

The background of the cover features a large field of solar panels stretching into the distance under a clear blue sky. In the far distance, several wind turbines are visible. The perspective is from a low angle, looking down the rows of solar panels.

ENERGY: THINKING AHEAD

ANNUAL REPORT 2014

SMA SOLAR TECHNOLOGY AG

/// SMA AT A GLANCE ///

SMA Group	2014	2013	2012	2011	2010
Sales	in € million	805.4	932.5	1,463.4	1,676.3
International share	in %	76.0	71.0	56.3	53.6
Inverter output sold	MW	5,051	5,361	7,188	7,591
Capital expenditure	in € million	75.5	53.2	100.2	160.2
Depreciation	in € million	106.5	83.6	69.9	50.4
EBITDA	in € million	-58.4	-5.5	171.9	290.7
EBITDA margin	in %	-7.3	-0.6	11.7	17.3
Consolidated net result	in € million	-179.3	-66.9	75.1	166.1
Earnings per share ¹	€	-5.16	-1.92	2.16	4.79
Employees ²		5,037	5,141	5,584	5,532
in Germany		3,515	3,736	4,649	4,670
abroad		1,522	1,405	935	862
		409			
SMA Group	12/31/14	12/31/13	12/31/12	12/31/11	12/31/10
Total assets	in € million	1,180.3	1,259.9	1,328.7	1,374.3
Equity	in € million	552.0	724.4	820.7	789.3
Equity ratio	in %	46.8	57.5	61.8	57.4
Net working capital ³	in € million	251.0	247.6	268.0	281.7
Net working capital ratio ⁴	in %	31.2	26.6	18.3	16.8
Net cash ⁵	in € million	225.4	329.7	446.3	473.3
		523.4			

¹ Converted to 34,700,000 shares

² Average during the period; without temporary employees

³ Inventories and trade receivables minus trade payables

⁴ Relating to the last twelve months (LTM)

⁵ Cash holdings + time deposits + asset management + cash on hand pledged as collateral - loan liabilities (excluding derivatives)

/// SMA WORLDWIDE ///



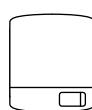
● Headquarters

● Foreign companies

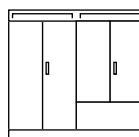
COMPANY PROFILE

SMA Solar Technology AG is a global leader in the development, production and sale of PV inverters and offers innovative key technologies for future power supply structures. SMA is represented in all important photovoltaic markets in 21 countries. The company has a staff of over 5,000 and generated €805.4 million in sales in 2014.

SMA Group

**Medium Power Solutions**

The Medium Power Solutions division (MPS) distributes inverters, system solutions and communication products for intelligent energy management and monitoring of PV systems. The product families comprise 69 types of inverters and 20 communication products in total. In the 2014 fiscal year, MPS generated around 55% of the SMA Group's total sales.

**Power Plant Solutions**

The Power Plant Solutions division (PPS) addresses the global market for large-scale PV power plants with outputs ranging from 500 kW to the three-digit megawatt range with central inverters and system solutions. In 2014, the PPS division was also affected by the effects of tough competition and sold less inverter power than in 2013. The division's sales constituted around 35% of the total sales for the SMA Group.

**Service**

SMA offers customers in Germany and abroad comprehensive support and after-sales services. The product portfolio includes warranty extensions, maintenance contracts, operational management, remote system monitoring and spare parts business. SMA's output of more than 35 GW installed worldwide gives the Service division great potential for growth.

69
types of inverters

35
% share in sales

35
GW of installed power

Zeversolar

With products launched under the Zeversolar brand (central and string inverters), SMA primarily addresses the budget market (low-price segment) in foreign markets.

Railway Technology

Railway Technology GmbH manufactures converters as individual devices and complete energy supply systems for railway coaches and multiple-unit trains for short- and long-distance railway traffic.

A wide-angle, low-angle aerial photograph of a massive solar farm. The solar panels are arranged in long, dark, parallel rows that recede towards a bright horizon. In the distance, several wind turbines with red blades are visible against a clear blue sky. On the left, power transmission towers with multiple wires stand tall. The foreground is dominated by the dark surface of the solar panels.

ENERGY: THINKING AHEAD

STORIES OF CHANGE

SMA SOLAR TECHNOLOGY AG

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ENERGY: THINKING AHEAD

Who would have thought that renewable energies would so quickly become a cornerstone of the global energy supply? After all, not so long ago, decentralized energy generation from solar, wind, hydro power and biogas was still so expensive that many countries launched public incentive programs to exploit their reputedly limited potential.

What happened next is tantamount to a global revolution. Innovative scientists and companies, courageous investors and committed citizens used the incentive programs as an impetus to build an abundance of generation systems and cut the associated technology costs so that electricity from renewable energies is now in many cases cheaper than conventional energy generation. This has led to radical changes in the photovoltaic market. Today, the incentive programs are progressively fading into the background, with self-consumption and direct competition between "old" and "new" energy coming to the forefront. And new photovoltaic markets such as China, America and Japan are now outstripping "old" markets in Europe.

These changes to the status quo represent both a challenge and an opportunity for SMA. A challenge that is now bringing completely different product solution and service requirements into focus than those that existed until recently. An opportunity because the energy supply of tomorrow presents brand-new possibilities for specialists like SMA, who have been working on this issue from early on.

After all, one thing is for sure – conventional, centralized supply structures such as large-scale coal-fired, oil-powered and nuclear power plants have finally had their day. They are being replaced by decentralized structures featuring a number of small, locally distributed generation units based on renewable energies. An increasing number of energy consumers are also becoming energy generators, using the electricity they themselves produce to reduce their dependence on rising electricity prices and environmentally damaging energy carriers from politically unstable regions. Combined with commercial wind and PV farms, biogas plants and storage systems in a smart grid they will make possible a secure, sustainable and economical energy supply.

SMA plays an instrumental role in this new energy world. Our technologies perform management and control functions and allow for components to be integrated into the system, simply and conveniently. On the following pages, you will discover what thinking energy ahead means to us – from our strategic partnership with Danfoss intended to accelerate innovation circles and cut costs; to our new product strategy and developing technological solutions that address the key issues of the energy supply of the future; right through to expanding into new markets in the Earth's Sunbelt.



When initial talks were launched between the SMA and Danfoss Managing Boards, Sune Sondergaard never dreamed that he would one day take on a key role in the strategic partnership between the two leading specialists in system technology. Just a few months later and the 51-year-old now works at SMA and is jointly responsible for the partnership between the companies. And it's a perfect fit, as both a Dane and former Danfoss employee who worked in various locations for the company, including China, the U.S. and Dubai, he is well acquainted with the inner workings of SMA's new strategic partner.



At the turn of the year 2014, Sune Sondergaard was applying to no unknown entity. "SMA was our greatest role model in the field of inverter production and always a topic of conversation for us employees at Danfoss," he explained. For this reason, the SMA job advertisement caught his attention immediately. They were looking for an outstanding team player with management experience, someone who was prepared to roll up his sleeves and dig in. "No problem," thought the 51-year-old family man, who until that point had been living in the rural area of Sonderborg on the German-Danish border.

His application was followed by an initial job interview in February. Everything went smoothly, with the date for the second interview already set in stone. "At this point it became public that SMA was about to enter into a strategic partnership with Danfoss," recalled Sondergaard, and you can tell from the look in his eyes that this was the right moment to say, "Alright, let's do this." SMA's management was of exactly the same mindset. What's more, his colleagues and executives saw it as a great stroke of luck that this former Danfoss employee applied to SMA at precisely that moment. Sondergaard has now been working as a Project Manager in Corporate Development since mid-March and is jointly responsible for the success of one of the world's biggest converter alliances.

It is especially fortuitous that he knows both companies so well. "I know how to navigate Danfoss, which is helpful because a lot of things get done more quickly if you already know your way around," said Sondergaard, explaining the situation of simply being able to reach for the phone, call the right contact at Danfoss and, in so doing, clarify issues in the fastest way possible.

HOLDING YOUR OWN AGAINST THE COMPETITION WITH ECONOMIES OF SCALE

Since the official start of the alliance at the end of May, Danfoss and SMA have been striving to mutually enhance their competitiveness. Together, the partners have a large purchasing volume. This is especially important because the market for PV inverters is dominated by fierce competition where size plays a crucial role.

In the first few weeks of the partnership, many employees got to know each other in various working groups. "Above all, it was about finding out what we can learn from one another," said Sondergaard. SMA employees reported back that there was a positive and co-

operative working atmosphere. Sondergaard has also been pleasantly surprised by the high level of mutual curiosity. During his meetings in Denmark, the project manager was quizzed about SMA by his former colleagues and on his return he had to quench his new colleagues' thirst for knowledge about the "great Danfoss machine." "It is by no means a given that employees will support such a decision made by their employer as has been the case here," said Sondergaard from his many years of professional experience in the field of corporate development.

It is common values, above all else, that are so important to the two partners. For example, Danfoss and SMA still remain entirely or largely in the hands of the founders' families. "Something like that shapes the corporate culture and makes collaboration and mutual understanding easier," summarized Sondergaard. In addition, there is also a shared appreciation for using resources sparingly and offering energy-efficient solutions.

DANFOSS BECOMES SMA'S ANCHOR INVESTOR

One difference between the two companies was the size of their inverter business before the start of the part-





Common values Sune Sondergaard quickly settled into his new place of work because the corporate cultures of Danfoss and SMA are shaped by the same values.

»The partnership is a real stroke of luck for SMA and Danfoss. Together, we enhance our competitiveness.«

Sune Sondergaard



Positive signals Just a few months after the strategic partnership began, the project members are already reporting success.

nership. While SMA was the global market leader in this segment, at Danfoss, PV inverters occupied only a small percentage of the product portfolio. This is why Danfoss handed over its PV inverter business to SMA. Danfoss does, however, see a great deal of potential in the solar industry. This was evident when it chose to come on board as an anchor investor at SMA. At the start of the partnership, Danfoss purchased 20% of SMA's shares.

Efficiency is at the heart of the partnership, and to achieve this the companies want to forge a purchasing

partnership. The first joint purchasing negotiations began during the second half of 2014. The cost savings generated by this will be evident by as early as 2015. The monthly management team meetings, which bring together those heading up the subprojects with Sondergaard, are sending a number of positive signals.

To achieve this, the employees really have to go into detail. "We have actually looked at each and every product component," said Sondergaard. "In addition, we will also harmonize our supplier strategies and increasingly purchase from the same suppliers."

TEAMWORK IN DEVELOPMENT

Development is another cornerstone of the partnership. In this area, it is essential to use Danfoss' leading experience with drive converters and transfer it to PV inverters. Sondergaard believes there is major potential for leveraging synergies here, too, which will help improve the all-important cost positions in the medium term.

However, the partnership doesn't just make sense from a cost perspective. Taking over Danfoss' PV inverter business also enables SMA to expand its product range



Five reasons for the successful
partnership between SMA and Danfoss at
go.sma.de/danfoss-en



by adding a key component – the Sunny Tripower 60. With the former Danfoss product, SMA is now in an even better position to play a key role in the promising segment for commercial PV systems. "Before, our product portfolio not entirely served this power class, but now we anticipate good growth opportunities in the U.S., Europe and India in particular," explained Sondergaard.

Barely one year after the partnership began, SMA is well equipped to hold its own in the fiercely competitive PV inverter market. The Danfoss inverters have now been integrated into the SMA product portfolio and Sondergaard has settled in well in Kassel, too. "Kassel is wonderful – such a central location. There is lots to experience here and you can quickly get to a great many other destinations," he said, smiling. □

Sune Sondergaard starts work at his new employer SMA.

2014-03-15

SMA and Danfoss announce their intention to enter into a strategic partnership. Danfoss acquires 20% of SMA shares and thus becomes its anchor investor.

2014-02-26

The partnership between Danfoss and SMA officially begins.

2014-05-28

The purchasing partnership kicks off, and joint purchasing negotiations begin. Together, the two companies have greater bargaining power with suppliers and can leverage synergies.

2014-07-08

SMA takes over the services for around 200 of Danfoss' solar segment customers.

2014-12-12

communicative

storage integration

modular

independent

yield-optimized

THE OPTIMIZERS

platform

high performance

smart

grid feed-in

flexible

power conversion

digital

self-consumption

system solution

decentralized

networked

energy management

What was once a certainty just a few years ago now no longer applies – hardly any other market changes as quickly and as fundamentally as the global photovoltaic market. And in terms of the development of PV inverters, integration and communication functionality is now much more important than efficiency. The inverters of the future are smart, lightweight, high performance and offer an attractive price-performance ratio. This represents an exciting challenge for Johannes Kneip, Nick Morbach and Boris Wolff, who are in charge of SMA's product portfolio.

reliable

cost-optimized

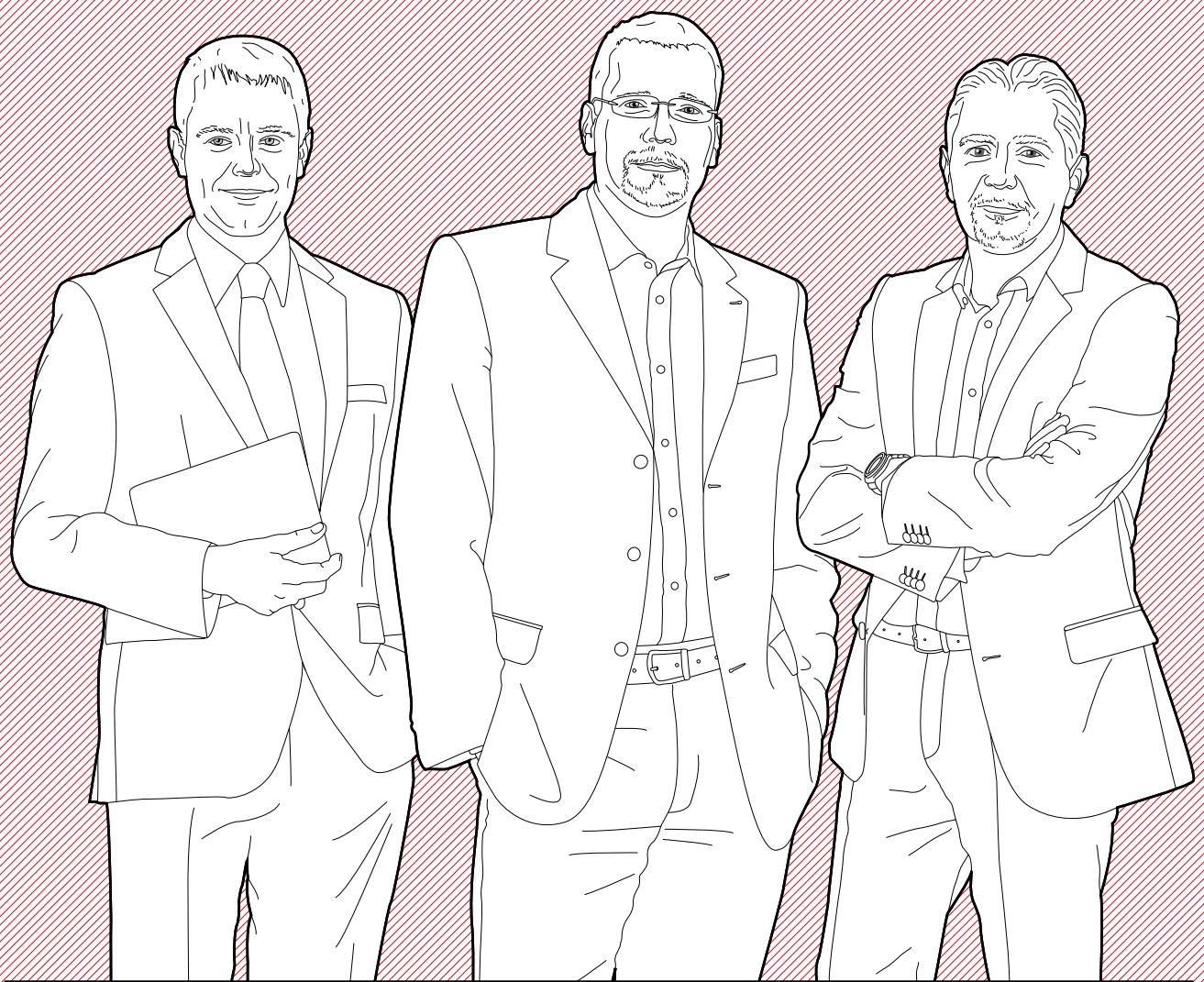
easy to use

simple

integrated

building block system

competitive



The optimizers: Johannes Kneip, Boris Wolff and Nick Morbach (from left to right)

» The dramatic changes in the market are presenting completely new development requirements for future generations of inverters. «

50 %

is how much less solar power from your own roof costs in many countries compared with conventional household energy from your utility.

Solar energy played no part in Nick Morbach's life back in 2007. As head of a business unit for an international automotive supplier, almost everything in his world revolved around cars. But then his parents got the idea that they would like to have a PV system, and asked their son for his help in choosing the best solution. "So, like almost everyone else having PV cells installed on their roofs at the time, my parents were looking for a secure capital investment," recalled Morbach, a mechanical engineer. "Under the subsidies available at the time, they were guaranteed around 50 cents of compensation for every kilowatt-hour of solar power fed into the grid over a period of 20 years. It was worth it, naturally." And so Morbach went on the lookout for a PV system that his parents could use to produce as much solar power as possible and feed it into the grid for a minimum of two decades. After all, every kilowatt-hour meant cash.

BY USING PHOTOVOLTAICS, COMPANIES CAN CUT OPERATING COSTS

Since then, a lot has happened. The subsidy rates for solar power in Germany and other European countries have taken a nosedive, and solar energy now plays a crucial role in Nick Morbach's life. At SMA, he is responsible for ensuring that solar energy pays off for industrial companies and commercial businesses – even without subsidies. "The energy generation costs of photovoltaics have since dropped to such an extent that companies can now cut their operating costs effectively with self-produced and self-consumed solar power as well as achieve long-term planning security. After all, it's cheaper than getting energy from an electric utility company," explained the 45-year-old Morbach.

And what is true for an increasing number of companies is also true for households in many countries. "Nowadays, in some countries, roof-generated solar power costs only half as much as electricity that comes out of the electrical outlet," said Johannes Kneip, who has a PhD in electrical engineering and heads the SMA business unit that specializes in home applications. "This is why more and more homeowners in Europe, and increasingly in the U.S., are using solar power to reduce their dependence on rising electricity prices."

USER REQUIREMENTS HAVE CHANGED COMPLETELY

It goes without saying that households and companies that use their solar power for their own consumption to save money have different requirements of their PV systems than those that feed the power into the grid in exchange for compensation. "In the case of the latter, it is all about producing solar power as cost-effectively as possible and using a large share of it themselves," Kneip added. "As such, they require solutions that are a good value for the money, are simple and uncomplicated to operate, can communicate via the Internet and feature integrated storage and energy management systems. This allows them to draw a supply of solar power at almost any time at no inconvenience." The 48-year-old has been engaged in solar technology since back in the early 1990s out of a pure conviction and has witnessed its rapid development firsthand.

After decades of focusing on maximum yield and a remarkably long service life of over 20 years, the needs of PV system users have completely changed. Today, low generation costs, an easy-to-use energy management system and seamless integration into the overall system are the all-important factors. "Incidentally, the same applies not only for owners of small and medium-sized PV systems but also for operators of large-scale PV farms," said Boris Wolff, who is responsible for the Industrial segment at SMA. His customers build huge PV power plants that span a surface area of several hectares.

PV FARMS ARE COMPETING SUCCESSFULLY WITH COAL AND NATURAL GAS

In regions with a lot of open space and long sunshine duration, such as in the U.S., South America and the



» In an increasing number of markets self-consumption is becoming a central issue. With this aspect, the smooth interaction of all components is the key to efficient energy management and also guarantees optimum storage integration. «

Johannes Kneip, (48) Executive Vice President Business Unit Residential

76 %

is the percentage of sales that SMA now generates abroad. The shift in demand toward Asia and Americas is accompanied by growing price pressure.

Sunbelt countries, PV farm operators are now selling their electricity to electric utility companies by means of power purchase agreements. In especially sunny regions, they are often even able to compete with conventional energies, such as coal and gas in this way. And there is an added advantage in that these PV farms are doing their bit to quickly establish a secure and sustainable electricity supply in newly industrialized countries. "We have to contend with a very specific set of challenges in these regions," added Wolff, outlining the demanding task. "In the Sunbelt countries, our inverters often have to withstand severe sandstorms, scintillating heat and torrential downpours. What's more, the utility grids in Africa, Asia and South America are nowhere near as stable as those in Europe. All of these factors place high demands on the technology. Our complete system solutions are thus invaluable because they both cut the costs of electricity production and provide a response to these specific local conditions."

INVERTERS BASED ON A MODULAR DESIGN INSTEAD OF A UNIVERSAL DEVICE

But how do you manage to keep adapting technology at a pace that keeps up with changing markets that differ widely between regions – and, at the same time,

continuously cut costs? "By focusing on developing solutions that use the same technical basis but can be adapted quickly and flexibly to meet the relevant local requirements," responded Morbach.

Kneip explains what this means in specific terms: "You have to imagine it like a building block. We develop the appropriate basic devices that we are able to produce in large quantities. We then add suitable functions on top, depending on the desired application or specific regional requirements," added Wolff. "This not only cuts costs due to the large number of carry-over parts, but also allows us to launch new or enhanced devices a lot quicker. And our customers get exactly the complete solution they need without having to pay for extras that they don't even want to use."

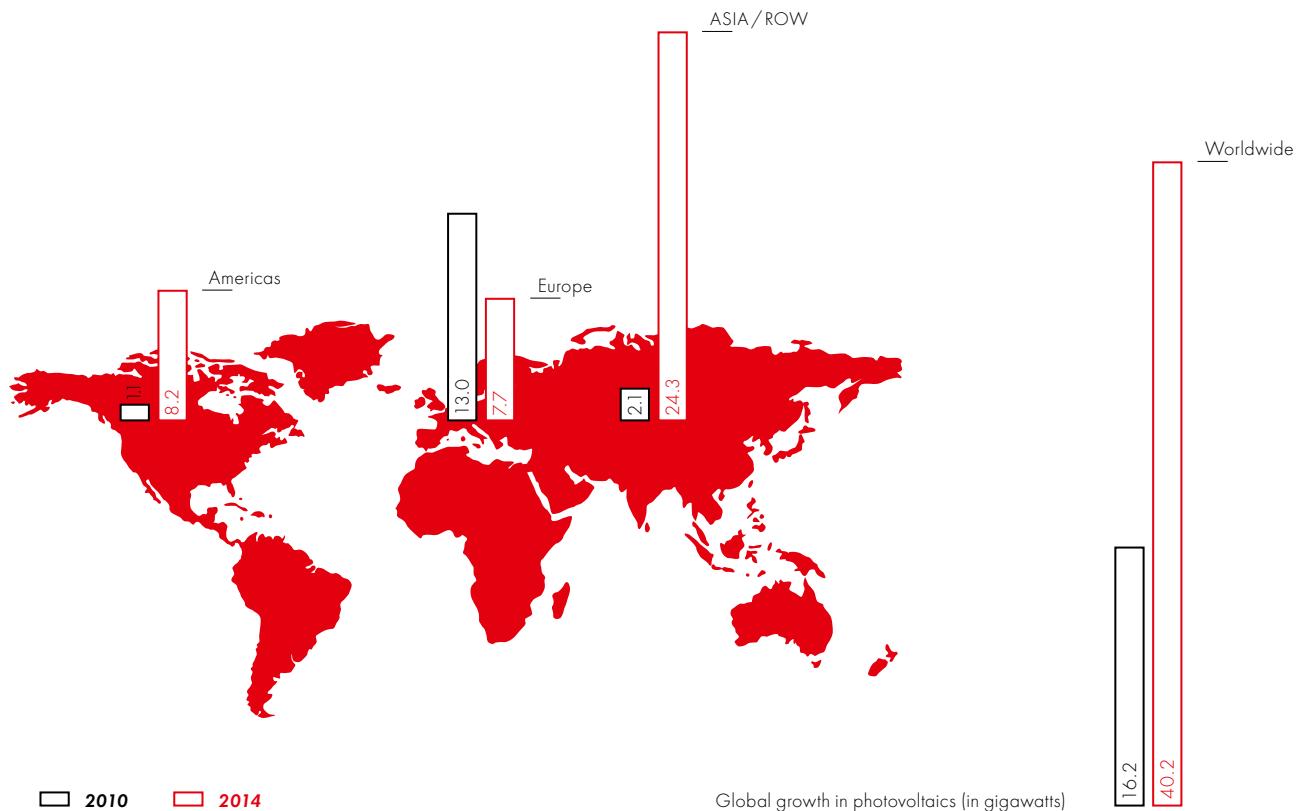
To ensure that they consistently hit the mark, Kneip, Morbach and Wolff keep in close contact with their customers. At the end of the day, market demand and customer needs are what largely determine which technical developments are initiated at SMA. "It is extremely important for us to constantly maintain a dialogue with our customers. This is the only way we can understand their needs and incorporate them rapidly

Strong market shift

The demand for inverters has shifted from the formerly strongly subsidized markets of Europe to Asia and the Americas.

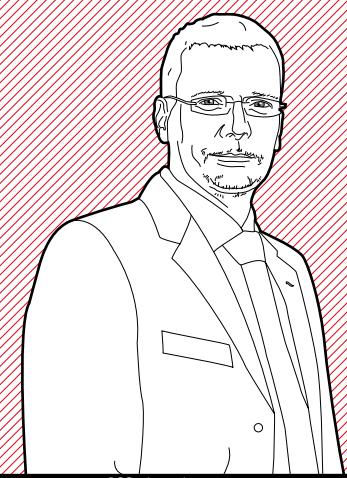
80 %

is the share of global growth in photovoltaics that was posted in Europe in 2010. This figure dropped to just 19 % in 2014.



» Low energy generation costs and simple integration into the overall system are taking much more of a front seat than ever before. «

Nick Morbach, (45) Executive Vice President Business Unit Commercial



Boris Wolff, (43) Executive Vice President Business Unit Utility

» To become more cost-effective and bring our products to the market faster, we have to have a precise understanding of customer needs and develop a focus. «

55 %

is the amount of solar power that consumers can use themselves by employing a smart energy management system with a small-scale storage capacity to help cut electricity costs.

into the development process," stressed Wolff. For the father-of-two, this dynamic environment is what makes his work so appealing. After all, speed, leanness, focus and proximity to the customer are the all-important factors for market success in today's world.

EXPLOITING ALL COST-CUTTING POTENTIAL

To make even more improvements in this regard, SMA has also optimized its processes and adapted its organizational structures. Development, Purchasing and Quality Management work closely together to exploit all cost-cutting potential from the outset – and not only for new but also existing products. "Collaboration with our Chinese subsidiary Zeversolar and our strategic partner Danfoss is also very important, as this enables us to become even faster off the mark and even more cost-efficient," said Kneip. "For example, thanks to Zeversolar, we are gaining access to reasonably priced suppliers in China that deliver very good quality. Hardly any other European manufacturer has an opportunity like this." "And in some areas, such as power density and thermal management of inverters, Danfoss has even greater expertise than SMA. This is something that we can use to our mutual benefit," continued Morbach.

The result is a completely new generation of SMA inverters, which will be brought to market in the coming months. These inverters will reduce the dependency users and companies have on fossil fuel energy carriers, all over the world. "I am proud that, with my work, I can do my bit for this cause," said Kneip. "After all, coal and oil can be used for something a lot more worthwhile than being burned away as fuel within two or three generations." Morbach and Wolff agree with him: "We need to completely switch our energy supply as quickly as possible to renewable sources to leave behind a livable planet for our children. It feels good to be able to play a role in working toward this aim." □

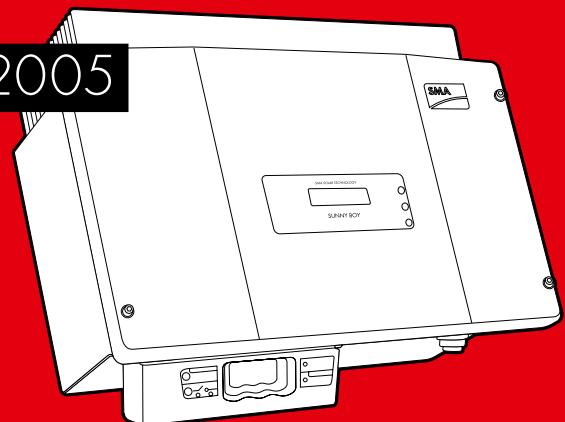
INVERTER EVOLUTION

Greater performance in less space at lower costs –
SMA is rapidly driving forward the technological
development of inverters.

2005

Sunny Boy 2100TL

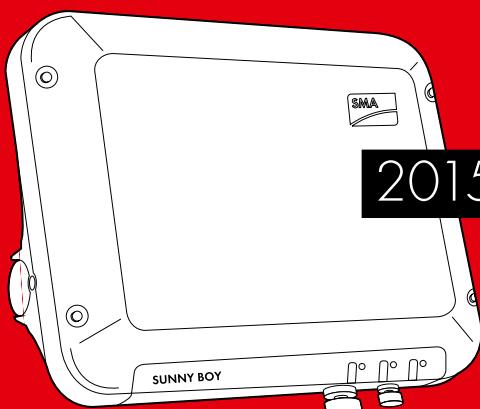
In 2005, the Sunny Boy 2100TL is equipped with the latest technology. The device, which weighs 16 kg, reliably converts the direct current produced in the solar modules into alternating current and feeds it into the utility grid. A display shows PV system operators the current device functions and performance data. Optionally, the data can also be transferred via a cable to an SMA data logger or PC, where it is read using SMA software.



2015

Sunny Boy 2.5

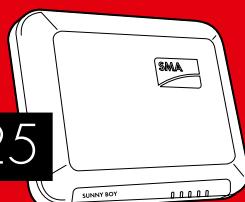
Optimally designed for self-consumption in private households, the Sunny Boy 2.5 is setting standards as a product of a new generation. Weighing around only 9 kg, it does more than just convert the direct current generated in the solar modules into alternating current, which is then made available for direct consumption or fed into the utility grid. It also contributes to the stability of the utility grid and enables simple and straightforward energy management with the SMA Energy Meter. PV system operators can communicate with their device directly and wirelessly by smartphone or from anywhere in the world via the Internet.



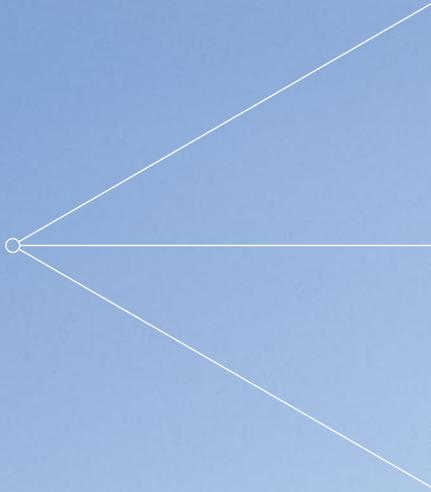
Sunny Boy of the Future

The Sunny Boy of the future is lightweight, tipping the scales at less than 2 kg. At the same time, it can do even more than its predecessors. It converts direct current from the solar modules into alternating current for self-consumption or grid feed-in. With full smart grid functionality, it is also automatically integrated into the electricity supply system of the future, where decentralized generation units are linked to ensure a reliable supply and stable utility grids. Via the utility grid, the Sunny Boy of the future is directly connected to the Internet and integrated into the Smart Home.

2025



ENERGY



3.

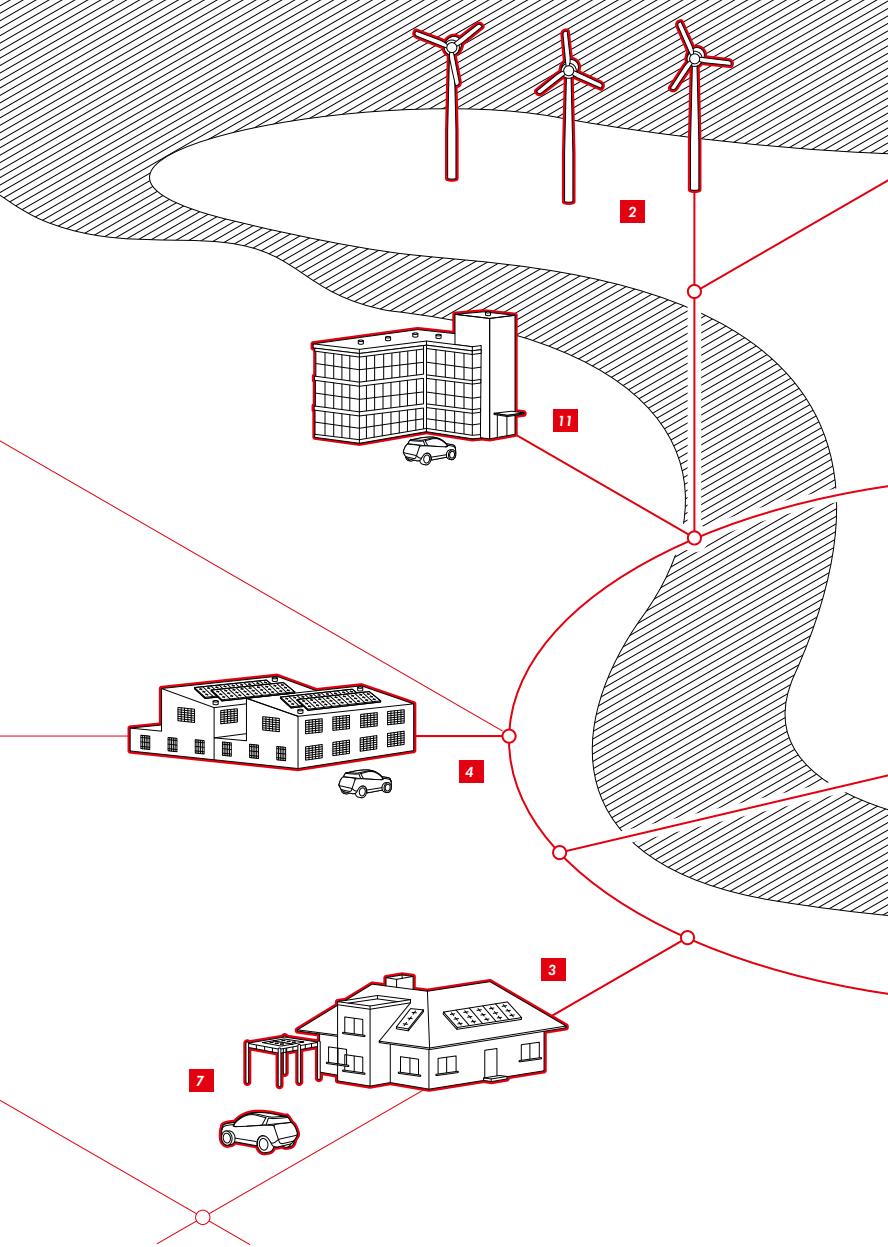


37 billion tonnes – never in a single year has so much carbon dioxide been released into the atmosphere by burning fossil fuels as in 2014. As such, it is high time that we switch our energy supply completely to renewable sources. This is the only way we will be able to satiate the growing hunger for energy across the globe without catastrophic repercussions to the climate and people's health. But do we have the technology to do this yet? Debora Coll-Mayor, Tom Rudolph and Torsten Leifert know the answer. At SMA, they work on key issues relating to the energy supply of the future – eMobility, communication standards and smart grids.

A very special experiment is taking place right now in the German capital: For a period of several months, 20 Berlin citizens are testing how electric car batteries can be used as an additional large-scale electricity storage system. "These electric cars are capable not only of using electricity to charge but also of feeding electricity back into the utility grid as needed," explained Torsten Leifert, who is in charge of the research project at SMA. "With this technology, thousands of electric vehicles together could form a large-scale electricity storage system in the future. This way, they can offset the fluctuating production of wind and solar energy to stabilize the utility grid." In the field test, which SMA initiated with Volkswagen and renewable energy supplier LichtBlick, users can plan their journeys using an app and decide for themselves how much battery capacity they want to make available for discharging. They receive compensation for the capacity they make available. Consequently, they don't need to restrict themselves in any way and can earn a little extra on the side. The research project involving Volkswagen, LichtBlick, Fraunhofer IWES and SMA shows just how important modern technology is for the energy supply of the future – and how far along the technology is today.

CONVENTIONAL LARGE-SCALE POWER PLANTS WILL SOON BECOME ANTIQUATED

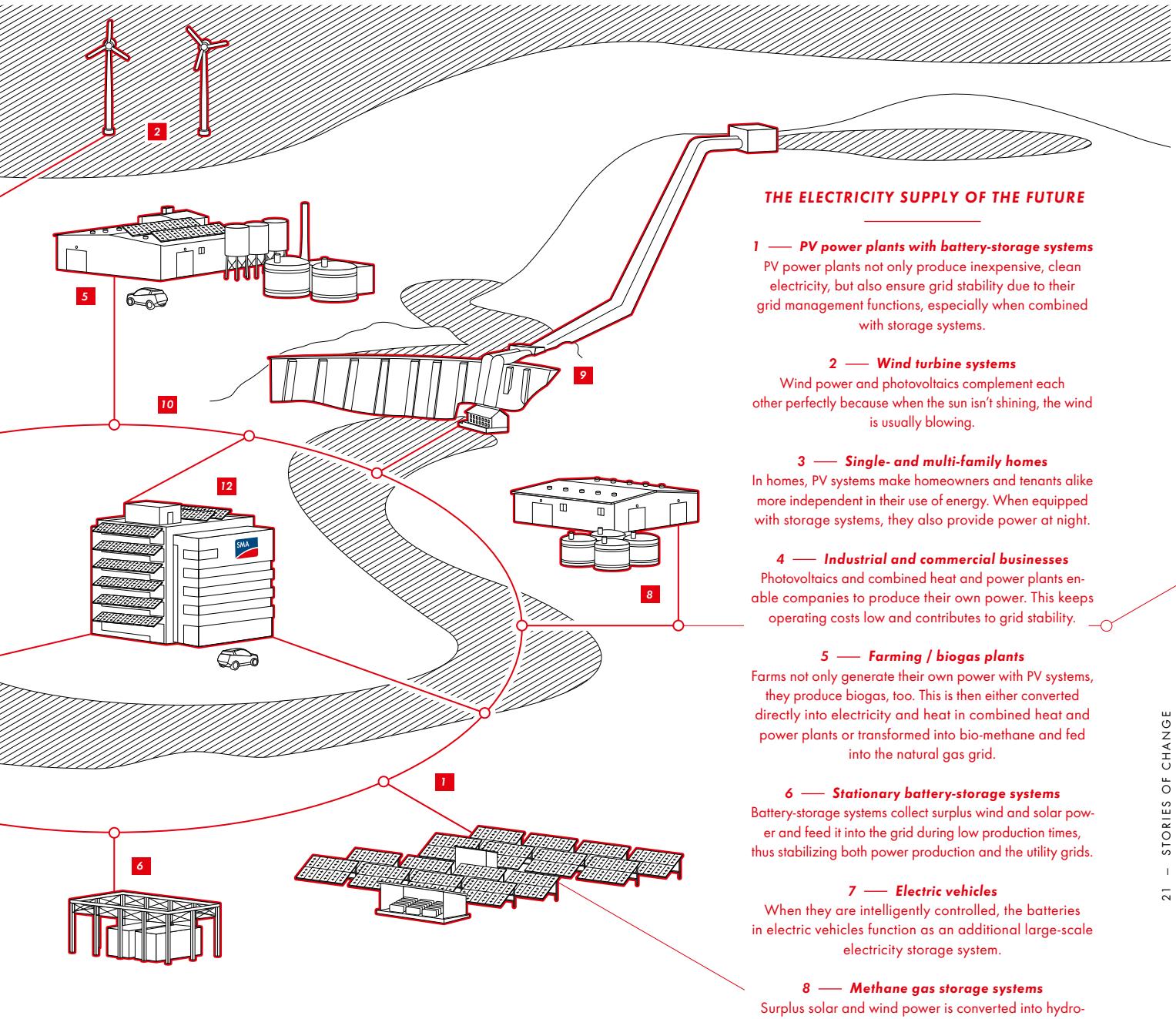
Debora Coll-Mayor is playing her own special part in this. "A decentralized and renewable energy supply harbors immense opportunities for every one of us, worldwide. We simply need to take advantage of them," said the electrical engineer, her eyes lighting up. For the smart grid expert, working with energy supply systems is not just a job but a passion. And after dealing with the matter for years both in theory and in practice, she is convinced: "In the foreseeable future, we will no longer need environmentally damaging coal- and uranium-fired large-scale power plants. The future belongs to small-scale, decentralized generators that produce energy in a way that is sustainable, has a low impact on the climate and is perpetually more cost-effective from sources, including solar power, wind power, biogas and hydro power. In combination with storage systems in a smart grid, they will make possible a secure, sustainable and economical electricity supply. This will not only benefit those who have a PV system on their roofs but all electricity consumers, since they use smart technology to adapt their behavior to the fluctuating production of solar and wind power and take advantage of low prices as a result. With this, independence in the use of energy will increase across the board."



By contrast, critics complain that a decentralized supply is too expensive, unreliable and complicated. "Not if all those involved constantly communicate with one another via the Internet. That way, we will be able to optimally coordinate energy generation and consumption using an intelligent energy management system," explained Tom Rudolph. "Although there is a highly complex system working in the background, the targeted management and control function means that consumers don't notice this at all." In 2010, Rudolph, an electrical engineer, took over management of the SMA Competence Center for communication solutions and for a number of years has been working on innovative applications for digital communication.

