On January 13, 2011, the Company made a declaration to the General Secretary of the United Nations to adopt the ten principles of the UN Global Compact as compulsory guidelines for its corporate governance. The principles of the UN Global Compact define standards for upholding human rights, the protection of workers’ rights, environmental protection and the avoidance of corruption. They can be viewed on the website www.unglobalcompact.org.

In January 2012, the Managing Board enacted the SMA business principles. The SMA business principles form the heart of the compliance management system. On the basis of the SMA mission statement, the SMA business principles shape SMA’s values into clear behavioral standards. They were drafted in a workgroup project led by Group Compliance. The members of the workgroup comprised the Chairwoman of the Works Council, representatives of corporate functions and executives. The SMA business principles are obligatory for all SMA employees worldwide.

In compliance with the provisions of Section 76 (4) Sentence 2 AktG (Proportion of women), the Managing Board resolved on September 29, 2015 to set a target of 7% for the proportion of female employees in the two management levels below the Managing Board in the period up to June 30, 2017. The target is equal to the actual ratio as of the date of the resolution.

Transparency

Transparency is a key element of good corporate governance. Our aim is to provide all shareholders, financial analysts, media and interested members of the public at large with timely information about our business situation and significant corporate changes. All important information is also made available on our website at www.SMA.de. Reporting on the business situation and the operating results takes place in the Annual Report, in the press conference on financial statements and in the Quarterly and Half-Yearly Financial Reports. Furthermore, the public is informed through press releases and, if stipulated by law, by means of ad hoc statements. In addition, once a year SMA invites investors, analysts and the press to its Capital Markets Day to inform them about the market and competition, the Company’s strategic direction, unique selling propositions and financial developments. Moreover, social networks are used for communication. Transparency is particularly important whenever deliberations and Company decisions might lead to conflicts of interest for members of the Supervisory Board or Managing Board. Any conflicts of interest that may have arisen are therefore disclosed by those members of the corporate bodies affected when discussion of the subject commenced. The member concerned does not participate in the adoption of any necessary resolutions by the Managing Board or the Supervisory Board.

See also
www.SMA.de

According to a disclosure made by the members of the Managing Board and the Supervisory Board, they held, either directly or indirectly, 10.01% (2014: 15.11%) of all shares issued as of the end of the fiscal year. The Managing Board members held a total stake of 0.33% (2014: 0.69%) in the share capital and the Supervisory Board members held a stake of 9.68% (2014: 14.42%) in the share capital. In addition, Danfoss A/S, in whose Executive Committee Kim Fausing acts as Vice President and COO, holds 20.00% (2014: 20.00%) of the share capital. With a stake of 11.05% (2014: less than 10%), Lars Cramer is to be mentioned as another shareholder with a stake of more than 10%.

Remuneration Report

See also
Remuneration Report
page 28 et seqq.

The Remuneration Report is a constituent part of the audited Consolidated Management Report and is shown on pages 28 et seqq. of the Annual Report.

The Company’s Corporate Bodies and Their Functions

SMA Solar Technology AG is a stock corporation governed by German law. Accordingly, it possesses a dualistic management structure in which one corporate body is devoted to managing the Company (the Managing Board) and is supervised by another corporate body (the Supervisory Board). Both bodies are endowed with different powers and work closely with one another in an atmosphere of trust when managing and supervising the Company. At the Annual General Meeting, electing the auditor and shareholder representatives to the Supervisory Board takes place as does determining the appropriation of profits, along with making decisions that impact member rights of shareholders.

Managing Board

The Managing Board is responsible for independently and jointly managing the Company. It is obliged to sustainably ensure and increase company value and is responsible for managing the business. It decides on fundamental issues of business policy and corporate strategy as well as on short- and medium-term financial planning. The Managing Board is responsible for preparing the Quarterly and Half-Yearly Financial Reports and Annual Financial Statements of SMA Solar Technology AG and of the SMA Group, as well as for adherence to all legal and official provisions and internal policies.

As a collective body, the Managing Board, in principle, strives to adopt resolutions unanimously. However, the Rules of Procedure for the Managing Board, adopted by the Supervisory Board (available on our website at www.IR.SMA.de) stipulate that individual members of the Managing Board are responsible for specific areas of responsibility. The Managing Board lays out how responsibilities are assigned. The members of the Managing Board notify each other on an ongoing basis about all material events in their area of responsibility and about any matters covering several areas of responsibility. If the desired unanimity cannot be reached when adopting resolutions, then the Managing Board decides on the basis of a simple majority of the members present. However, no resolutions may generally be adopted on matters that have been assigned to the area of responsibility of a member absent from a meeting. Under legal provisions or the Rules of Procedure, in certain transactions, a unanimous resolution of the Managing Board is mandatory. For a predetermined number of transactions, the Supervisory Board has a reservation of consent. The Managing Board has not instituted any committees.

See also
www.IR.SMA.de

In fiscal year 2015, Lydia Sommer left the Managing Board on February 28, 2015, and Martin Kinne on December 31, 2015. At the end of the reporting year, the Managing Board thus consisted of three members: Roland Grebe (Board Member for Human Resources and IT), Dr.-Ing. Jürgen Reinert (Board Member for Operations and Technology) and Pierre-Pascal Urbon (Chief Executive Officer, Board Member for Finance/Legal and Sales).

In compliance with the provisions in Section 111 (5) AktG, the Supervisory Board in its meeting on September 30, 2015, set a target of 0% for the proportion of women on the Managing Board in the period up to June 30, 2017. This target was set because the terms of the existing contracts with the Managing Board members run beyond the period in question.

Supervisory Board

The Supervisory Board advises the Managing Board in all matters and supervises its activity. The Managing Board involves and consults with the Supervisory Board on all matters of fundamental significance and whenever particularly important business decisions need to be made. Under the Rules of Procedure that apply to the Managing Board, which were adopted by the Supervisory Board, the Managing Board must obtain prior approval from the Supervisory Board for certain decisions. Such decisions include approval of the annual budget including the investment plan, incorporation, acquisition or sale of companies and acquisition or sale of real estate, whenever stipulated threshold values are exceeded. The Supervisory Board must also approve the allocations of responsibility on the Managing Board.

The Supervisory Board is currently made up of 12 members and its composition complies with the provisions of the German Stock Corporation Act and the Co-Determination Act. Under these provisions, the employees of German Group companies and their shareholders (Annual General Meeting) each elect six representatives to

See also Supervisory
Board Report,
page 8 et seqq.

See also
www.IR.SMA.de

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the Supervisory Board. The current members of the Supervisory Board are: Oliver Dietzel, Johannes Häde, Heike Haigis, Yvonne Siebert, Dr. Matthias Victor and Hans-Dieter Werner as employee representatives and Roland Bent, Peter Drews, Dr. Erik Ehrentraut (Chairman), Kim Fausing (Deputy Chairman), Dr. Winfried Hoffmann and Reiner Wettlaufer as shareholder representatives.

Dr. Ehrentraut, as an independent member of the Supervisory Board, possesses the necessary expertise in the fields of accounting or auditing as stipulated under Section 100 (5) of the German Stock Corporation Act (AktG).

THE COMMITTEES OF THE SUPERVISORY BOARD ARE MADE UP AS FOLLOWS

Presidial Committee	Dr. Erik Ehrentraut (Chairman), Yvonne Siebert (Deputy Chairman), Kim Fausing, Dr. Matthias Victor
Audit Committee	Dr. Erik Ehrentraut (Chairman), Reiner Wettlaufer (Deputy Chairman), Oliver Dietzel, Johannes Häde
Nomination Committee	Peter Drews (Chairman), Reiner Wettlaufer (Deputy Chairman), Dr. Erik Ehrentraut, Kim Fausing
Mediation Committee	Heike Haigis (Chairwoman), Kim Fausing (Deputy Chairman), Dr. Erik Ehrentraut, Hans-Dieter Werner

The committees prepare topics and resolutions for review by the Supervisory Board at its plenary session of the Supervisory Board. They regularly meet with stakeholders such as the Managing Board, the auditor or the Heads of Internal Auditing or Compliance for this purpose. The content of the committee meetings is reported on by the committee chairperson at the next plenary session of the Supervisory Board. Any member of the Supervisory Board may attend committee meetings, provided the relevant committee chairperson does not decide otherwise. The meeting minutes and resolutions adopted by committees are made available to all the members of the Supervisory Board.

The Supervisory Board reports annually on the focus of its activities and deliberations in the Supervisory Board Report. You may refer to the Supervisory Board Rules of Procedure on our website at www.IR.SMA.de. The Supervisory Board members take general and specialized training necessary for their tasks on their own accord, and in doing so they receive appropriate support from the Company.

As early as 2011, the Supervisory Board resolved objectives regarding its future composition. The objectives were edited at the meetings on December 5, 2012, and September 30, 2015, and now read as follows:

1. The minimum proportion of women on the Supervisory Board is determined by legal provisions.
2. Maintain the composition of Supervisory Board members with a background of international experience at least in the previous scope.
3. Special consideration given to candidates with knowledge and experience in the application of financial reporting standards and internal control processes as well as in the field of auditing.
4. Special consideration given to candidates with technical expertise, particularly in the field of renewable energies, preferably in the field of photovoltaics.
5. Special consideration given to candidates with knowledge of the Company.
6. At least half of the shareholder representatives are to be independent. At the same time, at least one member is to possess expertise in the field of accounting or auditing.
7. Consideration of the age limit of 75 years at the end of the term of office when selecting new members.

The term of office for all current members of the Supervisory Board ends with the conclusion of the Annual General Meeting 2020. The objectives have been implemented as follows:

As regards 1: The Supervisory Board now has two female members, Heike Haigis and Yvonne Siebert. As of the date of the last election of Supervisory Board members in May 2015, the provisions of Section 96 (2) AktG on the appointment of women to the Supervisory Board were not yet applicable (Section 25 (2) of the Introductory Act of the Stock Corporation Act). However, the Supervisory Board is already taking action to be able to fill future positions with qualified members of both genders in at least the legally prescribed minimum ratio.

As regards 2 to 5: In the opinion of the Supervisory Board, these objectives have been achieved.

As regards 6: To date, at least three shareholder representatives have been deemed as independent; two members, one of whom is independent, possess expertise in the fields of accounting and auditing.

As regards 7: To date, one member of the Supervisory Board will exceed the age limit of 75 years at the end of his term of office.

Cooperation Between the Managing Board and the Supervisory Board

The Managing Board and the Supervisory Board work closely with one another in an atmosphere of trust for the good of the Company, thus meeting both the requirements of effective enterprise control and the need to be able to make decisions quickly. Their common goal is to secure the continued existence of the Company and steadily increase its value. To this end, the Managing Board keeps the Supervisory Board promptly and comprehensively informed, both in writing and verbally, and during regular meetings about the Company’s position, current business developments and all relevant questions pertaining to strategic planning, risk management and important compliance matters. The Quarterly Financial Reports and the Half-Yearly Financial Report are discussed with the Managing Board on a regular basis during Audit Committee meetings prior to their publication.

Outside meetings, the Chairman of the Supervisory Board and his Deputy are also in contact with the Managing Board to discuss significant business transactions and upcoming decisions and are informed of key developments immediately.

Shareholders and Annual General Meeting

SMA Solar Technology AG shareholders discuss their co-determination and control rights at the Annual General Meeting, which takes place at least once a year. The Annual General Meeting adopts resolutions with binding effect and each share grants one vote. Every shareholder who registers on time is entitled to participate in the Annual General Meeting. In addition, shareholders may have their voting rights exercised by a credit institution, a shareholder association, the proxies deployed by SMA Solar Technology AG and bound by the shareholder’s instructions or by another authorized representative. The invitation to the Annual General Meeting and all reports and information necessary for adopting resolutions, including the Annual Report, are published in accordance with the provisions of the Stock Corporation Act and are available in the run-up to the Annual General Meeting on our website at www.IR.SMA.de.

See also
www.IR.SMA.de

Information Concerning Takeovers Required by Sections 289 (4) and 315 (4) HGB

Number 1: The share capital of SMA Solar Technology AG amounts to €34.7 million. The capital is divided up into 34,700,000 no-par value bearer shares. The rights and obligations associated with the shareholdings fall under the regulations in the German Stock Corporation Act.

Number 2: Each share has the right to one vote. On October 1, 2010, the four founders and main shareholders of SMA Solar Technology AG, Dr.-Ing. h. c. Günther Cramer, Peter Drews, Prof. (em.) Dr.-Ing. Werner Kleinkauf and Reiner Wettlaufer, transferred equity stakes to the next generation within their families by way of a gift. The acquiring shareholders concluded a pooling agreement for a period of seven years. During the term of this agreement, the voting rights emanating from the shares transferred may only be exercised as a block vote. In addition, the shares may only be sold to third parties with the consent of the other members of the pool or if narrowly defined prerequisites are satisfied. At the end of the fiscal year, the shareholders who coordinate their voting rights in “Poolvertrag SMA Solar Technology AG” (pooling agreement) hold a total of 8,744,470 shares or 25.20% of the Company’s voting rights. Beyond this, the Managing Board is not aware of any restrictions affecting voting rights or the transferability of shares.

Number 3: Danfoss A/S, Denmark, holds 20.00% of the Company’s share capital.

Shareholders who coordinate their voting rights in “Poolvertrag SMA Solar Technology AG” (see Number 2) hold 25.20% of the Company’s share capital. Lars Cramer as individual shareholder of the “Poolvertrag SMA Solar Technology AG” holds 11.05% of the Company’s share capital.

Numbers 4 and 5: The shareholders do not have any special rights conferring them any particular powers of control.

Number 6: Appointment and dismissal of the Managing Board takes place pursuant to Sections 84 and 85 of the German Stock Corporation Act (AktG) together with Section 31 of the Co-Determination Act (MitBestG). Under Article 5 of the Articles of Incorporation, the Managing Board consists of at least two members and the exact number is laid down by the Supervisory Board. Under Section 179 of the AktG, the Articles of Incorporation may be amended by a resolution adopted by the Annual General Meeting with a majority of three-quarters of the share capital represented at the vote.

Number 7: The Articles of Incorporation include the provisions on the powers of the Managing Board regarding Authorized Capital II. The Managing Board, after obtaining the consent of the Supervisory Board, is entitled to increase the share capital on one or several occasions by up to a total of €10 million by issuing new bearer shares in return for cash contributions and/or contributions in kind in the period up to May 22, 2018. The Managing Board, with the consent of the Supervisory Board, is entitled to cancel the statutory subscription rights of shareholders: a) in the case of capital increases in return for contributions in kind for the acquisition of or investment in companies, parts of companies or investments in companies, b) for the purpose of issuing shares to employees of the Company and companies affiliated with the Company, c) to exclude fractions and d) in the case of capital increases in return for cash contributions if the issue amount of the new shares does not fall significantly below the stock exchange price of shares of the same class and terms that are already listed at the time the Managing Board sets the final issue amount, and the total pro rata amount of the issued capital attributable to the new shares in respect of which the subscription right is excluded may not exceed 10% of the issued capital available at the time the new shares are issued.

Furthermore, following a resolution adopted by the Annual General Meeting on May 27, 2010, the Managing Board, in the period up to May 26, 2015, was entitled to acquire its own shares up to a value of 10% of the existing capital stock at the time the resolution was adopted by the Annual General Meeting, and to dispose of shares acquired in this way with the consent of the Supervisory Board by means other than through the stock exchange, or an offer made to all the shareholders, provided the shares are sold in return for cash at a price that does not fall significantly below the stock exchange price of shares in the Company issued under the same terms or the shares are sold in return for in-kind contributions, or they are offered in return for shares held by persons that either had or have an employment relationship with the Company, or with one of its affiliated companies, or members of bodies in companies that depend on the Company. Additionally, if the Managing Board sold its own shares by offering them to all the shareholders with the consent of the Supervisory Board, the Managing Board was entitled to exclude the shareholders’ right of subscription for fractions. In addition, the Managing Board was entitled to cancel any shares it had acquired after obtaining the consent of the Supervisory Board. The Managing Board did not exercise this entitlement.

Number 8: Credit lines agreed with banks with a volume of €26 million contain a change-of-control clause that includes the special termination right of the relevant bank.

Number 9: If the employment contract with a member of the Managing Board ends after being amicably cancelled within a period of nine months from a change of control, this member is entitled to severance pay amounting to his/her remuneration rights for the remaining term of the employment contract, however, no longer than a period of two years.

Remuneration Report

The Remuneration Report summarizes the principles that are decisive when it comes to determining remuneration for the Supervisory Board and Managing Board and also explains the remuneration structure and the emoluments payable.

Managing Board Remuneration and Emoluments

The remuneration system for the Managing Board (including the most important contractual elements) is decided at a Supervisory Board plenary session. The contracts concluded with Managing Board members currently in force have a term of five years. The Supervisory Board regularly examines the remuneration system for the Managing Board and defines targets for the variable components of the emoluments. The criteria for determining remuneration include evaluating the tasks of the individual Managing Board members, their personal performance, the overall financial situation and Company success, using compensation peer benchmarking and the Company’s usual remuneration structure. In its assessment, the Supervisory Board also included Managing Board remuneration in relation to the remuneration of the top-level executives and the workforce as a whole, taking into account changes over time, and thus laid out comparable peer groups from top-level executives and the workforce. The remuneration is assessed in a way that ensures it is competitive with the market for highly qualified managerial staff. Apart from statutory requirements, the remuneration system also complies with the stipulations of the German Corporate Governance Code and with case law and was approved by the Annual General Meeting on May 27, 2014. The remuneration of the Managing Board consists of the following components in which the fixed component of the emoluments amounts to 40% to 50% and the variable component and the long-term bonus in the case of good business performance to 50% to 60% of the total remuneration before additional benefits. At least one half of the variable component of the emoluments must correspond to the long-term bonus.

NON-PERFORMANCE-BASED FIXED REMUNERATION

The annual fixed emoluments are divided up into 13 monthly salaries. The 13th salary is paid with the salary for November, on a pro rata basis for those taking up or leaving their posts during the year.

TARGET-BASED SHORT-TERM VARIABLE REMUNERATION

The Managing Board members also receive a target-based variable salary component, which depends on earnings before taxes (EBT), sales achieved as recorded in the Consolidated Financial Statements for a fiscal year audited by the auditor, and achievement of personal objectives (personal performance). The personal objectives agreed upon with the Managing Board members for 2015 related to issues of cost reduction, implementation of the Company’s transformation, process improvement and expansion of internationalization. For short-term variable remuneration, if earnings are negative in any given fiscal year, they are set off against the EBT recorded for the next fiscal year. The targets (EBT/sales/personal performance) are adjusted annually by the Supervisory Board. If at least 100% of the target values are achieved, the full variable salary component agreed upon may be claimed. Values in-between are determined on a linear basis. If the total value of the individual target components is exceeded, this does not entitle payment of a higher variable component of the emoluments (cap). The performance-based variable component is paid out after the approval of the Consolidated Financial Statements, which usually takes place at the end of March of the following year. If the Managing Board member’s duties do not extend beyond one full fiscal year, then he/she receives one twelfth of the performance-based variable remuneration determined for the entire fiscal year for each month of the fiscal year in which he/she carries out his/her duties.

LONG-TERM BONUS

Managing Board members also receive a long-term bonus, which depends on the mean EBT margin as recorded in the Consolidated Financial Statements audited by the auditors over a period of three fiscal years. The target value (EBT margin) is determined annually by the Supervisory Board for the subsequent three fiscal years. If 100% of the target value is achieved, then the full agreed upon long-term bonus may be claimed. Values in-between are determined on a linear basis. If the target value is exceeded, this does not entitle payment of a higher long-term bonus (cap). The bonus is payable, at the very earliest, upon expiration of the three-year period. Payment takes place after the third Consolidated Financial Statements have been approved, usually at the end of March, even if the employment contract ends before the end of the performance period. If the employment contract still has a term of at least two years to run when payment becomes due, then the Managing Board member is expected to invest the net amount payable, in part, in shares in SMA Solar Technology AG and to hold these shares until his/her Managing Board duties in the Company have ended.

ADDITIONAL BENEFITS

All Managing Board members are entitled to

- a company car,
- reimbursement of travel costs and any expenses incurred on company business,
- employer’s contribution up to the contribution assessment ceiling of the statutory social insurance scheme (pension, health, nursing care), even in the case of voluntary insurance and without furnishing any proof,
- appropriate professional indemnity insurance (D&O insurance).

Any taxes due must be borne by the Managing Board member.

OTHER CONTRACTUAL BENEFITS

In the event of death or permanent disability, the emoluments will continue to be paid for six months. In the event of early termination of Managing Board duties without good cause, the compensation payable is limited to the total remuneration for the remaining term of the contract and up to a maximum of two years’ emoluments (severance pay cap). If the employment contract with a member of the Managing Board ends because it is amicably cancelled within a period of nine months from a change of control, this member is also entitled to a severance payment amounting to his/her remuneration claims. The same calculation basis applies as in the case of the severance pay cap. All members of the Managing Board are subject to a post-termination non-compete clause valid for a period of two years that provides a compensation payment amounting to 50% of the average annual emoluments. The calculation basis is the annual salary (fixed and variable components) paid out for the last full calendar year. The Managing Board member must set off any monies earned while he/she is otherwise employed during the non-compete period. The maximum cash value of the compensation sums payable in a non-compete clause after conclusion of Managing Board duties amounts to €0.643 million for Managing Board members Roland Grebe and Dr.-Ing. Jürgen Reinert (2014: €0.391 million and €0.294 million), and €0.809 million (2014: €0.391 million) for Managing Board member Pierre-Pascal Urbon.

In the 2015 fiscal year, the total emoluments payable to all members of the Managing Board in office in the fiscal year amounted to €6.106 million (2014: €3.012 million). This included variable emoluments of €1.355 million paid to the Managing Board in 2015 (2014: €1.447 million). The Managing Board members receive no separate remuneration for carrying out tasks at subsidiaries.

The table below provides information on the remuneration of the Managing Board in accordance with the rules of the German Corporate Governance Code of May 2015. The values in the “Inflow” table relate to the emoluments of individual Managing Board members for the 2015 fiscal year. The “Grants” table also shows the minimum and maximum remuneration achievable with regard to the variable remuneration components for the fiscal year.

In connection with her stepping down from the Managing Board, Lydia Sommer received a single payment totaling €0.982 million to settle the existing non-compete clause and as severance pay. In connection with his stepping down from the Managing Board, Martin Kinne received a single payment totaling €1.800 million to settle existing remuneration claims and as severance pay.

No credits were granted nor were any advances paid to Managing Board members during the fiscal year. There are no pension commitments.

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INFLOW

	Roland Grebe Board Member for Human Resources and IT Joined 2009/06/11		Martin Kinne ¹ Board Member for Sales and Service Left 2015/12/31	
in €'000	2014	2015	2014	2015
Fixed remuneration	350	415		480
Additional benefits / Others	22	22		34
Total	372	437		514
One-year variable remuneration	253	305		270
Multi-year variable remuneration				
Long-term variable remuneration 2012–2014	0			
Long-term variable remuneration 2013–2015		0		0
Total	253	305		270
Pension contribution	0	0		0
Total remuneration	625	742		784

	Dr.-Ing. Jürgen Reinert Board Member for Technology Joined 2014/04/01		Lydia Sommer ² Board Member for Finance and HR/CFO Left 2015/02/28	
in €'000	2014	2015	2014	2015
Fixed remuneration	263	415	350	54
Additional benefits / Others	16	22	23	4
Total	279	437	373	58
One-year variable remuneration	239	305	103	0
Multi-year variable remuneration				
Long-term variable remuneration 2012–2014	0		0	
Long-term variable remuneration 2013–2015		0		0
Total	239	305	103	0
Pension contribution	0	0	0	0
Total remuneration	518	742	476	58

	Pierre-Pascal Urbon Board Member for Strategy and Finance/CEO Joined 2006/07/01		Marko Werner ³ Chief Sales Officer Left 2014/06/10	
in €'000	2014	2015	2014	2015
Fixed remuneration	350	500	156	
Additional benefits / Others	23	23	11	
Total	373	523	167	
One-year variable remuneration	853	475	0	
Multi-year variable remuneration				
Long-term variable remuneration 2012–2014	0		0	
Long-term variable remuneration 2013–2015		0		
Total	853	475	0	
Pension contribution	0	0	0	
Total remuneration	1,226	998	167	

¹ Martin Kinne left the Managing Board as of December 31, 2015.
² Lydia Sommer left the Managing Board as of February 28, 2015.
³ Marko Werner’s contract expired as scheduled.

GRANTS

	Roland Grebe Board Member for Human Resources and IT Joined 2009/06/11				Martin Kinne ¹ Board Member for Sales and Service Left 2015/12/31			
in €'000	2014	2015	2015 (min)	2015 (max)	2014	2015	2015 (min)	2015 (max)
Fixed remuneration	350	415	415	415	480	480	480	480
Additional benefits / Others	22	22	22	22	34	34	34	34
Total	372	437	437	437	514	514	514	514
One-year variable remuneration	375	305	65	305	270	102	270	270
Long-term variable remuneration 2014-2016	175							
Long-term variable remuneration 2015-2017		240	0	240	0	0	0	0
Total	550	545	65	545	270	102	270	270
Pension contribution	0	0	0	0				
Total remuneration	922	982	502	982	784	616	784	784

	Dr.-Ing. Jürgen Reinert Board Member for Technology Joined 2014/04/01				Lydia Sommer ² Board Member for Finance and HR/CFO Left 2015/02/28			
in €'000	2014	2015	2015 (min)	2015 (max)	2014	2015	2015 (min)	2015 (max)
Fixed remuneration	263	415	415	415	350	54	54	54
Additional benefits / Others	16	22	22	22	23	4	4	4
Total	279	437	437	437	373	58	58	58
One-year variable remuneration	331	305	65	305	225	0	0	0
Long-term variable remuneration 2014-2016	131		0		175		0	
Long-term variable remuneration 2015-2017		240	0	240		29	0	29
Total	462	545	65	545	400	29	0	29
Pension contribution	0	0	0	0	0	0	0	0
Total remuneration	741	982	502	982	773	87	58	87

	Pierre-Pascal Urbon Board Member for Strategy and Finance/CEO Joined 2006/07/01				Marko Werner ³ Chief Sales Officer Left 2014/06/10			
in €'000	2014	2015	2015 (min)	2015 (max)	2014	2015	2015 (min)	2015 (max)
Fixed remuneration	350	500	500	500	156			
Additional benefits / Others	23	23	23	23	11			
Total	373	523	523	523	167			
One-year variable remuneration	975	475	150	475	175			
Long-term variable remuneration 2014-2016	175				175			
Long-term variable remuneration 2015-2017		325	0	325				
Total	1,150	800	150	800	350			
Pension contribution	0	0	0	0	0			
Total remuneration	1,523	1,323	673	1,323	517			

¹ Martin Kinne left the Managing Board as of December 31, 2015.
² Lydia Sommer left the Managing Board as of February 28, 2015.
³ Marko Werner's contract expired as scheduled.

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Supervisory Board Remuneration and Emoluments

In accordance with the regulations on Supervisory Board remuneration in effect since the 2013 fiscal year, Supervisory Board members receive fixed remuneration of €25,000 a year. The remuneration payable to the Chairman amounts to twice the amount mentioned above and the remuneration payable to his/her deputy amounts to one and a half times the aforementioned amount.

Members of the Supervisory Board Audit Committee receive an annual remuneration of an additional €7,500. For members of the Supervisory Board Presidial Committee, the total annual remuneration is an additional €5,000. The chairpersons of these committees receive twice the aforementioned amounts. Members of other committees do not receive any special remuneration for their committee duties.

Supervisory Board members receive an additional €750 per meeting day for their meeting participation. If they take part in several meetings in one day, they receive a maximum payment of twice the aforementioned amount. The remuneration is payable at the end of the fiscal year. Supervisory Board members who have only sat on the Supervisory Board or a committee for part of the fiscal year receive remuneration pro rata temporis.

No other remuneration or benefits for personally rendered services, in particular consulting and mediation services, were granted to Supervisory Board members. Similarly, in the year under review, the Supervisory Board members were granted no credits or advances.

As of December 31, 2015, six of the members of the Supervisory Board held SMA shares.

The emoluments payable to the members of the Supervisory Board amounted to a total of €0.460 million in the 2015 fiscal year (2014: €0.495 million).

Beyond the remuneration of the Supervisory Board, the employee representatives that are employees of the Company receive fee payments unrelated to their Supervisory Board duties.

REMUNERATION OF THE SUPERVISORY BOARD

	Remuneration for – Supervisory Board duties		Remuneration for committee duties		Total	
in €'000	2015	2014	2015	2014	2015	2014
Roland Bent (as of January 28, 2015)	26.9		0.0		26.9	
Dr.-Ing. E. h. Günther Cramer (Chairman until January 6, 2015)	0.8	51.5	0.2	11.5	1.0	63.0
Oliver Dietzel	32.5	31.8	12.8	3.4	45.3	35.2
Peter Drews	31.0	31.0	0.0	0.0	31.0	31.0
Dr. Erik Ehrentraut (Deputy Chairman until February 11, 2015, Chairman as of February 11, 2015)	56.1	44.3	33.4	28.3	89.5	72.6
Kim Fausing (Deputy Chairman)	0.0*	0.0*	0.0*	0.0*	0.0*	0.0*
Dr. Günther Häckl (until May 21, 2015)	14.3	31.8	4.2	8.8	18.5	40.6
Johannes Häde	31.8	31.8	12.8	12.8	44.6	44.6
Heike Haigis	31.8	7.9	0.0	0.0	31.8	7.9
Dr. Winfried Hoffmann	30.3	30.3	0.0	0.0	30.3	30.3
Prof. (em.) Dr.-Ing. Werner Kleinkauf (until August 27, 2014)		21.7		0.0		21.7
Alexander Naujoks (until September 30, 2014)		23.9		8.6		32.5
Joachim Schlosser (until May 21, 2015)	14.3	31.8	0.0	0.0	14.3	31.8
Yvonne Siebert (as of May 21, 2015)	18.3		4.6		22.9	
Dr. Matthias Victor (as of May 21, 2015)	18.3		4.6		22.9	
Hans-Dieter Werner (as of May 21, 2015)	18.3		0.0		18.3	
Reiner Wettlaufer	31.0	30.3	12.8	12.8	43.8	43.1
Mirko Zeidler (until May 21, 2015)	14.3	31.8	4.2	8.8	18.5	40.6
Total	370.0	399.9	89.6	95.0	459.6	494.9

* Kim Fausing waives his entitlements from the Company.

Other

The Company has taken out professional indemnity insurance (D&O insurance) for the members of the corporate bodies of all SMA Group companies. It is effected or extended every year. The insurance covers the personal liability risk of the members resulting from a breach of duty when exercising their duties in the event that any claims for economic losses are asserted against them. The deductible in the policy for the 2015 fiscal year was 10% of the damage, however, no higher than one and a half times the fixed annual emoluments of the member of the corporate body.

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BASIC INFORMATION ABOUT THE GROUP

Business Activity and Organization

SMA Solar Technology AG (SMA) and its subsidiaries (SMA Group) develop, produce and distribute PV inverters, transformers, choke coils, monitoring and energy management systems for PV systems and power electronic components for railway technology. Another area of business is providing operation and maintenance service for photovoltaic power plants (O&M business), in addition to other services.

Organizational Structure

LEGAL STRUCTURE OF THE GROUP

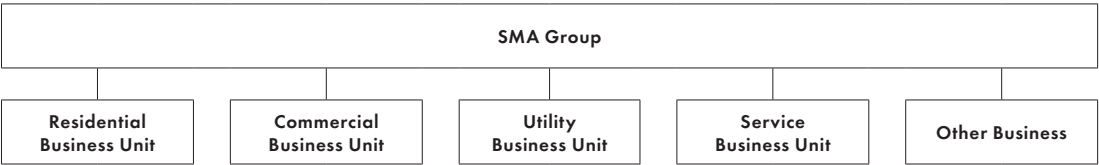
As the parent company of SMA Group, SMA, headquartered in Niestetal near Kassel, Germany, provides all of the functions required for its operative business. With the exception of Jiangsu Zeversolar New Energy Co., Ltd., the parent company holds, either directly or indirectly, 100% of the shares of all the operating companies that belong to SMA Group. As of December 31, 2015, SMA has a 99.34% majority shareholding in Jiangsu Zeversolar New Energy Co., Ltd. The Annual Report includes information regarding the parent company and all 35 Group companies (2014: 37), including eight domestic companies and 27 companies based abroad.

The scope of consolidation as of December 31, 2015 changed in comparison to December 31, 2014 as a result of the liquidation of SMA Beijing Commercial Company Ltd. as of August 7, 2015, and SMA Central and Eastern Europe s.r.o. as of December 31, 2015.

NEW ORGANIZATIONAL STRUCTURE

In accordance with market requirements, SMA regularly reviews its organizational structure in order to make it as efficient as possible. Given the considerable decline in sales in recent years, SMA adjusted its organizational structure at the beginning of 2015. Since January 1, 2015, SMA Group has operated under its new functional organization. In this new organization, the Residential, Commercial, Utility and Service business units take overall responsibility and manage Development, Sales and Operations. Railway Technology and Zeversolar as well as the Off-Grid and Storage business unit have been combined under Other Business. This compact organization allows for faster decisions and a leaner management structure.

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The Residential business unit serves the attractive long-term market of small PV systems for private applications. The portfolio comprises micro and string inverters, energy management solutions, storage solutions, and communication products and accessories.

The Commercial business unit focuses on the fast-growing market of medium-sized PV systems for commercial applications, producing three-phase string inverters as well as integrated energy management solutions, medium voltage technology and other accessories.

The Utility business unit focuses on the growing market for PV power plants with outputs in the multi-megawatt range with central inverters. In addition to medium- and high-voltage technology, the product and service portfolio also comprises grid service and monitoring functions as well as accessories.

The portfolio of the Service business unit includes commissioning, warranty extensions, service and maintenance contracts, operational management, remote system monitoring and spare parts business.

Other Business comprises Railway Technology and Zeversolar as well as the Off-Grid and Storage business unit. In the Consolidated Financial Statements, the business sector Zeversolar is presented with its own information under the regulations of IFRS 8.13.

MANAGEMENT AND CONTROL

As required by the German Stock Corporation Act (AktG), the executive bodies consist of the Annual General Meeting, the Managing Board and the Supervisory Board. The Managing Board manages the Company; the Supervisory Board appoints, supervises and advises the Managing Board. The Annual General Meeting elects the shareholder representatives to the Supervisory Board and grants or refuses discharge to the Managing Board and the Supervisory Board.

DOWNSIZING OF THE MANAGING BOARD

As part of the Company’s transformation, the Supervisory Board of SMA Solar Technology AG reduced the number of Managing Board members in the reporting period. Lydia Sommer left the Managing Board at the end of February 2015, Martin Kinne at the end of December 2015. Since January 1, 2016, the Managing Board of SMA Solar Technology AG has comprised the following members: Roland Grebe (Board Member for Human Resources and IT), Dr.-Ing. Jürgen Reinert (Board Member for Operations and Technology), Pierre-Pascal Urbon (Chief Executive Officer, Board Member for Finance/Legal and Sales).

COMPOSITION OF THE SUPERVISORY BOARD

In the reporting period, the SMA Supervisory Board, which represents shareholders and employees in equal measure, consisted of Roland Bent (as of January 28, 2015), Peter Drews, Dr. Erik Ehrentraut (Chairman as of February 11, 2015), Kim Fausing (Deputy Chairman as of February 11, 2015), Dr. Winfried Hoffmann and Reiner Wettlaufer. The shareholder representatives were confirmed in office at the Annual General Meeting on May 21, 2015. Following the scheduled election, since May 21, 2015, the employees have been represented by Oliver Dietzel, Johannes Häde, Heike Haigis, Yvonne Siebert, Dr. Matthias Victor and Hans-Dieter Werner. Sadly, the Company’s founder and long-standing Supervisory Board Chairman Dr.-Ing. h. c. Günther Cramer died on January 6, 2015, after a long and serious illness. The vacant position on the SMA Supervisory Board was filled by Roland Bent, member of the Executive Board of Phoenix Contact GmbH & Co. KG.

GLOBAL MARKET LEADERSHIP IN PV INVERTERS

According to the independent analysis company IHS, SMA is the clear global market leader for PV inverters in terms of sales. The Company can offer a technically appropriate inverter for every type of photovoltaic module and all power classes and for various regional requirements around the world – both for grid-connected applications and for stand-alone operation. SMA also offers integrated solutions for future energy supply structures and comprehensive services. The Zeyersolar product portfolio has fewer product versions than SMA, different functions, its own product design and service that is adapted to its target markets.

Self-consumption, the share of energy from the PV system that a household or a commercial enterprise can use itself, will become increasingly important in Europe, North America, Japan and Australia. With the SMA Smart Home, SMA offers an integrated system for intelligent increased self-consumption and intermediate storage of solar electricity aimed specifically at this segment.

GLOBAL PRESENCE

The SMA Group is represented with its subsidiaries in 20 countries. No other competitor has a comparable international sales and service structure with experienced photovoltaics specialists. Modern production sites with an overall annual capacity of up to 20 GW make an important contribution to local added value in Niestetal and Kassel (Germany), Denver (U.S.), Mississauga near Toronto (Canada), Yangzhong (China) and Cape Town (South Africa). The competence center for coils (electromagnetic components) is based in Zabierzów, near Krakow (Poland).

