CONSOLIDATED FINANCIAL STATEMENTS

NOTES SMA GROUP

INCOME STATEMENT
SMA GROUP

in €'000	Note	2016	2015[1]
Sales	4	**946,713**	**981,816**
Cost of sales	5	704,025	767,900
Gross profit		**242,688**	**213,916**
Selling expenses	6	47,775	54,298
Research and development expenses	7	65,801	66,531
General administrative expenses	8	50,640	58,317
Other operating income	9	34,406	46,401
Other operating expenses	10	48,112	37,870
Operating profit (EBIT)		**64,766**	**43,301**
Result from at equity-accounted investments		–2,722	0
Financial income		1,954	1,944
Financial expenses		5,134	6,926
Financial result	12	**–5,902**	**–4,982**
Profit before income taxes		**58,864**	**38,319**
Income taxes	13	29,975	15,284
Profit from continuing operations		**28,889**	**23,035**
Profit from discontinued operation		710	–8,785
Net income		**29,599**	**14,250**
of which attributable to non-controlling interests		0	–53
of which attributable to shareholders of SMA AG		29,599	14,303
Earnings per share, basic/diluted	14	0.85	0.41
thereof from continuing operations (in €)		0.83	0.66
thereof from discontinued operation (in €)		0.02	–0.25
Number of ordinary shares (in thousands)		34,700	34,700

[1] Previous year's figures adjusted pursuant IFRS 5.34

STATEMENT OF COMPREHENSIVE INCOME SMA GROUP

in €'000	Note	2016	2015
Net income		**29,599**	**14,250**
Unrealized gains (+)/losses (–) from currency translation of foreign subsidiaries		1,993	4,100
Changes recognized outside profit or loss[1] (currency translation differences)		**1,993**	**4,100**
Cash flow hedges before taxes		–14,910	0
Deferred taxes related to cash-flow-hedges		4,562	0
Cash flow hedges after income taxes		**–10,348**	**0**
Overall comprehensive result[1]		**21,244**	**18,350**
of which attributable to non-controlling interests		0	–53
of which attributable to shareholders of SMA AG		21,244	18,403

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

BALANCE SHEET SMA GROUP

in €'000	Note	2016/12/31	2015/12/31
ASSETS			
Intangible assets	15	73,231	91,299
Fixed assets	16	234,327	294,584
Investment property	18	15,414	0
Other investments		5	5
Investments in associates	17	14,875	0
Deferred taxes	13	88,323	84,830
Non-current assets		**426,175**	**470,718**
Inventories	19	169,219	146,131
Trade receivables	20	165,098	180,043
Other financial assets (total)	21	177,935	127,157
Cash equivalents with a duration of more than 3 months and asset management		159,419	97,655
Rent deposits and cash on hand pledged as collaterals		9,242	27,048
Remaining other financial assets		9,274	2,454
Receivables from tax authorities (total)		21,407	24,689
Claims for income tax refunds	13	5,900	3,879
Claims for VAT refunds	20	15,507	20,810
Other receivables	20	9,729	11,545
Cash and cash equivalents	22	216,124	200,180
		759,512	**689,745**
Assets classified as held for sale	23	25,077	0
Current assets		**784,589**	**689,745**
Total assets		**1,210,764**	**1,160,463**

in €'000	Note	2016/12/31	2015/12/31
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital		34,700	34,700
Capital reserves		119,200	119,200
Retained earnings		431,212	416,334
SMA Solar Technology AG shareholders' equity		**585,112**	**570,234**
Equity attributable to non-controlling interests		0	–26
Shareholders' equity	24	**585,112**	**570,208**
Provisions[1]	25	89,926	86,939
Financial liabilities[2]	26	20,658	27,135
Other liabilities (total)		161,269	142,587
Accrual item for extended warranties	29	154,872	134,763
Other financial liabilities	28	1,015	1,412
Remaining other liabilities	29	5,382	6,412
Deferred taxes	13	21,022	24,402
Non-current liabilities		**292,875**	**281,063**
Provisions[1]	25	87,117	83,097
Financial liabilities[2]	26	19,691	19,788
Trade payables		108,902	103,134
Income tax liabilities	13	14,986	9,942
Other liabilities[1] (total)		97,920	93,231
Human Resources department	29	17,687	23,314
Prepayments received	29	22,239	22,961
Other financial liabilities	28	13,763	18,192
Remaining other liabilities	29	44,231	28,764
		328,616	**309,192**
Liabilities directly associated with assets classified as held for sale	23	4,161	0
Current liabilities		**332,777**	**309,192**
Total equity and liabilities		**1,210,764**	**1,160,463**
Total Cash (in € million)		385	325
Cash and cash equivalents + cash equivalents with a duration of more than 3 months and asset management + rent deposits and cash on hand pledged as collaterals			
Net Cash (in € million)		362	286
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 €17.6 million (2015: €7.6 million)

STATEMENT OF CASH FLOWS SMA GROUP

in €'000	Note	2016	2015[1]
Profit from continuing operations		28,889	23,035
Income taxes		29,975	15,284
Financial result		5,902	4,982
Depreciation and amortization		76,725	77,768
Change in provisions		7,007	–45,682
Result from the disposal of assets		2,157	464
Change in non-cash expenses/revenue		14,963	19,295
Interest received		1,664	1,774
Interest paid		–1,657	–6,639
Income tax paid		–33,824	–22,297
Gross cash flow		**131,801**	**67,984**
Change in inventories		–36,155	47,151
Change in trade receivables		9,861	–18,686
Change in trade payables		5,768	–10,138
Change in other net assets/other non-cash transaction		36,273	16,393
Net cash flow from operating activities – continuing operations	33	**147,548**	**102,704**
Net cash flow from operating activities – discontinued operations		**–2,942**	**1,414**
Net cash flow from operating activities		**144,606**	**104,118**
Payments for investments in fixed assets		–14,903	–17,370
Proceeds from the disposal of fixed assets		1,982	731
Payments for investments in intangible assets		–14,124	–30,901
Payments for the acquisitions of interests in associated companies		–17,596	0
Payments for the acquisition of companies net of cash		–1,500	–1,500
Proceeds from the disposal of securities and other financial assets		182,569	102,035
Payments for the acquisition of securities and other financial assets		–244,332	–117,036
Net cash flow from investing activities – continuing operations	34	**–107,904**	**–64,041**
Net cash flow from investing activities – discontinued operations		**–471**	**–2,307**
Net cash flow from investing activities		**–108,375**	**–66,348**
Change in non-controlling interests		26	–13
Proceeds of financial liabilities		0	833
Redemption of financial liabilities		–16,012	–24,065
Dividends paid by SMA Solar Technology AG		–4,858	0
Cash outflows for the acquisition of non-controlling interests in subsidiaries		–3,734	0
Net cash flow from financing activities – continuing operations	35	**–24,578**	**–23,245**
Net cash flow from financing activities – discontinued operations		**0**	**0**
Net cash flow from financing activities		**–24,578**	**–23,245**
Net increase/decrease in cash and cash equivalents		15,066	14,525
Changes due to exchange rate effects		3,056	1,667
Cash and cash equivalents as of January 1		200,180	183,988
Less cash and cash equivalents of discontinued operations		**–2,178**	**–3,192**
Cash and cash equivalents as of December 31	36	**216,124**	**196,988**

[1] Previous year's figures adjusted pursuant to IFRS 5.34

STATEMENT OF CHANGES IN EQUITY SMA GROUP

in €'000	Note	Share capital	Capital reserves
Shareholders' equity as of January 1, 2015		**34,700**	**119,200**
Consolidated net result			
Other comprehensive income after tax	24		
Overall result			
Proceeds from owners (capital increase Zeversolar)			
Changes in the scope of consolidation			
Shareholders' equity as of December 31, 2015		**34,700**	**119,200**
Shareholders' equity as of January 1, 2016		**34,700**	**119,200**
Consolidated net result			
Other comprehensive income after tax	24		
Overall result			
Change due to the Aquisition of non-controlling interests			
Dividend payments of SMA Solar Technology AG			
Shareholders' equity as of December 31, 2016		**34,700**	**119,200**

Equity attributable to the shareholders of the parent company					
Difference from currency translation	Cash flow hedges	Other retained earnings	Total	Equity attributable to non-controlling interests	Consolidated shareholders' equity
2,658	**0**	**395,417**	**551,975**	**–13**	**551,962**
		14,303	14,303	–53	14,250
4,099		0	4,099	1	4,100
					18,350
		–58	–58	39	–19
		–85	–85		–85
6,757	**0**	**409,577**	**570,234**	**–26**	**570,208**
6,757	**0**	**409,577**	**570,234**	**–26**	**570,208**
		29,599	29,599	0	29,599
1,993	–10,348	0	–8,355	0	–8,355
					21,244
		–1,508	–1,508	26	–1,482
		–4,858	–4,858		–4,858
8,750	**–10,348**	**432,810**	**585,112**	**0**	**585,112**

NOTES SMA GROUP

GENERAL INFORMATION

1. Basics

The Consolidated Financial Statements of SMA Solar Technology AG for the year ending December 31, 2016, 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. The company is registered at the commercial court of Kassel under the trade register number HRB 3972. 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 2, 2017, for submission to the Supervisory Board. The Supervisory Board has the duty reviewing the Consolidated Financial Statements and declaring 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 and monitoring and energy management systems for PV systems. Another area of business is operation and maintenance services for photovoltaic power plants (O&M business), in addition to other services. The power electronics components for railway technology are no longer part of SMA's core business and are to be sold.