EVEN MAJOR ELECTRIC UTILITY COMPANIES ARE RETHINKING THEIR APPROACH

"Even today, smart energy management is already practically routine in the household," added Rudolph. "Our SMA Smart Home system features an intelligent energy manager, which ensures that electrical appliances are always run when there is a supply of



A passion for smart grids

Debora Coll-Mayor, (41)



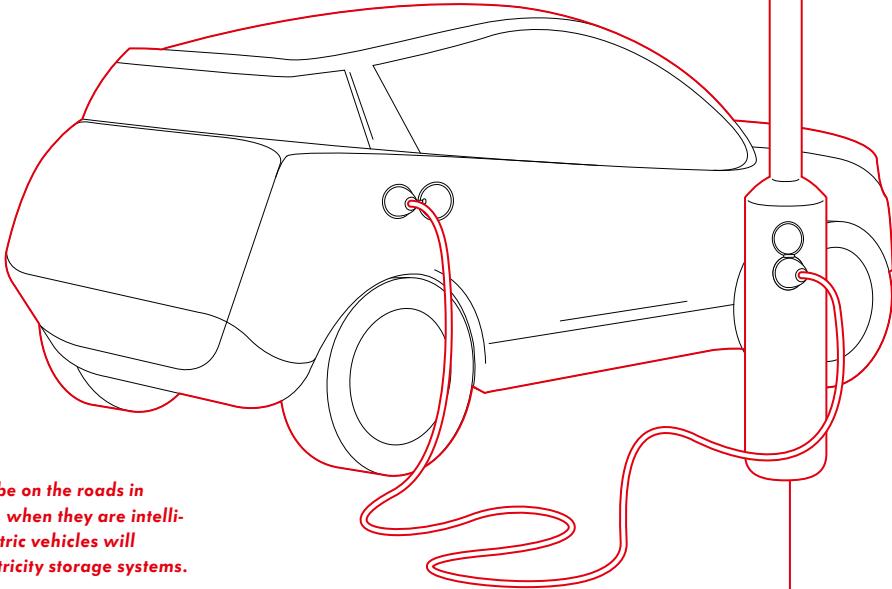
Renewable energies and smart grids have been Debora Coll-Mayor's passion for many years now. After obtaining a master's degree in electrical engineering in her native country of Spain, she went on to teach on the topic of energy systems at the University of the Balearic Islands. For her doctoral thesis at the University of Kassel, the mother of two children conducted research on electricity grids featuring a high proportion of renewable energies.

Before joining SMA in 2011 to work on solution concepts for smart grids in practice, Coll-Mayor worked for the Fraunhofer IWES institute, where her tasks included managing

the DERlab, an association of leading European research institutions in the field of decentralized energy generation.

1 million

is the number of electric vehicles set to be on the roads in Germany alone by 2020. In the future, when they are intelligently controlled, the batteries in electric vehicles will function as additional large-scale electricity storage systems.



Renewable energies as a driving force

Torsten Leifert, (52)



Having grown up near Gorleben, Torsten Leifert was confronted with the issue of disposing of nuclear waste back in the early 1980s – and soon came to the conclusion that the energy supply should be switched to renewable sources as quickly as possible. After studying electrical engineering at the University of Hannover, he completed a PhD in electrical drive technology. After holding various positions developing drive systems for forklift trucks and converters for small-scale wind turbines, Leifert joined SMA in September 2008, where he was in charge of developing system technology for off-grid photovoltaic applications until 2012. Since then, he has been working for Corporate Technology, running research projects on future topics related to the energy supply.

cheap roof-generated solar power available. Users only have to specify when the laundry should be washed or the dishes done, for example, and the system does the rest. In the future, the energy manager will also take into account variable electricity prices." The 49-year-old and his team are working on integrating an increasing number of elements into this smart energy management system. Storage systems are extremely important here to ensure that the energy can also be used at night. "This involves not only battery-storage systems but also heat pumps that use the electricity to generate heat and thus store it temporarily and electric vehicles, of course. They can be charged specifically when there is a lot of solar energy available," said Rudolph. "And everything we have learned with the Smart Home forms a very good basis for future energy management systems. This is especially true for companies, which are also increasingly taking advantage of the benefits of photovoltaics and storage systems to increase their independence, and are thus becoming important stakeholders in the energy supply of the future."

Even major electric utility companies have since recognized the signs of the times, with the world's first gigantic battery-storage system currently being built in Aachen. Here the electric utility company E.ON is working with RWTH Aachen University, SMA and leading battery manufacturers to research how different types of battery-storage systems can be used most effectively in the energy supply system of the future. "SMA is contributing the system technology used to integrate the different large storage systems into the utility grid," explained Leifert. "This will enable the batteries to respond to the current grid conditions with the same speed and flexibility as, for example, the bundled batteries of the electric cars in the Berlin field experiment at all times."

COMMUNICATION SKILLS ARE ESSENTIAL TO A FUNCTIONING SYSTEM

Rapid and optimum interaction between a large number of market players such as local energy generators, grid operators and consumers will be at the core of the electricity supply system of the future. These stakeholders

»Photovoltaics is a key technology for the decentralized electricity supply of the future.«

Debora Coll-Mayor

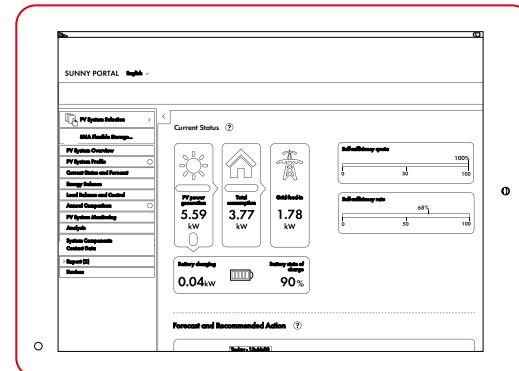
180,000

is the number of PV systems all over the world that transmit their data to the Sunny Portal. All of these systems can be monitored and managed via the online portal, as needed.

will have to work together to ensure that there is always an adequate supply of electricity available and the grid remains stable. To make sure this is the case at all times, new players are emerging and new business models are being created. The primary focus here is on the provision of data and management of decentralized generators. "This is giving rise to new opportunities for specialists like SMA, who have focused their attention on this issue from early on," emphasized Debora Coll-Mayor. "Our Sunny Portal, for example, monitors over 180,000 PV systems around the globe online," added Rudolph. In the future, an increasing number of these systems will also be equipped with differently sized storage systems. SMA will thus be able to play an instrumental role contributing to managing and controlling the smart utility grid of the future."

Two other research projects have already proven that all the players are able to interact successfully and that the decentralized, renewable electricity supply is functioning well without jeopardizing grid stability. "In the projects Combined Power Plant 1 and 2, we linked and managed wind turbine systems, PV systems and biogas plants," said Coll-Mayor with a touch of pride. "These systems were spread throughout the whole of Germany. The results show that we can generate a stable electricity supply even without coal-fired and nuclear power plants."

Just like her and Leifert, Rudolph is also firmly convinced that it won't be long before the experiment is turned into a reality on a large scale: "The major challenge we face now is to develop common communication standards and interfaces across different companies and states to further simplify communication between the system participants. This is a development that can no longer be stopped." □



New paths in communication

Tom Rudolph, (49)



The thing that fascinates Tom Rudolph about renewable energies above all is that he is always able to tread new paths in this area. After studying electrical engineering and subsequently completing an MBA, his great interest in all kinds of new technologies initially led him to develop hardware and software as well as prototypes for a number of smaller companies. The family man then went on to work for Siemens, where he was responsible for developing hardware for mobile phones. He then changed employers and went on to work on an international scale with terminals and solutions

for electronic payment transactions. Since February 2010, Rudolph has been leading a team of strategic product managers and system engineers at SMA, imparting his knowledge on communication solutions in the field of renewable energies. □

TAPPING INTO NEW MARKETS

How does it feel to live without electricity? This is something that Souleymane Niang can still remember all too well. Growing up in a village in Senegal, up to the age of 12 he did his homework by the light of a sooty petroleum lamp. Today, an industrial engineer, he is developing the market for PV-diesel hybrid systems in the Earth's Sunbelt region for SMA – and is playing an instrumental role in ensuring that nobody living in developing and newly industrialized countries will ever have to live without electricity again.







SOULEYMANE NIANG

The economic development of Africa is a matter close to Souleymane Niang's heart – as much as decentralized power generation using photovoltaics. He combines both in his role as SMA Executive Vice President Business Development and General Manager of SMA Sunbelt Energy GmbH.



Hunger for energy The emerging countries of the Earth's Sunbelt urgently need a stable and cost-effective electricity supply.



When Souleymane Niang visited his uncle, a professor, in the Senegalese city of Dakar in the early 1980s, as he often used to do on Saturdays, his ears pricked up. The professor was talking to a colleague about the opportunities that the widespread use of photovoltaics would open up for the economic development of Africa. The high school graduate Niang was immediately fascinated by the idea and wanted unconditionally to help make it a reality. He applied for a scholarship at a German university and resolved to then return to his native country of Senegal and use his knowledge as an industrial engineer to develop the process of electrification in his country using solar energy.

But then everything turned out differently. During his studies, Niang fell in love with a German woman and they started a family together. However, the thought of photovoltaics never left his mind. And so he didn't have to think about it for too long, when in 2006 he was offered the opportunity to build up SMA's international service. After all, SMA develops products, including stand-alone photovoltaic solutions, making it a pioneer in the electrification of rural areas that have lots of sunshine and are without a utility grid. Internationally reliable service plays a vital role in this.

PHOTOVOLTAICS ALLOWS FOR INDEPENDENCE FROM EXPENSIVE DIESEL FUEL

Eight years later and SMA now has an unparalleled global service infrastructure. And Niang has found a new challenge at the company, in which he can play an even more direct role in giving people in developing and newly industrialized countries access to electricity and thus to economic development. He is now responsible for developing the PV-diesel hybrid system market on SMA's behalf. The aim is to reduce the dependency that companies and entire communities in off-grid areas have on expensive diesel fuel by integrating photovoltaics into existing or newly installed diesel power supplies.

Right from the start, the 50-year-old was all fired up about his new assignment. "What we're doing here has social relevance," stressed Niang. "Solving the energy question is fundamental for the further development of countries in the Earth's Sunbelt. This can never be achieved by expanding the local diesel power supply

»Only by harnessing the sun's energy can we establish a sustainable, secure and cost-effective electricity supply throughout regions such as Africa, South America and Southeast Asia in the foreseeable future.«

Souleymane Niang

because diesel fuel is expensive and damaging to the environment. Conventional large-scale power plants are not a good alternative either. Constructing them takes far too long and costs vast amounts of money. Simply put, photovoltaics is the most cost-effective and sustainable way for businesses and electric utility companies in emerging markets to quickly establish a stable and independent electricity supply."

LOCAL PRESENCE IS EXTREMELY IMPORTANT TO UNDERSTAND THE MARKET

To cater to the unique characteristics of this business, SMA founded the subsidiary SMA Sunbelt Energy GmbH and appointed Niang as the General Manager. "The Sunbelt countries are very different, both in terms of their political structures and their economic development status. You need to have an in-depth understanding of each individual market," he explained.

In countries such as Thailand, the photovoltaic market is already so far advanced that Niang and his team are able to work with project developers in the area to implement PV-diesel hybrid systems. In other countries like Mali, these structures don't even exist yet. In these countries, it is not enough to offer first-rate technological solutions and reliable service. "In these markets, we need to develop turnkey projects ourselves and take

1.3 billion

is the number of people worldwide who still do not have access to electricity, and thereby to economic development.



Independent In Bolivia, the world's largest PV-diesel hybrid system equipped with storage systems helps generate a sustainable electricity supply for the provincial capital of Cobija.

responsibility for their operational management together with local partners," said Niang. "In this regard, it is extremely important to have direct access to the customer, be familiar with local business practices and build up a local network." Therefore, he and his colleagues analyze markets together and then decide in which countries they will gradually establish their own representative offices. These offices are manned by local employees who have excellent knowledge of their markets.

TRANSFERRING KNOWLEDGE LOCALLY FORMS THE BASIS FOR CONTINUED DEVELOPMENT

Initial projects are quickly being realized. For example, in May 2014, a large tea farm in East Kenya secured itself against the frequent power shortages afflicting the utility grid with a PV-diesel hybrid system equipped with SMA technology. At the same time, this is also helping operators to scale back their operating costs as use of the hybrid system considerably cuts down their need to use diesel fuel. In Bolivia, President Evo Morales is personally inaugurating the world's largest PV-diesel hybrid system featuring battery-storage systems. SMA is supplying not only its Fuel Save Solution, which can be used to integrate a large proportion of photovoltaics into the diesel grid, but also four newly developed large-scale battery inverters

that contain additional storage systems to make even more effective use of the solar energy. After commissioning, the system covers half the energy demand of the provincial capital of Cobija and neighboring areas using clean and cost-effective solar energy.

Niang is proud of these flagship projects. But, in his eyes, providing technology and implementing complete systems is by no means enough: "To trigger sustainable economic development, and thereby continue preparing the market for us, we need to develop specialist knowledge on photovoltaics directly in the area." To this end, SMA is collaborating wherever possible with universities and other local educational institutions to teach not only customers, installers and project developers but also students of all ages about solar energy. Niang is convinced that: "Once the people of Africa and other sunny regions have truly grasped what they could achieve with photovoltaics, their energy revolution will begin." □



PV-DIESEL HYBRID SYSTEMS

With PV-diesel hybrid systems, companies and whole communities in off-grid areas or regions with an inadequate supply can guarantee themselves a sustainable, stable and cost-effective electricity supply.

1 — PV array

Direct current is produced from sunlight in the PV modules.

2 — PV inverters

They convert the direct current from the PV modules into alternating current. SMA Sunny Tripower inverters are the ideal solution for medium to very large decentralized PV systems.

3 — SMA Transformer Compact Station

The SMA Transformer Compact Stations are partners of the SMA PV inverters and SMA battery inverters in generating the voltage needed.

4 — Battery inverters

The SMA Sunny Central Storage works with the batteries so that surplus energy can be stored and used at a later time.

5 — Battery storage

Battery storage power can compensate fluctuations in load and irradiation, providing spinning reserve and facilitating optimized diesel operation.

6 — Diesel generator

Diesel generators form the local grid and supply energy to connected loads.

7 — Interface Module

The interface module of the SMA Fuel Save Controller transmits data and setpoints between the PV Main Controller and the inverters in decentralized PV system structures with Sunny Tripower as the interface.

8 — PV Main Controller Module

The PV Main Controller Module of the SMA Fuel Save Controller manages PV grid feed-in into the diesel grid and ensures optimum PV power, taking the load profiles and PV array power into consideration.

9 — Data Acquisition Module

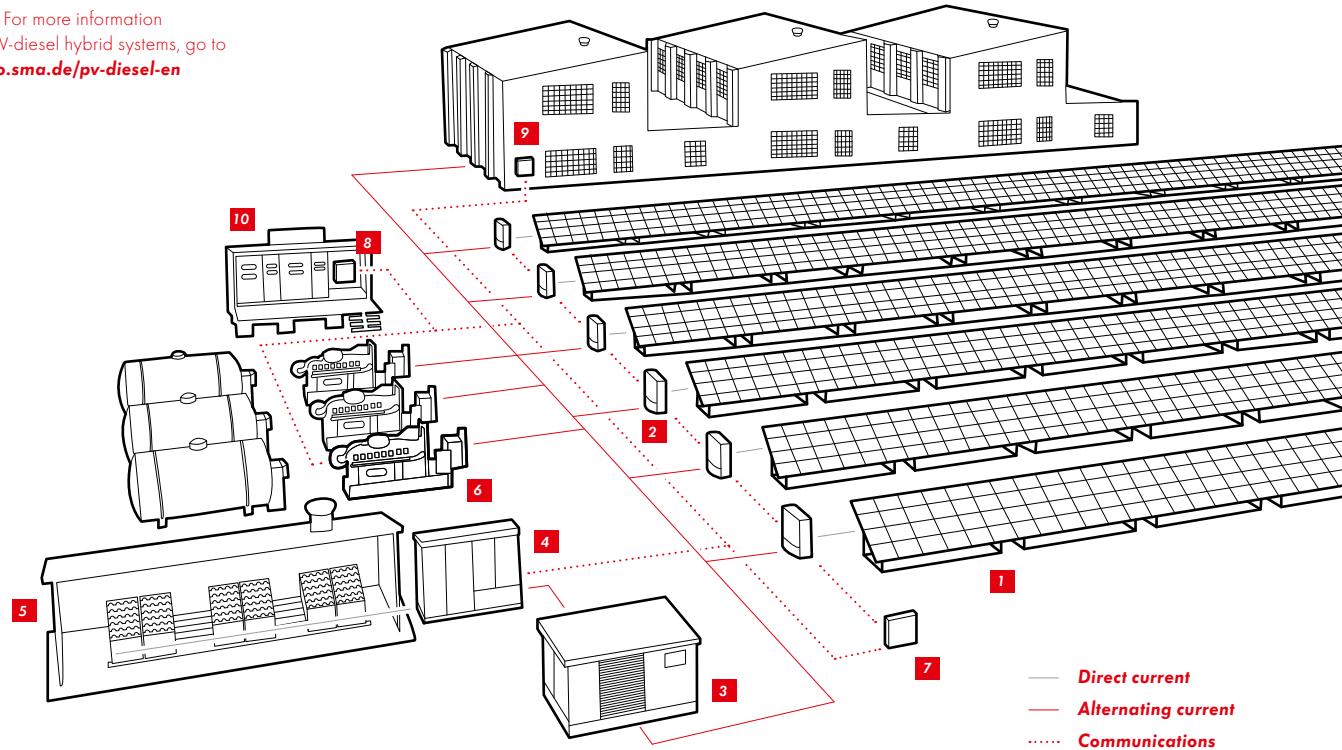
The Data Acquisition Module of the SMA Fuel Save Controller quickly and precisely analyzes the current grid and load conditions in the system and transmits the data immediately to the PV Main Controller.

10 — Genset system house

The genset system house is the central connection and linkage point with monitoring and control systems for diesel electricity generation.



For more information
about PV-diesel hybrid systems, go to
go.sma.de/pv-diesel-en



22 %

was the share of renewable energies in global power generation in 2013.

2050

will be the point by which renewable energies could account for half of the world's energy supply.

180 GW

58 %

was the share of renewable energies in newly expanded power generation capacity worldwide in 2013.

of PV power are already installed worldwide. This is equivalent to the generation power of over 100 conventional power plant units.

ENERGY:

THINKING AHEAD

6.5 million

people are employed worldwide in the renewable energies sector.

50 %

have the costs of PV systems dropped in the past five years.

310 billion

U.S. dollars were invested worldwide in the expansion of renewable energies in 2014.

100 %

decentralized and renewable is the energy supply of the future

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Contact –

SMA Solar Technology AG
Sonnenallee 1
34266 Niestetal
Germany
Phone: +49 561 9522-0
Fax: +49 561 9522-100
E-mail: info@SMA.de
www.SMA.de

Investor Relations
Phone: +49 561 9522-2222
Fax: +49 561 9522-2223
E-mail: IR@SMA.de



ENERGY:
THINKING AHEAD

ANNUAL REPORT 2014

Dr.-Ing. h. c. Günther Cramer

* 1952-12-19 in Opladen, Germany † 2015-01-06 in Würzburg, Germany



- ﴿ SMA Solar Technology AG founder
- ﴿ Long-standing Chief Executive Officer of SMA Solar Technology AG
- ﴿ Chairman of the SMA Solar Technology AG Supervisory Board
- ﴿ Chairman of the Managing Board of Competence Network for Decentralized Energy Technologies (deEnet)
- ﴿ Founder of the Günther Cramer Foundation
- ﴿ Recipient of the German Environmental Award
- ﴿ Member of the university advisory council of the University of Kassel, which awarded him an honorary doctorate in 2013
- ﴿ Co-founder of the Kassel-based Institute for Decentralized Energy Technologies (IdE)
- ﴿ President of the German Solar Industry Association (BSW)
- ﴿ Member of the Supervisory Board of Energie Baden-Württemberg AG (EnBW)
- ﴿ Recipient of the Greentech Manager of the Year 2010 award
- ﴿ Honorary citizen of the city of Kassel

We commemorate a visionary and leader of the global energy transition.

Obituary

Our company founder and long-standing Chief Executive Officer Günther Cramer died on January 6, 2015, at the age of 62 after a long and serious illness. He was an exceptional person and we will remember him with gratitude and deep respect.

"Let's be realists and do what seems to be impossible" – it's hard to think of a more fitting motto for life. Günther Cramer truly did live his life by this motto, which also ultimately stands for the many facets of his extraordinary personality. A fighter and pioneer, a passionate engineer and visionary business leader, an avid sailor and, last but not least, a man who, like no other, was able to inspire others in the pursuit of a common goal. Through his persuasiveness, optimism and humanity, Günther Cramer has left behind a life's legacy that has paved the way for the global energy transition.

More than four decades ago, Günther Cramer predicted that system technology and technological innovation would be the key to the success of renewable energies. In the face of resistance, he knew how to win people over to his way of thinking. One reason he achieved success was because, although he always looked to push the envelope, he remained a realist throughout his life. And he was also quite clear that challenges can be overcome only through teamwork.

From the very beginning, Günther Cramer was flanked by kindred spirits in whom he had unbridled confidence.

Back in their student days at the University of Kassel, Günther Cramer, Peter Drews and Reiner Wetzlaufer worked on decentralized energy supply concepts with the support of their professor and mentor Werner Kleinkauf. Even back in the days when champions of renewable energies and climate protection were looked upon merely with amusement, Günther Cramer and his fellow advocates had a firm goal in mind: That one day humans would meet all their energy needs from renewables. In 1981, they cofounded the "Ingenieurbüro für System-, Mess- und Anlagentechnik" (Engineering Consultants for Control, Measuring and Equipment Technology), which later became SMA – a courageous undertaking back then.

Günther Cramer was never one to shy away from political confrontation. His aim was to convince people of his way of thinking and as a means of influencing political decision-making to promote his cause.

Günther Cramer spoke with environmental ministers on an equal footing, fighting for the best possible compromise. In an uncertain political climate, he could always rely on his support base in the North Hesse region. As an honorary citizen of the city of Kassel and co-founder of cdw Stiftungsverbund, a foundation network comprised of the Günther Cramer Foundation, Peter Drews Foundation and Reiner Wetzlaufer Foundation, he was committed not only to the growth of renewables in North Hesse but also establishing stand-alone solar power systems in off-grid locations as a means of facilitating education and promoting social and economic growth.

But this passion for work, his desire to be creative and his perseverance in the face of adversity were always evident in Günther Cramer. Indeed, these qualities had become the cornerstones of SMA's corporate culture. Participation, enjoying work, transparency and a culture of dealing with mistakes openly and honestly – Günther Cramer embodied these values and called on others to embrace them. Rituals such as the engineers' annual sailing trip, which represented an opportunity to seek inspiration on the high seas, also formed part of this culture. This served to bring out the best in his team. The best which resulted in: development of the first series-manufactured PV inverter the "Sunny Boy"; string technology – which simplified the installation of PV systems to such an extent it suddenly made large-scale applications possible, increasing inverter efficiency almost to its physical limits; and the most successful stock market flotation of 2008.

What remain are a remarkable life's legacy and a vision that points to the future. Come wind or high water, we will stay on course.

Dear Shareholders,

The photovoltaic sector remains in a period of profound structural transformation. Global demand for PV system inverter technology fell by approximately 10% to €3.9 billion in 2014. In Continental Europe in particular, political decisions brought about a sudden market slump. In Germany alone, demand for PV systems halved to approximately 1.9 GW compared with the previous year. The installation of PV power plants in China also declined due to changes in subsidies. As a result of further acceleration of the drop in prices, sales in China accounted for less than 10% of the global market last year. The North American photovoltaic markets, however, registered considerable growth and are now as large as the region of Europe, the Middle East and Africa (EMEA). The Asian markets, with Japan leading the way, maintained their fast pace in expanding photovoltaics in the last fiscal year.

The importance of the Residential, Commercial and Utility market segments also changed due to the regional shift in demand. Demand for small PV systems (Residential) fell sharply as a result of the market slump in Europe. The positive growth posted in North America and Asia-Pacific was not able to compensate for this decline. The market segment for large-scale PV power plants (Utility) likewise experienced a sharp decline. This can be attributed to the market slump in China in particular. By contrast, an increase in demand was posted in this market segment in North America, Japan and Great Britain. Demand for medium-sized PV systems was stable worldwide. The decline in this segment in Europe was not offset by the non-European markets.

Rapidly changing demand is presenting inverter manufacturers worldwide with considerable challenges. This is because every region and every market segment requires a system technology solution that is tailored to each PV system. Both the different certification requirements and the needed local sales and service presence constitute barriers to entry. In addition, strong fluctuations in demand mean that a high level of supply flexibility is just as critical to success as technical expertise in designing PV systems.

SMA holds a unique position in the system technology market for PV systems. Our complete range of products and solutions enables us to offer the optimum technical solution for every PV system. Our sales and service specialists are based in 21 countries and have extensive experience in integrating PV systems into the public grid, integrating storage systems and performing operational management for PV power plants. Our production sites in Germany, the U.S. and China are highly flexible, allowing for rapid supply. In addition, strategic partnerships enable SMA to offer complete system solutions, from the PV inverter to the medium-voltage station, for medium-sized and large-scale solar projects alike. No other inverter manufacturer has a comparable global presence and comparable service offers. For this reason, we are particularly proud that we were able to maintain our high market share of around 20% with sales of €805.4 million in 2014.

SMA IS SETTING STANDARDS IN THE SOLAR INDUSTRY WITH ITS INNOVATIONS

In 2014, SMA invested more than €129 million in development and launched 21 new products worldwide. Our technology has received numerous accolades and is protected by 561 patents. We are particularly proud of the Intersolar Award 2014 for the SMA Fuel Save Controller. This product enables us to intelligently network stationary diesel generators with PV systems, thereby ensuring a reliable and cost-effective energy supply for companies in sunny regions. We are also proud of our new Sunny Central, which offers an output of 2.5 MW, is used in PV power plants and is characterized by new 1,500-volt technology. This technology makes it possible for our customers to connect more PV modules to one central inverter and generate considerable savings in system technology. We are certain that this technology will revolutionize the market for large-scale PV power plants. SMA will especially benefit from this development because we have been operating a ground-based PV system featuring a Sunny Central system with 1,500-volt technology at our



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

headquarters in Niestetal since back in mid-2014 and can also offer our customers energy management solutions on an industrial scale alongside inverter and medium-voltage technology. The new Sunny Boy is another major success resulting from our development work. The positive collaboration with our Polish subsidiary, dtw, has enabled us to increase switching frequencies and thus significantly reduce our use of materials in producing key components. Weighing just under 9 kg, the new Sunny Boy is only half as heavy as its predecessor. It is also equipped with the latest communication technology, which means that solar power professionals can install and configure Sunny Boy inverters in less than five minutes. The new product design resulted in the number of components being reduced by 65% to 16 components and production time shortened by 60% to approximately five minutes per device. Thanks to its capacity for innovation, SMA can produce at low cost in Europe and the Americas and compete with Asian manufacturers. Through innovations, we are systematically reducing the costs of sales of our products, thereby ensuring our competitiveness over the long term.

SMA WILL ADAPT ITS CORPORATE STRUCTURES TO COINCIDE WITH LOWER SALES LEVELS

By 2010, the SMA Group had established corporate structures in Germany and abroad in preparation for further growth. From 2008 to 2010 alone, the number of employees worldwide doubled to reach a figure of almost 3,800, of which around 400 were based abroad. This expansion was accompanied by an increase in the break-even point. As a result of the political U-turn in energy policy in many European countries, the markets have been experiencing a sharp decline ever since. Within a period of just four years, SMA's sales have fallen from €1.9 billion in 2010 to a mere €805.4 million in 2014, as a result of market changes. The number of full-time positions in Germany has decreased to approximately 3,100 during the same period. However, the number of full-time positions abroad has increased to almost 1,600 as a result of acquisitions and the expansion of the foreign companies.

In light of the accelerated decline in sales of almost 50% in the past two years and a considerable operating loss (EBIT) of €164.9 million, the SMA Managing Board needs to adapt its global corporate structures to coincide with lower sales levels. The Managing Board has therefore resolved to reduce fixed costs by €160 million worldwide. The aim is for SMA to generate profits from sales of only €700 million. In this regard, SMA unfortunately needs to lay off 1,600 employees (full-time positions) worldwide. The transformation of the Group also stipulates that SMA will focus on developing high-turnover, high-profit product

and system solutions and on reducing strategic projects over the long term. SMA will also adjust the depth of added value, consolidate its global infrastructure and systematically leverage synergies from its strategic alliance with the Danfoss Group. In addition, we have changed our market entry strategy for the Chinese photovoltaic market. Under the current market conditions in China, we are unable to sustain profitable business for the SMA Group on a large scale. With our subsidiary Zeversolar, we will therefore primarily focus on the budget segments in select foreign markets and adapt the size of Zeversolar to match this change in strategic orientation.

With an equity ratio of 47% and adjusted net cash of €225.4 million, SMA is able to finance the necessary transformation from its own resources. For the current fiscal year, we expect sales of between €730 million and €770 million as a result of the further fall in demand, particularly in the German photovoltaic market. The planned restructuring measures are not expected to take effect until the second half of the year. We therefore also anticipate an operating loss of between €30 million and €60 million this year, and expect to return to profitability in 2016.

TRANSFORMATION PLACES CONSIDERABLE DEMANDS ON SMA EMPLOYEES

The path we have taken is not easy for SMA employees. Given the considerable deterioration in the market situation, however, we have no alternative courses of action. We can only begin playing a more active role in shaping our future again if SMA returns to profitability quickly. This necessary process of change requires not only outstanding performance and extraordinary commitment but also a fundamentally fresh perspective on the part of our employees. On behalf of the entire Managing Board, I would like to thank all SMA employees for their solidarity in these difficult times.

SMA HOLDS A UNIQUE POSITION IN THE SOLAR INDUSTRY

Dear Shareholders, Photovoltaics will manage without incentive programs. Energy cost savings achieved due to PV systems and climate protection targets will be major driving forces behind purchasing decisions. This will see system technology gain increasing importance. Only through intelligent networking with storage technologies can we fully exploit the vast potential of photovoltaics. As a specialist in system technology, SMA is excellently positioned in this future market. SMA has the technical expertise to actively shape the profound structural transformation that is occurring in the energy sector. With our integrated solutions for intelligent energy management and hybrid applications, we are exceedingly well prepared to meet future demand. Our Sales and Service is trusted and relied upon by our customers and is unparalleled in the solar industry. We have an international presence that remains unsurpassed by any competitor and are highly flexible in production.

We have planned the necessary measures for the Company's transformation with great precision. We are now mobilizing all forces to achieve our ambitious goals and lead SMA back to profitability as quickly as possible. We would like to thank our customers, suppliers and investors for the significant trust they have placed in us.



Pierre-Pascal Urban
Chief Executive Officer
SMA Solar Technology AG

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The Managing Board Team

ROLAND GREBE

Board Member for Technical Innovation (as of March 2015, Board Member for HR and IT)

Roland Grebe (b. 1960) studied electrical engineering and has been working in various managerial positions in the Development area at SMA since 1984. He developed the first PV inverters that form the basis of SMA's Sunny Boy and Sunny Central inverters. Roland Grebe transformed the central inverter area from an individual project processor into a serial manufacturer for power plant technology and grew SMA's grid integration competencies to secure the future commercial viability of our products. Roland Grebe has been a Board Member since June 2009. Most recently, in 2014 he became the Board Member responsible for Technical Innovation and as such is in charge of developing product solutions for hybrid and storage applications, SMA Smart Home system solutions as well as technical solutions for future business areas.

MARTIN KINNE

Board Member for Sales and Service

Martin Kinne (b. 1959) started his career at Siemens AG, where he held different management positions over a period of 18 years. He then became General Manager and Vice President of the Personal Systems Group (PSG) at HP Germany. Prior to joining SMA, he had been in charge of the Central European region at Unify as General Manager. Unify is an international company that provides communication software and services. He has been the Board Member responsible for Sales and Service at SMA since January 2015.

JÜRGEN REINERT

Board Member for Technical Development (as of March 2015, Board Member for Technology)

Dr.-Ing. Jürgen Reinert (b. 1968) received his doctorate in engineering and began his career at the Institute for Power Electronics and Electrical Drives (ISEA) in Aachen, Germany. Dr.-Ing. Jürgen Reinert has held various management positions and was, most recently as Vice President, in charge of the development area at Sweden's Emotron Group. In 2005, Dr.-Ing. Jürgen Reinert was elevated to Acting General Manager of the Emotron Group. Since 2011, as Executive Vice President, Technology, he has been responsible for SMA's Power Plant Solutions division. Under his leadership, SMA was successful in expanding its worldwide project business and developing turnkey system solutions for large-scale PV power plants. On April 1, 2014, Dr.-Ing Jürgen Reinert was appointed as the Board Member for Technical Development. He is in charge of developing new product platforms and expanding SMA's development facilities worldwide. In addition, Dr.-Ing. Jürgen Reinert is responsible for the partnership with Danfoss A/S.

LYDIA SOMMER

Board Member for Finance and HR/CFO

Lydia Sommer (b. 1960) has served in a number of management capacities over the past 30 years, with a focus on finance and controlling at internationally active companies, both in Germany and abroad. Before joining SMA, Lydia Sommer led the Nokia Siemens Networks business unit in Germany as Country Director and General Manager. As Chief Financial Officer at SMA, she has been responsible for the Finance, Controlling, Legal, Compliance and Human Resources functional areas since November 2012. Lydia Sommer's focus is on process optimization for systematic cost reduction and development of the Group's compliance system. In addition, Sommer has assumed the position of Labor Director. Lydia Sommer left the Managing Board on February 28, 2015.

See also
Supplementary Report
page 79

PIERRE-PASCAL URBON

Chief Executive Officer and Board Member for Strategy (as of March 2015, CEO, Board Member for Strategy and Finance)

Pierre-Pascal Urban (b. 1970) studied business administration and was active in mergers and acquisitions (M&A) consulting until 2005 – when he joined SMA. In 2006, he was appointed to the Managing Board. Pierre-Pascal Urban planned SMA's initial public offering and partnership with Danfoss A/S. He has decisively advanced the Group's internationalization. As the Board Member for Strategy and Chief Executive Officer, he has been responsible for the Company's strategic direction, driving internationalization and overseeing the Chinese subsidiary Zeversolar since 2011.



PIERRE-PASCAL URBON
Board Member for
Strategy/CEO

JÜRGEN REINERT
Board Member for
Technical Development

ROLAND GREBE
Board Member for
Technical Innovation

MARTIN KINNE
Board Member for
Sales and Service

LYDIA SOMMER
Board Member for
Finance and HR/CFO

Supervisory Board Report

Dear Shareholders,

The Supervisory Board finds itself looking back at a difficult fiscal year at SMA. The Supervisory Board dealt intensively with the Company's situation and prospects and continuously monitored and regularly advised the Managing Board with regard to the management of the Company during the 2014 fiscal year in accordance with the law, the Articles of Incorporation and the Rules of Procedure. To this end, the Supervisory Board was involved early on in all decisions of fundamental importance to SMA. The Managing Board kept the Supervisory Board and its committees regularly, promptly and comprehensively informed by means of written and oral reports about all strategy issues relevant to the Company, the market and competitive situations, business developments, the Company's and Group's situation, turnover and operating results. Furthermore, the Managing Board presented the proposed business policies and other important questions concerning corporate planning, in particular financial, investment, production and personnel planning, as well as significant business transactions. Any deviations in how events actually transpired in comparison to previously reported objectives were provided with the reasons for the variances.

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

Cooperation within the Supervisory Board and between the Supervisory Board and the Managing Board in 2014 was once again always characterized by openness, constructive dialogue and trust.

Focus of the Supervisory Board Consultations

The Supervisory Board examined all material events and discussed them with the Managing Board at six regular meetings and four extraordinary meetings and adopted necessary resolutions in accordance with the law, Articles of Incorporation and Rules of Procedure. One member did not attend one meeting. Two Supervisory Board members did not attend two meetings. Another member was only able to attend three meetings due to illness.

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

At its meeting on February 11, 2014, the Supervisory Board dealt with the Corporate Governance Report included in the 2013 Annual Report, as well as the Supervisory Board Report and the 2014 Personnel Report. It also handled business development in China and at Jiangsu Zeversolar New Energy Co. Ltd. In addition, current partnership and restructuring plans were also discussed. The Supervisory Board also resolved to extend Roland Grebe's mandate as the Board Member responsible for Technical Innovation until June 10, 2019.

In an extraordinary meeting on February 25 and 26, 2014, the Supervisory Board discussed and agreed upon the strategic partnership with Danfoss A/S, including the acquisition of Danfoss's solar inverter business.

At its meeting convened to adopt the accounts on March 6, 2014, the Supervisory Board acknowledged the 2013 Annual Financial Statements, approved the 2013 Consolidated Financial Statements after in-depth consultation and also passed the proposal to the Annual General Meeting on profit appropriation for 2013. In addition, it reviewed the proposal for selection of the Financial Statements and the Consolidated Financial Statements auditor for 2014. Following in-depth discussions, the Supervisory Board also approved the introduction of a functional organizational structure and resolved to appoint Dr.-Ing. Jürgen Reinert as the Board Member responsible for Technical Development until March 31, 2019.

At the instigation of the Chairman, the Supervisory Board considered appointment of a new Managing Board Member for Sales by way of written resolution at another extraordinary meeting on April 28, 2014.

At its meetings on May 26 and 27, 2014, the Supervisory Board approved a partnership with Danfoss A/S. In addition, the status on implementation of the new functional organizational structure, the 2014 sustainability report and product quality were discussed and the audit mandate was granted to an auditor for 2014.

At the extraordinary Supervisory Board meeting on July 29, 2014, the Supervisory Board resolved to acquire the European O&M business of Phoenix Solar AG.

The meeting on August 27, 2014, focused on the Company's strategy, particularly with regard to improving processes and tapping into new markets. The Managing Board also provided an in-depth status report on implementation of the new organizational structure.

At the extraordinary meeting on October 14, 2014, the Supervisory Board resolved to appoint Martin Kinne as the Board Member responsible for Sales and Service for a term of three years. In addition, SMA's product strategy and the business development in China were also discussed at this meeting.

Discussions at the meeting on December 3, 2014, again examined the Company's situation and what the current requirements for the Supervisory Board are to ensure proper compliance. The Supervisory Board also had in-depth discussions on the budget for 2015 and the restructuring of Jiangsu Zeversolar New Energy Co. Ltd. In addition, it dealt with the Managing Board remuneration system and its appropriateness. The Managing Board and the Supervisory Board adopted a new Declaration of Conformity pursuant to Section 161 (1) sentence 1 of the German Stock Corporation Act (AktG) to comply with the recommendations of the German Corporate Governance Code.

See also Corporate Governance Report page 20 et. seqq.

Focus of the Committee Meetings

To improve the efficiency of the work carried out by the Supervisory Board, the Supervisory Board maintains four permanent committees: A Presidial Committee, Audit Committee, Nomination Committee and a Mediation Committee. You will find the names of the persons appointed to these committees on our website www.IR.SMA.de as well as in the Corporate Governance Report 2014.

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

The **Presidial Committee** met five times in 2014.

The committee's work focused in particular on dealing with matters relating to the Managing Board and preparing Supervisory Board resolutions on Managing Board composition, allocation of responsibilities, Managing Board remuneration and finalizing or extending Managing Board contracts.

The **Audit Committee** convened seven times in 2014, three times via telephone conference.

The meetings focused on discussing the Company's business performance and cost efficiency and the quarterly and half-yearly reports. In addition, the committee familiarized itself with the main points and overall findings of the auditor for the 2013 Annual Financial Statements and convinced itself of the auditor's independence.

Another key area of the committee's work was reviewing the internal risk management systems (Internal Control System, Internal Auditing and Compliance), with the committee members gathering comprehensive information about these systems' methods and effectiveness. Furthermore, the committee also dealt with the report prepared by the Internal Audit ing department and the Compliance Report, neither showed any significant irregularities in the business processes.

The Audit Committee reviewed the recommendation for the entire Supervisory Board with regard to the profit appropriation, selecting the auditor for 2014 and granting the audit mandate, and familiarized itself with the possible effects of the EU directive on audit reform.

The **Nomination Committee** and **Mediation Committee** did not convene in 2014.

Corporate Governance

The Supervisory Board also dealt with the content of the German Corporate Governance Code in 2014. In December 2014, the Supervisory Board and the Managing Board issued a Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (AktG) in compliance with the recommendations of the German Corporate Governance Code. One deviation was declared. The joint report issued by the Supervisory Board and the Managing Board in compliance with the rules of the German Corporate Governance Code pursuant to clause 3.10 of the German Corporate Governance Code (Corporate Governance Report) has been made permanently available on our website www.IR.SMA.de and is also mentioned on pages 20 et seqq. of the Annual Report. This is also where you will find statements on conflicts of interest and how they are handled.

See also
www.IR.SMA.de

See also Corporate Governance Report page 20 et seqq.

Annual Financial Statements and Consolidated Financial Statements

The Annual Financial Statements prepared by the Managing Board as of December 31, 2014, and the Management Report for the 2014 fiscal year as well as the Consolidated Financial Statements as of December 31, 2014, and the Consolidated Management Report for the 2014 fiscal year were audited by the accounting firm Deloitte & Touche GmbH, Hanover. The Supervisory Board granted the audit assignment in accordance with the resolution adopted by the General Meeting on May 27, 2014. Prior to submitting the corresponding proposal to the General Meeting regarding the appointment of the auditors, the Supervisory Board had obtained the auditor's certificate of independence pursuant to clause 7.2.1 of the German Corporate Governance Code. The Supervisory Board also monitored the independence of the auditor. In addition, it handled assignment of orders to the auditor for non-audit-related services.

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

The reporting documents and the Managing Board's proposal on the appropriation of profits as well as the audit reports were made available to the Supervisory Board in good time. These were first discussed by the Audit Committee at its meetings on February 11, 2015, and March 5, 2015, with the auditors and then by the Supervisory Board at its meeting on March 5, 2015, on each occasion also in the presence of the auditor's representatives. The auditor's representatives reported on the findings of the audit and provided detailed explanations of the assets, financial position and results of operations of the Company and the Group. The questions posed by the Supervisory Board were answered and the reporting documents were reviewed in detail with the auditor's representatives and discussed and examined by the Supervisory Board. The Supervisory Board raised no objections after concluding its examination. Thereafter, the findings of the audit were approved. Accordingly, the Supervisory Board approved the Financial Statements prepared by the Managing Board and the related Management Reports for the 2014 fiscal year at its meeting convened to adopt the accounts on March 5, 2015. Hence, the Company's Annual Financial Statements have been approved as set out in Section 172 of the German Stock Corporation Act (AktG).

