

CONSOLIDATED MANAGEMENT REPORT

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BASIC INFORMATION ABOUT THE GROUP

BUSINESS ACTIVITY AND ORGANIZATION

SMA Solar Technology AG (SMA) and its subsidiaries (SMA Group) develop, produce and distribute PV inverters, transformers, choke coils 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.

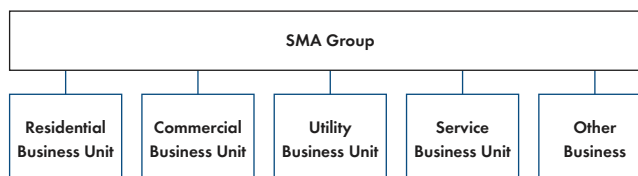
Organizational Structure

LEGAL STRUCTURE OF THE GROUP

As the parent company of the SMA Group, SMA, headquartered in Niestetal near Kassel, Germany, provides all of the functions required for its operative business. The parent company holds, either directly or indirectly, 100% of the shares of all the operating companies that belong to the SMA Group. The Annual Report includes information regarding the parent company and all 35 Group companies (2015: 35), including eight domestic companies and 27 companies based abroad. In 2016, SMA Solar Technology AG has increased the shareholding in Jiangsu Zeversolar New Energy Co., Ltd. and in SMA Immo Beteiligungs GmbH to 100% respectively. In addition, as part of a capital increase of USD 20 million, SMA Solar Technology AG acquired interests of 28.27% in Tigo Energy, Inc. Tigo Energy, Inc. is included in the Consolidated Financial Statements as an associate through the equity method.

ORGANIZATIONAL STRUCTURE

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. In the organizational structure, Zeversolar, SMA Sunbelt Energy and the Off-Grid and Storage business unit have been combined under Other Business. 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.



MANAGEMENT AND CONTROL

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

CHANGES TO THE MANAGING BOARD

In the year under review, the Managing Board of SMA Solar Technology AG comprised the following members: Roland Grebe (Board Member for Human Resources and IT), Dr.-Ing. Jürgen Reinert (Board Member for Operations and Technology) and Pierre-Pascal Urbon (Chief Executive Officer, Board Member for Finance/Legal and Sales). Roland Grebe stepped down from the Managing Board for personal reasons as of December 31, 2016. Ulrich Hadding was appointed to the Managing Board as of January 1, 2017. Since January 1, 2017, the SMA Managing Board has thus comprised Ulrich Hadding (Board Member for Finance, Human Resources and Legal), Dr.-Ing. Jürgen Reinert (Deputy Chief Executive Officer, Board Member for Operations and Technology) and Pierre-Pascal Urbon (Chief Executive Officer, Board Member for Strategy, Sales and Service).

COMPOSITION OF THE SUPERVISORY BOARD

The SMA Supervisory Board, which represents shareholders and employees in equal measure, consists of Roland Bent, Peter Drews, Dr. Erik Ehrentraut (Chairman), Kim Fausing (Deputy Chairman), Alexa Hergenröther (as of August 5, 2016) and Reiner Wettlaufer as shareholder representatives. The employees are represented on the Supervisory Board by Oliver Dietzel, Johannes Häde, Heike Haigis, Yvonne Siebert, Dr. Matthias Victor and Hans-Dieter Werner.

Dr. Winfried Hoffmann stepped down from office on the SMA Supervisory Board effective June 30, 2016. Alexa Hergenröther took his place as shareholder representative on the Supervisory Board. Ms. Hergenröther is a member of the management of K+S KALI GmbH.

PRODUCTS AND SERVICES

According to the independent analysis company IHS Markit, SMA is the clear global market leader for PV inverters in terms of sales. As a specialist in system technology, SMA develops and markets high-quality PV inverters and innovative technologies for intelligent management and efficient use of energy. SMA's product and solution portfolio contains a wide range of PV inverters and system technology for grid-connected PV systems, off-grid and hybrid systems as well as for storage integration. SMA offers technically and cost-optimized system solutions for all power classes and system types as well as different regional requirements. In addition, SMA provides comprehensive services that also encompass operational management of large-scale PV power plants.

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, Inc.; 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.

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.

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.

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 approximately 55 gigawatts (GW) worldwide, SMA leverages economies of scale to manage its service business profitably.

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 the 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 Railway Technology business division, which is up for sale, manufactures converters for short- and long-distance railway traffic and complete energy supply systems for railway coaches and multiple-unit trains. The main product is the SMARTconverter 3, an on-board power system converter for subway and suburban railway trains, which is designed as a platform device and characterized by minimum weight, high efficiency and low life-cycle cost.

IMPORTANT SALES MARKETS AND COMPETITIVE SITUATION

The global photovoltaic market once again saw significant growth in 2016. SMA estimates that 78 GW of new PV power were installed in the reporting period. This equates to growth of approximately 50% compared with 2015 (2015: 52 GW). The strong growth came from China in particular, a market with a very low price level. Due to the further rise in price pressure in all market segments and regions, SMA estimates that the worldwide volume of investment for inverter technology in 2016 was €5.2 billion and thus only around 9% higher than in the previous year (2015: €4.8 billion).

GROWTH IN AMERICA AND CHINA, DECLINE IN EMEA

The share of the photovoltaic markets in Europe, the Middle East and Africa (EMEA) in global sales declined to approximately 20% in 2016 (2015: 23%). The decrease is particularly attributable to the decline in demand in Great Britain. In contrast, American photovoltaic markets developed very positively, making up 29% of global sales (2015: 24%). The Chinese market reported strong growth and accounted for approximately 44% of the global market with 34 GW. The newly installed power was double that of the previous year. Due to the low price level, however, the growth in China was much lower when measured in euros. The Chinese market therefore represented approximately 17% of global sales in 2016 (2015: 12%). The Asia-Pacific photovoltaic markets (excluding China) accounted for 34% of the global market, thereby losing market share again (2015: 41%).

SMA BENEFITS FROM STRONG POSITIONING IN GROWTH MARKETS

With its own companies in 20 countries, the SMA Group is in an excellent position to benefit from the growth of international markets. No other competitor has a comparable international sales and service structure with experienced photovoltaics specialists. The modern production sites with an overall annual capacity of over 10 GW in Niestetal and Kassel (Germany) and Yangzhong (China) are highly flexible and can be quickly adapted to changes in demand. The competence center for coils (electromagnetic components) is based in Zabierzów, near Krakow (Poland).

Thanks to its international position, SMA can react quickly to regional shifts in demand. SMA can benefit from global growth in demand with highly efficient PV inverters, integrated system solutions for PV systems of all power classes, intelligent energy management systems and battery storage solutions, complete solutions for PV diesel hybrid applications and extensive services up to and including operational management. This is also reflected in a global study by the analysis company IHS Markit, according to which SMA was by far the most popular inverter brand worldwide for the fifth time in a row in 2016.

In 2016, SMA sold inverters with an accumulated power of approximately 8.2 GW (2015: 7.3 GW) and generated €946.7 million in sales (2015: €981.8 million¹). Measured in terms of sales, SMA accounted for approximately 20% of global demand for PV inverters, and thus defended its global market leadership.

SMA countered the increased price pressure in all segments and regions with additional measures to reduce costs. These included product innovations with low cost of sales and the consolidation of its global infrastructure. For example, the Company closed its production sites in Denver (U.S.) and Cape Town (South Africa) at the end of 2016 to make better use of its capacity at the production facilities in Germany and China.

The service business is becoming an increasingly important unique selling proposition in the solar industry. SMA has its own service companies in all important photovoltaic markets. With an installed capacity of approximately 55 GW worldwide, SMA leverages economies of scale to manage its service business profitably and expand it further.

In addition, SMA is advancing its strategic positioning in major future fields such as storage integration, digitization of the electricity supply and the combined use of renewable energies and fossil fuels in PV diesel hybrid systems. For example, the Company established SMA Energy Services in the year under review, an innovative service for the energy industry for better integration of solar energy into the supply system on the basis of high-resolution data on generation and consumption.

¹ The figure for the previous year was adjusted retrospectively due to the planned sale of the Railway Technology business division.

VISION AND MISSION

Energy supply structures are undergoing fundamental change all over the world. After the pioneer phase of renewable energies, now follows the digitization of the energy industry. In the foreseeable future, the energy supply will be decentralized, renewable, fully digital and interconnected. Photovoltaics will play an essential part as the most cost-effective source of energy. With a complete portfolio of products and solutions, extensive PV system expertise and a global presence, SMA is in an excellent position to take the opportunities offered. The SMA Managing Board together with a selected team developed the SMA Strategy 2020 keeping this in mind in the year under review. It comprises a forward-looking vision and mission as well as clear strategic targets for the years to come.

Our vision is to make people completely independent in their energy supply using decentralized renewable energy in a connected world. SMA will make a substantial contribution to the fast and full implementation of this vision. Our mission is to integrate and network photovoltaics, storage systems and mobility with intelligent energy management. With our superior solutions, we will shape the energy supply of the future.

CORPORATE GOALS

SMA's corporate goals are enshrined in the Strategy 2020. They were presented to all SMA employees around the world in the reporting period and are the basis for the Company's sustainable success.

GLOBAL MARKET LEADER IN ALL SEGMENTS

SMA's goal is to make consistent use of growth opportunities in all market sectors and regions and to be the global market leader in sales in every single one of our market segments – Residential, Commercial, Utility, Service and Off-Grid and Storage.

PROVIDER OF SYSTEMS AND SOLUTIONS

The ability to offer both individual components and entire systems and solutions including innovative services is becoming an important distinguishing feature in the photovoltaics industry. SMA has therefore set itself the target of increasing the proportion of sales it generates outside inverters from around 20% at present to over 40% by 2020.

SUSTAINABLE PROFITABILITY AND LIMITED CAPITAL TIE-UP

To counter the high price pressure that is still expected, SMA is striving for continual process improvements and increases in efficiency. If necessary, profitability will be ensured through reductions in structural costs.

DEVELOPMENT OF SMA BY MEANS OF DISRUPTIVE APPROACHES

The digitization of the energy supply is giving rise to business opportunities that demand novel approaches. To make use of the resulting opportunities, SMA will invest in start-ups that focus on disruptive technological approaches, data-based business models and end-to-end sales models.

SMA IS AN ATTRACTIVE COMPANY

Motivated employees with an international, entrepreneurial mindset and approach coupled with high credibility among all stakeholders are important factors for SMA's success in a dynamic market environment. We therefore practice our values and allow SMA employees the freedom for responsible, entrepreneurial action. We stand out, both internally and externally, due to fairness, internationality and sustainability.

RESEARCH AND DEVELOPMENT

As the global market leader in photovoltaics, SMA has set trends in the global photovoltaics industry for many years. We use our comprehensive systems expertise to develop complete solutions for different photovoltaic applications. To offer our customers in all market segments and regions the best complete solutions in terms of both technology and economic efficiency, we selectively collaborate with strong partners. With our continuous research and our market- and customer-focused development, we can further reduce the consumer cost of PV electricity and thus make a significant contribution to a successful global energy transition. Our innovations have won numerous awards, most recently in June 2016 at Intersolar Europe in Munich. Our technology is protected by many patents.

Forward-Looking Development Approach and High Capacity for Innovation

Our thorough understanding of different market requirements and our close proximity to our customers enable SMA to anticipate future system technology demands. Customers used to be concerned primarily with energy yield, service life and design flexibility. Now, however, consumer PV electricity costs, system integration as well as connectivity are the key factors in making a purchasing decision. With the increasing integration of PV systems into comprehensive systems, cyber security is also playing an ever more important role. In this context, the PV inverter is classified as a system-critical component, so customers place higher demands on the transparency of companies.¹

In product development, SMA is pursuing a platform strategy aimed at systematically cutting the cost of PV inverters and being able to react quickly to market changes. By standardizing the core inverter, we can increase the proportion of identical components across the entire portfolio. Customization in line with different markets and customer needs is implemented through the connection area and software. Thanks to our high capacity for innovation, we are able to launch new solutions and product enhancements within a very short space of time. In doing so, our international development teams work together closely and thus allow for optimal use of development capacity. In the year under review, SMA lowered its R&D expenses by 18.4% compared to the previous year to €78.3 million (including capitalized development projects) and simultaneously maintained its high capacity for innovation. By the end of the reporting year, SMA had been granted 869 patents and utility models worldwide. In addition, more than 600 other patent applications were still pending as of December 31, 2016. Furthermore, SMA holds the rights to 803 trademarks.

¹ This paragraph is not a mandatory component of the management report as defined in Section 315 HGB in conjunction with GAS 20, and therefore not a subject of the financial audit.

Research and Development Expenses of the SMA Group

in € million	2016	2015 ¹	2014	2013	2012
Research and development expenses	78.3	96.0	129.1	102.5	108.1
of which capitalized development projects	12.5	29.5	40.9	22.9	20.2
Depreciation on capitalized development projects (scheduled)	19.8	13.6	14.9	14.9	7.5
Research and development ratio in % in relation to sales	8.3	9.8	16.0	11.0	7.4

¹ The figure for the previous year was adjusted retrospectively due to the planned sale of the Railway Technology business division.

Complete Solutions to Lower Energy Costs

PRIVATE SYSTEMS: FOCUS ON MORE SELF-CONSUMPTION AND OPTIMAL SERVICE

In the market segment for smaller residential PV systems, SMA promoted the integration of additional loads into energy management at the household level. Since September 2016, the Sunny Home Manager, the central control unit of the SMA Smart Home, has simply integrated commercially available household appliances from Bosch und Siemens Hausgeräte GmbH (BSH) into SMA's intelligent energy management via the EEBus communication standard. Self-generated solar energy is thus used even more efficiently. This increases the self-consumption of solar power and significantly reduces electricity costs.

In April 2016, SMA and Tigo Energy, Inc. based in Silicon Valley, announced their strategic partnership in the field of smart module technology. The technology patented by Tigo Energy, Inc. is a consistent evolution of the micro inverter technology and the module optimizers previously available on the market. SMA obtained the exclusive rights for global distribution of the TS4-Retrofit smart module technology developed by Tigo Energy, Inc. This chip-based solution has various options that allow an increase in energy yield, simplification of system planning and installation, as well as fire safety and cloud-based monitoring of system availability. Customers can thus adapt each PV module to their individual needs. With previous solutions, every PV module always had to be equipped with an optimizer regardless of whether this was necessary. The new solution from Tigo Energy, Inc. and SMA can therefore generate the same energy yield as fully optimized PV systems with lower capital expenditure. This

strategic partnership gives SMA access to the fast-growing market of module-level power electronics (MLPE) with an estimated annual market volume of approximately €700 million. SMA will start selling the SMA Power+ Solution with Tigo Energy's smart module technology in the primary sales markets in January 2017.¹

In the year under review, SMA also enhanced the globally successful Sunny Boy inverter family, and in the first quarter of 2017 the new Sunny Boy in the power classes 3.0/3.6/4.0/5.0 kW will be launched. The device is particularly easy to install and put into operation, has the latest communication standards and can be combined with the components of the SMA Power+ Solution into a full system solution. As a special customer benefit, SMA also automatically monitors the inverter for the first time and ensures further reduction in consumer cost of PV electricity with quick troubleshooting. In this respect, SMA can rely on its dense service network in all major photovoltaic markets – an advantage that competitors in Asia in particular cannot offer their customers because they often lack the required service infrastructure.