Products and Services

As a specialist in system technology, SMA develops and markets high-quality PV inverters and innovative technologies for intelligent management and efficient use of energy. SMA’s product portfolio contains a wide range of PV inverters and system technology for grid-connected PV systems as well as for off-grid and hybrid systems. SMA offers technically and cost-optimized system solutions for all size classes and system types as well as different regional requirements. Core growth segments for the Company include complete solutions that are perfectly tailored to future energy supply requirements. In addition, comprehensive services that also encompass operational management of large-scale PV power plants represent an attractive business area.

The Residential business unit serves the attractive long-term market of small PV systems for private applications. The portfolio comprises micro inverters and single-phase string inverters with the brand name Sunny Boy, three-phase inverters in the lower output range up to 12 kW with the brand name Sunny Tripower, energy management solutions, storage systems such as the Sunny Boy Smart Energy, and communication products and accessories. With this portfolio of products and services, SMA can offer a suitable technical solution for private PV systems in all major photovoltaic markets.

See Research and Development, page 45 et seqq.

Reactive Power see also Glossary, page 165

See Research and Development, page 45 et seqq.

See Research and Development page 45 et seqq.

In April 2015, the Residential business unit launched the first products of a new inverter generation in this segment. The new Sunny Boy 1.5/2.5, with outputs of 1.5 kW and 2.5 kW, enables a high level of self-consumption, is extremely versatile and can be easily installed and integrated into the home network via plug and play in just a few minutes.

In the field of intelligent energy management (SMA Smart Home), the Company enhanced the Sunny Home Manager in the reporting period to make communication with household appliances via EEBus possible.

The Commercial business unit focuses on the growing market of medium-sized PV systems for commercial applications. The portfolio comprises three-phase inverters from the Sunny Tripower brand with outputs of more than 12 kW as well as energy management solutions, medium-voltage technology and other accessories.

In the reporting period, SMA expanded the successful Sunny Tripower family with the Sunny Tripower 20000TL/25000TL. This new product boasts the new grid management functions “Integrated Plant Control” and “Q on Demand 24/7,” which enable reactive power to be provided both during operation and at night to stabilize the utility grid. In addition, SMA certified new Sunny Tripower series products that are specifically tailored to the relevant market requirements for the U.S. and Japan in order to increase its market share in these important photovoltaic markets.

The Utility business unit serves the growing market for PV power plants with outputs ranging from 500 kW to the multi-megawatt range with central inverters from the Sunny Central brand. In addition to medium- and high-voltage technology, the product and service portfolio also comprises grid service and monitoring functions as well as accessories.

The Sunny Central Compact Power Family product range includes a variety of different versions, providing optimal technical solutions and maximum investment security for any large-scale project and meeting the conditions for the respective country. In addition to high efficiencies of up to 99%, our inverters are known for their extensive grid management functions. As the market leader in this segment, SMA also produces central inverters that feed directly into the medium-voltage grid of electric utility companies, thus contributing to a greater energy yield of the overall system.

An important strategic development of the Utility business unit is the partnership with Siemens’ energy management division. In this partnership, the companies offer customers coordinated system solutions and services from a single source. The partners worked together to develop the innovative container solution Medium Voltage Power Station 2200SC/2500SC. The system solution for DC voltages of 1,000/1,500 volt unites a 2.5 MW central inverter from SMA and a medium-voltage transformer and medium-voltage switchgear from Siemens in a turnkey, standard container. Along with this, SMA presented a new string-monitor for reliable monitoring and control of PV power plants.

In the reporting period, the Service business unit provided support to SMA customers worldwide, offering extensive services to optimize system performance and ensure high yield stability. SMA’s service portfolio includes commissioning, warranty extensions, service and maintenance contracts, operational management, remote system monitoring and spare parts business. Through a global network, SMA Service can guarantee rapid reaction time for SMA inverters installed all over the world.

One important business field for the Service business unit is operational management and maintenance (O&M). Here, SMA takes on complete technical management of a PV system. The all-around service not only covers the inverters, but also the medium-voltage components, modules, racks, all cabling and the planting and enclosure of the system. The services include repair, device replacement, visual inspections and maintenance. SMA thus guarantees PV system operators the highest performance and planning security. In the reporting year, this full service was in demand in North America and Europe in particular: SMA has PV power plants with a capacity of 1.4 GW under contract. According to a study by GTM Research published in November 2015, SMA moved up to fourth place in the global ranking of O&M maintenance providers.

In the Other Business segment, customers are increasingly focusing on the integration of battery storage systems. In addition to increasing self-consumption of PV power in order to save electricity costs, a second focus here is on reliably and cost-effectively supplying power to remote areas. In this field, SMA is collaborating with all leading battery manufacturers as well as with companies from the automotive industry and can thus always offer customers the highest-performance solution at lowest system costs.

In January 2015, SMA launched two new battery inverters for solar applications in the lower power range. The SMA Sunny Island 3.0M and Sunny Island 4.4M ensure an optimum energy supply in PV systems, both for grid-connected PV systems and stand-alone off-grid systems. These battery inverters allow PV system operators to reduce their electricity costs and become more independent in terms of their energy supply.

With the new Sunny Boy Storage, which will be launched in March 2016, SMA ensures cost-effective, easy and flexible integration of the solution into new or existing photovoltaic systems. This new battery inverter has been designed especially for high-voltage batteries like the Tesla Powerwall.

To allow for even more efficient integration of solar power into diesel grids, SMA has enhanced its SMA Fuel Save Controller (FSC). SMA thus offers individually tailored solutions for a reliable, resource-conserving and economically efficient energy supply to industrial applications with limited or no access to the utility grid.

The secondary brand Zegersolar, which is also a part of the Other Business segment, provides technologically simple products with an adjusted service range for the low-price segment in selected markets. In June 2015, Zegersolar launched new inverters of the Zeverlution product series for private and commercial use. The devices cover the entire range from 1 kW to 33 kW. In September, the new online monitoring portal Zevercloud was launched.

The Railway Technology business area manufactures converters for short- and long-distance railway traffic and complete energy supply systems for railway coaches and multiple-unit trains. One new product in this business area is the SMARTconverter 3, an on-board power system converter for subway and suburban railway trains that is designed as a platform device and was delivered for the first time in May 2015.

See Research and Development, page 45 et seqq.

See Research and Development, page 45 et seqq.

See Research and Development, page 45 et seqq.

Important Sales Markets and Competitive Situation

In 2015, global demand for PV systems increased significantly after recording weak levels in the previous year. According to SMA estimates, which in this case and throughout the entire Management Report relate to new installations not including battery inverter technology, PV systems with an output of around 51 GW (2014: approx. 42 GW) were installed worldwide in the reporting period. Global sales from PV inverter technology, which in this case and throughout the entire Management Report relate to new installations, retrofitting existing PV systems and battery inverter technology, posted only slight growth due to the continued immense price pressure and amounted to €4.7 billion (2014: €4.5 billion) according to SMA estimates.

Growth Stimuli Coming From International Business

International photovoltaic markets developed more positively than initially expected. Overall, there was no significant regional shift in demand, measured in gigawatts, in the past calendar year.

The share of global sales from PV inverter technology attributable to the photovoltaic markets in Europe, the Middle East and Africa (EMEA) fell only slightly year on year in 2015, as the UK compensated for the decline in demand in Germany. According to SMA Managing Board estimates, EMEA accounted for about 21.5% (2014: 23.3%) of global demand. The Chinese market grew slightly to a level of 10.7% (2014: 10.5%). The American markets became increasingly important, accounting for 25.0% (2014: 21.3%) of global sales in the past year. By contrast, the share of global sales of the Asia-Pacific region (not including China) declined to 42.8% (2014: 44.9%).

In most foreign markets, investors implemented more large-scale PV power plants. Large solar projects picked up momentum, especially in the U.S., Great Britain, Japan, India, China and Chile.

SMA Successfully Positions Itself in Growth Markets

With its comprehensive range of solutions, high product quality and flexibility, presence in 20 countries and comprehensive service structure, SMA is well-positioned in the global photovoltaic market. This is also reflected in a global study by the analysis company IHS, according to which SMA is by far the most popular inverter brand worldwide for the fourth time in a row.

With its international presence, SMA has further reduced its dependence on individual photovoltaic markets. The Company can benefit from global growth in demand with highly efficient PV inverters, integrated system solutions for PV systems of all power classes, intelligent energy management systems and battery storage solutions, complete solutions for PV/diesel hybrid applications, and extensive services up to and including operational management.

In 2015, SMA sold inverters with a total power of approximately 7.3 GW (2014: 5.1 GW) and generated €999.6 million in sales (2014: €805.4 million). Measured in terms of sales, SMA accounted for approximately 21% (2014: approx. 17%) of global demand for PV inverters (excluding battery inverter technology). Therefore, SMA has not only defended its position as clear market leader but has expanded this unique position.

The Company countered the price pressure on the market that continues to be very high with an extensive transformation that already brought about a turnaround in the reporting year. The cost reduction methods include process and productivity optimizations, adjustments of the personnel structure, a standardized global logistics concept and the use of synergies from the strategic partnership with Danfoss A/S entered into in 2014. In addition, SMA concentrated development on strategically important projects to maintain its global technology leadership at a high level.

SMA has its own service companies in all important photovoltaic markets. With an installed capacity of nearly 50 GW worldwide, SMA leverages economies of scale to manage its service business profitably and expand it further. Responsibility for operation and maintenance services for PV power plants (O&M business) is an important driver of the Service segment growth strategy. Service business, which was expanded considerably in 2013, has been profitable since 2014. It continued to develop positively in the reporting year.

In addition, SMA is advancing its strategic positioning in major future fields such as storage integration, digitization of the electricity supply and the combined use of renewable energies and fossil fuels in PV/diesel hybrid systems.

Vision and Strategy

Our vision that millions of people will be able to generate their own clean energy in a decentralized way and share it with others through intelligent utility grids is progressively becoming a global reality. SMA solutions play an instrumental role in this. Through continued cost reductions, further product and system solution enhancements and innovations, we will continuously make installation, operation and maintenance of PV systems simpler, more reliable, secure and, above all, more efficient.

As a market and technology leader, we started focusing our strategy on exploiting international growth opportunities in a market environment characterized by strong competition and price pressure early on, and have responded quickly to demand fluctuations reaping the long-term benefits from the transition to a new energy supply system based on decentralized renewable energies. SMA's strategic cornerstones are the development of product solutions and services for all fields of application of photovoltaics, coverage of all regions and high flexibility.

SMA can consistently implement its long-term strategy with its own funds since the Group generates profits and has a very sound financial base with an equity ratio of around 50% and high net cash of more than €285 million.

Corporate Goals

Expanding Global Market Leadership Through Internationalization

Despite the regional shift in demand during the last five years, SMA has expanded its global market leadership, and, according to its own estimates, it now accounts for about 21% of global demand for PV inverter technology (excluding battery inverter technology) measured in euros. This success is largely attributable to the systematic implementation of the internationalization strategy. With its own sales and service companies in 20 countries, SMA is represented in all major photovoltaic markets. To enable it to respond rapidly to demand in the different regions, the Company maintains five production sites around the world.

SMA's current strength in the U.S., its most important individual market, is based on the formation of the sales and service company in California in 2000 and the establishment of the production facility in Colorado in 2009. This local presence and the adjustment of products in all segments to U.S. requirements enabled SMA to secure the leading position on one of the most important photovoltaic markets, where it currently has a market share of around 40% of all PV systems installed. With its unique position in North America, SMA is well prepared for the anticipated increase in demand.

SMA has also successfully gained a foothold in markets with high entry barriers, such as Japan. With a local company, inverters that are specially adapted to Japanese requirements are sold for all market segments. The portfolio is complemented by comprehensive services. SMA was the first international inverter manufacturer to sell more than a gigawatt of inverter output on the Japanese market. With the high quality of our products and our broad customer base, we have systematically created the conditions for further market share gains.

SMA also operates successfully in price-sensitive markets. For example, the Company has now sold more than a gigawatt of inverter output also in India and estimates that it accounts for about 22% of the total PV inverter output installed in India.

In sales markets with a high share of renewable energy, SMA provides significant support for the energy transition with an extensive range of products for intelligent energy management. For example, SMA Smart Home enables private households in Germany to use the solar power they generate with their PV systems themselves to an increasing extent. With innovative product solutions, good access to solar power professionals and strategic partnerships, SMA will be able to bolster the market position it has built up over many years.

SMA will adapt the existing global sales and service infrastructure to regional demand to benefit from the very different momentum in the individual photovoltaic markets and market segments. The objective is to further improve the Company's unique positioning in all relevant markets.

Tapping Into New Growth Segments With Innovations

In the medium term, growth stimuli will arise from new segments such as the integration of electric storage systems, the combination of different energy carriers, and service business.

The use of storage systems is essential for the transformation of the energy market toward decentralized and renewable energy. With over 30 years of experience, SMA has unparalleled expertise in the field of decentralized energy. The seamless integration of battery storage into the system has been a key element of the technological development for many years. SMA will further expand its range of products and services for the integration of different battery technologies into new and existing PV systems. In this context, we will also continue the strategic development of business relationships with renowned automotive groups and battery manufacturers.

In many countries in the Earth’s Sunbelt, a significant portion of the electricity supply is still based on stationary diesel gensets. Despite the generally low oil price at present, supplementing the diesel electricity supply with solar power systems promises high growth rates in the medium to long term. SMA has therefore developed innovative solutions for photovoltaic/diesel hybrid applications that ensure simple integration of the systems and a high level of technical availability. This enables customers to reduce the operating time of diesel gensets and thus to cut back on expenses not only for diesel but also for maintenance. In order to systematically tap into this segment, SMA will step up its marketing and expand the product range.

Growth in the field of services is based on new installations and the installed basis. SMA has a unique service infrastructure in all major photovoltaic markets and can therefore offer comprehensive services. Its service portfolio ranges from extended warranties to complete operational management of large-scale PV power plants. Thanks to its high level of expertise and its technical monitoring options, SMA now has contractually agreed orders for the operational management and maintenance of large-scale PV power plants with an output of about 1.4 GW. This already puts us in fourth place worldwide among O&M maintenance providers. In order to tap this growth segment further, SMA will expand its service infrastructure in all major photovoltaic markets.

High Flexibility Through Optimized Processes

In an industry where change is the only thing that stays the same, flexibility must be the most important corporate strategy. As part of the Company’s transformation, SMA took extensive measures to effectively reduce fixed costs and increase its financial and operational flexibility. One key factor driving this development was the more efficient arrangement of processes across the entire value chain. We were thus able to shorten process lead times, reduce inventories and take advantage of options of purchasing partnerships. In addition, SMA introduced a functional organization in order to increase the speed of decision making. With the Company’s transformation, we established the basis for reacting flexibly to the volatile market development in the future. The significant reduction in fixed costs means that SMA can now generate profits even when sales are lower than before. SMA will further optimize its processes so as to reduce capital tie-up. At the same time, the management will continue to pay close attention to fixed costs in order to maintain the financial flexibility that has been achieved.

Research and Development

As the global market leader in photovoltaics, SMA has set trends in the global photovoltaics industry for many years. We use our systems expertise to develop complete solutions for different photovoltaic applications. In order to offer our customers in the individual market segments and regions the best complete solution in terms of both technology and economic efficiency, we selectively collaborate with strong partners. With our continuous research and our market- and customer-focused development, we can further reduce the consumer cost of PV electricity and thus make a significant contribution to a successful global energy transition. Our innovations have won numerous awards. Our technology is protected by many patents.

Forward-Looking Development Approach

Our thorough understanding of the different market requirements and our close proximity to our customers enable us to anticipate future system technology requirements. Customers used to be concerned primarily with energy yield, service life and design flexibility. Now, however, the system’s consumer costs of PV electricity, system integration as well as connectivity are the most important factors in making a purchasing decision. SMA is pursuing a platform strategy aimed at systematically cutting the cost of PV inverters and being able to react fast to market changes. By standardizing the core inverter, we can increase the proportion of identical components across the entire portfolio. Customization in line with different markets and customer needs is implemented through the connection area and software.

Continuing High Capacity for Innovation

As part of the Company’s transformation, SMA also significantly reduced research and development costs. Despite the many changes, we succeeded in maintaining our high capacity for innovation and launching new products and product enhancements within a very short space of time. In doing so, the development teams at the locations in Germany, the U.S. and China work together closely and thus allow for optimal use of development capacity. With R&D expenses of €99.2 million (including capitalized development projects), we reduced total R&D expenses by 23.2% in the reporting period compared to the previous year. SMA invested about 10% of its sales in the future, which was at the same level as the German electronics industry (about 9%).

So far, SMA has been granted 694 patents and utility models worldwide (December 31, 2015). Ongoing application procedures over the next years will most likely result in more than 600 patents. This figure underscores SMA’s continuing strong focus on technology. SMA also holds the rights to 743 trademarks.

RESEARCH AND DEVELOPMENT EXPENSES OF THE SMA GROUP

in € million	2015	2014	2013	2012	2011
Research and development expenses	99.2	129.1	102.5	108.1	99.9
of which capitalized development projects	31.5	40.9	22.9	20.2	16.1
Depreciation of capitalized development projects (scheduled)	19.5	14.9	14.9	7.5	5.6
Research and development ratio in % in relation to sales	9.9	16.0	11.0	7.4	6.0

New Solutions for Greater Customer Benefit

PRIVATE SYSTEMS: FOCUS ON MORE SELF-CONSUMPTION

In mid-April 2015, SMA successfully launched the first products of its new inverter generation in the smaller rooftop system market segment (Residential) with outputs of 1.5 kW and 2.5 kW. The completely new Sunny Boy 1.5/2.5 offers advantages in installation and commissioning thanks to its innovative design, broad input voltage range and novel communication concept. The inverter makes a high level of self-consumption possible, is extremely versatile and can be easily integrated into the home network via plug and play in a matter of minutes. The inverter has received an extremely positive response from customers since its launch. The newly integrated user interface makes it possible to monitor PV system data on any smartphone or tablet. Weighing only 9 kg, the inverter can also be mounted with just two screw fittings and does not require an additional wall mounting bracket. Furthermore, its direct communication with the SMA Energy Meter not only enables the 70% curtailment required in Germany but also makes complete curtailment and increased self-consumption possible. This functionality is necessary to stabilize transmission lines when renewable energy makes up a large proportion of electricity production.

SMA also pressed ahead with further development of the Sunny Home Manager. The intelligent energy manager plans household energy consumption as the central control unit in the SMA Smart Home. It uses weather forecasts to predict power generation, plans and controls consumption by household appliances via radio-controlled sockets, and also incorporates storage systems in this process. Alongside household appliances by Miele and heat pumps from StiebelEltron and Vaillant, household appliances by Bosch and Siemens can also be integrated via EEBus into the intelligent energy management system featuring the SMA Smart Home since the update in September 2015.

The use of battery-storage systems makes end users increasingly independent from their utility companies and is taking center stage due to falling prices for storage solutions. More and more people want to save energy costs and contribute to environmental protection in this way. SMA identified this trend at an early stage. In the reporting period, in addition to the existing solutions in its portfolio, SMA developed the new Sunny Boy Storage, an inverter for private households that is specially tailored to high-voltage batteries such as the Tesla Powerwall. Integration of high-voltage batteries involves particularly high technological requirements. With its new solution, SMA is the only provider that can offer an AC-coupled system operating in parallel with the PV system, making it possible to easily and cost-effectively integrate battery storage systems into new and also existing PV installations, while also flexibly enhancing the storage system. The reason for this is that with an AC-coupled storage solution it is not necessary to touch the PV system. At the same time, the system costs were reduced to the extent that the cost of storing electricity is now already comparable to household electricity rates in Germany. After a development period of just a few months, the Sunny Boy Storage will be launched on the German market in March 2016. Other major storage markets such as Italy, the UK, Australia and the U.S. will follow.

AC see Glossary, page 164

DC see Glossary, page 164 et seqq.

COMMERCIAL APPLICATIONS: NEW PRODUCTS FOR THE U.S. AND JAPAN

In the medium-sized inverter segment (Commercial), SMA had the new Sunny Tripower 60-US certified for the U.S. market as planned in March 2015. Sunny Tripower products are particularly in demand on the U.S. market, because more and more commercial companies want to increase self-consumption of PV power. A higher-output, cost-optimized Sunny Tripower with an output of 30 kW was qualified in December and successfully launched in January 2016. The output of the device was increased from 24 kW to 30 kW using cutting edge technology based on experience with existing systems, while at the same time specific costs were reduced. The U.S. portfolio, which has now been completed with the Sunny Tripower 30-US and Sunny Tripower 60-US products, offers attractive and flexible solutions that further consolidate SMA's position as market leader in the U.S. commercial and utility segments and support the trend toward decentralized construction of ground-based PV systems and large-scale PV rooftop systems.

To increase market share in Japan over the course of 2015, SMA has further augmented its product portfolio. For example, the new Sunny Tripower with an output of 25 kW was launched onto the market. The device is based on the current, global Sunny Tripower platform and primarily offers considerable advantages over the products of local competitors in terms of efficiency, cost, flexibility of application and grid integration. As a result of this enhancement of its product portfolio, SMA gained distribution companies and leading project developers as major new customers in the commercial segment.

Another innovation is the new Medium Voltage Station (MVS) for the Sunny Tripower 60 inverter, which SMA launches in March 2016. The new system solution enables large PV systems with string inverters to be connected to medium-voltage grids quickly and easily. SMA is the first company to provide a fully integrated solution with pre-configured components for the global market. A robust 10-foot container holds the medium-voltage transformer, medium-voltage switchgear from Siemens and a distribution box.

PV POWER PLANTS: COORDINATED COMPLETE SOLUTIONS FROM A SINGLE SOURCE

In June 2015, SMA announced its partnership with Siemens' energy management division in the PV power plant segment (Utility). The partners offer coordinated system solutions and services from a single source – from the DC side to grid connection. The first result of the collaboration is an innovative solution that unites a 2.5 MW central inverter from SMA and a medium-voltage transformer and medium-voltage switchgear from Siemens in a turnkey, standard container. SMA presented the Medium Voltage Power Station 2200SC/2500SC for the first time at Intersolar Europe in Munich, where it was a crowd drawer. The system solution for DC voltages of 1,000/1,500 volts can be used worldwide in large-scale and the largest-scale PV power plants currently being installed and erected outdoors in all ambient conditions. It reduces transport, installation and operating costs by virtue of its power density and compactness, which are unique on the market.

In addition, SMA launched another central inverter back in the first quarter of 2015. The Sunny Central 1000CP XT rounded off the Company's globally successful CP central inverter family with an additional power class. Photovoltaics projects requiring bids for 1-MW blocks, in particular, are benefiting from the new device. As a component of the SMA Medium Voltage Power Station, the Sunny Central 1000CP XT devices deliver an output of 2 MW in the turnkey container station, which can be used globally. This enables solar power plant developers to face the high price pressure and tight schedules required in the bidding process.

OTHER BUSINESS: STORAGE INTEGRATION FOR ALL APPLICATIONS

The integration of battery-storage systems plays an important role in the Other Business segment, be it here in Germany for small residential PV systems to increase self-consumption or in off-grid regions where the integration of photo-voltaics into existing diesel power supplies on an industrial scale saves costs long term (PV/diesel hybrid systems). In January 2015, with the Sunny Island 3.0M/4.4.M, SMA launched new battery inverters for small PV systems, which allow a markedly flexible and cost-effective solution both for grid-connected systems and for stand-alone off-grid systems. Through our collaboration with all leading international battery manufacturers, SMA makes it possible for customers to utilize the best, most modern and most efficient battery technology on the market.

In the reporting period, SMA developed the new SMA multicluster technology, that is now also suited for operation on the utility grid, for the more powerful Sunny Island 6.0H/8.0H battery inverters. This technology helps commercial users such as supermarkets, agricultural businesses and other commercial enterprises to achieve increased self-consumption using storage systems. A diesel generator can also be integrated to bypass grid failures when the battery is discharged.

To allow for even more efficient integration of solar power into diesel grids, SMA enhanced its Fuel Save Controller (FSC) in the reporting period. The 2014 Intersolar Award winner is now available for different output requirements. The simple and affordable complete solution FSC M for PV power feed-in of up to 1 MW in PV/diesel hybrid systems, the FSC L solution for PV power feed-in of up to 5 MW and optional storage integration, and the customer-specific solution for systems with up to 50 MW of PV power.

Employees

Personnel Adjustment Almost Completed

Owing to the enormous structural changes in the solar industry, SMA had to adapt its corporate structures to the anticipated future sales level in the reporting period. Within a very short period of time, SMA almost completed the most extensive round of personnel adjustments in the Company's history in a socially responsible manner. The number of employees who had left SMA by the end of December 2015 corresponds to 1,400 full-time equivalents. Only very few companies in Germany have reduced their workforce by such a high percentage in a socially responsible manner and in such a short period of time. This was possible at SMA through a process characterized by openness, fairness and cooperativeness.

Fortunately, the staff reduction did not have a considerable impact on the labor market in the region. Media reports state that the number of unemployed people in North Hesse increased only on a seasonal basis. Thanks to the high qualifications of SMA employees and close collaboration with the Employment Agency in Kassel, the vast number of former SMA employees found new jobs within a short period of time.

Following the end of the severance program in March 2015, extensive restructuring took place to reallocate responsibilities and teams within the Company. To make the transfer process successful, the Management and Works Council collaborated closely and very constructively.

Compared to the same period in 2014, the number of employees as of the reporting date declined considerably.

In Germany, the number of employees fell by 35.1%, or 1,216 people, to 2,253 employees (December 31, 2014: 3,469 employees, figures exclude temporary employees). The number of employees abroad also declined. It fell by 334 to a total of 1,257 employees (December 31, 2014: 1,591 employees, figures exclude temporary employees).

At the end of the reporting period, the SMA Group had a total of 3,510 employees (December 31, 2014: 5,060 employees, figures exclude temporary employees). This equates to a decrease of 30.6% compared with the previous year.

EMPLOYEES

Reporting date _____	–	2015/12/31	–	2014/12/31	–	2013/12/31	–	2012/12/31	–	2011/12/31
Employees (excl. temporary employees) _____		3,510		5,060		5,141		5,992		5,532
of which domestic _____		2,253		3,469		3,736		4,649		4,670
of which abroad _____		1,257		1,591		1,405		1,343		862
Temporary employees _____		673		467		662		639		943
Total employees (incl. temporary employees) – _____		4,183		5,527		5,803		6,631		6,475

SMA still uses temporary employees to absorb order fluctuations. Their hourly rate of pay is in line with that of SMA employees. In addition, the temporary employees working at SMA also participate in the Company's success. As of December 31, 2015, the number of temporary employees rose to 673 globally due to the high level of incoming orders (December 31, 2014: 467 temporary employees).

High Proportion of Value Creation in Germany

Although SMA now generates almost 90% of its sales abroad, the Company remains committed to its site in Germany. The large share of employees in Germany reflects SMA's high proportion of local value creation. The main location for development and production is still Niestetal/Kassel, even after the Company's transformation. SMA is thus part of a future-oriented sector that is very important to the Federal Republic of Germany in terms of industrial policy: There are currently about 300,000 people working in the field of renewable energy in Germany, including some 45,000 in the solar industry. Not only is SMA the third-biggest employer in the North Hesse region, it also safeguards jobs at suppliers and service providers in Germany.

SMA Employees Get Involved to Help Refugees

Under the motto “SMA employees pitch in”, the Company initiated targeted and coordinated aid for refugees in September. In this initiative, local aid organizations work with SMA employees to help refugees in the Kassel region through a database that lists the specific needs. SMA will give every employee who commits at least 16 hours to the project one extra day of paid leave. In addition, SMA offers internship opportunities for qualified refugees in selected professions to make their subsequent integration easier. SMA’s commitment to helping refugees is sustainable, and the concepts are set up to run long-term. The contribution made by SMA with regard to this sociopolitical issue has been well-received by SMA employees and commended by aid organizations and politicians. SMA is proud to make this contribution.

Vocational Training and Recruitment of Young Professionals Are a High Priority

Young people have been receiving vocational training at SMA since 1985. More than 400 former trainees still work at the Company, and in the “Week of Former Trainees” during the reporting period, they highlighted the development opportunities that exist at SMA after the final examination and the potential for highly qualified skilled staff that can accrue within the Company. At SMA, vocational training will remain a key element in the technical qualification of new employees and likewise a component for securing and fostering the next generation.

The following five professions can be learned at SMA: office management, industrial business management, device and system electronics, industrial electronics specializing in devices and systems, and mechatronics. Vocational training at SMA is characterized by a very strong focus on practical application and projects. The trainees very quickly take on responsibility for the tasks and projects assigned to them, learn on a self-organized basis and solve complex tasks as part of a team. In addition, SMA offers in-house classes to teach the theoretical content in depth in line with training plans and to comprehensively train the participants’ knowledge and skills. Extensive preparation for examinations, internal and external training courses and seminars, introductory weeks, and IT and technology projects complement the training programs. We thereby promote not only the technical expertise but also the social skills needed by successful specialists in the future. These objectives in relation to both professional training and the transfer of expertise will enable SMA to implement successful development of young employees and prevent a shortage of skilled staff.

As of the reporting period, a total of 122 young people were in vocational training at SMA (December 31, 2014: 173 people). 77 trainees completed their vocational training during the reporting period. The best graduates were offered further employment at SMA. In the new cohort of trainees, 35 trainees commenced their vocational training.

See www.sma.de/en/company/corporate-social-responsibility

Corporate Social Responsibility (CSR)

SMA understands sustainability as combining long-term economic success with protection of the environment and social responsibility. We take social responsibility seriously by considering social and environmental interests. From this claim, we have derived specific maxims. In 2012, SMA defined its 10 most strategically important action areas for increased sustainability and formulated a sustainability mission statement. The mission statement is supplemented by the SMA Business Principles, which set out clear standards of conduct for all employees.

ACTION AREAS FOR A SUSTAINABLE DEVELOPMENT

- 1 Sustainable economics
- 2 Innovative products for a sustainable energy supply
- 3 Production without waste
- 4 Socially and environmentally responsible supply chain
- 5 Environmental management for sustainable economics
- 6 Efficient and renewable energy supply with minimized consumption
- 7 Committed employees
- 8 Sustainable regional development
- 9 A livable and sustainable society – everywhere
- 10 Constructive dialogue

ACTING RESPONSIBLY ALONG THE WHOLE VALUE CHAIN

The ten action areas defined in the guidelines will be combined into four focus areas. These focus areas are to be anchored in all stages of the value chain. In the future, SMA will increasingly incorporate upstream and downstream company activities. For all company activities, the SMA Global Operations unit coordinates implementation of the sustainability strategy.

LIVING OUR VALUES AND PRINCIPLES

Clearly defined values and principles are at the heart of our mind-set and actions at SMA. As an internationally operating company, we align our activities with nationally and internationally recognized standards. For example, by signing the United Nations (UN) Global Compact in 2011, SMA publicly declared its commitment to responsible corporate governance. At the core of the UN initiative are 10 principles in the areas of human rights, labor standards, environmental protection and anticorruption.

Our social and environmental responsibility also extends to collaboration with our suppliers and business partners. As early as 2009, SMA signed the cross-sector Code of Conduct issued by the German Association of Materials Management, Purchasing and Logistics. In 2010, we supplemented this Code of Conduct with SMA’s own guidelines for suppliers (Supplier Code). These cover topics such as corruption, antitrust law, ethical principles, labor standards and employee rights, environmental protection, quality and product safety.

In 2014, the Supplier Code was supplemented to include conflict minerals. Suppliers must ensure that the tantalum, tin, tungsten and gold employed are not used to finance or support – either directly or indirectly – armed groups that are guilty of serious human rights violations in the Democratic Republic of the Congo or in neighboring countries. SMA expects suppliers to keep track of the origins of the minerals they use throughout the supply chain and to disclose these precautionary measures to SMA at its request.

CONTRIBUTING TO THE ENERGY TRANSITION WITH THE CLIMATE ROADMAP

SMA attaches great importance to sustainability, not only in its products but also in its manufacturing process. This is why the corporate energy management policy is part of the sustainability strategy. The goal is to supply SMA entirely with decentralized renewable energy from the local region by 2020. In this context, the SMA Climate Roadmap stands for continuous development of projects contributing to the energy transition at SMA’s headquarters.

SMA’s corporate energy management policy is based on three levels: avoiding energy consumption, using energy more efficiently and increasing the share of renewable energies used. SMA is aiming to achieve completely carbon-neutral production in defined stages. SMA has already undertaken a number of flagship projects in the past with its CO₂-neutral inverter production facility at Solar Factory 1, the Solar Academy, which functions independently from the utility grid, and the Data Processing Center, which was completed in 2013 and is one of the most resource-efficient centers of its kind. These projects are a testament to the high priority SMA places on its sustainable energy strategy. In 2015, we were able to increase the share of self-generated solar electricity in our total electricity consumption to more than 26%.

The environmental management system at the production sites in Niestetal/Kassel and Denver is also certified in accordance with DIN EN ISO 14001. Certification in accordance with DIN EN ISO 50001 was supplemented in 2013. This internationally recognized certification attests to SMA’s particularly efficient and sustainable use of energy in production and management.

PRODUCT LIFE CYCLE ASSESSMENTS

However, improving the energy supply at SMA’s own site only covers one aspect of the environmental impact of the manufacturing process. It will therefore be essential to examine the entire product life cycle. In 2015, SMA applied this method for the Sunny Boy 1.5/2.5 inverter for the first time. In the future, SMA will increasingly focus on life cycle assessments. Our highly efficient inverters generate almost 100% yield utilization and do not create any direct emissions. The long service life, and thus a high quality standard, is another key factor with a positive effect.

MAKING OUR CARBON FOOTPRINT MORE TRANSPARENT

The global climate change caused by greenhouse gas emissions is one of the most important sustainability issues of our time and a major focus of public interest. Figures for greenhouse gas emissions have not been included in our sustainability reporting so far, although we already have an exemplary carbon balance at our site in Niestetal/Kassel.

SMA will present its own carbon footprint in a more transparent manner. In the long term, we plan to extend this to the entire value chain. The production of raw materials, all of our suppliers, the utilization phase and recycling of the products are also to be taken into consideration here.

AWARD-WINNING ENVIRONMENTALLY FRIENDLY VEHICLE FLEET

Corporate mobility management within SMA has already received a number of accolades. It is intended to encourage employees to use environmentally friendly mobility options for getting to and from work as well as raise awareness of an intelligent choice of transport between SMA sites. In 2015, the Deutsche Umwelthilfe e.V. (German Environmental Aid Organization) again awarded SMA with a prize for its concept and particularly praised the fleet organization as a good example of climate protection in the area of mobility. In its fleet organization, SMA limits the CO₂ emissions of its vehicles to 120 g/km. A bonus-malus system provides an enhanced incentive to reduce CO₂ emissions further. SMA has modernized its charging infrastructure for electric vehicles and increased the number of charging points to 16. A further expansion is planned in 2016.

FOCUS ON SOCIAL COMMITMENT

For SMA, taking its share of responsibility for social development is a matter of course. Over the past years, we have thus supported many different projects, organizations and initiatives – on a regional and national level as well as in newly industrialized and developing countries. In 2015, SMA focused on the urgent sociopolitical issue of aid for refugees. In this initiative, local aid organizations work with SMA employees to help refugees in the Kassel region through a database that lists the specific needs. SMA will give every employee who commits at least 16 hours to the project one extra day of paid leave. In addition, SMA offers internships for refugees in selected professions to make their subsequent integration easier. This initiative is set up to run long-term.

PROMOTING KNOWLEDGE THROUGH NETWORKS

SMA is involved in numerous networks, collaborative projects and initiatives that play an important role in further development of the North Hesse region in various ways including by providing expertise and human resources. SMA has been supporting deENet, the competence network for decentralized energy technologies, as an active member since 2003. The organization has made it its mission to turn North Hesse into a location renowned for its decentralized energy supply through renewable energies using technological progress and sustainable regional development. Furthermore, SMA joined 2015 “House of Energy,” a union of companies, research institutes and the federal state government of Hesse that aims to push ahead the energy transition.

Enterprise Management

Leading Indicators

To be able to react to market changes in a timely manner, it is very important for us to recognize opportunities and risks early on. To achieve this, we will have ongoing discussions about what are commonly referred to as operative leading indicators at both the Board and business unit level with the business unit managers, vice presidents and the general managers of the subsidiaries. Indicators relevant to SMA include changes in PV system incentive programs and their effect on regional market potential, growth and competitiveness of SMA in regional markets, customer acceptance of new products as well as market-related information stemming from discussions with customers, suppliers and associations.

However, the myriad of influencing factors and the complex way they interact make it difficult to produce a detailed forecast that holds up long term. Therefore, based on operative leading indicators, we have drawn up scenarios for annual and medium-term planning. In the reporting period, the Managing Board and business unit management were informed on a monthly basis both about the financial development of the entire SMA Group and the individual business units and about changes in operative leading indicators.

Financial Management Parameters

In 2014, SMA used the following key financial management parameters for its operative business as explained below. There are no changes compared with the previous year in calculation of key figures or in the management system.