Finally, at its meeting held on March 5, 2015, the Supervisory Board approved the Managing Board's proposal on the appropriation of the balance sheet profit. In this respect, the Supervisory Board discussed the Company's liquidity position, the financing of planned investments and estimated business development. In doing so, the Supervisory Board came to the conclusion that the proposal was in the interests of the Company and the shareholders.

Changes to the Managing Board and Supervisory Board

Marko Werner resigned from the Managing Board on June 10, 2014, and Lydia Sommer left the Managing Board on February 28, 2015. Both, Marko Werner as the Managing Board Member responsible for Sales and Lydia Sommer as the Labor Director and Managing Board Member responsible for Finance, made a crucial contribution to the Company's success. Prof. (em.) Dr.-Ing. Werner Kleinkauf left the Supervisory Board on August 27, 2014, as did Alexander Naujoks on September 30, 2014. Prof. (em.) Dr.-Ing. Werner Kleinkauf had been with the Company from the very beginning and played an important role in its success and in advancing the use of renewable energy in general. Alexander Naujoks also rendered outstanding services to SMA with his defining work on the Supervisory Board and his impetus. Prof. (em.) Dr.-Ing. Werner Kleinkauf was succeeded by Kim Fausing and Alexander Naujoks by Heike Haigis; both of these new members were judicially appointed.

The Supervisory Board would like to thank Lydia Sommer, Marko Werner, Prof. (em.) Dr.-Ing. Werner Kleinkauf and Alexander Naujoks for their dedicated and valuable work on behalf of the Company.

The Supervisory Board was particularly saddened by the early death of SMA co-founder and Supervisory Board Chairman Dr. Ing. h. c. Günther Cramer on January 6, 2015. He was succeeded as a Supervisory Board member by Roland Bent by way of judicial appointment. Dr. Erik Ehrentraut assumed chairmanship of the Supervisory Board (as of February 11, 2015).

In the opinion of the Supervisory Board, the Managing Board reacted consistently to the increasingly difficult and fast-changing market and competitive environment. Pressing ahead with tapping new markets and developing new product platforms are the right way to regain SMA's success. The restructuring presented by the Managing Board to reach the break-even point, even with sales of less than €700 million, has full approval of the Supervisory Board. The Managing Board presented the measures taken for this purpose to the Supervisory Board transparently and in good time.

The Supervisory Board would like to thank the Managing Board and all employees for their outstanding work and incredible dedication in 2014.

Niestetal, March 5, 2015

The Supervisory Board

Dr. Erik Ehrentraut
Chairman



ROLAND BENT
Shareholder Representative



OLIVER DIETZEL
Employee Representative



PETER DREWS
Shareholder Representative



DR. ERIK EHRENTRAUT
Shareholder Representative
(Chairman)



KIM FAUSING
Shareholder Representative
(Deputy Chairman)



DR. GÜNTHER HÄCKL
Employee Representative



JOHANNES HÄDE
Employee Representative



HEIKE HAIGIS
Employee Representative



DR. WINFRIED HOFFMANN
Shareholder Representative



JOACHIM SCHLOSSER
Employee Representative



REINER WETTLAUFER
Shareholder Representative



MIRKO ZEIDLER
Employee Representative

The Share

Capital Market Environment

Developments on the stock markets in 2014 were dominated by extreme fluctuations. Many stock indices reached new all-time highs. However, this was followed by several significant declines, which resulted in indices such as the DAX ending the year only slightly higher than at the start of the year. In the first quarter of the reporting period, the markets initially tracked sideways. Positive economic data from industrialized countries and the central banks' expansive monetary policy initially led to price increases beginning in mid-April. Starting in the spring, the markets experienced setbacks due to geopolitical crises such as the conflict between Russia and the Ukraine over the Crimean peninsula, fears of a rapid turnaround in interest rates in the U.S., high budget deficits in countries such as Italy and France and the stagnating economic development in Europe as a whole. At the end of the third quarter, most stock indices were quoting almost at the value level of the start of the year. It was not until further price gains occurred shortly before the end of the year that many indices returned to profitability.

In the second quarter, the DAX, the leading German index, reached the 10,000-point level for the first time, marking a provisional all-time high of 10,033.74 points in the course of trading on June 10. One of the most important triggers for this increase was the base rate cut by the European Central Bank (ECB) from 0.25% to 0.15%. However, the boost to share prices from the expansive monetary policy did not last. The stock market slide that soon followed was chiefly due to the rekindled armed conflict in the Middle East and to fears of an end to the expansive monetary policy in the U.S. In late summer, the DAX recovered only slightly after another base rate cut by the ECB (to 0.05% on September 4, 2014) and decreased again until it reached its lowest level in the reporting period on October 15 (intraday level of 8,555.73 points on October 15, 2014). Driven by hopes that the ECB could stimulate the financial market by purchasing government bonds, and in the context of decreasing oil prices, the DAX marked a new record high of 10,093.03 points in the course of trading on December 5, 2014. At the end of December 2014, the DAX quoted at 9,805.55 points (closing price). This means the leading index gained about 2.7% in total in 2014 (closing price on December 30, 2013: 9,552.16 points).

The German technology index TecDAX started the stock market year at 1,166.82 points (closing price on December 30, 2013). It performed far better than the DAX. By the end of the reporting period, the index moved up sharply – interrupted by strong setbacks in the first half of April and the beginning of August – to a level of 1,371.36 points on December 30, 2014 (closing price). This is a price increase of just under 17.5% since the beginning of the year. The TecDAX reached an all-time high in the reporting period when it climbed to 1,384.89 points in the course of trading on December 8.



BASIC DATA

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

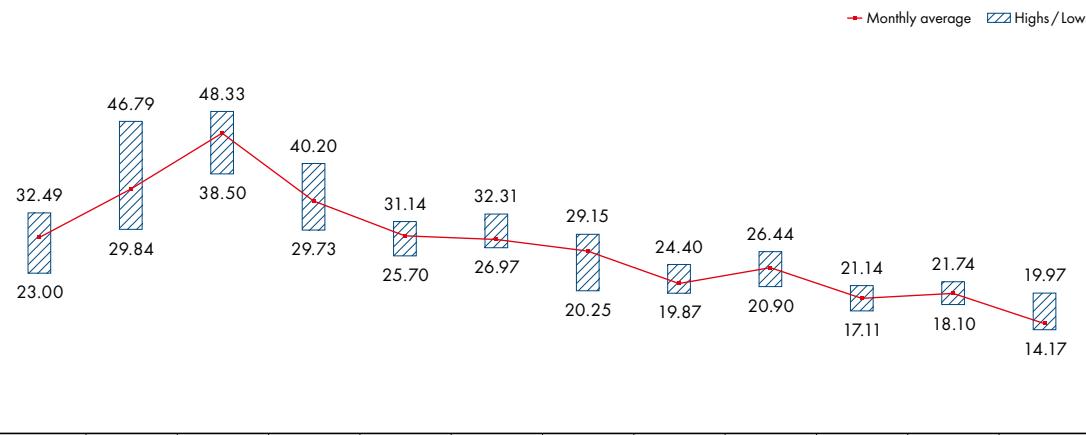
SMA Share Performance

Xetra
 See also Glossary
 page 166 et seqq.

The SMA share started the 2014 stock market year at a price of €22.96 (closing price on December 30, Xetra trading platform) and performed very positively for long periods in the first quarter 2014. This was primarily attributable to company-specific developments such as the announced partnership with Danfoss, but also partly reflected the generally more positive sentiment in light of good data on the global economy.

The SMA share price temporarily reached its highest level in the first half of 2014 at €49.10 on March 18 (Xetra trading platform). In February alone, the SMA share price climbed by more than 50%. The highest daily gain was achieved on February 26, when the share price rose by about 16.8%. This was the day SMA announced that it would establish a strategic partnership with Danfoss.

At the press conference on financial statements on March 27, 2014, SMA announced its business figures for 2013 and confirmed the sales and earnings forecast for 2014, which had been published in November 2013. SMA also published its sales and earnings forecast for the first quarter of 2014 for the first time. In the weeks following the announcement of the figures, the SMA share price significantly lost value. In addition to profit-taking following the recent sharp price rise, a particularly negative influence was the uncertainty surrounding further expansion of

HIGHS AND LOWS OF THE SMA SHARE IN 2014 in €

the photovoltaics sector in Germany, resulting from months of discussion on the reform of the Renewable Energy Sources Act (EEG). On June 27, 2014, the Bundestag ultimately passed the new EEG.

On May 15, 2014, SMA published its business figures for the first quarter of 2014, meeting its sales and earnings forecast from March 27, 2014. Despite renewed confirmation of the overall forecast for 2014, the share price continued to fall in the following weeks. SMA announced a new, significantly reduced sales and earnings forecast via an ad hoc statement on July 30, 2014. The forecast adjustment, first published in November 2013, was required as a result of significant changes in the market. Thereupon, the share price continued to drop, falling to €19.86 (closing price on the Xetra trading platform on August 1, 2014) shortly before the business figures for the first half of the year were published. The share was thus valued at less than €20 again for the first time since spring 2013.

On November 6, 2014, SMA published its business figures for the first nine months of 2014. The sales and earnings forecast was confirmed by the SMA Managing Board under the express understanding that the forecast was based on the conclusion of expected contracts in project business in the UK, China and North America and a significant recovery of commercial business.

Unfortunately, commercial business in Europe was even worse in the final two months of the year than in the previous dissatisfactory months. In addition, the expected year-end rally for the British and Chinese photovoltaic markets failed to materialize. The SMA Managing Board therefore reevaluated the market development strategy for the Chinese subsidiary Zeversolar and analyzed the impact of sales postponements. In the ad-hoc statement released on December 1, the SMA Managing Board lowered the sales and earnings forecast for the 2014 fiscal year once again. The new earnings forecast took into account matters including the full write-down of Zeversolar's goodwill, additional non-recurring expenses and higher operating losses due to sales that failed to materialize. At this time, the SMA Managing Board announced a restructuring of the SMA Group and a drastic staff reduction to reach the break-even point despite considerably lower sales.

The share closed the reporting period at €15.30 (closing price on December 30, 2014, Xetra trading platform). This is a decrease of about 33.4% in comparison with the price at the start of the year. The average trading volume was 188,733 shares per day.

RESEARCH COVERAGE

Institution	Name
Citi	Jason Channell
Commerzbank	Georg Remshagen
Deutsche Bank	Alexander Karnick
HSBC Trinkaus & Burkhardt	Christian Rath
Independent Research	Sven Diermeier
Kempen & Co	Sebastiaan Masselink
Landesbank Baden-Württemberg	Erkan Aycicek
Main First	Andreas Thielen
MATELAN Research	Peter Wirtz
Natureo Finance	Ingo Queiser
Warburg Research	Stephan Wulf

Coverage of the SMA Share

As a worldwide leading PV inverter manufacturer, SMA operates in a challenging market. In recent years, listed solar groups posted significant falls in their market capitalization worldwide. Many investment banks adjusted their research activities for the solar sector accordingly. As of the end of 2014, the SMA share was covered by 11 analysts, who report regularly on business performance.

Shareholder Structure

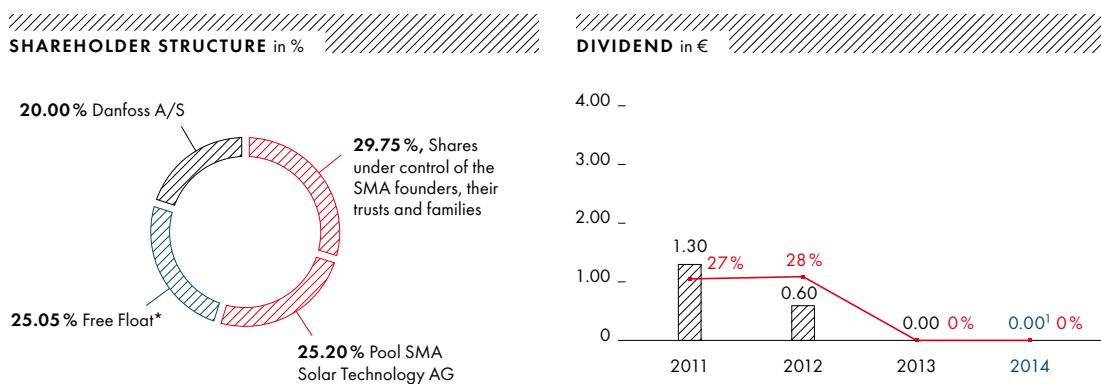
The shareholder structure changed in the reporting period. 25.05% of the shares are now in free float and 25.20% are bundled in a pooling agreement. The founders of SMA Solar Technology AG, their foundations and families hold 29.75% of the shares. With a shareholding of 20%, Danfoss A/S became an important anchor investor for SMA in the reporting period. In addition, Danfoss has been represented on the SMA Supervisory Board since September 2014.

Annual General Meeting

The SMA Annual General Meeting was held at the Kongress Palais in Kassel on May 27, 2014. More than 260 shareholders attended. Many shareholders and shareholder representatives expressed their support for the strategy outlined by the SMA Managing Board. The shareholders granted discharge to the Managing Board and Supervisory Board for the 2013 fiscal year by a large majority of over 99%. Furthermore, the Annual General Meeting followed the Managing and Supervisory Boards' proposal not to distribute a dividend due to the persistently volatile market environment (2013: €0.00 per share).

See also
www.SMA.de/Annual-GeneralMeeting All relevant information and documents regarding the 2014 Annual General Meeting as well as the speech of Pierre-Pascal Urbon, CEO, are available on the SMA website at www.SMA.de/AnnualGeneralMeeting.

The next SMA Solar Technology AG Annual General Meeting will be held at the Kongress Palais in Kassel on May 21, 2015.



Investor Relations

SMA maintains regular dialogue with the capital market. The Investor Relations website www.IR.SMA.de provides comprehensive and current information about the Company. The website also contains all financial publications, a financial calendar and an interactive share chart. This enables comparisons between SMA share prices and select stock market indices.

On January 20, 2014, SMA held its 6th Capital Markets Day in Kassel. At this event, SMA presented its current corporate strategy, which includes further internationalization, cost reductions and new product launches. On March 27, 2014, CEO Pierre-Pascal Urbon and CFO Lydia Sommer held the annual press conference on financial statements for journalists in Frankfurt, in parallel with the publication of the Consolidated Financial Statement for the previous fiscal year. The conference focused on the measures SMA has taken to adapt to changes in the market environment and how the strategic partnership with Danfoss is expected to help further improve SMA's competitiveness in the medium term. After the press conference, Pierre-Pascal Urbon and Lydia Sommer were interviewed by the financial and business press and held talks with analysts and investors.

SMA also presented itself to investors and analysts at the Intersolar Europe trade fair and at road shows in Frankfurt, Munich and London in the reporting period. The topics discussed included the new partnership with Danfoss, the shift in demand in the photovoltaic market from Europe to Asia and the Americas, SMA's product campaign and SMA's growth opportunities in international markets. In the current fiscal year, SMA held its 7th Capital Markets day at its site in Kassel on January 30, 2015. During this event, CEO Pierre-Pascal Urbon provided information about changes in the market and presented SMA's unique selling propositions, especially its product innovations and successes in sales and operations, to investors, analysts, representatives of banks, trade credit insurers and press. In addition, he gave a detailed description of the restructuring measures and presented the sales and earnings forecast for the current fiscal year.

SMA SHARE KEY FIGURES

	2014	2013
Year's Closing Price (XETRA)	€ 15.3	22.96
Annual High (XETRA)	€ 48.33	35.07
Annual Low (XETRA)	€ 14.17	16.33
Number of Shares	shares 34,700,000	34,700,000
Market Capitalization at the End of the Year	€ million 530.91	796.71
Earnings per Share	€ -5.16	-1.92
Dividend per Share	€ 0.00 ¹	0.00
Dividend Amount	€ 0.00	0.00
Dividend Pay Out Ratio	% 0.00	0.00
Dividend Yield at the End of the Year	% 0.00	0.00
Price Earnings Ratio at the End of the Year	€ n.m.	n.m.
Position on the TecDAX at the End of the Year		
According to Market Capitalization	26	24
According to Trading Volume	14	16

¹ Dividend proposal

Corporate Governance

- 20 — Corporate Governance Report
- 25 — Corporate Governance Statement (Part of the Consolidated Management Report)
- 25 — Information Concerning Takeovers Required by Sections 289 Paragraph 4 and 315 Paragraph 4 HGB (Part of the Consolidated Management Report)
- 26 — Remuneration Report (Part of the Consolidated Management Report)

Corporate Governance Report

Complying with the principles of good corporate governance is extremely important to SMA. SMA is guided by the recommendations and suggestions in the German Corporate Governance Code (Deutscher Corporate Governance Kodex; DCGK). The Managing Board and Supervisory Board dealt comprehensively with its requirements, especially the amendments of May 2013. On March 5, 2015, following deliberations, the Managing Board and the Supervisory Board issued an amended Declaration of Conformity, reproduced below, pursuant to Section 161 (1), sentence 1 of the German Stock Corporation Act (AktG) replacing the Declaration of Conformity dated February 11, 2015, which was published on our website at www.SMA.de.

See also
www.SMA.de

Declaration of Conformity to German Corporate Governance Code

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

Since the last Declaration of Compliance dated February 11, 2015, SMA Solar Technology AG has complied, with the exception mentioned below in number (1), with the recommendations of the Regierungskommission Deutscher Corporate Governance Kodex (Government Commission German Corporate Governance Code) in the version dated May 13, 2013, published in the Bundesanzeiger (Federal Gazette) on June 10, 2013. The Company has complied with the recommendations of the Government Commission German Corporate Governance Code in the version dated June 24, 2014, published in the electronic Federal Gazette on September 30, 2014, with the exception set out below in number (1) and number (2) and will continue to comply with it in the future with the exception set out below in number (1) and number (2):

(1) Notwithstanding Article 5.4.1 (2) sentence 1 clause 3 of the German Corporate Governance Code in conjunction with the rules of procedure of the Supervisory Board, the Supervisory Board proposes Dr. Erik Ehrentraut to the Annual General Meeting as a candidate for election who will have reached the age of 75 by the end of the election period.

The Supervisory Board believes it is vital that the candidate's wealth of experience in supporting of the Company remain available to the Supervisory Board.

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

The Supervisory Board believes it is justifiable to once again assign the role of Supervisory Board Chairman to Dr. Ehrentraut as an independent member of the Supervisory Board, despite his position as Chairman of the Audit Committee, due to his experience and many years of service at the Company.

Niestetal, March 5, 2015

The Managing Board

The Supervisory Board

Transparency

Transparency is a key element of good corporate governance. Our aim is to provide all shareholders, financial analysts, media and interested members of the public at large with timely information about the business situation and significant corporate changes. All important information is also made available on our website at www.SMA.de. Reporting on the business situation and the operating results takes place in the Annual Report, in the press conference on financial statements and in the Quarterly and Half-Yearly Financial Reports. Furthermore, the public is informed through press releases and, if stipulated by law, by means of ad hoc statements. Moreover, social networks are used to provide business data and important event information. Transparency is particularly important whenever deliberations and Company decisions might lead to conflicts of interest. Any conflicts of interest that may have arisen were disclosed by those members of the corporate bodies affected when discussion of the subject commenced. The member concerned did not participate in the adoption of any necessary resolutions by the Managing Board or the Supervisory Board. With respect to the fiscal year that has concluded, the following points should be mentioned:

See also
www.SMA.de

SMA Solar Technology AG concluded a consulting contract with Dr. Winfried Hoffmann that is limited in terms of content. According to this contract, Dr. Hoffmann will receive reimbursement for those travel costs and expenses for these duties for the duration of his Board membership on the European Photovoltaic Industry Association (EPIA). There is no remuneration for these duties. The Supervisory Board approved the conclusion of the contract at its meeting on August 27, 2012. Dr. Hoffmann did not participate in the voting. The work of Dr. Hoffmann for the EPIA and thus his consultancy contract expired on March 31, 2014.

EPIA
 See also Glossary
 page 166 et seqq.

In addition, the founders of SMA granted the Managing Board an allowance totaling €1.25 million to purchase shares in the Company. The Managing Board members fulfilled the obligation to purchase shares in the Company in December 2014. There were no other conditions.

At the end of the fiscal year, the current members of the Managing Board and the Supervisory Board held, either directly or indirectly, 15.11% (2013: 46.35%) of all shares issued. The Managing Board members held a total stake of 0.69% (2013: 0.56%) in the share capital and the Supervisory Board members held a stake of 14.42% (2013: 45.79%) in the share capital. In addition, Danfoss A/S, in whose Executive Committee Kim Fausing acts as "Vice President and COO," holds 20.0% (2013: 0%) of the share capital. At the time this Report was published, the proportion of shares held by members of the Supervisory Board, either directly or indirectly, had fallen to 9.66%.

Remuneration Report

See also
 Remuneration Report
 page 26 et seqq.

The Remuneration Report is a constituent part of the audited Consolidated Management Report and is shown on page 26 et seq. of the Corporate Governance Report.

The Company's Corporate Bodies and Their Functions

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

Managing Board

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

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

See also
www.IR.SMA.de

In the 2014 fiscal year, Roland Grebe was appointed a member of the Managing Board for another five years. In addition, Dr.-Ing. Jürgen Reinert became a new member of the Managing Board when he was appointed as of April 1, 2014. Additionally, Marko Werner (Sales) resigned from the Managing Board effective June 11, 2014. At the end of the reporting year, the Managing Board thus consisted of four members: Roland Grebe (Board Member for Technical Innovation), Dr.-Ing. Jürgen Reinert (Board Member for Technical Development), Lydia Sommer (Board Member for Finance and HR/CFO) and Pierre-Pascal Urbon (Board Member for Strategy/CEO). On January 1, 2015, Martin Kinne was appointed as a Managing Board Member (Sales & Service). Lydia Sommer left the Managing Board on February 28, 2015.

Supervisory Board

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

The Supervisory Board is currently made up of 12 members and its composition complies with the provisions of the German Stock Corporation Act and the Co-Determination Act. Under these provisions, the employees of German Group companies and their shareholders (Annual General Meeting) each elect six representatives to the Supervisory Board. The current members of the Supervisory Board are: Oliver Dietzel, Dr. Günther Häckl, Johannes Häde, Heike Haigis, Joachim Schlosser and Mirko Zeidler as employee representatives and Roland Bent, Peter Drews, Dr. Erik Ehrentraut (Chairman), Kim Fausing (Deputy Chairman), Dr. Winfried Hoffmann und Reiner Wettlaufer as shareholder representatives.

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Prof. (em.) Dr.-Ing. Werner Kleinkauf left the Supervisory Board effective August 27, 2014. Kim Fausing was appointed as his successor by the Registration Court. Alexander Naujoks also left the Supervisory Board effective September 30, 2014. Heike Haigis was appointed as his successor by the Registration Court. Also by Registration Court appointment, Mr. Roland Bent succeeded Dr.-Ing. h.c. Günther Cramer as of January 28, 2015, following the latter's death. Dr. Erik Ehrentraut assumed chairmanship of the Supervisory Board on February 11, 2015.

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

THE COMMITTEES OF THE SUPERVISORY BOARD ARE MADE UP AS FOLLOWS

Presidial Committee ————— Dr. Erik Ehrentraut (Chairman), Kim Fausing, Dr. Günther Häckl, Mirko Zeidler

Audit Committee ————— Oliver Dietzel, Dr. Erik Ehrentraut (Chairman), Johannes Häde, Reiner Wetzlauer

Nomination Committee ————— Peter Drews (Chairman), Dr. Erik Ehrentraut, Prof. (em.) Dr.-Ing. Reiner Wetzlauer

Mediation Committee ————— Dr. Erik Ehrentraut, Dr. Günther Häckl (Chairman), Kim Fausing, Joachim Schlosser

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

See also Supervisory
Board Report
page 8 et seqq.

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

See also
www.IR.SMA.de

At its meeting on December 6, 2011, the Supervisory Board resolved objectives regarding its future composition. The objectives were edited on December 5, 2012, and remain as follows:

1. Women should comprise at least 25% of the Supervisory Board. In the process, both the shareholders and employees should strive to provide at least one female Supervisory Board member. The Supervisory Board also aims for a share of women of at least 25% on the Managing Board. The Managing Board has already set the same objective for recruitment to management positions in the entire Company. This ambitious goal poses great challenges for the Company and should be realized by the regular new election after next, at the latest.
2. Maintain the composition of Supervisory Board members with a background of international experience at least in the previous scope.
3. Special consideration given to candidates with knowledge and experience in the application of financial reporting standards and internal control processes as well as in the field of auditing.
4. Special consideration given to candidates with technical expertise, particularly in the field of renewable energies, preferably in the field of photovoltaics.

5. Special consideration given to candidates with Company knowledge.
6. At least half of the shareholder representatives are to be independent. At the same time, at least one member is to possess expertise in the field of accounting or auditing.
7. Consideration of the age limit of 75 years at the end of the term of office when selecting new members.

The term of office for all current members of the Supervisory Board ends with the conclusion of the Annual General Meeting 2015. The objectives have been implemented as follows:

As regards 1: The Supervisory Board now has one female member, Heike Haigis. As of March 1, 2015, there were no women on the Managing Board.

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

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

As regards 7: To date, no member of the Supervisory Board will exceed the age limit of 75 years at the end of their term of office.

Cooperation Between the Managing Board and the Supervisory Board

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

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

Shareholders and Annual General Meeting

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

Corporate Governance Statement

See also
www.IR.SMA.de

The SMA Corporate Governance Statement (Section 289a of the German Commercial Code) has been posted on the SMA Solar Technology AG website at www.IR.SMA.de.

Information Concerning Takeovers Required by Sections 289 Paragraph 4 and 315 Paragraph 4 HGB

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

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

Number 3: Danfoss A/S, Denmark, holds 20% of the Company's share capital.

Shareholders, who coordinate their voting rights in "Poolvertrag SMA Solar Technology AG" (see Number 2) hold 25.20% of the Company's share capital. No individual shareholder of the "Poolvertrag SMA Solar Technology AG" holds 10% or more of the Company's share capital.

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

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

Number 7: The Articles of Incorporation include the provisions on the powers of the Managing Board regarding Authorized Capital II. The Managing Board, after obtaining the consent of the Supervisory Board, is entitled to increase the share capital on one or several occasions by up to a total of €10 million by issuing new bearer shares in return for cash contributions and/or contributions in kind in the period up to May 22, 2018. The Managing

Board, with the consent of the Supervisory Board, is entitled to cancel the statutory subscription rights of shareholders: a) in the case of capital increases in return for contributions in kind for the acquisition of or investment in companies, parts of companies or investments in companies, b) for the purpose of issuing shares to employees of the Company and companies affiliated with the Company, c) to exclude fractions and d) in the case of capital increases in return for cash contributions if the issue amount of the new shares does not fall significantly below the stock exchange price of shares of the same class and terms that are already listed at the time the Managing Board sets the final issue amount and the total pro rata amount of the issued capital attributable to the new shares in respect of which the subscription right is excluded may not exceed 10% of the issued capital available at the time the new shares are issued.

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

Number 8: Credit lines agreed with banks with a volume of €26.0 million contain a change-of-control clause that includes the special termination right of the relevant bank.

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

Remuneration Report

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

Managing Board Remuneration and Emoluments

The remuneration system for the Managing Board (including the most important contractual elements) is decided at a Supervisory Board plenary session. The contracts concluded with Managing Board members currently in force have a term of three to five years. The Supervisory Board regularly examines the remuneration system for the Managing Board and defines targets for the variable components of the emoluments. The criteria for determining

remuneration commensuration include evaluation of the tasks of the individual Managing Board members, their personal performance, the overall financial situation and Company success, using compensation peer benchmarking and the Company's usual remuneration structure. In its assessment, the Supervisory Board also included Managing Board remuneration in relation to the remuneration of the top-level executives and the workforce as a whole, taking into account changes over time, and thus laid out comparable peer groups from top-level executives and the workforce. The remuneration is assessed in a way that ensures it is competitive with the market for highly qualified managerial staff. Apart from statutory requirements, the remuneration system also complies with the stipulations of the German Corporate Governance Code and with case law and was approved by the Annual General Meeting on May 27, 2014. The remuneration of the Managing Board will consist of the following components: The fixed component of the emoluments is 40% to 50% and the variable component and long-term bonus in the case of good business performance amounts to 50% to 60% of the total remuneration before additional benefits. At least one half of the variable component of the emoluments must correspond to the long-term bonus.

NON-PERFORMANCE-BASED FIXED REMUNERATION

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

TARGET-BASED SHORT-TERM VARIABLE REMUNERATION

The Managing Board members also receive a target-based variable salary component, which depends on earnings before taxes (EBT), sales achieved as recorded in the Consolidated Financial Statements for a fiscal year audited by the auditor and achievement of personal objectives (personal performance). The personal objectives agreed upon with members of the Managing Board for 2014 related, depending on the area of responsibility, to sales strategy, development strategy, financial organization and HR development issues. For short-term variable remuneration, if earnings are negative in any given fiscal year, they are set off against the EBT recorded for the next fiscal year. The targets (EBT/sales/personal performance) are adjusted annually by the Supervisory Board. If at least 100% of the target values are achieved, the full variable salary component agreed upon may be claimed. Values in-between are determined on a linear basis. If the total value of the individual target components is exceeded, this does not entitle payment of a higher variable component of the emoluments (cap). The performance-based variable component is paid out after the approval of the Consolidated Financial Statements, which usually takes place at the end of March of the following year. If the Managing Board member's duties do not extend beyond one full fiscal year, then he/she receives one twelfth of the performance-based variable remuneration determined for the entire fiscal year for each month of the fiscal year in which he/she carries out his/her duties.

LONG-TERM BONUS

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

ADDITIONAL BENEFITS

All Managing Board members are entitled to

- » A company car
- » Reimbursement of travel costs and any expenses incurred on company business
- » Employer's contribution up to the contribution assessment ceiling of the statutory social insurance scheme (pension, health, nursing care), even in the case of voluntary insurance and without furnishing any proof
- » Appropriate D&O insurance

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

OTHER CONTRACTUAL BENEFITS

In the event of death or permanent disability, the emoluments will continue to be paid for six months. In the event of early termination of Managing Board duties without good cause, the compensation payable is limited to the total remuneration for the remaining term of the contract and up to a maximum of two year's emoluments (severance pay cap). If the employment contract with a member of the Managing Board ends because it is amicably cancelled within a period of nine months from a change of control, this member is also entitled to a severance payment amounting to his/her remuneration claims. The same calculation basis applies as in the case of the severance pay cap. All members of the Managing Board are subject to a post-termination covenant not to compete for a period of two years that provides a compensation payment amounting to 50% of the average annual emoluments. The calculation basis is the annual salary (fixed and variable components) paid out for the last full calendar year. The Managing Board member must set off any monies earned while he/she is otherwise employed during the non-compete period. The maximum cash value of the compensation sums payable in the case of a covenant not to compete after conclusion of Managing Board duties amounts to €0.391 million for each of the Managing Board members Roland Grebe, Lydia Sommer and Pierre-Pascal Urbon (2013: €0.339 million) and €0.294 million for Dr.-Ing. Jürgen Reinert.

In the 2014 fiscal year, the total emoluments payable to all members of the Managing Board amounted to €3.01 million (2013: €1.615 million). This included variable emoluments of €1.447 million paid to the Managing Board in 2014 (2013: €0 million). The variable emoluments include a direct grant totaling €1.25 million from the Company founders, which the Managing Board members had to use to acquire shares in the Company. There are no holding periods for the acquired interests. The Managing Board members receive no separate remuneration for carrying out tasks at subsidiaries.

The table below provides information on the remuneration of the Managing Board in accordance with the rules of the German Corporate Governance Code of June 2014. The values in the "Inflow" table relate to the emoluments of individual Managing Board members for the 2014 fiscal year. The "Grants" table shows also the minimum and maximum remuneration achievable with regard to the variable remuneration components for the fiscal year.

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

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INFLOW

	Jürgen Dolle Chief Human Resources Joined 05/15/2013	Roland Grebe Board Member for Technical Innovation Joined 06/11/2009		
in €'000	2013	2014	2013	2014
Fixed remuneration	121	350	350	350
Additional benefits/Others ¹	353	22	22	22
Total	474	372	372	372
One-year variable remuneration	0	0	0	253
Multi-year variable remuneration	—	—	—	—
Long-term variable remuneration 2011 – 2013	0	0	0	—
Long-term variable remuneration 2012 – 2014	—	—	—	0
Total	0	0	0	253
Pension contribution	0	0	0	0
Total remuneration	474	372	372	625
	Dr.-Ing. Jürgen Reinert Board Member for Technical Development Joined 04/01/2014	Lydia Sommer Board Member for Finance and HR/CFO Joined 11/01/2012		
in €'000	2013	2014	2013	2014
Fixed remuneration	263	350	350	350
Additional benefits/Others	16	24	24	23
Total	279	374	374	373
One-year variable remuneration	239	0	0	103
Multi-year variable remuneration	—	—	—	—
Long-term variable remuneration 2011 – 2013	—	—	0	—
Long-term variable remuneration 2012 – 2014	0	—	—	0
Total	239	0	0	103
Pension contribution	0	0	0	0
Total remuneration	518	374	374	476
	Pierre-Pascal Urbon Board Member for Strategy/CEO Joined 07/01/2006	Marko Werner Chief Sales Officer Left 06/10/2014		
in €'000	2013	2014	2013	2014
Fixed remuneration	350	350	350	156
Additional benefits/Others ²	15	23	24	11
Total	365	373	374	167
One-year variable remuneration	0	853	0	0
Multi-year variable remuneration	—	—	—	—
Long-term variable remuneration 2011 – 2013	0	—	0	—
Long-term variable remuneration 2012 – 2014	—	0	—	0
Total	0	853	0	0
Pension contribution	0	0	0	0
Total remuneration	365	1,226	374	167

¹ Jürgen Dolle retired from the Managing Board as of May 15, 2013. As a result, Jürgen Dolle received a single payment of €344,000. See also 2013 Remuneration Report.² The contract of Marko Werner expired on schedule.

GRANTS

	Jürgen Dollé Chief Human Resources Left 05/15/2013		Roland Grebe Board Member for Technical Innovation Joined 06/11/2009	
	2014 in €'000	2014 — (Min) — (Max)	2014 in €'000	2014 — (Min) — (Max)
Fixed remuneration	121	— 2013 — 2014	350	350 — 350 — 350
Additional benefits/Others ¹	353	— 22 — 22	22	22 — 22 — 22
Total	474	— 372 — 372	372	372 — 372 — 372
One-year variable remuneration	0	— 175 — 375	175	200 — 375 — 375
Long-term variable remuneration 2013 – 2015	0	— 175 — 175	175	175 — 175 — 175
Long-term variable remuneration 2014 – 2016	—	— 175 — 175	175	0 — 175 — 175
Total	0	— 350 — 550	350	200 — 550 — 550
Pension contribution	0	— 0 — 0	0	0 — 0 — 0
Total remuneration	474	— 722 — 922	722	— 572 — 922
	Dr.-Ing. Jürgen Reinert Board Member for Technical Development Joined 04/01/2014		Lydia Sommer Board Member for Finance and HR/CFO Joined 11/01/2012	
	2014 in €'000	2014 — (Min) — (Max)	2014 in €'000	2014 — (Min) — (Max)
Fixed remuneration	263	— 263 — 263	350	350 — 350 — 350
Additional benefits/Others	16	— 16 — 16	24	23 — 23 — 23
Total	279	— 279 — 373	374	373 — 373 — 373
One-year variable remuneration	331	— 200 — 331	175	225 — 50 — 225
Long-term variable remuneration 2013 – 2015	—	— 175 — 175	175	— — — —
Long-term variable remuneration 2014 – 2016	131	— 0 — 131	—	175 — 0 — 175
Total	462	— 200 — 462	350	400 — 50 — 400
Pension contribution	0	— 0 — 0	0	0 — 0 — 0
Total remuneration	741	— 479 — 741	724	— 773 — 423
	Pierre-Pascal Urban Board Member for Strategy/CEO Joined 07/01/2006		Marko Werner Chief Sales Officer Left 06/10/2014	
	2014 in €'000	2014 — (Min) — (Max)	2014 in €'000	2014 — (Min) — (Max)
Fixed remuneration	350	— 350 — 350	350	156 — 156 — 156
Additional benefits/Others ²	15	— 23 — 23	23	24 — 11 — 11
Total	365	— 373 — 373	373	374 — 167 — 167
One-year variable remuneration	175	— 975 — 800	975	175 — 175 — 175
Long-term variable remuneration 2013 – 2015	175	—	175	— — — —
Long-term variable remuneration 2014 – 2016	—	— 175 — 175	0	175 — 0 — 175
Total	350	— 1,150 — 800	1,150	350 — 350 — 350
Pension contribution	0	— 0 — 0	0	0 — 0 — 0
Total remuneration	715	— 1,523 — 1,173	1,523	— 724 — 517 — 167 — 517

¹ Jürgen Dollé retired from the Managing Board as of May 15, 2013. As a result, Jürgen Dollé received a single payment of €344,000. See also 2013 Remuneration Report.

² The contract of Marko Werner expired on schedule.

Supervisory Board Remuneration and Emoluments

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

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

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

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

As of December 31, 2014, five of the members of the Supervisory Board held SMA shares.

The total emoluments payable to the members of the Supervisory Board amounted to a total of €0.495 million in the 2014 fiscal year (previous year: €0.482 million).

Beyond the remuneration of the Supervisory Board, the employee representatives that are employees of the Company receive fee payments unrelated to their Supervisory Board duties. From such duties, the employee representatives received a total of €0.403 million (previous year: €0.371 million). SMA Solar Technology AG also concluded a consultancy contract with Dr. Hoffmann that is limited in terms of content. There is no remuneration for these duties. However, other expenses totaling approximately €4,100 were incurred.

REMUNERATION OF THE SUPERVISORY BOARD

	Non-performance-based remuneration		Remuneration for committee duties		Total	
	2014	2013	2014	2013	2014	2013
in €'000						
Dr.-Ing. h. c. Günther Cramer (Chairman)	51.5	50.8	11.5	11.5	63.0	62.3
Oliver Dietzel [as of May 24, 2013]	31.8	15.9	3.4	-	35.2	15.9
Peter Drews	31.0	28.8	0.0	2.3	31.0	31.1
Dr. Erik Ehrentraut (Deputy Chairman)	44.3	42.0	28.3	27.5	72.6	69.5
Kim Fausing (as of September 23, 2014)*	0.0*	-	-	-	0.0*	-
Dr. Günther Häckl	31.8	29.5	8.8	7.3	40.6	36.8
Johannes Häde	31.8	29.5	12.8	12.8	44.6	42.3
Heike Haigis (as of September 30, 2014)	7.9	-	0.0	-	7.9	-
Dr. Winfried Hoffmann	30.3	29.5	0.0	0.0	30.3	29.5
Prof. (em.) Dr.-Ing. Werner Kleinkauf (until August 27, 2014)	21.7	29.5	0.0	0.0	21.7	29.5
Ullrich Meßmer (until May 23, 2013)	-	12.1	-	-	-	12.1
Alexander Naujoks (until September 30, 2014)	23.9	29.5	8.6	12.8	32.5	42.3
Joachim Schlosser	31.8	29.5	0.0	2.3	31.8	31.8
Reiner Wetzlaufer	30.3	29.5	12.8	12.8	43.1	42.3
Mirko Zeidler	31.8	29.5	8.8	7.3	40.6	36.8
Total	399.9	385.6	95.0	96.6	494.9	482.2

* Kim Fausing waives his entitlements from the Company.

Other

The Company has taken out professional indemnity insurance (D&O insurance) for the members of the corporate bodies of all SMA Group companies. It is effected or extended every year. The insurance covers the personal liability risk of the members resulting from a breach of duty when exercising their duties in the event that any claims for economic losses are asserted against them. The deductible in the policy for the 2014 fiscal year was 10% of the damage, however, no higher than one and a half times the fixed annual emoluments of the member of the corporate body.

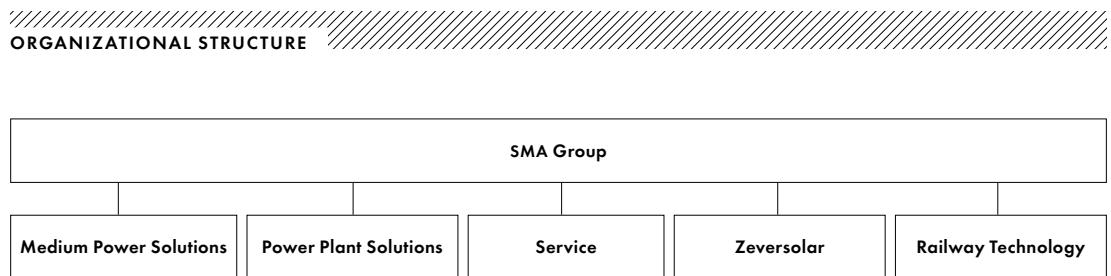
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Basic Information About the Group

Business Activity and Organization

SMA Solar Technology AG (SMA) and its subsidiaries (SMA Group) develop, produce and distribute PV inverters, transformers, choke coils, monitoring and energy management systems for PV systems and power electronic components for railway technology. Another area of business is providing operation and maintenance service for photovoltaic power plants (O&M business), in addition to other services. Until the end of 2014, the structure of SMA Solar Technology AG included the Medium Power Solutions, Power Plant Solutions, Service and Zeversolar divisions. The Railway Technology business area also belongs to the SMA Group. Since January 2015, the company has operated under its new functional organization.