In the U.S., SMA introduced new inverters in the Sunny Boy product family with power of up to 8 kW back in August 2016. The devices have the latest safety and communication technology and enable faster installation and service. The U.S. products already meet the regulatory requirements of the UL 1741 SA standard, which will apply from fall 2017. The new U.S. inverters were also tested specifically for combination with the components of the SMA Power+ Solution and are available as a complete system solution.

COMMERCIAL APPLICATIONS: COST REDUCTION THROUGH NEW INVERTER CONCEPT

In the medium-sized inverter segment (Commercial), SMA is expanding the globally successful Sunny Tripower string inverter family with a third generation. SMA introduced the new Sunny Tripower CORE1 for the first time at Solar Power International in Las Vegas in September 2016. The 50 kW string inverter is suitable for global use in decentralized, commercial rooftop and ground-based PV systems and covered parking spaces. The new inverter will be commercially available in the second quarter of 2017. Its innovative mounting concept makes Sunny Tripower CORE1 the first free-standing inverter for commercial solar projects. Faster installation and the innovative integration concept allow significant cost savings and a considerable increase in installation security for everyone involved in the project.

In addition, SMA launched the new Medium Voltage Station (MVS) for inverters in the current Sunny Tripower platforms in March 2016. The MVS enables decentralized PV systems with string inverters to be connected to medium-voltage grids quickly and easily. SMA is the first company to provide a fully integrated solution with preconfigured components. A robust standard container holds the medium-voltage transformer, medium-voltage switchgear and low-voltage connections for the inverters.

Also in March 2016, the decentralized Catalagan Solar Farm with 830 Sunny Tripower 60 inverters was commissioned in the Philippines. With 63 megawatts of power, it is one of the world's largest PV systems with string inverters and underscored SMA's eminent expertise in this field, which is becoming increasingly significant.

PV POWER PLANTS: HIGH-PERFORMANCE AND COST-EFFECTIVE COMPLETE SOLUTIONS

In the segment of large-scale PV power plants, SMA developed the Medium Voltage Power Station (MVPS) 5000SC-EV, a turnkey container solution for 1,500 V power plants, in the year under review. Equipped with two Sunny Central 2500-EV inverters and a medium-voltage transformer and switchgear in a standard container, the new MVPS enables power of 5,000 kVA. SMA also provides a version with power of 4,400 kVA for 1,000 V power plants. Due to its unique power density and compactness, the Medium Voltage Power Station considerably lowers transport, installation and operating costs. The complete solution can be used worldwide in large-scale PV power plants and can be erected outdoors in all ambient conditions. Delivery is scheduled to start in May 2017.

In August 2016, the Sunny Central 2500-EV-US was the first 1,500 V central inverter to receive UL 62109-1 certification for North America from Underwriter Laboratories. In September 2016, the independent company Bureau Veritas certified the Sunny Central 2200/2500-EV for global markets according to IEC standard 62109-1/2. This is official confirmation that SMA inverters comply with international standards. For SMA customers, the certification means that large-scale solar projects around the world can be implemented more safely, easily and cost-effectively with SMA central inverters.

¹ This paragraph is not a mandatory component of the management report as defined in Section 315 HGB in conjunction with GAS 20, and therefore not a subject of the financial audit.

OTHER BUSINESS: FLEXIBLE STORAGE INTEGRATION FOR ALL SYSTEM SIZES¹

The integration of battery-storage systems for all system sizes is of key importance in the Other Business segment. SMA launched Sunny Boy Storage on the German market in March 2016, making it the first manufacturer to offer an AC-coupled storage system for smaller residential PV systems for integrating high-voltage batteries such as the Powerwall from Tesla. Other major European storage markets and Australia followed during the year under review. With Sunny Boy Storage, it is possible to easily and cost-effectively integrate battery-storage systems into new and existing PV installations while also flexibly enhancing the storage system, as it is not necessary to touch the PV system. At the same time, SMA has used the solution to reduce system costs to the extent that electrical energy can now be stored at costs comparable to traditional household electricity rates in Germany. This was recognized by the expert judging panel at Intersolar Europe in June 2016, which distinguished Sunny Boy Storage with the ees AWARD for outstanding energy-storage products. In November 2016, SMA also entered into a partnership with the global market leader in the field of lithium-ion batteries for home storage systems, LG Chem. The flexible storage solution with Sunny Boy Storage and the high-voltage batteries RESU 10H and 7H from LG Chem has been available on the European and Australian markets since December 2016. With this storage system, PV system owners can reduce their electricity costs by more than 80%.

In the year under review, SMA also entered into a long-term sales partnership with Mercedes-Benz Energy GmbH, a wholly owned subsidiary of Daimler AG, relating to stationary battery-storage systems. The Mercedes-Benz energy storage system based on lithium-ion technology has been designed with a capacity of up to 20 kWh for use in private households. With the Sunny Island battery inverter, Sunny Home Manager and SMA Energy Meter as its core components, the SMA solution offers users of the Mercedes-Benz energy storage system maximum flexibility and high quality. Users benefit above all from the seasonal adjustment of battery use, which makes a crucial contribution to optimum use of the battery, as it considers the differing weather conditions during the summer and winter months.

In March 2016, SMA and its subsidiary SMA Sunbelt Energy GmbH commissioned a PV hybrid system on the Caribbean island of St. Eustatius, guaranteeing a sustainable energy supply for the island through the intelligent combination of PV farm, battery-storage system and diesel generators. The integration of 1.9 MWp of solar power and 1 MW of battery power with the SMA Fuel Save Controller 2.0 reduces the use of fossil fuels by up to 30%. In June, the system won the Intersolar Award for outstanding solar projects.

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EMPLOYEES

Number of Employees Remains Constant After Completion of Staff Reduction

After SMA successfully completed the staff reduction in connection with the Company's transformation at the end of 2015, the number of employees remained virtually constant as of December 31, 2016, compared to the previous year. As of the reporting date, SMA had 3,345 employees worldwide (December 31, 2015: 3,330 employees; figures do not include temporary employees). SMA employed 2,093 people in Germany (December 31, 2015: 2,081 employees; figures do not include temporary employees) and 1,252 people abroad (December 31, 2015: 1,249 employees; figures do not include temporary employees).

SMA still uses temporary employees to absorb order fluctuations. Their hourly rate of pay is in line with that of SMA employees. In addition, temporary employees working at SMA also participate financially in the Company's success. As of the reporting date, the number of temporary employees declined by 141 to 530 globally (December 31, 2015: 671 temporary employees).

Employees

Reporting date	2016/ 12/31 ¹	2015/ 12/31 comparable ¹	2015/ 12/31	2014/ 12/31	2013/ 12/31	2012/ 12/31
Employees (excl. temporary employees)	3,345	3,330	3,510	5,060	5,141	5,992
of which domestic	2,093	2,081	2,253	3,469	3,736	4,649
of which abroad	1,252	1,249	1,257	1,591	1,405	1,343
Temporary employees	530	671	673	467	662	639
Total employees (incl. temporary employees)	3,875	4,001	4,183	5,527	5,803	6,631

¹ Not including employees of the Railway Technology business division, which is held for sale.

Full-Time Equivalents

Reporting date	2016/12/31 ¹	2015/12/31 comparable ¹	2015/12/31	2014/12/31
Full-time equivalents (excl. trainees and temporary employees)	3,118	3,110	3,285	4,667
of which domestic	1,881	1,872	2,039	3,094
of which abroad	1,237	1,238	1,246	1,573

¹ Not including employees of the Railway Technology business division, which is held for sale.

To achieve additional cost reductions required, the SMA Managing Board made the decision to close the production sites in Denver (U.S.) and Cape Town (South Africa) at the end of 2016. Against this backdrop, the number of employees will be reduced at the beginning of 2017. SMA's sales and service location in Rocklin, California, will remain and be expanded further. In the future, SMA will serve the American and South African markets from the production sites in Germany and China. These sites will therefore experience higher capacity utilization.

High Flexibility in Germany

Although SMA now generates almost 90% of its sales abroad, the Company remains committed to its site in Germany. The large share of production employees in Germany makes economic sense due to the product design. Generally, many assemblies and components are procured from countries with lower wage levels. By contrast, assembly and testing are performed by specialist employees in Germany, thus ensuring high quality. SMA can offset high order fluctuations by using temporary employees and modern working time models. The main location for development and production is Niestetal/Kassel. SMA is thus part of a future-oriented sector that is very important to the Federal Republic of Germany in terms of industrial policy: In 2015, about 300,000 people worked in the field of renewable energy in Germany, including some 30,000 in the solar industry. Not only is SMA the third-biggest employer in the North Hesse region, it also safeguards jobs at suppliers and service providers in Germany.¹

Attractive Company for Motivated Employees

Highly motivated employees make a crucial contribution to the Company's success. For this reason, SMA cultivates a corporate culture characterized by fairness and respect. In joining the "Diversity Charter" in 2011, the Company undertook to create a work environment in which all employees have the same opportunities for development, regardless of gender, nationality, religion or ideology, disability, age or sexual orientation. In the year under review, SMA was named by the German magazine "Freundin" and the employer rating platform "kununu" as one of the 100 most family-friendly companies in Germany out of more than 208,000 companies.

The internal and external attractiveness of the Company was also defined as an important goal in the SMA Strategy 2020. At SMA, the corporate values of trust, performance and team spirit are actively put into practice. Employees are given freedom for responsible, entrepreneurial action. They are supported in developing an international perspective and working together on an interdisciplinary basis in a dynamic environment.

The fact that the Company was certified by the Top Employers Institute as a top employer for engineers in 2016 underscores its strong appeal to qualified specialist and management staff. The independent certification company identifies organizations around the world that are distinguished by excellent working conditions and thus contribute to the personal and professional development of their employees. Only companies that meet the objective assessment standards to a high level can qualify for certification as a top employer. This was the fourth time SMA had received the certification.

Targeted Development of Young Staff and Job Level Model

To identify, qualify and retain employees with particularly high potential, SMA established a talent management program in the year under review. In the interests of organized requirements and succession planning, the aim is to form a pool of employees who are considered for high-profile positions within the specialist, project manager and management career paths as a result of their excellent performance and outstanding potential. In the talent management program, the participating employees are developed in line with the "support and challenge" principle and optimally prepared to assume key positions.

Furthermore, in 2016, SMA introduced a job level model, initially at the SMA Solar locations in Niestetal and Kassel, to ensure greater transparency and comparability of compensation across all areas of the Company. The job level model is an organizational tool intended to help structure all existing positions at SMA and thus make them comparable internationally. The model is to be implemented gradually in all locations and companies of the SMA Group.

Excellent Quality Vocational Training

Young people have been receiving vocational training at SMA since 1985. Vocational training is a high priority at SMA as a key element in the technical qualification of new employees and a component for securing and fostering the next generation. More than 400 former trainees still work at the Company.

Currently, vocational training at SMA is offered in the following five professions: office management, industrial business management, device and system electronics, industrial electronics specializing in devices and systems, and mechatronics. Vocational training at SMA is characterized by an exceedingly strong focus on practical application and projects. The trainees quickly take on responsibility for the tasks and projects assigned to them, learn on a self-organized basis and solve complex tasks as part of a team. In addition, SMA offers in-house classes. Extensive preparation for examinations, internal and external training courses and seminars, introductory weeks, and IT and technology projects complement the training programs. We thereby promote not only the technical expertise

¹ This paragraph is not a mandatory component of the management report as defined in Section 315 HGB in conjunction with GAS 20, and therefore not a subject of the financial audit.

but also the social skills needed by the successful specialists of the future. These objectives in relation to both professional training and the transfer of expertise will enable SMA to successfully develop young employees and prevent a shortage in skilled staff.

The high quality of vocational training at SMA is also reflected in the trainees' outstanding examination results. For example, in 2016, SMA trainee Lina Franke earned the best examination result out of all wholesale and foreign trade specialist trainees in Germany and was recognized for this achievement by the Association of German Chambers of Commerce and Industry. In addition, the best trainee in Hesse for the profession of device and system electronics also came from SMA in the year under review, as did the top performers at the Kassel-Marburg Chamber of Commerce and Industry in the professions of industrial electronics and office communications.

As of the reporting period, a total of 118 young people were in vocational training at SMA (December 31, 2015: 122 people). 38 trainees completed their vocational training during the reporting period. The best graduates were offered further employment at SMA. In the new cohort of trainees, 34 trainees commenced their vocational training at SMA.

CORPORATE SOCIAL RESPONSIBILITY (CSR)¹

SMA understands sustainability as combining long-term economic success with protection of the environment and social responsibility. Our product solutions are manufactured in an environmentally friendly and resource-conserving way and allow for a sustainable, decentralized and renewable energy supply. In our actions, we maintain a balance between economic, ecological and social aspects. Our sense of identity also includes a fair and honest business policy, social commitment and satisfied, motivated employees.

Sustainability – An Important Element of the SMA Strategy 2020

Clearly defined values and principles have always been at the heart of our mind-set and actions at SMA. The SMA Strategy 2020 developed in the reporting year emphasizes the importance of sustainability to SMA. As part of the strategic objective "SMA is an attractive company," we are committed to organizing all activities in a responsible, fair and sustainable way along the entire value chain. Defined sustainability targets within the following four focus areas make it possible to measure this:

- Products and processes
- Energy and environment
- Employees
- Social responsibility

For all company activities, the Global Operations unit coordinates implementation of the sustainability strategy. Starting from the 2017 fiscal year, key sustainability activities will be assessed using the company-related and the product-related key figures. The decisive factor for the company-related key figure is creating more value with fewer resources. The product-related key figure is based on constantly increasing the sustainability performance of our products. To systematically achieve these sustainability targets, SMA intends to develop its own sustainability dashboard. In addition to the Global Reporting Initiative (GRI) standard, this will also be based on the United Nations Global Compact and also takes into account the UN's 21 sustainable development goals.

Living International Values and Principles

As early as 2011, SMA signed the UN Global Compact. In doing so, we publicly declared our commitment to responsible corporate governance. At the core of the UN initiative are 10 principles in the areas of human rights, labor standards, environmental protection and anticorruption.