SALES

Sales include all of the sales generated over the reporting period. Because the market for inverters was shaped partly by plummeting prices, we also measure, in addition to sales, inverter output sold and the average selling price per watt. We calculate sales at both the Group and business unit level.

OPERATING PROFIT (EBIT)/OPERATIVE EARNINGS MARGIN

Operating profit also includes function costs and other expenses in addition to sales and cost of sales. SMA uses this key figure to measure the profitability of the individual business units and the Group. To determine the operative earnings margin, we calculate operating profit in relation to total sales. We measure operating profit and the operative earnings margin at both the Group and business unit level.

NET WORKING CAPITAL/NET WORKING CAPITAL RATIO

Net working capital management plays an important role. In addition to inventories, net working capital includes trade receivables and trade payables. We measure our customers’ and suppliers’ accounts receivables as well as product manufacturing inventories regularly in relation to sales over the past 12 months. We measure and manage net working capital at the corporate Group level.

CAPITAL EXPENDITURE

Capital expenditure is another key driver of liquidity planning. To manage capital expenditure, we formulate budgets as part of our annual planning, which the Managing Board approves over the course of the fiscal year. This particularly applies to large-scale capital expenditure projects, which are additionally evaluated with a profitability calculation. We manage capital expenditure at the corporate Group level.

Intragroup Reporting and Management

INTRAGROUP REPORTING

The monthly reporting includes, among other information, detailed status reports on orders placed and order volumes, the amount of inverter output sold, sales figures, results of operation, cash flow statements, research and development activities, investments and net working capital. The aim is to compare changes in decisive items on the income statement and balance sheet both with the budget and with the figures of the previous month and to take any corrective measures necessary. SMA checks annual planning and medium-term planning every six months and adjusts them if necessary. An electronic management information system (SAP Business Warehouse) serves as the ‘home’ for the information used for reporting.

INTRAGROUP MANAGEMENT SYSTEM

In the reporting period, the basic elements of the intragroup management system were the weekly Managing Board meeting and monthly discussions on results with the business unit managers. Strategy implementation was also discussed during quarterly business reviews with the business units as was an assessment on the progress of objectives. In addition, the SMA intragroup management system encompasses the regular Risks and Opportunities Report and the report prepared by the Internal Auditing department.

FISCAL YEAR 2015

General Economic Conditions and
Economic Conditions in the Sector

General Economic Conditions

Growth of the global economy decelerated slightly in 2015 compared to the previous year. The International Monetary Fund (IMF) expects global growth of 3.1% (2014: 3.4%). Gross domestic product (GDP) in developed national economies increased by 1.9% (2014: 1.8%). Growth in developing and newly industrialized countries was 4.0% in the reporting period (2014: 4.6%) and therefore declined for the fifth time in a row.

The IMF sees three major factors influencing the development of the global economy in 2015 and beyond: the economic downturn and accompanying structural change in China, the low energy and commodities prices and the divergence of monetary policy between the U.S. and the central banks of the other developed national economies. The U.S. Federal Reserve initiated the long-awaited interest rate reversal in December and raised the base rate to between 0.25% and 0.5%.

In Europe, the main concern among politicians and economic players up until the middle of the year was Greece’s place in the euro. Despite the uncertainty, the economy of the euro zone grew notably on the previous year at 1.5% (2014: 0.9%). The danger of stagnation therefore seems to have been averted for the time being.

Alongside the European national economies, other key foreign markets for SMA developed in extremely varied ways in 2015. In the U.S., the economy continued to grow stably at a rate of 2.5% (2014: 2.4%). Japan’s economy expanded marginally by 0.6% (2014: 0,0%). In China, GDP increased at a slightly lower rate of 6.9% compared with the previous year (2014: 7.3%). At 7.3% (2014: 7.3%), India maintained a constantly high level of growth.

Economic Conditions in the Sector

In the reporting period, the global photovoltaic market developed more positively than originally expected. SMA expects newly installed PV power of approximately 51 GW (2014: approx. 42 GW). Price pressure remained high in all segments and regions. Global sales of PV inverter technology slightly increased again because of the considerable growth in newly installed PV power. According to SMA estimates, they rose by about 4% to €4.7 billion (2014: €4.5 billion). The regional distribution of demand changed only slightly in 2015. Accounting for roughly 22% of global sales, the significance of the PV markets in European countries, the Middle East and Africa (EMEA) slightly declined (2014: 23%). At €1.1 billion, sales were slightly increased in comparison to the previous year (2014: €1.0 billion). American photovoltaic markets developed positively, making up 25% of global sales at €1.2 billion (2014: €1.0 billion; 21%). The Chinese market registered considerably higher new installations than in the previous year, but did not increase in significance in terms of euros because of the high price pressure. China therefore still represented only approximately 11% of sales with €0.5 billion in 2015 (2014: €0.5 billion; 11%). The Asia-Pacific photovoltaic markets (excluding China) accounted for 43% of the global market with unchanged sales of €2.0 billion, thereby losing market share (2014: €2.0 billion; 45%).

EMEA: GREAT BRITAIN REMAINS MOST IMPORTANT MARKET

The 2015 fiscal year in the EMEA region was charcterized by significant adjustments to solar electricity tariffs in key European markets and delays in tendering procedures in Africa and the Middle East. Demand increased slightly; newly installed PV power amounted to 9.6 GW (2014: 9.2 GW). However, the increase in demand could not compensate for the sharp decline in prices.

Great Britain was the most important photovoltaic market in Europe in the reporting year, resulting from a very strong first quarter with 3.5 GW. This was due to the expiration of the subsidy for large-scale PV power plants with an output of over 5 MW as of April 1, 2015. Further cuts to subsidization for large-scale PV power plants are already planned: Starting April 1, 2016, PV systems with power over 1 MW will no longer be subsidized. At the beginning of 2016, there was also a radical reduction in the feed-in tariff, which is mainly used by operators of smaller systems. Quarterly subsidy caps will also ensure that the PV market in Great Britain will play a less important role in the next few years.

In Germany, the Federal Ministry of Economics’ expansion target of 2.5 GW was missed by a considerable margin again in the reporting period, with only 1.5 GW being achieved. The Federal Ministry of Economics contributed to end customers’ continued uncertainty by discussing the potential expiration of storage system subsidies. Overall, the numerous subsidy cuts of recent years have resulted in Germany losing its role as a front-runner in one of the most important industries of the 21st century. With a remaining share of just 3% of the world’s newly installed power, the German market no longer plays a significant role internationally.

NON-EUROPEAN MARKETS: U.S. MARKET CONTINUES TO GROW

The U.S. market for photovoltaics is continuing to grow strongly. In the reporting year, the growth rate was about 7.3 GW, PV inverter sales amounted to nearly €1 billion. According to SMA estimates, about 66% of the new installations were large-scale solar projects with an output power of at least 1 MW. However, PV systems for private use grew the most. These accounted for 29% of new installations. Demand for solar power systems in the U.S. is being supported in particular by tax incentive programs. In December, the market’s hoped-for extension of the tax incentives to 2020 came to pass, creating stable conditions on the U.S. market for the years to come. In addition, portfolio standards are having an impact on the investing activities of electric utility companies. These standards ensure that electric utility companies include a certain share of renewable energy in their energy generation portfolios. Against this backdrop, persistently positive market development and new installation of tens of gigawatts per year can be expected.

JAPAN AND CHINA DOMINATE THE MARKET IN ASIA

In Japan, the investment in inverter technologies in the reporting period was approximately €1.5 billion, while in China it amounted to €0.5 billion. Commercial systems and large-scale PV power plants are driving segments in both countries.

According to SMA estimates, PV systems with total power of about 11 GW were connected to the grid in Japan in 2015. More than half of the new installations were medium-sized PV systems for commercial applications, and large-scale solar projects accounted for about 37%. About 9% related to smaller PV systems for private use. In Japan, there are a large number of planned and approved projects. Japan will therefore remain one of the most important PV markets in Asia and worldwide in 2016.

In China, the market grew again in the reporting period after installation declined in 2014. With around 15 GW of newly installed power, growth was approximately 40% higher than in the previous year, according to SMA estimates. More than 90% was attributable to large-scale solar projects and 8% to commercial applications. The growth was based on the government increasing its expansion target from 100 to 150 GW by 2020 (the installed base amounted to about 44 GW at the end of 2015). The Chinese photovoltaic market continues to be dominated by opaque tendering procedures. Significant market shares fall only to Chinese providers, some of which are state owned.

India now also plays an important role; the market is developing positively. There are various incentive programs and a fundamental effort on the part of the government to supply the entire country with power. The Indian government has therefore set an ambitious target for new PV installations: 100 GW by 2022. In the reporting period, the country saw 2.1 GW of new PV power being installed, more than twice as much as last year (2014: 1 GW). More than 90% of the new installations were large-scale projects. Medium-sized commercial and small private systems still play a minor role in India. The prices in India are only slightly above the level in China. The market structures, however, allow for fair competition.

Impact of General Conditions on Business Development in 2015

Development of the global photovoltaic market had a positive effect on SMA’s business performance. The SMA Group sold PV inverters with a total power of 7,260 MW in the reporting period. This equates to growth of 43.7% compared with the previous year (2014: 5,051 MW). Sales increased by 24.1% to €999.6 million. In 2015, the international share of sales increased to 87.3% (2014: 78.3%). The most important foreign markets were the U.S., followed by Great Britain, Japan and Australia. Earnings before interest and taxes (EBIT) were again positive at €34.3 million (2014: € – 164.9 million); the EBIT margin was 3.4% (2014: –20.5%). SMA returned to profitability in 2015 after two loss-making years through an extensive transformation of the Group and is emerging from the global crisis of the photovoltaic industry with renewed strength.

In the Residential business unit, the inverter power sold increased by 4.0%. Because of the high price pressure, sales increased slightly less by 1.4% to €252.7 million (2014: €249.2 million). Business development in the Commercial business unit was distinctly positive. Inverter power sold increased by 50%; sales grew by 30.2% to €207.4 million (2014: €159.3 million). The Utility business unit benefited from the shift in demand toward large-scale PV power plants. Inverter power sold increased by 59%; sales climbed by 47.7% to €416.0 million (2014: €281.7 million). The Service business unit also grew. At €49.5 million, external sales here were 20.1% higher than in the previous year (2014: €41.2 million).

Comparison of the Actual Business Development With the Forecast

The SMA Managing Board published an initial forecast for the 2015 fiscal year on January 30, 2015. At this time, the Managing Board expected sales of €730 million to €770 million. SMA anticipated earnings before interest and taxes (EBIT) of €–30 million to €–60 million. The Managing Board emphasized that the return to profitability largely depended on the speed of implementing the Company’s transformation measures, which were simultaneously presented for the first time.

With publication of the 2014 Annual Report on March 26, 2015, the SMA Managing Board confirmed and specified the forecast. SMA aimed for a net working capital ratio in relation to sales over the past twelve months of between 23% and 26%. Investments were to be reduced to between €30 million and €40 million in 2015. The SMA Managing Board expected to return to positive operating earnings (EBIT) in 2016.

On July 9, 2015, the SMA Managing Board increased its sales and earnings forecast. The new forecast predicted SMA Group sales of between €800 million and €850 million in the 2015 fiscal year. In the best-case scenario, the Managing Board expected to break even in terms of operating earnings. At this time, the Managing Board anticipated an EBIT of €–25 million at the lower end of the earnings forecast. The Managing Board identified the better than expected growth of the global market for photovoltaic inverters, a considerable advance in SMA’s competitiveness and a consistently high order backlog as reasons for the increase in the forecast.

In the financial report for January to June 2015, published on August 13, 2015, SMA confirmed the forecast that it had issued on July 9, 2015. In this publication, the SMA Managing Board indicated that around 80% of the forecasted sales had already been accounted for by the sales in the first six months of 2015 and the order backlog for this fiscal year. Taking into consideration the Company’s improved business performance and timely implementation of its transformation, the Managing Board confirmed its expectation of a break-even in terms of EBIT in the best-case scenario in 2015.

On September 29, 2015, the SMA Managing Board again raised its sales and earnings forecast. At this time, SMA expected to achieve sales of between €850 million and €900 million and anticipated an EBIT of €0 million to €10 million for the current fiscal year. In light of still extremely positive business performance, successful new product launches and the sustainable improvement in competitiveness, the Managing Board therefore held out the prospect of achieving the turnaround already in 2015.

On November 11, 2015, the SMA Managing Board increased its sales and earnings forecast once again. At this time, SMA expected to achieve sales of between €925 million and €975 million and anticipated operating earnings of €10 million to €30 million for the current fiscal year. This was due to notably positive business performance from January to October 2015, a significant year-on-year improvement in sales and earnings development in the third quarter and a high order backlog. With publication of the financial report for January to September 2015 on November 12, 2015, the Managing Board specified its statements and predicted that SMA would generate positive free cash flow and further increase net cash in the reporting period.

With sales of €999.6 million in 2015, SMA also exceeded this forecast. Operating earnings were €34.3million and therefore higher than the Managing Board expected. Adjusted free cash flow was €54.3 million as of December 31, 2015; net cash increased to €285.6 million (December 31, 2014: €225.4 million). Adjusted free cash

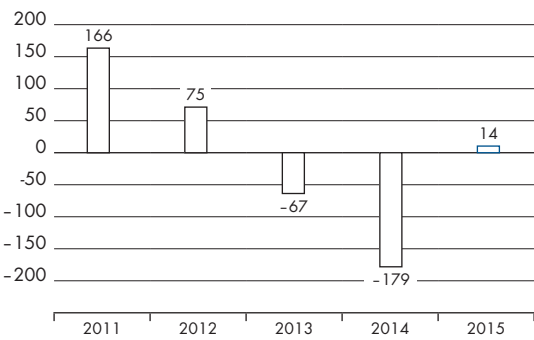
flow (net of term deposit investments) is negatively affected by the severance payments to employees who left the Company in 2015. At €50.6 million, SMA slightly exceeded its forecasted range (up to €50 million) for planned investments in intangible assets and buildings and the acquisition of machinery and equipment. The net working capital ratio for the reporting year was 22.3% and therefore even better than the range of 23% to 26% targeted by the Managing Board.

TARGET-ACTUAL COMPARISON FOR 2015

in € million	Sales	Operating profit (EBIT)	Capital expenditure
Forecast on January 30, 2015	730 to 770	-30 to -60	30 to 40
Forecast on July 9, 2015	800 to 850	-25 to 0	to 45
Forecast on September 29, 2015	850 to 900	0 to 10	to 50
Forecast on November 11, 2015	925 to 975	10 to 30	to 50
2015 results	999.6	34.3	50.6

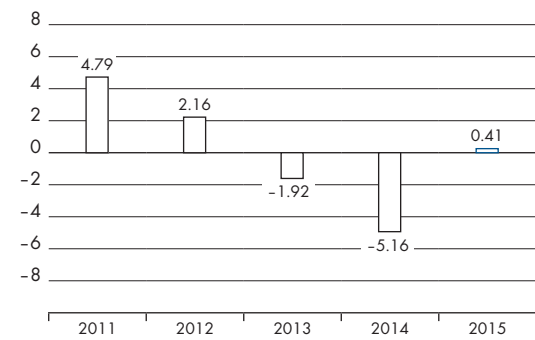
CONSOLIDATED NET RESULT

in € million



EARNINGS PER SHARE

in €



Results of Operations

Sales and Earnings

SMA GENERATES POSITIVE EBIT EARLIER THAN EXPECTED

In the 2015 fiscal year, the SMA Group increased its sales considerably to €999.6 million (2014: €805.4 million). This equates to sales growth of 24.1% compared with the previous year. Sold PV inverter output rose by 43.7% in the same period to 7,260 MW (2014: 5,051 MW), bringing it roughly into line with the level observed in the 2012 fiscal year (2012: 7,188 MW). However, high price pressure in all segments and regions along with the greater share of higher-performance inverters in the product mix resulted in significantly lower sales than in 2012 (2012 sales: €1,463.4 million).

Thanks to its excellent positioning internationally, SMA benefited from the positive development seen in foreign photovoltaic markets in 2015. The regional shift in demand observed in recent years is also reflected in the international share of sales. Whereas in 2012, SMA generated 56.3% of its sales abroad, in the past fiscal year the international share accounted for 87.3% of sales (2014: 78.3%). In 2015, the SMA Group’s most important foreign markets were North America, Great Britain, Japan and Australia. Systematically implementing its internationalization strategy over the past few years has allowed SMA to reduce its dependency on individual photovoltaic markets. In 2015, in relation to gross sales, the North and South American (Americas) regions accounted for 42.2% of sales, with the European countries, the Middle East and Africa (EMEA) and the Asia-Pacific (APAC) regions contributing 36.1% and 21.7% respectively. Even the Utility, Commercial, Residential and Service segments are exhibiting a balanced distribution of sales. SMA generated 41.6% of sales from products in the Utility segment, with products from the Residential and Commercial segments accounting for 25.3% and 20.7% of sales respectively. Service business generated 5.0% of sales.

In addition to high sales levels in the reporting year, SMA also had an order backlog amounting to €699.8 million as of December 31, 2015. Of this amount, €370.9 million was attributable to the service business. This part of the order backlog will be realized over the next few years. An order backlog of €328.9 million can be attributed to the product business. Amounting to €198.6 million, the Utility segment makes up 60% of the product-related order backlog. The Commercial and Residential segments account for €36.6 million (11%) and €30.4 million (9%) of the product-related order backlog. The remaining order backlog of €63.3 million relates to Other Business.

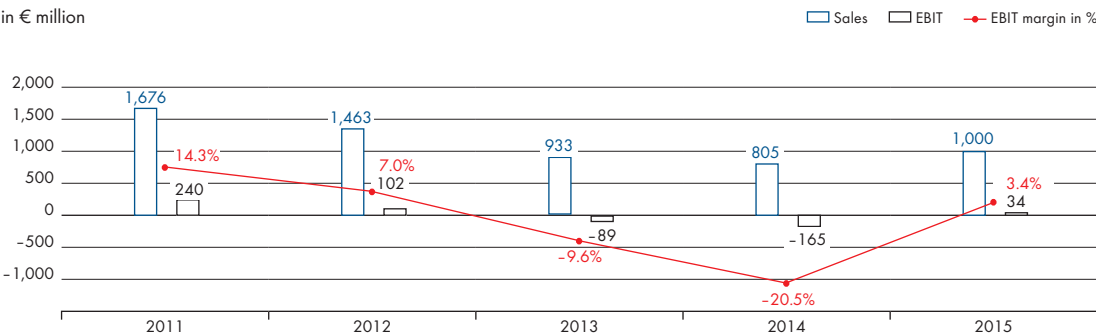
As a result of good sales development, fixed cost reduction and positive exchange rate effects, EBITDA improved considerably to €113.3 million in 2015 (EBITDA margin: 11.3%; 2014: €-58.4 million, -7.3%). EBIT increased to €34.3 million (2014: €-164.9 million). This equates to an EBIT margin of 3.4% (2014: -20.5%). Consolidated earnings amounted to €14.3 million (2014: €-179.3 million). Earnings per share amounted to €0.41 (2014: €-5.16). Overall, SMA has gotten itself back on the road to long-term profitability much quicker than originally planned.

MANAGING BOARD RECOMMENDS DIVIDEND PAYMENT OF €0.14 PER SHARE

In fiscal year 2015, SMA Solar Technology AG as the parent company of the SMA Group registered an annual net income of €30.8 million (2014: €-197.1 million) in its separate commercial statements. The Managing Board will recommend that the Supervisory Board proposes to pay out a dividend of €0.14 per dividend-bearing share at the Annual General Meeting on May 31, 2016. The amount paid out in dividends will thus amount to a total of €4.9 million (2014: €0.0 million). In relation to the consolidated net profit of €14.3 million, the payout ratio is 34.3%, and therefore falls within the margin of 20% to 40% announced by the Managing Board. This makes SMA the only listed solar company in Germany to allow its shareholders to participate in its business success by way of a dividend in 2015. Since its IPO in 2008, SMA has paid out a total of €7.20 dividends per share so far.

SALES AND EBIT

in € million



Sales and Earnings per Segment

RESIDENTIAL BUSINESS UNIT IS PROFITABLE AGAIN

The Residential business unit serves the attractive long-term market of small PV systems for private applications with micro inverters and single-phase string inverters with the brand name Sunny Boy, three-phase inverters in the lower output range up to 12 kW with the brand name Sunny Tripower, energy management solutions, storage systems such as the Sunny Boy Smart Energy, and communication products and accessories. With this portfolio of products and services, SMA can offer a suitable technical solution for private PV systems in all major photovoltaic markets.

At €252.7 million, external sales in the Residential business unit were slightly higher than in the previous year (2014: €249.2 million). Its share of SMA Group’s sales was 25.3% (2014: 30.9%). The significant increase in sales in North America more than offset sales decline in Germany. In addition to North America, the most important foreign markets continued to be Australia and Japan. In the reporting period, the major sales drivers were the Sunny Boy 4500 to 6000TL inverters.

The Residential business unit’s EBIT improved significantly year on year due to reduced fixed costs, productivity increases and the launch of new products, amounting to €1.8 million (2014: €-46.9 million). In relation to internal and external sales, the EBIT margin was 0.7% (2014: -18.8%).

COMMERCIAL BUSINESS UNIT CONSIDERABLY INCREASES SALES ABROAD

The Commercial business unit focuses on the growing market of medium-sized PV systems for commercial applications. The portfolio includes three-phase inverters from the Sunny Tripower brand with outputs of more than 12 kW, as well as complete energy management solutions for medium-sized solar power systems, medium-voltage technology and other accessories.

In 2015, external sales in the Commercial business unit improved by 30.2% year on year to €207.4 million (2014: €159.3 million). Its share of SMA Group’s sales was 20.7% (2014: 19.8%). The sharp decline in sales in Germany was more than offset by sales increases in the most important foreign markets of North America, Japan and Great Britain. In the reporting period, the major sales drivers were products based on the Sunny Tripower platform, which was optimized in terms of cost last year.

EBIT was influenced by a one-time item from a warranty claim and was €-25.6 million in 2015 (2014: €-22.8 million). In relation to internal and external sales, the EBIT margin was -12.3% (2014: -14.3%). Without the one-time item, the Commercial business unit would have generated EBIT of €-17.6 million (EBIT margin: -8.5%).

UTILITY BUSINESS UNIT IS THE KEY GROWTH DRIVER

The Utility business unit serves the growing market for large-scale PV power plants with outputs ranging from 500 kW to the megawatt range with central inverters from the Sunny Central brand. In addition to medium- and high-voltage technology, the product and service portfolio also comprises grid service and monitoring functions as well as accessories.

In 2015, external sales of the Utility business unit increased significantly by 47.7% year on year to €416.0 million (2014: €281.7 million). This success is primarily attributable to implementation of projects in North America and Great Britain. The Utility business unit’s share of SMA Group’s total sales increased to 41.6% (2014: 35.0%). It is thus the strongest-selling business unit in the Group. The most important foreign markets were North America, Great Britain, Japan and the Philippines. The most successful products included the Sunny Central Compact Power series of inverters.

EBIT was €56.5 million in the reporting year, much higher than in the previous year (2014: €0.0 million). The main reasons for this were higher sales, reduction in fixed costs and introduction of the new Sunny Central in combination with the Medium Voltage Power Station. In relation to internal and external sales, the EBIT margin was 13.6% (2014: 0.0%).

SERVICE BUSINESS UNIT INCREASES SALES AND PROFITABILITY

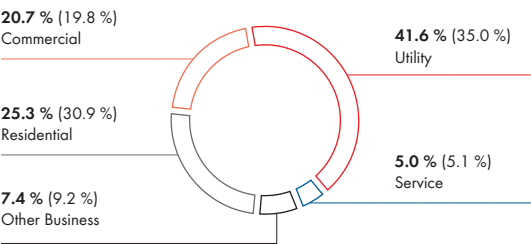
SMA has its own service companies in all important photovoltaic markets. With an installed capacity of almost 50 GW worldwide, SMA leverages economies of scale to manage its service business profitably. Services offered include commissioning, warranty extensions, service and maintenance contracts, operational management, remote system monitoring and spare parts business.

In 2015, external service sales increased by 20.1% to €49.5 million (2014: €41.2 million). This was predominantly the result of increased demand in North America. Its share of SMA Group’s sales was 5.0% (2014: 5.1%). Notable sales drivers were operational management (O&M business), maintenance and service contracts subject to charge and chargeable commissioning. In the reporting period, EBIT was €14.4 million (2014: €4.5 million). In relation to internal and external sales, the EBIT margin notably increased to 12.4% (2014: 3.4%).

OTHER BUSINESS STILL GENERATING LOSSES

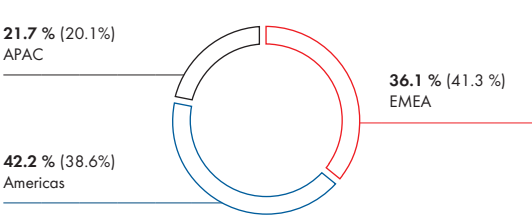
The Other Business segment comprises Railway Technology and Zeversolar as well as the Off-Grid and Storage business unit. In the reporting period, external sales totaled €74.0 million (2014: €74.0 million). Its share of SMA Group’s sales was 7.4% (2014: 9.2%). EBIT was €-16.5 million (2014: €-26.0 million). In relation to internal and external sales, the EBIT margin was -22.3% (2014: -35.1%). In the Consolidated Financial Statements, the business sector Zeversolar is presented with its own information under the regulations of IFRS 8.13.

SALES BY SEGMENTS*
in %



*Gross sales before sales deductions
(previous year's figures in parenthesis)

SALES BY REGIONS*
in %



*Gross sales before sales deductions
(previous year's figures in parenthesis)

Development of Significant Income Statement Items

FIX COSTS SIGNIFICANTLY REDUCED

The cost of sales increased by 16.9% to €785.7 million (2014: €672.4 million) and thus at a considerably lower rate than sales. The cost of sales was positively affected by specific material cost reductions, introduction of new products with lower specific costs of sales (costs of sales per watt) and reduction in fixed costs. The gross margin increased to 21.4% (2014: 16.5%).

Personnel expenses included in cost of sales fell by 3.3% year on year from €134.8 million to €130.4 million despite a higher production volume. The first savings from personnel adjustments were partially offset by the collectively agreed upon wage increase, employee bonus and greater demand for temporary employees.

Depreciation and amortization included in cost of sales decreased by 8.7% to €68.4 million in 2015 (2014: €74.9 million). This included scheduled depreciation on capitalized development costs of €19.5 million (2014: €14.9 million).

The €18.7 million increase in other expenses primarily resulted from the addition of sales-based provisions for warranty obligations compared with the same period of the previous year.

Selling expenses fell by 13.1% year on year to €56.4 million in 2015 (2014: €64.9 million), due to savings in material costs in the wake of cost reduction measures. The cost of sales ratio was 5.6% in the reporting period (2014: 8.1%), due, in particular, to an increase in sales.

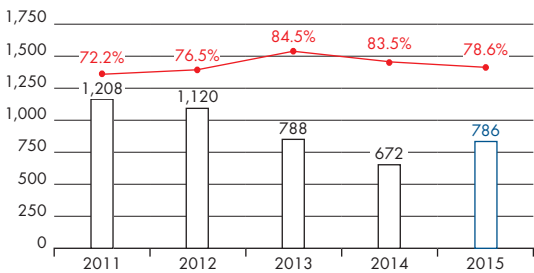
Research and development expenses not including capitalized development projects decreased to €67.7 million as planned (2014: €88.2 million). Total research and development expenses including capitalized development projects amounted to €99.2 million in 2015, down significantly on the previous year's level (2014: €129.1 million). In 2015, the research and development cost ratio (gross) amounted to 9.9% (2014: 16.0%). Development projects were capitalized in the amount of €31.5 million in the reporting period (2014: €40.9 million).

Administrative expenses in 2015 totaled €61.0 million (2014: €80.6 million). The substantial decrease in administrative expenses of 24.3% is mainly attributable to staff reductions and measures taken to reduce material costs. In relation to considerably higher sales compared with the previous year, the ratio of administrative expenses thus declined to 6.1% (2014: 10.0%).

At €5.4 million, the balance of other operating income and expenses had a positive effect in 2015 and was a considerable improvement on the previous year's expenses (2014: €-64.3 million). In the reporting period, this includes effects from foreign currency valuation, expenses for assets measured at fair value through profit or loss and reversal of provisions, e.g. for restructuring. Despite the additional staff reduction required over the reporting period, the restructuring provision was not adjusted as this reduction was achieved through a newly agreed upon voluntary severance program.

COST OF SALES

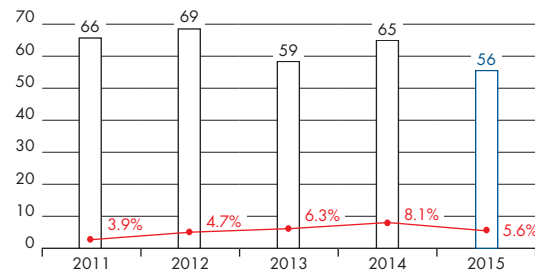
in € million



Ratio in % of sales

SELLING EXPENSES

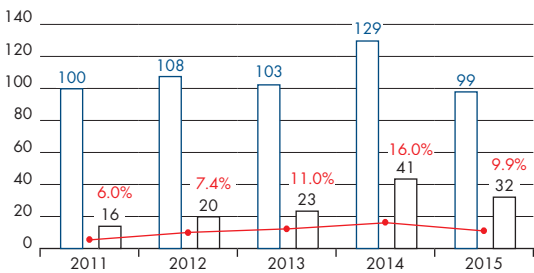
in € million



Ratio in % of sales

RESEARCH AND DEVELOPMENT EXPENSES

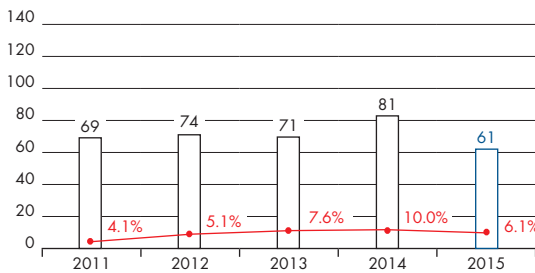
in € million



R&D expenses including capitalized development projects
of which capitalized development projects

GENERAL ADMINISTRATIVE EXPENSES

in € million



Ratio in % of sales

FINANCIAL RESULT

The financial result worsened by €- 1.9 million to €-5.0 million in 2015 (2014: €-3.1 million). The reason for this was a drop in financial income in 2015 from €3.0 million to €1.9 million. This was primarily due to lower interest income on bank balances and measurement of financial instruments at fair value. Financial expenses also increased to €7.0 million in 2015 (2014: €6.1 million). This was due to the interests anticipated from the audit for the years 2010 through 2012.

Earnings before interest, taxes, depreciation and amortization (EBITDA) of €113.3 million resulted in an EBITDA margin of 11.3% (2014: €-58.4 million, -7.3%). SMA achieved a return on sales (EBT in relation to sales) of 2.9% (2014: -20.8%). The return on equity after taxes (consolidated net loss/consolidated net profit in relation to average total equity in the reporting period) came to 2.5% in the reporting year (2014: -28.1%); the return on assets after taxes (consolidated net loss/consolidated net profit in relation to average total assets in the reporting period) was 1.2% (2014: -14.7%).

MULTI-PERIOD OVERVIEW OF RESULTS OF OPERATION

in %	2015	2014	2013	2012	2011
EBIT margin	3.4	-20.5	-9.6	7.0	14.3
EBITDA margin	11.3	-7.3	-0.6	11.7	17.3
EBT margin (return on sales)	2.9	-20.8	-9.5	7.2	14.5
Return on equity after taxes	2.5	-28.1	-8.7	9.3	21.9
Return on assets (after taxes)	1.2	-14.7	-5.2	5.6	12.7

Value Added

SHARP INCREASE IN NET VALUE ADDED DUE TO HIGHER SALES

The value added statement shows the overall performance of the SMA Group minus intermediate input. Gross value added defines the material expenses, changes in inventories and other expenses as intermediate input. When determining net value added, depreciations are also considered as intermediate input. The distribution statement shows the share of those participating in the value added process.

In the 2015 fiscal year, net value added was €355.5 million (2014: €169.2 million). The increase was primarily the result of significantly higher sales. Other expenses also fell dramatically thanks to measures taken to reduce fixed costs. Reduced depreciation and amortization of €79.0 million compared with the previous year (2014: €106.5 million) can be attributed to higher unscheduled depreciation in 2014. At 71.7%, a considerably lower share of net value added was apportioned to SMA employees in comparison with the previous year (2014: 195.6%), while the share attributable to the Company increased significantly year on year to 20.7% (2014: -105.9%).

The consolidated net profit in 2015 and the associated higher income taxes saw the value of the public sector increase to €15.1 million (2014: €11.4 million). With a planned dividend payout totaling €4.9 million in 2015, the shareholders' share of net value added comes to 1.4% (2014: 0.0%).

VALUE ADDED STATEMENT

	2015		2014		Change
Output method	€ million	%	€ million	%	%
Sales	999.6	92.4	805.4	89.5	
Financial income	1.9	0.2	3.0	0.3	
Other income	47.8	4.4	47.5	5.3	
Own work capitalized	32.0	3.0	44.0	4.9	
Company performance	1,081.3	100.0	899.9	100.0	20.2
Material expenses	520.7	48.2	467.8	52.0	
Changes in inventories	-32.2	-3.0	-18.8	-2.1	
Other expenses	158.3	14.6	175.3	19.5	
Prepayments	646.8	59.8	624.3	69.4	3.6
Gross value added	434.5	40.2	275.7	30.6	57.6
Depreciation and amortization	79.0	7.3	106.5	11.8	
Net value added	355.5	32.9	169.2	18.8	110.1
Distribution statement					
Employees	254.9	71.7	331.0	195.6	-23.0
Lenders	6.9	2.0	6.1	3.6	14.8
Government	15.1	4.2	11.4	6.7	32.5
Shareholders	4.9	1.4	0.0	0.0	0.0
SMA Group	73.7	20.7	-179.3	-105.9	-141.3
Net value added	355.5	100.0	169.2	100.0	110.1

Financial Position

Principles and Objectives of Financial Management

Its robust financing allows SMA the flexibility and independence to take advantage of opportunities that arise in the photovoltaic market, without having to revert to banks or credit institutions.

Financial management is adjusted to both the short- and medium-term needs of operative business and to the long-term corporate strategy. The primary objective of our conservative financial management is to retain sufficient liquidity reserves as a solid financial foundation.

Corporate Treasury is responsible for financing and liquidity control in the Group, as well as for the strategic orientation towards customer credit management.

Inflows of funds from operative business activities constitute the key source of financing. Cash holdings are managed and invested centrally by Corporate Treasury. The decision is based not only on returns but also the credit rating of the bank partner. In the case of supplier credits granted, counterparty risk is monitored continuously. The decision is primarily based on the customer’s payment practices and financial circumstances. To cover potential payment defaults, SMA has also taken out commercial credit insurance.

We systematically recognize market risks – above all currency risks – that might jeopardize the operating results and preclude such risks through hedging operations, provided this is economically expedient.

Financing Analysis

The loans assumed as part of the Zeyversolar acquisition were again restructured and partially paid off through Group financing. Bank loans expiring in 2016 will also be paid off at the respective due date through Group financing. Restructuring its financing will enable SMA to dramatically reduce its annual interest charges.

In total, financial liabilities fell by €22.4 million from €69.3 million as of the end of 2014 to €46.9 million as of the end of 2015. Sufficient credit lines for operative business continue to be available from five core banks.

Most of the provisions set aside by the SMA Group are for warranty obligations from our various product families. The equity ratio of 49.1% as of the end of 2015 (December 31, 2014: 46.8%) underscores the still solid balance sheet structure.

Liquidity Analysis

SMA INCREASES NET CASH TO OVER €285 MILLION

Gross cash flow improved significantly, climbing by €99.1 million to €61.8 million (2014: €-37.3 million). This improvement was made despite the substantial outflow of funds over the course of the socially responsible staff reduction. The rise in gross cash flow is primarily due to the significantly improved consolidated result before taxes.

The strong business performance also seen in the fourth quarter drove trade receivables up by 12.8% to €180.0 million (December 31, 2014: €159.6 million). Trade payables amounted to €103.1 million (December 31, 2014: €111.8 million). In 2015, SMA sustainably reduced inventory by 57.1% to €146.1 million (December 31, 2014: €203.2 million) by means of extensive measures taken to increase throughput speeds and eliminate interim storage. As a result of inventory reduction and continued positive business performance, net working capital decreased by 11.2% to €223.0 million in 2015 (December 31, 2014: €251.0 million). The net working capital ratio in relation to sales over the past twelve months fell to 22.3% (December 31, 2014: 31.2%) and is thus below the range of 23% to 26% targeted by the management. Net cash flow from operating activities climbed significantly by €131.8 million to €104.2 million (2014: €-27.6 million).

Net cash flow from investing activities decreased in the reporting period to a total of €-66.3 million (2014: €24.7 million). This includes investments for fixed assets and intangible assets amounting to €50.6 million (2014: €75.5 million). At €31.5 million (2014: €40.9 million), a significant portion of the investments went to capitalized development projects, in particular, the introduction of a new product family of central inverters. The balance of proceeds and payments for the investment amounted to €-15.0 million (2014: €101.4 million).