In the reporting period, the **Medium Power Solutions** division distributed inverters, system solutions as well as products used for monitoring PV systems and energy management. It targeted private and commercial customers with installations of up to **500 kilowatts (kW)**. The **Power Plant Solutions** division supplied **central inverters** and system solutions to the global market for large-scale PV power plants with outputs ranging from 500 kW to the three-digit megawatt range. With its **Service** division, SMA offered customers in Germany and abroad comprehensive support and after-sales services to guarantee the technical availability of SMA products during their service life and create maximum yield stability. The service portfolio primarily included operational management and remote system monitoring as well as warranty extensions, service and maintenance contracts and spare parts business. The **Zeversolar** division contained the majority holding, acquired in 2013, in the Chinese inverter manufacturer Jiangsu Zeversolar New Energy Co., Ltd. (Zeversolar) as well as its subsidiary companies. With central and string inverters, Zeversolar addresses the Chinese photovoltaic market and with string inverters the low-price segment in foreign markets. The **Railway Technology** business division comprises the business activities of Railway Technology GmbH and its Brazilian and Chinese subsidiary companies. SMA Railway Technology GmbH manufactures converters as individual devices and complete energy supply systems for railway coaches and multiple-unit trains for short- and long-distance railway traffic.

kW, Central Inverter
See also Glossary
page 166 et seqq.

Global Market Leadership in PV Inverters

In terms of sales, SMA is the global market leader for PV inverters. These PV inverters stand out because of their especially high efficiency of up to 99% and long service life. This is a decisive factor for the economic efficiency of the entire system. SMA can offer a technically appropriate inverter for every type of photovoltaic module and all power classes and for various regional requirements around the world – both for grid-connected applications and for stand-alone operation. SMA also offers integrated solutions for future energy supply structures and comprehensive services. The Zeversolar product portfolio has fewer product versions than SMA and different functions. Moreover, service is adapted to the target markets and there is a distinct product design.

Self-consumption, the share of energy from the PV system that a household can use itself, will become more important in Europe and North America in the future. With the [SMA Smart Home](#), SMA offers an integrated system for intelligent increased self-consumption and intermediate storage of solar electricity aimed specifically at this segment.

[See Research and Development page 43 et seqq.](#)

SMA is entering into another market with its [PV-diesel hybrid solutions](#). In sunny regions, supplementing stationary diesel generators with photovoltaics contributes to significantly reducing a generator's fuel consumption and therefore its total operating costs. In order to better exploit global growth potential in this segment, SMA founded Sunbelt Energy GmbH, based in Niestetal, in the reporting year.

[See Research and Development page 43 et seqq.](#)

Global Presence

The SMA Group is represented with its subsidiaries in 21 countries on 6 continents in every important market. No other competitor has a comparable international sales and service structure with experienced photovoltaics specialists. Modern production sites with an overall annual capacity of up to 15 gigawatts (GW) make an important contribution to local added value in Niestetal and Kassel (Germany), Denver (U.S.), Mississauga near Toronto (Canada) and Yangzhong (China). In 2014, SMA commissioned another inverter production plant in South Africa. The competence center for coils (electromagnetic components) is based in Zabierzów, near Krakow (Poland).

Products and Services

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

[Off-grid system, See also Glossary page 166 et seqq.](#)

Until the end of 2014, the **Medium Power Solutions** (MPS) division was responsible for the Sunny Boy, Sunny Mini Central, Sunny Tripower and Sunny Island product families. The product families comprise more than 69 single-phase and three-phase inverter types with outputs ranging from 240 watts to 60 kilowatts (kW). The MPS division also offers a range of system solutions. With decentralized system concepts, SMA serves the output levels of residential and commercial installations of up to 500 kW, as needed.

In the reporting period, SMA continued to enhance the Sunny Boy and Sunny Tripower product portfolio by extending the power range of the devices and reducing the specific cost of sales through innovations. In 2014, SMA Solar Technology AG expanded its product portfolio to include a total of three new Sunny Boy and four new Sunny Tripower inverters. In mid-January 2015, two new battery inverters for solar applications in the lower power range were added. The Sunny Island 3.0M and the Sunny Island 4.4M ensure an optimum energy supply in PV systems with an output of 2 kW to 12 kW. In the first quarter of 2015, SMA will also be launching the first products in a brand new generation of inverters for the Residential segment – with power output of 1.5 kW and 2.5 kW – right on schedule.

In the reporting period, new developments for the rapidly growing North American photovoltaic market were at the heart of the product offensive. In 2014, SMA launched three new Sunny Boy inverters in the 6 kW to 8 kW power range. These products are suited for the U.S. residential market, where the average system size is 6 kW. The integrated additional function "Secure Power Supply" makes it possible to draw electricity from the PV system even in the event of grid failure – without any additional backup functionality or a storage solution. This functionality is extremely valuable in North America due to the unstable utility grids. None of our competitors is currently able to satisfy this customer need.

The Sunny Tripower TL-US, which is specially tailored to the U.S. requirements for medium to large PV systems, has now also established itself on the market with a range of variants. The inverter comes with integrated grid management functions and state-of-the-art communication and monitoring technology as standard. In the first quarter of 2015, SMA will be expanding its product family to include the Sunny Tripower with an output of 30 kW.

The three-phase inverters FLX Pro 15, FLX Pro 17 and MLX 60 developed by Danfoss are now fully integrated into the SMA inverter portfolio. The products will be marketed under the brand name Sunny Tripower. In the reporting year, the MPS division also marketed – in addition to inverters – a total of 20 communication products for intelligent energy management and for monitoring PV systems. At the household level, [SMA Smart Home](#), these technologies combined with a storage system enable end users to cover their power consumption largely with their own PV systems and reduce their dependence on conventional energy carriers by optimizing self-consumption.

See Research and Development page 43 et. seqq.

In October 2014, SMA launched a new technology designed to give private PV system operators free access to monitor their systems online. In most markets (with the exception of Japan and the U.S.), the Webconnect technology that this requires is now integrated as standard into all current Sunny Boy inverters in the power classes of up to 6 kW. Since it was first brought to market, the Webconnect technology has been integrated into Sunny Tripower inverters in the power class up to 12 kW. The online connection enables access to Sunny Places, the community portal for PV systems. This platform provides homeowners not only with access to an overview of their PV system data but also the ability to compare this data with other PV system operators. In addition, the monitoring function featured in the [Sunny Portal](#) provides extensive analysis and display options.

See Research and Development page 43 et. seqq.

In the reporting year, the MPS division also comprised the operations of dtw Sp.z o.o. (dtw) and Off-Grid Solutions. dtw concentrates on manufacturing technologically innovative core components – such as chokes, coils and transformers – for inverter production. In the Off-Grid Solutions business area, SMA develops solutions for integrating photovoltaics and storage technologies into decentralized electricity generation systems for all power classes as well as into the utility grid. With Flexible Storage Solutions, SMA offers system solutions within the Sunny Island product family to ensure a completely independent energy supply for remote houses and villages. The technology is also used to expand larger storage systems for grid-connected operation in the SMA Smart Home. Operators can also add the Flexible Storage Solution to their existing systems.

To Our Shareholders

Corporate Governance

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In the reporting year, the **Power Plant Solutions** (PPS) division addressed the growing market for large-scale PV power plants with outputs ranging in the three-digit megawatt range with central inverters of the Sunny Central product family. The business activities of PPS also included related system technology, with extensive grid management solutions and turnkey solutions that feed directly into global **medium-voltage** grids.

Medium-Voltage
See also Glossary
page 166 et seqq.

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

Grid Management
See also Glossary
page 166 et seqq.

With the SMA Fuel Save Controller, which won an award at the Intersolar Europe 2014 trade fair, SMA also enables customers to integrate photovoltaics into their existing **diesel-powered grids**. PV-diesel hybrid systems produce electricity much more cheaply and effectively than simple diesel generators. This helps industrial users in sunny regions without a stable electricity supply to become more independent from expensive fossil fuels and significantly reduce their operating costs.

Diesel-Powered Grid
See also Glossary
page 166 et seqq.

It is important to us that our products and system solutions achieve the yields our customers expect. The objective of our comprehensive after-sales services is therefore to maintain the value of the system as well as ensure reliable, optimum operation. In the reporting year, we enhanced our service portfolio and adapted it to our customers' needs.

In the reporting period, the **Service** division provided support to SMA customers in Germany and abroad, offering extensive services to optimize system performance and ensure maximum yield stability. The services include project support and commissioning, warranty services, service and maintenance contracts, spare parts business and operational management and remote system monitoring. Through a global network of 75 service sites, SMA Service can guarantee rapid reaction time for those SMA inverters installed all over the world, which have a total capacity of more than 35 GW. This close-knit network enables quick repairs during servicing, thus securing our customers' yields.

See Research and
Development
page 43 et. seqq.

Our new service concept "**Service Select**", which was presented for the first time at Intersolar Europe 2014, combines well-known service products, such as extended warranty and remote service, with new services. PV system operators have the opportunity to flexibly create their own individual safety package tailored to their specific PV system, enabling them to take advantage of services such as commissioning, system modernization, regular maintenance or a one-off system check performed by SMA experts.

In addition, SMA can take on complete technical management of a PV system. The all-around service not only covers the inverters, but also the medium-voltage components, modules, racks, all cabling and the vegetation and enclosure of the system. The services include repair, device replacement, visual inspections and maintenance. SMA thus guarantees PV system operators the highest performance and planning security. In the reporting year, there was demand, in particular, for SMA's full service in North America, where SMA not only supplied the inverters but also took on the operational management of one 130 MW plant and one 140 MW plant in Ontario, two of Canada's largest PV power plants, each for a period of 10 years.

Integration of Phoenix Solar AG's European operations and maintenance service activities (O&M business) with effect from November 1, 2014, saw SMA gain a foothold in the high-volume European market. Upon completion of the transaction, Phoenix Solar AG transferred its existing O&M contracts to SMA. With these new additions, SMA's O&M business now comprises a total of 60 PV systems with a total output of 160 MW.

Until the end of 2014, the **Zeversolar** division comprised Jiangsu Zeversolar New Energy Co., Ltd. (Zeversolar) – which was acquired in March 2013 – and its subsidiary companies. With central and [string inverters](#), Zeversolar addresses the Chinese photovoltaic market and with string inverters the low-price segment in foreign markets. The division focuses on basic products with accordingly reduced functions and services. The product range includes devices for the Residential and Commercial segment (power classes 1.5 kW to 20 kW) as well as central inverters for PV power plants (power classes 500 kW to 1 MW).

String Inverters
See also Glossary
page 166 et seqq.

In the reporting period, the **Railway Technology** business division combined the operations of SMA Railway Technology GmbH and its Brazilian and Chinese subsidiary companies. SMA Railway Technology GmbH manufactures converters for short- and long-distance railway traffic and complete energy supply systems for railway coaches and multiple-unit trains. At the InnoTrans 2014 trade fair in September 2014, SMA unveiled its new on-board power system converter SMARTconverter 3 for subway and suburban railway trains. SMA systematically standardized the new device, making it able to quickly supply key markets in the Railway segment with a cost-optimized product. Thanks to a range of additional options, customers can create their own customized converters – for greater performance and comfort. Two additional SMARTconverter series for regional multiple-unit trains and streetcars are currently still in the development phase.

Important Sales Markets and Competitive Situation

Global demand for PV systems declined slightly in 2014. According to SMA estimates, which do not include off-grid systems here or in the Management Report, the output of globally installed PV systems declined to about 40 GW (2013: about 42 GW). The negative trend in Europe continued, whereas strong growth stimuli emanated from the U.S. particularly in relation to installed power.

In Germany, demand fell again in 2014. Newly installed PV power decreased to about 1.9 GW (2013: about 3.3 GW). Germany is thus no longer the world's largest photovoltaic market, but is now ranked fifth after China, Japan, the U.S. and Great Britain. The reason for the additional decline in installed power is the continuing feed-in tariff depression. With another amendment to the Renewable Energy Sources Act (EEG), subsidies for PV systems deteriorated further in the reporting period. Since August 1, 2014, for example, the German Federal Government has been progressively mandating direct marketing of solar energy.

Growth Potentials Abroad

In the last calendar year, international photovoltaic markets continued to develop in various ways due to various political changes. Not only did subsidy tariffs decrease in some European markets, but tax increases on income from PV systems and levies on self-consumption of solar power unnerved investors in some countries. Overall, the share of Europe in the global photovoltaic market decreased significantly. Only Great Britain posted strong growth. In the opinion of the SMA Managing Board, Europe (not including Germany) accounted for only about 14.4% (2013: 19.1%) of global demand in 2014.

In the reporting period, the solar markets in China and Japan accounted for almost half of global demand. Other notable growth stimuli emanated from the U.S., Canadian and Australian markets.

Overall, there was still a regional shift in demand. In most foreign markets, investors implemented more medium-sized PV systems and large-scale PV power plants. In 2014, large solar projects picked up momentum, especially in the U.S., Canada, Great Britain and Australia. However, in the established markets like Germany, Italy and Japan, for the first time there was little demand for energy management solutions.

SMA Successfully Positions Itself in Growth Markets

With its comprehensive range of products, high product quality and flexibility, presence in 21 countries and comprehensive service structure, SMA is well-positioned in the global photovoltaic market. With its international presence, SMA has reduced its dependence on individual photovoltaic markets and can benefit from global growth in demand with highly efficient PV inverters, integrated system solutions for PV systems of all power classes, battery storage solutions for energy management systems, complete solutions for PV-diesel hybrid applications, and extensive services up to and including operational management.

In 2014, SMA sold inverters with a total power of approximately 5.1 GW (2013: 5.4 GW). By its own estimation, SMA's inverter power sold accounted for approximately 15.1% (2013: approximately 15.3%) of global demand in 2014. Excluding China, SMA had a market share of about 20% (2013: approximately 21%). SMA is offsetting the still very stiff price pressure in the market with a number of measures aimed at reducing costs. These include process and productivity optimizations, adjustments to the personnel structure, a standardized global logistics concept and the use of synergies from the strategic partnership with Danfoss A/S entered into in 2014. In addition, SMA will concentrate its development projects on those strategically important products that maintain its global technology leadership.

SMA has its own service companies in all important photovoltaic markets. With an installed capacity of more than 35 GW worldwide, SMA increasingly leverages the resulting economies of scale to expand its service business. Responsibility for operation and maintenance services for PV power plants (O&M business) is an important driver of the Service segment growth strategy. SMA already made the service business profitable in the reporting period after it was expanded considerably in 2013.

In the opinion of SMA's Managing Board, the combined use of renewable energies and fossil fuels is gaining significance. SMA enjoys over 20 years of experience in this area and has a number of innovative products and complete solutions in the high-potential market segment of PV-diesel hybrid systems. Furthermore, with its intelligent energy management systems, SMA has already developed solutions that are tailored to the requirements of today's energy supply systems and to those of the future, and that will enable gradual conversion to a completely decentralized electricity supply based on renewable energies.

Organizational Structure

Legal Structure of the Group

As the parent company of the SMA Group, SMA Solar Technology AG (SMA) with its headquarters in Niestetal near Kassel, Germany, provides all of the functions required for its operative business. With the exception of Jiangsu Zeversolar New Energy Co., Ltd., the parent company holds, either directly or indirectly, 100% of the shares of all the operating companies that belong to the SMA Group. As of December 31, 2014, SMA has a 99.25% majority shareholding in Jiangsu Zeversolar New Energy Co., Ltd.

See also Scope of
Consolidation
page 110 et seqq.

The Consolidated Financial Statements include the parent company and, directly or indirectly, all 37 Group companies (2013: 36), including 8 domestic companies and 29 companies based abroad.

In 2014, SMA founded SMA Sunbelt Energy GmbH (Niestetal) and included it in the scope of consolidation for the first time. Under this new company, regional hubs, hybrid centers, are established for regions without SMA subsidiaries to be closer to the market decision-makers and to act as a general contractor for end customers.

The scope of consolidation as of December 31, 2014, also changed in comparison to December 31, 2013, as a result of the liquidation of Shanghai ZOF New Energy Co., Ltd. (Shanghai, China) as of February 25, 2014. The functions of this company were assumed by the parent company Jiangsu Zeversolar New Energy Co., Ltd. In addition, the scope of consolidation was expanded in the last fiscal year with the creation of SMA Railway Technology (Guangzhou, China) Co., Ltd.

Organizational Structure Used Until the End of 2014

In the year under review, the SMA Group's structure included the Medium Power Solutions, Power Plant Solutions, Service and Zeversolar divisions. The Railway Technology business area also belonged to the SMA Group. The divisions were endowed with the functions required for operating business. They were also responsible for international business. The divisions reported directly to the Managing Board. The financial figures of the divisions and the Railway Technology business area are given with those of the previous year, adjusted where necessary, to ensure transparent reporting.

New Organizational Structure

The divisional structure was established in times of strong growth. Because of the decline in sales in recent years, this form of organization is no longer appropriate. Therefore, since January 1, 2015, SMA has operated under its new functional organization consisting of Technology, Operations, Sales, Service, Strategy and Finance. The compact organization allows quick decisions and a smaller management structure.

Management and Control

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

Change on the Managing Board

Since June 11, 2014, the Managing Board of SMA Solar Technology AG has comprised the following members: Roland Grebe (Board Member for Technical Innovation), Dr.-Ing. Jürgen Reinert (Board Member for Technical Development), Lydia Sommer (Board Member for Finance and HR/CFO) and Pierre-Pascal Urbon (Board Member for Strategy/CEO). Marko Werner was not available for further Managing Board duty and left the Managing Board on June 11, 2014. Until the Managing Board position was refilled, CEO Pierre-Pascal Urbon was in charge of the global Sales and Service areas on a provisional basis. At the start of 2015, Martin Kinne became the new Managing Board member responsible for this area. Lydia Sommer left the Managing Board on February 28, 2015. The new Board position allocations are described in the Supplementary Report on page 79.

See
 Supplementary Report
 page 79

Composition of the Supervisory Board

In the reporting period, the SMA Supervisory Board, which represents shareholders and employees equally, consisted of Dr.-Ing. h. c. Günther Cramer (Chairman), Peter Drews, Dr. Erik Ehrentraut (Deputy Chairman), Kim Fausing (as of September 23, 2014), Dr. Winfried Hoffmann, Prof. (em.) Dr.-Ing. Werner Kleinkauf (until August 27, 2014) and Reiner Wetzlaufer. The employees are represented by Dr. Günther Häckl, Heike Haigis (as of September 30, 2014), Oliver Dietzel, Johannes Häde, Alexander Naujoks (until September 30, 2014), Joachim Schlosser and Mirko Zeidler. Sadly, company founder and long-standing Supervisory Board Chairman Dr.-Ing. h. c. Günther Cramer died on January 6, 2015, after a long and serious illness. He was succeeded as a Supervisory Board member by Roland Bent. Dr. Erik Ehrentraut assumed chairmanship of the Supervisory Board (as of February 11, 2015).

Vision and Strategy

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

As a market and technology leader, from early on we started focusing our strategy on exploiting international growth opportunities in a market environment characterized by very strong competition and price pressure, and have responded flexibly to demand fluctuations reaping the long-term benefits from the transition to a new energy supply system based on renewable energies.

Defending Global Market Leadership

SMA has a global presence and is thus represented in all key photovoltaic markets. Thanks to this and its broad product portfolio, SMA is uniquely positioned and endeavors to defend its global market leadership. The Managing Board anticipates that the photovoltaic market, measured in gigawatts, will continue to grow worldwide. However, in light of high price pressure, sales growth in terms of euros is not anticipated in the medium term.

In terms of power classes, SMA is focusing on the following market segments: PV systems in private households (Residential); PV systems in large-scale, commercial buildings (Commercial); PV power plants (Utility); stand-alone energy supplies (off-grid systems with storage capacity, Off-grid Solutions); and PV-diesel hybrid applications in addition to operation, service and maintenance activities.

A core element of SMA's corporate strategy is to [develop new products](#) and exploit new growth segments. Providing operation and maintenance services for photovoltaic power plants (O&M business), for instance, is an important driver of our Service segment growth strategy. SMA is also committed to expanding the PV-diesel hybrid business and intensifying internationalization.

See Research and Development page 43 et. seqq.

Corporate Goals

To maintain its role as a technology leader in the global photovoltaic market in the future, SMA needs to undergo a groundbreaking transformation in 2015. The SMA Managing Board is mobilizing all its forces to return the Company to **profitability**. In order to achieve this, the corporate structure will be adjusted in line with the lower **sales figures**. SMA will focus on strategically important development projects, optimize processes and procedures, adjust the real net output ratio and reduce the number of employes in Germany and abroad. The measures are defined by specific tasks and will be systematically implemented.

Return to Profitability

To make the SMA-Group profitable again, additional **layoffs** are unavoidable.

SMA will need to adjust the personnel structure in Germany and abroad. More precisely, SMA will have to lay off 1,600 full-time equivalents worldwide in 2015. At the Niestetal/Kassel site, 1,300 jobs will be shed, while the foreign sites are planning to cut 300 jobs.

At the same time, SMA is pursuing a **product offensive**. New products have been – and are still being – launched in all power classes. These products are distinguished by significantly lower cost of sales. Using basic devices from the different inverter classes means that components can be produced in greater quantities, thereby cutting costs. SMA systematically phased out products that were no longer profitable from its portfolio and has already made savings within existing product groups, too. New product development will be more focused.

In addition, SMA is targeting attractive photovoltaic markets and applications. As a result of these portfolio adjustments and continued high price pressure, SMA anticipates a slight decline in sales for 2015.

Furthermore, SMA will optimize the efficiency of processes along the entire value chain (**process optimization**). This will enable the Company to shorten process lead times, reduce inventories and take advantage of options of purchasing partnerships even more effectively than before. SMA is restructuring its existing production centers so that they are even more market-specific and is developing a standardized global logistics concept. We are also taking advantage of Zeversolar's resources to train new suppliers and accelerate implementation of our measures.

Expand Growth Markets

An important aspect of the corporate strategy is to **exploit growth markets**. This includes the O&M business in North America and Europe. Initial successes have already been achieved, with SMA concluding O&M contracts with 840 MW in North America and 160 MW in Europe. SMA is simultaneously pressing ahead with the expansion of its PV-diesel hybrid business to develop new projects in the world's **Sunbelt** countries. These new business areas (PV-Diesel Hybrid, Service and O&M) are making progress but will not yet make a significant contribution to sales in 2015.

Sunbelt
See also Glossary
page 166 et seqq.

Stronger **internationalization** is a fundamental goal for SMA. In this regard, the Company must, above all, modify its Sales and Service structures in Europe and focus on the promising growth in the Americas and the Asia-Pacific economic region (APAC).

Research and Development

As the global market leader, we set trends in the global photovoltaics industry and our development capabilities have received numerous accolades. Technological development is the key to achieving both a global energy transition and necessary cost cuts.

MODERN DEVELOPMENT APPROACH

Our development concepts enable us to anticipate future system technology demands. Customers used to be concerned primarily with energy yield, service life and design flexibility. In the future, however, price, minimal energy costs and system integration will be the most important factors in making a purchasing decision.

As the technology leader for photovoltaic system technology, it is our aim to cut costs through developments while simultaneously designing complete system solutions. A focal point is the SMA Smart Home, which efficiently increases self-consumption of solar power in households and commercial enterprises. For large-scale PV power plants, we offer our customers a complete system comprising system technology, switchgear and medium-voltage technology. SMA is pursuing a platform strategy aimed at systematically cutting the cost of PV inverters. By standardizing the core inverter, SMA can increase the proportion of identical components across the entire portfolio. Customization in line with different markets and customer requirements will be implemented through the connection area and the software.

NEW PRODUCTS

The first products of the new SMA inverter generation with an output of 1.5 kW and 2.5 kW were already unveiled to customers at the Solar Energy UK trade fair in Birmingham, England, in the fourth quarter of 2014. Their large-scale market launch is planned for the first quarter of 2015. In the medium-sized inverter segment (Commercial), SMA successfully launched the new Sunny Tripower 25 at the end of 2014. The new Sunny Tripower 60-US will come on the U.S. market in the first quarter of 2015. For project business, the new Sunny Central 2.5 MW will be available mid-2015. This generation of devices has been in use at the SMA test facility at Sandershäuser Berg since mid-2014. In addition, new battery inverters for small PV systems (Sunny Island 3.0M and Sunny Island 4.4M) have been available since January 2015.

Our R&D expenses including capitalized development projects amount to €129.1 million. The high expenditures over the past three years have enabled us to set the course for our development and to see a number of these projects through to completion. This gives us scope to reduce the level of expenditure to approximately €80 million in 2015. The R&D quota of sales forecast still far outstrips the average for the electrical engineering sector, which under-scores our technology focus. This is also reflected in the number of patents and trademarks held by SMA. So far, we have been granted almost 561 patents and utility models worldwide (December 31, 2014). Ongoing application procedures over the next years will result in about 690 patents. SMA also holds the rights to 951 trademarks.

RESEARCH AND DEVELOPMENT EXPENSES OF THE SMA GROUP

in € million	2014	2013	2012	2011	2010
Research and development expenses	129.1	102.5	108.1	99.9	82.9
of which capitalized development projects	40.9	22.9	20.2	16.1	10.9
Depreciation of capitalized development projects (scheduled)	14.9	14.9	7.5	5.6	1.1
Research and development ratio in % in relation to sales	16.0	11.0	7.4	6.0	4.3

OPTIMIZATION OF THE PRODUCT PORTFOLIO

We have made significant progress with developments to the new inverters in our Sunny Boy and Sunny Tripower families. In the reporting year, we expanded our product portfolio to include three new Sunny Boy and four new Sunny Tripower inverters. All new inverters are distinguished by a greater energy yield with considerably reduced specific costs.

In October, we started production of the new Sunny Tripower 25000TL. The Sunny Tripower 25000TL is the optimum solution for solar projects in the commercial and industrial sector and, with the already-launched Sunny Tripower 20000TL, rounds off our product portfolio. The inverter is the ideal solution for customers who require a complex system layout but are looking to keep costs to a minimum. In addition, the Sunny Tripower 25000TL is equipped with **Integrated Plant Control** and "**Q on demand**" for around-the-clock **reactive power** supply. These network management functions allow PV system operators to considerably save costs.

INTERNATIONALLY RENOWNED R&D PARTNER

In Germany, we are involved in different expert committees, associations and research projects. For example, we work closely with the Competence Network for Decentralized Energy Technologies, Fraunhofer Institute for Wind Energy and Energy System Technology, Center of Competence for Distributed Electric Power Technology and the Institute for Decentralized Energy Technologies. SMA also has a broad international network of research and development partnerships. For instance, SMA is involved in a joint EU project called TILOS. The aim of this European demonstration project is to supply the inhabitants of the Greek island of Tilos with a photovoltaic/wind/diesel hybrid system, which is intended to be operated both parallel to the grid and as a stand-alone grid. SMA is contributing a new large-scale battery inverter in the MW class to the project.

DEVELOPMENT SITES IN GERMANY, THE U.S. AND CHINA

The bulk of SMA's development activities are based at its headquarters in Niestetal/Kassel. In the reporting period, more than 90% of R&D employees were employed at the Niestetal/Kassel site, with the focus of their work on the development of system technology and grid integration solutions. We on the Managing Board are firmly convinced that the key to SMA's future success lies in development. However, in order to adapt our product portfolio more quickly and efficiently to the needs of our North American customers, we have expanded our research and development (R&D) commitments in the U.S. At the SMA inverter production site in Denver in the U.S. state of Colorado, we are developing new products for the U.S. market directly on-site at our "US Technology Center." In addition, SMA founded another development center in Suzhou (China) in 2014. The works involved in highly cost-sensitive development projects are pooled here.

HONORED SOLUTION FOR SELF-CONSUMPTION: SUNNY BOY SMART ENERGY

In 2014, a focal point of our research and development work was further advancement of intelligent energy management systems in households with a PV system. The SMA Smart Home increases self-consumption of solar power, for example, by managing household appliances. By increasing self-consumption, the innovative system concept makes PV system operators more independent from rising electricity prices. The heart of the SMA Smart Home is the Sunny Boy Smart Energy, which was launched in the German market at the end of April 2014. This PV inverter, which was introduced and acclaimed at Intersolar Europe 2013, features a battery that temporarily stores solar power with a capacity of approximately 2 kWh, making it possible for PV system operators to increase their self-consumption share by up to 50% year-round.

Safety was the number one priority when developing the Sunny Boy Smart Energy. Early on in the development phase, we called on the support of VDE¹ – a leading institute for the reliability of electrical systems. The lithium-ion cells used for the wall-mountable inverter's battery pack meet the high quality standards of the automotive industry that apply for use in marketable hybrid and electric vehicles. In addition, the battery pack has a multi-level, redundant safety concept to prevent short circuiting and overcharging.

In October 2014, SMA's Sunny Boy Smart Energy won the Spirit of Innovation Award for the most energy-efficient innovation at the Energy Trade Show for solar energy in the Netherlands. The jury awarded points for innovation, durability, energy efficiency and marketing value.

¹ VDE (Association for Electrical, Electronic and Information Technologies)

SMA SMART HOME UNDERGOES PRACTICAL TEST: ENERGY SAVER PLUS HOUSES IN KASSEL AND MUNICH

In order to demonstrate the potential of the SMA Smart Home, we have developed an innovative single-family home in cooperation with Dynahaus, which is fully self-sufficient when it comes to supplying heat and electric current. In Lohfelden near Kassel and in Hallbergmoos near Munich, the construction of two model homes began in the spring of 2014. At the turn of the year 2014/2015, a family moved into each of these houses on a trial basis for one year to put the building's energy concept to the test as part of a scientific, real-world experiment.

We are also using the model home in Hallbergmoos to research integration of eMobility, which we believe offers considerable potential for private households with their own photovoltaic system. The family living in the Energy Saver Plus house has been loaned an electric car and electric bike that draw their energy from charging stations. This year-long experiment aims to prove that combining an intelligent energy management and optimal charging infrastructure significantly increases self-consumption and, in turn, cuts energy costs.

The Energy Saver Plus house in Hallbergmoos near Munich uses a DC rapid-charging station, which we developed as part of the INEES research project. The new charging station allows solar electricity from electric vehicles to be fed back into the utility grid. Thanks to this technology, electric vehicles can act as additional electricity storage units in the SMA Smart Home. If there is a lot of solar electricity and low demand, the electric vehicle stores the surplus energy. Likewise, the solar electricity flows back to operate electrical appliances if the PV system cannot cover high electricity demand.

In the long term, the integration of electric vehicles into the electricity market could help make reserve energy available on demand and thereby offset fluctuations in the utility grid.

CERTIFICATION FOR THE JAPANESE MARKET

With the Sunny Tripower 10000TLEE, as early as June 2014, we had already met the new FRT licensing requirements, which became obligatory at the end of 2014. This made SMA the first inverter manufacturer in the world to comply with these guidelines so early on, even before its Japanese competitors. This functionality is also of central importance in the current debate on integrating photovoltaics into Japan's national grid on a larger scale. The Japanese government made these requirements obligatory in the fall of 2014 in a bid to safeguard grid stability with the integration of photovoltaics. This early certification underlined the impressive quality of SMA products particularly for our customers in the traditionally safety-conscious Japanese market.

COST-OPTIMIZED LARGE-SCALE PV POWER PLANTS: SOLUTIONS FOR INTERNATIONAL MARKETS

In the large-scale PV power plant segment, we use turnkey medium-voltage solutions that can be deployed internationally to allow simple and direct connection to local medium-voltage grids. The main goal here is to meet the specific connection conditions for each country. SMA's solutions for large-scale PV power plants include SMA inverters, transformers, communication products and a PV farm control.

Reducing system costs, creating a high profit ratio and compact design were the priorities of development. We also managed to significantly reduce transportation costs and maintenance and commissioning outlay. We have now improved the Medium Voltage Power Station (MVPS) by adding a few new product characteristics. For example, we were thus able to extend the spectrum of permissible grid voltages and add a new medium-voltage control unit for higher voltage levels to our component portfolio. Furthermore, customers are now able to use their own components, such as communication modules or grid protection technology. We also offer earthquake-resistant stations. In the spring of 2014, our new SMA Medium Voltage Power Station (MVPS) was used in a new PV power plant in Portugal.

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At the industry trade fair Intersolar Europe in early June 2014, we also introduced a complete DC/AC system for the first time. The optimized system covers DC voltage ranges of 1,000 V at 2,200 kVA and 1,500 V at 2,500 kVA. Thanks to higher voltages and compact design, our customers are able to cut their system costs considerably using the new solution. The turnkey system solution is best-suited for outdoor installations.

PV-DIESEL HYBRID SYSTEMS: SMA FUEL SAVE CONTROLLER COMMENDED

In the world's sunny regions, diesel generators are often used to supply electricity to off-grid regions or to supplement unstable grids. With SMA's intelligent system technology, PV systems can be stably integrated into diesel-powered grids. The integrated solution not only saves on fuel, but also lowers the energy supply system operating and maintenance costs over the long term.

Aside from the PV inverters, the main component of this system technology solution is the SMA Fuel Save Controller, which detects the energy flows in the stand-alone grid and uses this to calculate the maximum permissible PV power. This permanently guarantees system stability and ensures smooth control of diesel generators.

At Intersolar Europe 2014 in Munich, we won the Intersolar Award in the "Photovoltaics" category for the SMA Fuel Save Controller. SMA has now received this award for its technological innovations in the field of photovoltaics four times.

We have put the significant customer benefits of our innovation to the test in what is currently the world's largest PV-diesel hybrid power station. In addition to the inverters, SMA also supplied the SMA Fuel Save Controller to manage solar power feed-in to align with demand as well as four newly developed inverters for large-scale battery storage systems using lithium-ion technology. Boasting 5 MW of installed power, the PV-diesel hybrid system is expected to produce solar power to cover roughly half of the energy demand for the province capital of Cobija (Bolivia, which is home to about 43,000 people) as well as neighboring communities.

INDEPENDENT ENERGY SUPPLY: PV OFF-GRID SYSTEMS

With the Sunny Island product family, we have developed system solutions known as off-grid systems to ensure a completely independent energy supply for remote houses and villages. One of the world's largest PV off-grid systems commenced operations in Afghanistan in January 2014. With an output of 1 MW, the system supplies energy to approximately 2,500 residential, commercial and government buildings in Bamyan Province.

Employees and Corporate Social Responsibility

Employees

STAFF REDUCTIONS AS A BIG CHALLENGE

The far-reaching structural transformation of the solar sector, changing legal conditions and the considerable price pressure on the markets still call for an extremely high degree of flexibility from our employees. The change of the organizational structure from divisional to functional, effective January 1, 2015, and the upcoming layoffs are direct consequences of these. In addition, we are increasingly internationalizing by tapping into foreign markets, which requires new channels of collaboration across borders. Only with an open communication policy and a corporate culture that values its employees can we meet these challenges and support our employees as best we can through the current transformation process.

EMPLOYEE HEADCOUNT

Compared to the 2013 reporting period, the headcount declined slightly as of the reporting date. In Germany, the employee numbers fell dramatically by 7.2%, or 267 people, to a total of 3,469 employees (December 31, 2013: 3,736 employees, figures exclude temporary employees). By contrast, the number of employees abroad slightly rose by 186 people to a total of 1,591 employees (December 31, 2013: 1,405 employees, figures exclude temporary employees). In particular, the increase resulted from positive growth in the U.S. market and the accompanying expansion of the North American company location. At the end of the reporting period, the SMA Group had a total of 5,060 employees (December 31, 2013: 5,141 employees, figures exclude temporary employees). This equates to a decrease of 1.6% compared with the previous year.

EMPLOYEES	12/31/2012	12/31/2014	12/31/2013	comparable ¹	12/31/2012	12/31/2011	12/31/2010
Reporting date		12/31/2014	—	12/31/2013	—	comparable ¹	—
Employees							
(excl. temporary employees)	5,060	5,141	5,992	5,584	5,532	4,466	
of which domestic	3,469	3,736	4,649	4,649	4,670	4,057	
of which abroad	1,591	1,405	1,343	935	862	409	
Temporary employees	467	662	639	639	943	1,140	
Total employees							
(incl. temporary employees)	5,527	5,803	6,631	6,223	6,475	5,606	

¹ incl. Zeversolar

To a reduced extent, SMA uses temporary employees to meet short-term fluctuations in demand. Their hourly rate of pay is in line with that of SMA employees. As of the reporting date (December 31, 2014), SMA employed a total of 467 temporary employees worldwide. This figure fell again in the current reporting period as it did in the previous reporting year 2013. As of the reporting date, 195 fewer temporary employees were employed worldwide than in the previous year (December 31, 2013: 662 temporary employees).

AWARD: SMA IS A TOP EMPLOYER FOR ENGINEERS

Being acclaimed by the independent certification company Top Employers Institute as a "top employer for engineers," we can secure our reputation as an attractive employer even in troubled times. 2014 marked the third time that SMA has received this award following previous receipt in 2010 and 2011.

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ON TRACK FOR SUCCESS WITH DIVERSITY AND MENTORING

Diversity and the Company's success go hand in hand, because mixed teams have been proven to operate particularly successfully in the market. SMA unites many cultures, moral values and talents. At the headquarters in Germany alone, employees come from more than 70 different nations.

Back in 2011, we joined the "Diversity Charter" to demonstrate our appreciation for all employees – regardless of gender, nationality, religion or ideology, disability, age or sexual orientation.

A current priority of our diversity management is the issue of women in management positions. At the end of the reporting period, the share of female employees company-wide was 25.3%. In the medium term, we aim to reflect the proportion of female employees in the percentage of female executives.

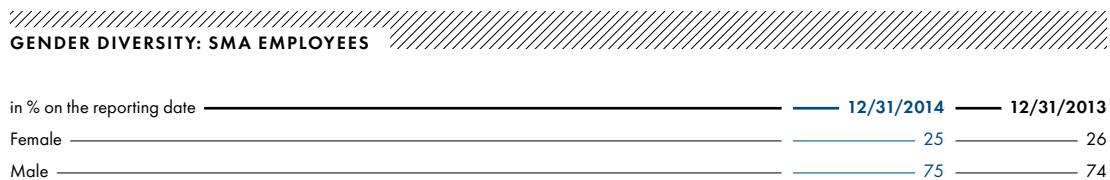
An essential step toward increasing the proportion of women in management positions was taken with the launch of the company-wide mentor program "one4her" in the third quarter of the reporting period. SMA wants to use this initiative to strategically support women in their professional development, to make them more visible in the Company and to improve their connections to each other.

Outside the Company, SMA has also been sponsoring the "MentorinnenNetzwerk für Frauen in Naturwissenschaft und Technik" (Mentor Network for Women in Science and Technology) for a number of years as an important partner. Our involvement includes appointing mentors to this network, which consists of 10 universities in Hesse and supports female students and doctoral candidates in the STEM fields of study (science, technology, engineering and mathematics).

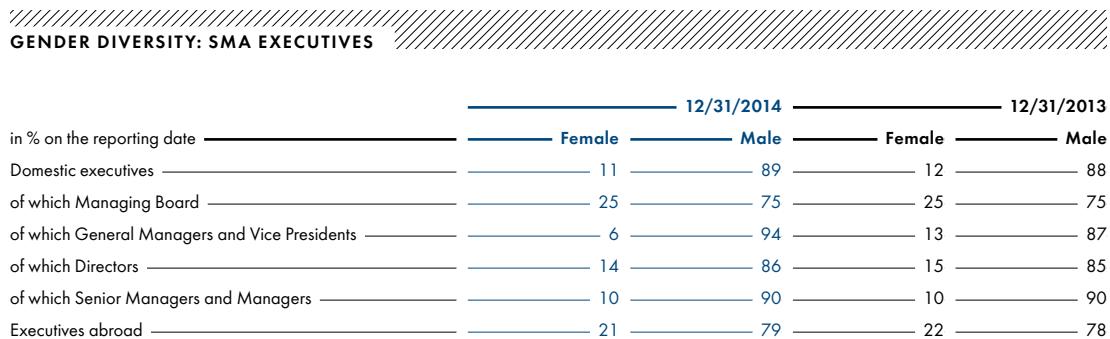
In the German Federal Ministry for Family Affairs' Women's Career Index, SMA was ranked in a gratifying fifth place out of 130 participating companies in 2014. This ranking is a tribute to the numerous family-conscious policies in place at SMA. The Company expresses the importance it attaches to its employees' ability to achieve a work-life balance not only through flexible working hours, but also, for example, through holiday activities for kids on Company premises, workshop series, placing Company daycare centers and providing emergency or interim care.

In pursuit of an increased share of women at the Company in the medium to long term, further measures are already aimed at future generations of employees. As one example from the reporting period, SMA organized a "STEM Girls Camp" for girls aged 14 to 16. For many years, SMA has also been involved in Girls'Day, an event that takes place throughout Germany aimed at girls in grades five and up.

On the reporting date, the gender breakdown across SMA was*):



The picture is as follows at the different management levels:



The concentrated effort to increase the share of women at the two uppermost management levels (Managing Board and General Managers/Vice Presidents) to 25% in the medium term was achieved at the Managing Board level as of the reporting date (December 31, 2014: 25%). By contrast, at the General Managers/Vice Presidents level, female employees represent only a share of 5.7% (December 31, 2013: 12.5%). There is a decline in the ratio here, which is primarily due to the significant reduction in employees compared with the previous year.

At SMA's site in Germany, a large number of employees hold a foreign passport. Compared to the previous year, this number remained stable despite staff reductions. At present, SMA employs 189 employees with foreign passports. This equates to 5.4% of the workforce in Germany (December 31, 2013: 5.1%).

As of the reporting date, the proportion of employees with disabilities as a ratio of the total workforce was at 5.0% (December 31, 2013: 4.6%).

ACQUISITION AND VOCATIONAL TRAINING OF YOUNG PROFESSIONALS AT SMA

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

As of the reporting period, a total of 173 young people were in vocational training at SMA (December 31, 2013: 230 people). 110 trainees completed their vocational training during the reporting period. We were able to give the best graduates a position at the Company. In the new cohort of trainees, 49 trainees commenced their vocational training at SMA in the reporting period in the three vocational training areas of mechatronics, device and system electronics and industrial business management.

Corporate Social Responsibility (CSR)

SMA understands sustainability as combining long-term economic success with protection of the environment and social responsibility. We take social responsibility seriously by considering social and environmental interests. From this claim, we have derived specific maxims. One of our key aims is to have a high-quality product portfolio underpinned by reliable technology. In addition, optimization of our production processes to ensure they meet the highest standards of quality, safety and environmental friendliness is equally important. In 2012, SMA defined its 10 most strategically important action areas for increased sustainability and formulated a sustainability mission statement. The mission statement is supplemented by the SMA Business Principles, which set out clear standards of conduct for all employees.