More detailed information on the segments is provided in section 4.

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 net income, 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 net income.

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,
→ 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

Investment holdings within the scope of consolidation as of December 31, 2016 changed in comparison to December 31, 2015 as a result of the acquisition of interests in Tigo Energy, Inc. and the increase in the shareholding in Jiangsu Zeversolar New Energy Co., Ltd. to 100%. The share in Immo Beteiligungs GmbH was increased to 100% through the acquisition of 6% of the shares from SMA Technologie-Holding GmbH. SMA Railway Technology (Guangzhou) Co., Ltd is currently in liquidation.

With the exception of Tigo Energy Inc., all companies within the scope of consolidation are fully consolidated. Tigo Energy, Inc. is recognized as an associate in the Consolidated Financial Statements according to the equity method. Those companies entitled to investments in the list of shareholdings are not consolidated due to their subordinate importance.

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.[4]	Zabierzów, Poland	100%	F
Jiangsu Zeversolar New Energy Co., Ltd.	Suzhou, China	100%	F
Australia Zeversolar New Energy Pty. Ltd.	Sydney, Australia	100%[3]	F
Jiangsu ZOF New Energy CO., Ltd.	Yangzhong, China	100%[3]	F
Zeversolar GmbH	Munich, Germany	100%[3]	F
SMA America Holdings LLC	Denver, USA	100%	F
SMA America Production LLC	Denver, USA	100%[3]	F
SMA Solar Technology America LLC	Rocklin, USA	100%[3]	F
SMA Australia Pty. Ltd.	North Ryde, Australia	100%	F
SMA Benelux BVBA	Mechelen, Belgium	100%[1]	F
SMA France S.A.S.	Saint Priest, France	100%	F
SMA Ibérica Technología Solar, S.L.	Sant Cugat del Vallès (Barcelona), Spain	100%	F
SMA Immo Beteiligungs GmbH	Niestetal, Germany	100%	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 Railway Technology (Guangzhou) Co., Ltd	Guangzhou, China	100%[3]	F
SMA Solar Beteiligungs GmbH	Niestetal, Germany	100%	F
SMA Solar India Private Limited	Mumbai, India	100%[1]	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%[2]	F
SMA Solar UK Ltd.	Banbury, Great Britain	100%	F
SMA South America SpA	Santiago, Chile	100%	F
SMA Brasil Tecnologia Ferroviaria E Solar Ltda.	Itupeva, Brazil	100%[3]	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%[1]	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
Tigo Energy, Inc.	Los Gatos, USA	28.27%	R

F = fully consolidated; N = not consolidated; R = recognized at equity

1 0,1% are held by SMA Solar Technology Beteiligungs GmbH.

2 0.001% are held by SMA Solar Technology Beteiligungs GmbH and 0.001% are held by SMA Solar UK Ltd.

3 Indirect investment

4 Company was renamed SMA Magnetics Spółka z Ograniczoną Odpowiedzialnością on January 1, 2017 (SMA Magnetics Sp. z o.o.)

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. There are no subsidiaries with minorities existing from the SMA Group's perspective.

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 and publication of Financial Statements.

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:

	Average rate		Closing rate	
in €	2016	2015	2016/12/31	2015/12/31
1 Chinese renminbi (CNY)	0.13687	0.14473	0.13585	0.14099
1 U.S. dollar (USD)	0.94891	0.90100	0.94697	0.91802

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

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). Retroactive application of the amendments is mandatory for reporting periods of a fiscal year beginning on or after January 1, 2016, and have only minor or no relevance to the Group.

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 were applied for the first time in the current reporting year. This resulted in minor changes to the presentation of the financial statements. For example, presentation of the new standards became shorter because standards that were clearly not relevant were not included.

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. They were applied for the first time in the current reporting year. The amendments had no effects on the Group’s assets, financial position or results of operations.

STANDARDS AND INTERPRETATIONS THAT HAVE BEEN PUBLISHED BUT ARE NOT YET MANDATORY

In its 2016 Consolidated Financial Statements, SMA did not apply the following accounting standards, which had already been adopted by the IASB but were not yet mandatory for this fiscal year.

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, if they are implemented and applied in the EU.

IFRS 9 Financial Instruments

IFRS 9 replaces the current standard for accounting of financial instruments, IAS 39 Financial Instruments: Recognition and Measurement. In the future, the measurement of financial assets at "amortized cost" or "at fair value" will depend on the underlying business model and the characteristics of the contractually agreed cash flows. The new requirements for recognizing impairment are based on expected losses and not incurred losses as before. The recognition of hedging relationships is now more closely guided by the entity's risk management strategy.

The precise effects of IFRS 9 on SMA AG's consolidated financial statements are currently being examined. Changes to the classification of financial instruments may result in slight alterations to balance sheet presentation. Effects could also arise in particular from the new impairment provisions. Trade receivables are the key balance sheet item for which expected impairment losses must be recognized in the future. No material effects are expected for hedge accounting due to the high effectiveness of the hedging relationships recognized at SMA AG. In addition, IFRS 9 results in new qualitative and quantitative disclosure requirements. Application of the new standard is mandatory for fiscal years beginning on or after January 1, 2018. Early application is permitted, but not planned at SMA AG.

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 based on transferring control to the customer for revenue recognition and to be applied to all contracts with customers. The first-time application of the standard is not expected to have any significant impact on earnings. This is because the allocation of the transaction price to the different services in the contract does not result in any material differences from previous accounting methods. There will be no material effects with regard to the time of revenue recognition – apart from where this concerns contractual ancillary services. Application of the standard will result in more extensive disclosures.

Clarification on IFRS 15 Revenue from Contracts with Customers

The IASB issued amendments to IFRS 15 on April 12, 2016. These amendments clarify certain aspects of the standard and allow for additional practical simplifications for first-time application. The amendments are effective for annual periods beginning on or after January 1, 2018, if it comes to the implementation in the EU. Earlier application is permitted.

IFRS 16 Leases

IFRS 16 replaces the existing IAS 17 and accompanying interpretations. It was published on January 13, 2016, and, if implemented by the EU, 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 and lessor; the contracts currently recognized as operating leases are of no material volume.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The IASB published IFRIC 22 "Foreign Currency Transactions and Advance Consideration" on December 8, 2016. IFRIC 22 addresses an application issue regarding IAS 21 "The Effects of Changes in Foreign Exchange Rates." It clarifies at what point the exchange rate needs to be determined for translating foreign currency transactions that include payments received or advance payments. According to this, the decisive factor for determining the exchange rate for the underlying asset, income or expense is the time at which the asset or liability resulting from the advance payment is first recorded. The interpretation has to be applied from January 1, 2018, if implemented by the EU. No material effects are expected on the Group's assets, financial position or results of operations.

Amendments to IAS 7 Disclosure Initiative

The amendments aim to provide clarification on IAS 7 and improve the information that is provided to users of financial statements on a company's financial activities. Application in the EU is mandatory for fiscal years beginning on or after January 1, 2017.

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 in the EU for reporting periods that begin on or after January 1, 2017. No material effects are expected.