As of December 31, 2015, cash and cash equivalents amounting to €200.2 million (December 31, 2014: €184.0 million) include cash in hand, bank balances and short-term deposits with an original term to maturity of less than three months. With time deposits that have a term to maturity of more than three months, fixed-interest-bearing securities, liquid assets pledged as collateral and after deducting interest-bearing financial liabilities, this resulted in adjusted net cash of €285.6 million (December 31, 2014: €225.4 million). Despite the outflow of funds in connection with the socially acceptable staff reductions, SMA strengthened its high liquidity reserve in the reporting period.

MULTI-PERIOD OVERVIEW OF SMA GROUP FINANCIAL POSITION

in € million	2015	2014	2013	2012	2011
Shareholders' equity	570.2	552.0	724.4	820.7	789.3
Equity ratio in %	49.1	46.8	57.5	61.8	57.4
Non-current liabilities	281.2	284.0	287.0	263.6	241.1
Current liabilities	309.1	344.3	248.5	244.4	343.9
Share of non-current provisions in total assets in %	7.5	7.4	8.1	8.5	7.9
Financial liabilities	46.9	69.3	73.4	35.6	33.9
Net cash	285.6	225.4	329.7	446.3	473.3
Net working capital	223.0	251.0	247.6	268.0	281.7
Net cash flow from operating activities	104.2	-27.6	-2.4	116.1	238.9
Net cash flow from investing activities	-66.3	24.7	34.4	-260.1	-129.1
Net cash flow from financing activities	-23.2	-10.0	-16.4	-43.2	-91.4

Investment Analysis

In the 2015 fiscal year, investments in fixed assets and intangible assets totaled €50.6 million and were thus clearly below the previous year's figure of €75.5 million. This equates to an investment ratio in relation to sales of 5.1% compared with 9.4% in the 2014 fiscal year.

€17.6 million was invested in fixed assets (2014: €29.5 million), primarily for machinery and equipment. The investments were mostly made in connection with the launch of new products. The investment ratio for fixed assets (in relation to net sales) was 1.8% in the fiscal year (2014: 3.7%). Scheduled depreciation of fixed assets declined slightly to €47.3 million (2014: €51.5 million).

Investments in intangible assets amounted to €33.0 million (2014: €46.0 million). They largely related to capitalized development projects. Amortization of intangible assets amounted to €31.7 million and was thus clearly below the previous year's figure of €55.0 million.

INVESTMENTS COMPARED TO DEPRECIATIONS AND NET CASH FLOW FROM OPERATING ACTIVITIES

	2015	2014	2013	2012	2011
Net cash flow from operating activities	104.2	-27.6	-2.4	116.1	238.9
Capital expenditure ¹	50.6	75.5	53.2	100.2	160.2
Depreciation and amortization	79.0	106.5	83.6	69.9	50.4

¹ See Notes, section 16 and 17, page 138 et seqq.

Net Assets

SMA Has a Solid Equity Ratio of 49.1%

As of December 31, 2015, the balance sheet decreased slightly to €1,160.5 million (December 31, 2014: €1,180.3 million). At €473.5 million, non-current assets remained slightly below the level observed at the end of 2014 (December 31, 2014: €488.2 million).

Net working capital amounted to €223.0 million (December 31, 2014: €251.0 million). The net working capital ratio in relation to sales over the past 12 months was 22.3%. The positive business performance also seen in the fourth quarter drove trade receivables up by 12.8% to €180.0 million at the end of the fiscal year compared with the figure on December 31, 2014 (€159.6 million). Despite the higher international share, days sales outstanding were reduced slightly to 62.0 days (December 31, 2014: 64.3 days). Inventory was down 28.1% at €146.1 million (December 31, 2014: €203.2 million), chiefly due to positive business performance and optimized replenishment times for raw materials, consumables and supplies. Despite business expansion, trade payables declined by €8.7 million to €103.1 million (December 31, 2014: €111.8 million). The share of trade credit in total assets decreased to 8.9% (December 31, 2014: 9.5%).

In 2015, the Group’s equity capital base increased by 18.2% to €570.2 million (December 31, 2014: €552.0 million). With an equity ratio of 49.1%, SMA has a comfortable equity capital base and therefore an extremely solid balance sheet structure.

Importance of Off-Balance Sheet Financing Instruments

See Notes, page 151 et seqq.

The SMA Group uses lease agreements for plant and office equipment. Future obligations under tenancy and lease agreements are shown in the Notes in section 29 Obligations Under Leases and Other Financial Obligations.

SMA is not involved in any other off-balance sheet transactions that might have a significant impact on its financial position, results of operations, investment expenditure, net assets or capital expenditure – neither currently nor in the future.

MULTI-PERIOD OVERVIEW OF NET ASSETS SMA GROUP

in € million	2015	2014	2013	2012	2011
Goodwill, intangible assets and fixed assets	385.9	413.1	441.1	443.8	417.7
Financial assets and long-term securities (incl. deposits with a total term to maturity of more than three months)	97.7	82.5	185.1	295.5	135.6
Cash and cash equivalents (incl. deposits with a total term to maturity of less than three months)	200.2	184.0	192.4	185.3	371.1

SMA Solar Technology AG
(Notes Based on the German Commercial Code – HGB)

In addition to reporting on the SMA Group, business development of SMA Solar Technology AG (SMA AG) is outlined below.

SMA AG is the parent company of the SMA Group and has its headquarters in Niestetal, Germany. Its primary business operations include the development, production and sale of PV inverters as well as monitoring and energy management systems for PV systems. Another area of business is providing operation and maintenance service (O&M business), and other services. In addition to its own operative business, SMA AG also functions as a holding company for the SMA Group. All key management mechanisms of SMA AG are oriented toward the SMA Group.

The SMA AG Annual Financial Statement is prepared according to the German Commercial Law (HGB). The Consolidated Financial Statements follow International Financial Reporting Standards (IFRS). This leads to differences between accounting and valuation methods. These mainly relate to intangible assets, inventory measurement, provisions, financial instruments, accrual items and deferred taxes.

Results of Operations

SMA SOLAR TECHNOLOGY AG INCOME STATEMENTS IN ACCORDANCE WITH HGB (ABSTRACT)
FOR THE PERIOD FROM JANUARY 1 TO DECEMBER 31, 2015

€'000	2015	2014
Sales	666,006	545,697
Increase or decrease in finished goods and work in progress	-12,443	8,606
	653,563	554,303
Other own work capitalized	3,240	2,962
Other operating income	140,818	128,072
Material expenses	395,708	336,383
Personnel expenses	140,555	230,502
Depreciation and amortization of intangible and fixed assets	43,273	50,697
Other operating expenses	204,553	213,653
Financial result	22,605	-44,441
Net operating income (loss)	36,137	-190,339
Taxes on income	5,024	6,701
Other taxes	278	106
Annual net income	30,835	-197,146
Accumulated income/losses brought forward	295,254	492,400
Profit available for distribution	326,089	295,254

PV inverters from SMA AG with a total capacity of 4.7 GW were sold in 2015 (2014: 3.0 GW). Of this, 1.4 GW (2014: 0.6 GW) were attributable to associated companies. With sales of €251.8 million, the large-scale PV power plant segment (Utility) was the segment with the strongest sales across SMA AG (2014: €143.7 million). With a growth rate of 75.2% year on year, it was also the fastest growing segment. Sales in the commercial PV system segment (Commercial) increased by 21.1% to €162.1 million (2014: €133.8 million). By contrast, external sales from residential PV systems (Residential) declined by 16.3% to €145.3 million (2014: €173.6 million). The subsidy situation in the sales markets was primarily responsible for the varying development of the segments. Sales in the Service division amounted to €40.5 million, 9.8% higher than in the previous year (2014: €36.9 million). Sales were generated from services subject to charge, commissioning of PV systems and repair charges.

Other operating income amounted to €140.8 million (2014: €128.1 million). This included €40.3 million (2014: €18.0 million) from license income and €63.5 million (2014: €72.5 million) from the reversal and utilization of provisions. Income from foreign currency gains totaled €18.5 million in the fiscal year (2014: €14.4 million).

Material expenses increased by €59.3 million year on year to €395.7 million (2014: €336.4 million). The 17.6% increase in material expenses is significantly less than the increase in the sales volume (56.7%). This is mainly due to changes in the product mix compared with the previous year.

Personnel expenses declined by 39.0% to €140.6 million (2014: €230.5 million). In addition to the reduction in the average number of employees (not including temporary employees, trainees or interns) by 674 to 2,362 employees, this trend can be explained primarily by the fact that the non-recurring expense for the transformation project had a negative impact on the result in the previous year.

Depreciation and amortization of intangible and fixed assets declined by €7.4 million to €43.3 million (2014: €50.7 million). The reduction in depreciation and amortization was mainly due to lower investing activities.

The €9.0 million decrease in other operating expenses to €204.6 million (2014: €213.6 million) is primarily the result of reduced expenditure for external services. Expenses related to foreign currency valuation were €6.6 million for the fiscal year (2014: €3.8 million).

The financial result amounted to €22.6 million (2014: €-44.4 million). The increase is primarily a result of a write-up of financial assets. At the same time, write-downs of financial assets declined considerably year on year.

The net operating income (loss) of SMA AG improved to a level of €36.1 million (2014: €-190.3 million). This was on account of substantial sales growth and lower expenditure.

Taxes on income decreased by €1.7 million. This includes tax expenditure for previous years.

The consolidated net result for 2015 improved considerably after deduction of taxes. The annual net income amounted to €30.8 million compared with an annual net loss of €-197.1 million in the past fiscal year.

Net Assets and Financial Position

SMA SOLAR TECHNOLOGY AG BALANCE SHEET IN ACCORDANCE WITH HGB (ABSTRACT) AS OF DECEMBER 31, 2015

€'000	2015/12/31	2014/12/31
ASSETS		
A. Non-current assets		
I. Intangible assets	17,586	19,805
II. Fixed assets	230,085	256,339
III. Financial assets	127,845	78,517
	375,516	354,661
B. Current assets		
I. Inventories	88,095	113,496
II. Receivables and other assets	167,732	184,846
III. Securities	47,636	52,480
IV. Cash and cash equivalents	193,136	162,350
	496,599	513,172
C. Prepaid expenses and deferred charges	1,243	1,825
	873,358	869,658
LIABILITIES		
A. Shareholders' equity		
I. Share capital	34,700	34,700
II. Capital reserves	124,200	124,200
III. Retained earnings		
1. Statutory reserve	400	400
2. Other retained earnings	3,136	3,136
IV. Profit available for distribution	326,089	295,254
	488,525	457,690
B. Special account with reserve characteristics	141	190
C. Provisions	151,696	201,233
D. Trade payables	108,231	100,056
E. Accrued liabilities	124,765	110,489
	873,358	869,658

As of December 31, 2015, total assets of SMA AG increased by €3.7 million to €873.4 million (2014: €869.7 million).

Non-current assets increased by €20.8 million to €375.5 million (2014: €354.7 million). This rise is primarily a result of increased investment book values in financial assets.

As of December 31, 2015, total inventories of €88.1 million were clearly below the previous year's level (2014: €113.5 million). The decrease of 22.4% year on year is the result of reduced inventories of raw materials, consumables and supplies (€-12.8 million to €44.0 million), reduced inventories of finished goods (€-9.9 million to €29.2 million) and reduced inventories of unfinished goods (€-2.5 million to €14.9 million).

Trade receivables rose as a result of increased sales and totaled €76.0 million on the reporting date (2014: €48.8 million).

Cash and cash equivalents and securities increased by 12.1% to €240.8 million (2014: €214.8 million).

Equity increased considerably, as a result of earnings, by €30.8 million to €488.5 million compared with December 31, 2014. The equity ratio is 55.9% (2014: 52.6%).

The provisions of SMA AG largely comprise provisions for warranty obligations for our various product families and personnel provisions. The successfully implemented company transformation was the main factor accounting for the reduction in provisions by €49.5 million to €151.7 million (2014: €201.2 million).

Trade payables went up by €14.2 million year on year to €66.6 million (2014: €52.4 million). This increase is attributable to the higher purchasing volume as a result of sales growth.

Accrued liabilities of €124.8 million (2014: €110.5 million) were reported for deferred sales for extended warranties sold for subsequent years.

RISKS AND OPPORTUNITIES

The business performance of SMA AG is essentially exposed to the same risks and opportunities as the SMA Group. SMA AG also partakes in the risks affecting its investments and subsidiary companies proportionate to its respective holding. The risks are presented in the Risks and Opportunities Report. The relationships with our investments can also result in negative effects from statutory or contractual provisions for liabilities (particularly financing).

OUTLOOK

As a result of SMA AG’s interdependence with its Group companies and its importance within the Group, please refer to our statements in the Forecast Report for the SMA Group, which also outline the expectations for the parent company specifically.

Managing Board Statement on the Business Trends in 2015

The SMA Group significantly exceeded the sales and earnings targets it had set for itself at the beginning of the year. At €999.6 million, its sales were up 24.1% on the previous year’s level. EBIT was €34.3 million (EBIT margin: 3.4%). SMA thus returned to profitability earlier than expected. In addition, sales and earnings were higher than the Managing Board’s forecast, which was last raised in November. Sales were largely driven by the segment of large-scale PV power plants (Utility). At the same time, the segments for residential PV systems (Residential) and commercial PV systems (Commercial) and the service business also recorded growth. Despite continued intense competition, SMA expanded its market leadership; according to the Company’s own estimates, its global market share rose from 17% to 21%.

Business development continued to be marked by high dynamism in the different photovoltaic markets and sub-segments. In the North American region in particular, demand for PV inverters saw stronger growth than anticipated in 2015. SMA’s growth in North America and in Great Britain more than compensated for the decline in other countries. Inverter output sold totaled 7,260 MW, 43.7% higher than the previous year’s figure (2014: 5,051 MW).

The SMA Group has a sound financial base and is emerging stronger from the structural change in the industry as a result of its extensive transformation. By the end of the reporting year, the equity ratio had risen to 49.1% (2014: 46.8%), while net cash had also increased to €285.6 million (2014: €225.4 million).

New Products for Changes in Customer Needs

In the reporting period, SMA continued to enhance the portfolio of the Sunny Boy, Sunny Tripower, Sunny Central and Sunny Island product families by extending the power range of the inverters and reducing the specific cost of sales through technical innovations. In the field of residential PV systems (Residential), SMA successfully launched the new Sunny Boy 1.5/2.5 in April 2015. Due to higher switching frequencies and a modular design, the material costs for the device are considerably lower than for the predecessor model. As a result of the simplified product structure, the production time per inverter was halved, too. The modern communications technology also allows for simple commissioning of the inverter and monitoring of the PV system. In the commercial PV system segment (Commercial), SMA expanded its market position, in particular with new Sunny Tripower series products for the key markets of the U.S. and Japan.

In the field of large-scale PV power plants (Utility), the Company enjoyed success with the launch of the new Sunny Central generation. The central inverters deliver more power in less space and their 1,500-volt technology allows for considerably more efficient design and operation of large-scale PV power plants. Another milestone for the strategic development was the partnership with Siemens’ energy management division as announced in June. SMA’s main contribution to this partnership is its state-of-the-art PV inverter solutions and its many years of experience in designing complex systems, while Siemens contributes transformers and switchgear for the high- and medium-voltage range, including the grid connection. The partners are thus able to offer coordinated system solutions and services from a single source – from the DC side to grid connection. The jointly developed Medium Voltage Power Station 2200SC/2500SC, which unites a 2.5 MW central inverter from SMA and a medium-voltage transformer and medium-voltage switchgear from Siemens in a turnkey, standard container, is being met with great interest and is already being delivered for initial projects.

Service Business Enhanced

SMA also successfully expanded its service business over the course of 2015. Operation and maintenance contracts for large-scale solar projects (O&M business) played a particularly important role here. SMA achieved considerable success in this area in 2015, especially in North America, and according to a study by GTM Research published in November 2015, it moved up to fourth place in the global ranking of O&M maintenance providers. The Company’s goal is to further expand its O&M service business in Europe and North America, benefiting in this context from its high level of service expertise and installed base.

Transformation Complete

In the reporting period, SMA successfully completed an extensive Company transformation within a very short space of time. By effectively reducing fixed costs and adapting its structures to lower sales levels, the Company lowered its break-even point and is well positioned to react flexibly to the high fluctuations in the global photo-voltaic markets.

SUPPLEMENTARY REPORT

Significant Events since the Beginning of the 2016 Fiscal Year

There have been no significant changes in the Company’s situation or market environment since the beginning of the 2016 fiscal year.

Other Elements of the Consolidated Management Report

The following sections are elements of the Consolidated Management Report:

- The Corporate Governance Statement in accordance with Section 289a HGB starting on page 22
- Company-Relevant Statements and Explanations starting on page 27
- The Remuneration Report starting on page 28

RISKS AND OPPORTUNITIES REPORT

Risk and Opportunity Management

Risk Management System

In the context of its global business activity, the SMA Group is exposed to a range of risks. Although SMA must to a certain extent accept risks, which can impair target attainment in the implementation of strategies in the business units, suitable countermeasures can be used to control and influence them. In addition, with regard to opportunity management, a balanced ratio between risks and opportunities is used. Major potential opportunities are described in more detail below, each in connection with the corresponding individual risks, and are listed in the Forecast Report. The risk management system we employ helps identify risks at an early stage and communicate them in an understandable manner. The system is oriented toward the COSO Enterprise Risk Management (ERM) – Integrated Framework (COSO ERM), which is an internationally accepted standard for establishing and systematically developing a Company-wide risk management system. This includes not only strategic risks, but also all downstream risks on the operative and procedural level. In addition, COSO ERM serves as an aid in formulating a risk strategy to identify risks at an early stage and proactively manage them. A software application is used throughout the Group to map risks in order to make recognition of opportunities and risks easier and to meet documentation requirements.

Integration Into the Existing Structure and Process-Oriented Organization

The SMA Managing Board bears overall responsibility for effective risk and opportunity management to ensure that all risks and opportunities are considered comprehensively and uniformly. The Supervisory Board is responsible for monitoring the effectiveness of the Group-wide risk management system. In order for this task to be performed, the Supervisory Board’s Audit Committee processes the information for the Supervisory Board. The task of implementing and developing the system further was transferred to the Group risk management position, which is directly subordinate to the Chief Executive Officer.

Risk Identification

A risk is defined by SMA as an event that ensues from a decision made by Management (strategic), an action (operative) or external circumstances and – if the risk transpires – results in a negative deviation from the planned earnings. The goal of risk management is to identify risks above a defined threshold as early as possible to limit the potential impact by employing suitable measures. In addition, the Company must accept risks to a certain extent in order to utilize opportunities.

The Managing Board laid out the objectives of risk management in terms of risk strategy and principles of organization, analysis and communication in a risk handbook. It contains principles for dealing with risks; requirements, value limits and regular and immediate uniform reporting processes are bindingly defined. Responsibility for identifying risks lies primarily with the corresponding risk officer. As a rule, these are executives of the first two levels below the Managing Board and selected central Group functions. Involving these two management levels ensures active identification, analysis and measurement of risks, and creates the necessary transparency in a potential risk situation. To support them, there is a catalog of potential risks to guarantee the recognition of all risks to the Company as a going concern.

Risk Assessment

In the quarterly risk identification process, risk officers determine the risk situation in a standardized bottom-up process. In doing so, the relevant risk officer assesses the probability of a risk occurring and the amount of damage that might be caused by any individual risks detected. For the first three quarters, the probability of occurrence was classified according to the evaluation categories “unlikely”, “possible”, “likely” and “very likely,” as in the previous year. In the fourth quarter, this evaluation was made exclusively in the two categories “likely” and “possible.” In the future, this change will create an even better link with the balance sheet accounting of risks for which provisions could or must be recognized. In the first three quarters, the effect of risks on the Group’s earnings was measured according to the categories “slight”, “medium”, “high” and “very high,” as in the previous year. Since the fourth quarter, these four damage categories have been condensed into the three categories “slight”, “medium” and “high”, and the thresholds were adjusted on the basis of the volatile business performance. Qualitative and quantitative assessments are used consistently throughout the Company.

Gross and net risk values have to be determined for every individual risk within an observation period of two years. Gross risk value represents the largest possible negative financial effect before the Company takes measures to influence the risk. Net risk value considers risk-reduction activities. This shows the influence the countermeasures may have. Changes in conditions between evaluation dates may of course result in a re-evaluation of individual risks.

Risk Management

While taking into account the corporate strategy, the objective of risk management is to actively influence identified and assessed individual risks. The aim is to influence the risk potential with targeted countermeasures. Risks are identified by an early-warning system so that they can be controlled (e.g., through damage prevention or steps to limit damage), sufficient security reserves can be formed, or individual risks can be transferred to third parties (e.g., through insurance companies). With regard to risk management, these measures and their implementation are subject to regular monitoring and adjustment.

Continuous Risk Monitoring and Reporting

The development of risks remaining after measures have been taken or risks that cannot be influenced is monitored regularly using suitable early-warning tools and key figures. If a risk tends to increase, management must be notified in good time to be able to take countermeasures. Our Risk Management System is designed to ensure that the appropriate employees can identify risks early on and report them to the responsible decision-makers in the Company. These reports are first made to the central Group Risk Manager and to the Managing Board if the individual risks are classified at least as “medium.” Apart from quarterly risk notifications, immediate reporting duties have been outlined for all risk officers, who must report to the Managing Board if the risk situation changes significantly. Significant reported risks and countermeasures and adjustments to the risk management process are addressed separately in regular Risk & Opportunity Board meetings. Since the fourth quarter, the heads of business units have preceded the Managing Board in the regular process. They ensure that all significant risks and opportunities for their respective business field are fully documented and correctly evaluated in the risk management system. This relates in particular to risks regarding the pricing, earnings, sales and market share of the business field as well as the product, development and application portfolio. In addition, the Supervisory Board’s Audit Committee

is informed of significant risks with a considerable impact and newly identified issues that exceed defined value limits every six months. In order to ensure integration with the (Group) accounting process, the risk management process follows a coordinated timetable and thus guarantees full provision of information to all SMA functions involved in (Group) accounting and financial reporting. Further methods for detecting risks are evaluation of customer and supplier information, systematic market and competitive analyses and monitoring economic, legal and subsidy-related framework conditions in the important existing and target markets.

Opportunity Management

Making use of existing opportunities is one of the core tasks of each and every enterprise. This can pertain to both internal and external potential. As part of our integrated and system-based risk and opportunity management approach, we regularly identify and assess opportunities. Identifying these opportunities early on and regularly is above all the task of management. We assess opportunities to the best of our knowledge, basing our assessment on assumptions relating to market development, the market potential of technology or products and the expected changes in demand and prices. The cornerstones of this are the Group-wide planning process as well as strategy meetings held by the Managing Board with executives from the top two levels of management, which result in the strategy reports. In order to identify our opportunities, we continuously employ market and competitive analysis and systematic knowledge management, and place great importance on an open information policy within the Group. In doing so, we strive to create a balanced relationship between opportunities and risks.

More details on opportunities for the next fiscal year may be found by referring to the Forecast Report.

Internal Control System

SMA's Internal Control System includes all the principles, procedures and measures available to ensure business activities maintain the proper course. It is made up of systematically created organizational and technical measures and controls within the Company aimed at guaranteeing adherence to laws and regulations, as well as guidelines for preventing damage that might be caused by its employees or third parties. The Managing Board is responsible for implementation and adequacy of the Internal Control System; effectiveness is monitored by the Supervisory Board or its Audit Committee.

Key Features of the Internal Control and Risk Management System in Relation to the (Group) Accounting Process (Section 289 (5) and Section 315 (2) No. 5 HGB)

The Internal Control System pertaining to the accounting process is part of the Overall Internal Control System, which is embedded in the Company-wide Risk Management System. Process-integrated and process-independent monitoring steps constitute the basis of the internal monitoring system. Automated IT process controls are an important constituent part of the process-integrated measures. Additional controls are the organizational monitoring methods, such as the four-eyes principle, organizational separation of administration, execution, settlement and approval functions and work instructions. Furthermore, wherever possible we protect the IT systems deployed

against unauthorized access by using appropriate authorization systems and access restrictions. The Supervisory Board's Audit Committee and the Internal Auditing department are incorporated into the internal monitoring system with process-independent audit activities.

The Internal Auditing department is subordinate to the Chief Executive Officer and reports directly to him and to the Supervisory Board or the Audit Committee. As part of its auditing tasks, the Internal Auditing department regularly examines the effectiveness of the Internal Control System on the basis of a risk-orientated audit plan by means of sampling, and thus also checks the Internal Control and Risk Management System as it pertains to the (Group's) accounting process. Alongside the Internal Auditing department, the auditor of the Annual Financial Statements also carries out an evaluation. Under the terms of his/her audit of the Financial Statements, the auditor is obliged to report any risks found related to accounting and any fundamental weaknesses in the Internal Control and Risk Management System to the Supervisory Board's Audit Committee. Audits of the Annual Financial Statements and Consolidated Financial Statements, by the auditor, and of the local financial statements submitted by the Group companies included in the scope of consolidation, safeguard the basic process-independent monitoring mechanism in the accounting system.

Risks With Regard to the (Group) Accounting Process

Important risks in the (Group's) accounting process include the possibility that the local financial statements of the Group companies included in the scope of consolidation fail to properly reflect the true net assets, financial position and results of operation due to unintentional or deliberate wrongdoing, or that publication of the Quarterly and Annual Financial Statements is late. These risks may permanently impair the confidence of shareholders or the reputation of SMA. As an integral part of SMA, the Risk Management System as it pertains to (Group) accounting is concerned with detecting the risk of misstatements in the Group's bookkeeping as well as in external financial reporting. In order to ensure systematic early identification of risks Group-wide, SMA has installed a monitoring system to identify risks, early on, that threaten the existence of the Company in accordance with Section 91 (2) AktG, permitting – beyond the limits of statutory regulations – prompt identification, control and monitoring of all existence-threatening and other risks. The auditor assesses proper functioning of the early risk identification system in accordance with Section 317 (4) HGB. More detailed explanations are provided in the Risks and Opportunities Report.

Regulations and Controls Designed to Ensure Propriety of (Group) Accounting

The internal control measures are aimed at securing proper and reliable (Group) accounting and ensure business transactions are fully and promptly recorded in accordance with legal provisions and the Articles of Association. They also guarantee that inventory-taking is properly implemented and that assets and liabilities are properly recognized, measured and carried in the Annual Financial Statements and Consolidated Financial Statements. Furthermore, the regulations ensure that accounting records provide reliable and comprehensible information. The functions of the departments that play a major role in the (Group) accounting process are clearly separated and their areas of responsibility are clearly assigned. The relevant departments are staffed with trained personnel in sufficient numbers; the four-eyes principle consistently applies to processes associated with (Group) accounting.

SMA constantly evaluates laws, financial reporting standards and other agreements and considers their relevance and effect on the (Group) accounting process. We promptly communicate applicable requirements to SMA companies. The uniform IT platform and Group account plan and standardized processes ensure proper and timely recording of all important business transactions. There are binding rules regarding additional, manual documentation of business transactions. An accounting manual specifies the accounting provisions in accordance with the International Financial Reporting Standards (IFRS). It applies to all employees involved in the (Group) accounting process; the accounting provisions also apply to all external service providers involved. In addition to general accounting principles and methods, these provisions above all include rules concerning the balance sheet, income statement, statement of comprehensive income, Notes, Management Report, cash flow statement, statement of changes in equity and segment reporting in compliance with EU legislation. By defining clear requirements, the risk of inconsistent practices when recognizing, measuring and carrying assets and liabilities should be reduced. In addition, a check is carried out centrally on the financial statements submitted by the companies included in the scope of consolidation while referring to the audit reports drafted by the local auditors. Each month upon submission of the reporting packages, those responsible at the subsidiaries also confirm the propriety and completeness of each financial statement by way of an internal declaration of completeness.

Use of IT Systems

Business transactions at SMA and at all the larger subsidiaries are primarily recorded using ERP systems from SAP AG, Walldorf (Germany). These are protected from misuse by appropriate authorization systems and access restrictions. The authorizations granted are reviewed and amended regularly. The centralized control and monitoring of nearly all IT systems, centralized change management and regular system backups minimize not only the risk of data loss, but also the risk of IT system failures related to (Group) accounting. External service providers with their own IT systems are employed in the case of smaller companies.

Use of the Group-wide IT consolidation system ensures that all data is recorded properly and completely and that Group-internal business transactions are eliminated. This is where the various components of the Consolidated Financial Statements, including important data for the Notes to the Consolidated Financial Statements, are prepared.

Disclaimer

The Internal Control and Risk Management System enables control of risks that might otherwise prevent the Annual Financial Statements and Consolidated Financial Statements from being properly drawn up and is therefore continuously being improved. However, Company-wide application of the regulatory and control measures cannot guarantee absolute reliability with regard to the accurate, complete and timely recording of facts in (Group) accounting and in the detection of irregularities.

Individual Risks

The following section describes significant risks with considerable disadvantageous effects on business and the associated net assets, financial position and results of operation of the Group and the Company’s reputation. The possibility of occurrence as well as accompanying effects after countermeasures have been taken are assessed (net risk). The order of the risks presented in the four categories reflects their current assessment for SMA.

The probability of occurrence and the possible effect of a risk as well as its year-on-year development are assessed by the following criteria:

FEATURES OF THE RISK ASSESSMENT

Probability of occurrence (1st–3rd quarter 2015)	Probability of occurrence (as of 4th quarter 2015) ¹	Potential effects		Future risk development as of the reporting date (trend)
(1st–3rd quarter 2015)	(as of 4th quarter 2015) ¹	(1st–3rd quarter 2015)	(as of 4th quarter 2015)	
Unlikely (> 0 to < 15%)		Slight Limited negative effects on expected earnings, no loss of reputation, no threat to customer relationships	Slight	↗ Higher than previous year
Possible (≥ 15 to < 50%)	Possible (> 0 to < 50%)	Medium Some negative effects on expected earnings, moderate loss of reputation, potential threat to customer relationships, identifiable disruption to business operations (primarily internal effect)	Medium	→ Same as previous year
Likely (≥ 50 to < 85%)	Likely (≥ 50 to < 100%)	High Substantial negative effects on expected earnings, high loss of reputation (not yet a threat to existence), major threat to customer relationships, significant disruption to business operations (with external effect)	High	↘ Lower than previous year
Very likely (≥ 85 to < 100%)		Very high Harmful negative effects on business, connected with a very high loss of reputation, very major threat to customer relationships, disruption of business operations that threatens existence Since the fourth quarter of 2015, this manifestation is included in the “high” category.		

¹ For the first three quarters, the probability of occurrence was classified according to the evaluation categories “unlikely”, “possible”, “likely” and “very likely,” as in the previous year. In the fourth quarter, this evaluation was made exclusively in the two categories “likely” and “possible.” In the future, this change will create an even better link with the balance sheet accounting of risks for which provisions could or must be recognized.

PRESENTATION OF THE INDIVIDUAL RISKS

Areas of risk	Probability of occurrence	Potential financial impact	Risk development 2014/12/31	Risk development 2015/12/31
Strategic risks				
Regulatory risks	Likely	High	→	↘
Competition risks	Likely	High	→	→
Market risks	Likely	High	↗	→
Investment risks	Possible	Medium	↗	↘
Risks from research and development activities	Likely	High	→	→
Operating risks				
Procurement and inventory risks	Likely	High	→	→
Product risks	Likely	High	↘	→
Personnel-related risks	Likely	Medium	→	↗
IT risks	Likely	High	↘	↗
Financial risks				
Financing and liquidity risks	Possible	Slight	→	↘
Risks from exchange rate fluctuations	Possible	Slight	→	↘
Risks from customer bad debt	Possible	Medium	↗	↘
Compliance risks				
Export risks	Possible	Medium	→	→
Antitrust risks	Possible	High	→	→
Risks from violating data protection law	Possible	Slight	→	→
Risks from environmental damage	Likely	Slight	→	→

Strategic Risks

REGULATORY RISKS

The photovoltaics sector worldwide depends to a large extent on state subsidies. Due to differing subsidies and changes to them, both in terms of content and regionally, markets remain highly volatile. Volume fluctuations not only occur regionally but also cyclically, complicating planning significantly. The risk situation has improved year on year because of the increasing international share.

While the European photovoltaic markets continued to develop stably year on year in 2015, the North and South American and Asia-Pacific regions boasted some significant growth in terms of new installations measured in gigawatts. On a cumulative basis, approximately 38% of PV inverter output already installed in the Americas region is attributable to SMA. The Company confirmed its status as the leading provider of PV inverter solutions with its large number of installations in the Americas region in 2015. Overall market conditions have improved because the U. S. Congress extended the tax incentives for PV systems until 2020 shortly before the end of the past fiscal year. Originally, the program had been planned to expire at the end of 2016. The U.S. government has thus created stability

for continually high growth rates for the years to come in what is our most important sales market worldwide. In the APAC region (not including China), SMA is well positioned and can therefore benefit from the growth in these markets. For example, the total SMA PV inverter output installed in Japan, Thailand and India now exceeds 1 GW in each country.

SMA performs market research to be able to respond promptly to emerging changes in subsidies in target and existing markets. Short-term fluctuations in demand are discussed with local sales managers and operations in the regular forecast process. Thanks to its high level of flexibility in production, SMA can usually react quickly to changes.

For more information on the development in individual markets, please refer to the remarks in the Forecast Report, “Future General Economic Conditions in the Photovoltaics Sector” section.

THE RISK OF AGGRESSIVE COMPETITION

Some markets offer attractive PV system incentive programs. The concomitant high demand leads to intense competition. Existing and new competitors will attempt to secure market shares through an aggressive pricing policy and advantageous payment terms. Moreover, saturated markets and bidding processes for large-scale solar projects lead to more transparency and more intense price competition. Although SMA continues to press ahead with internationalization, changes to subsidies could cause additional price pressure, potentially with substantial negative effects on further business development in these markets and SMA’s earnings.

Other possible scenarios include competitors improving the quality, functionality or performance of their products or local competitors reacting more flexibly and adapting better to the prevailing market requirements in certain markets. Such competition may in the future lead to further declines in prices for products and services produced by SMA and likewise to a loss in market shares. In addition, increasing market fragmentation can be seen. Success in markets that are still young requires local infrastructure, in some cases with local added value. In turn, this leads to higher costs and affects the competitive playing field. Should our competitors succeed in being able to quote well below SMA’s prices on a sustained basis, this will impair earnings growth or have a negative effect on SMA’s break-even point.

The SMA Managing Board continues to forecast a sharp price decline. This price decline is expected to be offset by growth in volume. In addition, SMA is meeting this price competition with market-appropriate and cost-optimized products and solutions. With expenditure for research and development of €99.2 million in 2015 (including capitalized development projects), SMA remains well positioned to set important trends with new products and solutions. Regular monitoring and reporting to the Managing Board ensure early identification of project delays and initiation of appropriate countermeasures (see also Research and Development Risks).

In addition, there are opportunities for further development of international markets. The international share of sales is already nearly 90%. SMA will continue to develop existing infrastructure abroad in order to benefit from the growth emerging in foreign markets. In addition, SMA has already proven on multiple occasions that the Group is able to successfully develop young markets within a short space of time. In order to identify and use this business potential at an early stage, the Managing Board has adopted a process for systematic analysis of potential markets.

See Forecast Report
page 97 et seqq.

Opening up new business areas to increase sales is one of the central elements of SMA’s corporate strategy. In this context, the Managing Board sees services (e.g., in the operation and maintenance business, O&M business), system technology for storage applications and intelligent energy management solutions as areas of business with opportunities to increase sales. The SMA Managing Board has therefore decided to continue expanding its service business to further differentiate the Group from the competition. The service business offers a solid foundation for this because it is not subject to such high volatility as are other segments. In addition, SMA already offers solutions for both integration of electric batteries with different technologies and for intelligent energy management. The portfolio of products and solutions for these applications will be expanded further in the future.

Also important are the cost-out measures and projects that will be consistently pursued to increase efficiency and realize cost savings potential. Continuous review and optimization of global cost structures will be the key to SMA’s long-term success. Use of flexible tools for inventory management and in procurement and production is intended to sustainably increase flexibility in the face of demand fluctuations (see also procurement and inventory risks).

See Forecast Report, page 97 et seqq.

For more information on development in individual markets, please see the remarks in the Forecast Report, “Overall Statement From the Managing Board on the Expected Development of SMA Group” section.

MARKET RISKS

If market saturation occurs in our important target and existing markets, this usually results in a drop in demand. In the past, the high demand for PV systems resulted partially from the sharp increase in conventional energy carrier prices. Although prices for oil and gas declined sharply at the end of the year, energy prices are expected to rise again in the medium term. The higher the price of energy from these sources, the more attractive generating electricity from sunlight becomes. Photovoltaics has proven to be increasingly competitive in recent years. In a growing number of regions around the world, solar power is now more cost-efficient than conventional energy.

The risk of declining market shares in conjunction with the risk of aggressive competition or changes in market development is monitored globally by the heads of the business units based on the forecast process with sales. These risks are countered with the market-appropriate adjustment of the product and solution portfolio. In addition, SMA is consistently positioning the SMA and Zeversolar brands to serve the largest possible market. While the products and solutions sold under the SMA brand are brought to market in all of SMA’s sales regions, Zeversolar products are mainly deployed in the low-price segments in Australia, Great Britain, Benelux and India. Zeversolar also serves demand in the price-sensitive Chinese market.