[www.sma.de/
unternehmen/
group-compliance](http://www.sma.de/unternehmen/group-compliance)

ACTION AREAS OF THE SMA MISSION STATEMENT

- 1 — Sustainable Economics
- 2 — Innovative Products for a Sustainable Energy Supply
- 3 — Production Without Waste
- 4 — Socially and Environmentally Responsible Supply Chain
- 5 — Environmental Management for Sustainable Economics
- 6 — Efficient and Renewable Energy Supply With Minimized Consumption
- 7 — Committed Employees
- 8 — Sustainable Regional Development
- 9 — A Livable and Sustainable Society – Everywhere
- 10 — Constructive Dialogue

For all company activities, the SMA Global Operations unit coordinates implementation of the sustainability strategy. Employees responsible for this initiate and implement suitable measures and projects and thus optimize company-wide compliance with the sustainability criteria. The principles outlined in the mission statement are systematically anchored in our Company through specific delegation of responsibilities.

VALUES, STANDARDS AND GUIDELINES

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

[www.sma.de/
unternehmen/corporate-
social-responsibility/
werte-und-prinzipien](http://www.sma.de/unternehmen/corporate-social-responsibility/werte-und-prinzipien)

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). This Supplier Code sets out requirements with regard to corruption, antitrust law, ethical principles, labor standards and employee rights, environmental protection, quality and product safety.

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

ENVIRONMENTAL AND ENERGY MANAGEMENT

SMA Solar Technology AG production sites in Niestetal/Kassel and Denver have had their environmental management systems certified in accordance with DIN EN ISO 14001. The authorities do not place any special environmental requirements on SMA production because, thanks to our environmentally friendly production methods, we use only very small quantities of materials that are harmful to the environment. These are disposed of by certified disposal companies in accordance with legal requirements. In 2013, we supplemented our environmental management system by having our in-house energy management system certified in accordance with DIN EN ISO 50001. The internationally recognized certification attests to SMA's particularly efficient and sustainable use of energy in production and management.

SMA's corporate energy management policy 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. Over a series of defined stages, we are striving to achieve excellence on the path toward completely CO₂-neutral production. In addition to its own systems and facilities, the Company also plans to advance energy-related causes in the region by helping create a decentralized renewable energy supply able to wholly meet the energy demand of the area and by leveraging additional opportunities.

In 2014, we were able to continue to increase the share of self-generated solar electricity in our total electricity consumption on a year on year basis. Thanks to the ground-mounted PV plant at Sandershäuser Berg, which was completed in August 2014 and has a module capacity of over 3 MW, our self-consumption quota now stands at about 20%. The PV power self-generated from this plant will be used directly at the neighboring solar factory and any excess power will be used at the nearby SMA Sonnenallee site in Niestetal.

In addition to the Data Processing Center, which was completed in 2013 and is one of the most resource-efficient centers of its kind, SMA has already undertaken a number of flagship projects in the past with its CO₂-neutral inverter production facility at Solar Factory 1 and the Solar Academy, which functions independently from the electricity grid. These projects are a testament to the high priority SMA places on its sustainable energy strategy.

COMPANY MOBILITY MANAGEMENT

Corporate mobility management within SMA, which has already received a number of accolades, is also part of climate and environmental protection. It raises employees' awareness of environmentally friendly mobility options for getting to and from work and of an intelligent choice of transport between SMA sites. In 2013, the Deutsche

Umwelthilfe e.V. (German Environmental Aid Organization) awarded SMA with a prize for its concept and particularly praised the fleet organization as a good example of climate protection in the area of mobility. In its fleet organization, for example, SMA limits the CO₂ emissions of its vehicles to 120 g/km. This value is below the EU threshold for 2015. A bonus-malus system provides an enhanced incentive to reduce CO₂ emissions further.

SOCIAL COMMITMENT

For SMA, taking its share of responsibility for positive and social development is a matter of course. SMA thus promotes charitable projects, organizations and initiatives in the areas of work and social matters, education, science and research as well as regional and national renewable energy projects in emerging and developing countries. We do this by providing support through donations and sponsorship as well as through the volunteer work of our employees.

In 2014, SMA, as one of the major companies in North Hesse, sponsored the Kassel Volunteer's Center. In the area of education, science and research, we support the "Jugend forscht" (Youth Researches) and "Hessen SolarCup" competitions, as well as the North Hesse Student Research Center.

With the MENSCH mentoring program from the "Jumpers – Jugend mit Perspektive" (Jumpers – Youth With Prospects) society and the mentoring program for young female engineers from the MentorinnenNetzwerk (Women Mentors Network), SMA supports two additional educational initiatives not only financially, but also by giving our employees the opportunity to get involved.

In order to make people's access to electricity easier or even possible, in 2014, SMA, together with its employees and project partners, was involved in aid projects in developing and emerging countries, such as building a PV system for a teaching and training farm in Namibia.

We also supported the team from the Frankfurt am Main University of Applied Sciences by providing a selection of products when it participated in the interdisciplinary student competition "Solar Decathlon Europe 2014" in Versailles. The aim of this architectural and energy technology competition is to design a house with an autonomous energy supply. The houses designed must cover their own energy needs using only self-generated solar power.

SUPPORT THROUGH EXPERTISE

SMA is involved in numerous networks, collaborative projects and initiatives that play an important role in further development of the North Hesse region in various ways including by providing expertise and human resources.

SMA has been supporting deENet, the competence network for decentralized energy technologies, as an active member since 2003. The organization has made it its mission to turn North Hesse into a location renowned for its decentralized energy supply through renewable energies using technological progress and sustainable regional development.

Our close collaboration as an original shareholder in the Institute for Decentralized Energy Technologies (IdE), founded in 2011, and the sponsorship of an endowed chair at the University of Kassel with the title "Economics With a Focus on the Decentralized Energy Industry" are along similar lines. The sponsorship of the Germany-wide business plan competition "promotion Nordhessen" (Promotion North Hesse) is also intended to provide company founders with targeted support in the area of decentralized energy supplies.

Enterprise Management

Leading Indicators

To be able to react to market changes in a timely manner, it is very important for us to recognize opportunities and risks early on. To achieve this, we will have ongoing discussions about what are commonly referred to as operative leading indicators both at the Board level and division level with the Division 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 Division Management are informed on a monthly basis both about the financial development of the entire SMA Group and the individual divisions and about changes in operative leading indicators.

Financial Management Parameters

In 2014, SMA used the following key financial management parameters for its operative business as explained below. There are no changes compared with the previous year in calculation of key figures or to 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 measured, in addition to sales, inverter output sold and the average selling price per watt. We calculate sales at both the Group and division 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 divisions 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 division 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 operating cash flow. 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. We manage capital expenditure at the corporate Group level.

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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, operating result, 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 divisions. Strategy implementation was also discussed during quarterly business reviews with the divisions 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.

FUNCTIONAL REORGANIZATION

Since January 1, 2015, the SMA Group has operated under its new functional organization. In this new organization, the Residential, Commercial, Utility and Service business units take overall responsibility and manage Development, Sales and Production. With regard to leading indicators, the Managing Board and Business Unit Heads are 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.

The sales, operating profit (EBIT) and operative earnings margin will be determined at the Group level and at the business unit level in the future. We will continue to measure and manage net working capital, the net working capital ratio and capital expenditure at the corporate Group level.

Fiscal Year 2014

General Economic Conditions and Economic Conditions in the Sector

General Economic Conditions

The global economy recovered considerably over the course of 2014 as a whole. Data from the International Monetary Fund (IMF) put global growth at 3.3% in 2014 (2013: 3.3%). This was predominantly caused by the economic recovery in industrialized countries, which was shaped by rising production and increasing exports. Overall, gross domestic product (GDP) in developed national economies grew by 1.8%, thus at a significantly stronger rate than in the previous year (2013: 1.3%). By contrast, at 4.4% developing and newly industrialized countries posted growth at a slower pace than in the previous year (2013: 4.7%).

However, the situation in the EU is still cause for concern for IMF economists. With estimated growth of 0.8% – original forecast of 1.1 – the single currency area within the EU is ailing in particular. For this reason, the IMF foresees a risk of stagnation rather than the upturn it was hoping for.

With a GDP of -0.4%, Italy's economic downturn was less severe than it was in the previous year (-1.9%). Spain's economy even posted a substantial upturn, with GDP inching up again for the first time by 1.4% (2013: -1.2%). France's economy improved only marginally, recording growth of 0.4% (2013: 0.3%). At 1.5%, Germany's economic output continued to pick up noticeably in the reporting period (2013: 0.5%).

According to the IMF, in 2014, impediments to growth in the euro zone included the fact that insufficient investment has been going into large national economies despite low interest rates and that too little has been done with regard to demand. In the reporting period, the European Central Bank (ECB) intervened considerably once again, reducing the all-important interest rate in the euro zone in two stages to a historically low level of 0.05%. The moderate structural reforms in the Southern European countries hit by crisis also had a dampening effect, compounding the continuing weak demand emanating from developing and newly industrialized countries.

Alongside the European national economies, other key foreign markets for SMA developed in extremely varied ways in 2014. According to the IMF, the U.S. economy grew at a strong rate of 2.4% (2013: 2.2%). Japan's economy weakened, with a GDP at 0.1% (2013: 1.6%). In China, the GDP increased at a little slower rate of 7.4% compared with the previous year (2013: 7.8%). With growth of 5.8%, India's economy saw a clear increase in economic output compared with the previous year (5.0%). By contrast, South Africa's economy posted a weaker performance than the previous year with growth of 1.4% (2013: 2.2%).

Economic Conditions in the Sector

The global photovoltaics industry saw no growth in newly installed PV power in 2014. SMA expects newly installed PV power of approximately 40 GW (2013: approx. 41 GW). Due to persistently high price pressure and the amendment of incentive programs for solar power, SMA estimates that global sales for PV inverter technology fell by about 10% to €3.9 billion. The regional distribution of demand also changed again in 2014. European photovoltaic markets accounted for roughly 25% of global sales in 2014 (2013: >30%). The Chinese market also declined in significance due to the lower number of new installations year on year and very high price pressure and contributed only about 8% of sales in 2014 (2013: approx. 14%). In contrast, American photovoltaic markets developed positively, making up nearly a quarter of global sales (2013: approx. 15%). The Asia-Pacific photovoltaic markets (excluding China) accounted for more than 40% of the global market (2013: approx. 40%).

EMEA

The 2014 fiscal year was shaped by significant adjustments to solar electricity tariffs in key European markets and delays in tendering procedures in Africa and the Middle East. Demand in the EMEA region continued to fall sharply. With only 9 GW of newly installed PV power, the EMEA made up less than a quarter of the global market.

Great Britain became the most important photovoltaic market in Europe. This was the result of changes in legislation. For example, the subsidy for ground-based PV systems with an output from 5 MW was set to be withdrawn. Instead, the British government will place emphasis on large roof-based systems (more than 250 kW) in future incentive programs. Originally, this change should have entered into force on April 1, 2015. However, in an unexpected turn of events, the government extended the deadline for connecting large-scale PV power plants to the grid under the current subsidy regime by one year to March 31, 2016. The boom in demand expected by many market participants in the last quarter therefore failed to materialize. Overall, however, the British photovoltaic market performed excellently in 2014.

Expansion in **Germany** was eclipsed by intense political discussions about the Renewable Energy Sources Act (EEG) amendment, which took effect in August 2014. The ongoing feed-in tariff depression led to further decline in new PV installations. In addition to this, there was a drastic change for PV system owners who now, for the first time, have to pay a portion of the **EEG apportionment** for the power they consume. Given that this new regulation also included existing PV systems, critics branded this step as a serious infringement on preservation of the status quo and protection of legitimate expectations. Only operators of the smallest PV systems with an output of up to 10 kW – what is traditionally the private residential segment – will ultimately be exempt from the levy. Nevertheless, this caused considerable insecurity among investors and planners. As such, Germany fell far short of the target corridor of 2.4 to 2.6 GW that the German Federal Government was aiming for, with actual growth in photovoltaics coming to just 1.9 GW. This equates to a decline of over 40% compared with the already weak previous year (growth in 2013: 3.3 GW).

EEG Apportionment
See also Glossary
page 166 et. seqq.

France posted stable growth in demand compared with the previous year. By contrast, according to SMA estimates, the market in **Italy** and **Spain** contracted by more than two thirds, with demand in Greece nearly collapsing completely (-98%). In the **Benelux** and **Eastern European** countries, demand fell by about 40%. The fall in demand was partly due to legislative changes to subsidies taking effect. After a subsidy cut in 2012 and the introduction of an energy tax, the Spanish government completely withdrew the feed-in tariff for solar power in July 2013. In Italy, the solar power subsidy had already expired in early July 2013, when the ceiling for the feed-in tariff of €6.7 billion was reached. The market for photovoltaics subsequently plummeted. Self-consumption and net metering¹ have not been able to bridge the gap so far.

¹ Offsetting power generation and power consumption: Net metering allows PV system operators to offset their own power consumption by producing solar power. This means that they can reduce the amount of electricity they have taken from the utility grid 1:1 by feeding in solar electricity.

NON-EUROPEAN MARKET

The **U.S.** market for photovoltaics is continuing to grow strongly. In the reporting year, the growth rate was over 6 GW. According to SMA estimates, more than half of the new installations were large-scale solar projects with a power of at least 1 MW. New installations for commercial applications were somewhat greater than for private use. Demand for PV systems is being assisted in particular by tax incentive programs. In addition, portfolio standards are having an impact on the investing activities of electric utility companies. Portfolio standards ensure that electric utility companies include a certain share of renewable energy in their energy generation portfolios.

The PV market in **Japan** also continued to expand positively. According to the International Energy Agency (IEA), PV systems with an output totaling more than 8.8 GW were connected to the grid in 2014, which constitutes a new record. More than half of the new installations were attributable to medium-sized PV systems for commercial applications. Large-scale solar projects constituted approximately one third of demand and about 10% related to smaller PV systems for private use. The positive development is particularly resulting from attractive subsidy conditions.

China was unable to build on the strong growth of the previous year in 2014. With around 10 GW of newly installed power, growth was approximately 20% lower than in the previous year according to SMA estimates. More than three quarters of the growth was attributable to large-scale solar projects and 20% to commercial applications. The lower growth is due to subsidy changes and unclear implementation guidelines. The new regulations should support medium-sized PV systems in particular.

Energy requirements and thus demand for photovoltaics are growing in **newly industrialized and developing countries**. In many countries, it is already an economically attractive alternative to other methods of generating energy. Key growth regions include South and Latin America, Southeast Asia and the Middle East.

In many countries located in what is known as the Earth's **Sunbelt**, high diesel prices, transportation and storage costs act as an incentive for expansion of photovoltaics. In these sunny regions, photovoltaics is already the more financially attractive alternative. With good solar irradiation, a PV-diesel system will pay for itself within a few years.

Sunbelt
See also Glossary
page 166 et. seqq.

Impact of General Conditions on Business Development in 2014

In the reporting year 2014, the negative trend in Europe continued and demand for PV inverters fell. The Chinese market also declined. By contrast, strong growth stimuli emanated from North America. Demand in North America alone could not compensate for the decline in volume in Europe and China (measured in GW). This was made possible in GW terms by the positive development of many smaller markets. Global investments in PV inverter technology declined because of the noticeable price pressure and the continuing shift in demand toward larger PV systems. The SMA Managing Board expects a global market of €3.9 billion. This equates to a decrease of almost 10% compared with the previous year. SMA's business development reflects these global trends.

The SMA Group sold PV inverters with a total output of 5,051 MW in the reporting period. This equates to a decrease of 5.8% compared with the previous year (5,361 MW). Sales fell by 13.6% to €805.4 million. In 2014, the international share of sales increased to 76.0% (2013: 71.0%). The most important foreign markets were the U.S., followed by Canada, Australia, Japan and Great Britain. EBIT was €-164.9 million (2013: €-89.1 million). EBIT margin was -20.5% (2013: -9.6%). The operating result includes high expenditure for provisions for the planned staff reduction, further one-time items from impairment and the loss from Zeversolar. This amounted to €104.7 million.

Business development in the Medium Power Solutions division was affected by the slump in demand in Europe and plummeting prices. External sales fell by around 8% to €439.2 million (2013: €479.6 million), while the total inverter output sold declined only slightly. The Power Plant Solutions division was especially affected by high price pressure in the segment of large-scale solar projects. In addition, regulatory changes led to shifts in demand. Sales fell by 25.7% to €278.9 million (2013: €375.2 million).

Comparison of the Actual Business Development With the Forecast

The SMA Managing Board published an initial forecast for the 2014 fiscal year on November 4, 2013. At this time, the Managing Board expected sales of €1.0 billion to €1.3 billion. SMA anticipated operating earnings of up to €20 million in the best case scenario. The forecast was based on the assumption of a stable regulatory environment, particularly in Europe.

With the publication of the 2013 Annual Report on March 27, 2014, the SMA Managing Board confirmed and specified the forecast for fiscal year 2014. At this time, SMA aimed for a net working capital ratio of between 20% and 23%. Capital expenditure was expected to amount to €70 million to €90 million in 2014.

On July 30, 2014, the SMA Managing Board lowered its 2014 sales and earnings forecast. The adjusted forecast predicted SMA Group sales of between €850 billion and €950 billion. In the best case scenario, the Managing Board expected to break even in terms of operating earnings. At this time, the Managing Board anticipated a loss of approximately €45 million at the lower end of the sales forecast. To achieve the lower end of the sales forecast, the project business contracts expected to be concluded in the fourth quarter would have had to have been turned around in the 2014 fiscal year. The SMA Managing Board also expected commercial business to pick up as usual toward the end of the year. The earnings forecast did not take into account any non-recurring expenses from the staff reduction also announced on July 30, 2014.

In the financial report for the third quarter of fiscal year 2014, on November 6, 2014, SMA confirmed the forecast that it had issued on July 30, 2014. In the publication, the SMA Managing Board mentioned expressly that the forecast was linked to the revival of commercial business and to expected project conclusions. Unfortunately, commercial business did not develop as well as expected and the year-end rally, notably in Great Britain and China, failed to materialize. The SMA Managing Board therefore reevaluated the market development strategy of the Chinese subsidiary Zeversolar. On December 1, 2014, the SMA Managing Board adjusted its 2014 sales and

earnings forecast once again. At this time, for the current fiscal year, SMA expected to achieve sales of between €775 million and €790 million and anticipated a loss of up to €115 million excluding provisions for the planned layoffs. The new earnings forecast took into account matters including the write-down of Zeversolar's goodwill, additional one-time items and the higher operating loss due to sales that failed to materialize.

With sales of €805.4 million in 2014, SMA slightly exceeded the lowered sales forecast. The operating result before provisions for the planned restructuring measures amounted to €-114.9 million and was thus in line with the forecast.

At €75.5 million, SMA fell in line with its forecasted range (€70 million to €90 million) for planned investments in intangible assets and buildings, and acquisition of machinery and equipment. The net working capital ratio for the reporting year was 31.2% and thus far outstripped the value range of between 23% and 26% released by the Managing Board. The increase in net working capital is mainly attributable to an increased level of finished goods as a result of the higher sales figures originally anticipated.

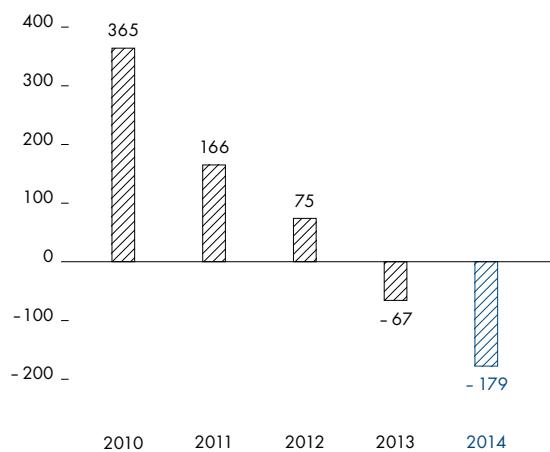
||||| TARGET-ACTUAL-COMPARISON FOR 2014 |||||

	Forecast July 30, 2014	Forecast December 1, 2014	Results 2014
Sales	€850 to €950 million	€775 to €790 million	€805.4 million
Operating profit (EBIT)	Break even at best ¹	Loss of up to €115 million ²	€-114.9 million
Capital expenditure	€90 million	€80 million	€75.5 million
Equity ratio	Nearly 60%	50%	46.8%
Net cash (adjusted)	€250 million	More than €250 million	€225.4 million

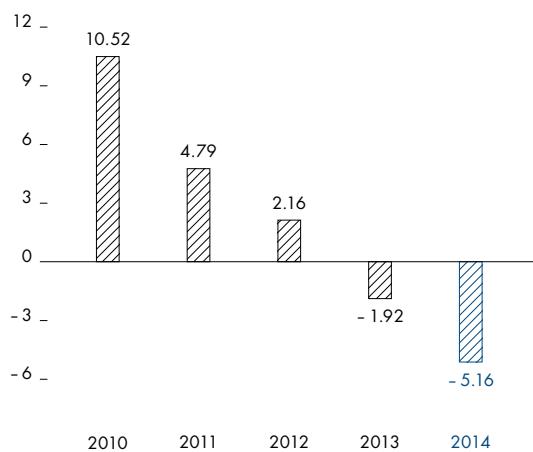
¹ At the lower end of the sales forecast, the Managing Board expects a loss of approximately €45 million.

² Excluding provisions for the planned staff reduction.

||||| CONSOLIDATED NET RESULT in € million |||||



||||| EARNINGS PER SHARE in € |||||



Results of Operations

Group Sales and Earnings

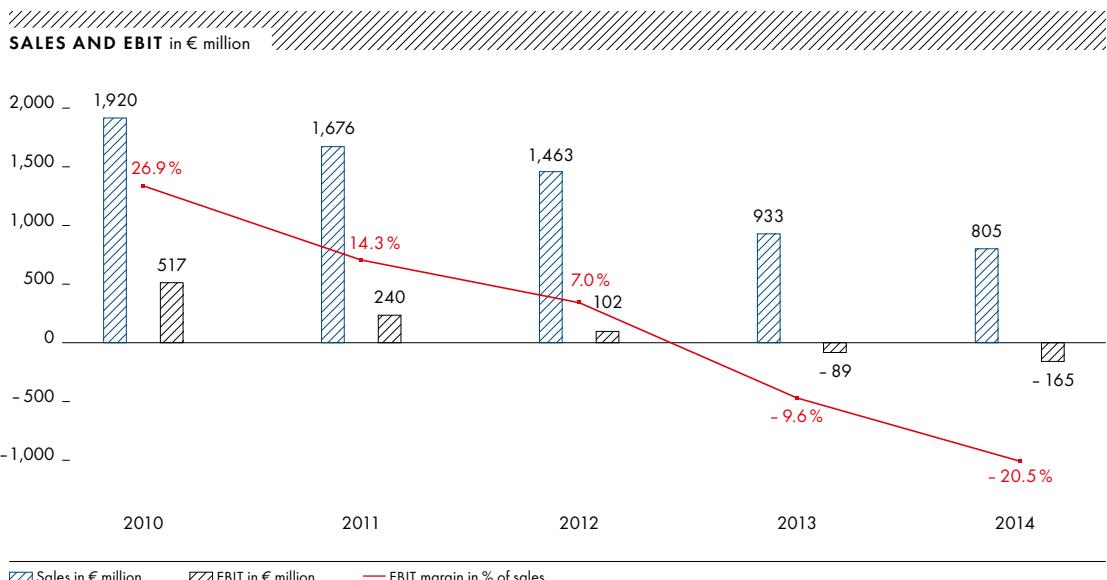
SIGNIFICANT UPTURN IN THE SECOND HALF OF THE YEAR

In the second half of 2014, the SMA Group posted a significant increase in volumes compared with the first half of the year and sold PV inverters with a total output of 5,051 MW (2013: 5,361 MW). However, SMA was unable to compensate for the lower volume registered in the first half of 2014. Over the year as a whole, volumes fell by 5.8% compared with the previous year. As a result of lower volumes and the high level of pricing pressure, sales fell by 13.6% year on year to €805.4 million (2013: €932.5 million).

The main reasons for the sharp reduction in demand in Europe were decreases in compensation as a result of subsidy cuts and expiring subsidies – especially in Germany, Spain, Italy and Greece. Demand in Thailand and South Africa also decreased as a result of subsidy cuts and political unrest. SMA could not completely offset weak demand in Europe, Thailand and South Africa with increases in the growth markets of North America, South America and Japan. The export ratio climbed from 71.0% to 76.0% year on year, underscoring SMA's outstanding position internationally with its excellent sales and service structures. In 2014, the SMA Group's most important foreign markets were the U.S., Canada, Australia, Japan and Great Britain.

In the reporting period, earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to €-58.4 million (2013: €-5.5 million). EBITDA was therefore €-52.9 million lower than in the previous year.

In the reporting period, earnings before interest and taxes (EBIT) fell to €-164.9 million. In the same period of the previous year, it had amounted to €-89.1 million due to better sales performance and lower one-time items. The EBIT margin declined from -9.6% to -20.5% year on year. Consolidated earnings amounted to €-179.3 million (2013: €-66.9 million). Earnings per share amounted to €-5.16 (2013: €-1.92).



NO DIVIDEND FOR THE 2014 FISCAL YEAR

In the year under review, SMA Solar Technology AG as the parent company of the SMA Group registered an annual net loss of €-197.2 million (2013: €-75.9 million) in its separate commercial statements. The Managing Board will recommend that the Supervisory Board propose no dividend payout for the 2014 fiscal year at the Annual General Meeting on May 21, 2015. The amount paid out in dividends will thus amount to a total of €0.0 million (2013: €0.0 million).

Sales and Earnings per Segment

DECLINING COMMERCIAL BUSINESS IN EUROPE NEGATIVELY AFFECTS MPS DIVISION

In the reporting period, the Medium Power Solutions (MPS) division encompassed the Sunny Boy, Sunny Mini Central, Sunny Tripower and Sunny Island product families. The division also developed products used for monitoring PV systems and energy management. SMA has concluded cooperation agreements with Miele, Vaillant and Stiebel Eltron to jointly develop system solutions for energy management with the goal of using solar power more effectively.

In the reporting period, external sales of the **Medium Power Solutions** division fell by 8.4% to €439.2 million (2013: €479.6 million). Thus, MPS was again the strongest-selling division in the SMA Group. Its share of SMA Group's total sales was 54.6% (2013: 51.5%). The sharp sales declines in Europe primarily resulted from subsidy changes. In addition, the amendment of the Renewable Energy Sources Act (EEG) negatively affected demand in Germany. Sales increases resulting from the introduction of new products in North America and Japan as well as the strong demand observed in Great Britain only partially compensated for the decline in Continental Europe. The most important foreign markets were the U.S., Australia, Japan and Great Britain. In 2014, the major sales drivers were the Sunny Tripower 5000TL to 24000TL and Sunny Boy 3000TL to 6000TL inverters.

Low sales levels following the market shift from Europe to Asia and the Americas had a negative effect on earnings in the MPS division. In 2014, EBIT was thus €-64.9 million (2013: €-77.9 million). In relation to internal and external sales, the EBIT margin was -13.1% (2013: -14.0%).

WEAK PROJECT BUSINESS IN THE U.S. NEGATIVELY IMPACTS PPS DIVISION

In the reporting period, the **Power Plant Solutions (PPS)** division served the growing market for large-scale PV power plants with outputs ranging from 500 kW to the three-digit megawatt range with Sunny Central type central inverters.

In 2014, project business developed at a weaker rate than in the previous year, especially in the U.S., South Africa and Japan. However, a considerable upturn in demand could already be seen in North America in the fourth quarter. Project business in other countries, with the exception of Canada, Australia and Chile, was weaker than in the previous year because of geopolitical crises and deterioration of subsidies.

Lower demand and increased pricing pressure resulted in declining sales year on year by 25.7% to €278.9 million (2013: €375.2 million).

See Business Activity
and Organization
page 34 et. seqq.

The PPS division's share in SMA Group's total sales fell to 34.6% (2013: 40.2%). The division's most important foreign markets were the U.S., Canada, Japan, Great Britain and Australia. The most successful products included the Sunny Central Compact Power series of inverters.

Despite the same high level of investment in research and development, the PPS division was unable to compensate for volume decline and price reductions on the previous year by cutting the cost of materials and through advances in productivity. In fiscal year 2014, EBIT was €-9.3 million and thus much lower than in the previous year (2013: €37.0 million). In relation to internal and external sales, the EBIT margin was -3.0% (2013: 9.5%).

SERVICE DIVISION INCREASES SALES

Alongside a broad product portfolio, excellent service is an important distinguishing feature of the SMA Group, and one that is going to become even more important in competing for business.

SMA has its own service companies in all important photovoltaic markets. With an installed capacity of more than 35 GW worldwide, SMA makes targeted use of economies of scale to further increase the profitability of its service business in the medium term. SMA services include warranty extensions, service and maintenance contracts, operational management, remote system monitoring and spare parts business.

In 2014, external service sales amounted to €41.2 million (2013: €29.2 million). Notable sales drivers were maintenance and service contracts subject to charge, 50.2-Hz modifications and chargeable repairs. In 2014, EBIT was €4.6 million (2013: €-1.4 million).

ZEVERSOLAR INCREASES ITS SALES

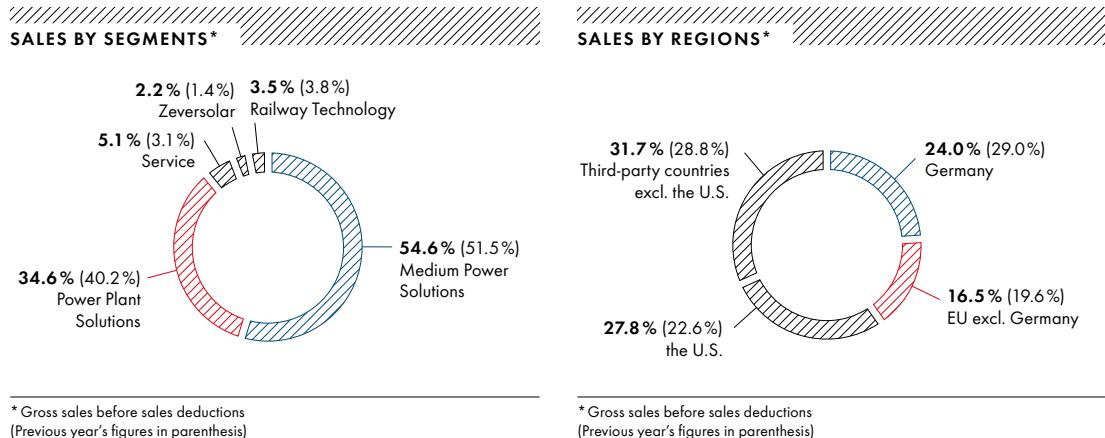
See Business Activity and Organization page 34 et seqq.
In the reporting period, the [Zeversolar](#) division consisted of the majority holding in the Chinese inverter manufacturer Jiangsu Zeversolar New Energy Co., Ltd. ([Zeversolar](#)), acquired in 2013, as well as its subsidiaries.

Zeversolar's external sales in fiscal year 2014 improved significantly to €17.6 million compared with the previous year's figure of €13.0 million (after closing on March 12, 2013). This was mainly attributable to successful restructuring and an optimized sales strategy. As a result of high pricing pressure, EBIT was negative at €-18.5 million (2013: €-22.2 million after closing on March 12, 2013).

NEGATIVE IMPACT ON RAILWAY TECHNOLOGY FROM LOWER SERVICE BUSINESS

SMA Railway Technology GmbH with its Brazilian and Chinese subsidiaries manufacture converters as individual devices and complete energy supply systems for railway coaches and multiple-unit trains for short- and long-distance railway traffic.

As a result of the mild winter, sales in the service and spare parts business were considerably lower than planned. The division's external sales were below the previous year's level, amounting to €28.5 million (2013: €35.5 million). EBIT fell to €-2.7 million (2013: €1.3 million) as a result of the lower volume of high-margin service and spare parts sales. This equates to an EBIT margin in relation to internal and external sales of -9.4% (2013: 3.6%).



Development of Significant Income Statement Items

POSITIVE SECOND HALF-YEAR IMPROVES GROSS MARGIN

In the 2014 reporting period, SMA increased its gross margin year on year to 16.5% (2013: 15.5%). In the second half of the year in particular, the gross margin improved considerably compared to the first half of 2014 and showed a positive trend at the end of the year.

In the 2014 fiscal year, cost of sales totaled €672.4 million (2013: €787.6 million). Cost of sales fell by 14.6% compared with the previous year. This is more than the 5.8% dip in volume and more than the 13.6% drop in sales. In the reporting period, 65.6% of the cost of sales could be attributed to material costs, 20.0% to personnel expenses and 14.4% to other expenses, depreciation and amortization.

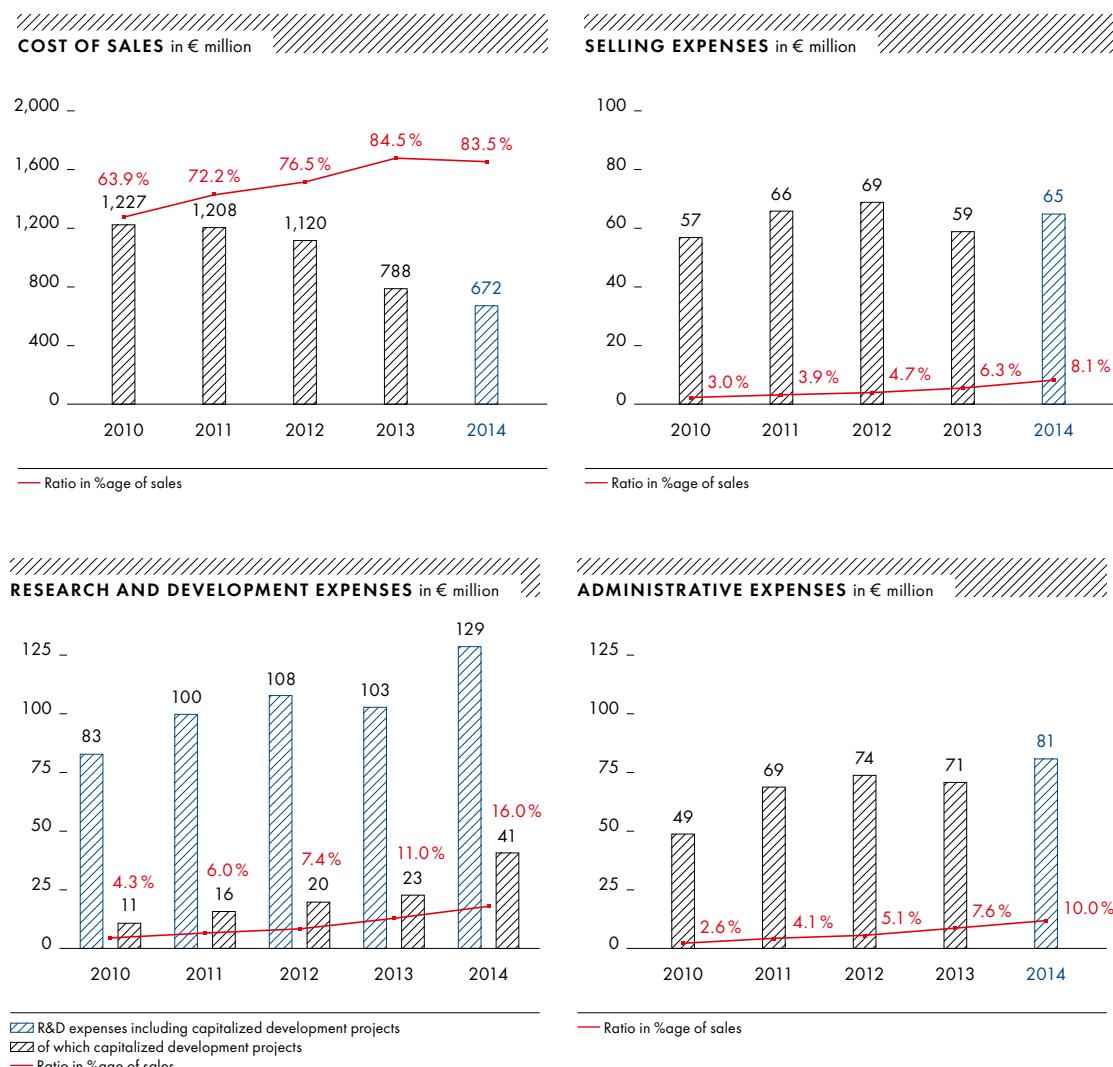
Material costs fell by 15.6% to €440.9 million (2013: €522.6 million). The material cost ratio declined slightly from 56.0% to 54.7%. Despite a higher share of string inverters, average material costs per watt decreased by 10.3%, amounting to 8.7 euro cents per watt (2013: 9.7 euro cents per watt). The reduction in material costs was due to the success of the cost-out measures and new product launches, which increasingly showed results, particularly in the second half of the year. Material costs adjusted for impairment and scrapping fell to €426.3 million (2013: €486.5 million).

Personnel expenses declined from €138.8 million in 2013 to €134.8 million. However, the savings generated in personnel costs were partially offset by collectively agreed upon salary increases, the payment of Christmas and vacation bonuses and through the expansion of foreign sites in China and the U.S.

Depreciation and amortization remained unchanged year on year at €74.9 million. In addition to scheduled depreciation of development projects, they included unscheduled depreciation of capitalized development projects. The €29.4 million decrease in other expenses from €51.3 million to €21.9 million resulted primarily from lower recognition of provisions for statutory warranties based on sales, the reversal of provisions to income and from lower costs for packaging material and outgoing freight.

In the reporting period, selling expenses rose year on year to €64.9 million (2013: €59.2 million). The effects of the personnel adjustments in Germany were more than offset by collectively agreed upon salary increases, the payment of Christmas and vacation bonuses, expansion of the sales organization in Asia, the U.S. and Australia and the first-time full consolidation of Zeversolar. Due to considerably lower sales in the reporting period, the cost of sales ratio was 8.1% (2013: 6.3%).

Development expertise is a major and unique selling proposition for SMA. In fiscal year 2014, research and development expenses not including capitalized development projects amounted to €88.2 million (2013: €79.6 million). Total research and development expenses including capitalized development projects amounted to €129.1 million (2013: €102.5 million). Development projects were capitalized in the amount of €40.9 million in the reporting period (2013: €22.9 million).



Administrative expenses in 2014 totaled €80.6 million (2013: €70.7 million). The personnel cost savings generated by the voluntary severance program in 2013 were more than offset by the first-time full consolidation of Zeversolar in the reporting period (2013: as of March 2013) and by collectively agreed upon salary increases and the payment of Christmas and vacation bonuses. In relation to the considerably lower sales, the ratio of administrative expenses increased to 10.0% in 2014 (2013: 7.6%).

Compared with the same period of the previous year, other operating income fell by €-2.9 million to €32.8 million (2013: €35.7 million). This is chiefly due to reduced income from currency translation.

Other operating expenses totaled €97.0 million in 2014 (2013: €60.2 million). The increase primarily resulted from the recognition of provisions for the cost associated with the restructuring measures and unscheduled depreciation of capitalized intangible assets of Zeversolar amounting to €22 million. In 2014, the Managing Board resolved and introduced extensive restructuring measures. As part of the planned restructuring of SMA AG, staff will be downsized by about 800 full-time positions in Germany. A plan developed in January 2015 specifies an additional staff reduction of 800 full-time positions. The unfortunate but necessary layoffs are thus expected to affect a total of 1,600 full-time positions worldwide, exceeding the staff reduction targets adopted as of the balance sheet date. For details, please refer to the information in the Supplementary Report. In addition, this item also includes the effects from lower expenses from foreign currency valuation, impairment losses on receivables and expenses from the disposal of non-current assets and from assets measured at fair value through profit or loss.

See
Supplementary Report
page 79

FINANCIAL RESULT

The financial result worsened by €-3.4 million to €-3.1 million in 2014 (2013: €0.3 million). The reason for this was a drop in financial income in 2014 from €5.9 million to €3.0 million. This was primarily due to a decrease in income from the measurement of financial instruments at fair value in the amount of €-1.9 million. In addition, interest income was less as a result of the low market interest rate.

Financial expenses rose to €6.1 million (2013: €5.5 million) as a result of the required lower measurement of securities held on the reporting date of €0.6 million (2013: €1.0 million).

Earnings before interest, taxes, depreciation and amortization (EBITDA) of €-58.4 million resulted in an EBITDA margin of -7.3% (2013: -0.6%). SMA achieved a return on sales (EBT in relation to sales) of -20.8% (2013: -9.5%). The return on equity after taxes (consolidated net loss/consolidated net profit in relation to average total assets in the reporting period) came to -28.1% in the reporting year (2013: -8.7%); the return on assets after taxes (consolidated net loss/consolidated net profit in relation to average total assets in the reporting period) was -14.7% (2013: -5.2%).

MULTI PERIOD OVERVIEW OF RESULTS OF OPERATIONS

in %	2014	2013	2012	2011	2010
EBIT margin	-20.5	-9.6	7.0	14.3	26.9
EBITDA margin	-7.3	-0.6	11.7	17.3	28.5
EBT margin (return on sales)	-20.8	-9.5	7.2	14.5	27.0
Return on equity after taxes	-28.1	-8.7	9.3	21.9	64.3
Return on assets (after taxes)	-14.7	-5.2	5.6	12.7	37.1

Value Added

DECLINING SALES IMPAIR NET VALUE ADDED

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

In the 2014 fiscal year, net value added was €169.2 million (2013: €210.8 million). The decrease is mainly due to reduced sales. This can be attributed to the decline in volumes as a result of the subsidy cuts in Europe and lower inverter prices. Other expenses were not reduced in proportion to sales. The increase in depreciation and amortization is mainly attributable to impairment of goodwill and other intangible assets. At 195.6%, a considerably higher share of net value added was apportioned to SMA employees in comparison with the previous year (2013: 139.5%), while the share attributable to the company dropped significantly year on year to -105.9% (2013: -31.7%).