Amendment to IAS 40 Investment Property

The amendment to IAS 40 adopted by the IASB on December 8, 2016, aims to clarify the circumstances in which the classification of a property as an "investment property" begins or ends if the property is still under construction or development. The amendment has to be applied from January 1, 2018. Earlier application is permitted. This does not affect the Group's financial reporting.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates

These amendments clarify that in transactions involving associates or joint ventures, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. Mandatory application of these amendments has been postponed indefinitely in the EU.

IFRS Annual Improvement Process 2014 – 2016

As part of its annual process of making minor improvements to standards and interpretations (Annual Improvements to IFRSs 2014 – 2016 Cycle), the IASB has issued amendments. The amendments affect four standards (IFRS 1, IFRS 12 and IAS 28). The amendments to IFRS 12 have to be applied for reporting periods from January 1, 2017, and the amendments to IFRS 1 and IAS 28 have to be applied from January 1, 2018. The improvements 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 2016.

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.

Fixed assets that are held to generate rental income are recognized as “Investment property” in accordance with IAS 40. Investment property must be measured at cost on acquisition. Subsequently, investment property can be measured using either the cost model or the fair value model.

In the 2016 fiscal year, SMA Solar Technology AG rented two buildings for the first time. These buildings are located on a plot of land that is available for SMA to use for another 82 years as stipulated in the building lease. Investment property are accounted for using the cost model, whereby the properties are measured according to IAS 16 (i. e., at historical cost less depreciation and impairment and reversals of impairment). The buildings are depreciated on a straight-line basis over their economic useful life. The underlying useful life of the two buildings is 33 years.

A survey was compiled to determine the current market value. The properties were valued on the basis of the income approach. The input parameters equate to level three measurement in accordance with IFRS 13. The market value was thus determined to be €16.5 million. Refer to section 18 for more details.

Fixed assets that constitute non-current assets held for sale and discontinued operations are classified as held for sale according to IFRS 5 if the associated book value is realized largely through disposal and not through continued use. On the date of classification, the non-current assets are measured at the lower book value and fair value less costs to sell, and no longer depreciated or amortized.

The item was transferred to “Assets classified as held for sale” according to IFRS 5.12 on September 30, 2016.

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. 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 2016, as in the previous year, impairment was taken into account on development projects. See also section 15, 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 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, as far as no hedging relationship was created for them. Gains or losses resulting from subsequent measurement are recognized through profit or loss in the income statement.

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.

The Group is hedging the foreign currency risk for currency risk from future sales in 2017 in a different currency to the Group's functional currency (USD). In the second half of 2016, the Group started to present this hedging relationship on the balance sheet under hedge accounting. Highly probable future sales in USD are hedged with currency futures and recognized in the balance sheet as a cash flow hedge. Exercising the option permitted under IAS 39, hedges against currency risks associated with fixed obligations are accounted for as cash flow hedges.

The effective portion of the change in fair value of derivatives that are suitable for use as cash flow hedges and have been designated as such is recognized under other comprehensive income, taking into account deferred taxes. Gains or losses relating to the ineffective portion are recognized directly through profit or loss and presented in the Consolidated Income Statement under items "Other Operating Income/Other Operating Expenses".

Amounts presented under other comprehensive income are reclassified to the consolidated income statement during the period in which the underlying transaction is also recognized through profit or loss. These amounts are presented in the consolidated income statement under the same item as the underlying transaction.

Presentation of the hedging relationship in the balance sheet ends either when the Group dissolves the hedging relationship or the hedging instrument, or when the hedging instrument expires, is sold, ended, exercised, or is otherwise no longer suitable for hedging purposes. The entire gain or loss recognized under other comprehensive income and accumulated under equity at this time remains under equity and is only recognized in profit or loss once the expected transaction is also presented in the consolidated income statement. If the expected transaction is no longer expected to materialize, the entire gain or loss recognized under equity is reclassified directly to the consolidated income statement.

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 25. 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. Tax rates and tax laws applicable on the balance sheet date are used to calculate this amount. 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 carryforwards. 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.

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:

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, €12,5 million (2015: €29,5 million) were capitalized during the fiscal year. The research and development costs recognized as expenses are presented in section 7, "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. Only warranty expenditure relating to past years that has not been assigned to individual circumstances is taken into account. As a result of improved processes in the quality management in the current fiscal year individual facts can be identified and evaluated at an earlier stage than in the past. These issues are consequently no longer part of the overall warranty risks, but valued individually. This results because a lower percentage in fiscal year 2016 to a 9.5 million euro lower overall warranty provision. 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 €153.9 million as of December 31, 2016 (December 31, 2015: €139.8 million). More information is provided in section 25, 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.

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 to calculate the present value of these cash flows. As in the previous year, impairment was recognized on development projects in fiscal year 2016. See also section 15, 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 amounted to €10.0 million (2015: €21.9 million).

4. Segment Reporting

The SMA Group operates under a functional organization. In this organization, the Residential, Commercial, Utility and Service business units take on overall responsibility and manage development, operational service and sales as well as operations. Segment Other Business comprises Zeversolar, SMA Sunbelt Energy and the Off-Grid and Storage business unit. This compact organization allows for fast decisions and a lean management structure. The Railway Technology business division is up for sale and is thus reported as a discontinued operation in accordance with IFRS 5. It was previously assigned to the Segment Other Business segment. The Zeversolar business division does not need to be shown separately in 2016 on the basis of size criteria under IFRS 8.13. It has once again been classified under Segment Other Business.

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 with the smart module technology from Tigo Energy; 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. With this portfolio of products and services, SMA offers a suitable technical solution for private PV systems in all major photovoltaic markets.
Commercial	The **Commercial business unit** focuses on the growing market of medium-sized PV systems for commercial applications and on large-scale PV power plants using string inverters. Its portfolio includes solutions with the 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 PV systems, medium-voltage technology and other accessories.
Utility	The **Utility business unit** serves the growing market for large-scale PV power plants with central inverters from the Sunny Central brand. The outputs of Sunny Central inverters range from 500 kW to the megawatts. In addition, its portfolio includes complete solutions comprising central inverters with their grid service and monitoring functions as well as all medium- and high-voltage technology and accessories.
Service	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. The SMA Service range includes commissioning, warranty extensions, service and maintenance contracts, operational management, remote system monitoring and spare parts supply. SMA has its own service companies in all important photovoltaic markets. With an installed capacity of around 55 GW worldwide, SMA leverages economies of scale to manage its service business profitably.
Other Business	In the **Other Business** segment, the focus is on the integration of battery-storage systems for all system sizes. In addition to increasing PV self-consumption to reduce electricity costs in private households and companies, supplying electricity to remote areas reliably and cost-effectively is the priority here. SMA collaborates on storage integration with all leading battery manufacturers and with companies from the automotive industry so that it can always offer customers the latest technology with the greatest customer benefit and best price-performance ratio. The secondary brand Zeversolar, 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.

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 the 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 refrains from 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 5% of the Group's revenue.

Financial Ratios by Segments and Regions

	External sales		Internal sales		Total sales		Operating profit (EBIT)	
in € million	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Segments								
Residential	175.0	252.7	0.2	0.0	175.2	252.7	–15.4	1.8
Commercial	263.0	207.4	1.2	0.0	264.2	207.4	17.8	–25.6
Utility	396.7	416.0	0.0	0.7	396.7	416.7	66.8	56.5
Service	44.7	49.5	67.8	66.4	112.5	115.9	14.1	14.4
Other Business[1]	67.3	56.2	0.7	0.1	68.0	56.3	–4.2	–7.8
Total segments	946.7	981.8	69.9	67.2	1,016.6	1,049.0	79.1	39.3
Reconciliation	0.0	0.0	–69.9	–67.2	–69.9	–67.2	–14.3	4.0
Continuing operations	**946.7**	**981.8**	**0.0**	**0.0**	**946.7**	**981.8**	**64.8**	**43.3**

	Segment assets		Segment liabilities		Capital expenditure		Depreciation and amortization	
in € million	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Segments								
Residential	19.9	65.4	0.3	0.9	2.7	9.9	13.1	13.0
Commercial	48.6	39.1	2.5	0.8	8.0	5.7	2.1	9.8
Utility	159.7	154.1	3.2	7.5	1.4	14.7	10.2	4.6
Service	43.0	39.5	0.5	2.2	0.4	0.5	1.4	1.5
Other Business[1]	34.7	52.1	11.9	11.0	3.3	4.0	2.8	4.0
Total segments	305.9	350.2	18.4	22.4	15.8	34.8	29.6	32.9
Reconciliation	879.8	810.3	603.0	567.9	13.2	15.8	47.1	46.1
Continuing operations	**1,185.7**	**1,160.5**	**621.4**	**590.3**	**29.0**	**50.6**	**76.7**	**79.0**

[1] The Railway Technology company is no longer part of the Other Business segment. The previous year's figures were adjusted.