In the past fiscal year, SMA was again voted the world’s most popular inverter brand by the “PV Inverter Customer Insight Survey – 2015.” The IHS institute for market research and business consulting surveyed buyers of inverters in over 40 countries. This study shows that SMA is the preferred inverter brand among all customer groups around the world and in many of the large photovoltaic markets for the fourth year in a row despite the fierce global competition between inverter manufacturers.

Nonetheless, the dependence on individual regions or markets (e.g., U.S. - utility business) is considerable. If, for example, this market was to break away because of regulatory changes, this would have substantial, potentially existence-threatening effects on SMA.

SMA can reduce its dependence on individual photovoltaic markets with its global positioning. Additionally, SMA offers products and solutions for all major areas of application. The range includes high-efficiency PV inverters, complete system solutions for PV systems of all power classes, electric batteries and intelligent energy management systems. The range is rounded off by complete solutions for PV/diesel hybrid applications and extensive services up to and including operational management.

There are high barriers of entry into individual markets. The entry barriers can be divided into size-dependent and experience-dependent barriers. For example, the size-dependent barriers include the scope of the product and service portfolio, global infrastructure and economies of scale. The entry barriers that depend on experience include the ability to design complete and coordinated solutions for PV applications (e.g., storage solutions) or to meet certification requirements in the respective sales regions. If SMA cannot or can only partially overcome these barriers to entry, this would have significant effects on future development. SMA has therefore entered into targeted strategic alliances to generate economies of scale (e.g., the alliance with Danfoss). In addition, SMA works to contact the certification authorities and electric utility companies abroad to be able to make the necessary adjustments to its product and service portfolio early on.

Formation of buying syndicates can increase the dependency of SMA on a few wholesalers or specialist wholesalers and other customers generating large sales. This dependency harbors a risk as a result of these large customers gaining more negotiating power coupled with increased price pressure. SMA avoids dependency on individual customers by deploying a targeted sales strategy. The share in total sales of the ten largest customers worldwide therefore fell to approximately 30% in the fiscal year.

See Forecast Report, page 97 et seqq.

For more information on development in individual markets, please see the remarks in the Forecast Report, “Future General Economic Conditions in the Photovoltaics Sector” section.

INVESTMENT RISKS

If we improperly assess market changes in the future, this could lead to failure in fully utilizing our production capacities and to unscheduled depreciation of production equipment and product developments. The non-utilized infrastructure would have a negative effect on our earnings. Through the Company’s transformation in 2015, SMA considerably lowered fixed costs year on year and can therefore generate profits even with lower sales. Investing activities were also restricted. The completion of important development projects allowed for capitalization of research and development costs to be reduced. Our regular forecast process allows us to recognize fluctuations in demand early on and take corrective measures. Thanks to the high degree of production flexibility at SMA, we can largely absorb negative demand fluctuations. Through interim solutions, we try to delay investments for as long as it is economically rational.

See Forecast Report, page 97 et seqq.

For more information on development in individual markets, please see the remarks in the Forecast Report, “Overall Statement From the Managing Board on the Expected Development of SMA Group” section.

RESEARCH AND DEVELOPMENT RISKS

SMA’s extensive product portfolio includes inverters for all applications, power classes and module types, complemented by intelligent energy management and monitoring systems and storage applications. In addition to optimization of existing products and solutions, the SMA Managing Board’s goal is to concentrate above all on the development of future product generations. However, this inherently gives rise to the risk that vital technology trends are identified too late or that market launch is delayed due to development stages that are too long. As this could lead to sales losses and smaller market shares, SMA will continue to invest up to 10% of sales in research and development activities in order to develop new processes, technologies, products and services. The Development division has developed timetables for all projects, which are regularly submitted to the Managing Board. The planned development times can be adhered to by consistently monitoring milestones. One of the key tasks on the way to faster and more efficient product development is simplification and standardization of the current product development process at SMA. An interdisciplinary team was charged with this task in the past fiscal year, so the optimized process will be implemented as early as 2016. This process still accounts for the international development locations in the U.S. and China established in the previous year. SMA is consciously seeking collaboration with research facilities to advance strategic development projects with the aim of further reducing development time of innovative products. However, we cannot rule out that individual development projects will fail to deliver economically exploitable results or do so in the expected time frame.

The Managing Board sees storage applications (e.g., in large-scale storage projects) and integration of storage solutions as providing particular opportunities to strengthen core business. SMA is the only inverter manufacturer to collaborate with nearly all world-leading manufacturers of stationary battery-storage systems. SMA inverters are therefore qualified for use with various battery technologies and thus enable future-proof technical solutions for integration of batteries into PV systems of every power class. However, the market success of these solutions depends largely on storage system prices. The sharp declines in prices for electric battery-storage systems in recent years have improved sales prospects.

With our patents and through constant monitoring of technologies and competitors relevant to SMA, we work to maintain and expand our technological edge. In addition to the largely exclusive use of inventions, patents also promote innovation and thus future economic benefit. Because competitors and research institutes also file a large number of patent applications, we cannot rule out that, in spite of regular, extensive research, we will not infringe on third-party patent rights or other industrial property rights or that, vice versa, our rights will be violated by third parties. If the former occurs, SMA may incur considerable costs related to claims for compensation, in its defense against such claims or in relation to royalty payments to third parties. It is therefore important that the product will be checked for third-party rights in a timely manner before approval and market launch. Corresponding milestones have been included in the guidelines and process descriptions on product development and market launch. The Intellectual Property Management department actively protects proprietary technologies and monitors patent applications. By employing patent attorneys, SMA also strives to avoid the risk of lawsuits and any litigation costs. We make provisions for disputes related to intellectual property, when necessary, if we consider it likely that such claims might be asserted against us.

See Research and Development, page 45 et seqq.

Like political conditions, the risk from new technical directives can only be influenced to a limited extent. The risk of not meeting such requirements remains unchanged. Only an accelerated development process and specific market knowledge will enable SMA to limit this risk in the future. Therefore, our employees actively contribute to new technical guidelines through standards associations and other organizations. In addition, the assumptions and associated risks with regard to strategic projects are regularly reviewed. Based on future continued focus of our development capacities, key developments should be identified and advanced more quickly. These procedures allow us to recognize and implement changes in what is required of our products early on.

For additional details, please refer to the information on research and development in the Consolidated Management Report.

Operating Risks

PROCUREMENT AND INVENTORY RISKS

SMA is increasingly dependent on certain suppliers. We work to minimize these risks through market analyses, careful evaluation of suppliers, flexible supplier agreements, clearly defined quality standards and reducing dependence on individual suppliers. Therefore, SMA will make greater use of standard components in future innovations and qualify alternative suppliers to increase flexibility.

Regular inventory reviews are carried out in connection with increasingly shorter innovation cycles and resulting potential inventory write-down requirements. Inventories are adjusted with controlling tools (e.g., vendor-managed inventory/consignment stock, pull principle, outsourcing, adjustment of procurement parameters) and early-warning systems. By monitoring changes in important raw material prices, development trends should be identified in a timely manner and compensatory mechanisms developed with suppliers before they affect purchase prices and negatively influence SMA’s earnings. Despite these measures, supply problems with important suppliers could threaten the delivery capacity for existing and new products and SMA’s competitive advantage.

Another measure also intensively pursued in the past fiscal year was the internationalization of our purchasing structures by establishing and expanding decentralized purchasing teams in the U.S., Poland and China to lower purchase prices and logistics costs and to reduce dependence on local suppliers. As part of the global purchasing and commodity strategy, these activities should be monitored more closely than before. Danfoss and SMA have been working together in a cross-company purchasing partnership for over a year. Since the start of 2015, the Finnish inverter manufacturer Vacon, which Danfoss took over, has also been integrated into the partnership. The objective of the partnership is to further reduce costs through joint purchasing activities. By pooling their requirements, all three companies have already been able to lower their procurement prices. Another advantage of the partnership is, for example, sharing of information and process knowledge, methods and tools (benchmarking), and best practice insights so as to further improve specific negotiations and our competitiveness in the long term.

Another key strategic measure is to confront the competition in the U.S. with a local, more flexible supplier base and short supply chains. To reliably serve the high demand forecasted in the U.S. and to eliminate the high risks of a single production site, the SMA Managing Board decided in the past fiscal year to produce Sunny Central inverters for North and South America in Denver starting in the second half of 2016.

See Forecast Report, page 97 et seqq.

For more information on development in individual markets, please see the remarks in the Forecast Report, “Overall Statement From the Managing Board on the Expected Development of SMA Group” section.

PRODUCT RISKS

We are always striving to develop new products and solutions and to improve existing ones. For this reason, we use new materials in development or even sometimes employ new technologies to make innovations possible. This can result in SMA products being defective. Large delivery lots bear the risk of errors or defects affecting a product series or several product batches. Production shortcomings may on the one hand derive from SMA errors or from defects in primary products provided by SMA suppliers. Therefore, proper handling and communication in instances of product defects are essential. Unidentified incompatibilities can also emerge after products are launched, which requires improvement to the customer system after installation to prevent the product from posing a danger to the customer, in the worst-case scenario. A lapse of reliability could result in a long-term loss of trust and reputation. In addition, any necessary product recall would have a negative impact on earnings. If responsibility for the error lies with the supplier, then the supplier must bear the direct costs. If SMA is responsible for the error, then product liability insurance will cover the losses incurred. However, this does not cover the cost of materials. In this respect, new product developments are potentially subject to more failures than established products that have been tried and tested for a longer period. We are able to minimize this risk through comprehensive testing during the development phases, accompanying quality inspections during production, field testing prior to scheduled serial production and product liability insurance. We make provisions for disputes related to product risks if we consider it likely that such claims can be asserted against us.

To keep continuously improving the quality of our products, in addition to general process improvements covering the entire value chain, new developments are backed by specific stress and qualification tests, tests are carried out on the entire series and advance quality planning is integrated into the development process. Plus, with a sufficient staffing, SMA is well positioned in Research and Development and Service. Depending on the nature and scope of the technical fault, Service assesses the necessity for repair or replacement of the device and carries out appropriate countermeasures. To meet customer needs even better in the future, the SMA Managing Board will continue to establish and expand service capacities despite the Company-wide cost reduction measures. This decision is based on a global demand analysis and a regional concept regarding the various service products and services.

PERSONNEL-RELATED RISKS

Qualified and motivated employees are key to the evolution of our enterprise, increased internationalization of sales, purchasing and service activities and SMA’s business success. SMA’s future viability depends on retaining engineers and other skilled staff at the Company for the long term as well as filling management positions adequately. However, in the context of the transformation carried out in the past fiscal year, this was countered by numerous organizational changes, some of which are still being implemented. As the cost savings made so far

could not compensate for the sharp decline in sales and earnings in recent years, the personnel structures had to be adapted to the sales level expected in the future. This transformation process is largely complete. Nonetheless, there is still a risk that talented individuals could leave the Company and not be replaceable at short notice. We offer performance-based remuneration systems and participation in the Company’s success, flexible working hours and options for training, qualification and balancing family and career. By integrating university research and education into our work at the Kassel site, and building other partnerships with universities and institutes, SMA is also making a significant contribution to being perceived as an attractive employer and thereby recruiting highly qualified young staff to the Company long term.

See Employees, page 48 et seqq.

For additional details, please refer to the information in the Section “Employees” in the Consolidated Management Report.

IT-RELATED RISKS

As a global market, technology and innovation leader and publicly traded stock corporation, SMA is in the public eye and therefore heavily under threat of industrial espionage. Increasing connectivity and the need for permanent availability place ever higher demands on our IT systems. We reduce the risks of IT breakdowns by continually reviewing and improving IT security and employing advanced hardware and software solutions. Efficient protective programs are put in place to defend against malware. Distributed data centers and mirrored databases also reduce the risk of data losses. Alongside securing network and server availability, it is most important to minimize information loss via employees, service providers or external attacks. These activities are coordinated and monitored by our information security officer. Together with the Group’s data protection officer, our employees ensure that personal data is processed in the system in accordance with the regulations of the Federal Data Protection Act. Furthermore, additional measures initiated protect business information and the private sphere of our employees and business partners.

Financial Risks

FINANCING, CURRENCY AND LIQUIDITY RISKS

As an international company, SMA is inevitably exposed to financial risks. These include risks from changes to general interest rates, exchange rate fluctuations and financing and liquidity risks. For example, the current challenges in the industry make it difficult to borrow despite good key financial figures, not least because there is a delay between the successful implementation of restructuring and its effect on key financial figures. Due to consistent implementation of the transformation measures, suppliers expanded their commitment in the past fiscal year. The collaboration with credit institutions and trade credit insurers is trusting and good.

SMA’s Corporate Treasury department controls Group financing and the limitation of financial risks. The principle underlying our hedging policy is to protect SMA against sharp changes in prices, exchange rates and interest rates by means of contracts and hedging transactions to an economically feasible extent. The permissible hedging instruments have been laid out by the Managing Board in Group-wide guidelines that also regulate the entire process-oriented organization including hedging strategies, responsibilities and control mechanisms. For example,

extensive currency hedges were concluded. Due to the relocation of sources of procurement to the USD currency area described above, however, the SMA Managing Board expects the hedging volume to decrease significantly as of 2017. In the past fiscal year, currency effects had a positive effect on earnings.

See Financial Position,
page 69 et seqq.

For additional details, please refer to the information under Financial Position - Principles and Objectives of Financial Management in the Consolidated Management Report.

See Consolidated
Financial Statements,
page 157 et seqq.

For detailed information regarding the financial market risks and risk management, please also refer to the Notes to the Consolidated Financial Statements on page 157 et seqq. under 37. Objectives and Methods Concerning Financial Risk Management.

RISK OF DEFAULT OR CUSTOMER INSOLVENCY

In some of SMA’s target and existing markets, subsidy conditions have worsened or further cuts are planned (e.g., Great Britain). In addition, the financial markets are erratic. For these reasons, potential non-payment risks arise with some customers due to financial problems. In addition, the competitive situation and internationalization require extension of payment periods, coupled with the reduction of collateral (e.g., in the form of bank guarantees). If customers can no longer keep up with their payment obligations, there is a higher default risk for receivables and as a result potentially considerable write-downs in the future with negative effects on SMA’s results of operation, financial position and net assets. However, the level of receivables could increase because of the planned growth in the utility segment and large-scale PV project business. This potential development is, however, backed by appropriate securities in the project business.

As part of our credit control, we minimize the risk of nonpayment by individual customers in accordance with the Company’s credit guidelines by obtaining references and credit information for the purposes of a credit check and continuously monitoring general payment practices. Depending on the volume and the credit rating of the customer and the country, we request collateral for customer deliveries, and also evaluate historical data from our previous business relationship to preclude nonpayment in the future. SMA allocates each customer a standard credit limit determined by sales in the last 12 months, the market growth factor and the agreed upon payment terms. If it is expected that the credit limit calculated in this manner is not sufficient for our future business relationship, then we examine whether we should ask the customer to furnish collaterals or whether we can accept the residual risk. To cover potential payment defaults, SMA has also taken out commercial credit insurance. Payment periods were largely stable in the past fiscal year; SMA did not sustain any material defaults thanks to effective accounts receivable and customer credit management. The SMA Managing Board sees the greatest potential for reducing the risk of default through consistent implementation of accounts receivable management. Central commercial project management at the locations in the U.S. and Germany represents another effective measure to avoid or minimize risk to project business, which is an important aspect of SMA’s portfolio. All project contracts entailing risks are systematically subjected to a legal and commercial risk assessment. Based on this, risky agreements are mitigated for SMA with additional financial securities or contractual adjustments made together with sales and the customer. Remaining project risks are assessed and approved separately from the heads of the business units and the Managing Board, provided these risks are proportionate. Due to the expansion of business activity in Service (e.g., O&M business), it has been decided to also transfer this project risk management to Service.

Compliance Risks

Our influential position on the market as a technology and innovation leader, which is also being strengthened by market consolidation, as well as our steadily increasing international business give rise to diverse tax, brand, patent, competition, antitrust and environmental risks.

There is a risk that SMA could be involved in unlawful business conduct or that individual employees could violate SMA’s business principles and directives. In particular, this includes the risk of corruption and fraud; the effects on SMA’s development could be significant.

See Corporate
Social Responsibility,
page 51 et seqq.

Group Compliance issued the SMA business principles and directives globally to counter this risk. Basic work sequences and processes were derived from these and implemented globally. Therefore, in the context of their work for SMA, all employees are obligated to act ethically and in accordance with the laws and regulations of the legal system of their country. These regulations and obligations are consolidated globally by mandatory business principle training sessions. For additional details, please refer to the information on corporate social responsibility in the Consolidated Management Report.

EXPORT RISKS

As a result of increasing internationalization and an international share of sales of almost 90%, there will be more risks for SMA in importing and exporting materials, and providing services and finished products. SMA must meet the legal requirements for imports from and exports to many countries to stay competitive and meet the needs of its increasingly international customers. An additional customs risk has arisen for SMA in connection with the delivery of components from Germany to production sites abroad.

Violations of these trade restrictions and customs laws are subject to significant penalties and could damage SMA’s reputation. SMA is diligent in its efforts to comply with customs and export control regulations and particularly with trade restrictions. In addition, SMA purposefully monitors its obligations under commercial and customs law using an IT system, which reduces the risk of potential non-compliance.

Due to the global business operations and another increase in the international share of sales of more than 10% year on year, SMA is subject to diverse tax laws and regulations abroad. Changes in tax laws in Germany and abroad could affect the SMA Group’s tax accounting items. In addition to changes in legal regulations, assessment and interpretation of complex tax regulations, such as those regarding transfer prices, may also affect our results of operations, financial position and net assets. We therefore collaborate closely with tax consultants in those countries where SMA operates to identify risks and carry out audits at regular intervals.

ANTITRUST LAW

Group Compliance has issued a new Antitrust Directive with the primary goal of minimizing antitrust risks from the outset. The directive stipulates clear do’s and don’ts for all major business situations. In addition, all employees must receive antitrust law training within a stipulated period.

RISKS OF VIOLATING DATA PROTECTION LAW

There is a risk that the necessary care is not taken in processing of PV system operators’ data and, for example, data is used for cross-promotional purposes. Risks also include the increasingly widespread storage and processing of data using cloud solutions, where permissibility regarding data protection law is disputed. Against the backdrop of the changing business environment and the necessary development of new sales channels, this risk is becoming increasingly significant.

SMA counters data protection risks by having the Company’s data protection officer educate those employees who process personal data and monitor all projects where PV system operators’ personal data is processed. If agreements with third parties are to be reached, the necessary data protection clauses must be applied, taking into account EU standards.

ENVIRONMENTAL RISKS

SMA employs a small amount of hazardous substances during production that, in principle, pose a risk to the environment. The comprehensive measures we take in production and in quality management ensure that SMA products are manufactured in a way that is environmentally friendly and guarantees compliance with all environmental regulations. Furthermore, SMA has safeguarded itself against certain environmental risks. For additional details, please refer to the information on corporate social responsibility in the Consolidated Management Report.

See Corporate Social Responsibility, page 51 et seqq.

OVERALL STATEMENT ON THE GROUP’S RISK SITUATION

On the basis of our risk management system, we continue to assess the overall situation regarding risks to SMA’s future development to be manageable. However, on the basis of the present assessment, individual risks still have been identified that, particularly if they all transpired at once, could significantly impair business development should the strategic targets and the planned measures be missed. The risk profile has improved year on year. In the past fiscal year, SMA sustainably reduced fixed costs as part of a transformation. In addition, new products allowed variable costs to be effectively reduced. The ongoing internationalization of sales activities is also expected to make a significant contribution to securing the current sales level. The result of this bundle of measures is that operational and financial flexibility will positively influence the earnings situation as long as sales remain the same.

Furthermore, SMA will take additional measures to counter the described risks and keep the potential negative effects as small as possible. It is therefore our objective to continue optimizing the Risk and Opportunity Management System to identify potential risks even faster, to counteract them and to take advantage of any opportunities that arise.

FORECAST REPORT

The General Economic Situation:
Global Economic Growth Loses Momentum

According to the International Monetary Fund (IMF), the global economy is still in growth mode, although the situation is becoming increasingly gloomy. This is due to the fact that developed national economies are growing only moderately, while newly industrialized countries, which account for 70% of global growth according to the IMF, are not growing as significantly as originally expected. In its update to the World Economic Outlook (WEO) of January 19, 2016, the IMF forecasts global growth of 3.4% for the current year (2015: 3.1%). This is 0.2 percentage points lower than presumed in the October forecast. The IMF currently considers the greatest risks to be the slower growth in China and the tightening of monetary policy in the U.S. coupled with a strong dollar. In addition, this is compounded by low oil prices and the risk of an escalation of existing geopolitical tensions, according to the IMF.

Economists at the IMF continue to see positive indicators in the euro zone, albeit weak ones. In this respect, they even assess the situation a little more optimistically than in October. They raised anticipated growth for 2016 by 0.1 percentage points to 1.7% (2015: 1.5%). Spain is still at the forefront of this development with an anticipated 2.7% (2015: 3.2%), followed by Germany with 1.7% (2015: 1.5%).

The IMF is forecasting a continued upward trend for the U.S. economy with growth of 2.6% (2015: 2.5%) but has adjusted its forecast downward slightly by 0.2 percentage points. According to the IMF, the U.S. is facing challenges due to the relative strength of the dollar, which is having a negative impact on the balance of trade. If this is not successfully managed, “global growth could be derailed.” This is one reason why the IMF advises caution with regard to further monetary policy steps by the U.S. Federal Reserve.

A stronger dollar also has a negative impact on over-indebted newly industrialized countries as it makes it more expensive for these countries to repay their outstanding U.S. dollar debts. The IMF has therefore revised its growth forecasts for newly industrialized countries by 0.2 percentage points to 4.3% (2015: 4.0%). The most significant decrease was in its forecast for Brazil, according to which Latin America’s biggest national economy is expected to shrink by 3.5% in 2016 and thus by 2.5 percentage points more than previously expected (2015: –3.8%).

For China, by contrast, the IMF still anticipates a slowdown in growth to 6.3% in 2016 (2015: 6.9%). The IMF sees more positive indicators in Japan, where growth will be consolidated at 1.0% in 2016 (2015: 0.6%). According to the IMF, supporting factors here include increasing tax revenue, low oil prices, a continued easing of financing conditions and rising income.

Future General Economic Conditions in
the Photovoltaics Sector

Historic Climate Agreement as Driving Factor for Renewable Energies

In their latest studies, experts at the International Energy Agency (IEA) confirm that the global importance of renewable energies will increase steadily over the next few years despite low oil prices. This was given fresh impetus in the

reporting period by the outcome of the UN Climate Change Conference in Paris in December 2015. The IEA sees the agreement as a historic milestone for the energy sector, stating that it will accelerate the transformation of energy supply structures and result in more investments in clean technologies. In addition to industrialized countries, the IEA expects fast-growing newly industrialized countries particularly in South America, Africa and Asia to play an increasingly important role.

In its World Energy Outlook from November 2015, the IEA forecasts that by 2040 roughly two-thirds of investments in new power plants will be spent on renewable energies. The positive development of solar energy, in particular, is clearly illustrated by data from experts at Bloomberg New Energy Finance. According to these data, solar energy is expected to account for around 40% of newly installed power capacity by 2030 – and will thus post by far the highest growth.

The increased use of renewable energies is driven by various trends, which include regionalization of the electricity supply. More and more households, cities and companies want to become less dependent on energy imports and rising energy costs, which will be accompanied by a higher in demand for energy storage solutions in the residential, commercial and industrial sectors. In addition, energy will be increasingly distributed via smart grids to manage electricity demand, avoid consumption peaks and take the strain off utility grids. eMobility is expected to become an important pillar of these new energy supply structures a few years from now. Integration of electric vehicles may also help increase self-consumption of renewable energies and offset fluctuations in the utility grid.

Global Photovoltaic Market Continues to Grow

Photovoltaic has proven to be increasingly competitive in recent years. In a growing number of regions around the world, solar power is now more cost-efficient than conventional energy. In the medium to long term, this is paving the way for the sector to grow, even without subsidization. Current and future objectives include intelligently linking different technologies, providing intermediate storage solutions for generated energy, thereby ensuring a reliable electricity supply based on renewable energies.

For 2016, the SMA Managing Board anticipates newly installed PV power of 60 GW globally. This equates to growth of more than 18% compared with 2015. Price pressure will remain high in all market segments and regions. According to SMA Managing Board estimates, the worldwide volume of investment for PV inverters will increase to €4.9 billion in 2016 (2015: €4.7 billion).

Mixed Development in EMEA

According to estimates by the SMA Managing Board, the European photovoltaic markets will decline in 2016. This decline in demand will stem in particular from the markets in Great Britain and France. According to SMA Managing Board estimates, market growth in the Middle East and in African countries will more than compensate for the anticipated decline in demand in Europe. Overall, the SMA Managing Board anticipates newly installed power of approximately 10 GW in the Europe, Middle East and Africa (EMEA) region, corresponding to year on year growth of about 6%. According to SMA estimates, the volume of investment in PV inverter technology will slightly increase to an expected €1.1 billion (2015: €1.0 billion). In this region, demand is dominated by the utility and commercial market segments. Small PV systems (residential) are not expected to regain their level of importance in the European market until storage solutions become more widespread.

Positive Developments in North and South America and Asia-Pacific

The SMA Managing Board still foresees strong growth stimuli from the North American markets. Demand here is likely to continue developing positively as a result of tax incentive programs being extended in the U.S. The South American photovoltaic markets are still at the beginning of their development, but promise growth potential in the medium term. According to SMA estimates, newly installed power in the overall Americas region will grow by 53% to 14 GW in 2016. The volume invested in inverter technology is expected to total €1.5 billion (2015: €1.2 billion). In the Americas, large-scale PV power plants (utility) account for the major part of demand. In addition, the SMA Managing Board expects attractive growth rates in the commercial and residential market segments.

The most important markets in the Asia-Pacific region include Japan, China and India. The Chinese government recently increased its target for new PV installations by 2020 from 100 GW to 150 GW. India is pursuing a similarly ambitious installation target of 100 GW by 2022. Given that installed power in both China and India is currently significantly below the target figures, the SMA Managing Board anticipates high growth rates in these regions in the medium term. The price level in India is only slightly above that in China. In contrast to the Chinese market, however, market structures here allow for fair competition. For 2016, the SMA Managing Board anticipates newly installed power of 36 GW in the Asia-Pacific region (2015: 32 GW). Due to the very low price level in China and India, the volume of investment in inverter technology in the Asia-Pacific region is expected to amount to approximately €2.4 billion (2015: €2.5 billion). Demand in this region will also be dominated by large-scale PV projects in 2016. Medium-sized and small PV systems will increase in significance in the medium term.

The Growing Market of Energy Management

In the opinion of SMA’s Managing Board, innovative system technologies that temporarily store solar power and provide energy management for private households and commercial enterprises offer attractive business opportunities and will become increasingly important in the future. This is mainly attributable to rising prices for conventional domestic power and the desire of many private households and companies to drive forward the energy transition by making their contribution to a sustainable and decentralized energy supply. Demand for solutions that increase self-consumption of solar power is likely to rise particularly in the European markets, the U.S. and Japan. In 2016, the SMA Managing Board expects the still fairly new market to grow by over 30% to approximately €0.4 billion. This figure is already included in the specified estimates for the development of the overall market for inverter technology. Positive growth stimuli are also emanating from eMobility, where interconnection with photovoltaic systems is giving rise to new business models and greater customer benefits.

Attractive Business Opportunities for PV/Diesel Hybrid Systems

There are worthwhile business opportunities for PV/diesel hybrid systems in many countries in South America, the Middle East, Asia-Pacific and Africa. In these regions, energy needs are growing considerably, in line with increasing prosperity. Scalable electricity supply solutions are in demand, especially in areas without a grid connection. Intelligent system technology allows photovoltaics to be integrated well into already existing diesel-powered grids. However, business with photovoltaic/diesel hybrid systems is developing more slowly than in subsidized photovoltaic markets because of technical complexity and limited financing options. In addition, the low price of oil is affecting demand negatively. The medium-term prospects remain good.

Overall Statement From the Managing Board on the Expected Development of SMA Group

The following statements on the future development of SMA Group are based on the estimates drawn up by the SMA Managing Board and the expectations concerning the progression of global photovoltaic markets set out above. Since January 1, 2015, SMA Group has operated under its new functional organization. In this new organization, the Residential, Commercial, Utility and Service business units take overall responsibility and manage Development, Sales and Operations. Railway Technology and Zegersolar as well as the Off-Grid and Storage business unit have been combined under Other Business. The Forecast Report is based on the described reporting structure.

SMA's sales and earnings depend on market share, price dynamics and global market growth. Factoring in the pronounced demand fluctuations in the solar industry, the Managing Board conducted an extensive company transformation in the reporting period and thus significantly increased SMA's financial and operational flexibility. This enables the Company to react better to the volatile market and generate profits even when sales are lower than they used to be.

Managing Board Anticipates Significant Increase in Earnings

On January 29, 2016, the SMA Managing Board published its sales and earnings forecast for the 2016 fiscal year. This forecast anticipates sales of €950 million to €1,050 million and a significant increase in operating earnings (EBIT) to between €80 million and €120 million. Based on this, the Managing Board forecasts EBITDA of €150 million to €190 million. For 2016, the Managing Board is planning capital expenditure of between €35 million and €45 million (2015: €50.6 million). SMA is ideally positioned to benefit from the further development of the energy supply sector in all market segments and regions. The growing digitalization of the energy industry will give rise to new business models for which the Company has already developed new technological solutions and services. In addition to the provision of data to facilitate better forecasts of solar power generation and consumption, the integration of battery-storage systems is another important topic for the future, where SMA has already positioned itself at an early stage.

Development in the Segments

According to Managing Board estimates, the Residential business unit will generate sales of €190 million to €210 million, accounting for more than 20% of SMA Group sales (2015: €252.7 million; 25.3% of Group sales). In particular, the Residential business unit portfolio comprises micro inverters and single-phase string inverters with the brand name Sunny Boy; three-phase inverters in the lower output range up to 12 kW with the brand name Sunny Tripower; energy management solutions; storage systems; and communication products and accessories. The Sunny Boy inverters with an output of 1.5 kW to 5 kW account for a large share of the Residential business unit's sales. Europe, North America, Australia and Japan will remain the most important sales regions. The Residential business unit is expected to generate positive earnings in the single-digit millions as a result of new product launches in key sales markets and significantly reduced fixed costs.

The Commercial business unit portfolio includes three-phase inverters from the Sunny Tripower brand with outputs of more than 12 kW, as well as complete energy management solutions for medium-sized solar systems and other accessories. For the Commercial business unit, the SMA Managing Board forecasts sales of €190 million to €210 million in 2016. The business unit is therefore expected to account for more than 20% of Group sales (2015: €207.4 million; 20.7% of Group sales). The Sunny Tripower with outputs starting at 25 kW is expected to be a major sales driver. The primary sales markets include the U.S., Japan, Europe, Australia and India. The Commercial business unit also improved its fixed cost structure. Combined with sales growth from cost-optimized products for key sales regions, the SMA Managing Board is anticipating balanced operating earnings for the Commercial business unit in 2016, but cannot rule out a loss in the single-digit millions.

With anticipated sales of €430 million to €470 million, the Utility business unit is expected to account for more than 40% of Group sales (2015: €416.0 million; 41.6% of Group sales). In addition to central inverters with grid service and monitoring functions, the Utility business unit product and service portfolio also comprises medium- and high-voltage technology as well as accessories. Sales in 2016 will largely be driven by the new central inverter generation with an output of up to 2.5 MW, which was launched in the reporting period. North America is by far the most important sales market, followed by Japan, India and Chile. Due to further sales growth and the improved cost structure, the Utility business unit is expected to generate a significantly positive result in the upper double-digit millions.

In 2016, our service business will continue to benefit from the high number of commissioned projects in the Utility and Commercial business units. We also expect to conclude further long-term service and maintenance contracts. Overall, the SMA Managing Board expects its service business to achieve sales of more than €55 million in 2016. Due to sales growth, the Service business unit is expected to post a positive result in the lower double-digit millions.

For the business areas combined under Other Business – Railway Technology, Zegersolar and the Off-Grid and Storage business unit – the SMA Managing Board anticipates sales of €85 million to €100 million. Considering the rather moderate sales growth, these business areas are expected to generate a break-even result.

SMA Emerges Stronger From Structural Change in the Industry

SMA will not change its strategy and, as a specialist, will continue to offer complete solutions for all appealing photovoltaic markets, all module types and all power classes. In fact, we once again expanded our market position in the reporting year. According to a study by IHS (September 2015), SMA is still the clear global market leader. We are successfully serving the low-price segment with technologically simple products from our secondary brand Zegersolar. In addition to product business, SMA is expanding its service operations. Meanwhile, customers in Europe and North America have assigned management and maintenance of their PV power plants with an output of about 1.4 GW to us. We are systematically tapping into the promising business of PV/diesel hybrid applications and off-grid applications with specialized teams. Through continuous process improvement, our global purchasing and logistics structures and systematic leveraging of synergies with Danfoss, we have effectively increased our competitiveness.

Thanks to our deliberate focus on technology, consistent internationalization and the rapid implementation of the Company's transformation, SMA is emerging stronger from the years of structural change in the solar industry. We are flexibly positioned, have a low break-even point and sound financial structure. We will build on these strengths and design product solutions for decentralized energy supplies based on renewable energy. Furthermore, we will systematically take advantage of opportunities that arise from new business models as part of the digitization of the energy industry. SMA is characterized by an extraordinary corporate culture and motivated employees, who all make a decisive contribution to the Company's long-term success.