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

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

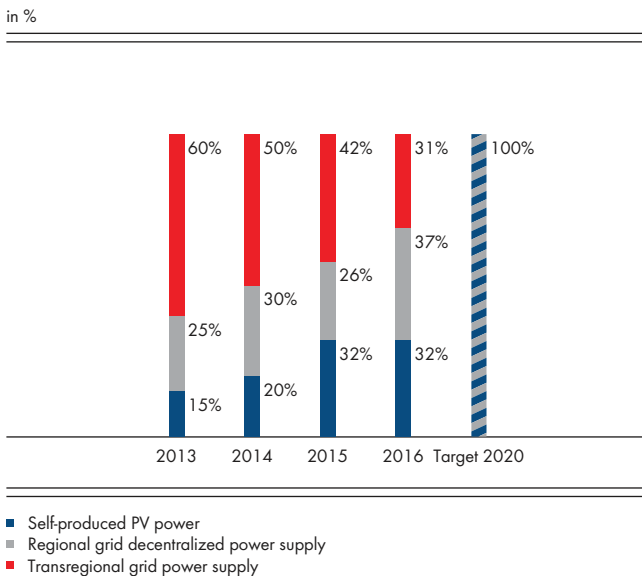
¹ The section on Corporate Social Responsibility (CSR) is not a mandatory component of the management report as defined in Section 315 HGB in conjunction with GAS 20, and therefore not a subject of the financial audit.

Sparing Use of Resources

Another important starting point for sustainability in the manufacturing process is our corporate energy management policy. SMA's energy concept is based on three levels from which we work to improve energy-related performance: avoiding energy consumption, using energy more efficiently and increasing the share of renewable energies used. The goal is to supply SMA entirely with decentralized renewable energy from the local region by 2020. In this context, the SMA Climate Roadmap forms the basis for continuous development of projects contributing to the energy transition at SMA's headquarters.

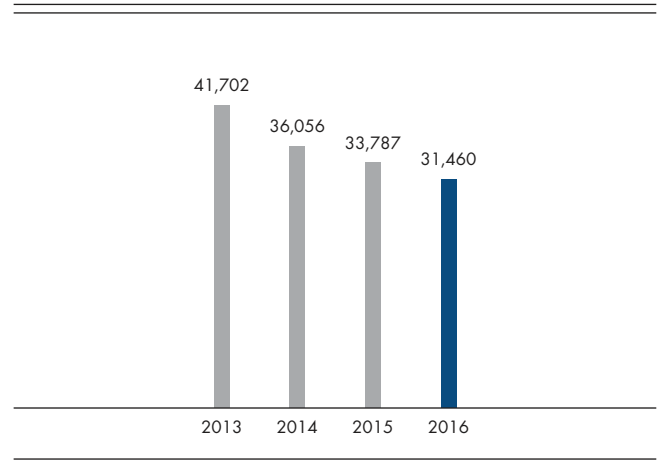
SMA has already undertaken a number of flagship projects in the past with its CO₂-neutral inverter production facility at Solar Factory 1, the Solar Academy, which functions independently from the utility grid, and the Data Processing Center, which was completed in 2013 and is one of the most resource-efficient centers of its kind. These projects are a testament to the high priority SMA places on its sustainable energy strategy. Meanwhile, we were able to increase the share of self-generated solar electricity in our total electricity consumption to 32%. In addition to other saving measures, we also converted the lighting in our parking block to energy-efficient LED technology in 2016. In 2017, Solar Factory 1 in Kassel is to be optimized further in terms of energy, thereby significantly reducing energy consumption.

Power Supply Sources



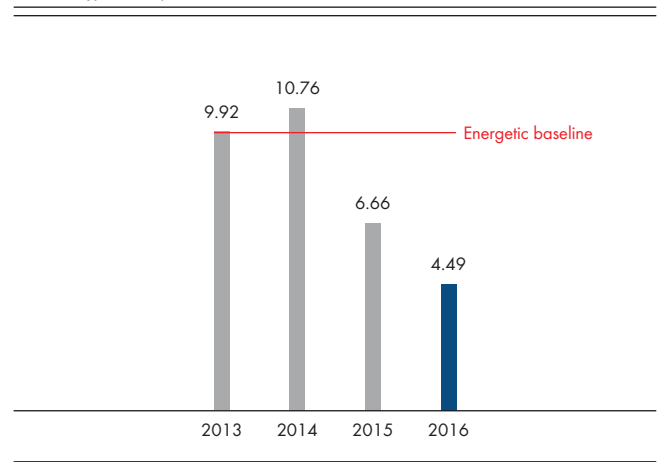
Development of Energy Consumption

Total energy consumption in MWh



Development of Energy Consumption per Produced kW Inverter Power

Total energy consumption in kWh/kW



With our corporate environmental management system, we avoid environmental damage at every stage of the value chain. The environmental management system at the production sites in Niestetal/Kassel is certified in accordance with DIN EN ISO 14001 and DIN EN ISO 50001. This internationally recognized certification attests to SMA's particularly efficient and sustainable use of energy in production and management. The gradual introduction of special energy management software also makes it possible to monitor all types of consumption on an ongoing basis. Assigning energy management to our international locations is a major goal for 2017.

Figures for our CO₂ emissions have not been included in our sustainability reporting so far, although we already have an exemplary carbon balance at our site in Niestetal/Kassel. By gathering data in line with the GHG Protocol standard, SMA wants to transparently show its own carbon footprint. The long-term plan is to expand this to the entire value chain and also factor in the production of raw materials, all of our suppliers, the utilization phase and recycling of our products. As a first step, we recorded the emissions defined under Scope 1 and 2 in the Greenhouse Gas Protocol. Emissions defined under Scope 3 are to be added gradually by the end of 2017.

In addition to environmental responsibility, SMA also sees an economic advantage in treating waste products as secondary raw materials. In this context, we seek to avoid waste and reuse materials. One particular focus in this area in 2016 was packaging materials. As a result, 99% of the packaging for our new products now consists of environmentally friendly cardboard, while materials such as polystyrene and plastic are avoided. Our goal is to increase the share of recyclable waste at the global SMA production locations to almost 100% by 2020 and to no longer produce any residual waste. SMA is working equally intensively to reduce and avoid hazardous waste materials.

Life Cycle Assessments Along the Entire Value Chain

However, optimizing the energy supply and environmental management at the Company's own sites only covers one aspect of the environmental impact of manufacturing. In the future, it will therefore be crucial to examine the life cycle assessment along the entire value chain, including products' utilization phase. SMA applied this method to the Sunny Boy 1.5/2.5 inverter for the first time in 2015 and transferred it to the Sunny Central 2200 central inverter in 2016. The results showed that the high efficiency of our inverters as well as their high quality standard and the associated long service life have a positive influence, while in the future we will direct focus to our preliminary supply chain. Life cycle assessments will help us to continuously improve our newly defined product-related key figure for sustainability.

Award-Winning Sustainable Mobility Concept

SMA's commitment to sustainability also includes a corporate mobility management concept that has already won multiple awards. It is intended to raise employees' awareness of intelligent, environmentally friendly transport options – whether for getting to and from work or for traveling between SMA sites. One key element of our mobility concept is the fleet organization, which has been recognized by Deutsche Umwelthilfe (the German Environmental Aid Organization) as a good example of climate protection. This is aimed at limiting the CO₂ emissions of company cars to 120 g/km, which we already achieved in 2016. In addition, we have largely expanded the charging infrastructure for

electric vehicles on our premises, increasing the number of electric charging points to 45, where employees and visitors can charge their vehicles with carbon-neutral electricity. Another aspect of the corporate mobility management system relates to increasing the proportion of cyclists. In 2016, SMA introduced the option of leasing bikes to all employees, thereby convincing more employees to switch to cycling.

Social Commitment and Promoting Knowledge Throughout Networks

For SMA, taking its share of responsibility for social development is a matter of course. Over the past years, we have thus supported many different projects, organizations and initiatives – on a regional and national level as well as in newly industrialized and developing countries. SMA is involved in numerous networks, collaborative projects and initiatives that play an important role in further development of the North Hesse region in various ways including by providing expertise and human resources. We have been supporting deENet, the competence network for decentralized energy technologies, as an active member since 2003. The goal is to turn North Hesse into a renowned location for a decentralized energy supply through renewable energies using technological progress and sustainable regional development.

ENTERPRISE MANAGEMENT

Leading Indicators

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

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

Financial Management Parameters

In 2016, SMA used the following key financial management parameters for its operative business as explained below. There are no changes compared with the previous year in calculation of key figures or in the management system.

SALES

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

OPERATING PROFIT (EBIT)/OPERATIVE EARNINGS MARGIN

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

NET WORKING CAPITAL/NET WORKING CAPITAL RATIO

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

CAPITAL EXPENDITURE

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

Starting from the 2017 fiscal year, EBITDA will be used as an additional key financial management parameter for the operative business.

EBITDA/EARNINGS MARGIN BEFORE DEPRECIATION AND AMORTIZATION

EBITDA comprises sales, cost of sales, function costs and other expenses before depreciation and amortization of fixed and intangible assets. SMA uses this key figure to measure profitability at the Group level not including imputed depreciation of investments made. To determine the operative earnings margin before depreciation and amortization, we calculate EBITDA in relation to total sales.

Intragroup Reporting and Management

INTRAGROUP REPORTING

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

INTRAGROUP MANAGEMENT SYSTEM

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

FISCAL YEAR 2016

Relevant Changes to Reporting

Pursuant to IFRS 5, the figures for the previous year in the income statement and the statement of cash flows were adjusted retrospectively for the planned sale of the Railway Technology business division. However, there was no adjustment to the previous year's balance sheet as prescribed by the provisions of IFRS 5. The Railway Technology business division is reported as a discontinued operation.

GENERAL ECONOMIC CONDITIONS AND ECONOMIC CONDITIONS IN THE SECTOR

General Economic Conditions

The global economy had a turbulent year in 2016. According to the International Monetary Fund (IMF), the growth rate was the lowest since 2008/2009. The backdrop to this was a difficult first half of the year with unrest on the global financial markets. The economic discourse was dominated by growing political uncertainty as well as concerns over the effectiveness of monetary policy stimulus in important industrialized countries and the rate of monetary policy normalization in the United States. However, the situation stabilized in the second half of the year. In the end, the global economy in 2016 grew at a somewhat slower pace than in the previous year – the IMF puts the growth at 3.1% (2015: 3.2%). Gross domestic product (GDP) in developed national economies increased by 1.6% (2015: 2.1%). Growth in developing and newly industrialized countries remained on a par with the previous year at 4.1% in the reporting period.

The U.S. Federal Reserve (Fed), initiated the long-awaited interest rate reversal in December 2015 and raised the base rate for the second time since the financial crisis at the end of 2016. The target is now between 0.5% and 0.75%. In contrast, the monetary policy direction of other major industrialized countries remained unchanged.

In Europe, the United Kingdom's planned exit from the European Union was the prevailing issue for politicians and economic players. Before the referendum, the IMF warned of substantial economic and financial consequences. The economy in the euro zone slowed slightly year on year with growth of 1.7% (2015: 2.0%).

Alongside the European national economies, other key foreign markets for SMA developed in extremely varied ways in 2016. Growth was curbed in the U.S.; the economy grew by only 1.6% (2015: 2.6%). Japan's economy weakened and grew only slightly by 0.9% (2015: 1.2%). In China, GDP increased at a slightly lower rate of 6.7% compared with the previous year (2015: 6.9%). India's economy slowed but remained at a high level with a growth rate of 6.6% (2015: 7.6%).

Economic Conditions in the Sector

The global photovoltaic market grew more strongly in 2016 than originally expected. SMA expects growth of newly installed PV power of approximately 50% to around 78 GW (2015: approx. 52 GW). Price pressure remained particularly high in all segments and regions. Accordingly, SMA estimates that global sales of PV inverter technology increased by only around 9% to €5.2 billion (2015: €4.8 billion) compared to the newly installed PV power. The regional distribution of demand significantly changed in the reporting period. Accounting for roughly 20% of global sales, the significance of the PV markets in European countries, the Middle East and Africa (EMEA) declined (2015: 23%). At about €1.0 billion, sales slightly decreased in comparison to the previous year (2015: €1.1 billion). The decrease is particularly attributable to the decline in demand in Great Britain. In contrast, American photovoltaic markets developed very positively, making up around 29% of global sales at €1.5 billion (2015: €1.1 billion, 24%). The Chinese market registered new installations of 34 GW, more than double that of the previous year, due in particular to a cut in subsidies in the middle of the year and further subsidy cuts scheduled for 2017. Because of the high price pressure, growth in terms of euros was much lower. China therefore represented approximately 17% of sales with €0.9 billion in the reporting period (2015: €0.6 billion, 12%). The Asia-Pacific photovoltaic markets (excluding China) lost significant market shares. With sales of €1.8 billion, their share in the global market amounted to 34% in the reporting year (2015: €2.0 billion, 41%).

EMEA: GREAT BRITAIN BECOMES LESS IMPORTANT

Business in the EMEA region was characterized by significant adjustments to solar electricity tariffs in key European markets and delays in tendering procedures in Africa and the Middle East. Demand decreased significantly; newly installed PV power amounted to 9.6 GW (2015: 10.5 GW).

Great Britain was the most important photovoltaic market in Europe in the reporting period with 1.9 GW due to a strong first quarter, but declined in significance in the second quarter. This was due to the expiration of the subsidy for large-scale PV power plants with an output of over 1 MW as of April 1, 2016. At the beginning of 2016, there was also a radical reduction in the feed-in tariff, which is mainly used by operators of smaller systems. In addition, quarterly subsidy caps as well as the planned exit from the EU ensure that the British PV market will continue to play a less important role in the next few years.

In Germany, PV installation in 2016 was just 1.5 GW, as in the previous year, again falling well short of the German Federal Government's expansion target of 2.5 GW per year. This was mainly due to the burden on PV self-consumption in systems over 10 kWp resulting from the EEG apportionment, the expiration of subsidies for storage systems in the fall and the ongoing political discussion about the amendment to the Renewable Energy Sources Act (EEG).

NON-EUROPEAN MARKETS: U.S. MARKET NEARLY DOUBLES

The U.S. again boasted extremely positive development in the reporting year. According to SMA estimates, new PV installation nearly doubled year on year to 14.1 GW; sales with PV inverter technology amounted to around €1.2 billion. Demand for solar power systems in the U.S. is being supported in particular by tax incentive programs. The extension of the tax incentives to 2020 announced in December 2015 has created stable conditions in the U.S. market in the medium term. In addition, portfolio standards are supporting investing activities. These standards ensure that electric utility companies include a certain share of renewable energy in their energy generation portfolios. The growth in the U.S. market came primarily from the segment for large-scale PV power plants.

JAPAN AND CHINA DOMINATE THE MARKET IN ASIA

In Japan, the investment in inverter technologies in 2016 was approximately €1.1 billion. New PV installations came to 8.7 GW, so both figures were around 20% down on the previous year. Japan will remain one of the most important photovoltaic markets. There are a large number of medium-sized and large PV projects that have already been planned and approved.