The lowered anticipated profit in relation to the calculation of deferred taxes in the reporting period has a negative impact on taxes paid to the government. The proportion of net value added levied by the government increased to 6.7% (2013: -10.4%). In light of the negative result for the 2014 fiscal year, the value added statement does not prescribe a dividend payout. The shareholders' share of net value added is therefore 0% (2013: 0%).

VALUE ADDED STATEMENT

Output method	2014 in € million	2014 in %	2013 in € million	2013 in %	Change in %
Sales	805.4	89.5	932.5	92.0	
Financial income	3.0	0.3	5.9	0.6	
Other income	47.5	5.3	47.7	4.7	
Own work capitalized	44.0	4.9	27.5	2.7	
Company performance	899.9	100.0	1,013.6	100.0	-11.2
Material expenses	467.8	52.0	522.1	51.5	
Changes in inventories	-18.8	-2.1	6.1	0.6	
Other expenses	175.3	19.5	191.0	18.8	
Prepayments	624.3	69.4	719.2	70.9	-13.2
Gross value added	275.7	30.6	294.4	29.0	-6.3
Depreciation and amortization	106.5	11.8	83.6	8.2	
Net value added	169.2	18.8	210.8	20.8	-19.7
Distribution statement					
Employees	331.0	195.6	294.0	139.5	12.6
Lenders	6.1	3.6	5.5	2.6	11.2
Government	11.4	6.7	-21.9	-10.4	151.9
Shareholders	0.0	0.0	0.0	0.0	0.0
SMA Group	-179.3	-105.9	-66.8	-31.7	-168.4
Net value added	169.2	100.0	210.8	100.0	-19.7

Financial Position

Principles and Objectives of Financial Management

Its strong financial foundation allows SMA the flexibility and independence to take constant advantage of opportunities that arise in the photovoltaic market, without banks and credit institutions.

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

The Corporate Treasury department is responsible for financing and liquidity control in the Group, as well as for the strategic orientation towards customer credit management and insurance. In terms of its structure- and process-oriented organization, the department is designed to deliver professional financial management. Compliance with prevailing Group-wide guidelines is guaranteed.

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, which must submit to strict credit rating criteria. In the case of supplier credits granted, counter-party 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 taken out in connection with the acquisition of Zeversolar were restructured and extended with the objective of optimizing the number of local core banks and further adapting the loan terms to the requirements of operative business. In addition, loans with ongoing repayment portions were repaid on schedule.

In total, financial liabilities fell by €4.1 million from €73.4 million as of the end of 2013 to €69.3 million as of the end of 2014.

Most of the provisions set aside by the SMA Group are for warranty obligations from our various product families.

Sufficient credit lines for operative business are available from five core banks.

The equity ratio of 46.8% as of the end of 2014 (2013: 57.5%) underscores the solid balance-sheet structure.

Liquidity Analysis

NEGATIVE CONSOLIDATED EARNINGS IMPAIR GROSS CASH FLOW

In the reporting period, gross cash flow of the SMA Group amounted to €-37.3 million, considerably below the figure of the previous year (2013: €11.2 million). The decline is primarily attributable to strongly depressed consolidated earnings year on year. Gross cash flow is calculated by considering earnings before income taxes and the financial result, plus interest payments received, depreciation and amortization, changes in provisions, profit/loss from the disposal of non-current assets and other non-cash expenses/income received minus interests paid and income taxes paid.

Net cash flow from operating activities amounted to €-27.6 million in fiscal year 2014 compared with the previous year's figure of €-2.4 million. Inventory, particularly of finished goods, increased by €19.1 million from the end of 2013. In the reporting period, trade payables increased by €51.0 million due to the extension of payment terms on the supplier side. Trade receivables also increased compared to December 31, 2013, amounting to €159.6 million. Net working capital increased by 1.4% to € 251.0 million (December 31, 2013: €247.6 million) and amounted to 31.2% in relation to sales in the reporting period.

Net cash flow from investing activities amounted to €24.7 million in the reporting period (2013: €34.4 million). Investments in fixed assets and intangible assets increased by €22.3 million year on year to €75.5 million (2013: €53.2 million). A major portion of the investments went to capitalized development projects at €40.9 million (2013: €22.9 million).

In fiscal year 2014, a significant item in the net cash flow from financing activities amounting to €-10.0 million (2013: €-16.4 million) was the redemption of financial liabilities.

Cash and cash equivalents amounting to €184.0 million (December 31, 2013: €192.4 million) include cash in hand, bank balances and short-term deposits with an original term to maturity of less than three months. With time deposits with a term to maturity of more than three months, fixed-interest-bearing securities, liquid assets pledged as collateral, and after deducting interest-bearing financial liabilities, this resulted in adjusted net cash of €225.4 million (December 31, 2013: €329.7 million). The decline in net cash of €104.3 million resulted from negative operating results, from investments in fixed assets and intangible assets and the slight increase in net working capital.

MULTI PERIOD OVERVIEW OF SMA GROUP FINANCIAL POSITION

in € million	2014	2013	2012	2011	2010
Shareholders' equity	552.0	724.4	820.7	789.3	728.4
Equity ratio in %	46.8	57.5	61.8	57.4	58.2
Non-current liabilities	284.0	287.0	263.6	241.1	167.2
Current liabilities	344.3	248.5	244.4	343.9	355.8
Share of non-current provisions in total assets in %	7.4	8.1	8.5	7.9	6.4
Financial liabilities	69.3	73.4	35.6	33.9	21.2
Net cash (adjusted)	225.4	329.7	446.3	473.3	523.4
Net working capital	251.0	247.6	268.0	281.7	284.6
Net cash flow from operating activities	-27.6	-2.4	116.1	238.9	386.3
Net cash flow from investing activities	24.7	34.4	-260.1	-129.1	-210.7
Net cash flow from financing activities	-10.0	-16.4	-43.2	-91.4	-46.8

Investment Analysis

In 2014, the volume of investment in fixed and intangible assets totaled €75.5 million (2013: €53.2 million) and was thus significantly higher than the previous year. This equates to an investment ratio in relation to sales of 9.4% (2013: 5.7%).

In fiscal year 2014, €29.5 million (2013: €25.2 million) was invested in fixed assets, primarily for machinery and equipment and the construction of a ground-based PV system at Sandershäuser Berg. Scheduled depreciation of fixed assets declined slightly to €51.5 million (2013: €54.4 million).

Investments in intangible assets, excluding acquisitions, of €46.0 million were primarily for capitalized development projects, such as new product development and existing product enhancements. At €55.0 million, amortization of intangible assets was clearly above the previous year's figure (2013: €29.2 million). This was primarily attributable to impairment of capitalized development projects, goodwill and other intangible assets of Zeversolar.

INVESTMENTS COMPARED TO DEPRECIATIONS AND NET CASH FLOW FROM OPERATING ACTIVITIES

	2014	2013	2012	2011	2010
Net cash flow from operating activities	-27.6	-2.4	116.1	238.9	386.3
Capital expenditure ¹	75.5	53.2	100.2	160.2	158.3
Depreciation and amortization	106.5	83.6	69.9	50.4	31.3

¹ See Notes sections 16 and 17, page 140 et seqq.

Net Assets

SMA Has a Solid Equity Ratio of 46.8%

In the reporting period, the balance sheet total decreased to €1,180.3 million (December 31, 2013: €1,259.9 million). In 2014, net working capital increased to €251.0 million (December 31, 2013: €247.6 million) and thus amounted to 31.2% of sales of the past 12 months. This means that the corridor of 23% to 26% targeted by management has not been achieved.

The €3.4 million increase in net working capital is chiefly attributable to the €19.1 million rise in inventories (December 31, 2014: €203.2 million, December 31, 2013: €184.1 million). Finished goods in particular increased substantially as a result of customers' delays in taking delivery. Trade payables climbed by €51.0 million (December 31, 2014: €111.8 million, December 31, 2013: €60.8 million), while receivables rose by €35.3 million (December 31, 2014: €159.6 million, December 31, 2013: €124.3 million) due to strong sales growth at the end of 2014. Days sales outstanding increased to 64, mainly due to the higher international share. The share of trade credit in total assets increased to 9.5% (December 31, 2013: 4.8%).

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In 2014, the Group's equity capital base fell by 23.8% to €552.0 million (December 31, 2013: €724.4 million). With an equity ratio of 46.8%, SMA has a very comfortable equity capital base and therefore boasts a very solid balance sheet structure.

Importance of Off-Balance Sheet Financing Instruments

See Notes, section 29 page 154 et. seqq.

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

SMA is not involved in any other off-balance-sheet transactions that might have a significant impact on its financial position, operating result, investment expenditure, net assets or capital expenditure – neither now or in the future.

MULTIYEAR OVERVIEW OF NET ASSETS SMA GROUP

in € million	2014	2013	2012	2011	2010
Goodwill, intangible assets and fixed assets	413.1	441.1	443.8	417.7	297.7
Financial assets and long-term securities (incl. deposits with a total term to maturity of more than three months)	82.5	185.1	295.5	135.6	190.0
Cash and cash equivalents (incl. deposits with a total term to maturity of less than three months)	184.0	192.4	185.3	371.1	354.1

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

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

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

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

Results of Operations

**SMA SOLAR TECHNOLOGY AG INCOME STATEMENT IN ACCORDANCE WITH HGB (ABSTRACT)
FOR THE PERIOD FROM JANUARY 1, 2014 TO DECEMBER 31, 2014**

in €'000	2014	2013
Sales	545,697	706,895
Increase or decrease in finished goods and work in progress	8,606	- 12,817
	554,303	694,078
Other own work capitalized	2,962	4,677
Other operating income	128,072	79,205
Material expenses	336,383	422,549
Personnel expenses	230,502	208,257
Depreciation and amortization of intangible and fixed assets	50,697	50,659
Other operating expenses	213,653	187,397
Financial result	- 44,441	16,220
Net operating income (loss)	- 190,339	- 74,682
Taxes on income	6,701	255
Other taxes	106	979
Annual net income/net loss	- 197,146	- 75,916
Accumulated income/losses brought forward	492,400	568,316
Profit available for distribution	295,254	492,400

PV inverters from SMA with a total capacity of 3.0 GW were sold in 2014 (2013: 3.9 GW). Of this, 0.6 GW (2013: 0.4 GW) were attributable to associated companies. External sales of PV inverters for PV rooftop systems were significantly down on the previous year's level, declining by 21.1% to €382.6 million (2013: €485.1 million). The drop in sales is a result of the massive cuts to solar subsidies in Europe.

Sales of large-scale solar projects amounted to €138.0 million (2013: €223.2 million). The decline in sales is primarily due to high price pressure and regulatory changes in this market segment.

Sales in the Service division amounted to €36.5 million, 72.6% higher than in the previous year (2013: €21.1 million). Aside from services subject to charge, sales were generated from commissioning of PV systems and repair charges.

Other operating income amounted to €128.1 million (2013: €79.2 million). This included €18.0 million (2013: €3.7 million) from license income and €72.5 million (2013: €45.3 million) from the reversal and utilization of provisions. Income from foreign currency gains totaled €14.4 million in the fiscal year (2013: €4.6 million).

Material expenses fell by €86.2 million year on year (20.4%) to €336.4 million. The significant decrease compared with the previous year is primarily attributable to lower sales volumes.

Personnel expenses for the fiscal year increased by 10.7% to €230.5 million. The increase is mainly due to restructuring measures. The decrease in the average number of employees (not including temporary employees, trainees and interns) by 632 to 3,036 employees has an offsetting effect.

Amortization and depreciation slightly increased by €0.1 million from €50.6 million in fiscal year 2013 to €50.7 million in fiscal year 2014. This includes the unscheduled write-down on a purchased technology that is no longer used in the amount of €2.4 million. Lower investing activities had an offsetting effect.

The increase in **other operating expenses** from €187.4 million in the previous year to €213.6 million in fiscal year 2014 is primarily a result of increased expenditure for external services. Expenses related to foreign currency valuation were €3.8 million for the fiscal year (2013: €9.0 million).

The **financial result** amounted to €-44.4 million (2013: €16.2 million). This was chiefly attributable to the write-down on the value of investment in Jiangsu Zeversolar New Energy Co., Ltd. in the amount of €62.3 million.

As a result of the development described above, SMA AG posted a **net operating loss** of €-190.3 million (2013: loss of €-74.7 million). In fiscal year 2014, SMA AG registered a loss of €-197.1 million (2013: €-75.9 million).

Taxes on income increased by €6.4 million. This includes taxes on income for previous years (€4.8 million).

After tax, the Company reported an **annual net loss** of €-197.1 million in 2014 compared with an annual net loss of €-75.9 million in the past fiscal year.

Net Assets and Financial Position

SMA SOLAR TECHNOLOGY AG BALANCE SHEET IN ACCORDANCE WITH HGB (ABSTRACT) AS OF DECEMBER 31, 2014

in €'000	12/31/2014	12/31/2013
ASSETS		
A. Non-current assets		
I. Intangible assets	19,805	17,785
II. Fixed assets	256,339	279,569
III. Financial assets	78,517	121,093
	354,661	418,447
B. Current assets		
I. Inventories	113,496	101,992
II. Receivables and other assets	184,846	143,375
III. Securities	52,480	104,276
IV. Cash and cash equivalents	162,350	228,058
	513,172	577,701
C. Prepaid expenses and deferred charges	1,825	766
	869,658	996,914
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	295,254	492,400
	457,690	654,836
B. Special account with reserve characteristics	190	245
C. Provisions	201,233	178,729
D. Trade payables	100,056	61,022
E. Accrued liabilities	110,489	102,082
	869,658	996,914

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As of December 31, 2014, **total assets** of SMA AG decreased by €127.2 million to €869.7 million (2013: €996.9 million).

Non-current assets decreased by €63.7 million to €354.7 million. This can be largely attributed to the impairment of the value of investment in Jiangsu Zeversolar New Energy Co., Ltd.

As of December 31, 2014, **total inventories** of €113.5 million were above the previous year's level (2013: €102.0 million). Within this item, the different types of inventories developed differently. For instance, inventories of raw materials, consumables and supplies rose from €53.9 million to €56.8 million in the reporting period. Inventories of unfinished goods decreased to €17.4 million (2013: €21.1 million). Inventories of finished goods increased to €39.1 million (2013: €26.9 million).

Trade receivables totaled €48.8 million on the reporting date (2013: €49.4 million). As of the reporting date, there were impairment losses on receivables of €14.5 million.

Cash and cash equivalents and securities fell by 35.4% to €214.8 million (2013: €332.3 million). Liquidity control at SMA AG is based on the financial strategy of the SMA Group.

Equity decreased, as a result of earnings, by €197.1 million to €457.7 million compared with December 31, 2013. The equity ratio was 52.6% (2013: 65.7%).

The **provisions** of SMA AG largely comprise provisions for warranty obligations for our various product families and personnel provisions.

Trade payables increased year on year by €32.6 million. On the reporting date, these were at €52.4 million (2013: €19.8 million).

Accrued liabilities of €110.5 million (2013: €102.1 million) were reported for deferred sales for extended warranties sold for subsequent years.

RISKS AND OPPORTUNITIES

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

OUTLOOK

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

See Risk and
Opportunities Report
page 80 et. seqq.

See Forecast Report
page 94 et. seqq.

Managing Board Statement on the Trend of Business in 2014

The SMA Group's sales and earnings fell significantly short of the targets it had set itself at the beginning of the year. At €805.4 million, sales generated by the SMA Group were down 13.6% year on year. This decline was due in particular to the continued high pricing pressure and the slump in demand in Europe. The market slump in Germany alone resulted in sales losses of over €90 million at SMA. The sales generated by the SMA Group were higher than the forecast as adjusted in December. EBIT was €-164.9 million (EBIT margin of -20.5%). The operating result includes high provisions for the planned restructuring measures, further one-time items from impairment and the loss from the Chinese subsidiary Zevversolar. This amounted to €104.7 million. The operating loss before restructuring provisions is within the range of the forecast lowered in December 2014.

Despite the high loss, the SMA Group maintains a solid financial base. At the end of the reporting year, the equity ratio stood at 46.8% (2013: 57.5%) with adjusted net cash of about €225 million. SMA therefore still possesses the financial strength to implement the changes that it has already initiated for its return to profitability of its own accord.

The development of business was once again marked by high dynamism in the different photovoltaic markets and subsegments. Many of the Continental European countries in particular posted a greater than expected decline in demand for SMA PV inverters in 2014. SMA's growth in North America and in Great Britain was not enough to compensate for the decline in Continental Europe. Inverter output sold totaled 5.1 GW, about 6% down on the previous year's figure (2013: 5.4 GW). The decline in the amount of inverter output sold chiefly results from project business in the large-scale solar projects market segment (Utility). SMA products for small and medium-sized solar applications (Residential & Commercial) were roughly at the previous year's level.

Product Campaign: Greater Performance, Lower Costs

In the reporting period, SMA continued to enhance the portfolio of the Sunny Boy, Sunny Tripower, Sunny Central and Sunny Island product families by extending the power range of the inverters and reducing the specific cost of sales through innovations. Last year, SMA launched a total of 21 new products – almost two innovations every month. One particularly important new product is the new Sunny Central with an output of up to 2.5 MW, SMA's first central inverter to feature 1,500-volt technology. The higher voltage enables customers to connect more modules to an inverter, thereby significantly reducing system costs. Since the launch of the new Sunny Tripower 60 in 2014, SMA customers have been able to establish medium-sized and large-scale solar projects on a decentralized basis and optimize system costs. The lightweight and compact inverter was developed by Danfoss and has now been incorporated into the SMA portfolio. With the new Sunny Boy inverter, we significantly reduced material costs in comparison to the predecessor model by means of higher switching frequencies and a modular design. As a result of the simplified product structure, the production time per inverter was also halved. The modern communications technology also allows for simple commissioning of the inverter and monitoring of the PV system.

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Enhanced Service Business

Alongside its previous range of primary services, SMA successfully positioned itself in the market in 2014 with complete system service for large-scale solar projects. In the reporting year, there was demand, in particular, for SMA's complete service in North America, where SMA not only supplied the inverters but also took on the operational management of a 130 MW plant and a 140 MW plant in Ontario, Canada, two of Canada's largest PV power plants, each for a period of 10 years.

In addition, integration of Phoenix Solar AG's European operations and maintenance service business (O&M business) effective November 1, 2014, saw SMA gain a foothold in the high-volume European market. With these new additions, SMA's O&M business now comprises a total of 60 PV systems with a total output of 160 MW.

The 50.2-Hz switchover in Germany, in which SMA is acting as a service provider for grid operators, also revived service business considerably in the reporting period.

Strategic Alliance With Danfoss

In order to increase our long-term competitiveness, we announced a strategic alliance with Danfoss A/S at the end of February 2014. Danfoss is a successful company that specializes in the field of drive converters. This market has been dominated by fierce competition for many years. Accordingly, Danfoss has focused its strategy on continuous cost reduction by using global procurement opportunities and technological innovations. We are certain that we will benefit from the experience and economies of scale. We already expect to see the first positive effects on earnings in the current fiscal year.

Realignment of Zeversolar

The Zeversolar division's external sales improved significantly by €4.6 million to €17.6 million compared with the previous year's figure (after closing on March 12, 2013). This was mainly attributable to the successful implementation of the two-brand strategy in Australia. Business in Europe developed more slowly than anticipated due to the market slump. Business in China was dominated by extremely high pricing pressure, long payment terms and non-transparent tendering procedures and fell considerably short of expectations. With the level of sales generated, the successful revision and expansion of the product portfolio, optimization of production and purchasing processes and reduction of administrative expenses was not sufficient to significantly reduce the losses. EBIT was negative again at €-18.5 million (2013: €-22.2 million after closing on March 12, 2013). The SMA Managing Board has therefore decided to use Zeversolar products primarily in the low-price segments in Australia, Great Britain and Benelux in the future and to substantially reduce activities in the Chinese market. In addition, staff capacity in all functional areas will be reduced by more than 30% in the near future so that the company can break even with a lower level of sales.

Fixed Cost Reduction

The SMA Managing Board already announced in mid-2014 that it would adjust structures further in line with a lower level of sales. In an extensive project, the SMA Managing Board developed measures together with the executives to enable the company to make a profit with sales of less than €700 million. The transformation of SMA will involve measures such as consolidating global locations, adjusting its real net output ratio and only pursuing development projects that are strategically important. Collaboration with external service providers will be reduced, and unfortunately a significant number of layoffs will also be necessary. Together, all of these measures will result in fixed cost savings of €160 million, which will take full effect for the first time in 2016.

Supplementary Report

Significant Events Since the Beginning of Fiscal Year 2015

DOWNSIZING OF THE MANAGING BOARD

The Supervisory Board of SMA Solar Technology AG reduced the number of Managing Board members in the course of the company's transformation. Lydia Sommer therefore left the SMA Managing Board at the end of February 2015. She had been in charge of Finance, Legal and Compliance at SMA since November 2012. In May 2013, she also assumed responsibility for Information Technology (IT) and Human Resources in her capacity as Labor Director. Lydia Sommer's duties were transferred to two of the remaining Managing Board members. SMA Chief Executive Officer Pierre-Pascal Urbon is responsible for Finance, Legal, Compliance and Operations as Chief Financial Officer (CFO), in addition to Strategy. Roland Grebe, formerly the Board Member for Technical Innovation, is in charge of Human Resources and IT and is the new Labor Director at SMA Solar Technology AG. Dr.-Ing. Jürgen Reinert has taken on overall responsibility for Technology. Martin Kinne still presides over Sales and Service.

COMPANY TRANSFORMATION

In 2014, the SMA Managing Board resolved and introduced comprehensive restructuring measures. The aim of the restructuring is to lead the SMA Group back to profitability from a sales level of below €700 million. The concept intends for SMA to focus on strategic development projects, consolidate its global infrastructure, adjust its real net output ratio and institute a functional organization with fewer hierarchy levels, among other things. The concept also includes considerable cuts to material and personnel costs. Overall, the SMA Managing Board plans to achieve savings of over €160 million, which are expected to take full effect from 2016. While the restructuring resolved in 2014 specifies a staff reduction of 800 full-time positions in Germany, among other measures, a plan developed in January 2015 resulted in an additional reduction of another 800 full-time positions. Therefore, the unfortunate but necessary layoffs are expected to affect a total of 1,600 full-time positions worldwide, thus exceeding the staff reduction targets agreed upon as of the reporting date. The SMA Managing Board began a period of consultation with the Works Council at the end of January 2015 regarding the concept developed in January. Exploratory talks have been going on since February 2015. At present, the company is not yet able to give a detailed assessment of the financial impact this will have.

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 25
- » Company-Relevant Statements and Explanations starting on page 25
- » The Remuneration Report starting on page 26

Risks and Opportunities Report

Risk and Opportunity Management

Risk Management System

In the context of its global business activity, the SMA Group is exposed to a range of risks. Although SMA must to a certain extent accept risks, which can impair target attainment in the implementation of strategies in the business units, suitable countermeasures can be used to control and influence them. In addition, with regard to opportunity management, a balanced opportunity/risk ratio is used. Major potential opportunities are described in more detail below, each in connection with the corresponding individual risks, and are listed in the Forecast Report. The risk management system we employ helps identify risks at an early stage and communicate them in an understandable manner. The system is oriented toward the COSO Enterprise Risk Management (ERM) – Integrated Framework, which is today the best-known international standard for establishing and systematically developing a Company-wide risk management system. That includes not only strategic risks (such as products, technologies, markets, customers and changes in environmental factors), but also all downstream risks on the operational and procedural level. As an integrated approach, it covers everything that occurs in the Company and combines corporate goals and business processes, organizational levels, risk management and the internal controls. COSO ERM serves as an aid in formulating a risk strategy and establishing and operating systematic risk management to identify potential risks at an early stage and thus manage them proactively and initiate suitable measures for their elimination. A software application is used throughout the Group to map risks to make recognition easier for risk officers, reporting easier for Risk Management 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 function, which is responsible for the centrally controlled risk and opportunity management process.

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 in order to limit the potential impact with suitable measures. In addition, the Company must accept risks to a certain extent in order to utilize opportunities.

The Managing Board laid out the objectives of risk management in terms of risk strategy and principles of organization, analysis and communication in a risk handbook that applies to the entire SMA Group. It contains principles for dealing with risks; requirements, value limits and regular and immediate uniform reporting processes are bindingly defined. Responsibility for identifying risks lies primarily with the corresponding risk officer. Involving employees in their areas of expertise ensures active identification, analysis and measurement, and creates the appropriate transparency in a potential risk situation. To support them, a catalog of potential risks is created to guarantee that all potential risks to the Company are recognized as a going concern; common risk management tools are used to identify risks efficiently.

Risk Assessment

In the quarterly risk identification process, risk officers determine the risk situation in a standardized bottom-up process. The relevant risk officer, by compiling a risk analysis, assesses the probability of a risk occurring and the amount of damage that might be caused by any risks detected. The likelihood of the risk transpiring is classified according to the evaluation categories "unlikely, possible, likely and very likely." The effect of risks on the Group's earnings is measured according to the categories "slight, medium, high and very high." Qualitative and quantitative assessments are used consistently throughout the company.

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

Risk Management

While taking into account the corporate strategy, the objective of risk management is to actively influence the issues identified to influence the corresponding potential according to specific configuration with individual instruments; this involves large parts of the Company with different emphases. Risks are identified by an early-warning system so that they can then be controlled (e.g., through damage prevention or steps to limit damage, forming sufficient security reserves or transferring individual risks to third parties, such as insurance companies). With regard to risk management, these measures and their implementation are subject to regular monitoring and adjustment.

Continuous Risk Monitoring and Reporting

The development of residual risks is monitored regularly, using suitable early-warning tools and key figures. If a risk increases, management must be notified in good time to be able to take countermeasures. Our Risk Management System is designed to ensure that the appropriate employees can identify risks early on and report them to the responsible decision-makers in the Company. Depending on the degree of urgency, reporting to the management takes place on an ad hoc, monthly or quarterly basis. Further methods for detecting risks are evaluation of customer and supplier information, systematic market and competitive analyses and monitoring economic, legal and subsidy-related framework conditions in target markets.

Under the terms of risk analysis, subsidiaries, departments and units report in qualitative form, provided the individual risks are classified at least as "high," both to the central risk manager and to the Managing Board according to defined risk categories for further prioritization and aggregation. Apart from quarterly risk notifications, immediate reporting duties have been outlined for all risk officers, who must report to the Managing Board if the risk situation changes significantly. Significant reported risks and countermeasures and adjustments to the risk management process are addressed separately in regular Risk & Opportunity Board meetings. In addition, the Supervisory Board is informed of significant risks with a considerable impact and newly identified issues that exceed defined value limits every six months. The Audit Committee also regularly receives updates on the risk management system and its implementation in the Company.

Opportunity Management

Making use of existing opportunities is one of the core tasks of each and every enterprise. This can pertain to both internal and external potential. As part of our risk and opportunity management approach, which is integrated into the company organization, we regularly identify and assess opportunities arising from our business activities and act accordingly. Identifying these opportunities early on and regularly is above all the task of management. We assess opportunities to the best of our knowledge, basing our assessment on assumptions relating to market development, the market potential of technology and solutions and the expected changes in customer demand and prices. In this respect, the Group-wide planning process and the annual strategy meeting, held by the Managing Board and attended by all Vice Presidents and subsidiary General Managers which then lead to strategy reports for all areas and subsidiaries, are significant cornerstones. We employ continuous market and competitive analysis, systematic knowledge management and an open information policy within the Group to detect our potential for utilizing opportunities. In doing so, we strive to create a balanced relationship between opportunities and risks. As of 2014, opportunity recognition, assessment and reporting have also been supported by a system.

See Forecast Report
page 94 et seqq. More details on opportunities for the next fiscal year may be found by referring to the Forecast Report.

Internal Control System

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

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

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

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

Risks With Regard to the (Group) Accounting Process

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

See Risks and Opportunities Report page 80 et. seqq.

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

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

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

The Use of IT Systems

Business transactions at SMA and at all the larger subsidiaries are primarily recorded, using ERP systems from SAP AG, Walldorf. 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 accounting. External service providers with their own IT systems are employed in the case of smaller companies.

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

Disclaimer

The Internal Control and Risk Management System enables risks that might otherwise prevent the Annual Financial Statements and Consolidated Financial Statements from being properly drawn up to be controlled 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 the detection of irregularities.

Individual Risks

The following section describes significant risks with considerable disadvantageous effects on business and the associated results in operations, financial position and net assets of the Group and the Company's reputation. The possibility of occurrence as well as accompanying effects after countermeasures have been taken are assessed. 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 occurrences	Potential effects	Risk development
Unlikely (>0 to <15%)	Slight Limited negative effects on expected earnings, no loss of reputation, no threat to customer relationships	↗ Higher than in the previous year
Possible (≥15 to <50%)	Medium Some negative effects on expected earnings, moderate loss of reputation, potential threat to customer relationships, identifiable disruption to business operations (primarily internal effect)	→ Same as previous year
Likely (≥50 to <85%)	High Substantial negative effects on expected earnings, high loss of reputation (not yet a threat to existence), major threat to customer relationships, significant disruption to business operations (with external effect)	↘ Lower than in the previous year
Very likely (≥85 to <100%)	Very high Harmful negative effects on business, associated with a very high loss of reputation, very major threat to customer relationships, disruption of business operations that threatens existence	


PRESENTATION OF THE INDIVIDUAL RISKS

Areas of Risk	Probability of occurrence	Potential financial impact	Risk development 2013	Risk development 2014
Strategic Risks				
Regulatory risks	Very likely	Very high	→	→
Competition risks	Very likely	High	↗	→
Market risks	Very likely	High	↗	↗
Investment risks	Very likely	High	↗	↗
Risks from research and development activities	Likely	High	→	→
Operating Risks				
Procurement and inventory risks	Likely	High	→	→
Product risks	Likely	High	→	↘
Personnel-related risks	Possible	Medium	→	→
IT risks	Possible	High	→	↘
Financial Risks				
Financing and liquidity risks	Unlikely	Slight	→	→
Risks from exchange rate fluctuations	Possible	Slight	↗	→
Risks from customer bad debt	Likely	High	→	↗
Compliance Risks				
Export risks	Possible	Medium	↗	→
Antitrust risks	Possible	Very high	↗	→
Risks from violating data protection law	Possible	Slight	→	→
Risks from environmental damage	Unlikely	Slight	→	→

Strategic Risks

REGULATORY RISKS

The photovoltaics sector worldwide depends to a large extent on state subsidies. Due to differing subsidies and changes to them, markets are highly volatile. Volume fluctuations occur regionally as well as cyclically, complicating planning significantly.

Due to severe deterioration of subsidies in Germany and the European core markets compared with 2013, the level of risk has continued to increase significantly. The non-European markets cannot compensate for the market decline in Europe. In numerous foreign markets, there are also incentive programs for the expansion of photovoltaics. Governments regularly examine these incentive programs and align them with the market situation. These adjustments range from bringing forward the date for reducing the feed-in tariff to cancellation. Positive growth stimuli are emanating from Great Britain and France in particular, which have already adopted attractive incentive programs. The most important markets in Asia include China and Japan. The Chinese government has outlined in more detail the implementation guidelines for installation of medium-sized PV power plants and an attractive feed-in tariff policy is providing growth momentum in Japan. For more information about the situation in individual markets, please refer to the Notes to the Fiscal Year 2014 ("General Economic Conditions and Economic Conditions in the Sector" and their "Impact on Business Development in 2014").

SMA employees are involved in different solar energy associations to influence political decision-makers at a national and European level. In addition, we are pursuing our internationalization to lessen our dependence on individual markets. This undertaking is supported by targeted global sales and service activities, more efficient connection and integration of foreign sites via the Shared Service Center and increasing decentralized responsibilities.

THE RISK OF AGGRESSIVE COMPETITION

Some markets offer attractive incentives for PV systems. The concomitant high demand for PV systems leads to intense competition. Existing and new competitors, particularly from Asia, will attempt to secure market shares through an aggressive pricing policy and advantageous payment conditions. Moreover, saturated markets and structured tendering processes for large-scale solar projects lead to more transparency and more intense price competition. The international share in sales at 76.0% increased compared with the previous year (71.0%). Although SMA continues to press ahead with internationalization, changes to subsidies will cause additional pricing pressure and potentially have critical effects on business. As access to the capital market has also become more difficult, significant financing difficulties can arise for companies without sufficient capital resources; in the short to medium term, more competitors will withdraw from the market.

Furthermore, in 2014, overcapacity of production facilities and infrastructure, at both module and inverter manufacturers, continued to result in a global decline in selling prices. Other possible scenarios could include competitors improving the quality, functionality or performance of their products or local competitors reacting more flexibly and adapting better to the prevailing market requirements in certain markets. Such competition may in the future lead to further declines in prices for products and services produced by the SMA Group and likewise to a loss in market shares.

In addition, increasing market fragmentation can be seen, which is leading to declining concentration among inverter manufacturers. This in turn is resulting in increased competitive and pricing pressure. Should our competitors succeed in being able to quote well below SMA's prices on a sustained basis, this will severely impair business development. SMA will face this price competition by offering technology and innovation leadership. With expenditure for research and development of about €129.1 million in 2014 (including capitalized development projects) and a solid R&D budget in 2015, SMA is well prepared to continue setting important trends in photovoltaics in the years to come with significant product innovations. Regular monitoring and regular reports to the Managing Board ensure early identification of project delays and initiation of appropriate countermeasures. The trend toward complete solutions and the use of standard components will increase flexibility in the long term. In the fiscal year, opportunities arose primarily from international market growth.

Political changes will help provide SMA with great opportunities to expand its business even in young markets. In order to identify and use this business potential at an early stage, the Managing Board has adopted a process for systematic analysis of potential markets. Opening up new business areas to increase sales is one of the central elements of the 2015 Group strategy. In this context, the Managing Board sees system technology for storage applications, PV-diesel hybrid systems and services (e.g., O&M business) as important business areas to increase sales in the medium term.

MARKET RISKS

If market saturation occurs in our target markets (e.g., North America, Japan, Europe), this will result in a drop in demand. In the past, the high demand for PV systems resulted partially from the sharp increase in conventional energy carrier prices. Although prices for oil and gas declined at the end of the year, rising energy prices are anticipated in the medium term. The higher the price of energy from these sources, the more attractive electricity generated by sunlight is.

Furthermore, entry barriers to individual markets represent a greater challenge in comparison with the previous year, especially in the context of increasing internationalization. Certain countries for instance set high certification hurdles. Nonetheless, SMA was the first international manufacturer to gain market access to Japan in 2013, and additional product certifications followed in 2014. However, obstacles in the way of our international expansion would have material effects on the development of the SMA Group in the future. Therefore, SMA always seeks to contact the certification authorities and energy supply companies abroad early on. Thanks to the information gleaned from such contacts, SMA is able to recognize and carry out any adjustments required in its products in good time. In addition, SMA's strategy is to be the first company represented in new photovoltaic markets to reduce its dependence on individual markets. For further details, please refer to the section of the report on "General Economic Conditions and Economic Conditions in the Sector" and their "Impacts on Business Development in 2014."

See Fiscal Year 2014
page 59 et. seqq.

The formation of buying syndicates can increase the dependency of the SMA Group 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 pricing pressure. SMA avoids dependency on individual customers by deploying an appropriate sales strategy.

Photovoltaics has proven to be increasingly competitive in recent years. In an increasing number of regions in the world, solar power is now cheaper than conventional energy. The SMA Managing Board still foresees strong growth stimuli from the markets in North and South America as well as Asia. The installation of photovoltaics in North and South America will be driven primarily by large-scale solar projects. Particularly in North America, demand for medium-sized and smaller PV systems is also likely to continue registering extremely positive development as a result of tax incentive programs.

INVESTMENT RISKS

If we improperly assess market changes in the future, this could lead to a failure to fully utilize our production capacities and to the unscheduled depreciation of production equipment and product developments. The higher relative share of fixed costs would have a negative impact on our operating results. Over the years, SMA has established processes that allow it to respond quickly to demand fluctuations. Through the use of interim solutions, we try to delay investments for as long as it is economically rational. Our regular forecast process allows us to recognize fluctuations in demand early on and take corrective measures. Thanks to the high degree of production flexibility at SMA, we can largely absorb negative demand fluctuations.

RESEARCH AND DEVELOPMENT RISKS

SMA's wide-ranging product portfolio includes inverters for all applications, power classes and module types, accompanied by intelligent energy management and monitoring systems. In addition to continued optimization of existing products and development capacities, the Company Management's goal is to concentrate primarily on future product generations. Here, the risk arises that vital technology trends are identified too late or that market launch is delayed due to development stages that are too long. As this could lead to sales losses and smaller market share, the SMA Group invests large sums of money in research and development to develop new processes, technologies, products and services. Here, the Managing Board sees integration of storage solutions as providing particular opportunities to strengthen the core business, drastically cut battery-storage system costs and tap into new business fields. The Development area has developed timetables for all projects, which are regularly submitted to the Managing Board. The planned development times can be adhered to by consistently monitoring milestones. SMA is consciously seeking contact with research facilities to advance strategic development projects together, to further reduce the development time of innovative products. However, we cannot rule out that individual development projects will fail to deliver commercially exploitable results or to do so in the expected time frame.

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

Like political conditions, the risk from new technical directives is only manageable to a limited extent. The risk of not meeting such changed requirements remains. Only an accelerated development process and good market knowledge will make it possible to minimize 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 of strategic projects are regularly reviewed. Based on the future continued focus of development capacities, relevant 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 further details, please refer to the information on research and development in the Consolidated Management Report.

See also Research
und Development
page 43 et seqq.

Operating Risks

PROCUREMENT AND INVENTORY RISKS

SMA is to a large extent dependent on certain suppliers. We seek to minimize these risks through market analyses, careful evaluation and critical selection of suppliers, flexible supplier agreements, clearly defined quality standards and reducing dependence on individual suppliers. SMA will also make greater use of standard components in future innovations to increase flexibility.

Regular inventory reviews are carried out in connection with short innovation cycles and resulting potential inventory write-down requirements. Controlling (e.g., vendor-managed inventory), early-warning systems and consistent use of additional suppliers (second sources) contribute to reducing our dependence on individual suppliers, strengthen our negotiating position and reduce inventories. On the basis of existing early-warning indicators, development trends should be identified in a timely manner, before they affect purchase prices by monitoring changes in important raw material prices.

Another measure also intensively pursued in the past fiscal year was the internationalization of our purchasing structures by establishing decentralized purchasing teams in the U.S., Poland and Asia to lower acquisition prices and logistics costs. As part of the global purchasing and commodity strategy, the "best-cost country" purchasing activities should be monitored more closely than before. In connection with this, a corresponding purchasing partnership was entered into with Danfoss in 2014. In addition, supplier development will be increased and Purchasing will be more extensively involved in the product engineering process. Standardized processes, methods and key figures were defined for this purpose.

PRODUCT RISKS

We are always striving to develop new products and solutions and to improve existing ones. For this reason, we use new materials in development or even sometimes employ new technologies to make innovations possible. This can result in SMA Group products and services being non-conforming or 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 Group errors or from defects in primary products provided by SMA Group suppliers. Therefore, proper handling and communication in instances of product defects are essential. Unidentified incompatibilities can also emerge after the products are launched, which requires improvement to the customer system after installation to prevent the equipment 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 to customer migration. In addition, any necessary product recall would have a negative impact on earnings.

If responsibility for the error lies with the supplier, then the supplier must bear the direct costs. If SMA is responsible for the error, then product liability insurance will cover the losses incurred. However, this does not cover the cost of materials. In this respect, new developments are often subject to more failures than established products that have been tried and tested for longer periods. We are able to minimize this risk through comprehensive field testing prior to serial production, accompanying quality inspections during production and product liability insurance, but we cannot completely exclude this risk. In the case of disputes related to product risks, we make provisions if we consider it likely that such claims can be asserted against us.

To continuously improve the quality of products, in addition to general process improvements covering all value-adding processes, new developments are backed by specific stress and qualification tests, tests are carried out on the entire series and advance quality planning is established during the development process. Plus, with a sufficient staffing level in Development and Service, SMA is well positioned to ensure good service. Depending on the nature and scope of the technical fault, Service assesses the necessity for repair or replacement of the device and carries out appropriate countermeasures.

PERSONNEL-RELATED RISKS

Qualified and motivated employees are key to the evolution of our enterprise, increased internationalization and the business success of the SMA Group. This is countered by numerous organizational changes that are being implemented to secure SMA's continued existence and future viability. As the cost savings made so far could not compensate for the decline in sales and earnings in the last fiscal year, the personnel structures must be adapted further to the changes in sales levels. SMA's future success depends largely on retaining engineers and other skilled staff at the Company as well as filling management positions adequately.

We offer performance-based remuneration systems and participation in the Company's success, flexible working hours and options 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 is also making a significant contribution to being perceived as an attractive employer and thereby recruiting highly qualified young staff to the Company in the long term.

IT-RELATED RISKS

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

Financial Risks

FINANCING, CURRENCY AND LIQUIDITY RISKS

Since SMA operates on an international scale, it is inevitably exposed to financial risks. These include risks from changes to general interest rates, exchange rate fluctuations and financing and liquidity risks. For example, the current challenging industry situation is making it difficult to borrow despite good balance sheet figures. The Corporate Treasury department controls Group financing and the limitation of financial risks. The principle underlying our hedging policy is to protect the SMA Group against sharp changes in prices, exchange rates and interest rates by means of contracts and hedging transactions to an economically feasible extent. The permissible hedging instruments have been laid out by the Managing Board in Group-wide guidelines that also regulate the entire process-oriented organization including hedging strategies, responsibilities and control mechanisms.

For detailed information regarding the financial market risks and risk management, please refer to the Notes to the Consolidated Financial Statements on page 159 et seqq. under 37. Objectives and Methods Concerning Financial Risk Management.

See Notes
pages 159 et seqq.

RISK OF DEFAULT OR CUSTOMER INSOLVENCY

In many target markets, subsidies have worsened and further cuts are planned. In addition, the financial markets are erratic. For these reasons, potential risks arise with some customers due to financial problems. The number of insolvencies among our customers and business partners could increase. In addition, the competitive situation and internationalization require the extension of payment periods, paired with the reduction of securities (e.g., in the form of bank guarantees). If customers can no longer keep up with their payment obligations, there is a higher default risk for receivables and as a result potentially considerable write-downs in the future with negative effects on business and on the operating results, financial position and net assets of the SMA Group.