Niestetal, March 3, 2016

SMA Solar Technology AG
The Managing Board

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Income Statement SMA Group

in €'000	Note	2015	2014
Sales	5	999,638	805,430
Cost of sales	6	785,687	672,384
Gross profit		213,951	133,046
Selling expenses	7	56,368	64,893
Research and development expenses	8	67,659	88,159
General administrative expenses	9	60,971	80,583
Other operating income	10	47,315	32,754
Other operating expenses	11	41,955	97,017
Operating profit (EBIT)		34,313	-164,852
Financial income		1,944	3,023
Financial expenses		6,946	6,116
Financial result	13	-5,002	-3,093
Profit before income taxes		29,311	-167,945
Income taxes	14	15,061	11,367
Consolidated net result		14,250	-179,312
of which attributable to non-controlling interests		-53	-289
of which attributable to shareholders of SMA AG		14,303	-179,023
Earnings per share, basic (in €)	15	0.41	-5.16
Earnings per share, diluted (in €)	15	0.41	-5.16
Number of ordinary shares (in thousands)		34,700	34,700

Statement of Comprehensive Income SMA Group

in €'000	Note	2015	2014
Consolidated net result		14,250	-179,312
Change in fair values of available-for-sale assets		0	80
Income taxes		0	-24
Changes recognized outside profit or loss ¹ (available-for-sale financial assets)		0	56
Unrealized gains (+)/losses (-) from currency translation of foreign subsidiaries		4,100	5,339
Changes recognized outside profit or loss ¹ (currency translation differences)		4,100	5,339
Overall comprehensive result ¹		18,350	-173,917
of which attributable to non-controlling interests		-53	-287
of which attributable to shareholders of SMA AG		18,403	-173,630

¹ All items of other comprehensive income may be reclassified to profit or loss

Balance Sheet SMA Group

in €'000	Note	12/31/2015	12/31/2014
Non-current assets			
Intangible assets	16	91,299	89,814
Fixed assets	17	294,584	323,332
Other financial investments		5	5
Other financial assets (total)	20	2,788	2,622
— Rent deposits		2,788	2,622
Deferred taxes	14	84,830	72,497
		473,506	488,270
Current assets			
Inventories	18	146,131	203,168
Trade receivables	19	180,043	159,617
Other financial assets (total)	20	124,369	108,393
— Cash equivalents with a duration of more than 3 months and asset management		97,655	82,497
— Rent deposits and cash on hand pledged as collateral		24,260	22,720
— Remaining other financial assets		2,454	3,176
Receivables from tax authorities (total)		24,689	24,776
— Claims for income tax refunds	14	3,879	12,576
— Claims for VAT refunds	19	20,810	12,200
Other receivables	19	11,545	12,056
Cash and cash equivalents	21	200,180	183,988
		686,957	691,998
Total assets		1,160,463	1,180,268
Shareholders' equity			
Share capital		34,700	34,700
Capital reserves		119,200	119,200
Retained earnings		416,334	398,075
SMA Solar Technology AG shareholders' equity		570,234	551,975
Equity attributable to non-controlling interests		-26	-13
	22	570,208	551,962
Non-current liabilities			
Provisions ¹	23	86,939	87,119
Financial liabilities ²	24	27,135	42,840
Other liabilities (total)		142,587	129,925
— Accrual item for extended warranties	27	134,763	121,163
— Other financial liabilities	26	1,412	2,996
— Remaining other liabilities	27	6,412	5,766
Deferred taxes	14	24,402	24,343
		281,063	284,227
Current liabilities			
Provisions ¹	23	83,097	126,059
Financial liabilities ²	24	19,788	26,515
Trade payables	25	103,134	111,773
Income tax liabilities	14	9,942	14,583
Other liabilities ¹ (total)		93,231	65,149
— Human Resources department	27	23,314	22,832
— Prepayments received	27	22,961	15,427
— Other financial liabilities (customer bonus, etc.)	26	21,846	10,869
— Remaining other liabilities	27	25,110	16,021
		309,192	344,079
Total equity and liabilities		1,160,463	1,180,268
Total Cash (in € million)		325	287
Cash and cash equivalents + cash equivalents with a duration of more than 3 months and asset management + current rent deposits and cash on hand pledged as collaterals + non-current rent deposits			
Net Cash (in € million)		286	225
Total cash - current and non-current loan liabilities (excluding derivatives)			

¹ not interest bearing ² includes not interest-bearing current and non-current derivatives amounting to €7.6 million (2014: €6.8 million)

Statement of Cash Flows SMA Group

in €'000	Note	2015	2014
Consolidated net result		14,250	-179,312
Income taxes		15,061	11,367
Financial result		5,002	3,093
Depreciation and amortization		78,995	106,489
Change in provisions		-43,142	14,270
Result from the disposal of assets		484	3,221
Change in non-cash expenses/revenue		17,640	12,455
Interest received		1,768	2,517
Interest paid		-4,997	-5,089
Income tax paid		-23,279	-6,323
Gross cash flow		61,782	-37,312
Change in inventories		40,401	-25,941
Change in trade receivables		-23,202	-37,746
Change in trade payables		-8,639	50,967
Change in other net assets/other non-cash transactions		33,831	22,462
Net cash flow from operating activities	31	104,173	-27,570
Payments for investments in fixed assets		-17,592	-29,499
Proceeds from the disposal of fixed assets		734	2,138
Payments for investments in intangible assets		-32,989	-46,033
Payments for the acquisitions of companies net of cash/proceeds from the acquisition of business units		-1,500	-3,361
Proceeds from the disposal of securities and other financial assets		102,035	196,405
Payments for the acquisition of securities and other financial assets		-117,036	-95,000
Net cash flow from investing activities	32	-66,348	24,650
Change in non-controlling interests		-13	-176
Proceeds from financial liabilities		833	11,880
Redemption of financial liabilities		-24,065	-21,672
Net cash flow from financing activities	33	-23,245	-9,968
Net increase/decrease in cash and cash equivalents		14,580	-12,888
Changes due to exchange rate effects		1,612	4,510
Cash and cash equivalents as of 01/01		183,988	192,366
Cash and cash equivalents as of 12/31	34	200,180	183,988

Statement of Changes in Equity SMA Group

				Equity attributable to the shareholders of the parent company						
in €'000	Note	Share capital	Capital reserves	Market valuation of securities	Difference from currency translation	Other retained earnings	Total	Equity attributable to non-controlling interests	Consolidated shareholders' equity	
Shareholders' equity as of January 1, 2014		34,700	119,200	-56	-2,679	573,098	724,263	163	724,426	
Consolidated net result		0	0	0	0	-179,023	-179,023	-289	-179,312	
Other comprehensive income after tax	22	0	0	56	5,337	0	5,393	2	5,395	
Overall result									-173,917	
Contribution from owners to Managing Board members						1,250	1,250		1,250	
Proceeds from owners (capital increase Zeversolar)						92	92	111	203	
Shareholders' equity as of December 31, 2014		34,700	119,200	0	2,658	395,417	551,975	-13	551,962	
Shareholders' equity as of January 1, 2015		34,700	119,200	0	2,658	395,417	551,975	-13	551,962	
Consolidated net result		0	0	0	0	14,303	14,303	-53	14,250	
Other comprehensive income after tax	22	0	0	0	4,099	0	4,099	1	4,100	
Overall result									18,350	
Proceeds from owners (capital increase Zeversolar)						-58	-58	39	-19	
Changes in the scope of consolidation						-85	-85		-85	
Shareholders' equity as of December 31, 2015		34,700	119,200	0	6,757	409,577	570,234	-26	570,208	

NOTES SMA GROUP

Basic Information

1. Basics

The Consolidated Financial Statements of SMA Solar Technology AG for the year ending December 31, 2015, were prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted by the EU, as well as in compliance with the regulations of Section 315a of the German Commercial Code (HGB). The requirements of the standards applied were met completely and provide a fair view of the net assets, financial position and results of operations of SMA Solar Technology AG and the subsidiary companies included in the scope of consolidation (hereinafter: SMA Group or the Group).

The registered office of the Company is Sonnenallee 1, 34266 Niestetal, Germany. Shares of SMA Solar Technology AG are traded publicly. They are listed in the Prime Standard of the Frankfurt Stock Exchange. Since September 22, 2008, they have been listed in the technology index TecDAX.

The Consolidated Financial Statements are prepared on the basis of the amortized acquisition cost principle. Exceptions to this are provisions, deferred taxes, leases, derivative financial instruments and available-for-sale securities.

The income statement is classified according to the cost of sales method. The Consolidated Financial Statements were prepared in euros. Unless indicated otherwise, all amounts stated are in euros rounded to whole thousands (€ '000) or millions (€ million). Compared to last year, the balance sheet has been adjusted to increase the transparency of reporting. The item "receivables from tax authorities" has been inserted on the asset side. Other receivables decreased accordingly in the same amount. On the liability side, items "other financial liabilities (non-current)" and "other liabilities" were adjusted. The previous year's figures were also adjusted.

The Managing Board of SMA Solar Technology AG authorized the Consolidated Financial Statements on March 3, 2016, for submission to the Supervisory Board. The Supervisory Board has the duty to review the Consolidated Financial Statements and declare whether it approves the Consolidated Financial Statements.

SMA Solar Technology AG (SMA) and its subsidiaries (SMA Group) develop, produce and distribute PV inverters, transformers, choke coils, monitoring and energy management systems for PV systems and power electronic components for railway technology. Another area of business is providing operation and maintenance service for photovoltaic power plants (O&M business), in addition to other services. More detailed information on segments is provided in section 5.

See section 5, page 126 et seqq.

2. Consolidation

2.1. CONSOLIDATION PRINCIPLES

All domestic and foreign subsidiaries in which SMA Solar Technology AG, directly or indirectly, has the option of controlling the financial and operating policies are included in the Consolidated Financial Statements of the SMA Group.

Intercompany transactions, balances, sales, expenses and income, profits and losses, as well as receivables and payables among the consolidated companies are eliminated. In the event of consolidation measures affecting income, the income-tax-related effects are measured and deferred taxes recorded.

The Financial Statements of SMA Solar Technology AG and the subsidiaries are prepared on identical reporting dates using uniform accounting and valuation methods.

In the event of an acquisition, subsidiaries are fully consolidated from the date of acquisition (i.e., as of the date on which the Group obtains control). Consolidation takes place according to the purchase method of accounting. In line with the purchase method of accounting, the cost of acquisition of the business combination is offset against the fair value of the assets acquired and liabilities assumed from the subsidiary on the date of acquisition. The cost of acquisition of the business combination consists of the fair value of the purchase price paid and the carrying amount of any non-controlling interests. The non-controlling interests may either be recognized at the proportionate value of the assets acquired and liabilities assumed (applied at SMA) or at their fair value. Transaction costs that are directly attributable to the acquisition are recognized in the consolidated financial result, provided they do not refer to the issue of shares in the SMA Group.

Profit and loss and every component of other comprehensive income are attributable to SMA's shareholders and non-controlling interests. This applies even when it results in a negative balance for non-controlling interests. A positive difference resulting from the offsetting is capitalized as goodwill. It may, if applicable, also include the goodwill corresponding to non-controlling interests. Negative differences resulting from the consolidation at the date of acquisition are recognized directly in the income statement.

In the case of a business combination as a result of the successive acquisition of shares, the existing shares are revalued at their fair value, and any effects are recognized in the consolidated financial result.

Conditional considerations of the acquisition price are valued at their fair value on the date of acquisition. Adjustments of the fair value within the measurement period are made retroactively and accordingly booked against goodwill. Adjustments are based on additional facts available in the acquisition period. Changes in the fair value of contingent consideration that are not adjustments during the measurement period are made according to the nature of the contingent consideration. For equity, there is no subsequent measurement; it is recognized in equity on settlement. If the contingent consideration is an asset or liability, the subsequent measurement is based on IAS 39 or IAS 37 and recognized in the income statement.

Changes in holdings in subsidiaries that do not result in a loss of control are recognized as equity transactions. The book values of shares held by the Group and non-controlling interests are adjusted to reflect the changes to the holdings in subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and allocated to the shareholders of the parent company.

If the Company loses control over a subsidiary, the gain or loss on deconsolidation is recognized through profit or loss. This comprises the difference between

- the total fair value of the consideration received and the fair value of retained shares, and
- the book value of the assets (including goodwill), the liabilities of the subsidiary and all non-controlling interests.

All amounts related to this subsidiary presented in other comprehensive income are recognized in the same manner as a sale of assets (i.e., reclassifications to the income statement or direct transfer to retained earnings). Retained shares in the subsidiary are recognized at the fair value determined on the date of loss of control.

2.2. SCOPE OF CONSOLIDATION

The scope of consolidation as of December 31, 2015 was reduced in comparison to December 31, 2014 as a result of the liquidations of SMA Central and Eastern Europe s.r.o and SMA (Beijing) Commercial Co., Ltd. The Group’s share in Jiangsu Zeversolar New Energy Co., Ltd. increased to 99.34% (December 31, 2014: 99.25%) through a capital increase. There were no other changes in shareholdings year on year.

Two companies were renamed: SMA Service International GmbH was renamed Zeversolar New Energy GmbH, and SMA Brasil Tecnologia Ferroviaria Ltda. was renamed SMA Brasil Tecnologia Ferroviaria E Solar Ltda.

All companies within the scope of consolidation were fully consolidated. Those companies entitled to investments in the list of shareholdings are not consolidated due to their subordinate importance. Non-controlling interests in equity of the consolidated companies are shown separately in equity.

The scope of consolidation of the SMA Group is presented in the complete list of shareholdings shown below pursuant to Section 313 of the German Commercial Code:

LIST OF SHAREHOLDINGS PURSUANT TO SECTION 313 OF THE GERMAN COMMERCIAL CODE

Name of parent company	Registered office	Share in capital	Consolidation
SMA Solar Technology AG	Niestetal, Germany		F
Shares in affiliated companies			
dtw Sp. z o. o.	Zabierzów, Poland	100%	F
Jiangsu Zeversolar New Energy Co., Ltd.	Suzhou, China	99.34% ¹	F
— Australia Zeversolar New Energy Pty. Ltd.	Sydney, Australia	100% ²	F
— Jiangsu ZOF New Engery Co., Ltd.	Yangzhong, China	100% ²	F
— Zeversolar GmbH	Munich, Germany	100% ²	F
SMA America Holdings LLC	Denver, USA	100%	F
— SMA America Production LLC	Denver, USA	100% ²	F
— SMA Solar Technology America LLC	Rocklin, USA	100% ²	F
SMA Australia Pty. Ltd.	North Ryde, Australia	100%	F
SMA Benelux BVBA	Mechelen, Belgium	100% ³	F
SMA France S.A.S.	Saint Priest Cedex, France	100%	F
SMA Ibérica Tecnología Solar, S.L.	Sant Cugat del Vallès (Barcelona), Spain	100%	F
SMA Immo Beteiligungs GmbH	Niestetal, Germany	94% ⁴	F
SMA Immo GmbH & Co. KG	Niestetal, Germany	100%	F
SMA Italia S.r.l.	Milan, Italy	100%	F
SMA Japan Kabushiki Kaisha	Tokyo, Japan	100%	F
SMA Middle East Limited	Abu Dhabi, United Arab Emirates	100%	F
SMA New Energy Technology (Shanghai) Co., Ltd.	Shanghai, China	100%	F
SMA Railway Technology GmbH	Kassel, Germany	100%	F
— SMA Brasil Tecnologia Ferroviaria E Solar Ltda.	Itupeva, Brazil	100% ²	F
— SMA Railway Technology (Guangzhou) Co., Ltd.	Guangzhou, China	100% ²	F
SMA Solar Beteiligungs GmbH	Niestetal, Germany	100%	F
SMA Solar India Private Limited	Mumbai, India	100% ⁴	F
SMA Solar Technology Beteiligungs GmbH	Niestetal, Germany	100%	F
SMA Solar Technology Canada Inc.	Vancouver, Canada	100%	F
SMA Solar Technology Portugal, Unipessoal Lda.	Lisbon, Portugal	100%	F
SMA Solar Technology South Africa (Pty.) Ltd.	Cape Town, South Africa	100%	F
SMA Solar (Thailand) Co., Ltd.	Bangkok, Thailand	100% ⁵	F
SMA Solar UK Ltd.	Banbury, Great Britain	100%	F
SMA South America SpA	Santiago, Chile	100%	F
SMA Sub-Sahara Production Pty. Ltd.	Cape Town, South Africa	100%	F
SMA Sunbelt Energy GmbH	Niestetal, Germany	100%	F
SMA Technology Hellas AE	Athens, Greece	100% ³	F
SMA Technology Korea Co., Ltd.	Seoul, South Korea	100%	F
Zeversolar New Energy GmbH	Niestetal, Germany	100%	F
Investments			
IdE Institut dezentrale Energietechnologien gemeinnützige GmbH	Kassel, Germany	10%	N
Uni Kassel International Management			
School KIMS GmbH	Kassel, Germany	9.6%	N

F = fully consolidated; N = not consolidated ¹ The remaining shares are held by SMA Technologie-Holding GmbH. ² Indirect investment ³ 0.1% are held by SMA Solar Technology Beteiligungs GmbH. ⁴ The remaining shares are distributed among minority shareholders. ⁵ 0.001% are held by SMA Solar Technology Beteiligungs GmbH and 0.001% are held by SMA Solar UK Ltd.

SMA Solar Technology AG, SMA America Production LLC, dtw Sp. z o. o., Jiangsu Zeversolar New Energy Co., Ltd., Jiangsu ZOF New Energy CO., SMA Railway Technology GmbH and SMA Sub-Sahara Production Pty. Ltd. are manufacturing companies. The others are sales and service companies.

All SMA Group companies prepare their annual financial statements as of December 31, with the exception of our Indian subsidiary SMA Solar India Private Limited, which prepares its financial statements as of March 31 due to statutory regulations.

The companies SMA Immo GmbH & Co. KG (Section 264b German Commercial Code – HGB) and SMA Solar UK Ltd (Section 479A Companies Act 2006) exercised exemption clauses regarding the preparation of financial statements. There are no subsidiaries with substantial minorities existing from the SMA Group’s perspective.

2.3. TRANSLATION OF FINANCIAL STATEMENTS INTO FOREIGN CURRENCIES

The Consolidated Financial Statements are prepared in euros, which is the reporting currency of the Group. Each company within the Group defines its own functional currency, which is normally the local currency. The items contained in the Financial Statements of each company are valued using this functional currency.

Transactions denominated in foreign currencies are translated initially into the functional currency by applying the spot rate valid at the time of the transaction. On each subsequent due date, monetary assets and liabilities denominated in foreign currencies are translated into the functional currency by applying the spot rate valid on that day. All translation differences are recognized through profit or loss.

Assets and liabilities of subsidiaries preparing their balance sheets in a currency other than the euro are translated using the current exchange rate on the balance sheet date. Items on the income statement are translated periodically using the average rate of the relevant month. The equity components of subsidiaries are translated at the corresponding historical exchange rate applicable upon accrual. Any resulting translation differences are recorded under other income within equity as adjustment items for foreign currency translation or in shares of other shareholders. The accumulated amount recorded in equity is recognized through profit or loss upon the disposal of the foreign subsidiary concerned.

The relevant exchange rates for translating the Financial Statements prepared in foreign currencies in relation to the euro have evolved as follows:

in €	Average rate		Closing rate	
	2015	2014	2015/12/31	2014/12/31
1 Chinese renminbi (CNY)	0.14473	0.12261	0.14099	0.13263
1 U.S. dollar (USD)	0.90100	0.75352	0.91802	0.82271

3. Accounting Principles and Amendments to Accounting Standards

3.1. NEW IASB ACCOUNTING STANDARDS
STANDARDS AND INTERPRETATIONS TO BE APPLIED FOR THE FIRST TIME IN THE FISCAL YEAR

Standard/Interpretation			Date of compulsory application ¹	Endorsement (until December 31, 2015) ²
New	Annual Improvements	2011-2013 Cycle	2015/01/01	yes
New	IFRIC 21	Levies	2014/06/17	yes

¹ Applicable to the first reporting period of a fiscal year beginning on or after that date
² Adoption of IFRS standards or interpretations by the EU Commission

IFRS Annual Improvement Process 2011–2013

As part of its annual process of making minor improvements to standards and interpretations (Annual Improvements to IFRSs 2011–2013 Cycle), the IASB has issued amendments. The amendments affect four standards (IFRS 1, IFRS 3, IFRS 13 and IAS 40). Retroactive application of the amendments is mandatory for reporting periods of a fiscal year beginning on or after January 1, 2015, and have only minor or no relevance to the Group.

IFRIC 21 Levies

The interpretation provides guidance when a liability for levies imposed by a government has to be recognized. The interpretation applies both to levies that are recognized in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and to levies for which the date and amount are known. The interpretation is first applicable in reporting periods beginning on or after June 17, 2014. There were no material effects on the Group’s financial reporting in the reporting period and are not expected in the future.

Standards and Interpretations that have been published but are not yet mandatory

In its 2015 Consolidated Financial Statements, SMA did not apply the following accounting standards, which have already been adopted by the IASB but are not yet mandatory for this fiscal year.

Standard/Interpretation			Date of compulsory application ¹	Endorsement (until December 31, 2015) ²
		Financial Instruments: Classification and Measurement of Financial Instruments	2018/01/01	no
New	IFRS 9			
New	IFRS 14	Regulatory Deferral Accounts	2016/01/01	no
New	IFRS 15	Revenue From Contracts With Customers	2018/01/01	no
New	IFRS 16	Leases	2019/01/01	no
Amendment	IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	2016/01/01	yes
Amendment	IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception	2016/01/01	no
Amendment	IAS 1	Disclosure Initiative	2016/01/01	yes
Amendment	IAS 12	Income Taxes	2017/01/01	no
Amendment	IAS 16, IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	2016/01/01	yes
Amendment	IAS 16, IAS 41	Agriculture: Bearer Plants	2016/01/01	yes
Amendment	IAS 19	Defined Benefit Plans: Employee Contributions (Amendments to IAS 19 Employee Benefits)	2015/02/01	yes
Amendment	IAS 27	Equity Method in Separate Financial Statements	2016/01/01	yes
New	Annual Improvements	2010–2012 Cycle	2015/02/01	yes
New	Annual Improvements	2012–2014 Cycle	2016/01/01	yes
Amendment	IFRS 10, IAS 28	Sale or transfer of assets between the investor and an associate or joint venture	open	no
Amendment	IAS 7	Disclosure Initiative	2017/01/01	no

¹ Applicable to the first reporting period of a fiscal year beginning on or after that date
² Mandatory application according to adoption by the EU Commission – the standards themselves sometimes stipulate earlier mandatory application

Of the applicable standards and interpretations that have been published but are not yet mandatory, the following are expected to have an impact on the Financial Statements of the SMA Group. They will be implemented in the year of compulsory first-time application at the very latest.

IFRS 9 Financial Instruments

New standard adopted on July 24, 2014. The standard deals with the classification and measurement of financial assets and is expected to influence accounting for the Group’s financial assets. Application of the standard is mandatory from January 1, 2018. Early application is permitted, subject to adoption by the EU. The Group is currently examining the precise effects of IFRS 9. The Group is not currently exposed to any significant risks with regard to the recoverable amounts of the reported financial instruments. Furthermore, the rules of hedge accounting are not applied. No significant impact on earnings is anticipated.

IFRS 14 Regulatory Deferral Accounts

New standard adopted on January 30, 2014. The standard permits an entity that is a first-time adopter of IFRS to continue to account, with some limited changes, for “regulatory deferral account balances” in accordance with the financial reporting standards it previously applied. This applies both on initial adoption of IFRS and in subsequent

financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and in the income statement or in other comprehensive income. In addition, specific disclosures are required. IFRS 14 applies to reporting periods beginning on or after January 1, 2016. As SMA is not a first-time adopter of IFRS, the standard has no impact on the Group’s financial reporting.

IFRS 15 Revenue From Contracts With Customers

IFRS 15 is a new standard published on May 28, 2014 that applies to reporting periods beginning on or after January 1, 2018. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principle-based five-step model to be applied to all contracts with customers. Besides the more extensive disclosures, the standard is expected to affect the Group’s assets, financial position and results of operations due to changes in the recognition of sales from combined products, consisting of goods deliveries and long-term service commitments. The first-time application of the standard is not expected to have any significant impact on earnings. A one-off effect on earnings may occur due to the possibility of changes in the allocation of fair values to individual service packages.

IFRS 16 Leases

IFRS 16 replaces the existing IAS 17 and accompanying interpretations. It was published on January 13, 2016, and applies to reporting periods beginning on or after January 1, 2019. For lessees, the new standard provides an accounting model that does not differentiate between finance and operating leases. In the future, most leases will have to be recognized on the balance sheet. For lessors, the regulations of IAS 17 “Leases” are largely unchanged, so the distinction between finance and operating leases has to be retained, resulting in different consequences for accounting. The regulation will have a moderate impact on the Group. The Group will be affected as a lessee; the contracts currently recognized as operating leases are of no material volume.

Amendments to IFRS 11 Joint Arrangements

The amendments to IFRS 11 concern accounting for acquisitions of interests in joint operations. They clarify the accounting when these operations constitute a business. The amendments were adopted on May 6, 2014, and their application is mandatory from January 1, 2016. The amendments are not expected to affect the Group’s financial reporting.

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in connection with the application of the consolidation exception for investment entities. They are effective for annual periods beginning on or after January 1, 2016. As SMA is not an investment entity and the Group does not include any investment entities, the amendments have no effect.

Amendments to IAS 1 Disclosure Initiative

The amendments aim to remove obstacles for preparers with regard to exercising judgment in the presentation of financial statements. They are effective for annual periods beginning on or after January 1, 2016, with early application permitted. Minor changes are expected to the presentation of the financial statements.

Amendment to IAS 12 Income Taxes

The amendments comprise clarifying paragraphs and an additional illustrating example of how to account for deferred tax assets relating to assets measured at fair value. The amendments take effect for reporting periods that begin on or after January 1, 2017. No material effects are expected.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments adopted on May 12, 2014 concern the application of methods of depreciation and amortization. They describe which methods may be used for the depreciation and amortization of fixed assets and intangible assets. According to IAS 16, the revenue-based method is not a permissible method of depreciation or amortization. No effects are expected on the Group's assets, financial position or results of operations.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments adopted on June 30, 2014 bring bearer plants into the scope of IAS 16. This does not affect the Group's financial reporting.

Amendment to IAS 19 Employee Benefits

The IASB issued additional amendments to IAS 19 on November 21, 2013. The amendments clarify the requirements that relate to how contributions from employees or third parties linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service. The amendments are effective for annual periods beginning on or after February 1, 2015, with early application permitted. This does not affect the Group's financial reporting.

Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The amendments are effective for annual periods beginning on or after June 17, 2014, with early application permitted.

IFRS Annual Improvement Process 2010–2012

As part of its annual process of making minor improvements to standards and interpretations (Annual Improvements to IFRSs 2010–2012 Cycle), the IASB has issued amendments. The amendments affect seven standards (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24, IAS 38). They are applicable to reporting periods of a fiscal year beginning on or after February 1, 2015, and have only minor or no relevance to the Group.

IFRS Annual Improvement Process 2012–2014

As part of its annual process of making minor improvements to standards and interpretations (Annual Improvements to IFRSs 2012–2014 Cycle), the IASB has issued amendments. The amendments affect four standards (IFRS 5, IFRS 7, IAS 19 and IAS 34). They are applicable to reporting periods of a fiscal year beginning on or after July 1, 2016, and have only minor or no relevance to the Group.

The Group did not adopt any new standards, interpretations or amendments to existing standards prematurely in 2015.

3.2. DISCLOSURES TO THE ACCOUNTING AND VALUATION POLICIES

Intangible assets acquired with a finite useful life are valued at acquisition costs. They decline via straight-line amortization over their useful lives and accumulated impairments. The costs for internally generated intangible assets are recognized in the period in which they accrue, with the exception of development costs that can be capitalized.

Research and development expenses include all expenses that can be attributed directly to research or development activities. Expenditure on research is recognized as expenditure in the period in which it is incurred. The development costs of a project are capitalized as an intangible asset only after the SMA Group can demonstrate both the technical feasibility of completing the intangible asset so that it will be available for internal use or sale and the intention to complete the intangible asset and either use or sell it. In addition, the SMA Group must demonstrate how the intangible asset will generate future economic benefits, the availability of resources to complete the intangible asset and the ability to reliably measure the expenditure attributable to the intangible asset during its development. Development costs are recognized at cost pursuant to IAS 38.66, less accumulated amortization and amortization and accumulated impairment losses. Amortization commences at the end of the development phase and from the moment the asset can be used. Amortization is effected over the period during which future benefit will be expected. Incomplete development projects are tested annually for impairment. When the reasons that have resulted in impairment cease to exist, a corresponding addition is made.

With the purchase of dtw Sp. z o.o. in the 2011 fiscal year, the Group formed goodwill for the first time. Additional goodwill arose from the acquisition of Jiangsu ZeverSolar New Energy Co., Ltd. in 2013, which was written off in 2014. Danfoss' inverter segment and Phoenix's O&M business were acquired in 2014. Both transactions resulted in low goodwill. There were no other intangible assets with an indefinite useful life in the periods under review.

Intangible assets with a finite useful life are written down over three to five years using straight-line amortization. In the case of intangible assets with a finite useful life, the period of amortization and the amortization method are reviewed at least at the end of each fiscal year. Any changes in the amortization period that become necessary because of changes in the expected useful life are accounted for as changes to estimates. Amortization is recorded under the expense category that corresponds to the function of the intangible asset in the enterprise.

Any gains or losses from derecognition of intangible assets are determined as the difference between the net disposal proceeds and the book value of the asset. They are recognized in profit or loss in the period in which the asset is derecognized.

Fixed assets are valued at acquisition or production costs less straight-line depreciation and accumulated impairment losses. Borrowing costs are added to acquisition and production costs in the event of qualifying assets. The cost of replacement of a part of a fixed asset is included in the book value of this asset when incurred if the criteria for recognition are fulfilled. When major inspections are carried out, the costs are capitalized according to the book value of the relevant assets if the criteria for recognition are met. All other maintenance and repair costs are expensed immediately.

The depreciation period is based on the expected useful life. Depreciation is recognized under the expense category that corresponds to the function of assets in the enterprise. Scheduled straight-line depreciation is based on the following useful life of assets:

	Useful life
Leasehold improvements	10 years
Buildings	25 to 35 years
Technical equipment and machinery	6 to 8 years
Business and office equipment	5 to 10 years

A fixed asset is derecognized either upon its disposal or when no further economic benefit is expected from the further use or sale of the asset. Gains or losses from derecognition of the asset are determined as the difference between the net disposal proceeds and the book value of the asset and recognized through profit or loss in the income statement as other operating income or other operating expenses in the period in which the asset is derecognized.

The residual values, useful lives and depreciation methods are reviewed at the end of each fiscal year and adjusted if necessary.

Impairment of intangible assets and fixed assets: On each balance sheet date, the Group reviews whether there are any indicators that the value of an asset might be impaired. If such indicators exist or if an annual impairment test of an asset is required, the Group makes an estimate of the recoverable amount of the relevant asset. The recoverable amount of an asset is its fair value less costs to sell or its value in use, whichever is higher. As a rule, the recoverable amount will be determined for each individual asset. If it proves impossible to determine the recoverable amount for individual assets because the cash flows depend on those of other assets, the cash flows are determined for the next higher group of assets (cash-generating unit), for which such a cash flow can be determined.

If the book value of an asset or a cash-generating unit exceeds the recoverable amount, the asset or the cash-generating unit is impaired and written down to the recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments regarding the interest effect and the risks specific to the asset. In order to determine the fair value less costs to sell, an adequate valuation model is used. This is based on valuation multipliers, stock prices of quoted shares of entities or other available indicators for the fair value. Impairment costs are recognized under the expense category that corresponds to the function of the impaired asset in the enterprise. In fiscal year 2015, as in the previous year, impairment was taken into account on development projects. More information is provided in section 16, Intangible Assets.

For assets, a test is carried out on each balance sheet date to determine whether there are any indicators that a previously recognized impairment loss has ceased to exist or has diminished. Additions are made if the recoverable amount has increased in subsequent periods. An impairment loss recognized in prior periods is only reversed if there is a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss

See section 16, page 138 et seqq.

was recognized. If this is the case, the book value of the asset is increased to its recoverable amount. An addition is limited to the amount that would have resulted based on scheduled depreciation without recognizing an impairment. The addition is immediately recognized in the income statement. This was not the case in the year under review or in the previous year. A once impaired goodwill will not be reversed.

Inventories are measured at the lower value of acquisition or production costs and net realizable value. The costs of acquisition or production include all costs incurred during acquisition and production as well as other costs incurred in bringing the inventories to their present location and condition. Borrowing costs are not taken into account here. In general, when determining the acquisition costs of raw materials, consumables and supplies, moving average prices are used. The cost of production of work in progress and finished goods is determined using detailed cost accounting. The net realizable value consists of the estimated sales proceeds that can be achieved through the ordinary course of business, less the estimated costs incurred up to completion and the estimated necessary selling expenses. If the reasons that have resulted in an impairment of inventories no longer exist, a corresponding addition is made.

A financial instrument is a contract that gives rise to both a financial asset held by one entity and a financial liability or an equity instrument held by another entity. If the trading date and the settlement date of financial assets are different, then the settlement date is decisive for initial recognition. The date of contract conclusion is only decisive in the case of financial derivatives.

As a rule, financial instruments are reported as soon as an entity of the SMA Group becomes a contracting party to the provisions of the financial instrument. In the event of purchases or sales usual in the market (purchases or sales in the context of a contract, the conditions of which provide for the delivery of the asset within a certain period which is usually defined by the regulations or conventions of the relevant market), the settlement date (i.e., the date on which the asset is delivered to or by an SMA Group company) is decisive for its initial recognition in the balance sheet and for its removal from the balance sheet. Financial assets and financial liabilities are measured at fair value upon their initial recognition. In case of financial assets and financial liabilities for which there is no measurement at fair value through profit or loss, the transaction costs that are directly attributable to the purchase of the financial asset or the issue of the financial liability are also included. Financial assets and financial liabilities are generally stated separately and only netted if there is a right of offsetting these amounts on the relevant date and if the intention is to perform the settlement on a net basis.

For subsequent measurements, financial assets as defined in IAS 39 are classified as financial assets at fair value through profit or loss, as loans and receivables, as held-to-maturity investments or as available-for-sale financial assets. Financial liabilities as defined in IAS 39 are classified as financial liabilities at fair value through profit or loss or as other financial liabilities. Financial assets are designated to measurement categories upon their initial recognition. If permitted and necessary, redesignations are made at the end of the fiscal year.

For the SMA Group, the measurement categories loans and receivables, financial assets and liabilities measured at fair value and other financial liabilities are particularly relevant.

Any loans and receivables granted by the enterprise and other financial liabilities are measured at amortized cost of acquisition using the effective interest method. These are primarily trade receivables and payables, other financial receivables, and assets and long-term loans.

Held-for-trading assets are measured at their fair value. These primarily include derivative financial instruments that are not part of an effective hedging relationship as defined in IAS 39 and which must therefore be designated mandatorily as held for trading. Derivative financial instruments are reported as assets if their fair value is positive and as liabilities if their fair value is negative. Gains and losses resulting from changes in the fair value of derivative financial instruments are recognized directly through profit or loss, since no hedging relationship was created for them. Gains or losses resulting from subsequent measurement are recognized through profit or loss in the income statement. The derivative financial instruments held by the SMA Group are not part of effective hedging relationships in accordance with IAS 39.

On each balance sheet date, the book values of financial assets that are not measured at fair value through profit and loss are tested to determine whether objective substantial indicators for an impairment exist (such as considerable financial difficulties of the debtor, high probability of bankruptcy proceedings being initiated against the debtor, elimination of an active market for the financial asset, significant changes in the technological, economic, legal or market environment of the issuer or a permanent fall in the fair value of the financial assets below the amortized cost of acquisition). A possible impairment loss which is due to the fair value being lower than the book value is recognized through profit and loss. If impairments of the fair values of financial assets available for sale have previously been recognized directly in equity, these are eliminated from equity up to the amount of the identified impairment and transferred to the income statement. If subsequent measurements show that the fair value has increased objectively due to events occurring after the impairment loss was originally recognized, the impairment loss is reversed by applying the relevant amount through profit and loss. Impairments relating to unquoted available-for-sale equity instruments that are reported at acquisition costs may not be reversed.

A financial asset is removed from the books if the enterprise has relinquished control of the contractual rights related to the financial asset. A financial liability is removed from the books if the obligation underlying the liability is discharged, cancelled or has expired.

Cash and cash equivalents reported in the balance sheet include cash on hand as well as bank balances, checks, payment instruments in transit and short-term deposits with a total term to maturity of less than three months. The cash and cash equivalents in the Consolidated Statements of Cash Flows are accrued in line with the aforementioned definition and include any bank overdrafts that have been granted.

Government grants are not recognized until there is reasonable assurance that SMA will meet all of the conditions for receiving the grants. Government grants have to be recognized in the income statement in line with planning during the periods in which the corresponding expenses to be offset by the grants are recognized. Government grants that are paid to compensate for expenses or losses already incurred or to provide immediate financial support without associated expense in the future are recognized in the income statement in the period in which the corresponding claim arises.

Provisions account for all recognizable present (legal and constructive) obligations of the Group to third parties as a result of past events, which are expected to lead to an outflow of resources with an economic benefit to settle the obligation and the amount of which can be determined reliably. The provisions are recognized in line with IAS 37 at the estimated amount required to settle them. Insofar as the Group expects to receive a repayment, at least in part, for a reported provision (such as for an insurance contract), the repayment is recorded as a separate asset if the inflow of the payment is highly probable. The expense for the formation of the provision is recognized in the income statement. Non-current provisions are carried in the balance sheet at their settlement amount discounted to the balance sheet date using corresponding term-dependent market interest rates. If the amount is discounted, the increase of provisions caused by expiration is recorded under finance costs. Additions to the provisions for guarantees outlined under 23. Provisions are recognized in cost of sales. They are not deferred from sales.

The determination as to whether an agreement contains a lease is made based on the economic content of the agreement on the date of its conclusion and requires an assessment of whether fulfillment of the agreement depends on the use of a specific asset or specific assets and whether the agreement grants a right to use the asset.

An operating lease exists if the substantial rewards and risks regarding the leased object are retained by the lessor. Lease payments on operating leases are recorded over the term of the lease as an expense in the income statement.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets until the assets are substantially ready for their intended use or sale. Qualifying assets refer to those assets that require a longer period of time before they are available for their intended use or sale. All other borrowing costs are recognized as profit or loss in the period in which they are incurred. As in the previous year, no borrowing costs were capitalized in the current period under review. Employee benefits are, as a rule, reported as a liability if an employee has provided work in exchange for benefits payable in the future and are recognized as an expense if the entity has received the economic benefit resulting from the work provided by an employee in exchange for future benefits.

Long-service and death benefits are granted on the basis of a company agreement. Measurement of obligations to pay benefits is carried out by applying the projected unit credit method. This method takes into account both the claims for payment of long-service rewards and death benefits and the acquired pension rights known as of the balance sheet date, and payments of long-service rewards and death benefits expected in the future.

In 2009, SMA Solar Technology AG introduced value-based lifelong working-time accounts. Under certain conditions, employees may have time credits or special benefits reposted to these value accounts and may later take paid leave of absence using the credit balances extrapolated based on income. The employees' value claims are protected against insolvency and are reinsured.

Revenue is recognized if it is probable that the economic benefit will flow to the Group and the amount of the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received. Discounts, rebates and other deductions are not taken into account. Revenue from the sale of goods and products is recognized if the material rewards and risks associated with the ownership of the goods and products sold have passed to the buyer. This is the case upon delivery of goods and products or handover from the carrier.

Revenue from services is recognized as soon as the services are rendered. In the case of multi-year service contracts, the recognition of revenue is spread over the contract term. Interest income is recognized when interest has accrued using the effective interest rate (i.e., the internal rate used to discount estimated future cash inflows over the expected term of the financial instrument to the net book value of the financial asset). Dividends are recognized when the right to receive payment is established.

Current tax receivables and tax liabilities for the ongoing and for previous periods are measured at the amount which is expected to be reimbursed by the tax authority or to be paid to the tax authority. In order to calculate this amount, the tax rates and tax laws applicable on the balance sheet date are used. Current taxes that relate to items stated directly in equity are not recognized in the income statement but rather in equity.

Deferred taxes are calculated according to IAS 12 on the basis of the standard international balance-sheet-related liability method. This requires deferred tax items to be recognized for all temporary differences between the tax base of an asset or liability and its carrying amount in the consolidated balance sheet as well as for tax loss carry-forwards. However, deferred tax assets are only recognized if realization is sufficiently likely.

