

Dear Shareholders,

SMA successfully continued on its path to more profit and higher cash flow in 2016. While sales remained at almost the same level as in the previous year at around €1 billion, the Company significantly increased earnings before interest and taxes (EBIT) to approximately €65 million. As a result of our attractive business model, we generated an adjusted free cash flow of around €121 million and increased our net cash to more than €360 million. For over two decades, SMA has been a global market leader in one of the most exciting industries of the 21st century. Our consistently high market share of around 20% is an outstanding achievement in view of the highly intense competition and rapidly changing markets. I would therefore like to thank all SMA employees as well as the temporary employees working at SMA for their excellent work and strong commitment. Thanks to the incredible dedication of our employees and the great trust of our customers in Germany and abroad, we increased the inverter output sold by 13% to 8.2 gigawatts – a record sales volume. The output sold by SMA in the past fiscal year is enough to provide a sustainable supply of clean electricity to the French capital Paris with its 2.2 million inhabitants and save around 6 million tons of CO₂ a year.

INTERNATIONAL PV MARKETS ON THE RISE – SMA MOST POPULAR INVERTER BRAND AGAIN

With a 50% rise in new installations to 78 gigawatts (2015: 52 GW), the global photovoltaic markets posted much stronger growth in 2016 than we had forecasted at the beginning of the year. The main growth impetus came from China, which accounted for approximately 44% of the global market in 2016. In one year, China installed almost as much photovoltaic power as Germany has since the introduction of the Renewable Energy Sources Act (EEG) in 2000. However, there are signs that this pace of expansion will not be maintained. As a result of changes in the regulatory conditions, the Chinese market is expected to slump by around 30% in 2017. Many Chinese providers are therefore attempting to tap foreign photovoltaic markets with an aggressive pricing policy and to use low prices to compensate for the shortcomings in their sales and service infrastructure. With great concern, we observe that some Chinese competitors are not complying with legal standards. They are thereby harming not only consumers but also the entire photovoltaics sector.

The U.S. was the second-biggest market with installation of 14 gigawatts. The foundation for this success was the joint decision by the Democrats and the Republicans in the U.S. Congress in December 2015 to extend the investment tax credit for promoting the expansion of photovoltaics until 2020. With its systematic expansion of photovoltaics, the U.S. is establishing the conditions for introducing new business models in the energy sector and improving supply reliability.

The European markets unfortunately did not maintain the pace of expansion of the previous years. With newly installed photovoltaic power of 9.6 gigawatts, Europe now only accounts for 12% of the global market. So far, the EU states have not succeeded in forming an energy union and setting binding expansion targets for renewable energies. The energy mix is still a matter for national governments and parliaments. “More Europe” when it comes to energy industry matters could help reduce energy carrier imports from politically problematic regions such as Russia, the Middle East and North Africa. By pressing ahead with the expansion of renewable energy, Europe could also lay the foundations for an important future-oriented sector and local jobs.

Our strategy of investing in the internationalization of our business and offering our customers a complete range of products and comprehensive services is paying off. We are proud that, for the fifth year in succession, according to a study by IHS Markit, an independent information and analysis company, SMA is the world’s most preferred inverter brand. We would like to extend our thanks to our customers: Your loyalty and trust continue to be an incentive.



PIERRE-PASCAL URBON
Chief Executive Officer SMA Solar Technology AG

ON TRACK FOR THE FUTURE WITH STRATEGY 2020

Following the successful completion of the Company's transformation, in 2016, we developed our strategy up until 2020. In addition to defending our global market leadership, another important strategic goal is to develop SMA into a provider of solutions. We have also defined flexibility concepts as part of the strategy to enable us to operate profitably even in sharply fluctuating sales markets. Strategy 2020 takes up disruptive approaches as well as elements for making SMA more attractive as a company. We are firmly convinced that with Strategy 2020 we are positioning SMA successfully for the changed market conditions. Further details can be found on page 29.