At 34 GW, China's new PV installations in 2016 were more than twice that of the previous year. This development is mainly attributable to installations being brought forward, as the government reduced subsidy rates on June 30, 2016, and is planning further subsidy cuts in 2017. SMA expects a market slump of more than 30% in the coming year. The Chinese photovoltaic market continues to be dominated by tendering procedures that lack transparency. Significant market shares are only awarded to Chinese providers, some of which are state owned.

India now also plays an important role; the market is developing extremely positively. There are various incentive programs and a fundamental effort on the part of the government to supply the entire country with power. The Indian government has therefore set an ambitious target for PV expansion. 100 GW of PV power is to be installed in India by 2022. The country saw new PV installations of 4.0 GW in the reporting period, nearly double that of the previous year (2015: 2.2 GW). Most of the new installations were attributable to large-scale projects. Medium-sized commercial and small private systems are still not highly relevant in India at present. The price level in the Indian market is only slightly above that in China. The market structures, however, allow for fair competition.

RESULTS OF OPERATIONS

Sales and Earnings

SMA SIGNIFICANTLY INCREASES OPERATING PROFIT (EBIT)

The SMA Group generated sales of €946.7 million in the 2016 fiscal year (2015: €981.8 million). This equates to a slight decline in sales of 3.6% compared with the previous year. By contrast, sold PV inverter output rose by 13.4% in the same period to 8,231 MW (2015: 7,260 MW). The decline in sales accompanied by a rise in PV inverter output sold is attributable to the high price pressure in all segments and regions along with the greater share of higher-performance inverters in the product mix.

SMA again benefited from its excellent international position in light of the regional changes in the photovoltaic market. The international share of sales remained high at 87.9% (2015: 87.5%). In 2016, the SMA Group's most important foreign markets were North America, Japan, India and Great Britain. Systematically implementing its internationalization strategy over the past few years has allowed SMA to reduce its dependency on individual photovoltaic markets. In 2016, in relation to gross sales, the North and South American (Americas) region accounted for 46.1% of

sales, with the European countries, the Middle East and Africa (EMEA) contributing 29.8% and the Asia-Pacific (APAC) region 24.1%. The distribution of sales between the Utility, Commercial, Residential and Service segments illustrates how important it is for SMA to serve all segments and applications. SMA generated 41.9% of its sales in the Utility segment; the Residential and Commercial segments accounted for 18.5% and 27.8% respectively; and the service business 4.7%.

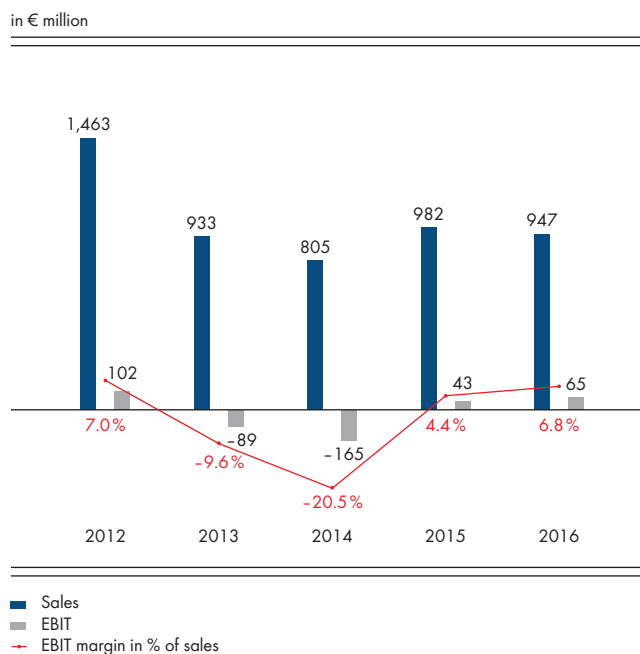
As of December 31, 2016, the order backlog decreased to €537.1 million (December 31, 2015: €699.8 million). The decline is due mainly to the fact that demand in the U.S. was particularly strong at the end of 2015 because of the expected expiration of the Investment Tax Credit (ITC) in 2016. The project pipeline was substantially reduced after the ITC was extended to 2020 in the reporting period. At €392.7 million (December 31, 2015: €370.9 million), the majority of the order backlog (73.1%) is attributable to service business. This part of the order backlog will largely be realized over the next few years. Amounting to €144.3 million (December 31, 2015: €328.9 million), product business made up 26.9% of the order backlog. At €61.9 million (December 31, 2015: €198.6 million), the Utility segment accounts for 43% of the product-related order backlog. The Commercial and Residential segments account for €34.7 million (24%, December 31, December 2015: €36.6 million) and €21.1 million (15%, December 31, 2015: €30.4 million) of the product-related order backlog. The remaining order backlog of €26.7 million relates to Other Business (December 31, 2015: €63.4 million).

Despite the slight decline in sales, SMA increased EBITDA to €141.5 million in 2016 (EBITDA margin: 14.9%, 2015: €121.1 million, 12.3%) through reduction of fixed costs and introduction of new products. EBIT increased to €64.8 million (2015: €43.3 million). This equates to an EBIT margin of 6.8% (2015: 4.4%). Net income amounted to €29.6 million (2015: €14.3 million). Earnings per share amounted to €0.85 (2015: €0.41).

MANAGING BOARD RECOMMENDS DIVIDEND PAYMENT OF €0.20 PER SHARE

In fiscal year 2016, SMA Solar Technology AG as the parent company of the SMA Group registered an annual net income of €31.4 million (2015: €30.8 million) in its separate commercial statements. The Managing Board will recommend that the Supervisory Board will 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). In relation to the consolidated net income of €29.6 million, the payout ratio is 23.4% and falls within the margin of 20% to 40% announced by the Managing Board. This makes SMA the only listed solar company in Germany to allow its shareholders to participate in its business success by way of a dividend. Since its IPO in 2008, SMA has paid out a total of €7.34 dividends per share.

Sales and EBIT



Sales and Earnings per Segment

RESIDENTIAL BUSINESS UNIT SUFFERS SALES DECLINE

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, Inc.; 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.

External sales in the Residential business unit decreased by 30.7% year on year to €175.0 million (2015: €252.7 million). This is primarily attributable to the loss of market share in the U.S., where a strong shift toward module-level power electronics technology took place that SMA was not yet able to address in the reporting period. Its share of the SMA Group's sales was 18.5% (2015: 25.7%). In addition to North America, the most important foreign markets continued to be Benelux, Italy and Japan. In the reporting period, the major sales drivers were the Sunny Boy 3000 to 6000TL inverters.

The Residential business unit's EBIT deteriorated significantly year on year despite reduced fixed costs, productivity increases and the launch of new products, amounting to €-15.4 million (2015: €1.8 million). The profitability of the Residential business unit was adversely affected primarily by lower sales and one-time items. In relation to internal and external sales, the EBIT margin was -8.8% (2015: 0.7%).

COMMERCIAL BUSINESS UNIT CONSIDERABLY INCREASES SALES AND EARNINGS

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.

In 2016, external sales in the Commercial business unit improved again to €263.0 million year on year (2015: €207.4 million). Its share of the SMA Group's sales was 27.8% (2015: 21.1%). The renewed decline in sales in Germany was more than offset by sales increases in the most important foreign markets of North America and Japan. In the reporting period, the major sales drivers were products based on the Sunny Tripower platform.

EBIT improved to €17.8 million (2015: €-25.6 million). Apart from an increase in external sales, this is primarily attributable to new product launches and a reduction in fixed costs. In relation to internal and external sales, the EBIT margin was 6.7% (2015: -12.3%).

UTILITY BUSINESS UNIT REMAINS KEY EARNINGS DRIVER

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.

In 2016, external sales in the Utility business unit decreased slightly by 4.6% year on year to €396.7 million (2015: €416.0 million). This is primarily attributable to the sharp price decline in all regions. The Utility business unit's share of the SMA Group's total sales was 41.9% (2015: 42.5%). It thus remains the strongest-selling business unit in the Group. The most important foreign markets were North America, India, Brazil and Great Britain. The most successful products included the new Sunny Central 2200/2500 inverters.

In the year under review, EBIT increased to €66.8 million (2015: €56.5 million). The main reasons for the increase were the reduction in fixed costs, productivity increases and the introduction of the new Sunny Central 2200/2500 in combination with the Medium Voltage Power Station. In relation to internal and external sales, the EBIT margin was 16.8% (2015: 13.6%).

SERVICE BUSINESS UNIT DECLINES SLIGHTLY

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. Services offered include commissioning, warranty extensions, service and maintenance contracts, operational management, remote system monitoring and spare parts supply.

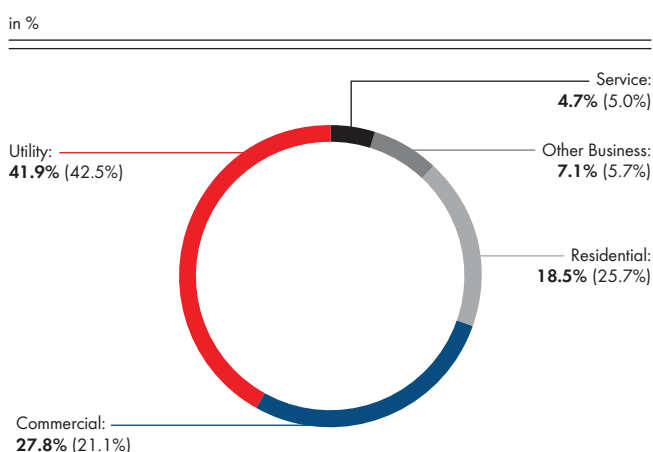
In 2016, external service sales decreased by 9.7% to €44.7 million (2015: €49.5 million). Its share of the SMA Group's sales was 4.7% (2015: 5.0%). Notable sales drivers were operational management (O&M business), maintenance and service contracts subject to charge, and chargeable commissioning. In the reporting period, EBIT was €14.1 million (2015: €14.4 million). In relation to internal and external sales, the EBIT margin was 12.5% (2015: 12.4%).

OTHER BUSINESS IMPROVES SALES AND EARNINGS

The Other Business segment comprises Zeyersolar, SMA Sunbelt Energy and the Off-Grid and Storage business unit. Railway Technology is no longer included in Other Business as the Group intends to sell this division.

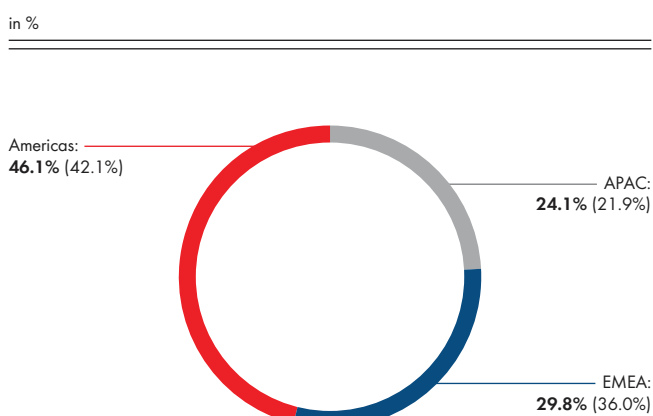
In the reporting period, external sales totaled €67.3 million (2015: €56.2 million). Its share of the SMA Group's total sales was 7.1% (2015: 5.7%). EBIT was €-4.2 million (2015: €-7.8 million). In relation to internal and external sales, the EBIT margin amounted to -6.2% (2015: -13.9%).

Sales by Segments¹



¹ Gross sales before sales deductions (previous year's figures in parenthesis)

Sales by Regions¹



¹ Gross sales before sales deductions (previous year's figures in parenthesis)

Development of Significant Income Statement Items

FIX COSTS AGAIN SIGNIFICANTLY REDUCED

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 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. Depreciation and amortization were on a par with the previous year at €67.3 million in 2016 (2015: €67.4 million). This includes scheduled depreciation on capitalized development costs of €19.8 million (2015: €13.6 million). In addition, one-time items from the closure of production sites impaired cost of sales amounting to €9.4 million. The other costs in the cost of sales amounted to €61.9 million.

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%).

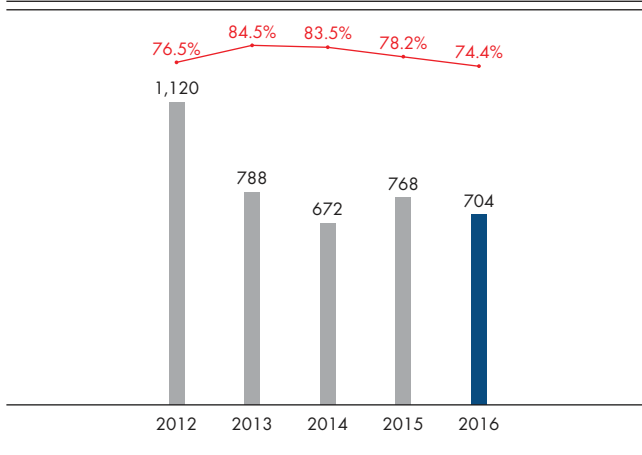
In the past fiscal year, research and development expenses not including capitalized development projects amounted to €65.8 million (2015: €66.5 million). Total research and development expenses including capitalized development projects amounted to €78.3 million in 2016, down significantly on the previous 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).

Administrative expenses in 2016 totaled €50.6 million (2015: €58.3 million). The 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%).

In 2016, the balance of other operating income and expenses amounted to €-13.7 million and thus deteriorated considerably compared to the previous year's income (2015: €8.5 million). This includes, in particular, one-time items from the closure of production sites amounting to €10.3 million as well as value adjustments made on receivables and exchange rate effects.