Sales by regions

in € million	**2016**	**2015**
EMEA	286.3	359.6
Americas	442.5	421.3
APAC	231.0	218.8
Sales deductions	–13.1	–17.9
External sales	**946.7**	**981.8**
thereof Germany	116.4	124.8

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

in € million	2016	2015
Total segment earnings (EBIT)	79.1	39.3
Eliminations	–14.3	4.0
Consolidated EBIT	64.8	43.3
Financial result	–5.9	–5.0
Earnings before income taxes	**58.9**	**38.3**
Total segment assets	305.9	350.2
Other central items and eliminations	182.4	170.0
Centrally administered land and buildings	169.0	191.8
Cash and long-term time deposits	375.5	297.9
Financial instruments not designated and other assets	43.8	61.9
Deferred tax assets and income tax receivables	94.2	88.7
Investments in associates	14.9	0.0
Group assets	**1,185.7**	**1,160.5**
Total segment liabilities	18.4	22.4
Other central items and eliminations	90.5	80.7
Financial instruments not designated, liabilities and provisions	476.5	452.9
Income tax liabilities and deferred tax liabilities	36.0	34.3
Group liabilities	**621.4**	**590.3**

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 included the restructuring provision. Business relations between the segments are eliminated in the reconciliation.

In 2016, 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

5. Cost of Sales

in €'000	2016	2015
Material expenses	456,983	538,803
Personnel expenses	117,766	124,092
Depreciation and amortization	67,322	67,365
Other	61,954	37,640
	704,025	**767,900**

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

The cost of sales fell by 8.3% year on year to €704.0 million (2015: €767.9 million) and thus at a considerably higher 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 and reduced fixed costs. The gross margin increased to 25.6% (2015: 21.8%).

Personnel expenses included in cost of sales fell by a considerable 5.1% year on year to €117.8 million (2015: €124.1 million), reflecting the full effect of the savings from personnel adjustments made.

Depreciation and amortization were on a par with the previous year at €67.3 million in 2016 (2015: €67.4 million). This included scheduled depreciation on capitalized development costs of €19.8 million (2015: €13.6 million).

The rise in other expenses within cost of sales to €61.9 million can be explained primarily by higher external IT project costs, higher transport costs owing to deliveries of new Sunny Central products in the U.S. and the addition of provisions for warranty obligations.

6. Selling Expenses

in €'000	2016	2015
Material expenses	131	976
Personnel expenses	27,317	33,674
Depreciation and amortization	368	470
Other	19,959	19,178
	47,775	**54,298**

Selling expenses include expenditure for global sales activities, internal sales and marketing. With its international sales organization, SMA is benefiting from the global development of photovoltaic markets.

Selling expenses fell by 12.0% year on year to €47.8 million (2015: €54.3 million), due to savings from personnel adjustments in 2016. In the reporting period, the cost of sales ratio was 5.0% (2015: 5.5%).

7. Research and Development Expenses

in €'000	2016	2015
Material expenses	4,538	5,088
Personnel expenses	43,941	52,731
Depreciation and amortization	7,639	8,290
Other	22,158	29,873
	78,276	**95,982**
Capitalized development projects	–12,475	–29,451
	65,801	**66,531**

Research and development expenses include all costs that can be attributed to the areas of product development, development-related testing and product management.

In the past fiscal year, research and development expenses not including capitalized development projects amounted to €65.8 million (2015: €66.5 million). Total research and development expenses including capitalized development projects amounted to €78.3 million in 2016, down significantly on the previous year's level (2015: €96.0 million). In 2016, the research and development cost ratio (gross) amounted to 8.3% (2015: 9.8%).

Development projects were capitalized in the amount of €12.5 million in the reporting period (2015: €29.5 million).

8. General Administrative Expenses

in €'000	2016	2015
Material expenses	61	50
Personnel expenses	26,871	30,288
Depreciation and amortization	926	1,603
Other	22,782	26,376
	50,640	**58,317**

Administrative expenses include expenses for Finance, Human Resources, Legal and Compliance and Corporate Communication.

Administrative expenses in 2016 totaled €50.6 million (2015: €58.3 million). The substantial decrease in administrative expenses of 13.2% is mainly attributable to savings from personnel adjustments. In the reporting period, the ratio of administrative expenses was 5.3% (2015: 5.9%).

9. Other Operating Income

in €'000	2016	2015
Revenues from foreign currency translation	22,837	24,847
Government grants	2,160	2,420
Other miscellaneous income	9,409	19,134
	34,406	**46,401**

Other operating income specifically includes income from foreign currency valuation as well as non-operative income, such as from assets measured at fair value through profit or loss. In the previous year, other miscellaneous income included income from the reversal of the restructuring provision amounting to €9.1 million.

10. Other Operating Expenses

in €'000	2016	2015
Expense from foreign currency translation	21,279	20,097
Other miscellaneous expenses	26,833	17,773
	48,112	**37,870**

Other operating expenses increased by 27.0% to €48.1 million.

Other operating expenses include effects from consolidation of the production locations. Expenses for additions to impairment losses on receivables amounted to €5.7 million in the reporting period (2015: €2.2 million).

11. Employee and Temporary Employee Benefits

in €'000	2016	2015
Wages and salaries	175,484	192,434
Expenses for temporary employees	18,604	17,575
Social security contribution and welfare payments	25,862	29,569
	219,950	**239,578**

Voluntary contributions to private pensions amounted to €1.3 million in 2016 (2015: €1.6 million).

The average number of employees in the Group amounted to:

	2016	2015
Research and Development	599	791
Production and Service	1,849	2,191
Sales and Administration	735	713
	3,183	**3,695**
Apprentices and interns	148	170
Temporary employees	627	556
	3,958	**4,421**

12. Financial Result

in €'000	2016	2015
Loss from at equity-accounted investments	**2,722**	**0**
Interest income	1,664	1,787
Other financial income	161	5
Income from interest derivatives	129	152
Financial income	**1,954**	**1,944**
Interest expenses	3,554	5,263
Other financial expenses	1,401	1,431
Expenses from interest derivatives	147	180
Interest portion from valuation of provisions	32	52
Financial expenses	**5,134**	**6,926**
Financial result	**–5,902**	**–4,982**

In 2016, the financial result decreased by €0.9 million to €–5.9 million (2015: €–5.0 million). This was significantly influenced by the negative earnings from the investment in Tigo Energy, Inc., which were included in the Consolidated Income Statement for the first time. On the other hand, at €3.6 million, interest expenses were considerably lower than the previous year's figure of €5.3 million. This was partly due to repayment of external loans for Jiangsu Zeversolar New Energy.

13. Income taxes

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

in €'000	2016	2015
Actual income taxes		
for current fiscal year	28,971	20,383
for previous years	4,394	3,777
Deferred taxes		
from temporary differences	–15,222	–12,660
from tax loss carryforwards	11,832	3,784
Income taxes	**29,975**	**15,284**

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 net income before taxes can be reconciled to income taxes shown in the Income Statement as follows:

in €'000	2016	2015
Net income before income taxes	**58,864**	**38,319**
Tax rate of the parent company	30.6%	30.6%
Expected income tax expenses	**18,012**	**11,726**
Differences related to differing tax rates domestic and abroad	267	–3,210
Effects due to changes in tax rates	266	–15
Tax-free income	–397	82
Non-deductible expenses	1,041	288
Unusable loss carryforwards and amortization of loss carryforwards	4,997	2,327
Taxes relating to previous years	4,394	3,777
Other tax effects	1,395	309
Actual income taxes (according to Income Statement)	**29,975**	**15,284**
Effective Group tax rate	50.9%	39.9%

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 was 14.8% (2015: 14.8%). The overall tax rate of the Group's parent company was thus 30.6% (2015: 30.6%).

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. No deferred taxes were recognized for taxable temporary differences arising from subsidiaries held for sale due to lack of materiality.