As part of our credit control, we minimize the risk of nonpayment by individual customers in accordance with the Company's credit guidelines by obtaining references and credit information for the purposes of a credit check and permanently monitoring general payment practices. Depending on the volume and the credit rating of the customer and the country, we request collateral for customer deliveries, and also evaluate historical data from our previous business relationship to preclude nonpayment. SMA allocates each customer a standard credit limit determined by sales in the last 12 months, the market growth factor and the agreed payment terms. If it is expected that the credit limit calculated in this manner is not sufficient for our future business relationship, then we examine whether we should ask the customer to furnish collatorals or whether we can cover the gap by means of defined risk reserves.

Compliance Risks

Our influential position in the market as a technology and innovation leader as well as our steadily increasing international business give rise to diverse tax, brand, patent, competition, antitrust and environmental risks.

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

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

EXPORT RISKS

As a result of increasing internationalization and an international share of 76.0%, there will be more risks for SMA from importing and exporting materials, services and finished products. SMA must meet the legal requirements for imports from and exports to many countries in order to stay competitive and meet the requirements of its increasingly international customers. An additional customs risk has arisen for SMA in connection with the delivery of components from Germany to production sites abroad.

Violations of these trade restrictions and customs laws are subject to significant penalties and could lead to damage to SMA's reputation. SMA takes care 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.

ANTITRUST LAW

Group Compliance has issued a new Antitrust Directive with the primary goal of minimizing antitrust risks from the outset. The directive stipulates clear DOs and DON'Ts for all major business situations. In addition, all employees must receive antitrust law training within a specified period.

RISKS FROM VIOLATING DATA PROTECTION LAW

There is a risk that the necessary care is not taken in the data processing of PV system operators and, for example, data is used for cross-promotion purposes. Risks also include the increasingly widespread storage and processing of data using cloud solutions, where permissibility in terms of 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 employees on the issue who process personal data and monitor all projects in which personal data of PV system operators is processed. If agreements with third parties are to be reached, the necessary data protection clauses must be applied, taking into account EU standards.

ENVIRONMENTAL RISKS

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

OVERALL STATEMENT ON THE GROUP'S RISK SITUATION

On the basis of our Risk Management System, we assess the overall risk situation to be manageable. However, on the basis of the present assessment, individual risks have been identified that, particularly if they all transpired at once, could represent a concrete threat to the Company's existence or at least significantly impair business development should the strategic targets and the planned restructuring measures be missed. The risk profile has deteriorated considerably year on year. Due to the negative development of sales and increasing competition and pricing pressure, all the risks described are given greater weight in the overall risk situation. SMA has taken measures to counter the described risks and keep the potential negative effects as small as possible. Plus, we are working continuously on improving our organizational structures and processes and thus increasing our efficiency.

It is our objective therefore to continue optimizing the Risk and Opportunity Management System in order to identify potential risks even faster, to counteract them and to take advantage of any opportunities arising.

Forecast Report

The General Economic Situation: Risks for the Global Economy on the Rise

Although the International Monetary Fund (IMF) is predicting continued growth of the global economy, it lowered the originally more optimistic forecast it had issued on October 7, 2014, in its annual outlook on January 20, 2015. Global economic output is expected to expand by 3.5% in 2015 – 0.3 percentage points less than expected in the fall in 2014. This is said to be due to weaker outlooks in China, Russia, Japan and the eurozone. Although the low price of oil is expected to boost global growth, petroleum exporting countries are still likely to suffer from the fall in prices.

With economic growth of 1.2% expected (2014: 0.8%), the IMF is forecasting growth in the eurozone in 2015 of 0.2 percentage points less than in October 2014. At 0.4% (2014: -0.4%), the Italian economy is experiencing particularly weak growth, with the French economy likewise growing at the sluggish rate of 0.9% (2014: 0.4%). In contrast, the regeneration of the Spanish economy is continuing, and the IMF anticipates growth of 2.0% there (2014: 1.4%). For Germany, the monetary experts originally anticipated relatively robust economic growth of 1.5% but have revised their optimistic forecast from October 2014 by 0.2 percentage points to 1.3% (2014: 1.5%).

According to the IMF, the British economy has continued to gain momentum in 2015, posting growth of 2.7% (2014: 2.6%). The outlook in the U.S. is said to have improved considerably, with growth reaching 3.6% (2014: 2.4%), whereas, in October 2014, the IMF estimate for growth in gross domestic product (GDP) was 0.5 percentage points lower. By contrast, in light of the 0.6% growth in Japan (2014: 0.1%), the IMF has lowered its forecast for the current year.

The outlook is said to be less positive than it was a few months ago in newly industrialized countries, too. In Brazil, the IMF anticipates growth of only 0.3% in 2015 (2014: 0.1%), and in Russia it has lowered its growth forecast for this year from 0.5% to -3.0% (2014: 0.6%) due to international sanctions in connection with the Ukraine conflict and the sharp decline in the price of oil. China's growth is expected to amount to 6.8% (2014: 7.4%) and in India a 6.3% (2014: 5.8%) increase in its GDP is anticipated. In 2015, international trade is expected to increase by 3.8% (2014: 3.1%).

Future General Economic Conditions in the Photovoltaics Sector

Key Trends in Electricity Supply

In a study from September 2014, experts at the International Energy Agency (IEA) reported that they expect the global importance of photovoltaics to increase steadily over the next few years. By 2050, solar energy could be the main source of electric current – far ahead of fossil fuels, wind energy and nuclear power. Photovoltaic systems and solar thermal power plants could be generating 27% of electricity worldwide by this point. This would result in a reduction in climate-damaging CO₂ emissions of six billion tons per year. According to the IEA's scenario, renewable energies will contribute a total of between 65% and 80% to the electricity supply by 2050.

In further publications such as the "World Energy Outlook," which is published annually, IEA experts anticipate this development to be driven by certain 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 fuel costs, which will be accompanied by 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 in order to manage electricity demand, avoid consumption peaks and take the strain off utility grids. eMobility is expected to become an important pillar of these new energy supply structures in some years. Integration of electric vehicles may also help increase self-consumption of renewable energies and offset fluctuations in the utility grid.

Photovoltaic Market Transformation

The global photovoltaic market is still undergoing a process of long-term transformation. Issues such as grid integration and photovoltaics with a power plant function are becoming increasingly important. A fundamental paradigm shift is taking place from an economic perspective as well. Potential operators no longer view the PV system as a mere income-producing asset but rather see photovoltaics as a cost-efficient, environmentally friendly and independent way of supporting their own electricity supply. The use of innovative system technology is a basic prerequisite for energy supply systems to be reorganized into decentralized structures based on renewable energies. Current and future objectives include intelligently linking different technologies, providing intermediate storage solutions for generated energy, thereby ensuring a reliable electricity supply based on renewable energies.

Global Market Growth

Photovoltaics has proven to be increasingly competitive in recent years. In an increasing number of regions in the world, solar power is now cheaper than conventional energy. In the long term, this is paving the way for the sector to grow, even without subsidization. For 2015, the SMA Managing Board anticipates newly installed power of 46 GW globally. This equates to growth of 15% compared with 2014. As a result of continued high pricing pressure in all market segments, the volume of investment for new product business will increase by only an approximate 5% to €4.1 billion (2014: €3.9 billion).

Further Decline in Germany

Germany saw a strong decline in demand for PV systems again in 2014, particularly in the second half of the year. The SMA Managing Board therefore expects PV systems with an output of only about 1.4 GW to 1.6 GW (2014: around 1.9 GW) to be connected to the grid in Germany in 2015. This would see demand fall by about an additional 15% to 25% year on year. Hence, new installations would fall significantly below the German Federal Government's expansion target of a minimum of 2.5 GW per year.

Solid Growth in the EMEA Region

Demand for PV systems is picking up in 2015 in some other European countries, the Middle East and Africa (EMEA). Positive growth stimuli are emanating from Great Britain and France in particular, which have already adopted attractive incentive programs. The fledgling markets of South Africa, Turkey, Eastern Europe and the Middle East are likewise showing promising development. Overall, the SMA Managing Board anticipates newly installed PV power of approximately 11 GW in the EMEA region (including Germany). This equates to growth of over 20% compared with 2014. The volume of investment is also growing in the region, increasing by 14% to approximately €1.1 billion. EMEA thus accounts for around 27% of the global market, measured in euros.

Growth in North and South America and Asia

The SMA Managing Board still foresees strong growth stimuli from the markets in North and South America as well as Asia. The installation of photovoltaics in North and South America will be driven primarily by large-scale solar projects. Particularly in North America, demand for medium-sized and smaller PV systems is also likely to continue registering exceptional expansion as a result of tax incentive programs. The most important markets in Asia include China and Japan. The Chinese government has outlined in more detail the implementation guidelines for installation of medium-sized PV power plants and an attractive feed-in tariff policy is providing growth momentum in Japan. The SMA Managing Board also expects to see a rise in demand in Australia, India and Thailand. According to an estimate by the SMA Managing Board, the markets in North and South America as well as Asia are expected to account for a total of over 75% of global PV demand in 2015. Estimates by the SMA Managing Board place the volume of investment in these regions at around €3 billion, of which around €2 billion is attributable to the U.S. and Japan alone.

Attractive Business Opportunities for PV-Diesel Hybrid Systems

There are worthwhile business opportunities for PV-diesel hybrid systems in many countries in South America, the Middle East, Asia-Pacific and Africa. In these regions, energy needs are growing 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 slower than originally anticipated because of technical complexity, limited financing options and the sharp decline in the price of oil since mid-2014. However, the medium-term prospects are markedly good and continue to improve due to the high level of dependence on fuel imports in the target regions. The SMA Managing Board therefore specifically expects to see an increase in market demand for complete solutions for PV-diesel hybrid systems from 2015 onwards.

The Growing Market of Energy Management

The SMA Managing Board also envisages worthwhile business opportunities for manufacturers of innovative system technologies that temporarily store solar power and provide energy management for private households and commercial enterprises. Demand for solutions to increase self-consumption of solar power is likely to rise in the European markets and Japan in particular. This is mainly attributable to rising prices for conventional domestic power and the desire of many private households and companies to drive forward the energy transition by making their contribution to a sustainable and decentralized energy supply.

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 the estimates drawn up by the SMA Managing Board and the expectations concerning the progression of global photovoltaic markets set out above. Since January 1, 2015, the SMA Group has operated under its new functional organization. In this new organization, the Residential, Commercial, Utility and Service business units take overall responsibility and manage development, sales and operations. The subsidiary companies Railway Technology, Zeversolar and Sunbelt as well as off-grid business are combined under "Other Business." The forecast report is already based on the new organizational structure.

SMA's sales and earnings situation depends on market share, price dynamics and global market growth. For the current fiscal year, the Managing Board expects to post a decline in sales and an operating loss. In light of the strong fluctuations in demand in the solar industry, the Managing Board's objective is to lower the break-even point for the SMA Group to below €700 million. The measures for the transformation of the Group were also presented to investors, banks and the press in January 2015.

Declining Sales Due to High Pricing Pressure

The sales forecast of between €730 million and €770 million was first published on January 30, 2015. At the upper end of the sales forecast of €770 million, the Managing Board anticipates a moderate decrease in prices and marginal growth in volume. In this scenario, the fall in demand expected in Germany will be offset by foreign markets, in particular the U.S. and Japan. At the lower end of the sales forecast of €730 million, the Managing Board foresees a marginal decline in volume as well as an accelerated decrease in prices. In this scenario, SMA will have to cope with the drop in demand in Germany while dealing with the risk of market share losses as a result of additional price concessions. The SMA Managing Board anticipates that more than 80% of sales will be attributable to international business.

In sunny regions, we will take even greater advantage of the opportunities that present themselves in the field of PV-diesel hybrid applications. In terms of investment costs, diesel generators are the cheaper method of supplying electricity to the world's sunny off-grid regions or supplementing unstable grids. With intelligent system technology from SMA, photovoltaics can be integrated simply into such diesel-powered grids. The integrated solution, comprising an inverter, Fuel Save Controller and an optional storage system, not only saves on expensive fuel but also lowers the operating and maintenance costs of the electric utility company over the long term. In 2014, SMA founded Sunbelt Energy GmbH to optimize its operations in this market. In the sales planning for 2015, business from PV-diesel hybrid applications was not taken into account in either scenario due to the long business initiation periods. The costs for Sunbelt Energy GmbH are included in the earnings forecast.

Return to Profitability by Reducing Fixed Costs

SMA significantly raised its break-even point during the years it experienced significant growth. However, the measures taken to reduce fixed costs over the past few years are not sufficient to lead SMA to profitability from a sales level of less than €700 million. The Managing Board therefore resolved back in 2014 to further reduce personnel and material costs worldwide. On January 30, the SMA Managing Board presented further plans for the transformation of the Group. These plans intend for SMA to focus more on strategically important development projects, adjust its real net output ratio, consolidate its global infrastructure and systematically leverage the synergies from its partnership with Danfoss. They will also reduce the number of service providers used. Unfortunately, layoffs that now total 1,600 full-time positions worldwide, primarily at the headquarters in Kassel/Niestetal, are unavoidable. The SMA Managing Board is planning to save fixed costs totaling more than €160 million. The adjustment of Zevversolar's marketing strategy, process optimization and lowering production costs thanks to more cost-effective components and new technologies are bringing about additional cost reductions. All measures have been defined by specific tasks and have been explained in detail to the Works Council. The Managing Board is planning to implement the entire raft of measures during the first half of the year. Implementation will therefore be closely monitored by a project management office.

Given that the savings from the transformation project will take effect mid-2015 at the earliest, the SMA Managing Board expects to post an operating loss of between €30 million and €60 million in the current fiscal year. Depreciation and amortization of approximately €70 million will result in positive operating earnings before interest, taxes, depreciation and amortization (EBITDA) as early as 2015. The SMA Managing Board expects to return to positive operating earnings (EBIT) in 2016. The successful, on-schedule implementation of measures and planned sales progression are key drivers in boosting earnings.

Progress in the Segments

According to Managing Board estimates, the Residential business unit will generate sales of €230 million to €240 million, accounting for approximately 30% of SMA Group consolidated sales (2014: €252.3 million; 31.1% of Group sales). In particular, the Residential business unit comprises single-phase string inverters with the brand name Sunny Boy; three-phase inverters in the lower output range up to 10 kW with the brand name Sunny Tripower; energy management solutions, storage systems such as the SMA Sunny Boy Smart Energy and Flexible Storage systems based on the Sunny Island; and communication products and accessories. With an output of 3 kW to 5 kW, the Sunny Boy inverters will account for a large share of the Residential business unit's sales. Europe, North America, Australia and Japan will remain the most important sales regions. The Residential business unit is expected to post a negative result in the single-digit percentage range.

The Commercial business unit comprises, for example, three-phase inverters with outputs exceeding 10 kW as well as medium-voltage technology, communication products and other accessories. For the Commercial business unit, the SMA Managing Board forecasts sales of between €200 million and €210 million in 2015 (2014: €157.1 million; 19.5% of Group sales). The Sunny Tripower with an output of >25 kW is expected to be a major sales driver. The primary sales markets include the U.S., Japan, Europe, Australia and India. The Commercial business unit is expected to post a negative operating result in the single-digit percentage range.

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With anticipated sales of between €230 million and €240 million, the Utility business unit is likewise expected to account for approximately 30% of Group sales (2014: €295.6 million; 36.7% of Group sales). In addition to central inverters from the Sunny Central brand, this business unit also comprises medium-voltage technology and accessories. Sales in 2015 will be determined largely by the Sunny Central CP product family. With an output of up to 2.5 MW, the new Sunny Central product family will only gain importance starting in the third quarter of 2015. North America is by far the most important sales market, followed by Great Britain, Japan, India and Chile. The Utility business unit is expected to achieve a break-even or a slightly positive result.

In 2015, our service business will continue to benefit from the high number of commissionings in the Utility and Commercial business units. We also anticipate new acquisitions through long-term service and maintenance contracts. Following the business success in this segment in 2014, SMA is working to acquire additional contracts for complete systems in Europe and North America. Overall, the SMA Managing Board expects its service business to achieve sales of more than €40 million 2015. The Service business unit is working to achieve a slightly positive result.

For the Railway Technology and Zeversolar subsidiary companies, the SMA Managing Board expects sales to drop to between €30 million and €40 million. The Sunbelt Energy subsidiary was not taken into account in the sales planning due to the long business initiation periods. The subsidiaries are expected to generate a negative result in the single-digit percentage range.

Decrease in Net Working Capital

Last year, the SMA Managing Board introduced extensive measures with the aim of reducing throughput speeds and eliminating temporary storage by means of a systematic “pull principle” in production. The outsourcing of added-value steps and vendor-managed inventory concepts is further reducing the inventory. In the current fiscal year, the Managing Board expects net working capital to decrease to between 23% and 26% of sales (December 2014: 31.2%).

Reduced Capital Expenditure

Investments in fixed assets and buildings are expected to fall considerably to between €15 million and €20 million in fiscal year 2015 (2014: €29.5 million). Major investments in fixed assets include test equipment for new inverter generations. In addition, investments in buildings are necessary to consolidate the global locations more effectively. However, there are no plans to sell any land or buildings. Investments in intangible assets primarily concern the capitalization of development projects and are expected to amount to between €15 million and €20 million (2014: €46.0 million).

Laying Foundations for the Turnaround

SMA will not change its strategy and, as a specialist, will continue to offer complete solutions for all attractive photovoltaic markets, all module types and all power classes. Last year, SMA once again expanded its position as a leader in technology with 21 innovations. With our innovations, we have proven that higher switching frequencies, higher voltages and other topologies have the potential to significantly reduce production costs. For example, in Australia, we are successfully serving the low-price segment with technologically simple products from our secondary brand Zeversolar. In addition to product business, SMA is expanding its service operations. In a matter of months, customers in Europe and North America assigned management and maintenance of their PV power plants with an output of 1 GW over to us. We are systematically tapping into the promising business of PV-diesel hybrid applications and off-grid applications with specialized teams. Thanks to continuous process improvement, our global purchasing and logistics structures and the systematic leveraging of synergies with Danfoss, we have laid the foundations for increasing our competitiveness. However, the various measures aimed at increasing sales and reducing costs are not sufficient to lead SMA to profitability, especially from a sales level of below €700 million. The Managing Board has therefore developed extensive measures to reduce fixed costs by more than €160 million within a short period of time. The staff reduction that this requires is unfortunately inevitable. By adjusting the structure of our organization and processes, SMA will find its way back to small and medium-sized enterprise structures and sustainable profitability. This journey will be difficult for SMA, but the Group is characterized not least by an extraordinary corporate culture and motivated employees, who all make a decisive contribution to the Company's long-term success – even in challenging times.

Niestetal, March 3, 2015

SMA Solar Technology AG

The Managing Board

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Income Statement SMA Group

in €'000	Note	2014	2013
Sales	5	805,430	932,523
Cost of sales	6	672,384	787,580
Gross profit		133,046	144,943
Selling expenses	7	64,893	59,167
Research and development expenses	8	88,159	79,573
General administrative expenses	9	80,583	70,718
Other operating income	10	32,754	35,635
Other operating expenses	11	97,017	60,261
Operating profit (EBIT)		-164,852	-89,141
Financial income		3,023	5,876
Financial expenses		6,116	5,539
Financial result	13	-3,093	337
Profit before income taxes		-167,945	-88,804
Income taxes	14	11,367	-21,952
Consolidated net result		-179,312	-66,852
of which attributable to non-controlling interests		-289	-234
of which attributable to shareholders of SMA AG		-179,023	-66,618
Earnings per share, basic (in €)	15	-5.16	-1.92
Earnings per share, diluted (in €)	15	-5.16	-1.92
Number of ordinary shares (in thousands)		34,700	34,700

Statement of Comprehensive Income SMA Group

in €'000	Note	2014	2013
Consolidated net result		- 179,312	- 66,852
Changes in fair values of available-for-sale assets		80	- 469
Income taxes		- 24	142
Changes recognized outside profit or loss¹ (available-for-sale financial assets)	56	- 327	
Unrealized gains (+)/losses (-) from currency translation of foreign subsidiaries		5,339	- 3,875
Changes recognized outside profit or loss¹ (currency translation differences)		5,339	- 3,875
Other comprehensive income		5,395	- 4,202
Overall comprehensive result		- 173,917	- 71,054
of which attributable to non-controlling interests		- 287	- 228
of which attributable to shareholders of SMA AG		- 173,630	- 70,826

¹ Items of other comprehensive income may be reclassified to profit or loss.

Balance Sheet SMA Group

in €'000	Note	12/31/2014	12/31/2013
Non-current assets			
Goodwill	16	798	13,173
Other intangible assets	16	89,016	78,974
Fixed assets	17	323,332	348,886
Other financial investments		5	5
Other financial assets	20	2,622	53,451
Deferred taxes	14	72,497	63,782
		488,270	558,271
Current assets			
Inventories	18	203,168	184,131
Trade receivables	19	159,617	124,259
Other financial assets	20	108,393	169,194
Income tax receivables	14	12,576	12,996
Other receivables	19	24,256	18,725
Cash and cash equivalents	21	183,988	192,366
		691,998	701,671
Total assets		1,180,268	1,259,942
Shareholders' equity			
Share capital		34,700	34,700
Capital reserves		119,200	119,200
Retained earnings		398,075	570,363
SMA Solar Technology AG shareholder's equity		551,975	724,263
Equity attributable to non-controlling interests	- 13	163	
	22	551,962	724,426
Non-current liabilities			
Provisions	23	87,119	101,752
Financial liabilities	24	42,840	46,714
Other financial liabilities ¹	26	2,996	1,598
Other liabilities ¹	27	126,929	113,658
Deferred taxes	14	24,343	23,320
		284,227	287,042
Current liabilities			
Provisions	23	126,059	96,804
Financial liabilities	24	26,515	26,665
Trade payables	25	111,773	60,806
Other financial liabilities ¹	26	10,869	11,789
Income tax liabilities	14	14,583	2,267
Other liabilities ¹	27	54,280	50,143
		344,079	248,474
Total equity and liabilities		1,180,268	1,259,942

¹ As of fiscal year 2014, liabilities in the Human Resources department are reported under other liabilities in accordance with IAS 32. This involves adjustment of comparative figures.

Statement of Cash Flows SMA Group

	Note	2014	2013
in €'000			
Consolidated net result		- 179,312	- 66,852
Income taxes		11,367	- 21,952
Financial result		3,093	- 337
Depreciation and amortization		106,489	83,640
Change in provisions		14,270	- 4,138
Losses from the disposal of assets		3,221	4,503
Other non-cash expenses/revenue		12,455	31,882
Interest received		2,517	3,087
Interest paid		- 5,089	- 3,680
Income tax paid		- 6,323	- 14,989
Gross cash flow		- 37,312	11,164
Change in inventories		- 25,941	19,733
Change in trade receivables		- 37,746	15,440
Change in trade payables		50,967	- 24,669
Change in other net assets/other non-cash transactions		22,462	- 24,115
Net cash flow from operating activities	31	- 27,570	- 2,447
Payments for investments in fixed assets		- 29,499	- 25,189
Proceeds from the disposal of fixed assets		2,138	3,687
Payments for investments in intangible assets		- 46,033	- 28,004
Payments for the acquisition of companies net of cash/payments		- 3,361	- 22,125
for the acquisition of business units		196,405	441,000
Proceeds from the disposal of securities and other financial assets		- 95,000	- 335,000
Payments for the acquisition of securities and other financial assets		24,650	34,369
Net cash flow from investing activities	32	24,650	34,369
Change in non-controlling interests		- 176	162
Proceeds of financial liabilities		11,880	44,870
Redemption of financial liabilities		- 21,672	- 35,533
Dividends paid by SMA Solar Technology AG		0	- 20,820
Cash outflows for the acquisition of non-controlling interests in subsidiaries		0	- 5,060
Net cash flow from financing activities	33	- 9,968	- 16,381
Net increase/decrease in cash and cash equivalents		- 12,888	15,541
Net increase/decrease due to exchange rate effects		4,510	- 8,474
Cash and cash equivalents as of 01/01		192,366	185,299
Cash and cash equivalents as of 12/31	34	183,988	192,366

Statement of Changes in Equity SMA Group

in € '000	Note	Share capital	Capital reserve
Shareholders' equity as of January 1, 2013		34,700	119,200
Dividend payments of SMA Solar Technology AG		0	0
Consolidated net loss		0	0
Other comprehensive income after taxes	22	0	0
Overall result			
Additions of non-controlling interests		0	0
Put option of non-controlling interests		0	0
Acquisition of non-controlling interests		0	0
Proceeds from owners (capital increase Zevversolar)		0	0
Other changes in equity		0	0
Shareholders' equity as of December 31, 2013	22	34,700	119,200
 Shareholders' equity as of January 1, 2014		34,700	119,200
Consolidated net loss		0	0
Other comprehensive income after taxes	22	0	0
Overall result			
Contributions from owners to Managing Board members		0	0
Proceeds from owners (capital increase Zevversolar)		0	0
Shareholders' equity as of December 31, 2014	22	34,700	119,200

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Equity attributable to the shareholders of the parent company

Market valuation of securities	Difference from currency translation	Other retained earnings	Total	Equity attributable to non-controlling interests	Consolidated shareholders' equity
271	1,202	665,288	820,661	2	820,663
0	0	-20,820	-20,820	0	-20,820
0	0	-66,618	-66,618	-234	-66,852
-327	-3,881	0	-4,208	6	-4,202
					-71,054
0	0	0	0	3,933	3,933
0	0	-3,343	-3,343	0	-3,343
0	0	-2,712	-2,712	-2,394	-5,106
0	0	1,150	1,150	-1,150	0
0	0	153	153	0	153
-56	-2,679	573,098	724,263	163	724,426
-56	-2,679	573,098	724,263	163	724,426
0	0	-179,023	-179,023	-289	-179,312
56	5,337	0	5,393	2	5,395
					-173,917
0	0	1,250	1,250	0	1,250
0	0	92	92	111	203
0	2,658	395,417	551,975	-13	551,962

Notes SMA Group

Basic Information

1. Basics

The Consolidated Financial Statements of SMA Solar Technology AG for the year ended December 31, 2014, were prepared in compliance with the International Financial Reporting Standards (IFRS) as adopted by the EU, as well as in compliance with the regulations of Section 315a of the German Commercial Code (HGB). The requirements of the standards applied were met completely and provide a fair view of the net assets, financial position and operating results of SMA Solar Technology AG and the subsidiary companies included in the scope of consolidation (hereinafter: the SMA Group or the Group).

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

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

The income statement is classified according to the cost of sales method. The Consolidated Financial Statements were prepared in euros. Unless indicated otherwise, all amounts stated are in euros rounded to whole thousands (€ '000) or millions (€ million).

The Managing Board of SMA Solar Technology AG authorized the Consolidated Financial Statements on March 3, 2015, for submission to the Supervisory Board. The Supervisory Board has the duty of reviewing the Consolidated Financial Statements and declaring whether it approves the Consolidated Financial Statements.

The SMA Group develops, manufactures and distributes PV inverters, transformers, chokes, monitoring and energy management systems for PV systems and power-electronic components for railway technology.

See also section 5
page 128 et seqq.

More detailed information on segments is provided in Section 5.

2. Consolidation

2.1. CONSOLIDATION PRINCIPLES

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

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

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

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

Profit and loss and every component of other comprehensive income are attributable to SMA's shareholders and non-controlling interests. This applies even when it results in a negative balance for non-controlling interests.

A positive difference resulting from the offsetting is capitalized as goodwill. It may, if applicable, also include the goodwill corresponding to non-controlling interests. Negative differences resulting from the consolidation at the date of acquisition are recognized directly in the income statement.

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

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

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

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

- » Total fair value of the consideration received and the fair value of retained shares
- » Book value of the assets (including goodwill), the liabilities of the subsidiary and all non-controlling interests

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

2.2. SCOPE OF CONSOLIDATION

The scope of consolidation as of December 31, 2014, was expanded compared with December 31, 2013, to include the newly founded companies SMA Sunbelt Energy GmbH (Niestetal, Germany) and SMA Railway Technology (Guangzhou) Co., Ltd. (Guangzhou, China). Shanghai ZOF New Energy Co., Ltd., (Shanghai, China) was liquidated on February 25, 2014, and therefore left the scope of consolidation. The Group's shares in Jiangsu Zeversolar New Energy Co., Ltd., increased to 99.25% (December 31, 2013: 98.81%) through the conversion of a loan into equity. There were no other changes in shareholdings year on year.

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

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

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

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LIST OF SHAREHOLDINGS pursuant to Section 313 of the German Commercial Code

Name	Registered office	Share in capital	Consolidation
Parent company			
SMA Solar Technology AG	Niestetal, Germany		F
Shares in affiliated companies			
Australia Zeversolar New Energy Pty. Ltd.	Sydney, Australia	100% ⁴	F
dtw Sp. z o.o.	Zabierzów, Poland	100%	F
Jiangsu Zeversolar New Energy Co., Ltd.	Suzhou, China	99.25% ⁵	F
Jiangsu ZOF New Engery CO., Ltd.	Yangzhong, China	100% ⁴	F
SMA America Holdings LLC	Denver, U.S.	100%	F
SMA America Production LLC	Denver, U.S.	100% ⁴	F
SMA Australia Pty. Ltd.	North Ryde, Australia	100%	F
SMA (Beijing) Commercial Co. Ltd.	Beijing, China	100%	F
SMA Benelux BVBA	Mechelen, Belgium	100% ²	F
SMA Brasil Tecnologia Ferroviaria Ltda.	Itupeva, Brazil	100% ⁴	F
SMA Central and Eastern Europe s.r.o.	Prague, Czech Republic	100%	F
SMA France S.A.S.	Saint Priest Cedex, France	100%	F
SMA Ibérica Technología Solar, S.L.	Sant Cugat del Vallès (Barcelona), Spain	100%	F
SMA Immo Beteiligungs GmbH	Niestetal, Germany	94% ¹	F
SMA Immo GmbH & Co. KG	Niestetal, Germany	100%	F
SMA Italia S.r.l.	Milan, Italy	100%	F
SMA Japan Kabushiki Kaisha	Tokyo, Japan	100%	F
SMA Middle East Limited	Abu Dhabi, United Arab Emirates	100%	F
SMA New Energy Technology (Shanghai) Co., Ltd.	Shanghai, China	100%	F
SMA Railway Technology GmbH	Kassel, Germany	100%	F
SMA Railway Technology (Guangzhou) Co., Ltd	Guangzhou, China	100% ⁴	F
SMA Service International GmbH	Niestetal, Germany	100%	F
SMA Solar Beteiligungs GmbH	Niestetal, Germany	100%	F
SMA Solar India Private Limited	Mumbai, India	100% ²	F
SMA Solar Technology America LLC	Rocklin, U.S.	100% ⁴	F
SMA Solar Technology Beteiligungs GmbH	Niestetal, Germany	100%	F
SMA Solar Technology Canada Inc.	Vancouver, Canada	100%	F
SMA Solar Technology Portugal, Unipessoal Lda.	Palmela, Portugal	100%	F
SMA Solar Technology South Africa (Pty.) Ltd.	Centurion, South Africa	100%	F
SMA Solar (Thailand) Co., Ltd.	Bangkok, Thailand	100% ³	F
SMA Solar UK Ltd.	Banbury, Great Britain	100%	F
SMA South America SpA	Santiago, Chile	100%	F
SMA Sub-Sahara Production Pty. Ltd.	Randburg, South Africa	100%	F
SMA Sunbelt Energy GmbH	Niestetal, Germany	100%	F
SMA Technology Hellas AE	Glyfada, Greece	100% ²	F
SMA Technology Korea Co., Ltd.	Seoul, South Korea	100%	F
Zeversolar GmbH	Munich, Germany	100% ⁴	F
Investments			
IdE Institut dezentrale Energietechnologien gemeinnützige GmbH	Kassel, Germany	10%	N
Uni Kassel International Management School KIMS GmbH	Kassel, Germany	10%	N

F = fully consolidated; N = not consolidated ¹ The remaining shares are held by SMA Technologie-Holding GmbH.

² 0.1 % are held by SMA Solar Technology Beteiligungs GmbH. ³ 0.001 % are held by SMA Solar Technology Beteiligungs GmbH;
0.001 % are held by SMA Solar UK Ltd. ⁴ Indirect investment ⁵ The remaining shares are distributed among minority shareholders

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

All companies of the SMA Group prepare their Annual Financial Statements as of December 31, with the exception of our Indian subsidiary SMA Solar India Private Limited, which prepares its Financial Statements as of March 31.

SMA Immo GmbH & Co. KG has made use of the exemption clause pursuant to Section 264 b of the German Commercial Code.

2.3. TRANSLATION OF FINANCIAL STATEMENTS INTO FOREIGN CURRENCIES

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

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

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

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

in €	Average rate	Closing rate		
	2014	2013	12/31/2014	12/31/2013
1 Chinese renminbi (CNY)	0.12261	0.12567	0.13263	0.11994
1 U.S. dollar (USD)	0.75352	0.75319	0.82271	0.72637

3. Accounting Principles and Amendments to Accounting Standards

3.1. NEW IASB ACCOUNTING STANDARDS

STANDARDS AND INTERPRETATIONS TO BE APPLIED FOR THE FIRST TIME IN THE FISCAL YEAR

Standard/Interpretation		Date of compulsory application ¹	Endorsement (until December 31, 2014) ²
New — IFRS 10	Consolidated Financial Statements	01/01/2014	yes
New — IFRS 11	Joint Arrangements	01/01/2014	yes
New — IFRS 12	Disclosure of Interests in Other Entities	01/01/2014	yes
Amendment — IAS 27	Separate Financial Statements	01/01/2014	yes
Amendment — IAS 28	Investments in Associates and Joint Ventures	01/01/2014	yes
Amendment — IAS 32	Offsetting Financial Assets and Financial Liabilities	01/01/2014	yes
Amendment — IAS 36	Impairment of Assets – clarification of disclosures required	01/01/2014	yes
Amendment — IAS 39	Novation of Derivatives and Ongoing Hedge Accounting	01/01/2014	yes
New — IFRS 10, IFRS 11, IFRS 12	Transition Guidance to IFRS 10, IFRS 11 and IFRS 12	01/01/2014	yes
Amendment — IFRS 10, IFRS 12, IAS 27	Investment Entities	01/01/2014	yes

¹ Applicable to the first reporting period of a fiscal year beginning on or after that date.

² Adoption of IFRS standards or interpretations by the EU Commission.

In May 2011, the IASB issued a package of a total of five new accounting standards, the basic content of which is described below.

IFRS 10 Consolidated Financial Statements

New standard adopted on May 12, 2011. IFRS 10 supersedes the previous provisions on consolidated financial statements in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. The objective of IFRS 10 is to provide standard principles for the preparation and presentation of consolidated financial statements when a holding company controls one or more entities. According to IFRS 10, control exists when the following three conditions are met cumulatively:

- ❖ An entity must be able to exert power over the investee
- ❖ It must be exposed to variable returns from its investment
- ❖ It must be able to use its power to affect the returns

The first-time application of the new standard has no effect on the Group's scope of consolidation.

IFRS 11 Joint Arrangements

New standard adopted on May 12, 2011. IFRS 11 supersedes IAS 31 Interests In Joint Ventures and SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. The standard governs the classification of joint arrangements. A joint arrangement is defined as a contractual agreement over which two or more parties exert joint control. IFRS 11 now differentiates between only two types of joint arrangement – joint operations and joint ventures. Classification to one of the two categories depends on the structure, the legal form of the arrangement, the contractual conditions set by the parties to the arrangements and any other relevant facts and circumstances. The new standard has no effect on the accounting for the Group's joint ventures. The first-time application of the new standard has no effect on the Group's scope of consolidation.

IFRS 12 Disclosure of Interests in Other Entities

New standard adopted on May 12, 2011. The standard bundles disclosures regarding subsidiaries, joint arrangements, associates and/or unconsolidated structured entities into one standard. IFRS 12 did not result in more extensive disclosures in the Group's consolidated financial statements (see 2.2 Scope of Consolidation).

See also section 2.2
page 110 et seqq.

IAS 27 Separate Financial Statements

New, revised standard adopted on May 12, 2011. The objective of IAS 27 (revised 2011) is to set standards to be applied when accounting for investments in subsidiaries, associates and joint ventures, if an entity decides (or is obligated by local regulations) to present separate financial statements (or unconsolidated financial statements). Together with IFRS 10 Consolidated Financial Statements, IAS 27 (2011) supersedes the predecessor version IAS 27 (2008) Consolidated and Separate Financial Statements including the Interpretation SIC-12 Consolidation – Special Purpose Entities. The first-time application of the new standard has no effect on the Group's scope of consolidation.

IAS 28 Investments in Associates and Joint Ventures

New, revised standard adopted on May 12, 2011. The objective of IAS 28 (revised 2011) is to stipulate how to account for investments in associates and issue instructions on applying the equity method when accounting for investments in associates and joint ventures. Together with IFRS 12 Disclosure of Interests in Other Entities, IAS 28 (2011) supersedes the predecessor version IAS 28 (2008) Investments in Associates. The first-time application of the new standard has no effect on the Group's scope of consolidation.

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Amendment to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

The IASB revised the provisions on offsetting financial assets and financial liabilities and published the results on December 16, 2011, in the form of amendments to IAS 32 Financial Instruments: Presentation and IFRS 7 Financial Instruments: Disclosures. The offsetting requirements formulated in IAS 32 were essentially retained and only specified by additional application guidance. The amended guidance is applicable retrospectively for fiscal years beginning on or after January 1, 2014. The first-time application of the new standard has no effect.

Amendment to IAS 36 Impairment of Assets

IAS 36 was amended with regard to the recoverable amount for non-financial assets. The amendments correct disclosure requirements which were made broader than intended in connection with IFRS 13. This relates to impaired assets whose recoverable amount matches fair value less costs to sell. At the moment, the recoverable amount must be disclosed regardless of the existence of impairment. The correction limits the disclosure requirements to actual cases of impairment but expands the required disclosures in these cases. The amendments were implemented appropriately.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement

IAS 39 was amended with regard to novation of derivatives and continuation of hedge accounting, whereby in certain circumstances derivatives can continue to be designated as hedges in ongoing hedging relationships despite novation. The first-time application of the new standard has no effect.

Transition Guidance

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities – transitional provisions. The amendments clarify the Transition Guidance in IFRS 10 and make additional simplifications in all three standards.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities

The amendments to IFRS 10 define an investment entity. If an entity meets the definition of an investment entity, it may not consolidate its subsidiaries but must measure its investments at fair value through profit or loss.

STANDARDS AND INTERPRETATIONS THAT HAVE BEEN PUBLISHED BUT ARE NOT YET MANDATORY
 In its 2014 consolidated financial statements, SMA AG did not apply the following accounting standards, which have already been adopted by the IASB but are not yet mandatory for this fiscal year.

Standard/interpretation		Date of compulsory application ¹	Endorsement (until December 31, 2014) ²
	Financial Instruments: Classification and Measurement of Financial Instruments	01/01/2018	no
New ——— IFRS 9 ———	Regulatory Deferral Accounts	01/01/2016	no
New ——— IFRS 15 ———	Revenue From Contracts With Customers	01/01/2017	no
Amendment — IFRS 11 ———	Accounting for Acquisitions of Interests in Joint Operations	01/01/2017	no
Amendment — IFRS 7, IFRS 9 ———	Mandatory Effective Date and Transition Disclosures	01/01/2017	no
	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	01/01/2016	no
Amendment — IFRS 10, IAS 28 ——— IFRS 10, IFRS 12, IAS 28 ———	Investment Entities: Applying the Consolidation Exemption	01/01/2016	no
Amendment — IAS 1 ———	Disclosure Initiative	01/01/2016	no
	Clarification of Acceptable Methods of Depreciation and Amortization	01/01/2016	no
Amendment — IAS 16, IAS 41 ———	Agriculture: Bearer Plants	01/01/2016	no
Amendment — IAS 19 ———	Employee Benefits	02/01/2015	yes
Amendment — IAS 27 ———	Equity Method in Separate Financial Statements	01/01/2016	no
New ——— IFRIC 21 ———	Levies	06/17/2014	yes
New ——— Annual Improvements ——— 2010 – 2012 Cycle		02/01/2015	yes
New ——— Annual Improvements ——— 2011 – 2013 Cycle		01/01/2015	yes
New ——— Annual Improvements ——— 2012 – 2014 Cycle		01/01/2016	no

¹ Applicable to the first reporting period of a fiscal year beginning on or after that date.

² Mandatory application according to adoption by the EU Commission – the standards themselves sometimes stipulate earlier mandatory application.

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

IFRS 9 Financial Instruments

New standard adopted on July 24, 2014. The standard deals with the classification and measurement of financial assets and is expected to influence accounting for the Group's financial assets. Application of the standard is mandatory from January 1, 2018. Early application is permitted, subject to adoption by the EU. The Group is currently examining the precise effects of IFRS 9.

IFRS 14 Regulatory Deferral Accounts

New standard adopted on January 30, 2014. The standard permits an entity that is a first-time adopter of IFRS to continue to account, with some limited changes, for “regulatory deferral account balances” in accordance with the financial reporting standards it previously applied. This applies both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and in the income statement or in other comprehensive income. In addition, specific disclosures are required. IFRS 14 applies to reporting periods beginning on or after January 1, 2016. As SMA is not a first-time adopter of IFRS, the standard has no impact on the Group’s financial reporting.

IFRS 15 Revenue From Contracts With Customers

IFRS 15 is a new standard published on May 28, 2014, that applies to reporting periods beginning on or after January 1, 2017. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principle-based five-step model to be applied to all contracts with customers. Besides the more extensive disclosures, no major effects on the Group’s net assets, financial position and operating results are expected from the standard.

Amendments to IFRS 11 Joint Arrangements

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

Amendments to IFRS 7 in Relation to the Amendments of IFRS 9

On December 16, 2011, the IASB issued Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7), a standard that postponed the mandatory effective date of IFRS 9 to reporting periods beginning on or after January 1, 2017, and amended the simplifications with regard to the restating of prior periods and the corresponding disclosures in IFRS 7. The amendments to IFRS 7 are applicable when an entity applies IFRS 9 for the first time (January 1, 2017, or earlier in the event of early application of IFRS 9).