Deferred taxes are measured using the tax rates that, under current legislation, would apply in the future on the probable date of reversal of the temporary differences. The effects of amendments to tax legislation on deferred tax assets and liabilities are recognized in profit or loss in the period in which the material conditions for such amendments to come into force arise. Deferred tax assets and liabilities are not discounted according to the regulations of IAS 12. Deferred tax assets and liabilities are offset within individual companies on the basis of maturity.

3.3. SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Preparation of the Consolidated Financial Statements requires the company management to make judgements, estimates and assumptions that affect the amounts of revenues and expenses, assets and liabilities reported on the reporting date as well as the disclosure of contingent liabilities. Uncertainty related to these assumptions and estimates may lead to results that require material adjustments to the book values of the relevant assets or liabilities in the future.

When applying the accounting and valuation policies, the company management made the following judgments, which had a significant effect on the amounts recognized in the Consolidated Financial Statements. Judgments containing estimates are not taken into account here.

The company Management made a judgment on the first-time categorization of other financial assets. More information is provided in section 28.

The key assumptions concerning the future and other key sources of estimation uncertainty on the reporting date associated with a significant risk of causing a material adjustment to the book values of assets and liabilities during the next fiscal year are explained below:

See section 28, page 147 et seqq.

Development costs are capitalized in line with the accounting policies presented when all required conditions are given. Initial capitalization of costs is based on an estimate by the company management that a project's technical and economic feasibility has been proven. This is normally the case when a development project has reached a specific milestone or a specific quality gate in the development process. When determining the amounts to be capitalized, the company management makes further valuation assumptions regarding the amount of expected future cash flows from the assets, the discounting rates to be applied and the period of inflow of expected future cash flows generated by the assets. With this in mind, €31.5 million (2014: €40.9 million) were capitalized during the fiscal year. The research and development costs recognized as expenses are presented in section 8, Research and Development Expenses.

In addition to individual circumstances, provisions for overall warranty risks are also taken into account when setting aside provisions for warranty obligations. In the case of warranty risks, an obligation of five or ten years is generally adopted as a base. The expected warranty expenditure is based on historical values. The expected warranty expenditure is calculated by referring to a weighted percentage determined by comparing actual warranty expenditure in the last five to ten years leading up to the previous year's sales and applying these percentages to the sales covered by warranty obligations. The warranty provisions are used up equally over the five-to ten-year warranty period. The value of the provision for individual cases and overall warranty risks amounted to €139.8 million as of December 31, 2015 (December 31, 2014: €139.8 million). More information is provided in section 23, Provisions. Accrued payments received for non-gratuitous warranties are collected over the warranty period as sales revenues on a straight-line basis because, in this case, a linear progression of warranty costs is also adopted as the best possible estimation method.

The restructuring provision was recognized on the basis of a formal restructuring plan in the 2014 fiscal year. To determine its amount, assumptions were made regarding the average salaries, lengths of service and maintenance obligations of the employees affected. The rate of acceptance of severance agreements was also estimated.

On each balance sheet date, the Group examines whether there are indicators for an impairment of non-financial assets. Estimating the value in use requires the company management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of these cash flows. As in the previous year, impairment was recognized on development projects in fiscal year 2015. More information is provided in section 16, Intangible Assets.

Deferred tax assets are formed for all unused tax loss carryforwards to the extent that it is probable that there will be sufficient taxable profit to enable the loss carryforwards to actually be used. Determining the amount of deferred tax assets requires the company management to use significant discretion regarding the expected time of accrual and the amount of taxable income in the future as well as regarding future tax planning strategies. Deferred tax assets for loss carryforwards amount to €21.9 million (2014: €25.4 million).

See also section
16, Intangible
Assets

4. Business Combinations

In 2015, no business combinations were carried out. In the previous year, two business combinations under IFRS 3 took place.

In May 2014, as part of the strategic partnership with Danfoss Power Electronics A/S, Denmark ("Danfoss"), SMA acquired its inverter segment in an asset deal. Essentially, product licenses and patents (€1.3 million) and trade receivables (€3.0 million) were transferred. The resulting goodwill of €0.3 million primarily reflects the prospect of positive effects from the strategic partnership with Danfoss.

As part of an asset deal with Phoenix Solar AG, Sulzemoos ("Phoenix"), SMA acquired the business unit for operation and maintenance services for photovoltaic power plants (O&M business) in October 2014. The transferred assets chiefly comprised customer contracts (€4.0 million) as well as inventories and receivables (€0.7 million). The resulting goodwill of €0.2 million chiefly reflects expectations relating to access to the European O&M business for photovoltaic power plants.

5. Segment Reporting

At the beginning of the 2015 fiscal year, SMA Group reorganized its photovoltaics operations and adjusted the Group structure accordingly. Since January 1, 2015, SMA Group has operated under its new functional organization. In this organization, the Residential, Commercial, Utility and Service business units take on overall responsibility and manage Development, Sales and Operations. They are presented as separate segments. Railway Technology and Off-Grid & Storage business have been combined under Other Business. The business sector Zeversolar is presented with its own information under the regulations of IFRS 8.13. The previous segments have been absorbed into the new segment structure as follows: The previous Medium Power Solutions (MPS) segment was split between the new Residential and Commercial business units. Inverters with an output range of up to 12 kW are assigned to the Residential business unit. The Commercial business unit is responsible for output ranges over 12 kW. The new Utility business unit primarily comprises the old PPS segment. The Service segment continues to offer services in Germany and abroad, including, in particular, the assumption of warranty and maintenance services and operational management.

In association with this, management of the Group and internal reporting have also changed.

In accordance with the regulations of IFRS 8 Operating Segments, this organizational repositioning led to a change in the segment reporting for all comparative periods affecting the presentation as well as previous year's values. The number of reported segments is increased by one based on IFRS 8.11b in connection with IFRS 8.13. Based on the information reported to the Group's chief operating decision-makers for resource allocation and business performance, the above business units and the composite segment Other Business (inclusive business area Zeversolar) are identified as reportable segments under IFRS 8.11a. The business units report directly to the Managing Board. In accordance with market requirements, SMA regularly reviews its organizational structure in order to make it as efficient as possible.

Sales in the Residential, Commercial und Utility business units are subject to fluctuations because of discontinuous incentive programs.

Segment	Activities
Residential	The Residential business unit serves the attractive long-term market of small PV systems for private applications. In particular, the portfolio comprises single-phase string inverters with the brand name Sunny Boy, three-phase inverters in the lower output range up to 12 kW with the brand name Sunny Tripower, energy management solutions, storage systems such as the Sunny Boy Smart Energy, and communication products and accessories. With this portfolio of products and services, SMA can offer a suitable technical solution for private PV systems in all major photovoltaic markets.
Commercial	The Commercial business unit serves the growing market of medium-sized PV systems for commercial applications. The portfolio comprises three-phase inverters from the Sunny Tripower brand with outputs of more than 12 kW as well as communication products and other accessories. SMA offers complete solutions as well as individual inverters for commercial PV systems in all major photovoltaic markets.
Utility	The Utility business unit serves the growing market for large-scale PV power plants with outputs ranging from 500 kW to the megawatt range with central inverters from the Sunny Central brand. In addition to medium- and high-voltage technology, the product and service portfolio also comprises grid service and monitoring functions as well as accessories.
Service	SMA has its own service companies in all important photovoltaic markets. With an installed capacity of nearly 50 GW worldwide, SMA leverages economies of scale to manage its service business profitably. Services offered include commissioning, warranty extensions, service and maintenance contracts, operational management, remote system monitoring and spare parts business.
Zeversolar	Zeversolar comprises Jiangsu Zeversolar New Energy Co., Ltd. and its subsidiary companies, and serves the Chinese photovoltaic market with its own central inverters. String inverters are offered in select foreign markets to its own customer base.
Other Business	The business activities of Railway Technology and Off-Grid & Storage

The operating result of the segments is monitored separately by the Managing Board to make decisions on the allocation of resources and to determine the profitability of the segments. Group financing, currency and interest rate hedging and the income tax burden are controlled at Group level and are therefore not allocated to the individual operating segments.

Regarding information on geographical segments, sales are assigned to countries using the destination principle. The Company waives presenting non-current assets based on this classification. SMA Solar Technology AG develops and manufactures its products mainly in Germany. There are no material non-current assets tied to the production sites outside Germany in China, North America and Poland. Accordingly, an apportionment of assets by regions is likewise not a part of internal management reporting.

The Group measures the performance of its segments through a measurement of segment profit or loss, which is referred to as EBIT in the internal management and reporting system. This measurement comprises gross profit, selling and general administrative expenses, research and non-capitalized development costs as well as other operating income (balance of other operating income and expenses).

Segment assets comprise the intangible assets attributed to each segment and its fixed assets, inventories and trade receivables. Segment liabilities include trade payables that are directly attributable to the relevant segments. Internal management reporting is in line with the accounting policies of external reporting.

The transfer prices between the business segments are determined using management prices based on usual arm’s length market conditions. Income from external third parties is reported using the same valuation parameters as shown in the income statement. No asymmetrical allocations are made to individual segments.

Sales are not broken down into goods deliveries and services because the amount of services is insignificant compared to goods deliveries. Services are provided in the Service segment, they represent less than five percent of the Group’s revenue.

FINANCIAL RATIOS BY SEGMENTS AND REGIONS

Segments	External sales		Internal sales		Total sales		Operating profit (EBIT)	
in € million	2015	2014	2015	2014	2015	2014	2015	2014
Residential	252.7	249.2	0.0	0.0	252.7	249.2	1.8	-46.9
Commercial	207.4	159.3	0.0	0.0	207.4	159.3	-25.6	-22.8
Utility	416.0	281.7	0.7	0.0	416.7	281.7	56.5	0.0
Service	49.5	41.2	66.4	90.7	115.9	131.9	14.4	4.5
Zeversolar	21.7	17.6	0.0	0.0	21.7	17.6	-8.7	-18.5
Other Business	52.3	56.4	0.1	0.0	52.4	56.4	-7.8	-7.5
Total segments	999.6	805.4	67.2	90.7	1,066.8	896.1	30.6	-91.2
Reconciliation	0.0	0.0	-67.2	-90.7	-67.2	-90.7	3.7	-73.7
Continuing operations	999.6	805.4	0.0	0.0	999.6	805.4	34.3	-164.9

Segments	Segment assets		Segment liabilities		Capital expenditure		Depreciation and amortization	
in € million	2015	2014	2015	2014	2015	2014	2015	2014
Residential	65.4	46.4	0.9	0.2	9.9	9.1	13.0	9.9
Commercial	39.1	27.6	0.8	1.1	5.7	7.5	9.8	9.3
Utility	154.1	99.5	7.5	5.4	14.7	19.9	4.6	2.3
Service	39.5	39.6	2.2	4.5	0.5	0.8	1.5	1.3
Zeversolar	24.5	36.1	8.7	14.4	0.5	1.9	1.6	1.3
Other Business	27.6	30.5	2.3	2.2	3.5	4.2	2.4	1.6
Total segments	350.2	279.7	22.4	27.8	34.8	43.4	32.9	25.7
Reconciliation	810.3	900.6	567.9	600.5	15.8	32.1	46.1	80.8
Continuing operations	1,160.5	1,180.3	590.3	628.3	50.6	75.5	79.0	106.5

Sales by regions		
in € million	2015	2014
EMEA	367.0	338.1
Americas	429.3	316.4
APAC	221.2	165.1
Sales deductions	-17.9	-14.2
External sales	999.6	805.4
thereof Germany	129.2	177.8

Reconciliation of segment figures to the correlating figures stated in the Financial Statements is as follows:

in € million	2015	2014
Total segment earnings (EBIT)	30.6	-91.2
Eliminations	3.7	-73.7
Consolidated EBIT	34.3	-164.9
Financial result	-5.0	-3.0
Earnings before income taxes	29.3	-167.9
Total segment assets	350.2	279.7
Other central items and eliminations	170.0	294.9
Centrally administered land and buildings	191.8	201.3
Cash and long-term time deposits	297.9	266.5
Financial instruments not designated and other assets	61.9	52.8
Deferred tax assets and income tax receivables	88.7	85.1
Group assets	1,160.5	1,180.3
Total liabilities	22.4	27.8
Other central items and eliminations	80.7	84.1
Financial instruments not designated, liabilities and provisions	452.9	477.5
Income tax liabilities and deferred tax liabilities	34.3	38.9
Group liabilities	590.3	628.3

Circumstances are shown in the reconciliation which by definition are not part of the segments. In particular, this includes unallocated parts of the Group head office, including the centrally administered cash and cash equivalents, financial instruments, financial liabilities and buildings, the expenses of which are apportioned to the segments. In the previous year, the reconciliation includes the restructuring provision. Business relations between the segments are eliminated in the reconciliation.

In 2015, as in the previous year, no customer accounted for a share of more than 10% of Group sales.

Notes to the Income Statement SMA Group

6. Cost of Sales

in €'000	2015	2014
Material expenses	546,222	440,869
Personnel expenses	130,429	134,761
Depreciation and amortization	68,415	74,853
Other	40,621	21,901
	785,687	672,384

Cost of sales include, as direct costs, the product-related material expenses as well as all other expenses for the areas of Production, Purchasing, Service, and Facility Management and IT.

In 2015, the specific material costs were again reduced thanks to close collaboration between Purchasing, Production and Development. Together with the launch of new products, this reduced material expenses per watt by 13.8% to 7.5 cents per watt (2014: 8.7 cents per watt). The material expenses ratio was therefore kept constant at 54.6% in 2015 (2014: 54.7%) despite ongoing price reductions for PV inverters.

In 2015, personnel expenses included in cost of sales fell by 3.3% year on year to €130.4 million (2014: €134.8 million) despite a higher production volume. The first effects of personnel adjustments were partially offset by the collectively agreed upon wage increase, the employee bonus and the greater demand for temporary employees.

Depreciation and amortization included in cost of sales decreased by 8.7% to €68.4 million in 2015 (2014: €74.9 million). This included scheduled depreciation on capitalized development costs of €19.5 million (2014: €14.9 million).

The €18.7 million increase in other expenses primarily resulted from the addition of sales-based provisions for warranty obligations compared with the same period of the previous year.

7. Selling Expenses

in €'000	2015	2014
Material expenses	978	513
Personnel expenses	35,437	34,300
Depreciation and amortization	485	976
Other	19,468	29,104
	56,368	64,893

Selling expenses include expenditure for global sales activities, internal sales and marketing. With its international sales organization, SMA is benefiting from the global growth of photovoltaic markets. Selling expenses fell by 13.1% year on year to €56.4 million in 2015 (2014: €64.9 million), primarily due to savings in material costs. The cost savings generated by personnel adjustments were offset by non-recurring payments in 2015. The cost of sales ratio was 5.6% in the reporting period (2014: 8.1%), due, in particular, to the increase in sales.

8. Research and Development Expenses

in €'000	2015	2014
Material expenses	5,629	7,485
Personnel expenses	55,581	67,062
Depreciation and amortization	8,417	7,227
Other	29,564	47,278
	99,191	129,052
Capitalized development projects	-31,532	-40,893
	67,659	88,159

Research and development expenses include all costs that can be attributed to the areas of product development, development-related testing and product management. Here, SMA is adhering to its strategy of using development competence abroad, especially in the U.S. and in China, in order to further reinforce its leadership in technology. The personnel adjustments implemented reduced the number of employees (not including temporary employees and trainees) by 20.3% in this area. As a result, personnel expenses fell by 17.1% to €55.6 million in 2015. Other costs were decreased to €29.6 million in 2015 as a result of steps taken to reduce fixed costs. This was achieved by focusing more sharply on core development projects. With at least one product launch per segment, SMA showed that it has retained its capacity for innovation.

Capitalized development projects again fell far short of the previous year at €31.5 million (2014: €40.9 million).

9. General Administrative Expenses

in €'000	2015	2014
Material expenses	53	132
Personnel expenses	31,711	44,163
Depreciation and amortization	1,639	1,457
Other	27,568	34,831
	60,971	80,583

Administrative expenses include expenses for Finance, Human Resources, Legal and Compliance and Corporate Communication. Administrative expenses in 2015 totaled €61.0 million (2014: €80.6 million). The substantial decrease in administrative expenses of 24.3% is mainly attributable to staff reductions in the general administrative area, which had already reduced personnel costs to €31.7 million in 2015 (2014: €44.2 million).

Other costs decreased by €7.2 million to €27.6 million thanks to measures taken to reduce fixed costs.

10. Other Operating Income

in €'000	2015	2014
Revenues from foreign currency translation	25,330	18,411
Government grants	2,431	2,061
Other miscellaneous income	19,554	12,282
	47,315	32,754

Other operating income specifically includes income from foreign currency valuation and non-operative income, such as from assets measured at fair value through profit or loss. The remaining miscellaneous income includes €9.1 million from the reversal of the restructuring provision.

11. Other Operating Expenses

in €'000	2015	2014
Expense from foreign currency translation	20,381	11,820
Other miscellaneous expenses	21,574	85,197
	41,955	97,017

Other operating expenses declined by 56.8% to €42.0 million. In the previous year, these included expenses for the recognition of provisions for the costs associated with the planned restructuring measures and impairment on the goodwill and intangible assets of Zeversolar at €22.0 million. Expenses for additions to impairment losses on receivables amounted to €2.2 million in the reporting period (2014: €6.5 million).

12. Employee and Temporary Employee Benefits

in €'000	2015	2014
Wages and salaries	205,747	275,438
Expenses for temporary employees	17,581	18,062
Social security contribution and welfare payments	31,574	37,514
	254,902	331,014

Voluntary contributions to private pensions amounted to €1.7 million in 2015 (2014: €1.5 million).

The average number of employees in the Group amounted to:

	2015	2014
Research and Development	838	1,051
Production and Service	2,329	2,691
Sales and Administration	749	1,058
	3,916	4,800
Apprentices and interns	172	237
Temporary employees	557	629
	4,645	5,666

13. Financial Result

in €'000	2015	2014
Interest income	1,787	2,573
Other financial income	5	450
Income from interest derivatives	152	0
Financial income	1,944	3,023
Interest expenses	5,283	3,912
Other financial expenses	1,431	1,905
Expenses from interest derivatives	180	212
Interest portion from valuation of provisions	52	87
Financial expenses	6,946	6,116
Financial result	-5,002	-3,093

The financial result decreased by €-1.9 million to €-5.0 million (2014: €-3.1 million). The reason for this was a drop in interest income in 2015 by €0.8 million to €1.8 million. This was primarily due to decreased investment volume and the low market interest rate. Total interest income from financial assets not measured at fair value through profit or loss amounted to €1.8 million (2014: €2.6 million) in the fiscal year.

Financial expenses rose to €6.9 million (2014: €6.1 million) as a result of the interest required due to the tax audit. The expense of €0.1 million from the revaluation of the written put option in connection with the remaining minority interests of Zeyersolar was recognized under other financial expenses. Interest expenses from financial liabilities not measured at fair value through profit or loss amounted to €3.4 million (2014: €3.9 million).

14. Income Taxes

Actual income taxes (paid or payable) and deferred taxes are recognized as income taxes. They break down as follows:

in €'000	2015	2014
Actual income taxes		
— for current fiscal year	20,423	13,133
— for previous years	3,795	3,091
Deferred taxes		
— from temporary differences	-12,659	-8,944
— from tax loss carryforwards	3,502	4,087
Income taxes	15,061	11,367

Income taxes comprise trade tax, corporation tax and the solidarity surcharge in Germany, and comparable income taxes abroad. The expected income tax expense that would result from applying the tax rate of the parent company SMA Solar Technology AG to the IFRS consolidated result before taxes can be reconciled to income taxes shown in the Income Statement as follows:

in €'000	2015	2014
Consolidated result before income taxes	29,311	-167,945
Tax rate of the parent company	30.6%	30.7%
Expected income tax expenses	8,969	-51,509
Differences related to differing tax rates domestic and abroad	-3,153	3,495
Effects due to changes in tax rates	-15	-29
Tax-free income	82	-9
Non-deductible expenses	291	-141
Unusable loss carryforwards and amortization of loss carryforwards	4,848	55,069
Taxes relating to previous years	3,795	3,091
Other tax effects	244	1,400
Actual income taxes (according to Income Statement)	15,061	11,367
Effective Group tax rate	51.4%	6.8%

The corporation tax rate of 15% and the solidarity surcharge rate of 5.5% are to be applied for corporations based in Germany. In addition, domestic companies and partnerships are subject to trade tax, which is influenced by assessment rates specific to the particular municipality. The average trade tax rate to be applied at the level of the parent company is 14.8% (2014: 14.9%). The overall tax rate of the Group's parent company is thus 30.6% (2014: 30.7%).

The effects of deviations between the relevant tax rates at the level of the domestic and foreign Group companies and the overall tax rate at the level of the Group's parent company are shown in the reconciliation statement under tax-rate-related deviations in Germany and abroad.

No deferred taxes were formed for the undistributed profits of foreign subsidiaries, including accrued currency translation differences, because this income and these translation differences are either not subject to corresponding taxation or are not be distributed in the foreseeable future.

As of December 31, 2015, there were current income tax receivables amounting to €3.9 million (2014: €12.6 million) and current income tax liabilities of €9.9 million (2014: €14.6 million).

Deferred tax assets and deferred tax liabilities were recorded directly in equity at €0.0 million (2014: €0.02 million). Deferred tax assets and liabilities were distributed across the following items:

	2015/12/31		2014/12/31	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
in €'000				
Intangible assets	282	-22,598	327	-19,773
Fixed assets	7,082	-648	3,082	-1,923
Financial assets	8,016	-24	7,113	-1,514
Inventories	7,003	-517	4,386	-420
Other assets	574	-149	870	-477
Other provisions	6,580	-1	5,987	-34
Other liabilities	33,436	-465	25,373	-202
Loss carryforwards	21,857	0	25,359	0
	84,830	-24,402	72,497	-24,343

The deferred tax income of €9.2 million results from the changes of the balance sheet items as shown above. The difference between the tax income and the change in balance sheet items of €12.3 million resulted primarily from exchange rate differences of the subsidiaries in the U.S.

Deferred tax assets are regarded as realizable if a sufficient amount of taxable income is expected in the future. Deferred tax assets on loss carryforwards were mainly generated at SMA Solar Technology AG. A planning period of three years was taken as a basis.

SMA Solar Technology AG reported on December 31, 2015 corporation tax loss carryforwards in an amount of €222.1 million (2014: €231.4 million) and trade tax loss carryforwards amounting to €250.7 million (2014: €232.5 million). Corporate tax loss carryforwards amounting to €163.3 million (2014: €154.6 million) and trade tax loss carryforwards amounting to €191.9 million (2014: €155.7 million) were not used for the formation of deferred tax assets from loss carryforwards.

15. Earnings per Share

Earnings per share are calculated by dividing the consolidated earnings attributable to the shareholders by the weighted average of ordinary shares in circulation during the period. The number of shares in the 2015 fiscal year amounted to 34.7 million, as in the previous year.

The consolidated earnings attributable to the shareholders are the consolidated net result after tax. As there were no shares held by the Company on the reporting date or any other special cases, the number of ordinary shares issued equated to the number of shares in circulation.

The calculation of earnings in relation to the weighted average number of shares in accordance with IAS 33 resulted in earnings of €0.41 per share for the period from January 1, 2015 to December 31, 2015, with an average weighted number of shares of 34.7 million and earnings of €-5.16 per share for the period from January 1, 2014 to December 31, 2014, with an average weighted number of shares of 34.7 million.

There were no options or conversion options as of the reporting date. Therefore, there were no diluting effects and the diluted and basic earnings per share were the same.

Pursuant to the German Stock Corporation Act, the distributable dividend is based on the net profit, which is recorded in the Annual Financial Statements of SMA Solar Technology AG prepared according to the provisions of the German Commercial Code and the Stock Corporation Act.

The Managing Board will recommend that the Supervisory Board propose a dividend of €0.14 per qualifying bearer share for the 2015 fiscal year at the Annual General Meeting on May 31, 2016. The amount paid out in dividends will thus amount to €4.9 million (2014: €0.0 million).

Notes to the Balance Sheet SMA Group

16. Intangible Assets

Intangible assets evolved in the fiscal years under review as follows:

in €'000	Goodwill	Develop- ment projects	Patents/ licenses/ other rights	Software	Intangible assets in progress	Prepay- ments	Total
Acquisition costs							
2015/01/01	13,660	86,853	20,196	45,208	47,605	0	213,522
Changes in currency		33	980	22	1		1,036
Additions		12,550	108	179	20,152		32,989
Disposals				3			3
Transfers		36,056	24	1,848	-37,921		7
2015/12/31	13,660	135,492	21,308	47,254	29,837	0	247,551
Amortization							
2015/01/01	12,862	61,961	14,153	32,479	2,253		123,708
Changes in currency	0	-8	864	10			866
Additions		24,235	850	5,253	1,343		31,681
Disposals				3			3
2015/12/31	12,862	86,188	15,867	37,739	3,596		156,252
Net value 2014/12/31	798	24,892	6,043	12,729	45,352	0	89,814
Net value 2015/12/31	798	49,304	5,441	9,515	26,241	0	91,299
Acquisition costs							
2014/01/01	13,173	74,966	14,539	39,854	18,359	12	160,903
Changes in currency		-260	1,490	19	-3		1,246
Additions from acquisitions	487	1,291	4,015				5,793
Additions		4,417	0	154	41,474		46,045
Disposals				506		12	518
Transfers		6,439	152	5,687	-12,225		53
2014/12/31	13,660	86,853	20,196	45,208	47,605	0	213,522
Amortization							
2014/01/01	0	40,865	573	27,318			68,756
Changes in currency	0	-166	463	6			303
Additions	12,862	21,262	13,117	5,450	2,253		54,944
Disposals				295			295
2014/12/31	12,862	61,961	14,153	32,479	2,253		123,708
Net value 2013/12/31	13,173	34,101	13,966	12,536	18,359	12	92,147
Net value 2014/12/31	798	24,892	6,043	12,729	45,352	0	89,814

€18.9 million (2014: €29.8 million) of the additions of intangible assets in progress included development projects. In relation to development projects, amortization of intangible assets is posted in the Income Statement under cost of sales. Amortization of development projects and intangible assets in progress included an impairment loss of €6.0 million (2014: €8.6 million) due to changes in sales forecasts and partly discontinuation of a development project. The impairment relates to products of the Residential (€3.1 million) and Commercial (€1.3 million) business units and an amount of €1.6 million charged proportionally to all business units. The amortization was made to the value in use. An after-tax interest rate of 10.2% (2014: 9.1%) was applied. Amortization of software is allocated to the functional areas dependent on use.

The goodwill is assigned to cash-generating units on the basis of the organizational structure. The goodwill from the asset deal with Danfoss is assigned to the Commercial business unit (€0.3 million), from the asset deal with Phoenix to the Service business unit (€0.2 million) and that of dtw Sp. z o.o. (2015: €0.3 million, 2014: €0.3 million) to the Residential business unit.

The existing goodwill was confirmed in the impairment reviews at the end of the fiscal year. The progression of cash flow was extrapolated for the period after the third year on the basis of a constant annual growth rate of 1.0% (2014: 1.0%). This was derived from the average long-term growth rate on the photovoltaic market. The after-tax interest rates applied ranged between 8,0% and 11,2% (pre-tax interest rates: 10,4% to 13,4%). The Managing Board believes that no reasonably conceivable change in basic assumptions on the basis of which the recoverable amount is determined would result in the cumulative book value of the cash-generating unit exceeding its cumulative recoverable amount.

17. Fixed Assets

Fixed assets evolved as follows in the 2015 fiscal year:

in €'000	Land and buildings incl. buildings on third-party property	Technical equipment and machinery	Other equip- ment, plant and office equipment	Prepayments and assets under construction	Total
Acquisition costs					
2015/01/01	278,386	76,265	193,825	4,877	553,353
Changes in currency	2,186	714	1,547	124	4,571
Additions	3,639	108	1,574	12,271	17,592
Disposals	2,134	2,199	12,228		16,561
Transfers	1,061	3,290	11,630	-15,988	-7
2015/12/31	283,138	78,178	196,348	1,284	558,948
Depreciation					
2015/01/01	60,323	32,866	136,832	0	230,021
Changes in currency	905	275	1,162		2,342
Additions	16,598	6,313	24,403		47,314
Disposals	2,022	1,884	11,407		15,313
2015/12/31	75,804	37,570	150,990	0	264,364
Net value 2014/12/31	218,063	43,399	56,993	4,877	323,332
Net value 2015/12/31	207,334	40,608	45,358	1,284	294,584

The additions to land and buildings mainly related to the extension or conversion of buildings.

As of December 31, 2015, prepayments and assets under construction are included in particular prepayments for tools and machinery.

Investments of €3.5 million (2014: €2.6 million) were made for the expansion of the infrastructure of our subsidiaries in the U.S.

The book losses from asset disposals in the fiscal year related mainly to Corporate Functions; in the previous year, the Residential (€4.0 million) and Service (€0.9 million) business units and Corporate Functions (€1.3 million) were affected.

Fixed assets of €22.6 million (2014: €27.6 million) were negatively affected by mortgage liens used to secure financial liabilities.

Fixed assets evolved as follows in the 2014 fiscal year:

in €'000	Land and buildings incl. buildings on third-party property	Technical equipment and machinery	Other equip- ment, plant and office equipment	Prepayments and assets under construction	Total
Acquisition costs					
2014/01/01	272,451	67,260	187,971	8,462	536,144
Changes in currency	2,308	739	2,041		5,088
Additions from acquisitions			120		120
Additions	1,455	1,002	3,253	23,789	29,499
Disposals	2,684	355	14,406		17,445
Transfers	4,856	7,619	14,846	-27,374	-53
2014/12/31	278,386	76,265	193,825	4,877	553,353
Depreciation					
2014/01/01	44,815	26,388	116,054	0	187,257
Changes in currency	865	248	1,196		2,309
Additions	15,704	6,380	29,461		51,545
Disposals	1,061	150	9,879		11,090
2014/12/31	60,323	32,866	136,832	0	230,021
Net value 2013/12/31	227,635	40,872	71,917	8,462	348,886
Net value 2014/12/31	218,063	43,399	56,993	4,877	323,332

18. Inventories

Inventories of the SMA Group are made up as follows:

in €'000	2015/12/31	2014/12/31
Raw materials, consumables and supplies	74,858	100,301
Unfinished goods, work in progress	21,401	25,102
Finished goods and goods for resale	49,329	77,453
Prepayments	543	312
	146,131	203,168

Inventories are measured at the lower value of acquisition or production costs and net realizable value. Inventory declined chiefly because of positive business performance and extensive action taken to increase throughput speeds and eliminate interim storage. The balance of impairment accounts amounted to €57.9 million (2014: €58.2 million), of which €50.7 million concern central corporate functions, €3.3 million the Zeyersolar segment, €1.6 million Service and €2.3 million Other Business. The total acquisition and production costs recognized as expenses include impairments on net realizable value of €14.1 million. The book value of the inventories written down to the net realizable value amounted to €0.8 million as of December 31, 2015 (December 31, 2014: €9.7 million).

19. Trade Receivables and Other Receivables

Trade receivables are non-interest-bearing and, with the exception of the Chinese market, usually due between 30 and 90 days. No significant extensions to payment terms were granted in the reporting period.

The other receivables mainly comprise prepaid expenses and other receivables due from tax authorities, which were not overdue on the reporting date.

The age structure of trade receivables was as follows on the reporting dates:

		Neither		Overdue, but not impaired			
in €'000		Book value	impaired	< 30 days	30 to 60 days	60 to 90 days	> 90 days
2015		180,043	127,429	23,476	13,753	6,449	8,936
2014		159,617	128,154	18,665	5,504	564	6,940

As of December 31, 2015, value adjustments with a nominal value of €21.7 million (2014: €21.7 million) were carried out on trade receivables. No value adjustments were made regarding overdue receivables as of December 31, 2015, this amounted to €52.6 million (December 31, 2014: €31.5 million) as there were no significant changes in the credit rating of the customers. Settlement of the receivables is expected.

The value adjustment account of trade receivables evolved as follows:

in €'000		Individual value correction	Value correction on portfolio basis	Total
2014/01/01		16,607	467	17,074
Additions with effect on the expenses (net)		6,295	230	6,525
Usage		-393	0	-393
Release		-1,863	-175	-2,038
Exchange rate difference		515	2	517
2014/12/31		21,161	524	21,685
Additions with effect on the expenses (net)		2,181	29	2,210
Usage		-452	0	-452
Release		-1,817	-287	-2,104
Exchange rate difference		349	3	352
2015/12/31		21,422	269	21,691

Furthermore, no adjustments had to be made for the other receivables and financial assets. The maximum default risk equates to the carrying amount shown in the balance sheet.

20. Other Financial Assets

As of December 31, 2015, other current financial assets include in particular financial assets and time deposits with a term to maturity of over three months and accrued interest totaling €97.7 million (2014: €82.5 million). The other non-current financial assets primarily include a rent deposit for buildings in the U.S. amounting to USD 2.5 million (2014: USD 2.5 million).

21. Cash and Cash Equivalents

Cash and cash equivalents include cash in hand as well as bank balances, checks, payments in transit and deposits with an original term to maturity of less than three months. Bank balances bear interest at variable interest rates applicable to deposits subject to call.

As of December 31, 2015, the Group had unused credit lines amounting to €41.7 million (2014: €22.9 million) for which all conditions for use had been met. The credit lines have been provided on an “until further notice” basis.

22. Shareholders’ Equity

The change in equity, including effects not shown in the income statement, is presented in the statement of changes in equity. Significant impact was caused by the consolidated net result and effects from foreign exchange gains/losses.

The capital reserve contains agio amounts from the issuance of SMA Solar Technology AG shares. The other retained earnings contain mainly the retained profit and the statutory reserve.

Shares in SMA AG are no-par value bearer shares.

The Articles of Incorporation include provisions on the powers of the Managing Board regarding Authorized Capital II. The Managing Board, after obtaining the consent of the Supervisory Board, is entitled to increase the share capital on one or several occasions by up to a total of €10 million by issuing new bearer shares in return for cash contributions and/or contributions in kind in the period up to May 22, 2018. The Managing Board, with the consent of the Supervisory Board, is entitled to cancel the statutory subscription rights of shareholders: a) in the case of capital increases in return for contributions in kind for the acquisition of or investment in companies, parts of companies or investments in companies, b) for the purpose of issuing shares to employees of the Company and companies affiliated with the Company, c) to exclude fractions and d) in the case of capital increases in return for cash contributions if the issue amount of the new shares does not fall significantly below the stock exchange price of shares of the same class and terms, which are already listed at the time the Managing Board sets the final issue amount; the total pro rata amount of the issued capital attributable to the new shares for which the subscription right is excluded may not exceed 10% of the issued capital available at the time the new shares are issued.

The Annual General Meeting of SMA Solar Technology AG on May 21, 2015 followed the Managing and Supervisory Boards’ proposal not to distribute a dividend for the 2014 fiscal year due to the persistently volatile market environment (2013: €0.00 per dividend-bearing share).

The objective of capital management is to maintain SMA’s financial substance and ensure necessary flexibility.

The equity ratio is used to measure the financial security of SMA. This is the ratio of equity shown in the consolidated balance sheet to total assets. Accordingly, the financing structure is characterized by a conservative capital structure dominated by internal financing. As of the reporting date, the equity ratio was 49.1% (2014: 46.8%). External financing occurs almost exclusively through liabilities arising from operative business.

23. Provisions

Provisions account for all discernible risks from pending transactions and all contingent liabilities on the balance sheet date and break down as follows:

in €'000	Warranties	Personnel	Other	Total
2015/01/01	139,817	53,848	19,513	213,178
Additions	51,535	386	6,361	58,282
Usage	46,380	37,986	1,001	85,367
Release	9,058	9,981	1,543	20,582
Compounding	12	37	3	52
Transfers		1,570	-1,570	0
Changes in currency	3,865	30	579	4,474
2015/12/31	139,790	7,904	22,342	170,036
Current in 2015	62,176	5,653	15,268	83,097
Non-current in 2015	77,614	2,251	7,074	86,939
	139,790	7,904	22,342	170,036
Current in 2014	63,862	50,832	11,365	126,059
Non-current in 2014	75,955	3,016	8,148	87,119
	139,817	53,848	19,513	213,178

The provisions for statutory warranties are attributable to the segments as follows:

in €'000	2015/12/31	2014/12/31
Residential	45,955	58,823
Commercial	51,579	40,607
Utility	34,803	33,344
Service	0	0
Other Business	7,453	7,043
	139,790	139,817

Warranty provisions consist of general warranty obligations (periods of between five and ten years) for the various product areas within the Group. In addition, provisions are set aside for individual cases that are expected to be used in the following year.

Personnel provisions mainly include obligations for planned restructuring measures. A significant portion of them affected cash in the reporting period. Reversals of provisions in an amount of €10.0 million (2014: €0.0 million) were carried out as a result of obligations becoming more specific. In spite of the necessary further reduction of the number of employees in the period under review, an adaptation of the provision for restructuring did not take place, because it could be accomplished by a new voluntary compensation plan. For the remaining portion, the provision for the layoffs is expected to affect cash in 2016 and was thus not discounted. Also included are obligations for long-service anniversaries, death benefits and partial retirement benefits.