DIGITIZATION OF THE ENERGY INDUSTRY BRINGS NEW OPPORTUNITIES FOR SMA

As a result of enormous technological progress and the high level of new photovoltaic system installations worldwide, the cost of solar power has fallen by around 20% per year over the past three years. Solar power is already one of the most cost-effective energy sources, with generation costs of less than 3 U.S. cents per kilowatt hour in some cases. According to estimates by Bloomberg New Energy Finance, photovoltaics will therefore account for approximately 30% of the overall power generation capacity installed worldwide by 2040. Significant growth impetus for renewable energies is also created by the internationally agreed climate protection targets. Among other things, they are resulting in oil and gas heating being replaced by environmentally friendly technologies due to stricter regulatory requirements. In the future, private households and companies will be heated and air-conditioned in an environmentally sustainable way with photovoltaics. The strict guidance levels for vehicle CO₂ emissions will also reinforce the trend toward renewable energies. Broad acceptance of hybrid and electric vehicles is not only increasing demand for electricity but also lowering the costs of storage systems. As a result of the anticipated price reduction, storage systems will become economically viable for more and more households and companies.

As the energy supply becomes more and more decentralized and renewable, the requirements for system technology are increasing significantly. To ensure that energy is used locally as far as possible and not fed into the utility grid in an undirected way, the different generators must be linked with storage systems and other

components (e. g., heating, air conditioning, e-mobility, etc.). All sectors must be optimized completely automatically so as to avoid limitations with regard to convenience or processes in private households and companies. The complexity arising from digitization is enormous. No company can handle it alone. It is a matter of establishing the technical conditions for fully automatic optimization of total energy costs and for bringing together supply and demand. This gives rise to attractive business opportunities for specialists in environmental and communications technology.

SMA recognized this potential early on. Approximately 280,000 PV systems worldwide are already registered online in our Sunny Portal. In addition, we have selectively entered into strategic alliances and collaborated on standardizing technical interfaces (e. g., in the EEBus initiative) in recent years. Before the end of 2017, we will present a technical platform that allows for the monitoring of energy flows across different sectors, such as photovoltaics, heating and e-mobility. In the coming year, SMA will offer extensive energy management functions for optimizing total energy costs at a local level.

EXCELLENTLY POSITIONED FOR THE FUTURE AS A SPECIALIST IN PHOTOVOLTAIC SYSTEM TECHNOLOGY

The digitization of the energy transition is taking place at an astonishing speed. It requires a radical rethink by players in the energy sector. Nothing can simply be regarded as self-evident anymore: Electricity is no longer an expensive commodity but rather is freely available. Following the pioneering technological phase of generating sufficient volumes of renewable energy cost-effectively, the next phase is now to transform this into a consumer-focused service that creates added value for users.

Over the past few years, the SMA Managing Board has systematically developed the Company's expertise in the field of photovoltaic system technology. We successfully tapped the market for complex large-scale projects and expanded our activities in PV diesel hybrid systems and sophisticated services. We set technological standards in the photovoltaics sector and broke new ground with SMA's intelligent energy management. We implemented structural changes and increased SMA's flexibility. Today, SMA is excellently equipped for the future requirements of the energy industry. We have a clear view of our strengths and goals.

Our strengths and values clearly set us apart from others in the solar industry. We will build on this and design further solutions for decentralized energy supplies based on renewable energies. The 2017 fiscal year will certainly not be easy for SMA. We anticipate a continued sharp price decline that we will not be able to fully offset with new, cost-optimized products. We therefore expect sales to fall to between €830 million and €900 million. As a result of the consolidation of global production sites implemented in 2016, we have further reduced our break-even point. The SMA Managing Board therefore anticipates operating earnings before interests, taxes, depreciation and amortization (EBITDA) of between €70 million and €90 million and high free cash flow. With an equity ratio of around 50%, we have a sound financial base for systematically implementing our strategy.

SMA will make optimal use of the opportunities arising on the market. We are therefore optimistic for the future. As early as 2018, we will present new, even more cost-optimized products and innovative solutions for all major market segments. Overall, the measures will lead to an increase in the gross margin and sustainably strengthen SMA's competitiveness.



Pierre-Pascal Urbon
Chief Executive Officer
SMA Solar Technology AG