Cost of Sales

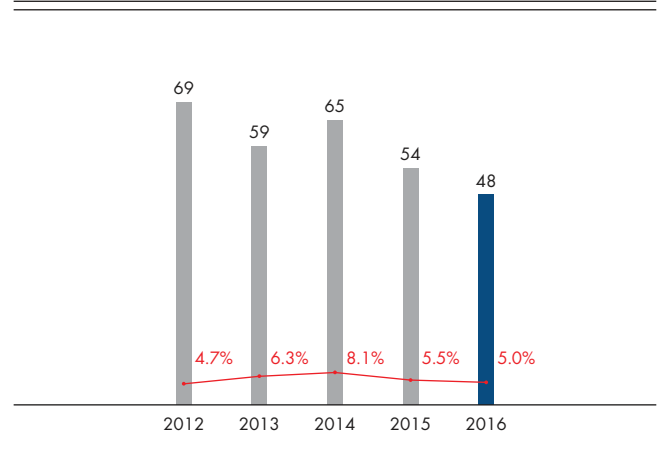
in € million



→ Ratio in % of sales

Selling Expenses

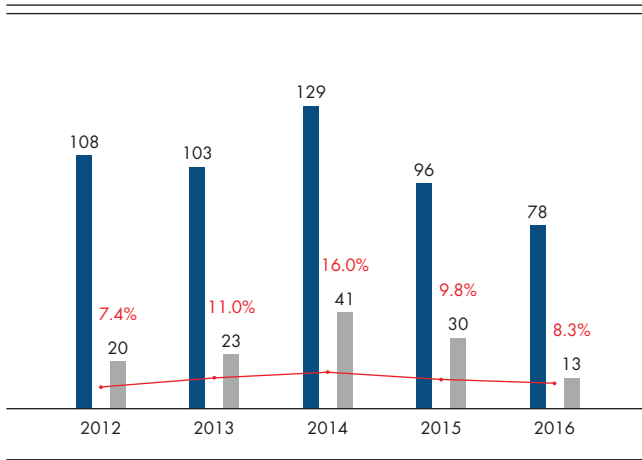
in € million



→ Ratio in % of sales

Research and Development Expenses

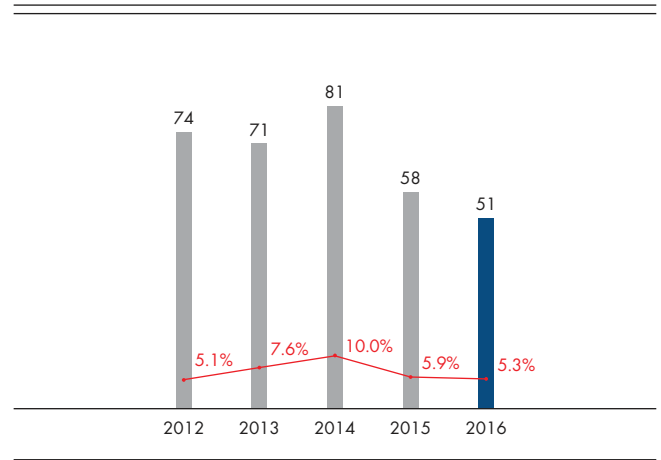
in € million



■ Research and development expenses
 ■ Of which capitalized development projects
 → Ratio in % of sales

Administrative Expenses

in € million



→ Ratio in % of sales

FINANCIAL RESULT

In 2016, the financial result slightly decreased by €0.9 million to €-5.9 million (2015: €-5.0 million). This was significantly influenced by the negative pro rata earnings from the investment in Tigo Energy, Inc., which were included in the consolidated profit and loss account for the first time. Financial expenses in 2016 totaled €5.1 million (2015: €6.9 million).

Earnings before interest, taxes, depreciation and amortization (EBITDA) of €141.5 million resulted in an EBITDA margin of 14.9% (2015: €121.1 million, 12.3%). The return on equity after taxes (net income in relation to average total assets in the reporting period) came to 5.1% in the reporting year (2015: 2.5%); the return on assets after taxes was 2.5% (2015: 1.2%).

Multi-Period Overview of Results of Operation

in %	2016	2015	2014	2013	2012
EBIT margin	6.8	4.4	-20.5	-9.6	7.0
EBITDA margin	14.9	12.3	-7.3	-0.6	11.7
EBT margin (return on sales)	6.2	3.9	-20.8	-9.5	7.2
Return on equity after taxes	5.1	2.5	-28.1	-8.7	9.3
Return on assets (after taxes)	2.5	1.2	-14.7	-5.2	5.6

FINANCIAL POSITION

Principles and Objectives of Financial Management

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

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

Financing Analysis

The loans assumed as part of the Zerversolar acquisition were again restructured and completely paid off by the end of 2016. Bank loans expiring in 2017 will be paid off at the respective due date. Restructuring its financing will enable SMA to dramatically reduce its annual interest charges.

In the 2016 fiscal year, SMA agreed upon a long-term financing of €100 million with three domestic banks. At the end of the year, a small portion of the credit line was utilized in the form of guarantee credits.

In total, financial liabilities fell by €6.5 million from €46.9 million as of the end of 2015 to €40.4 million as of the end of 2016.

Most of the provisions set aside by the SMA Group are for warranty obligations from our various product families. The equity ratio of 48.3% as of the end of 2016 (December 31, 2015: 49.1%) underscores the still solid balance sheet structure.

Liquidity Analysis

SMA INCREASES NET CASH TO €362 MILLION

Gross cash flow improved significantly, climbing by €63.8 million to €131.8 million (2015: €68.0 million).

Inventories increased by 15.8% to €169.2 million (2015: €146.1 million). The €5.8 million increase in trade payables, substantial decrease in trade receivables and change in inventories resulted in a small increase in net working capital of €2.4 million to €225.4 million (2015: €223.0 million). The net working capital ratio in relation to sales over the past 12 months increased to 23.8% (December 31, 2015: 22.3%) and was thus slightly above the range of 20% to 23% targeted by the management.

In the 2016 fiscal year, net cash flow from operating activities of continuing operations was €147.5 million (2015: €102.7 million).

Net cash flow from investing activities of continuing operations amounted to €-107.9 million in the 2016 fiscal year compared to the previous year's figure of €-64.0 million. It primarily includes the outflow of funds 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 for continuing operations 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 to capitalized development projects for the launch of new product families. The balance of proceeds and payments for the investment amounted to €-61.8 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.

As of December 31, 2016, cash and cash equivalents amounting to €216.1 million (December 31, 2015: €200.2 million) included cash on hand, bank balances and short-term deposits with an original term to maturity of less than three months. With time deposits that have a term to maturity of more than three months, fixed-interest-bearing securities, liquid assets pledged as collateral and after

deducting interest-bearing financial liabilities, this resulted in net cash of €362.0 million (December 31, 2015: €285.6 million). SMA substantially increased its high liquidity reserve in the reporting period despite the acquisition of shares in Tigo Energy, Inc., and the dividend paid to our shareholders in May 2016.

Multi-Period Overview of SMA Group Financial Position

in € million	2016	2015	2014	2013	2012
Shareholders' equity	585.1	570.2	552.0	724.4	820.7
Equity ratio in %	48.3	49.1	46.8	57.5	61.8
Non-current liabilities	292.9	281.2	284.0	287.0	263.6
Current liabilities	332.7	309.1	344.3	248.5	244.4
Share of non-current provisions in total assets in %	7.4	7.5	7.4	8.1	8.5
Financial liabilities	40.4	46.9	69.3	73.4	35.6
Net cash	362.0 ¹	285.6	225.4	329.7	446.3
Net working capital	225.4	223.0	251.0	247.6	268.0
Net cash flow from operating activities	147.5 ¹	102.7 ¹	-27.6	-2.4	116.1
Net cash flow from investing activities	-107.9 ¹	-64.0 ¹	24.7	34.4	-260.1
Net cash flow from financing activities	-24.6¹	-23.2¹	-10.0	-16.4	-43.2

¹ From continuing operations

Investment Analysis

In the 2016 fiscal year, investments in fixed assets and intangible assets amounted to €29.0 million and were thus clearly below the previous year's figure of €48.3 million. This equates to an investment ratio in relation to sales of 3.1% compared with 4.9% in the 2015 fiscal year.

€14.9 million was invested in fixed assets (2015: €17.4 million), primarily for machinery and equipment. The investment ratio for fixed assets was 1.6% in the fiscal year (2015: 1.8%). Scheduled depreciation of fixed assets slightly increased to €49.1 million (2015: €47.3 million). This includes impairments as a result of the closure of the production site in the U.S. amounting to €9.1 million.

Investments in intangible assets amounted to €14.1 million (2015: €30.9 million). They largely related to capitalized development projects. Amortization of intangible assets amounted to €27.6 million and was thus clearly below the previous year's figure of €31.7 million.

Investments Compared to Depreciations and Net Cash Flow From Operating Activities

in € million	2016	2015	2014	2013	2012
Net cash flow from operating activities	147.5	102.7	-27.6	-2.4	116.1
Capital expenditure ¹	29.0	50.6	75.5	53.2	100.2
Depreciation and amortization	76.7	79.0	106.5	83.6	69.9

¹ See Notes, sections 15 and 16, page 101 et seqq.

NET ASSETS

SMA Has a Solid Equity Ratio of 48.3%

As of December 31, 2016, the total assets increased by 4.3% to €1,210.7 million (December 31, 2015: €1,160.5 million). At €426.2 million, non-current assets were below the level observed at the end of 2015 (December 31, 2015: €470.7 million).

Net working capital amounted to €225.4 million (December 31, 2015: €223.0 million). The net working capital ratio in relation to sales over the past 12 months was 23.8%. Trade receivables decreased by 8.3% compared to December 31, 2015, to €165.1 million as of the end of the fiscal year (December 31, 2015: €180.0 million). Days sales outstanding increased to 66.5 (December 31, 2015: 62.0 days). Inventories increased by 15.8% to €169.2 million (December 31, 2015: €146.1 million). Trade payables rose by €5.8 million to €108.9 million (December 31, 2015: €103.1 million). The share of trade credit in total assets was on a par with the previous year at 9.0% (December 31, 2015: 8.9%).

In 2016, the Group's equity capital base increased by €14.9 million to €585.1 million (December 31, 2015: €570.2 million). The first-time presentation of cash flow hedging transactions in the balance sheet impaired equity by €10.3 million (including deferred taxes). This relates exclusively to anticipatory hedges for future transactions in USD. With an equity ratio of 48.3%, SMA has a comfortable equity capital base and therefore an extremely solid balance sheet structure.

Importance of Off-Balance Sheet Financing Instruments

The SMA Group uses lease agreements for plant and office equipment. Future obligations under tenancy and lease agreements are shown in the Notes in section 31, Obligations Under Leases and Other Financial Obligations.

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

Multi-Period Overview of Net Assets

in € million	2016 ¹	2015	2014	2013	2012
Goodwill, intangible assets and fixed assets	300.7	385.9	413.1	441.1	443.8
Financial assets and long-term securities (incl. deposits with a total term to maturity of more than three months)	159.4	97.7	82.5	185.1	295.5
Cash and cash equivalents (incl. deposits with a total term to maturity of less than three months)	216.1	200.2	184.0	192.4	185.3

¹ All figures for 2016 from continuing operations

SMA SOLAR TECHNOLOGY AG (NOTES BASED ON THE GERMAN COMMERCIAL CODE HGB)

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

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

The SMA AG Annual Financial Statement is prepared according to the German Commercial Law (HGB). The Consolidated Financial Statements follow International Financial Reporting Standards (IFRS). This leads to differences between accounting and valuation methods. These mainly relate to intangible assets, inventory measurement, provisions, financial instruments, accrual items and deferred taxes. An amendment made to the HGB by the Accounting Directive Implementation Act (BilRUG) results in further differences in the presentation of sales and other operating income between IFRS and HGB for 2016. The sales of the previous year were adjusted accordingly to improve comparability. The effect, by which sales are increased and other operating income decreased compared to the HGB accounting before BilRUG, amounts to €47.3 million and results primarily from license income.

Results of Operations

SMA Solar Technology AG Income Statements in Accordance With HGB for the Period From January 1 to December 31, 2016

in €'000	2016	2015
Sales	744,984	713,267
Increase or decrease in finished goods and work in progress	-2,860	-12,443
	742,124	700,824
Other own work capitalized	2,188	3,240
Other operating income	72,563	93,557
Material expenses	412,120	395,708
Personnel expenses	124,606	140,555
Depreciation and amortization of intangible and fixed assets	37,365	43,273
Other operating expenses	203,098	204,553
Financial result	4,486	22,605
Taxes on income	12,524	5,024
Income after taxes	31,648	31,113
Other taxes	238	278
Annual net income	31,410	30,835
Accumulated income/losses brought forward	321,231	295,254
Profit available for distribution	352,641	326,089

SMA AG generated sales of €745.0 million in the 2016 fiscal year (2015: €713.3 million). This equates to an increase in sales of 4.4% compared with the previous year. The sold PV inverter output rose by 51.1% in the same period to 7.1 GW (2015: 4.7 GW). Of this, 3.2 GW (2015: 1.4 GW) were attributable to associated companies. The much lower sales growth in comparison to inverter output sold is attributable to the high price pressure in all segments and regions along with the greater share of higher-performance inverters in the product mix.

Other operating income amounted to €72.6 million (2015: €93.6 million). Other operating income included €41.1 million (2015: €63.5 million) from the reversal and utilization of provisions. In addition, claims for compensation from insurers and suppliers of €5.7 million were reported here (2015: €1.6 million). Income from foreign currency gains totaled €16.3 million in the fiscal year (2015: €18.5 million).

Material expenses increased by €16.4 million year on year to €412.1 million (2015: €395.7 million). The 4.1% rise in material expenses is less than the rise in sales with PV inverters and services (9.6%). This is mainly due to the changed product mix compared with the previous year and successful measures to save material costs.

Personnel expenses declined by 11.4% to €124.6 million (2015: €140.6 million). This is due to the reduction in the average number of employees (not including temporary employees, trainees or interns) by 444 to 1,918 employees, reflecting the effect of the savings from the personnel adjustments.

Depreciation and amortization of intangible and fixed assets declined by €5.9 million to €37.4 million (2015: €43.3 million). The reduction in depreciation and amortization was primarily a result of lower investing activities.

At €203.1 million, **other operating expenses** were on a par with the previous year (2015: €204.6 million). This included €30.1 million for services (2015: €27.0 million), €8.4 million for building rent (2015: €10.2 million), €35.0 million for selling expenses (2015: €34.4 million) and €55.1 million from the recognition of provisions (2015: €42.4 million). Expenses related to foreign currency valuation were €11.8 million for the fiscal year (2015: €6.6 million).

The **financial result** amounted to €4.5 million (2015: €22.6 million). The decline is attributable to lower income from investments. In the previous year, income from investments was affected by a write-up on the investment in Jiangsu Zeversolar New Energy Co., Ltd., in the amount of €24.9 million.

SMA AG's **net operating income** improved to €44.2 million (2015: €36.2 million) due to the substantial sales growth and lower total expenditure.

Taxes on income increased by €7.5 million. This includes tax expenditure for previous years in the amount of €4.4 million (2015: €3.7 million).

After tax, the annual net income amounted to €31.4 million in 2016 compared with annual net income of €30.8 million in the past fiscal year.

Net Assets and Financial Position

SMA Solar Technology AG Balance Sheet in Accordance With HGB as of December 31, 2016

in €'000	2016/12/31	2015/12/31
ASSETS		
A. Non-current assets		
I. Intangible assets	14,365	17,586
II. Fixed assets	208,696	230,085
III. Financial assets	161,802	127,845
	384,863	375,516
B. Current assets		
I. Inventories	84,167	88,095
II. Receivables and other assets	166,286	167,732
III. Securities	96,406	47,636
IV. Cash and cash equivalents	206,802	193,136
	553,661	496,599
C. Prepaid expenses and deferred charges	1,323	1,243
	939,847	873,358
LIABILITIES		
A. Shareholders' equity		
I. Share capital	34,700	34,700
II. Capital reserves	124,200	124,200
III. Retained earnings		
1. Statutory reserve	400	400
2. Other retained earnings	3,136	3,136
IV. Profit available for distribution	352,641	326,089
	515,077	488,525
B. Special account with reserve characteristics	101	141
C. Provisions	162,457	151,696
D. Trade payables	113,112	108,231
E. Accrued liabilities	149,100	124,765
	939,847	873,358

As of December 31, 2016, **total assets** of SMA AG increased by €66.4 million to €939.8 million (2015: €873.4 million).