Other provisions included restoration obligations, purchase commitments and obligations for service-related benefits.

SMA expects that these provisions will, in general, affect cash within the next 12 months to 20 years (long-term service contracts).

24. Financial Liabilities

in €'000	2015/12/31	2014/12/31
Liabilities due to credit institutions	39,306	62,592
Derivative financial liabilities	7,617	6,763
	46,923	69,355

Liabilities due to credit institutions mainly include the financial liabilities included in SMA’s Consolidated Financial Statements as a result of the first-time consolidation of the subgroup Jiangsu Zeversolar New Energy Co., Ltd. in March 2013. In addition, liabilities to credit institutions were incurred for financing of SMA Immo properties and a PV system for SMA AG. They have an average time to maturity of 10 years.

The significant reduction in the level of loan liabilities resulted from the repayment of external loans by Zeversolar in connection with the conversion to internal credit financing. In addition, repayments were made by SMA AG and SMA Immo.

Derivative financial liabilities mainly consist of a written put option on Jiangsu Zeversolar New Energy Co., Ltd. shares. Interest derivatives, currency futures and options were also recognized, as in the previous year.

25. Trade Payables

Trade payables are non-interest-bearing and are normally due within 30 to 90 days.

26. Other Financial Liabilities

in €'000	2015/12/31	2014/12/31
Sales department liabilities	10,272	5,237
Other	12,986	8,628
	23,258	13,865
Current	21,846	10,869
Non-current	1,412	2,996
	23,258	13,865

The liabilities of the Sales department primarily contain liabilities to customers from advance payments received and bonus agreements.

27. Other Liabilities (without other financial liabilities)

in €'000	2015/12/31	2014/12/31
Liabilities in the Human Resources department	25,191	23,669
Accrual item for extended warranties	146,130	129,715
Liabilities from prepayments received	31,613	21,106
Liabilities due to tax authorities	6,735	3,606
Liabilities from subsidies received	427	986
Other	2,464	2,127
	212,560	181,209
Current	71,384	54,280
Non-current	141,176	126,929
	212,560	181,209

The accrual item for extended warranties includes liabilities from chargeable extended warranties granted for products from the Residential and Commercial business units. Liabilities in the Human Resources department contain obligations to employees regarding performance-based bonuses and positive vacation and flextime balances as well as variable salary components and contributions to the workers' compensation association and to social insurance systems. The main items included in the liabilities due to tax authorities are tax liabilities from payroll accounting. The liabilities from subsidies received relate to taxable government grants from funds of the common-task program "Improvement of the Regional Economic Structure" (EU GA), granted as investment subsidies. The total amount of retransfer of government grants is stated under other operating income.

28. Additional Disclosures Relating to Financial Instruments

	Assessment category according to IAS 39	2015/12/31		2014/12/31	
in €'000		Market value	Book value	Market value	Book value
Assets					
Cash and cash equivalents	LaR	200,180	200,180	183,988	183,988
Trade receivables	LaR	180,043	180,043	159,617	159,617
Other financial investments	AfS	5	5	5	5
Other financial assets		127,157	127,157	111,015	111,015
of which institutional mutual funds	FAHFT	47,636	47,636	47,480	47,480
of which other (time deposits)	LaR	79,521	79,521	63,310	63,310
of which derivatives that do not qualify for hedge accounting	FAHFT	0	0	225	225
Liabilities					
Trade payables	FLAC	103,134	103,134	111,773	111,773
Financial liabilities		46,923	46,923	69,355	69,355
of which liabilities due to credit institutions	FLAC	39,306	39,306	62,592	62,592
of which derivatives that do not qualify for hedge accounting	FLHFT	7,617	7,617	6,763	6,763
Other financial liabilities	FLAC	23,258	23,258	13,865	13,865
Of which grouped by categories according to IAS 39:					
Loans and Receivables	LaR	459,744	459,744	406,915	406,915
Financial Liabilities Measured at Amortised Cost	FLAC	165,698	165,698	188,230	188,230
Financial Assets Held for Trading	FAHFT	47,636	47,636	47,705	47,705
Financial Liabilities Held for Trading	FLHFT	7,617	7,617	6,763	6,763
Available for Sale Financial Assets	AfS	5	5	5	5

Cash and cash equivalents, trade receivables and time deposits mainly have short terms to maturity. Accordingly, their book values on the reporting date were almost identical to their fair value.

The fair values of other non-current receivables correspond to the present values of the payments related to the assets while taking into account current interest parameters, which reflect market- and partner-related changes in conditions and expectations.

Other financial investments relate to investments not included in the scope of consolidation. However, since no active market exists for these investments and a reliable measurement of their fair value was not possible, measurement on the relevant reporting dates was effected at amortized cost of acquisition.

Trade payables and other current financial liabilities normally have short terms to maturity. The recognized values are almost identical to the fair values.

Fair values of other non-current financial liabilities are determined by referring to the present values of the payments associated with the debts. For discounting, term-related commercially available interest rates were used (level 2).

Derivative financial instruments are used to hedge against currency risks arising from operative business. These include currency futures and options. In principle, these instruments are only used for hedging purposes. As is the case with all financial instruments, they are recognized at fair value upon initial recognition. The fair values are also relevant for subsequent measurements. The fair value of traded derivative financial instruments is identical to the market value. This value may be positive or negative. The measurement of forward transactions is based on forward contract rates. Options are measured in line with the Black-Scholes and Heath-Jarrow-Morton option pricing models. The parameters that were used in the valuation models are in line with market data.

The put option in the amount of the present value of the redemption amount of the shares (€3.9 million) granted in connection with the acquisition of Zeversolar shares is posted under derivative financial liabilities without a hedge relationship.

There was a change in the present value of the redemption amount recognized in profit and loss between December 31, 2014 and the balance sheet date amounting to €0.2 million. This change resulted from interest and currency effects.

The present value of the redemption amount is determined on a quarterly basis in Corporate Accounting using a discounted cash flow methodology (level 3 of the fair value hierarchy), taking account of the adjusted contractual regulation of the put option. This regulation stipulates that the redemption amount lies within a contractually agreed upon corridor of between RMB 27.4 million (December 31, 2015: €3.9 million) and RMB 41.1 million (December 31, 2015: €5.8 million). Within this corridor, the redemption amount varies depending on EBIT and interest rate as non-observable input factors. These are derived from Zeversolar’s internal planning. A sensitivity analysis shows that a 10% increase in the Zeversolar EBIT, taking into account the corridor, would not result in a change in the present value of the redemption price, and neither would a 10% reduction in EBIT. Similarly, an increase or decrease in the interest rate of 100 basis points would not result in any material change in the present value of the redemption amount, with regard to the corridor.

The following table shows the allocation of our financial assets and liabilities measured at fair values in the balance sheet using the three levels of the fair value hierarchy:

2015	Level 1	Level 2	Level 3	Total
in €'000				
Financial assets measured at fair value				
Institutional mutual funds	47,636			47,636
Derivative financial instruments		0		0
Financial liabilities, measured at fair value				
Derivative financial instruments		3,731	3,886	7,617
2014				
in €'000				
Financial assets, measured at fair value				
Institutional mutual funds	47,480			47,480
Derivative financial instruments		225		225
Financial liabilities, measured at fair value				
Derivative financial instruments		3,015	3,748	6,763

The levels of the fair value hierarchy and their application to our assets and liabilities are described below:

Level 1: Quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices that are observable directly (e.g., prices) or indirectly (e.g., derived from prices).

Level 3: Inputs that are not based on observable market data for assets and liabilities.

The 2015 net results for financial instruments are as follows:

	From interest	Currency translation	From subsequent measurement	Value correction	From disposal	Net result
in €'000						
Loans and Receivables (LaR)	400	12,050	-4,314		-3,046	5,090
Financial Liabilities Measured at Amortised Cost (FIAC)	-3,394	0	0		0	-3,394
Financial Assets Held for Trading (FAHfT)	1,387	0	-1,094		-6,558	-6,265
Financial Liabilities Held for Trading (FLHfT)	-180	0	-1,529		0	-1,709
Total	-1,787	12,050	-6,937		-9,604	-6,278

The 2014 net results for financial instruments are as follows:

	From		From subsequent		From	
	interest		measurement		disposal	Net result
		Currency		Value		
in €'000		translation		correction		
Loans and Receivables (LaR)	643	10,134	-8,563	-1,031	1,183	
Financial Liabilities Measured at Amortised Cost (FLAC)	-3,398	0	0	0	-3,398	
Financial Assets Held for Trading (FAHfT)	1,116	0	-1,287	-4,751	-4,922	
Financial Liabilities Held for Trading (FLHfT)	-194	0	-18	0	-212	
Available-for-Sale (AFS)	814	0	0	-235	579	
Total	-1,019	10,134	-9,868	-6,017	-6,770	

Interests from financial instruments are shown in the financial result. The SMA Group recognizes other components of the net result in other operating expenses and other operating income.

In detail, the nominal payment obligations of financial liabilities are as follows:

	Book value	Total cash flows	< 1 year	1 to 3 years	4 to 5 years	> 5 years
in €'000						
2015						
Trade payables	103,134	103,134	103,134	0	0	0
Financial liabilities	46,923	51,573	21,003	10,606	7,621	12,343
of which from liabilities due to credit institutions	39,306	43,931	17,610	6,483	7,505	12,333
of which from derivatives that do not qualify for hedge accounting	7,617	7,642	3,393	4,123	116	10
Other financial liabilities	23,258	23,258	21,846	1,412	0	0
2014						
Trade payables	111,773	111,773	111,773	0	0	0
Financial liabilities	69,355	75,029	27,809	23,973	6,960	16,287
of which from liabilities due to credit institutions	62,592	68,243	25,269	19,946	6,791	16,237
of which from derivatives that do not qualify for hedge accounting	6,763	6,786	2,540 ¹	4,027	169	50
Other financial liabilities	13,865	13,865	13,865	0	0	0

¹ Contains the net cash flow from forward exchange transactions amounting to €3,232k, providing a gross fulfillment. Payment obligations amount to €97,750k, payment claims amount to €94,519k. The closing rate was used for the conversion of the foreign currency transaction.

29. Obligations Under Leases and Other Financial Obligations

The obligations of the SMA Group under operating leases relate mainly to buildings and, to a minor extent, to plant and office equipment. Expenses recognized through profit and loss amounted to €24.3 million (2014: €26.1 million) in the year under review.

Other financial obligations arose primarily from tenancy agreements and operating leases for buildings, office trailers, plant and office equipment concluded by the Group as the lessee. The terms to maturity of future payments to the end of the minimum term of the agreements are as follows:

in €'000	2015/12/31	2014/12/31
Maturity of less than 1 year	10,479	13,337
Maturity of 1 to 5 years	28,816	36,157
Maturity of more than 5 years	5,307	6,805
	44,602	56,299

On the reporting date, there were no obligations from finance leasing in the SMA Group.

In addition, there were financial obligations to third parties under the purchase order commitment for investment orders placed amounting to €1.4 million (2014: €3.2 million). There were financial obligations for intangible assets amounting to €0.5 million (2014: €2.0 million). The other financial obligations were within the framework customary for the business.

30. Contingencies

As of December 31, 2015, there were no changes compared to the previous year (€0.05 million).

Notes to the Statement of Cash Flows SMA Group

The liquid funds shown in the Statement of Cash Flows correspond to the balance sheet item "Cash and cash equivalents."

31. Net Cash Flow From Operating Activities

The gross cash flow of €61.8 million (2014: €37.3 million) reflects the operating income prior to commitment of funds. It improved primarily because of the improvement of consolidated earnings before taxes by €99.1 million year on year. The improvement was reached in spite of the considerable cash outflows in the course of the socially responsible workforce reduction.

Net cash flow from operating activities in fiscal year 2015 amounted to €104.2 million (2014: €-27.6 million).

The change in net working capital was chiefly due to a €23.2 million increase in trade receivables that affected the Statement of Cash Flows (2014: €37.7 million). Inventory was down mainly due to the positive business development, extensive measures to increase throughput speed as well as the abolition of temporary storage facilities by 28.1% to €146.1 million (2014: €203.2 million). The decline in inventories relevant to the Statement of Cash Flows amounted to €40.4 million (2014: increase of €25.9 million). Furthermore, an €8.6 million decline in trade payables relevant to the Statement of Cash Flows occurred (2014: €51.0 million increase).

32. Net Cash Flow From Investing Activities

In the 2015 fiscal year, net cash flow from investing activities increased to €-66.3 million compared to the previous year's figure of €24.7 million. The outflow of funds for investments in fixed assets and intangible assets amounted to €50.6 million (2014: €75.5 million). With €31.5 million (2014: €40.9 million), an essential part of the investments was attributable to capitalized development projects, in particular for the introduction of a new product line of central inverters. The balance of the proceeds and payments of the cash investment amounted to €-15,0 million (2014: €101.4 million). The outflow of funds from the asset deal with Danfoss relevant to the Statement of Cash Flows amounted to €1.5 million in the fiscal year (2014: €3.4 million outflow of funds from the asset deals with Danfoss and Phoenix).

Pursuant to IAS 7.16, monetary investments with a term to maturity of more than three months are allocated to the net cash flow from investing activities.

33. Net Cash Flow From Investing Activities

In fiscal year 2015, net cash flow from financing activities amounted to €-23.2 million (2014: €-10.0 million). It included the repayment of loan liabilities for Jiangsu Zeversolar New Energy Co., Ltd. (Zeversolar) and SMA Immo as well as borrowings from Zeversolar in the 2015 fiscal year.

34. Cash and Cash Equivalents

Cash and cash equivalents amounting to €200.2 million (2014: €184.0 million) include cash in hand, bank balances and short-term deposits with an original term to maturity of less than three months.

Other Disclosures

35. Events After the Balance Sheet Date

Since January 1, 2016, the Managing Board of the SMA Solar Technology AG consists of the following members: Roland Grebe (HR and IT), Dr.-Ing. Jürgen Reinert (Operations and Technology), Pierre-Pascal Urbon (Speaker of the Management, Finance/Legal and Distribution).

36. Related Party Disclosures

Related persons:
According to the definition contained in IAS 24, related persons are persons responsible for planning, controlling and monitoring the Company’s activities. Related persons include the members of the Managing Board and the Supervisory Board of SMA Solar Technology AG as well as their close relatives.

In the year under review, the following were members of the Managing Board of SMA Solar Technology AG:

Roland Grebe, Board Member for HR and IT	Lydia Sommer, Board Member for Finance and HR (until February 28, 2015)
Dr.-Ing. Jürgen Reinert, Board Member for Operations and Technology	Pierre-Pascal Urbon, Chief Executive Officer, Finance/Legal and Sales
Martin Kinne, Chief Sales and Service Officer (until December 31, 2015)	

As part of the Company’s transformation, the Supervisory Board of SMA Solar Technology AG reduced the number of Managing Board members in the reporting period. Lydia Sommer left the Managing Board at the end of February 2015, Martin Kinne at the end of December 2015.

In the year under review, the following persons were members of the Supervisory Board of SMA Solar Technology AG:

Dr.-Ing. h. c. Günther Cramer, Chairman of the Foundation Managing Board, Chairman (until January 6, 2015)	Johannes Häde, Employee representative
Dr. Erik Ehrentraut, Consultant (Chairman as of February 11, 2015)	Mirko Zeidler, Employee representative (until May 21, 2015)
Kim Fausing, COO Danfoss (Deputy Chairman as of February 11, 2015)	Joachim Schlosser, Employee representative (until May 21, 2015)
Roland Bent, General Manager (as of January 28, 2015)	Yvonne Siebert, Employee representative (as of May 21, 2015)
Peter Drews, Chairman of the Foundation Managing Board	Dr. Matthias Victor, Employee representative (as of May 21, 2015)
Reiner Wettlaufer, Chairman of the Foundation Managing Board	Hans-Dieter Werner, Employee representative (as of May 21, 2015)
Dr. Winfried Hoffmann, Consultant	Oliver Dietzel, Trade union secretary
Dr. Günther Häckl, Employee representative (until May 21, 2015)	Heike Haigis, Trade union secretary

Since the scheduled election on May 21, 2015, the employees have been represented on the Supervisory Board by Oliver Dietzel, Johannes Häde, Heike Haigis, Yvonne Siebert, Dr. Matthias Victor and Hans-Dieter Werner. Sadly, company founder and long-standing Chairman of the Supervisory Board Dr.-Ing. h. c. Günther Cramer died on January 6, 2015, after a long and serious illness. Dr.-Ing. h. c. Günther Cramer spent his entire life shaping the history of SMA as a pioneer and leader of the energy transition. The vacant position on the SMA Supervisory Board was filled by Roland Bent, member of the Executive Board of Phoenix Contact GmbH & Co. KG.

Remuneration of key management members of the Group, which must be disclosed under IAS 24, includes remuneration of the Managing Board and the Supervisory Board.

In the reporting year, the total emoluments payable to the members of the Managing Board amounted to €6.1 million (2014: €3.0 million). The non-performance-based component amounted to €4.7 (2014: €1.6 million), the performance-based components to €1.4 million (2014: €1.4 million). The compensation relates exclusively to short-term benefits. No compensation for tasks in subsidiaries was granted.

The total compensation of the members of the Supervisory Board in the year under review amounted to €0.5 million (2014: €0.5 million).

€0.4 million (2014: €0.4 million) of this was non-performance-based fixed compensation, and €0.1 million (2014: €0.1 million) was compensation for committee work. As in the previous year, this did not include any variable salary components. Kim Fausing has waived his entitlements from the Company. The remuneration paid to the members of the Managing and Supervisory Boards is shown in detail in a separate remuneration report in line with the criteria of the German Corporate Governance Code. The complete Remuneration Report is included in the Consolidated Management Report.

Members of the Supervisory Board hold the following positions in statutory supervisory boards and similar controlling bodies of commercial enterprises:

Roland Bent,
member on the boards of four international Phoenix Contact companies:
Phoenix Contact (China) Holding Co. Ltd.,
Phoenix Contact (Nanjing) R&D and Engineering Center Co. Ltd.,
Phoenix Contact Holding Inc. and
Phoenix Contact Development & Manufacturing Inc. in the U.S.

Kim Fausing,
Deputy Chairman of the Board at Velux A/S,
Hørsholm, Denmark, and Member of the Board at Hilti AG, Liechtenstein

Dr. Winfried Hoffmann,
Chairman of the Supervisory Board of Solar Fabrik AG, Freiburg, and
Member of the Supervisory Board of the Institute for Solar Energy Research, Hamelin

Related entities:

On May 28, 2014, SMA concluded an agreement regarding a close strategic partnership with Danfoss A/S. As part of this partnership, Danfoss acquired a 20% stake in SMA and therefore now also belongs to the group of related entities. SMA entered into a strategic partnership with Danfoss in the areas of Purchasing, Sales and R&D. SMA also performs services on behalf of Danfoss. All agreements were concluded under fair market conditions. The business relationships between SMA and Danfoss in the fiscal year are presented in the table below. There is no material collateralization nor are there guarantees.

in € million	2015	2014
Goods acquired from Danfoss	18.2	12.3
Services acquired from Danfoss	8.9	5.5
Services sold to Danfoss	3.2	2.2
Outstanding receivables at the end of the year	1.0	0.2
Outstanding liabilities at the end of the year	2.9	4.7

Other related entities are the Günther Cramer Foundation, Peter Drews Foundation and Reiner Wettlaufer Foundation, which together established cdw Stiftungsverbund gGmbH (formerly SMA Stiftungsverbund gGmbH). No transactions requiring disclosure under IAS 24 were made with these entities in the reporting period.

37. Objectives and Methods Concerning Financial Risk Management

Financial risk management is integrated into the Group-wide hedging policy. Deliberate treatment of potential risks and sound control as well as successful management of such risks when they occur are supported by an accompanying information and communication policy as well as by further education and training of employees. The principle underlying the Group’s hedging policy in the financial field is to protect against significant price, currency and interest risks by means of contracts and hedging transactions to an economically reasonable extent.

The financial instruments of the Group relate primarily to trade receivables and cash resulting directly from operating activities. In addition, there is a particular amount of trade payables that also arise from operating activities. The Group also uses derivative financial instruments as part of exchange and interest rate hedging. The Group’s main risks in relation to financial instruments are interest-based cash flow risks as well as liquidity, currency and credit risks. The strategies and procedures for controlling individual types of risks defined in the context of the Group’s overall hedging policy are presented below.

INTEREST RATE RISK

Interest rate risks within the SMA Group mainly arise in the case of financial liabilities and non-current portions of certain provisions. Interest on the aforementioned liabilities is not paid by the contracting party and is therefore discounted at the interest rate usual in the market, which means that there is no separate control of the interest rate risk. The variable interest-bearing portion of existing financial liabilities is secured through an interest rate swap. This ensures that interest rates are hedged in the long term and allows financing costs to be reliably calculated over the contract’s term. The following sensitivities can be calculated for the financial instruments held on the balance sheet date:

If the market interest rate had increased by 1.0 percentage point, the impact on the financial result would have been €0.2 million (2014: €0.1 million). The effect on equity in relation to the market valuation of financial instruments of the available-for-sale category would have been neutral (December 31, 2014: neutral). When calculating sensitivities with regard to a decline in interest rates of 1.0 percentage point, the effect on earnings before taxes would have been €–0.1 million (2014: €–0.1 million), and the effect on equity would have been neutral (December 31, 2014: neutral).

FOREIGN CURRENCY RISK

As a globally active company, the SMA Group is exposed to both transaction-related and translation-related foreign currency risks.

SMA assesses risks from an economical point of view. Using this point of view, foreign currency risks arise in the form of direct transaction risks that derive from any (current or planned) receivable or payable denominated in a foreign currency and the resulting payment flow. The SMA Group’s extensive business activity in North America means that foreign currency risks at present mainly arise in U.S. dollars. Currency risks also arise in particular from the sales activity of our Japanese subsidiary. In light of the fact that a large portion of the added value attributable

to the North American companies is generated locally and sales in the local currency are balanced by expenditure in the local currency, the operative foreign currency risk in the SMA Group is limited. An intra-Group guideline ensures that SMA companies report their foreign currency risks to Corporate Treasury, provided there are no country-specific restrictions in this regard. The remaining Group-wide risk is hedged by Corporate Treasury through the use of currency derivatives concluded externally with banks. Forward exchange transactions are the most commonly used method in this case. The use of options as part of the hedging strategy is also possible.

Translation risks mainly occur when the assets and liabilities of subsidiaries denominated in a foreign currency are converted to the parent company's domestic currency when preparing the Consolidated Financial Statements. Translation risks are not included within the scope of the active control of foreign currency risks.

Items denominated in foreign currencies, and the development of the exchange rate of those currencies, are monitored continuously and the risks are hedged, provided this is economically reasonable. The risks from hedging transactions in themselves are limited to the possibility that opportunities arising from a better price performance cannot be realized.

In order to present market risks, IFRS 7 requires sensitivity analyses which show the effects of hypothetical changes in relevant risk variables on earnings and equity. Currency risks are caused by financial instruments that are denominated in a currency other than the functional currency and which are of a monetary nature; exchange-rate-related differences from the translation of financial statements into the Group currency are not taken into account. The U.S. dollar is deemed to be a relevant risk variable. The currency sensitivity analysis is based on original financial instruments in the form of receivables. Through the use of hedging transactions (derivatives), which are designed to hedge the underlying transaction, the opposing effects that accompany changes in the exchange rate of the U.S. dollar are evened out. Accordingly, exchange rate changes have no impact on equity and only minor effects on earnings if hedging transactions are made.

An increase of 5% in the euro with respect to the U.S. dollar on December 31, 2015, would have led to a positive change in the currency derivatives of €4.8 million (2014: €0.8 million). A decrease of 5% in the euro with respect to the U.S. dollar on December 31, 2015 would have led to a reduction in the value of the currency derivatives of €5.3 million (2014: €0.9 million). As of December 31, 2015, the currency hedges related exclusively to EUR/USD.

Pursuant to IFRS, currency risks affect monetary financial instruments that are denominated in a foreign currency (i.e., in a currency other than the functional currency). This means that the foreign currency is the relevant risk variable. Translation-related risks are not taken into account. Since the individual Group companies mainly conduct their operative business in their own functional currency, we rate the risk from exchange rate fluctuations resulting from our ongoing business activity as insignificant.

CREDIT RISK

For all deliveries to customers, collateral is requested depending on the volume of the respective transaction and the specific customer and country risk. Data from the customer's previous business relationship, including payment practices and additional credit reports, are also used to avoid non-payment. In addition, the Group performs a customer credit check, which is based on certain financial key ratios. By setting a credit limit in a timely manner or suspending orders, the Group avoids being exposed to a significant risk of non-payment. If possible, the default risk is also limited by a commercial credit insurance. The maximum non-payment risk is limited to the book value disclosed in section 19. There are no major concentrations of non-payment risks within the Group.

With respect to all of the Group's other financial assets such as cash and cash equivalents, available-for-sale financial investments and derivative financial instruments, the maximum credit risk, should the counterparty fail to pay, corresponds to the book value of these instruments. This counterparty default risk is analyzed on a continuous basis and managed by means of corresponding business allocation – also taking into account potential opportunities – with regard to cluster risks and credit risks.

LIQUIDITY RISK

The Company uses financial planning tools for early detection of future liquidity requirements. According to current planning, it can be assumed that the financial requirements will be covered in a reliably predictable time frame. Insurance contracts are concluded to hedge against the financial consequences of possible liability risks and damage claims, insofar as this is reasonable and possible. The cover provided by such contracts is reviewed and adapted regularly.

CAPITAL MANAGEMENT

The strategic objective of capital management within the SMA Group is to ensure financial flexibility and independence to make rapid use of the opportunities in a photovoltaic market characterized by strong growth. Profitable employment of the capital is measured through regular monitoring of net working capital. Within the SMA Group, net working capital is defined as the sum of inventories and trade receivables less trade payables. In order to be able to usefully measure relative capital consumption even in the event of strong corporate growth, net working capital is expressed in relation to sales. Through debtor management, which ensures that receivables are collected in good time, and linking inventories to sales as well as a constant dividend policy, the Company positions itself to achieve its objectives of financial flexibility and independence. In accordance with our intra-Group guidelines, the net working capital ratio determined in this way has to be below 21%. In the year under review, the equity ratio of the SMA Group was 49.1% (2014: 46.8%) and the net working capital ratio was 22.3% (2014: 31.2%).

38. Auditor's Fees

The fees paid to the auditor and recorded as an expense in the year under review break down as follows:

in €'000	2015	2014
Financial statement auditing	486	365
Other audit-related services	13	17
Other services	52	4
	551	386

The cost of financial statement auditing comprises the fees for the audit of the Consolidated Financial Statements as well as for the audit of the Financial Statements of SMA Solar Technology AG and its domestic subsidiaries, provided they are obligated to perform an audit pursuant to Section 316 of the German Commercial Code. The fees for audit-related services and other audit work include expenses for the review of the Interim Consolidated Financial Statements. The fees for other services contain expenses for other agreed upon single auditing and consulting activities, which were performed during the reporting year.

39. Declaration on the German Corporate Governance Code in Accordance With Section 161 AktG

The declaration required under Section 161 AktG on the recommendations issued by the Government Commission German Corporate Governance Code was given by the Managing Board and the Supervisory Board on December 3, 2015, and made permanently available to shareholders on the SMA website at www.SMA.de.

40. Consolidated Financial Statements

As the ultimate parent company, SMA Solar Technology AG prepared the Consolidated Financial Statements for the largest scope of consolidation as of December 31, 2015, which are filed with the operator of the Electronic Federal Gazette and subsequently published in the Electronic Federal Gazette.

Niestetal, March 3, 2016

SMA Solar Technology AG
The Managing Board

Roland Grebe Dr.-Ing. Jürgen Reinert Pierre-Pascal Urbon

RESPONSIBILITY STATEMENT

We assure to the best of our knowledge that, in accordance with the applicable accounting standards, the Consolidated Financial Statements give a fair view of the net assets, financial position and results of operations of the Group and that the Consolidated Management Report gives a fair view of the course of business including the results of operations and the Group’s position and describes the fundamental opportunities and risks of the probable development of the Group.

Niestetal, March 3, 2016

SMA Solar Technology AG
The Managing Board

Roland Grebe Dr.-Ing. Jürgen Reinert Pierre-Pascal Urbon

AUDITOR’S REPORT

(Translation – the German text is authoritative)

We have audited the Consolidated Financial Statements prepared by SMA Solar Technology AG, Niestetal – comprising the balance sheet, the income statement, the statement of changes in equity, the statement of cash flows and the Notes on the Consolidated Financial Statements – and the Consolidated Management Report for the fiscal year from January 1 to December 31, 2015. The preparation of the Consolidated Financial Statements and the Consolidated Management Report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to Section 315a (1) HGB (“German Commercial Code”) is the responsibility of the Company’s Managing Board. Our responsibility is to express an opinion on the Consolidated Financial Statements and the Consolidated Management Report based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance with the applicable accounting standards and in the Consolidated Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible errors are taken into account in the determination of audit procedures. The effectiveness of the accounting-related Internal Control System and the evidence supporting the disclosures in the Consolidated Financial Statements and the Consolidated Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the Annual Financial Statements of those Entities included in the Consolidated Financial Statements, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Managing Board, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Consolidated Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements of SMA Solar Technology AG, Niestetal, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Consolidated Management Report is consistent with the Consolidated Financial Statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Hanover, March 3, 2016

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Scharpenberg Meier
Wirtschaftsprüfer Wirtschaftsprüfer
(German Public Auditor) (German Public Auditor)

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GLOSSARY

Technical Glossary

A

AC (Alternating Current)
Grid-compliant current

C

Central Inverter
Inverters for large-scale PV power plants that are used with centralized design concepts

Change-of-Control Clause
Provision in the board member and management employment contracts that provides a special termination right in case of a change of ownership or a change in majority shareholders, usually against payment of a firmly agreed compensation, continued payment of remuneration, often also a corresponding pension provision

Compliance
Legally compliant conduct

Corporate Governance
Procedures for managing and controlling companies in a manner that is responsible and aimed at long-term value creation

D

DC (Direct Current)
Direct current must be converted to grid-compliant alternating current (AC) for the network supply.

Diesel-Powered Grid
An isolated, decentralized power grid with diesel generators as the primary power source. Diesel-powered grids are used mainly where an energy supply is not possible via a central utility grid. With PV systems integrated into diesel-powered grids, the use of diesel generators is not a must. PV-diesel hybrid systems make a considerable contribution to the reduction of fuel costs and CO₂ emissions.

G

Grid Management
For decentralized generation plants, participation in grid management means that they have to adapt their feed-in to meet current grid distribution capacities. It affects all PV systems feeding in at medium voltage level.

I

Integrated Plant Control
Using Integrated Plant Control, the inverter can map the Q(U) characteristic curve specified by the grid operator without measuring at the grid-connection point. Operating resources that are connected between the inverter and grid-connection point can be automatically offset by the inverter. Integrated Plant Control increases the efficiency of a PV system as it eliminates additional costs for centralized control gear for PV farms, measurement at the grid-connection point as well as installation and commissioning of the above. System structure and maintenance are made simpler and clearer.

Inverter
An electrical device that converts direct into alternating voltage or direct into alternating current

M

Medium Voltage
Voltage range from 1,000 V to 60,000 V

O

Off-Grid System
PV off-grid systems are stand-alone power grids fed by the energy of a PV system, for example. These systems are not connected to a utility grid.

Q

Q at Night
There is a constant demand for reactive power in PV power plants and large PV systems. During the day, the demand for reactive power is easily met by SMA inverters capable of providing reactive power. With Q at Night, PV power plants with SMA system solutions can now also provide compensating reactive power during the night. Costs which would otherwise be incurred through the necessary purchase of external reactive power now no longer apply. Moreover, it provides the opportunity to generate added income by supplying additional reactive power to the grid operator.

Q on Demand 24/7
Using Q on Demand 24/7, the inverter can remain connected to the utility grid around-the-clock and supply reactive power throughout the complete unit circle, as needed. This enables the inverter to play a part in stabilizing the utility grid, even at night.

R

Reactive Power
An electronics term that describes pulsating power with an alternating positive and Negative sign. The positive and negative components of the power output cancel each other out, which yields an average value of zero. This is why it is also referred to as power grid oscillation. The counterpart to reactive power is active power. In an AC grid, it likewise has a pulsating value, although this is generally positive. Only active power can be used to operate electrical consumers. The sum of active power and reactive power is called apparent power. All electrical operating resources and the entire grid infrastructure must be designed in accordance with this. Apparent power arises if the voltage and current values, likewise pulsating, are out of phase, that is, they attain their maximum or minimum offset with regard to time. This phase displacement can have two directions and is practically unavoidable in the technical application of inverters, because almost every electronic component causes a degree of phase displacement in one direction or the other. Modern inverters are capable of compensating for the phase displacement within a grid, thereby eliminating the useless reactive power from the grid. Through a certain degree of phase displacement, they are also capable of lowering the grid voltage, which usually rises undesirably.

S

String Inverter
With string technology, the PV generator is divided into individual module areas, and each of these individual "strings" is assigned its own string inverter.

Sunbelt
The region between the 20th and 40th parallel in the Northern and Southern Hemispheres, a large portion of which is desert, is also known as the Sunbelt due to the high duration and intensity of sunshine there, making it an ideal location for PV systems.

W

W, kW, MW, GW
Units for power:
1 kilowatt (kW) = 1,000 watts (W)
1 megawatt (MW) = 1,000 kilowatts
1 gigawatt (GW) = 1,000 megawatts

Wp
Abbreviation for watt peak. Unit used for the standardized rated power of a photovoltaic cell or a photovoltaic module under standard conditions.

Financial Glossary

E

EBIT

Earnings before interest and taxes

EBITDA

Earnings before interest, taxes, depreciation and amortization

EBIT Margin

$$\frac{\text{Operating profit}}{\text{Sales}} \times 100$$

(the higher the %age, the higher the earning power)

EBT

Earnings before taxes

Equity Ratio

Shows the share of equity in total assets.

F

Free Cash Flow

Operating cash flow minus investments plus negative investments in fixed and intangible assets. Free cash flow is important because it allows a company to pay dividends or to buy back shares. Therefore, free cash flow is a measure of how much cash can be paid to the shareholders of a company.

G

Gross Cash Flow

Shows the operating income prior to any commitment of funds. It is calculated by considering earnings before income tax and the financial result – plus interest received, depreciation and amortization, changes in other provisions, profit/loss from the disposal of fixed assets and other non-cash expenses/revenues less interest paid and income tax paid.

Gross Profit

Sales minus cost of sales

I

IAS

International Accounting Standards; newer standards refer to the initials IFRS

IASB

International Accounting Standards Board

IFRIC

Interpretations of the International Financial Reporting Interpretations Committee on IAS/IFRS

IFRS

International Financial Reporting Standards defined by the IASB

N

Net Cash Flow From Operating Activities

Outflow/inflow of liquid funds, unaffected by investments, disinvestments and financing activities

Net Cash Flow From Financing Activities

Outflow/inflow of liquid funds from equity financing and debt financing

Net Cash Flow From Investing Activities

Outflow/inflow of liquid funds from investments and disinvestments

Net Cash

Liquid funds and securities contained within working capital and cash on hand pledged as collateral less interest-bearing financial liabilities

Net Working Capital

The total amount of short-term, interest-free working capital (inventories plus trade receivables less trade payables)

Net Working Capital Ratio

Net working capital in relation to net sales

O

Operating Profit (EBIT)

Earnings before interest and taxes

R

Return on Assets (After Taxes)

The return on assets (after taxes) is the consolidated net profit divided by the average total assets of the reporting period (average of total assets at the beginning and end of the reporting period).

Return on Equity (After Taxes)

The return on equity (after taxes) is the consolidated net profit divided by the averaged total equity for the reporting period (average of total equity at the beginning and end of the reporting period).

Return on Sales

Ratio of EBT to sales

X

Xetra

Exchange Electronic Trading: fully electronic trading system at the Frankfurt Securities Exchange (FVB) for the spot market. More than 90% of the shares traded in Germany are traded using the Xetra platform.

REGISTERED TRADEMARKS

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The Annual Report, in particular the Forecast Report included in the Management Report, includes various forecasts and expectations as well as statements relating to the future development of the SMA Group and SMA Solar Technology AG. These statements are based on assumptions and estimates and may entail known and unknown risks and uncertainties. Actual development and results as well as the financial and asset situation may therefore differ substantially from the expectations and assumptions made. This may be due to market fluctuations, the development of world market prices for commodities, of financial markets and exchange rates, amendments to national and international legislation and provisions or fundamental changes in the economic and political environment. SMA does not intend to and does not undertake an obligation to update or revise any forward-looking statements to adapt them to events or developments after the publication of this Annual Report.

FINANCIAL CALENDAR

2016/05/12	Publication of Quarterly Statement: January to March 2016
	Analyst Conference Call: 09:00 a.m. (CET)
2016/05/31	Annual General Meeting
2016/08/11	Publication of Half-Yearly Financial Report: January to June 2016
	Analyst Conference Call: 09:00 a.m. (CET)
2016/11/10	Publication of Quarterly Statement: January to September 2016
	Analyst Conference Call: 09:00 a.m. (CET)

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