As of December 31, 2016, there were current income tax receivables amounting to €5.9 million (2015: €3.9 million) and current income tax liabilities of €15.0 million (2015: €9.9 million). Tax liabilities are the result of global business activity and a share of foreign sales of 87.9 percent. As a result, SMA is subject to various tax laws and regulations in other countries. Tax changes in the domestic and foreign group could affect the tax positions of SMA. In addition to changes of legal regulations also the assessment and interpretation of complex tax regulations, as for example the transfer prices, can influence our earnings, financial and asset position. We work closely with tax consulting companies in the individual countries, to identify risks, and perform regular audits and take appropriate precautions. For risks arising from previous years expenses incurred in the amount of €4.5 million at the date.

Deferred tax assets and deferred tax liabilities were recorded directly in item "Other comprehensive income" at €4.6 million (2015: €0.0 million). Deferred tax assets and liabilities were distributed across the following items:

in €'000	2016/12/31 Deferred tax assets	2016/12/31 Deferred tax liabilities	2015/12/31 Deferred tax assets	2015/12/31 Deferred tax liabilities
Intangible assets	238	–18,502	282	–22,598
Fixed assets	13,004	–402	7,082	–648
Financial assets	1,890	–932	8,016	–24
Inventories	8,582	–15	7,003	–517
Other assets	409	–35	574	–149
Other provisions	2,584	–155	6,580	–1
Other liabilities	51,592	–981	33,436	–465
Loss carryforwards	10,024	0	21,857	0
	88,323	–21,022	84,830	–24,402

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.

As of December 31, 2016, domestic SMA companies had corporation tax loss carryforwards of €191.3 million (2015: €231.3 million) and trade tax loss carryforwards of €220.6 million (2015: €261.0 million). Corporate tax loss carryforwards amounting to €158.5 million (2015: €169.9 million) and trade tax loss carryforwards amounting to €187.8 million (2015: €199.6 million) were not used for the formation of deferred tax assets from loss carryforwards.

14. Earnings per Share

Earnings per share are calculated by dividing the net income attributable to the shareholders by the weighted average of ordinary shares in circulation during the period. The number of shares in the 2016 fiscal year amounted to 34.7 million, as in the previous year.

The net income attributable to the shareholders is the net income 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 €0.85 per share for the period from January 1, 2016 to December 31, 2016, with an average weighted number of shares of 34.7 million and 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.

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 €0.20 per qualifying bearer share at the Annual General Meeting on May 23, 2017. The amount paid out in dividends will thus amount to €6.9 million (2015: €4.9 million).

NOTES TO THE BALANCE SHEET SMA GROUP

15. 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	Total
Acquisition costs						
2016/01/01	13,660	135,492	21,308	47,254	29,837	247,551
Changes in currency	0	–289	–604	–21	1	–913
Additions	0	4,286	814	55	8,969	14,124
Disposals (–)	0	0	0	192	0	192
Transfers	0	18,280	225	608	–19,072	41
Classified as held for sale	0	4,487	42	317	806	5,652
2016/12/31	13,660	153,282	21,701	47,387	18,929	254,959
Depreciation and amortization						
2016/01/01	12,862	86,188	15,867	37,739	3,596	156,252
Changes in currency	0	–265	–547	–10	0	–822
Additions	0	22,562	620	4,451	0	27,633
Disposals (–)	0	0	0	21	0	21
Classified as held for sale	0	–970	–35	–308	0	–1,313
2016/12/31	12,862	107,515	15,905	41,851	3,596	181,729
Net value 2015/12/31	**798**	**49,304**	**5,441**	**9,515**	**26,241**	**91,299**
Net value 2016/12/31	**798**	**45,767**	**5,797**	**5,536**	**15,333**	**73,231**
Acquisition costs						
2015/01/01	13,660	86,853	20,196	45,208	47,605	213,522
Changes in currency	0	33	980	22	1	1,036
Additions	0	12,550	108	179	20,152	32,989
Disposals (–)	0	0	0	3	0	3
Transfers	0	36,056	24	1,848	–37,921	7
2015/12/31	13,660	135,492	21,308	47,254	29,837	247,551
Depreciation and amortization						
2015/01/01	12,862	61,961	14,153	32,479	2,253	123,708
Changes in currency	0	–8	864	10	0	866
Additions	0	24,235	850	5,253	1,343	31,681
Disposals (–)	0	0	0	3	0	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**	**89,814**
Net value 2015/12/31	**798**	**49,304**	**5,441**	**9,515**	**26,241**	**91,299**

€8.2 million (2015: €18.9 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 €2.7 million (2015: €6.0 million) due to changes in sales forecasts and partial discontinuation of a development project. The impairment exclusively relates to products of the Residential business unit. The amortization was made to the value in use. An after-tax interest rate of 9.8% (2015: 10.2%) 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 segment (€0.3 million), from the asset deal with Phoenix to the Service segment (€0.2 million) and that of dtw Sp. z o.o. (€0.3 million) to the Residential segment.

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% (2015: 1.0%). This was derived from the average long-term growth rate on the photovoltaic market. The after-tax interest rates applied ranged between 9.6% and 11.9% (pre-tax interest rates: 13.4% to 14.7%). 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.

16. Fixed Assets

Fixed assets evolved as follows in the 2016 fiscal year:

in €'000	Land and buildings incl. buildings on third-party property	Technical equipment/ machinery	Other equipment, plant and office equipment	Prepayments and assets under construction	Total
Acquisition costs					
2016/01/01	283,138	78,178	196,348	1,284	558,948
Changes in currency	449	–97	374	7	733
Additions	940	–106	1,885	12,184	14,903
Disposals (–)	3,350	3,501	6,179	1,712	14,742
Transfers	166	525	5,930	–6,662	–41
Reclassified to "investment property"	–19,221	0	0	0	–19,221
Classified as held for sale	3,016	462	2,907	16	6,401
2016/12/31	259,106	74,537	195,451	5,085	534,179
Depreciation and amortization					
2016/01/01	75,804	37,570	150,990	0	264,364
Changes in currency	337	–71	375	0	641
Additions	23,576	5,615	19,900	0	49,091
Disposals (–)	216	2,472	5,116	0	7,804
Transfers	0	0	0	0	0
Reclassified to "investment property"	–3,807	0	0	0	–3,807
Classified as held for sale	–541	–22	–2,070	0	–2,633
2016/12/31	95,153	40,620	164,079	0	299,852
Net value 2015/12/31	**207,334**	**40,608**	**45,358**	**1,284**	**294,584**
Net value 2016/12/31	**163,953**	**33,917**	**31,372**	**5,085**	**234,327**

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

As of December 31, 2016, prepayments and assets under construction are included in particular prepayments for tools and machinery. The amount of depreciation include an impairment loss of € 9,1 million as a result of the closure of the production facility in the United States and an impairment loss in the amount of € 0.2 million of subsidiaries in South Africa, as well as Zeversolar.

The book losses from asset disposals related mainly to Corporate Functions, as in the previous year.

Fixed assets of €20.5 million (2015: €22.6 million) were negatively affected by mortgage liens used to secure financial liabilities.

Fixed assets evolved as follows in the 2015 fiscal year:

in €'000	Land and buildings incl. buildings on third-party property	Technical equipment/ machinery	Other equipment, 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	0	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 and amortization					
2015/01/01	60,323	32,866	136,832	0	230,021
Changes in currency	905	275	1,162	0	2,342
Additions	16,598	6,313	24,403	0	47,314
Disposals (–)	2,022	1,884	11,407	0	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**

17. Investments in Associates

SMA AG has a 28.27% stake in Tigo Energy, Inc. The associate is included in the Consolidated Financial Statements according to the equity method.

Its financial information is as follows:

in €'000	2016	2015
Current assets	15,442	0
Non-current assets	857	0
Current liabilities	–2,159	0
Non-current liabilities	–4,406	0
Sales	5,232	0
Annual earnings	–9,027	0
Other comprehensive income	–581	0
Overall result	–9,608	0
Dividends received from Tigo	0	0

The book value of the associate was €14.9 million on the reporting date. The reconciliation of the financial information shown with the book value is as follows:

in €'000	2016/12/31	2015/12/31
Net assets Tigo	9,734	0
Holdings (%)	28.27	0
Group share in the net assets	2,752	
Goodwill	13,351	0
Other adjustments	–1,228	0
Book value of the Group investment	**14,875**	**0**

18. Investment Property

in €'000	2016/12/31	2015/12/31
Level at the beginning of the year	**0**	**0**
Transfers from fixed assets (net book value)	15,414	0
Level at the end of the reporting period	**15,414**	**0**
Income and expenses included in the profit and loss account	**2016**	**2015**
Rental income	82	0
Attributable expenses	117	0

In the 2016 fiscal year, SMA began to rent two buildings that it had previously been using itself. The investment properties are accounted for using the cost model, whereby the properties are measured according to IAS 16, i. e. at historical cost less depreciation and impairment and reversals of impairment. The buildings are depreciated on a straight-line basis over their economic useful life. The underlying useful life of the two buildings is 33 years. Attributable expenses have to be assigned in full to the investment properties responsible for generating the rental income.