Non-current assets increased by €9.4 million to €384.9 million (2015: €375.5 million). This increase is primarily attributable to the acquisition of shares in Tigo Energy, Inc.

As of December 31, 2016, total **inventories** of €84.2 million were below the previous year's level (2015: €88.1 million). The decrease of 4.4% year on year is the result of reduced inventories of raw materials, consumables and supplies (€-4.5 million to €39.5 million) and of unfinished goods (€-3.6 million to €11.3 million). In contrast, the inventory of finished goods grew (+ €4.2 million to €33.4 million).

Trade receivables decreased by €14.2 million and totaled €61.8 million on the reporting date.

Cash and cash equivalents and securities increased by 25.9% to €303.2 million (2015: €240.8 million).

Equity increased considerably, as a result of earnings, by €26.6 million to €515.1 million compared with December 31, 2015. The equity ratio is 54.8% (2015: 55.9%).

The **provisions** of SMA AG largely comprise provisions for warranty obligations for our various product families and personnel provisions. The €10.8 million increase in provisions to €162.5 million (2015: €151.7 million) resulted primarily from the €14.0 million increase in the provision for anticipated losses from financial derivatives to €17.2 million. In contrast, personnel provisions decreased by €4.7 million to €14.6 million (2015: €19.3 million).

Trade payables went up by €12.8 million year on year to €79.4 million (2015: €66.6 million). This increase is attributable to the higher purchasing volume as a result of sales growth.

Accrued liabilities of €149.1 million (2015: €124.8 million) were reported for deferred sales for extended warranties, and service and maintenance contracts sold for subsequent years.

SMA AG's **financial position** essentially corresponds to that of the SMA Group.

RISKS AND OPPORTUNITIES

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

OUTLOOK

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

MANAGING BOARD STATEMENT ON THE BUSINESS TRENDS IN 2016

In 2016, the SMA Group achieved a sales record by selling inverter output of 8,231 MW (2015: 7,260 MW) and successfully continued on the path to more profit and higher cash flow. At €946.7 million, sales were at the upper end of the Managing Board's forecast of €900 million to €950 million that was adjusted on October 24, 2016. Sales were largely driven by the segment of large-scale PV power plants (Utility). At the same time, the segment for commercial PV systems (Commercial) and the Other Business segment with the Off-Grid and Storage business unit posted positive sales growth. In the Residential business unit, however, sales were significantly lower than in the previous year. Despite an unexpectedly high decline in average selling prices of around 20%, SMA considerably increased EBIT year on year to €64.8 million (EBIT margin: 6.8%). This also put SMA's EBIT within the Managing Board's forecast of October 2016 (forecast: €60 million to €70 million). SMA did not achieve the original sales and earnings forecast of January 29, 2016, due particularly to the price pressure in all market segments that could be felt worldwide from the middle of 2016 and the one-time items from the consolidation of production locations in particular. The forecast predicted sales of €950 million to €1,050 million and operating earnings (EBIT) of €80 million to €120 million.

As a result of our attractive business model, we generated an adjusted free cash flow (net of term deposit investments) of around €121 million in 2016. Net cash increased to €362.0 million (2015: €285.6 million); the equity ratio was 48.3% at the end of the reporting year (2015: 49.1%). In addition, SMA has a long-term credit line from domestic banks of €100 million.

Portfolio Expanded Further and Fixed Costs Lowered

SMA augmented the product portfolio in the reporting year and continued to advance its strategic positioning in major future fields. The investment in Tigo Energy, Inc., announced in April 2016 gives SMA access to the fast-growing market of module-level power electronics (MLPE) for the first time. SMA will also use this new solution to expand its data-based business models. In addition, we have not only cooperated with our partner Bosch Siemens Hausgeräte to enable integration of further appliances into intelligent energy management with SMA Smart Home via the EEBus communication standard, but also established SMA Energy Services, an innovative service for the energy industry for better integration of solar energy into the supply system on the basis of high-resolution data on generation and consumption.

SMA countered the increased price pressure in all segments and regions with additional measures to reduce costs. These included product innovations with lower cost of sales and the consolidation of its global infrastructure. A significant measure here was the closure of the production sites in Denver (U.S.) and Cape Town (South Africa) at the end of 2016 to make better use of the capacity at the production facilities in Germany and China.

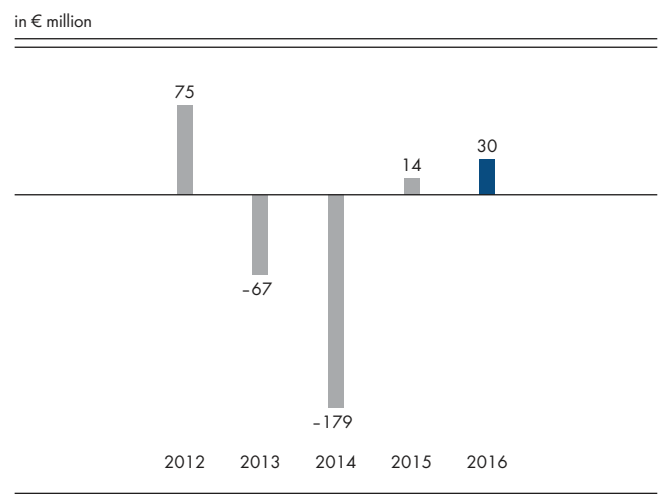
Course Set for the Future With Strategy 2020

Another significant milestone in the reporting period was the development of the SMA Strategy 2020. The guidelines and targets formulated therein will provide the strategic framework for our activities in the years to come, through which we will keep SMA on track for success even under the changed market conditions.

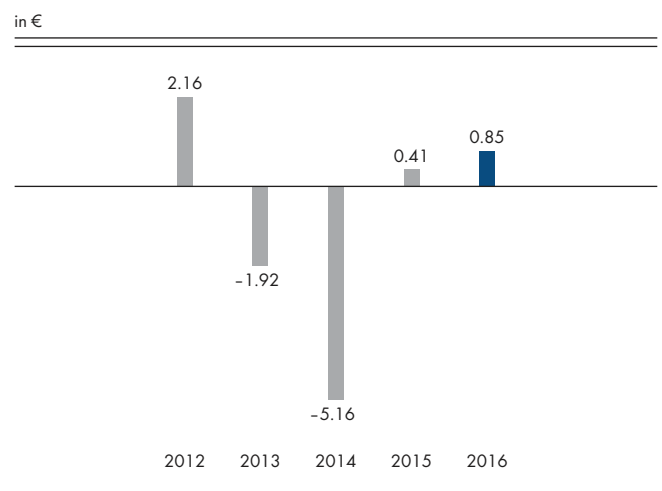
Target-Actual Comparison for 2016

in € million	Forecast on 2016/01/29	Forecast on 2016/10/24	2016 results
Sales	950 to 1,050	900 to 950	946.7
Operating Profit (EBIT)	80 to 120	60 to 70	64.8

Net Income



Earnings per Share



SUPPLEMENTARY REPORT

Significant Events Since the Beginning of the 2017 Fiscal Year

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.

OTHER ELEMENTS OF THE CONSOLIDATED MANAGEMENT REPORT

The following sections are elements of the Consolidated Management Report:

- The Corporate Governance Statement in accordance with Section 289a HGB starting on page 15
- Information Concerning Takeovers starting on page 18
- The Remuneration Report starting on page 20

RISKS AND OPPORTUNITIES REPORT

RISK AND OPPORTUNITY MANAGEMENT

Risk Management System

In the context of its global business activity, the SMA Group is exposed to a range of risks, which can impair target attainment in the implementation of strategies in the business units. However, suitable countermeasures can be used to actively control and influence those risks. In addition, with regard to opportunity management, a balanced ratio between risks and opportunities is used. The Risk Management System we employ helps identify risks at an early stage and control them in an understandable manner. The system is oriented toward the COSO Enterprise Risk Management (ERM) – Integrated Framework (COSO ERM), which is an internationally accepted standard for establishing and systematically developing a Company-wide Risk Management System. In addition to strategic risks, this also includes all downstream risks on the operative and procedural level. In addition, COSO ERM serves as an aid in formulating a risk strategy to identify risks at an early stage and proactively manage them. A uniform software application is used throughout the Group to make recognition of opportunities and risks as well as reporting easier and to meet documentation requirements.

Integration Into the Existing Structure and Process-Oriented Organization

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

Risk Identification

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

The Managing Board bindingly laid out the objectives of risk management in terms of risk strategy and principles of organization, analysis and communication in a risk handbook. It contains regulations for dealing with risks, requirements and value limits as well as regular and immediate uniform reporting processes. Responsibility for identifying risks lies primarily with the defined risk officers. These are executives in the first two levels below the Managing Board and selected central Group functions. Involving this group of people ensures active identification, analysis and measurement of risks, and creates the necessary transparency in a potential risk situation.

Risk Assessment

In the quarterly risk identification process, risk officers determine the risk situation in a standardized bottom-up process. In doing so, the relevant risk officer assesses the probability of a risk occurring and the amount of damage that might be caused by any individual risks identified. The probability of occurrence is classified according to two evaluation categories "possible" and "likely." This allows an optimum link with the balance sheet accounting of risks for which provisions could or must be recognized. The effects of risks on net income are bracketed together in three damage categories "slight," "medium" and "high." The qualitative and quantitative assessments are used consistently throughout the Group.

Gross and net risk values have to be determined for every individual risk within an observation period of two years. Gross risk represents the largest possible negative financial effect before the Company takes measures to influence the risk. Net risk considers risk-reduction activities.

Risk Management

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

Continuous Risk Monitoring and Reporting

The development of all risks is monitored using suitable early-warning tools and key figures. Our Risk Management System is designed to ensure that the appropriate employees can identify risks and changes to them early on and report them to the decision-makers in the Company. These reports are first made to the central Group Risk Manager and to the Managing Board if the individual risks are classified at least as “medium.” Apart from quarterly risk notifications, immediate reporting duties have been outlined for all risk officers, who must report to the Managing Board if the risk situation changes significantly. Adjustments to the risk management process and all significant risks and countermeasures are presented to the Risk & Opportunity Board in regular meetings. In the regular process, the business unit heads ensure that all significant risks and opportunities for their respective business field are fully documented and correctly evaluated in the Risk Management System. This relates in particular to risks regarding the pricing, earnings, sales and market share of the business field as well as the product, development and application portfolio. In addition, the Supervisory Board’s Audit Committee is informed of significant risks with a considerable impact and newly identified issues that exceed defined value limits every six months. To ensure integration with the (Group) accounting process, the risk management process follows a coordinated timetable and thus provides all SMA functions involved in (Group) accounting and financial reporting with the relevant information in full.

Opportunity Management

All companies must use available opportunities to be successful. This can pertain to both internal and external potential. As part of our integrated risk and opportunity management approach, we regularly identify and assess opportunities. Identifying them early on and regularly and acting accordingly is a core management task. We assess opportunities to the best of our knowledge, basing our assessment on assumptions relating to market development, market potential of technologies and system solutions as well as forecasted changes in demand and prices. The cornerstones of this are the Group-wide planning process as well as strategy meetings held by the Managing Board with executives from the two top levels of management. To identify our opportunities, we continuously employ market and competitive analysis and systematic knowledge management, and place great importance on an open information policy within the Group. In doing so, we strive to create a balanced relationship between opportunities and risks.

INTERNAL CONTROL SYSTEM

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

Key Features of the Internal Control and Risk Management System in Relation to the (Group) Accounting Process

The Internal Control System pertaining to the accounting process is part of the Overall Internal Control System, which is embedded in the Company-wide Risk Management System. Process-integrated and process-independent monitoring steps constitute the basis of the internal monitoring system. Automated IT process controls are an important constituent part of the process-integrated measures. Additional controls are the organizational monitoring methods, such as the four-eyes principle, separation of administration, execution, settlement and approval functions and written work instructions. Furthermore, wherever possible we protect the IT systems deployed against unauthorized access by using appropriate authorization systems and access restrictions. The Supervisory Board’s Audit Committee and the Internal Auditing department are intimately incorporated into the internal monitoring system with process-independent audit activities.

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

Risks With Regard to the (Group) Accounting Process

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

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

The internal control measures are aimed at securing proper and reliable (Group) accounting and ensure business transactions are fully and promptly recorded in accordance with legal provisions and the Articles of Association. They also guarantee that inventory-taking is properly implemented and that assets and liabilities are properly recognized, measured and carried in the Annual Financial Statements and Consolidated Financial Statements. Furthermore, the regulations ensure that accounting records provide reliable and comprehensible information. The main tasks of the departments involved in the (Group) accounting process are clearly separated and their areas of responsibility are clearly assigned. The relevant departments are staffed with qualified personnel in sufficient numbers.

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

Use of IT Systems

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

Use of a uniform, Group-wide consolidation program ensures that all data is recorded properly, promptly and completely and that Group-internal business transactions are eliminated. This is from where the various components of the Consolidated Financial Statements, including important data for the Notes to the Consolidated Financial Statements, are derived.

Disclaimer

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

INDIVIDUAL RISKS

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

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

Features of the Risk Assessment

Probability of occurrence	Potential effects	Future risk development as of the reporting date (trend)
Possible (> 0 to < 50%)	Slight Limited negative effects on expected earnings, no loss of reputation, no threat to customer relationships	↗ Higher than previous year
Likely (≥ 50 to < 100%)	Medium Some negative effects on expected earnings, moderate loss of reputation, potential threat to customer relationships, identifiable disruption to business operations (primarily internal effect)	→ Same as previous year
	High Substantial negative effects on expected earnings, high loss of reputation, major threat to customer relationships, significant disruption to business operations (with external effect), up to disruption of business operations that threatens existence	↘ Lower than previous year

Presentation of the Individual Risks

Individual risks	Probability of occurrence	Potential financial impact	Risk development 2015/12/31	Risk development 2016/12/31
Strategic risks				
Regulatory risks	Likely	High	↘	→
Competition risks	Likely	High	→	↗
Market risks	Likely	High	→	↗
Investment risks	Possible	Medium	↘	→
Risks from research and development activities	Likely	High	→	→
Operating risks				
Procurement and inventory risks	Likely	High	→	→
Product risks	Likely	High	→	↗
Personnel-related risks	Likely	Medium	↗	→
IT risks	Likely	High	↗	↗
Financial risks				
Financing and liquidity risks	Possible	Slight	↘	→
Risks from exchange rate fluctuations	Possible	Medium	↘	↗
Risks from customer bad debt	Possible	Medium	↘	↗
Compliance risks				
Export risks	Possible	Medium	→	→
Antitrust risks	Possible	High	→	→
Risks from violating data protection law	Possible	Medium	→	↗
Risks from environmental damage	Likely	Slight	→	→

Strategic Risks

REGULATORY RISKS

The photovoltaics sector's high dependence on government subsidies continues to diminish as a result of the increasingly competitive cost structure of solar power. However, markets remain highly volatile due to differing subsidies and changes to them in terms of content and regionally. There are considerable regional and cyclical volume fluctuations that complicate planning significantly. The risk situation is largely unchanged due to the still very high international share.