The tenancy agreements for the buildings do not contain any conditional rental payments, but they each offer an option to extend, which can be exercised by the tenant. The non-cancelable rental periods are five years and six years. The distribution of rental income is shown in the table below.

in € million	< 1 year	> 1 to 5 years	> 5 years	Total
Rental income	1.7	6.9	0.7	9.3

19. Inventories

Inventories of the SMA Group are made up as follows:

in €'000	2016/12/31	2015/12/31
Raw materials, consumables and supplies	58,385	74,858
Unfinished goods, work in progress	13,112	21,401
Finished goods and goods for resale	97,666	49,329
Prepayments	56	543
	169,219	**146,131**

Inventories are measured at the lower value of acquisition or production costs and net realizable value. Inventory increased 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 €38.0 million (2015: €57.9 million), of which €31.0 million concerned central corporate functions, €2.8 million Service and €4.2 million Segment Other Business. The total acquisition and production costs recognized as expenses include impairments on net realizable value of €8.8 million. The book value of the inventories written down to the net realizable value amounted to €2.0 million as of December 31, 2016 (December 31, 2015: €0.8 million). Capital gains were € 2.3 million due to the sale of depreciated inventory.

20. 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. It is possible that different payment terms are granted for projects.

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:

in €'000	Book value	Neither overdue nor impaired	Overdue, but not impaired < 30 days	30 to 60 days	60 to 90 days	> 90 days
2016	165,098	144,853	7,421	3,603	2,618	6,603
2015	180,043	127,429	23,476	13,753	6,449	8,936

As of December 31, 2016, value adjustments with a nominal value of €23.5 million (2015: €21.7 million) were carried out on trade receivables. No value adjustments were made regarding overdue receivables as of December 31, 2016, this amounted to €20.2 million (December 31, 2015: €52.6 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
As of 2015/01/01	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
As of 2015/12/31	21,422	269	21,691
Additions with effect on the expenses (net)	5,654	71	5,725
Usage	–507	0	–507
Release	–862	–147	–1,009
Exchange rate difference	–189	–1	–190
Classified as "held for sale"	**–2,216**	**–41**	**–2,257**
As of 2016/12/31	23,302	151	23,453

Furthermore, no adjustments had to be made for the other receivables and financial assets. The receivables are adjusted individually based on individual assessments. The maximum default risk equates to the carrying amount shown in the balance sheet.

21. Other Financial Assets

As of December 31, 2016, other current financial assets included in particular financial assets and time deposits with a term to maturity of over three months and accrued interest totaling €159.4 million (2015: €97.7 million). Other non-current financial assets were reclassified as current other financial assets due to their subordinate importance for the net assets, financial position and results of operation. They primarily included a rent deposit for buildings in the U.S. amounting to USD 2.5 million (December 31, 2015: USD 2.5 million). The previous year's figures were adjusted accordingly.

22. 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, 2016, the Group had unused credit lines amounting to €52.5 million (2015: €41.7 million) for which all conditions for use had been met. The credit lines have been provided on an "until further notice" basis.

23. Assets Classified as Held for Sale

SMA intends to dispose of a plot of land it no longer uses. A purchase agreement has already been concluded for nine parts. Negotiations for the other parts are currently ongoing. It is assumed that the fair value of the respective areas of land less costs to sell will be higher than the book value, so no impairment is recognized.

In the reporting year, machinery was also classified as held for sale for the first time. This machinery is intended to be sold as part of a site closure. It is assumed that the fair value of the respective machinery less costs to sell will be higher than the book value.

In addition to these sales, SMA intends to dispose of the "Railway Technology" business division. The business division includes SMA Railway Technology GmbH and its subsidiary SMA Railway Technology (Guangzhou) Co., Ltd. The business division develops, produces and distributes power electronics components for railway technology. Railway technology has experienced a strong trend toward consolidation in recent years. To be a successful supplier in the railway industry in the long term, SMA Railway Technology needs to further internationalize its business and expand its product range. To secure the future of SMA Railway Technology, SMA therefore decided to look for a strategic partner for this business to allow it to achieve the critical size required for its long-term success.

in €'000	**2016/12/31**	**2015/12/31**
Land classified as held for sale	1,828	0
Machinery classified as held for sale	1,174	0
Assets attributable to the Railway Technology business division	22,075	0
	25,077	
Liabilities attributable to the Railway Technology business division	4,161	0

As stated, SMA intends to sell the business division. Sales negotiations were successfully completed with the signing of a sales contract in February 2017. On the reporting date it is also assumed that the fair value less costs to sell of the division will be higher than the total book value of its associated assets and liabilities. As such, no impairment was recognized at the time of reclassification nor thereafter. Pursuant to IFRS 5, the division is reported as a discontinued operation as of December 31, 2016. As a result, the expenses and income associated with this operation are reported under "Profit from discontinued operation." The assets and liabilities attributable to the SMA Railway division are reclassified under the items "Assets classified as held for sale" and "Liabilities directly associated with assets classified as held for sale." The previous year's disclosure in the income statement has been adjusted accordingly. However, there was no adjustment to the previous year's balance sheet as prescribed by the provisions of IFRS 5.

In 2016, the expenses of the SMA Railway business division amounted to €23.2 million (2015: €26.8 million). In 2016, external sales totaled €23.9 million (2015: €17.8 million). The pre-tax profit/loss (–) for 2016 was €0.7 million (2015: €–9.0 million). Income taxes amounted to €0.1 million (2015: €0.2 million).

The main groups of assets and liabilities attributable to the business divisions classified as held for sale at the balance sheet date include:

in €'000	**2016/12/31**
Intangible assets	3,840
Fixed assets	2,257
Deferred tax assets	2,066
Inventories	6,268
Trade receivables and other receivables	5,466
Cash on hand and bank balances	2,178
Assets attributable to the Railway Technology business division, which is classified as held for sale	22,075
Provisions	–1,426
Trade payables	–665
Deferred tax liabilities	–1,239
Other liabilities	–831
Liabilities attributable to the Railway Technology business division, which are directly associated with assets classified as held for sale	–4,161
	17,914

24. 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 net income 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. In addition, retained earnings include other equity components such as the difference between foreign currency translation and the market values from cash flow hedging not recognized in profit or loss.

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

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 31, 2016, the Managing Board, in the period up to May 30, 2021, is entitled, on behalf of the Company, 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 sells the Company's own shares by offering them to all the shareholders with the consent of the Supervisory Board, the Managing Board is entitled to exclude the shareholders' right of subscription for fractions. In addition, the Managing Board is entitled to cancel any acquired own shares after obtaining the consent of the Supervisory Board.

The Annual General Meeting of SMA Solar Technology AG held on May 31, 2016, followed the Managing and Supervisory Boards' proposal to distribute a dividend of €0.14 per dividend-bearing share for the 2015 fiscal year (2014: €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 48.3% (2015: 49.1%). External financing occurs almost exclusively through liabilities arising from operative business.

25. 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**
As of 2016/01/01	139,790	7,904	22,342	170,036
Additions	53,919	2,234	11,654	67,807
Usage	38,428	2,973	9,532	50,933
Release	2,017	1,001	7,297	10,315
Compounding	0	30	2	32
Changes in currency	1,897	0	–56	–1,841
Classified as "available for sale"	**1,172**	**137**	**116**	**1,425**
As of 2016/12/31	**153,989**	**6,057**	**16,997**	**177,043**
Current in 2016	67,590	3,477	16,050	87,117
Non-current in 2016	86,399	2,580	947	89,926
	153,989	**6,057**	**16,997**	**177,043**
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**

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

in €'000	2016/12/31	2015/12/31
Residential	50,695	45,955
Commercial	58,595	51,579
Utility	39,694	34,803
Service	190	0
Other Business	4,815	7,453
	153,989	**139,790**

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 long-service anniversaries, death benefits and partial retirement benefits. Personnel provisions affect cash in relation to contractual commitments made.