While demand for PV inverter technology declined in the EMEA region, the North and South American and Asia-Pacific regions boasted growth in terms of new installations measured in gigawatts. On a cumulative basis, approximately 35% of PV inverter output already installed in the Americas region is attributable to SMA. The Company confirmed its status as the leading provider of PV inverter solutions with its large number of installations in the Americas region in 2016. General conditions improved slightly as tax incentives for PV systems were extended to 2020. Nonetheless, there is a high level of uncertainty due to current political changes. Potential import duties on goods from Europe, for example, would have considerable negative effects on SMA's profitability. In the APAC region (not including China), SMA is well positioned and can therefore benefit from the positive development in these markets. Tariff trade barriers in this region would also have an adverse effect on SMA's profitability.

SMA regularly performs market research to be able to respond promptly to emerging changes in subsidies in target and existing markets. Short-term fluctuations in demand are discussed with local sales managers and operations in the rolling forecast process. Thanks to its high level of flexibility in production, SMA can usually react quickly to changes. The establishment of local production facilities is possible but would put pressure on SMA's cost structure.

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

RISK OF AGGRESSIVE COMPETITION

Some markets continue to offer PV system incentive programs. The concomitant demand leads to intense competition. Existing and new competitors will attempt to secure market shares through aggressive policies regarding pricing and terms and conditions. Moreover, transparent bidding processes in saturated markets lead to more intense price competition. Although SMA continues to press ahead with internationalization, changes to subsidies could cause additional price pressure, potentially with substantial negative effects on further business development in these markets and SMA's earnings.

Other possible scenarios include competitors improving the quality, functionality or performance of their products, or local competitors reacting more flexibly and adapting better to the prevailing market requirements in certain markets. Markets breaking away in connection with freed-up capacity, especially in China through the reduction of expansion targets, would also result in an increase in fierce competition. Such competition may in the future lead to further declines in prices for products and services produced by SMA and likewise to a loss in market shares. Should our competitors succeed in being able to quote well below SMA's prices on a sustained basis, this would impair earnings growth or have a negative effect on SMA's break-even point.

The SMA Managing Board continues to forecast a sharp price decline. This price decline is expected to be offset by growth in volume. In addition, SMA is meeting this price competition with market-appropriate and cost-optimized products and solutions. With expenditure for research and development of €78.3 million in the 2016 fiscal year (including capitalized development projects), SMA remains well positioned to set important trends with new products, systems and solutions. The numerous awards SMA has received for its high capacity for innovation underscore the market orientation of development achievements.

Furthermore, there are opportunities for development of additional international markets. SMA's international sales share is already nearly 90%, and we will continue to expand our international presence to benefit from the growth emerging in foreign markets. To this end, the Managing Board employs a structured process for systematic analysis of potential markets to identify and use this business potential at an early stage.

Opening up new business areas to increase sales is one of the central elements of SMA's corporate strategy. In this context, the Managing Board sees services (e.g., O&M business), system technology for storage applications and intelligent energy management solutions as areas of business with opportunities to increase sales.

The cost-out measures and projects to increase efficiency are already showing results and will be pursued consistently. Continuous review and optimization of global locations and cost structures will be the key to SMA's long-term success. Use of flexible tools for inventory management as well as in procurement and production is intended to sustainably increase flexibility in the face of demand fluctuations (see also procurement and inventory risks).

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

MARKET RISKS

In the past, the high demand for PV systems resulted partially from the sharp increase in conventional energy carrier prices. Because of increased prices for oil and gas, rising energy prices are still anticipated in the medium term. The higher the price of energy from these sources, the more attractive generating electricity from sunlight becomes. Photovoltaics have proven to be increasingly competitive in recent years. In a growing number of regions around the world, solar power is now more cost-efficient than conventional energy.

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

In the past fiscal year, SMA was again voted the world's most popular inverter brand by the "PV Inverter Customer Insight Survey – 2016," conducted by the IHS Markit institute for market research and business consulting. The study surveyed inverter buyers in over 45 countries. It shows that SMA, as the winner five years running, is the preferred inverter brand among all customer groups around the world and in many of the large photovoltaic markets, despite fierce global competition between inverter manufacturers.

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

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

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

Formation of buying syndicates can increase the dependency of SMA on a few wholesalers or specialist wholesalers and other customers generating large sales. This dependency harbors a risk as a result of these large customers gaining more negotiating power coupled with increased price pressure. SMA avoids dependency on individual customers by deploying a targeted sales strategy. The share in total sales of the ten largest customers worldwide therefore fell to approximately 27% in the 2016 fiscal year.

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

INVESTMENT RISKS

Improper assessment of market changes in the future could lead to failure in fully utilizing our production capacities and to unscheduled depreciation of production equipment and product developments. The non-utilized infrastructure would have a negative effect on our earnings. Because of the sustainably lowered fixed costs, SMA can generate profits even with lower sales. Thanks to our high degree of production flexibility, we can largely absorb negative demand fluctuations.

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

RESEARCH AND DEVELOPMENT RISKS

In addition to optimization of existing products and the development of future product generations, the SMA Managing Board’s goal is to develop complete system solutions. However, this inherently gives rise to the risk that vital technological trends are identified too late or that market launch is delayed due to development stages that are too long. As this could lead to sales losses and smaller market shares, SMA will continue to invest up to 10% of sales in research and development activities to develop new processes, technologies, products, system solutions and services. Products and solutions can be developed more quickly and efficiently by simplifying and standardizing the product development process at all SMA development sites around the world. SMA is consciously seeking collaboration with research facilities to advance strategic development projects with the aim of further reducing development time of innovative products. However, we cannot rule out that individual development projects will fail to deliver expected exploitable economic results or do so in the expected time frame.

The SMA Managing Board sees storage applications and integration of storage solutions as providing particular opportunities to strengthen core business. SMA is the only inverter manufacturer to collaborate with nearly all world-leading manufacturers of stationary battery-storage systems. However, the market success of these solutions depends largely on storage system prices. The sharp declines in prices for electric battery-storage systems in recent years have improved sales prospects.

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

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

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

Operating Risks

PROCUREMENT AND INVENTORY RISKS

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

Regular inventory analyses are carried out in connection with increasingly shorter innovation cycles and resulting potential inventory write-down requirements. Inventories are continuously monitored and adjusted with controlling tools and early-warning systems. By monitoring changes in important raw material prices, development trends should be identified in a timely manner and compensatory mechanisms developed with suppliers before they affect purchase prices and negatively influence SMA's earnings. Despite these measures, supply problems with important suppliers could threaten the delivery capacity for existing and new products and SMA's competitive advantage.

The internationalization of our purchasing structures with decentralized purchasing teams in Poland and China is leading to lower purchase prices and logistics costs and diminished dependence on local suppliers. As part of the global purchasing and commodity strategy, these activities are being pursued and expanded in a sustainable manner. Danfoss and SMA have been working together successfully in a cross-company purchasing partnership for some years. The objective of the partnership is to further reduce costs through joint purchasing activities. Other advantages of the partnership are, for example, sharing of information and process knowledge, methods and tools as well as best practice insights so as to further improve specific negotiations and our competitiveness in the long term.

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

PRODUCT RISKS

We are always striving to develop new products, solutions and systems and to improve existing ones. For this reason, we use new materials and new technologies in development to make innovations possible. This can result in SMA products being defective. Large delivery lots bear the risk of errors or defects affecting a product series or several product batches. Production shortcomings may on the one hand derive from SMA errors or from defects in primary products provided by SMA suppliers. Unidentified incompatibilities can also emerge after products are launched, which requires improvement to the customer system on-site after installation to prevent the product from posing a danger to the customer, in the worst-case scenario. A lapse of reliability could result in a long-term loss of trust and reputation. In addition, any necessary product recall would have a negative impact on earnings.

If responsibility for the error lies with the supplier, then the supplier must bear the direct costs. If SMA is responsible for the error, then product liability insurance will cover the losses incurred. However, this does not cover the cost of materials. Newly developed products may be subject to more failures than established products. We are able to minimize this risk through comprehensive testing during the development phases, accompanying quality inspections during production, field testing prior to scheduled serial production and product liability insurance. We make provisions for disputes related to product risks if we consider it likely that such claims can be asserted against us.

To continuously increase the quality of our products, in addition to general process improvements covering the entire value chain, new developments are backed by specific stress and qualification tests; tests are carried out on the entire series and advance quality planning is integrated into the development process. Depending on the nature and scope of the technical fault, Service assesses the necessity for repair or replacement of the device and carries out appropriate countermeasures. To meet customer needs even better in the future, the SMA Managing Board will continue to establish and expand service capacities.

PERSONNEL-RELATED RISKS

Qualified and motivated employees are key to the evolution of our enterprise, increased internationalization of sales, purchasing and service activities and SMA's business success. To ensure SMA's future viability it is important to retain engineers and other skilled staff at the Company for the long term as well as fill management positions adequately. The SMA Managing Board continuously monitors personnel structures and, if necessary, adapts them to the sales level expected in the future.

There is still a risk that talented individuals could leave the Company and not be replaceable (by someone with the necessary qualifications) at short notice. We offer performance-based remuneration systems and participation in the Company's success, flexible working hours and options for further education and training as well as for balancing family and career. By integrating university research and education into our work at the Kassel site, and building other partnerships with universities and institutes, SMA also works to be perceived as an attractive employer and thereby successfully able to recruit and retain highly qualified young staff to the Company long term.

For additional details, please refer to the information in the section "Employees" in the Consolidated Management Report.

IT-RELATED RISKS

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

Financial Risks

FINANCING, CURRENCY AND LIQUIDITY RISKS

As a global business, SMA is inevitably exposed to financial risks. These include risks from changes to general interest rates, exchange rate fluctuations and financing and liquidity risks.

Corporate Treasury controls Group financing and limitation of financial risks at SMA. The principle underlying our hedging policy is to protect SMA against sharp changes in prices, exchange rates and interest rates by means of contracts and hedging transactions to an economically feasible extent. Corporate Treasury has also secured borrowing by negotiating a long-term credit line of €100 million.

The permissible hedging instruments have been laid out by the Managing Board in Group-wide guidelines that also regulate the entire process-oriented organization including hedging strategies, responsibilities and control mechanisms. For example, extensive currency hedges were concluded.

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

For detailed information regarding the financial market risks and risk management, please also refer to the Notes to the Consolidated Financial Statements on pages 110 et seqq. under 39. Objectives and Methods Concerning Financial Risk Management.

RISK OF DEFAULT OR CUSTOMER INSOLVENCY

The unstable and sometimes unfavorable conditions on the financial markets are conducive to potential non-payment risks for some customers. In addition, the competitive situation and internationalization require extension of payment periods, coupled with the reduction of collateral (e. g., in the form of bank guarantees). If customers can no longer keep up with their payment obligations, there is a higher default risk for receivables with negative effects on SMA's results of operation, financial position and net assets. The level of receivables could increase because of the planned growth in project business (utility). This potential development is, however, backed by appropriate securities in the project business.

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

Compliance Risks

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

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

Group Compliance issued business principles and directives globally to counter these risks. Basic work sequences and processes were derived from these and implemented globally. Therefore, in the context of their work for SMA, all employees are obligated to act ethically and in accordance with the laws and regulations of the legal system of their country. These regulations and obligations are consolidated globally by mandatory training sessions on business principles.

For additional details, please refer to the information on corporate social responsibility in the Consolidated Management Report.

EXPORT RISKS

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

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

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

ANTITRUST LAW

Our primary goal is to minimize antitrust risks from the outset. Group Compliance has therefore issued an Antitrust Directive. The directive stipulates clear do's and don'ts for all major business situations. In addition, all employees of the areas affected must receive antitrust law training within a stipulated period.

RISKS OF VIOLATING DATA PROTECTION LAW

There is a risk that the necessary care is not always taken in the processing of PV system operators' personal data and, for example, data is used for cross-promotional purposes without consent. There are also risks in the increasingly widespread storage and processing of personal data using cloud solutions, where permissibility regarding data protection law is disputed. Against the backdrop of the changing business environment and the necessary development of new sales channels, this risk is becoming increasingly significant.

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

ENVIRONMENTAL RISKS

SMA employs a small amount of hazardous substances during production that, in principle, pose a risk to the environment. The comprehensive measures we take in production and in quality management ensure that SMA products are manufactured in a way that is environmentally friendly and guarantees compliance with all environmental regulations. Furthermore, SMA has safeguarded itself against certain environmental risks, including with insurance.

For additional details, please refer to the information on corporate social responsibility in the Consolidated Management Report.

OVERALL STATEMENT ON THE GROUP'S RISK SITUATION

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

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

FORECAST REPORT

THE GENERAL ECONOMIC SITUATION: GLOBAL ECONOMY GAINS MOMENTUM

The International Monetary Fund (IMF) expects the global economy to gain momentum in 2017. For some months already, experts have been seeing signs that the economic situation is brightening in many countries. However, there are also numerous risks, writes the IMF in its latest update of the World Economic Outlook (WEO) of January 16, 2017. It is referring in particular to the uncertainty associated with Donald Trump's new government in the U.S. and its global impact.

The IMF forecasts global growth of 3.4% for the current year (2016: 3.1%), confirming its October forecast. In comparison with the October forecast, the experts anticipate a slightly better situation in industrialized countries with growth of 1.9% and a marginal slowdown in developing countries with a 4.5% increase in economic power.

In the medium term, however, the IMF sees some risks in store for the global economy, such as if political shifts cause nations to lean toward more protectionism, as is currently becoming apparent with the new U.S. President Trump. Restrictions in world trade could inhibit productivity and tarnish market sentiment, says the IMF. In addition, increasing geopolitical tensions and terrorism could compromise the global economic situation. In contrast, IMF experts see the potential increase in government spending in the U.S. and China as a positive.

The gulf between the interest policies of the European Central Bank (ECB) and the U.S. Federal Reserve (Fed) is likely to grow wider this year. According to the interest rate forecasts presented by the Fed in December 2016, three further moves could be made this year. The ECB, on the other hand, is still fighting against sluggishness in many important national economies of the eurozone. The ECB and the Fed will therefore march in opposite directions in 2017. The U.S. dollar will thus remain strong against the euro.

Developments in the U.S. make it much harder for the IMF to make forecasts. Experts now anticipate a 2.3% rise in growth in 2017. They likewise have a more positive view of the economic situation in Germany, Japan, Spain and Great Britain than they did in October. Growth prospects for China have also brightened; the IMF expects growth of 6.5% in 2017. In contrast, the experts lowered their expectations for India by 0.4 percentage points to 7.2%.

FUTURE GENERAL ECONOMIC CONDITIONS IN THE PHOTOVOLTAICS SECTOR

Renewable Energy Will Grow Faster Than Conventional Energy Carriers

In its World Energy Outlook 2016, the International Energy Agency (IEA) forecasts that renewable energy will see much faster global growth than conventional energy carriers in the years to come. In addition to industrialized countries, the IEA expects fast-growing, newly industrialized countries particularly in South America, Africa and Asia to play an important role.

The experts from Bloomberg New Energy Finance (BNEF) also confirm the growing significance of renewable energy. In their New Energy Outlook 2016, they forecast that, in 2040, renewable energy will account for more than 50% of the world's installed power generation capacity. According to the BNEF experts, photovoltaics will be the most cost-efficient energy source in most countries of the world by as early as 2030 and it will account for approximately 45% of the new power generation capacity installed worldwide in that year.

Increased use of renewable energies is driven by various trends, which include regionalization of the electricity supply. More and more households, cities and companies want to become less dependent on energy imports and rising energy costs. In this context, the IEA describes a decentralized energy supply with photovoltaics as a "driver for the transformation of traditional roles in the energy market." This will lead to a rise in demand for energy storage solutions in the residential, commercial and industrial sectors. In addition, energy will be increasingly distributed via smart grids to manage electricity demand, avoid consumption peaks and take the strain off utility grids. E-mobility is expected to become an important pillar of these new energy supply structures a few years from now. Integration of electric vehicles may also help increase self-consumption of renewable energies and offset fluctuations in the utility grid.

Decline in China, Growth in Other Regions

Photovoltaics have proven to be increasingly competitive in recent years. In a growing number of regions around the world, solar power is now more cost-efficient than conventionally generated energy. For example, large-scale solar projects in the Middle East are already generating solar power at costs of less than \$0.03. This points the way to an environment in which the industry will grow in the medium and long term even without subsidization. In the wake of the transformation of global energy supply structures, current and future objectives include intelligently linking different technologies, providing intermediate storage solutions for generated energy, thereby ensuring a reliable and cost-effective electricity supply based on renewable energies.

For 2017, the SMA Managing Board anticipates 71 GW of newly installed PV power around the world. This equates to a decrease of around 9%. The decrease will mainly occur in China. In contrast, the SMA Managing Board estimates that markets outside China will grow by approximately 7% to a total of 47 GW. Global investments in PV system technology will decline due to the plummeting demand in China and the overall high price pressure in the industry. The fast-growing segment of storage applications will only partially offset the expected decline in investment in traditional photovoltaic applications. Overall, the SMA Managing Board therefore expects investment in PV system technology of €4.9 billion in 2017 (2016: €5.2 billion).

Storage Technology Boosts Investment in EMEA

According to estimates by the SMA Managing Board, the European photovoltaic markets will further decline in 2017. However, according to these estimates, market growth in the Middle East and in African countries will more than compensate for the anticipated decline in demand in Europe. Overall, the SMA Managing Board therefore anticipates an approximately 6% increase in newly installed PV power to around 10 GW in the European, Middle Eastern and African (EMEA) region. According to SMA estimates, the volume of investment in inverter technology will be around 25% higher than in the previous year at an expected €1.3 billion. The disproportionately high increase in euros is attributable in particular to the business with PV system technology for storage applications.

Price Pressure Hurts Investment in North and South America

For the American markets, the SMA Managing Board expects a slight decline after the strong growth of last year. There are good medium-term prospects thanks to the existing tax incentive programs in the U.S. and the continued growth of the South American photovoltaic markets. The SMA Managing Board estimates that newly installed power in the overall Americas region will decline by around 7% to 16 GW in 2017. The volume invested in inverter technology will fall at a greater rate to €1.3 billion due to high price pressure (2016: €1.5 billion).

Slight Decline in Investment in Asia-Pacific Excluding China

The most important markets in the Asia-Pacific (APAC) region include China, Japan and India. The SMA Managing Board estimates that new PV installations in China will decrease sharply to 24 GW in 2017 due to previous subsidy cuts and further scheduled subsidy cuts (2016: 34 GW). Investments in inverter technology in China are expected to fall to €0.6 billion (2016: €0.9 billion). For the Asia-Pacific region excluding China, however, the SMA Managing Board predicts an encouraging increase in newly installed PV power to 21 GW in 2017 (2016: 17 GW). The growth will be driven in particular by the Indian market. However, the high price pressure in the region excluding China will erode the volume growth. The SMA Managing Board therefore expects investment of approximately €1.7 billion in inverter technology (2016: €1.8 billion).

Energy Management and Smart Module Technology Growth Markets

In the opinion of SMA's Managing Board, innovative system technologies that temporarily store solar power and provide energy management to private households and commercial enterprises offer attractive business opportunities. Rising prices for conventional domestic power and many private households and companies wanting to drive forward the energy transition by making their contribution to a sustainable and decentralized energy supply are the basis for new business models. Demand for solutions that increase self-consumption of solar power is likely to rise particularly in the European markets, the U.S. and Japan. In these markets, renewable energies are already taking on a greater share in the electricity supply. In 2017, the SMA Managing Board expects the volume of the still fairly new market to amount to between €0.6 billion and €1.1 billion (this does not include the figures for batteries). Estimated demand is already included in the specified development

projections for the entire inverter technology market. Positive growth stimuli are also emanating from e-mobility. Interconnection with photovoltaic systems is giving rise to new business models and greater customer benefits.

The SMA Managing Board also sees good growth prospects in the field of smart module technology to increase the functionality and performance of PV modules (module level power electronics – MLPE). These technologies include micro inverters and DC optimizers. The SMA Managing Board estimates that DC optimizers in particular will gain in importance over the currently dominant string inverter technology without optimizers in the years to come. This trend is emanating from North America because regulatory requirements in the markets there encourage the use of DC optimizers.

PV Diesel Hybrid Systems Offer Attractive Business Opportunities

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

OVERALL STATEMENT FROM THE MANAGING BOARD ON THE EXPECTED DEVELOPMENT OF THE SMA GROUP

The following statements on the future development of the SMA Group are based on estimates drawn up by the SMA Managing Board and the expectations concerning the progression of global photovoltaic markets set out above. The SMA Group operates under a functional organization. The Residential, Commercial, Utility and Service business units take on overall responsibility and manage development, operational service and sales as well as operations. SMA Sunbelt Energy and the Off-Grid and Storage business unit have been combined under Other Business. From the beginning of the 2017 fiscal year, Zegersolar will be fully allocated to the Residential business unit due to changes in its business activities. This will result in a shift from the Other Business segment to the Residential segment. The Railway Technology business division is reported as a discontinued operation. The Forecast Report is based on the described reporting structure.

SMA's sales and earnings depend on global market growth, market share and price dynamics. Factoring in the pronounced demand fluctuations in the solar industry, last year, the SMA Managing Board consolidated the global production locations and thus increased SMA's financial and operational flexibility. In addition, more cost-effective products were developed for important sales markets to counter the high price pressure in the industry. By agreeing to a syndicated loan of €100 million, domestic commercial banks have underscored the SMA Group's high credit rating.

Managing Board Anticipates Difficult Fiscal Year

On January 26, 2017, the SMA Managing Board published its sales and earnings forecast for the current fiscal year for the first time. It predicts a sales decline to between €830 million and €900 million (2016: €946.7 million). The decrease is mainly attributable to high price pressure in the solar industry. Against this backdrop, the SMA Managing Board expects declining earnings before interest, taxes, depreciation and amortization (EBITDA) of between €70 million and €90 million (2016: €141.5 million). The depreciation and amortization are expected to amount to between €60 million and €70 million. On this basis, the Managing Board expects EBIT to decline tangibly. The earnings forecast includes positive earnings effects in the single-digit millions from the sale of SMA Railway Technology GmbH, the closing of which is expected by mid-2017.

SMA's business model is not capital-intensive. The investments (including capitalized development projects) will increase to up to €50 million (2016: €29.0 million). The increase is mainly attributable to test equipment for new product generations, higher capitalization of development costs and measures to modernize the IT infrastructure. The SMA Group's working capital is expected to amount to between 22% and 25% of the sales of the last 12 months (2016: 23.8%). The consolidation of global production sites will increase transport times and thus inventory. This effect on working capital can be partially offset by longer payment periods with suppliers and optimized debtor management. Overall, the SMA Managing Board anticipates a positive free cash flow. Net cash is expected to grow to over €400 million (2016: €362.0 million).

Price Dynamics and Digitization Determine Business Performance

For 2017, the SMA Managing Board expects to see high price pressure continue in all market segments and regions. This is mainly being caused by the aggressive pricing policy of Chinese competitors, who are attempting to quickly tap foreign markets and to compensate for their shortcomings in sales and service infrastructures. Unfortunately, many Chinese competitors do not comply with legal standards in the design of products and thus intentionally distort the competition.

SMA will not extricate itself from general developments in market pricing, but it will maintain its own high demands on product quality. Systematic investments in development in recent years resulted in SMA having a multi-award-winning product portfolio for all output ranges. During 2016, customers at the leading trade fairs in the U.S. and Europe were presented with innovations that will lead to considerable savings in the total costs of a PV system. In addition, we will launch further cost-optimized products globally in the future to increase SMA's competitiveness in the medium term. To further optimize the SMA Group's break-even point and increase flexibility, the SMA Managing Board closed production sites in Denver, U.S., and Cape Town, South Africa, at the end of 2016. The effects generated by product innovations and cost reduction measures are expected to be recognized in earnings from 2017 onwards.

Overall, SMA is in a good position to benefit in all market segments and regions from the trend of decentralized energy supply structures. No other competitor has a similar international presence. In addition, SMA will use its financial strength to benefit from the digitization of the energy industry. For example, SMA has developed a technical platform that allows for energy flow monitoring across different sectors, such as photovoltaics, heating, cooling, ventilation as well as stationary and mobile storage systems. With an intelligent energy management solution, we will optimize total energy costs at the local level in the future. These new solutions distinguish us further from competitors and allow us to establish new business models. As a specialist in complete solutions in the energy sector, SMA will specifically establish and expand strategic alliances to more quickly tap into the potential offered by digitization.

Well Prepared for Market Changes With Full Product Range

SMA's broad product portfolio in all market segments is a major distinguishing feature. The Company can therefore react quickly to changing markets and benefit from the global development of photovoltaic markets.

The Residential business unit serves global markets for small PV systems with and without connection to a smart home solution. According to Managing Board estimates, in 2017, the Residential business unit will generate sales of €190 million to €210 million, accounting for approximately 20% of SMA Group sales (2016: €175.0 million; 18.5%). The portfolio of the Residential business unit with the SMA and Zegersolar brands comprises module optimizers, single- and three-phase string inverters in the lower output range up to 12 kW, energy management solutions, storage systems, communication products and accessories. The main sales drivers include the Sunny Boy inverters with outputs up to 5 kW. Europe, North America, Australia and Japan remain the most important sales markets. Over the course of the year, the Residential business unit will launch cost-optimized products under the SMA and Zegersolar brands in the core markets and, for the first time, sell a Sunny Boy inverter configured for the solar module optimizers from Tigo Energy, Inc. In addition, the Residential business unit aims to access new customers and distribution channels to increase sales. Product innovations and outlined sales measures are only expected to affect earnings in the medium term. The SMA Managing Board therefore expects the Residential business unit to generate negative EBIT in the lower double-digit millions in 2017. In the medium term, planned product innovations and cost optimization of the existing portfolio will increase the business unit's gross margin.

The Commercial business unit concentrates on global markets for medium-sized to large PV systems with and without an energy management solution. For the Commercial business unit, the SMA Managing Board forecasts sales of €250 million to €270 million (2016: €263.0 million). The business unit is therefore expected to account for around 30% of Group sales (2016: 27.8%). The main sales drivers are the Sunny Tripower inverters in the power class 25 kW and above. In 2017, the portfolio will be expanded by a completely new product generation with an output of 50 kW for rooftop applications and an enhanced-performance three-phase Sunny Tripower inverter for ground-based PV systems. In addition, the Commercial business unit will launch a new energy management solution to monitor the energy flows from different sectors and also optimize them at a later date. The SMA Managing Board thus anticipates positive operating earnings (EBIT) in the upper one-digit millions in 2017.

The Utility business unit serves the markets for large-scale PV projects. With expected sales of between €270 million and €290 million (2016: €396.7 million), the Utility business unit is expected to account for around 30% of Group sales (2016: 41.9%). In addition to central inverters with grid service and monitoring functions, the Utility business unit portfolio also comprises complete solutions including medium- and high-voltage technology as well as accessories. In 2017, the portfolio will be complemented by a compact, complete solution including medium-voltage and switching technology with an output of 5 MW. The integrated solution within a 40-foot container will be sold under the brand name Medium

Voltage Power Station 5000. The main sales driver is expected to be the new Sunny Central inverter with an output of 2.5 MW. The SMA Managing Board anticipates positive operating earnings (EBIT) in the upper one-digit millions in 2017.

Our service business will continue to benefit from the number of commissioned projects in the Utility and Commercial business units in 2017. In addition, the SMA Managing Board expects the conclusion of new, long-term service and maintenance contracts for large-scale PV projects and extended warranties for Sunny Boy and Sunny Tripower inverters. With sales of €55 million to €60 million (2016: €44.7 million), the SMA Managing Board anticipates positive operating earnings (EBIT) in the single-digit millions.

For the business areas combined under Other Business – SMA Sunbelt Energy and the Off-Grid and Storage business unit – the SMA Managing Board anticipates total sales of €65 million to €70 million (2016: €67.3 million). These business areas are expected to generate positive operating earnings (EBIT) in the one-digit millions.

SMA Is a Global Market Leader and Has Set the Course for the Future

With its strategy so far, SMA has successfully defended its global market leadership in a market environment dominated by drastic change. According to its own estimates, SMA accounts for around 20% of global demand. Following the rapidly implemented company transformation, the SMA Managing Board adjusted its strategy to the market developments expected in the future. As the future energy supply becomes increasingly decentralized and renewable, system technology requirements are increasing significantly. Establishing the technical conditions for fully automatic optimization of total energy costs and merging supply and demand are giving rise to attractive business opportunities for SMA. Therefore, SMA's continued evolution into a solutions provider is one of the most important strategic objectives for the years to come. In our strategy work, we have also defined flexibility concepts enabling us to operate profitably even in sharply fluctuating sales markets.

Thanks to our extensive experience in PV system technology, ability to quickly implement changes and enter into numerous strategic partnerships, SMA is well prepared for the digitization of the energy industry. We will build on our unique strengths and design additional system solutions for decentralized energy supplies based on renewable energy. Furthermore, we will systematically take advantage of opportunities that arise from new business models as part of the digitization of the energy industry. SMA is characterized by an extraordinary corporate culture and motivated employees who make a decisive contribution to the Company's long-term success.

Niestetal, March 2, 2017

SMA Solar Technology AG
The Managing Board