Other provisions include restoration obligations, provisions for tax risks, purchase commitments and provisions for consolidation of production locations in an amount of €5.4 million.

From the 2016 fiscal year, long-term service contracts that were previously recognized in other provisions will be presented under other liabilities as a deferred sales item. Existing balances and additions throughout the year were reclassified to other liabilities outside profit or loss.

26. Financial Liabilities

in €'000	2016/12/31	2015/12/31
Liabilities due to credit institutions	22,779	39,306
Derivative financial liabilities	17,570	7,617
of which liabilities from derivatives inside hedge accounting	14,910	0
of which liabilities from derivatives outside of hedge accounting	2,660	7,617
	40,349	**46,923**

In the 2016 fiscal year, liabilities to credit institutions mainly include liabilities for the financing of SMA Immo properties and an SMA AG PV system. 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 addition, repayments were made by SMA AG and SMA Immo.

Derivative financial liabilities predominantly include negative market values for currency futures presented in hedge accounting. Liabilities aside from the recognized hedging relationships consist of interest derivatives, currency futures and options.

All liabilities from derivatives have a residual maturity of less than 12 months.

27. Trade Payables

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

28. Other Financial Liabilities

in €'000	2016/12/31	2015/12/31
Sales department liabilities	3,792	6,619
Other	10,986	12,985
	14,778	**19,604**
Current	13,763	18,192
Non-current	1,015	1,412
	14,778	**19,604**

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

Liabilities from bonus agreements with customers have been reported in remaining other liabilities since the 2016 fiscal year; the previous year's figures were adjusted accordingly. In the previous year, these were still assigned to sales department liabilities.

29. Other Liabilities

in €'000	2016/12/31	2015/12/31
Accrual item for extended warranties	167,643	146,130
Liabilities from prepayments received	46,406	31,613
Liabilities in the Human Resources department	19,531	25,191
Liabilities due to tax authorities	3,861	6,735
Liabilities from subsidies received	3,433	3,653
Liabilities from bonus agreements	826	427
Other	2,710	2,464
	244,410	**216,213**
Current	84,157	75,037
Non-current	160,253	141,176
	244,410	**216,213**

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.

Liabilities from bonus agreements with customers have been reported in remaining other liabilities since the 2016 fiscal year; the previous year's figures were adjusted accordingly. In the previous year, these were still assigned to sales department liabilities.

30. Additional Disclosures Relating to Financial Instruments

in €'000	Assessment category according to IAS 39	2016/12/31 Market value	2016/12/31 Book value	2015/12/31 Market value	2015/12/31 Book value
Assets					
Cash and cash equivalents	LaR	216,124	216,124	200,180	200,180
Trade receivables	LaR	165,098	165,098	180,043	180,043
Other financial investments	AfS	5	5	5	5
Other financial assets		**177,935**	**177,935**	**127,157**	**127,157**
of which institutional mutual funds	FAHfT	96,406	96,406	47,636	47,636
of which other (time deposits)	LaR	78,489	78,489	79,521	79,521
of which derivatives that do not qualify for hedge accounting	FAHfT	3,040	3,040	0	0
Liabilities					
Trade payables	FLAC	108,902	108,902	103,134	103,134
Financial liabilities		**40,349**	**40,349**	**46,923**	**46,923**
of which liabilities due to credit institutions	FLAC	22,779	22,779	39,306	39,306
of which derivatives that do not qualify for hedge accounting	FLHfT	2,660	2,660	7,617	7,617
of which derivatives that qualify for hedge accounting (cash flow hedge)	n/a	14,910	14,910	0	0
Other financial liabilities	FLAC	**14,778**	**14,778**	**23,258**	**23,258**
Of which grouped by categories according to IAS 39:					
Loans and receivables	LaR	459,711	459,711	459,744	459,744
Financial liabilities measured at amortized cost	FLAC	146,459	146,459	165,698	165,698
Financial assets held for trading	FAHfT	99,446	99,446	47,636	47,636
Financial liabilities held for trading	FLHfT	2,660	2,660	7,617	7,617
Cash flow hedges	n/a	14,910	14,910	0	0
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, because 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 inside and outside of hedge accounting. 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.

Derivative financial liabilities that qualify for hedge accounting include cash flow hedging for certain planned material transactions in a foreign currency.

In the current fiscal year, no market values recognized in equity were reclassified to the income statement. Hedged planned transactions in a foreign currency are recognized fully in profit or loss in the subsequent fiscal year.

The put option in the amount of the present value of the redemption amount of the shares granted in connection with the acquisition of Zeversolar shares was posted under derivative financial liabilities without a hedge relationship. As of the reporting date, the put option no longer existed (December 31, 2015: €3.9 million). This is due to the increase in the share in Zeversolar.

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:

in €'000

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets, measured at fair value				
Institutional mutual funds	96,406			96,406
Derivative financial instruments		3,040		3,040
Financial liabilities, measured at fair value				
Derivative financial instruments		17,570		17,570
outside of hedge accounting		2,660	0	2,660
inside hedge accounting		14,910	0	14,910

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
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 outside of hedge accounting		3,731	3,886	7,617

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 2016 net results for financial instruments are as follows:

	From interest	**From subsequent measurement**		**From disposal**	**Net result**
in €'000		**Currency translation**	**Value correction**		
Loans and Receivables (LaR)	556	6,110	–4,716	–174	1,776
Financial Liabilities Measured at Amortized Cost (FLAC)	–1,619	0	0	0	–1,619
Financial Assets Held for Trading (FAHfT)	1,108	0	–2,791	–3,173	–4,856
Financial Liabilities Held for Trading (FLHfT)	–164	0	129	0	–35
Total	**–119**	**6,110**	**–7,378**	**–3,347**	**–4,734**

The 2015 net results for financial instruments are as follows:

in €'000	From interest	From subsequent measurement: Currency translation	From subsequent measurement: Value correction	From disposal	Net result
Loans and Receivables (LaR)	400	12,050	–4,314	–3,046	5,090
Financial Liabilities Measured at Amortized Cost (FLAC)	–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**

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:

in €'000	Book value	Total Cash flows	< 1 year	1 to 3 years	4 to 5 years	> 5 years
2016						
Trade payables	108,902	**108,902**	108,902	0	0	0
Financial liabilities	40,349	**43,927**	20,661	6,975	7,360	8,931
of which from liabilities due to credit institutions	22,779	**26,352**	3,324	6,791	7,306	8,931
of which from derivatives outside of hedge accounting	2,660	**2,665**[1]	2,427	184	54	0
of which from derivatives inside hedge accounting	14,910	**14,910**[1]	14,910	0	0	0
Other financial liabilities	14,778	**14,778**	13,763	1,015	0	0
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 outside of 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

[1] Contains the net cash flow from forward exchange transactions amounting to €14,162k, providing a gross fulfillment. Payment obligations amount to €316,934k, payment claims amount to €302,772k. The closing rate was used for the conversion of the foreign currency transaction.

31. 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 €18.7 million (2015: €24.3 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	2016/12/31	2015/12/31
Maturity of less than 1 year	10,898	10,479
Maturity of 1 to 5 years	21,282	28,816
Maturity of more than 5 years	3,403	5,307
	35,583	**44,602**

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 €1.8 million (2015: €1.4 million). There were financial obligations for intangible assets amounting to €4.4 million (2015: €0.5 million). The other financial obligations were within the framework customary for the business.

32. Contingencies

As of December 31, 2016, there were no changes compared to the previous year (€0.05 million).

NOTES TO THE STATEMENT OF CASH FLOWS SMA GROUP

The intention to sell the Railway Technology business division meant that the previous year's figures were adjusted pursuant to IAS 5.34. The notes to the statement of cash flows relate to continuing operations.

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

33. Net Cash Flow From Operating Activities

Gross cash flow improved significantly during the fiscal year to €131.8 million (2015: €68.0 million). It reflects the operating income prior to commitment of funds.

Net cash flow from operating activities in fiscal year 2016 amounted to €147.5 million (2015: €102.7 million).

The net cash flow increased due to the increase of inventories mainly due to customers' project delays by 15.8% to €169.2 million (2015: €146.1 million). The €5.8 million increase in trade payables, the substantial decrease in trade receivables and the change in inventories resulted in a small 1.1% increase in net working capital to €225.4 million (2015: €223.0 million). At 23.8%, the net working capital ratio in relation to sales over the past 12 months was higher than the figure on December 31, 2015 (22.3%), and was thus above the range of 20% to 23% targeted by management.

34. Net Cash Flow From Investing Activities

In the 2016 fiscal year, net cash flow from investing activities amounted to €–107.9 million, after €–64.0 million in the previous year, and primarily included the outflow of €17.6 million for the acquisition of shares in Tigo Energy, Inc. The outflow of funds for investments in fixed assets and intangible assets amounted to €29.0 million and was thus considerably lower than the comparative figure in the 2015 fiscal year of €48.3 million. The decline illustrates the SMA Group's adjusted investment activity. A major portion of the investments, namely €12.5 million, went on capitalized development projects for the launch of new product families. The balance of proceeds and payments for the investment amounted to €–62.0 million (2015: €–15.0 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, as in the previous year.

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.

35. Net Cash Flow From Financing Activities

In the 2016 fiscal year, besides loan repayments for Jiangsu Zeversolar New Energy Co., Ltd., net cash flow from financing activities also consisted of loan repayments for Immo, the dividend payment of SMA Solar Technology AG amounting to €4.9 million and a cash outflow of €3.7 million for the acquisition of the remaining shares in Jiangsu Zeversolar New Energy Co., Ltd. This item totaled €–24.6 million in the 2016 fiscal year compared with €–23.2 million in the previous year.

36. Cash and Cash Equivalents

Cash and cash equivalents amounting to €216.1 million (2015: €200.2 million) include cash in hand, bank balances and short-term deposits with an original term to maturity of less than three months.

OTHER DISCLOSURES

37. Events After the Balance Sheet Date

In the year under review, the Managing Board of SMA Solar Technology AG has comprised the following members: Roland Grebe (Board Member for HR 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). Roland Grebe resigned from the Managing Board for private reasons effective December 31, 2016. Ulrich Hadding was newly appointed to the Managing Board effective January 1, 2017. Since January 1, 2017, the Managing Board of SMA thus comprise Ulrich Hadding (Board Member for Finance, HR and Legal), Dr.-Ing. Jürgen Reinert (Deputy Chief Executive Officer, Board Memmber for Operations and Technology) and Pierre-Pascal Urbon (Chief Executive Officer Board Member for Strategy, Sales, and Service

On February 10, 2017, SMA Solar Technology AG signed a contract regarding the sale of SMA Railway Technology GmbH. The buyer and the seller have agreed not to disclose the purchase price. The identity of the contractual partner will be published after the transaction has been concluded.

38. Related Party Disclosures

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 2015, the group of related parties was expanded by Danfoss' acquisition of a 20% stake in SMA. In the current fiscal year, the group of related parties was increased due to the 28.27% stake in Tigo Energy, Inc.

Related persons:
In the year under review, the following were members of the Managing Board of SMA Solar Technology AG:
Roland Grebe, Board Member for HR IT (until December 31, 2016)
Dr.-Ing. Jürgen Reinert, Board Member for Operations and Technology
Pierre-Pascal Urbon, Chief Executive Officer, Board Member for Finance/Legal and Sales

Dr.-Ing. Jürgen Reinert sits on the supervisory boards of Danfoss A/S, Denmark, and KraftPowercon, Sweden.

Pierre-Pascal Urbon is a member of the Board of Directors of Tigo Energy, Inc., U.S.

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

Shareholder Representative:
Dr. Erik Ehrentraut, Consultant, Chairman
Kim Fausing, General Manager and COO Danfoss, Deputy Chairman
Roland Bent, General Manager
Peter Drews, Chairman of the Foundation Managing Board
Alexa Hergenröther; General Manager (since August 5, 2016)
Dr. Winfried Hoffmann, Consultant (until June 30, 2016)
Reiner Wettlaufer, Chairman of the Foundation Managing Board

Employee Representative:
Johannes Häde
Yvonne Siebert
Dr. Matthias Victor
Hans-Dieter Werner
Oliver Dietzel, Trade Union Secretary
Heike Haigis, Trade Union Secretary

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 €3.5 million (2015: €6.1 million). The non-performance-based component amounted to €2.9 (2015: €4.7 million), the performance-based components to €0.6 million (2015: €1.4 million). The compensation relates exclusively to short-term benefits. No compensation for tasks in subsidiaries was granted. In connection with his stepping down from the Managing Board, Roland Grebe received a single payment totaling €1.2 million to settle the existing non-compete clause and as severance pay.

The total compensation of the members of the Supervisory Board in the year under review amounted to €0.4 million (2015: €0.5 million). €0.3 million (2015: €0.4 million) of this was non-performance-based fixed compensation, and €0.1 million (2015: €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. U.S. and Phoenix Contact Development & Manufacturing Inc., U.S.

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

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 research and development. 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	2016	2015
Goods acquired from Danfoss	25.5	18.2
Services acquired from Danfoss	6.1	8.9
Services sold to Danfoss	2.5	3.2
Outstanding receivables at the end of the year	0.7	1.0
Outstanding liabilities at the end of the year	6.4	2.9

In addition, SMA has a 28.27% stake in Tigo Energy, Inc. SMA entered into a strategic partnership with Tigo Energy, Inc. in the areas of development, sales and service. Furthermore, for a duration of 30 months, SMA has exclusive rights to the worldwide sale of the new TS4-Retrofit product platform for module optimization developed by Tigo Energy, Inc. SMA has also obtained a seat on Tigo Energy’s Board of Directors. In the 2016 fiscal year, no significant transactions were carried out with Tigo Energy, Inc. Goods amounting to a total value of €0.3 million were acquired, which meant that liabilities to Tigo Energy, Inc. totaled €0.2 million as of December 31, 2016.

The company movendum GmbH, whose Managing Director is Dr. Ute Urbon, was commissioned by the Supervisory Board to look for a Supervisory Board member. Following the successful outcome of this consultation, the company received a standard market fee of €48,000 in the year under review.

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.

39. 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 (2015: €0.2 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, 2015: 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 (2015: €–0.1 million), and the effect on equity would have been neutral (December 31, 2015: 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 USD. 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.

Currency risks also arise in particular from the sales activity of our Japanese subsidiary.

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.

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 USD are evened out. Notwithstanding, measurement of the hedging transactions concluded for the 2017 fiscal year results, on the one hand, in a positive contribution to earnings of €0.7 million from fair value measurement (2015: €–3.2 million) and, on the other hand, in equity costs of €14.9 million before deferred taxes from the first-time application of hedge accounting.

An increase of 5% in the euro with respect to the USD and/or JPY on December 31, 2016, would have led to a positive change in the currency derivatives of €3.6 million (2015: €4.8 million). A decrease of 5% in the euro with respect to the USD on December 31, 2015 would have led to a reduction in the value of the currency derivatives of €5.6 million (2014: €–5.3 million). As of December 31, 2016, the currency hedges related to EUR/USD and EUR/JPY.

With regard to the hedging transactions presented under hedge accounting, a 5% increase in the euro against the USD as of December 31, 2015, would have resulted in a €9.0 million increase in equity. A 5% weaker euro would have resulted in additional equity costs of €13.8 million.

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. Because 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 commercial credit insurance. The maximum non-payment risk is limited to the book value disclosed in section 20. 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. 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 48.3% (2015: 49.1%) and the net working capital ratio was 23.8% (2015: 22.3%).

40. 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	2016	2015
Financial statement auditing	372	486
Other audit-related services	0	13
Other services	137	52
	509	**551**

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.

41. 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 8, 2016, and made permanently available to shareholders on the SMA website at www.SMA.de.

42. 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, 2016, which are filed with the operator of the Electronic Federal Gazette and subsequently published in the Electronic Federal Gazette.

Niestetal, March 2, 2017

SMA Solar Technology AG
The Managing Board

Ulrich Hadding   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 2, 2017

SMA Solar Technology AG
The Managing Board

Ulrich Hadding 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 income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and the Notes to the Consolidated Financial Statements – and the Consolidated Management Report combined with the Management Report for the fiscal year from January 1 to December 31, 2016. Preparation of the Consolidated Financial Statements and the Consolidated Management Report in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB) 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 generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors). 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 the assessment of the Annual Financial Statements of the 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 evaluation of 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, and 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, complies with statutory provisions, provides an accurate view of the Group's position overall and suitably presents the opportunities and risks of future development.

Hanover, March 2, 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Reker	Meier
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)