IAS 28/IFRS 10 – Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture

The amendments address a conflict between the requirements in IAS 28 Investments in Associates and Joint Ventures and those in IFRS 10 Consolidated Financial Statements. Specifically, they clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

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

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

Amendments to IAS 1 Disclosure Initiative

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

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

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

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

Amendment to IAS 19 Employee Benefits

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

Amendments to IAS 27 Equity Method in Separate Financial Statements

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

IFRIC 21 Levies

The interpretation provides guidance when a liability for levies imposed by a government has to be recognized. The interpretation applies both to levies that are recognized in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and to levies for which the date and amount are known. The interpretation is first applicable in reporting periods beginning on or after June 17, 2014. No material effects on the Group's financial reporting are expected.

IFRS Annual Improvements 2010–2012

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

IFRS Annual Improvements 2011–2013

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

IFRS Annual Improvements 2012–2014

As part of its annual process of making minor improvements to standards and interpretations (Annual Improvements to IFRSs 2012 – 2014 Cycle), the IASB has issued amendments. The amendments affect four standards (IFRS 5, IFRS 7, IAS 19 and IAS 34). They have only minor or no relevance to the Group.

The Group applied no new standards, interpretations or amendments to standards in early 2014.

3.2. DISCLOSURES TO THE ACCOUNTING AND VALUATION POLICIES

Intangible assets acquired with a finite useful life are valued at acquisition costs. They decline via straight-line amortization over their useful lives and accumulated impairments.

The costs for internally generated intangible assets are recognized in the period in which they accrue, with the exception of development costs that can be capitalized.

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

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

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

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

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

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

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

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

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

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

If the book value of an asset or a cash-generating unit exceeds the recoverable amount, the asset or the cash generating unit is impaired and written down to the recoverable amount. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments regarding the interest effect and the risks specific to the asset. In order to determine the fair value less costs to sell, an adequate valuation model is used. This is based on valuation multipliers, stock prices of quoted shares of entities or other available indicators for the fair value. Impairment costs are recognized under the expense category that corresponds to the function of the impaired asset in the enterprise. In fiscal year 2014, as in the previous year, impairment was taken into account on development projects, and recognized on goodwill for the first time. More information is provided in Section 16. Intangible assets.

See also section 16
page 140 et seqq.

For assets, a test is carried out on each balance sheet date to determine whether there are any indicators that a previously recognized impairment loss has ceased to exist or has diminished. Additions are made if the recoverable amount has increased in subsequent periods. An impairment loss recognized in prior periods is only reversed if there is a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the book value of the asset is increased to its recoverable amount. An addition is limited to the amount that would have resulted based on scheduled depreciation without recognizing an impairment. The addition is immediately recognized in the income statement. This was not the case in the year under review and in the previous year.

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

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

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

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

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

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

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

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

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

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

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Government grants for assets are accrued under other liabilities and written back at identical annual installments through other operating income over the estimated useful life of the related asset. Government grants are only recorded if there is reasonable assurance that the entity will comply with the conditions attached to them and that the grants will be received.

Provisions account for all recognizable present (legal and constructive) obligations of the Group to third parties as a result of past events, which are expected to lead to an outflow of resources with an economic benefit to settle the obligation, and the amount of which can be determined reliably. The provisions are recognized in line with IAS 37 at the estimated amount required to settle them. Insofar as the Group expects to receive a repayment, at least in part, for a reported provision (such as for an insurance contract), the repayment is recorded as a separate asset if the inflow of the payment is highly probable. The expense for the formation of the provision is recognized in the income statement. Non-current provisions are carried in the balance sheet at their settlement amount discounted to the balance sheet date using corresponding term-dependent market interest rates. If the amount is discounted, the increase of provisions caused by expiration is recorded under finance costs.

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

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

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Qualifying assets refer to those assets that require a longer period of time before they are available for their intended use or sale. All other borrowing costs are recognized as profit or loss in the period in which they are incurred. As in the previous year, no borrowing costs were capitalized in the current period under review.

Employee benefits are, as a rule, reported as a liability if an employee has provided work in exchange for benefits payable in the future and are recognized as an expense if the entity has received the economic benefit resulting from the work provided by an employee in exchange for future benefits.

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

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

Revenue is recognized if it is probable that the economic benefit will flow to the Group and the amount of the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received. Discounts, rebates and other deductions are not taken into account. Revenue from the sale of goods and products is recognized if the material rewards and risks associated with the ownership of the goods and products sold have passed to the buyer. This is normally the case upon delivery of goods and products. Revenue from services is recognized as soon as the services are rendered. Interest income is recognized when interest has accrued (using the effective interest rate, i.e., the internal rate used to discount estimated future cash inflows over the expected term of the financial instrument to the net book value of the financial asset). Dividends are recognized when the right to receive payment is established.

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

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

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

3.3. SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

See also section 28 page 150 et seqq. The Company Management made a judgment on the first-time categorization of other financial assets. More information is provided in Section 28.

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

Development costs are capitalized in line with the accounting policies presented when all required conditions are given. Initial capitalization of costs is based on an estimate by the Company Management that a project's technical and economic feasibility has been proven. This is normally the case when a development project has reached a specific milestone or a specific quality gate in the development process. When determining the amounts to be capitalized, the Company Management makes further valuation assumptions regarding the amount of expected future cash flows from the assets, the discounting rates to be applied and the period of inflow of expected future cash flows generated by the assets. With this in mind, €40.9 million (2013: €22.9 million) were capitalized during the fiscal year. The increase in capitalization reflects the development activities carried out by SMA to retain its position as a leader in technology. The research and development costs recognized as expenses are presented in Section 8. Research and Development Expenses.

See also section 8 page 133 et seqq.

In addition to individual circumstances, **provisions** for overall warranty risks are also taken into account when setting aside provisions for warranty obligations. In the case of warranty risks, an obligation of five or ten years is generally adopted as a base. The expected warranty expenditure is based on historical values. The expected warranty expenditure is calculated by referring to a weighted percentage determined by comparing actual warranty expenditure in the last five to ten years leading up to the previous year's sales and applying these percentages to the sales covered by warranty obligations. The warranty provisions are used up equally over the five- to ten-year warranty period. The value of the provision for individual cases and overall warranty risks amounted to €139.8 million (December 31, 2013: €158.7 million) as of December 31, 2014. More information is provided in Section 23 Provisions. Accrued payments received for non-gratuitous warranties are collected over the warranty period as sales revenues on a straight-line basis since, in this case, a linear progression of warranty costs is also adopted as the best possible estimation method.

See also section 23 page 147 et seqq.

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

On each balance sheet date, the Group examines whether there are indicators for an impairment of non-financial assets. Estimating the value in use requires the Company Management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of these cash flows. As in the previous year, impairment was recognized on development projects in fiscal year 2014; impairment was recognized on goodwill for the first time. More information is provided in Section 16. Intangible assets.

See also section 16
page 140 et seqq.

Deferred tax assets are formed for all unused tax loss carryforwards to the extent that it is probable that there will be sufficient taxable profit to enable the loss carryforwards to actually be used. Determining the amount of deferred tax assets requires the Company Management to use significant discretion regarding the expected time of accrual and the amount of taxable income in the future as well as regarding future tax planning strategies. Deferred tax assets for loss carryforwards amount to €25.4 million (2013: €29.4 million).

4. Business Combinations

In 2014, SMA made two asset deals, first with Danfoss Power Electronics A/S, Denmark ("Danfoss") and second with Phoenix Solar AG, Sulzemoos ("Phoenix"). Both acquisitions constituted business combinations as defined by IFRS 3.

On May 28, 2014, as part of the strategic partnership with Danfoss Power Electronics A/S, Denmark ("Danfoss"), SMA acquired its inverter segment in an asset deal. Thanks to the acquisition, we optimally supplemented our inverter product portfolio with the FLX and MLX series devices developed by Danfoss.

Essentially, product licenses and patents as well as expertise were transferred at a contractual purchase price of €1.00. Production facilities were not part of the acquisition. Furthermore, agreements were concluded regarding the acquisition of inventories and the utilization of production capacities. The provisions of IFRS 3 Business Combinations apply to this acquisition. Pursuant to this, the acquisition gave rise to total acquisition costs within the meaning of IFRS 3 of €4.3 million. The consideration to be transferred to Danfoss is to be paid in cash on a pro rata basis by 2016. Cash totaling €1.5 million had been transferred by December 31, 2014. The acquired receivables were already fully settled as of the reporting date on December 31, 2014.

The resulting goodwill of €0.3 million primarily reflects the prospect of positive effects from the strategic partnership with Danfoss. No goodwill deductible for tax purposes arose.

ACQUIRED ASSETS AND LIABILITIES

in €'000	Fair values of acquired assets and liabilities on the acquisition date
Intangible assets	1,291
Receivables ¹	3,000
Provisions	352
Net assets	3,939
Goodwill	316
Consideration for acquisition	4,255

¹ Fair value matches book value.

The transaction costs of €0.5 million were recognized under other operating expenses in the income statement.

As a result of the inclusion of Danfoss products, consolidated sales increased by €5.1 million and earnings after taxes declined by €0.8 million. If the Danfoss products had already been included in the scope of consolidation as of January 1, 2014, consolidated sales would have been €14.2 million higher and earnings after taxes would have been €1.6 million lower.

The change in the estimate of the fair values of assets and liabilities in the final purchase price allocation compared to the provisional estimate in the half-yearly report resulted in an increase in goodwill of €0.3 million.

As part of an asset deal with Phoenix Solar AG, Sulzemoos ("Phoenix"), SMA acquired the business unit for operation and maintenance services for photovoltaic power plants ("O&M business") as of October 31, 2014. Acquisition of the O&M business is an important driver of our Service segment growth strategy.

The transferred assets chiefly comprise customer contracts, as well as fixed assets, inventories and receivables. The purchase price comprises the book values of the fixed assets, inventories and receivables as of October 31, 2014, including a component for transferred customer contracts. The transfer of customer contracts to SMA required the approval of individual customers. As a small number of the customers had not yet given approval on the acquisition date, an immaterial portion of the consideration was still contingent (€0.1 million); all approvals were granted by December 31, 2014. The impact of the adjustment of the contingent consideration on earnings in the fiscal year was immaterial. The full consideration is transferred in cash and amounts to €5.0 million.

The resulting goodwill of €0.2 million chiefly reflects expectations relating to access to the European operations and maintenance service business for photovoltaic power plants. No goodwill deductible for tax purposes arose.

ACQUIRED ASSETS AND LIABILITIES

in €'000	Fair values of acquired assets and liabilities on the acquisition date
Customer relationships	4,015
Fixed assets	120
Inventories and receivables ¹	686
Net assets	4,821
Goodwill	171
Consideration for acquisition	4,992

¹ Fair values of receivables match book values and are fully recoverable

The transaction costs of €0.1 million were recognized under other operating expenses in the income statement.

As a result of the inclusion of the O&M business, consolidated sales increased by €0.8 million; the effect on earnings was immaterial. If the O&M business had already been included in the scope of consolidation as of January 1, 2014, consolidated sales would have been €4.9 million higher and earnings after taxes would have been €0.7 million higher.

As of March 12, 2013, SMA acquired shares in Jiangsu Zeversolar New Energy Co., Ltd. (Zeversolar) (December 31, 2013: 98.81%). Zeversolar is a Chinese inverter manufacturer with its own development. Significant assets and liabilities were trade receivables (€25.0 million), intangible assets (€14.2 million), fixed assets and inventories (€15.6 million), and liabilities to credit institutions and suppliers (€38.4 million). The transaction resulted in goodwill of €12.9 million based on the expected economic benefit of entering the market in China.

5. Segment Reporting

The SMA Group's structure includes the Medium Power Solutions, Power Plant Solutions, Service and Zeversolar divisions. The Railway Technology business area also belongs to the SMA Group. The divisions were endowed with the functions required for operating business. They are also responsible for international business. SMA has specifically bundled Finance, Human Resources, Legal and Compliance, Internal Auditing, Corporate Communication, Information Technology, Technology Predevelopment and Facility Management into Corporate Functions. The divisions report directly to the Managing Board. For reporting purposes, the operations of Zeversolar and Railway Technology are reported under the same segment names. In accordance with market requirements, SMA regularly reviews its organizational structure in order to make it as efficient as possible.

See also New
Organizational
Structure page 40

Segment	Activities
Medium Power Solutions	Development, production and distribution of system technology for photovoltaic applications in the grid-tied building and commercial field. Responsible for the Sunny Boy, Sunny Mini Central, Sunny Tripower and Sunny Island product families. The division also develops and distributes products used for monitoring PV systems and energy management. The subsidiary company dtw, which is allocated to the Medium Power Solutions division, produces transformers, chokes and coils.
Power Plant Solutions	Development, production and distribution of system technology for photovoltaic applications in the power plant sector. This includes the Sunny Central product family in the market for large-scale PV power plants with an output ranging from 500 kW to several megawatts.
Service	After-sales services in Germany and abroad to guarantee the technical availability of SMA products during a service life of more than 20 years. Services offered include warranty extensions, service and maintenance contracts, operational management, remote system monitoring and spare parts business.
Zeversolar	The Zeversolar division comprises Jiangsu Zeversolar New Energy Co., Ltd. and its subsidiary companies, and serves the Chinese photovoltaic market with its central inverters. String inverters are offered in select foreign markets.
Railway	SMA Railway Technology GmbH and its two subsidiary companies manufacture converters as individual devices and complete energy supply systems for railway coaches and multiple-unit trains for short- and long-distance railway traffic.

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

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

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

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

The transfer prices between the business segments are determined using management prices based on usual arm's length market conditions. Income from external third parties is reported using the same valuation parameters as shown in the income statement.

Sales are not broken down into goods deliveries and services because the amount of services is insignificant compared to goods deliveries.

Sales revenue in the Medium Power Solutions and Power Plant Solutions segments is subject to fluctuations for reasons, that include discontinuous incentive programs.

FINANCIAL RATIOS BY SEGMENTS AND REGIONS

Segments	Medium Power Solutions		Power Plant Solutions		Service	
in € million	2014	2013	2014	2013	2014	2013
External sales	439.2	479.6	278.9	375.2	41.2	29.2
Internal sales	57.2	76.2	28.4	15.2	90.7	97.0
Total sales	496.4	555.8	307.3	390.4	131.9	126.2
Depreciation and amortization	43.0	45.0	5.7	4.2	1.3	2.9
Operating profit (EBIT)	-64.9	-77.9	-9.3	37.0	4.6	-1.4
Segment assets	236.2	255.9	186.7	119.4	39.6	42.5
Segment liabilities	35.5	13.6	37.5	17.5	4.5	3.4
Capital expenditure	23.2	21.2	33.2	13.5	0.8	1.0
Sales by regions						
Germany	129.6	213.2	38.3	45.8	19.7	8.7
European Union (without Germany)	87.6	104.9	27.3	60.5	12.8	9.8
U.S.	130.2	74.6	92.0	130.7	3.1	9.3
Third-party countries (without U.S.)	104.6	105.1	122.3	139.0	5.8	1.5
Sales deductions	-12.8	-18.2	-1.0	-0.8	-0.2	-0.1
External sales	439.2	479.6	278.9	375.2	41.2	29.2

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

in € million	2014	2013
Total segment earnings (EBIT)	-90.8	-63.2
Eliminations	-74.1	-25.9
Consolidated EBIT	-164.9	-89.1
Financial result	-3.0	0.3
Earnings before income taxes	-167.9	-88.8
Total segment assets	516.5	472.0
Other central items and eliminations	58.1	64.7
Centrally administered land and buildings	201.3	212.6
Cash and long-term time deposits	266.5	377.5
Financial instruments not designated and other assets	52.8	56.3
Deferred tax assets and income tax receivables	85.1	76.8
Group assets	1,180.3	1,259.9
Total liabilities	94.0	47.2
Other central items and eliminations	17.9	13.6
Financial instruments not designated, liabilities and provisions	477.5	449.1
Income tax liabilities and deferred tax liabilities	38.9	25.6
Group liabilities	628.3	535.5

	Zeversolar		Railway Technology		Reconciliation		Continuing operations	
	2014	2013	2014	2013	2014	2013	2014	2013
	17.6	13.0	28.5	35.5	0.0	0.0	805.4	932.5
	0.0	0.0	0.2	0.6	-176.5	-189.0	0.0	0.0
	17.6	13.0	28.7	36.1	-176.5	-189.0	805.4	932.5
	1.3	1.1	0.8	0.8	54.4	29.6	106.5	83.6
	-18.5	-22.2	-2.7	1.3	-74.1	-25.9	-164.9	-89.1
	36.1	33.8	17.9	20.5	663.8	787.8	1,180.3	1,259.9
	14.4	9.5	2.1	3.1	534.3	488.4	628.3	535.5
	1.9	0.3	4.5	2.2	11.9	15.0	75.5	53.2
	0.0	0.0	9.2	8.5	0.0	0.0	196.8	276.2
	0.0	0.6	7.2	10.9	0.0	0.0	134.9	186.7
	0.0	0.0	2.6	0.2	0.0	0.0	227.9	214.8
	17.6	12.4	9.7	16.3	0.0	0.0	260.0	274.3
	0.0	0.0	-0.2	-0.4	0.0	0.0	-14.2	-19.5
	17.6	13.0	28.5	35.5	0.0	0.0	805.4	932.5

Circumstances are shown in the reconciliation which by definition are not part of the segments. In particular, this includes unallocated parts of the Group head office, including the centrally administered cash and cash equivalents, financial instruments, financial liabilities and buildings the expenses of which are apportioned to the segments. The reconciliation includes the restructuring provision recognized in 2014. Allocation to the current segments is not possible in light of the functional organization coming in 2015. Business relations between the segments are eliminated in the reconciliation.

In 2014, as in the previous year, no customer accounted for a share of more than 10% of Group sales.

Notes to the Income Statement SMA Group

6. Cost of Sales

in €'000	2014	2013
Material expenses	440,869	522,601
Personnel expenses	134,761	138,833
Depreciation and amortization	74,853	74,887
Other	21,901	51,259
	672,384	787,580

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

A reduction in the specific cost of sales was successfully achieved again in 2014. The specific material costs were reduced thanks to the close cooperation between Purchasing, Production and Development. Material expenses per watt were reduced by 10.3% to 8.7 cents per watt (2013: 9.7 cents per watt). As a result of shifts in the product mix and price reductions for PV inverters, the material expenses ratio declined to 54.7% in 2014 (2013: 56.0%).

The various personnel measures taken enabled personnel costs to be cut by 2.9%. Personnel expenses decreased to €134.8 million (2013: €138.8 million).

Depreciation and amortization remained constant at €74.9 million (2013: €74.9 million). Depreciation and amortization of capitalized development projects including intangible assets in progress amounted to €23.5 million in 2014 (2013: €22.9 million).

The lower additions to warranty provisions and the systematic reduction of operating expenses resulted in a decline in other costs of €29.4 million to €21.9 million in 2014 (2013: €51.3 million). The costs for regular business operations were lowered further during the year through various improvement projects.

7. Selling Expenses

in €'000	2014	2013
Material expenses	513	471
Personnel expenses	34,300	31,625
Depreciation and amortization	976	960
Other	29,104	26,111
	64,893	59,167

Selling expenses include expenditure for global sales activities, internal sales and marketing. SMA has adapted its international sales organization to align with the new structure of demand to benefit from the global development of the photovoltaic markets. Total selling expense increased by 9.7% year on year due to the systematic expansion of the international sales organization and the first-time full consolidation of Zeversolar in the comparative period (closing on March 12, 2013).

Because of the increase in employees, especially in North America and China, the payment of Christmas and vacation bonuses and the collective pay increase in 2014, personnel expenses rose by 8.5% to €34.3 million (2013: €31.6 million).

The 11.5% increase in other expenses to €29.1 million is primarily attributable to the first-time full consolidation of Zeversolar and expansion of sales activities.

8. Research and Development Expenses

in €'000	2014	2013
Material expenses	7,485	5,058
Personnel expenses	67,062	58,682
Depreciation and amortization	7,227	6,236
Other	47,278	32,455
	129,052	102,431
Capitalized development projects	- 40,893	- 22,858
	88,159	79,573

Research and development expenses include all costs that may be attributed to the areas of product development, development-related testing and product management. The expansion of development competence abroad was continued systematically, especially in the U.S. and at Zeversolar, in order to further reinforce our position as a leader in technology. Compared to the previous year, SMA employed on average 2.6% more employees (excluding temporary employees and trainees) in this area. As a result of the employee increase abroad, the payment of Christmas and vacation bonuses and the collective pay increase in 2014, personnel expenses increased by 14.3% to €67.1 million.

SMA is focusing increasingly on development partnerships. This saw other expenses rise by €14.8 million.

Capitalized development projects came to €18.0 million more than in the previous year. The rise in capitalized development projects reflects the enormous amount of activity in the development of new devices.

9. General Administrative Expenses

in €'000	2014	2013
Material expenses	132	39
Personnel expenses	44,163	39,813
Depreciation and amortization	1,457	1,558
Other	34,831	29,308
	80,583	70,718

Administrative expenses include expenses for the Managing Board, division management and the areas of Finance, Human Resources, Legal and Compliance, Corporate Communication and Quality Management. The personnel cost savings generated by the voluntary severance program in 2013 are more than offset by collectively agreed upon salary increases, the payment of Christmas and vacation bonuses and the first-time full consolidation of Zeversolar in the reporting period (Closing: March 12, 2013). Personnel expenses consequently rose by 10.9% to €44.2 million. Depreciation and amortization remained nearly constant year on year at €1.5 million.

Other expenses increased by 18.8% to €34.8 million. The change in other expenses resulted primarily from negative internal effects from cost apportionments of other functional areas.

10. Other Operating Income

in €'000	2014	2013
Revenues from foreign currency translation	18,411	21,693
Government grants	2,061	946
Other miscellaneous income	12,282	12,996
	32,754	35,635

Other operating income specifically includes income from foreign currency valuation and non-operative income, such as from assets measured at fair value through profit or loss.

11. Other Operating Expenses

in €'000	2014	2013
Expense from foreign currency translation	11,820	21,688
Other miscellaneous expenses	85,197	38,573
	97,017	60,261

Other operating expenses climbed by 61.0% to €97.0 million (€36.8 million). These primarily included the recognition of provisions for the costs associated with the planned restructuring measures, impairment on the goodwill and intangible assets of Zevversolar at €22.0 million, and expenses for additions to impairment losses on receivables of €6.5 million. In the previous year, this item included expenses for the recognition of provisions relating to the voluntary severance program amounting to €25.1 million.

12. Employee and Temporary Employee Benefits

in €'000	2014	2013
Wages and salaries	275,438	237,835
Expenses for temporary employees	18,062	18,815
Social security contribution and welfare payments	37,514	37,390
	331,014	294,040

Voluntary contributions to private pensions amounted to €1.5 million in 2014 (2013: €1.7 million).

The average number of employees in the Group amounted to:

	2014	2013
Research and Development	1,051	1,024
Production and Service	2,691	3,071
Sales and Administration	1,058	1,117
	4,800	5,212
Apprentices and interns	237	332
Temporary employees	629	728
	5,666	6,272

13. Financial Result

in €'000	2014	2013
Interest income	2,573	3,485
Other financial income	450	2,138
Income from interest derivatives	0	253
Financial income	3,023	5,876
Interest expenses	3,912	3,859
Other financial expenses	1,905	1,010
Expenses from interest derivatives	212	275
Interest portion from valuation of provisions	87	395
Financial expenses	6,116	5,539
Financial result	-3,093	337

The financial result worsened by €-3.4 million to €-3.1 million in 2014 (2013: €0.3 million). The reason for this was a drop in financial income in 2014 from €5.9 million to €3.0 million. This was primarily due to a decrease in income from financial instruments measured at fair value in the amount of €-1.9 million. In addition, interest income was less as a result of the low market interest rate. Total interest income from financial assets not measured at fair value through profit or loss amounted to €2.6 million (2013: €3.5 million) in the fiscal year.

Financial expenses rose to €6.1 million (2013: €5.5 million) as a result of the required lower measurement of securities held on the reporting date of €0.5 million (2013: €1.0 million). The expense of €0.4 million from the revaluation of the written put option in connection with the remaining minority interests of Zeversolar was recognized under other financial expenses. Interest expenses from financial liabilities not measured at fair value through profit or loss amounted to €3.9 million (2013: €3.9 million).

14. Income Taxes

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

in €'000	2014	2013
Actual income taxes		
for current fiscal year	13,133	13,080
for previous years	3,091	1,702
Deferred taxes		
from temporary differences	- 8,944	- 8,082
from tax loss carryforwards	4,087	- 28,652
Income taxes	11,367	- 21,952

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

in €'000	2014	2013
Consolidated result before income taxes	- 167,945	- 88,804
Tax rate of the parent company	30.7%	30.7%
Expected income tax expenses	- 51,509	- 27,263
Differences related to differing tax rates domestic and abroad	3,495	1,481
Effects due to changes in tax rates	- 29	76
Tax-free income	- 9	- 128
Non-deductible expenses	- 141	853
Unusable loss carryforwards and amortization of loss carryforwards	55,069	0
Taxes relating to previous years	3,091	1,702
Other tax effects	1,400	1,327
Actual income taxes (according to Income Statement)	11,367	- 21,952
Effective Group tax rate	6.8%	- 24.7%

The corporation tax rate of 15% and the solidarity surcharge rate of 5.5% are to be applied for corporations based in Germany. In addition, domestic companies and partnerships are subject to trade tax, which is influenced by assessment rates specific to the particular municipality. The average trade tax rate to be applied at the level of the parent company is 14.9% (2013: 14.9%). The overall tax rate of the Group's parent company is thus 30.7% (2013: 30.7%).

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

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

As of December 31, 2014, there were current income tax receivables amounting to €12.6 million (2013: €13.0 million) and current income tax liabilities of €14.6 million (2013: €2.3 million).

Deferred tax assets and deferred tax liabilities were recorded directly in equity at €0.02 million (2013: €1.5 million). Deferred tax assets and liabilities are distributed across the following items:

	12/31/2014	12/31/2013
in €'000	Deferred tax assets	Deferred tax liabilities
Intangible assets	327	- 19,773
Fixed assets	3,082	- 1,923
Financial assets	7,113	- 1,514
Inventories	4,386	- 420
Other assets	870	- 477
Other provisions	5,987	- 34
Other liabilities	25,373	- 202
Loss carryforwards	25,359	0
	72,497	- 24,343
	63,782	- 23,320

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

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15. Earnings per Share

Earnings per share are calculated by dividing the consolidated earnings attributable to the shareholders by the weighted average of ordinary shares in circulation during the period. The number of shares in fiscal year 2014 amounted to 34.7 million, as in the previous year.

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

The calculation of earnings in relation to the weighted average number of shares in accordance with IAS 33 yields earnings of €-5.16 per share for the period from January 1, 2014 to December 31, 2014, with an average weighted number of shares of 34.7 million and earnings of €-1.92 per share for the period from January 1, 2013, to December 31, 2013, with an average weighted number of shares of 34.7 million.

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

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

The Managing Board will recommend that the Supervisory Board propose no dividend payout for the 2014 fiscal year at the Annual General Meeting on May 21, 2015. The amount paid out in dividends will thus amount to €0.0 million, as in the previous year.

Notes to the Balance Sheet SMA Group

16. Intangible Assets

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

€29.8 million (2013: €15.2 million) of the additions of intangible assets in progress relate to development projects.

In relation to development projects, amortization of intangible assets is posted in the income statement under cost of sales. Amortization of development projects and intangible assets in progress includes an impairment loss of €8.6 million (2013: €8.0 million) due to changed sales forecasts. The impairment relates to products in the Medium Power Solutions (€6.9 million) and Power Plant Solutions (€1.7 million) segments. The amortization was made to the value in use. An after-tax interest rate of 9.1% (2013: 9.9%) was applied. Amortization of software is allocated to the functional areas dependent on use. The change in patents, licenses and other rights results from the recognition of impairment of €9.1 million on other rights of the company Jiangsu Zeversolar New Energy Co., Ltd., (Suzhou, China) following its strategic realignment. The related depreciation and amortization is shown under other operating expenses.

The goodwill is assigned to cash-generating units on the basis of organizational structure. The goodwill from the asset deal with Danfoss is assigned to the MPS segment (€0.3 million), from the asset deal with Phoenix to the Service segment (€0.2 million) and the rest to dtw Sp. z o.o. (2014: €0.3 million, 2013: €0.3 million).

In the annual impairment review of Zeversolar, the book values of the cash-generating units were compared to their recoverable amount. The value in use is based on the present value of the future cash flows, under a going concern assumption. The cash flows are based on the current corporate planning. The forecast horizon covers the years 2015 – 2017. For subsequent periods a growth rate of 0.5% is applied. The recoverable amount of the cash-generating unit is €36.0 million.

The goodwill of €12.9 million assigned to the Zeversolar Group was written down in full as part of the annual impairment review. The after-tax interest rate used was 10.4%, the pre-tax interest rate 13.1%. This effect was the result of a change in the sales estimate incorporated into the company's planning. A sensitivity analysis shows that, if Zeversolar's cash flows were 10% higher, impairment would amount to €5.6 million; if cash flows were 10% lower, impairment would amount to €19.2 million. A change in the interest rate by +/- 10 basis points would have also resulted in impairment (+: €16.0 million / -: €8.7 million).

The remaining goodwill was confirmed in the impairment reviews at the end of the fiscal year. The progression of cash flow was extrapolated for the period after the third year on the basis of a constant annual growth rate of 1.0% (2013: 1.0%). This was derived from the average long-term growth rate on the photovoltaic market. The after-tax interest rates applied ranged between 8% and 10% (pre-tax interest rates: 11% to 13%). The Managing Board believes that no reasonably conceivable change in basic assumptions on the basis of which the recoverable amount is determined would result in the cumulative book value of the cash-generating unit exceeding its cumulative recoverable amount.

17. Fixed Assets

Fixed assets evolved as follows in fiscal year 2014:

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

The additions to land and buildings mainly relate to the creation of the ground-based PV system at Sandershäuser Berg and the extension and conversion of existing office buildings.

As of December 31, 2014, prepayments and assets under construction included in particular prepayments for tools and machinery and building conversions.

Investments of €2.6 million were made for the expansion of the infrastructure of our subsidiaries in the U.S.

In the fiscal year, a loss from book value disposals of €2.8 million in the U.S. was recorded under other operating expenses for technical equipment/machinery and other equipment/plant and office equipment. The book losses from asset disposals in fiscal year 2014 related mainly to the Medium Power Solutions segment (€4.0 million), Service (€0.9 million) and Corporate Functions (€1.3 million).

Fixed assets of €27.6 million (2013: €28.5 million) were negatively affected by mortgage liens used to secure financial liabilities.

Fixed assets evolved as follows in fiscal year 2013:

	Land and buildings incl. buildings on third- party property	Technical equipment and machinery	Other equipment, plant and office equipment	Prepayments and assets under construction	Total
in €'000					
Acquisition costs					
01/01/2013	265,899	65,027	175,843	10,490	517,259
Changes in currency	- 770	- 322	- 809	- 12	- 1,913
Additions from acquisitions	4,708	2,379	1,652	2	8,741
Additions	928	815	2,433	21,013	25,189
Disposals	8,594	1,154	3,198	214	13,160
Transfers	10,280	515	12,050	- 22,817	28
12/31/2013	272,451	67,260	187,971	8,462	536,144
Depreciation					
01/01/2013	31,968	21,705	86,479	0	140,152
Changes in currency	- 237	- 91	- 419	0	- 747
Additions from acquisitions	510	632	735	0	1,877
Additions	15,835	5,797	32,795	0	54,427
Disposals	3,248	1,627	3,574	0	8,449
Transfers	13	28	- 39	0	2
12/31/2013	44,815	26,388	116,054	0	187,258
Net value 12/31/2012	233,931	43,322	89,364	10,490	377,107
Net value 12/31/2013	227,635	40,872	71,917	8,462	348,886

18. Inventories

Inventories of the SMA Group are made up as follows:

	12/31/2014	12/31/2013
in €'000		
Raw materials, consumables and supplies	100,301	99,688
Unfinished goods, work in progress	25,102	27,491
Finished goods and goods for resale	77,453	56,292
Prepayments	312	660
	203,168	184,131

Inventories are measured at the lower value of acquisition or production costs and net realizable value. The increase in finished goods and goods for resale is primarily due to customers' delays in taking delivery. In total, the balance of impairment accounts amounted to €58.2 million as of the end of the fiscal year (2013: €56.7 million). The total acquisition and production costs recognized as expenses include impairments on net realizable value of €5.6 million. The book value of the inventories written down to net realizable value amounted to €9.7 million as of December 31, 2014.

19. Trade Receivables and Other Receivables

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

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

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

	Neither overdue in €'000	Book value	nor impaired	<30 days	30 to 60 days	60 to 90 days	Overdue, but not impaired >90 days
2014	159,617	128,154	18,665	5,504	564	6,940	
2013	124,259	93,741	8,658	4,225	3,122	14,513	

As of December 31, 2014, value adjustments with a nominal value of €21.7 million (2013: €17.1 million) were carried out on trade receivables. No value adjustments were carried out on overdue receivables as of December 31, 2014, amounting to €31.5 million (December 31, 2013: €30.5 million) as there were no significant changes in the credit rating of the customers. The settlement of the receivables is expected.

The value adjustment account evolved as follows:

in €'000	Individual value	correction	Value correction on portfolio basis	Total
01/01/2013 —	10,542	1,085	—	11,627
Change due to addition of Zevversolar to scope of consolidation —	1,885	0	—	1,885
Additions with effect on the expenses (net) —	6,312	208	—	6,520
Usage —	- 169	0	—	- 169
Release —	- 1,812	- 824	—	- 2,636
Exchange rate difference —	- 150	- 2	—	- 152
12/31/2013 —	16,607	467	—	17,074
Additions with effect on the expenses (net) —	6,295	230	—	6,525
Usage —	- 393	0	—	- 393
Release —	- 1,863	- 175	—	- 2,038
Exchange rate difference —	515	2	—	517
12/31/2014 —	21,161	524	—	21,685

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

20. Other Financial Assets

As of December 31, 2014, other current financial assets include in particular financial assets and time deposits with a term to maturity of over three months and accrued interest totaling €82.5 million (2013: €133.8 million). The other non-current financial assets primarily include a rent deposit for buildings in the U.S. amounting to USD 2.5 million (2013: USD 2.5 million).

21. Cash and Cash Equivalents

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

As of December 31, 2014, the Group had unused credit lines amounting to €22.9 million (2013: €22.2 million) of which all the conditions for use had been met. The credit lines have been provided on an "until further notice" basis.

22. Shareholders' Equity

The change in equity, including effects not shown in the income statement, is presented in the statement of changes in equity. In 2014, the negative consolidated earnings had a material impact besides effects from currency gains/losses. In the previous year, together with the negative consolidated earnings, the put option on minority interests in Zeversolar and the one-off adjustment of the partial retirement liability in line with the revised version of IAS 19 had an effect on equity.

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

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

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

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

The Annual General Meeting of SMA Solar Technology AG on May 27, 2014, followed the Managing and Supervisory Boards' proposal not to distribute a dividend for the 2013 fiscal year due to the persistently volatile market environment (2012: €0.60 per dividend-bearing share).

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

The equity ratio is used to measure the financial security of SMA. This is the ratio of equity shown in the consolidated balance sheet to total assets. Accordingly, the financing structure is characterized by a conservative capital structure dominated by internal financing. As of the reporting date, the equity ratio is 46.8% (2013: 57.5%). External financing occurs almost exclusively through liabilities arising from operative business.

23. Provisions

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

in €'000	Warranties	Personnel	Other	Total
01/01/2014	158,717	5,160	34,679	198,556
Additions	38,745	50,306	7,258	69,309
Usage	57,956	1,667	10,371	69,994
Release	3,061	15	12,255	15,331
Compounding	24	62	2	87
Changes in currency	3,348	3	198	3,551
12/31/2014	139,817	53,848	19,513	213,178
Current in 2014	63,862	50,832	11,365	126,059
Non-current in 2014	75,955	3,016	8,148	87,119
	139,817	53,848	19,513	213,178
Current in 2013	75,189	2,351	19,264	96,804
Non-current in 2013	83,528	2,809	15,415	101,752
	158,717	5,160	34,679	198,556

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

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

in €'000	12/31/2014	12/31/2013
Medium Power Solutions	101,345	114,738
Power Plant Solutions	33,336	36,783
Railway Technology	1,346	1,724
Zeversolar	3,790	5,472
	139,817	158,817

Personnel provisions mainly include obligations for planned restructuring measures. The restructuring provision is expected to affect cash in 2015 and was thus not discounted. Also included are obligations for long-service anniversaries, death benefits, and partial retirement benefits.

Other provisions include restoration obligations, purchase commitments and obligations for service-related benefits. In other provisions, €6.6 million was written back for services from maintenance contracts in 2014. Another effect in other provisions of €3.5 million resulted from the reversal of purchase commitments. SMA expects that these provisions will, in general, affect cash within the next 12 months to 20 years (long-term service contracts).

24. Financial Liabilities

in €'000	12/31/2014	12/31/2013
Liabilities towards credit institutions	62,592	69,455
Derivative financial liabilities	6,763	3,924
	69,355	73,379

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

The significant reduction in the level of loan liabilities results from repayments by Zeversolar and SMA Immo.

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

25. Trade Payables

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

26. Other Financial Liabilities

in €'000	12/31/2014	12/31/2013
Liabilities Sales department	5,237	8,070
Other	8,628	5,317
	13,865	13,387
Current	10,869	11,789
Non-current	2,996	1,598
	13,865	13,387

Starting in fiscal year 2014, liabilities in the Human Resources department are reported under other liabilities in accordance with IAS 32. The disclosure involves adjustment of comparative figures from the previous year in the amount of €25.9 million (of which current: €25.8 million; non-current €0.1 million).

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

27. Other Liabilities

in €'000	12/31/2014	12/31/2013
Liabilities in the Human Resources department	23,669	25,887
Accrual item for extended warranties	129,715	115,392
Liabilities from prepayments received	21,106	18,120
Liabilities due to tax authorities	3,606	1,997
Liabilities from subsidies received	986	1,077
Other	2,127	1,328
	181,209	163,801
Current	54,280	50,143
Non-current	126,929	113,658
	181,209	163,801

The accrual item for extended warranties includes liabilities from chargeable extended warranties granted for products in the Medium Power Solutions segment. Starting in fiscal year 2014, liabilities in the Human Resources department are reported under other liabilities in accordance with IAS 32. The disclosure involves adjustment of comparative figures from the previous year. Liabilities in the Human Resources department contain obligations towards employees regarding positive vacation and flextime balances as well as variable salary components and contributions to the workers' compensation association and to social insurance systems. The main items included

in the liabilities towards tax authorities are tax liabilities from payroll accounting. The liabilities from subsidies received relate to taxable government grants from funds of the common-task program "Improvement of the Regional Economic Structure" (EU GA), granted as investment subsidies. The total amount of retransfer of government grants is stated under other operating income.

28. Additional Disclosures Relating to Financial Instruments

	Assessment category according to IAS 39	Market value	Book value	Market value	Book value
		12/31/2014		12/31/2013	
in €'000					
Assets					
Cash and cash equivalents	LaR	183,988	183,988	192,366	192,366
Trade receivables	LaR	159,617	159,617	124,259	124,259
Other financial investments	Afs	5	5	5	5
Other financial assets		111,015	111,015	222,645	222,645
of which debentures	Afs	0	0	51,725	51,725
of which institutional mutual funds	FAHfT	47,480	47,480	48,276	48,276
of which other (time deposits)	LaR	63,310	63,310	121,177	121,177
of which derivatives that do not qualify for hedge accounting	FAHfT	225	225	1,467	1,467
Liabilities					
Trade payables	FLAC	111,773	111,773	60,806	60,806
Financial liabilities		69,355	69,355	73,379	73,379
of which liabilities towards credit institutions	FLAC	62,592	62,592	69,455	69,455
of which derivatives that do not qualify for hedge accounting	FLHfT	6,763	6,763	3,924	3,924
Other financial liabilities	FLAC	13,865	13,865	39,274	39,274
Of which grouped by categories according to IAS 39:					
Loans and Receivables	LaR	406,915	406,915	437,802	437,802
Financial liabilities measured at amortized cost	FLAC	188,230	188,230	169,535	169,535
Financial assets held for trading	FAHfT	47,705	47,705	49,743	49,743
Financial liabilities held for trading	FLHfT	6,763	6,763	3,924	3,924
Available for sale financial assets	Afs	5	5	51,730	51,730

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

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

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

The fair value for held-to-maturity investments is determined with the help of prices listed on active markets (Level 1). Impairment on held-to-maturity investments is not necessary, as there is no lasting impairment.

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

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

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

The put option in the amount of the present value of the redemption amount of the shares (€3.7 million) granted in connection with the acquisition of Zeversolar shares is posted under derivative financial liabilities without a hedge relationship.

There was a change in the present value of the redemption amount recognized in profit and loss between December 31, 2013, and the balance sheet date amounting to €0.4 million. This change results from interest and currency effects.

The present value of the redemption amount is determined on a quarterly basis in Corporate Accounting using a discounted cash flow methodology (level 3 of the fair value hierarchy), taking account of the adjusted contractual regulation of the put option. This regulation stipulates that the redemption amount lies within a contractually agreed upon corridor of between RMB 27.4 million (December 31, 2014: €3.7 million) and RMB 41.1 million (December 31, 2014: €5.5 million). Within this corridor, the redemption amount varies depending on EBIT and interest rate as non-observable input factors. These are derived from Zeversolar's internal planning. A sensitivity analysis shows that a 10% increase in the Zeversolar EBIT, taking into account the corridor, would not result in a change in the present value of the redemption price by €0.2 million, and that a 10% reduction in its EBIT would not have any material effects with regard to the range. Similary, an increase or decrease in the interest rate of 100 basis points would not result in any change in the present value of the redemption amount, with regard to the range.

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

	2014	Level 1	Level 2	Level 3	Total
in €'000					
Financial assets, measured at fair value					
Institutional mutual funds	47,480				47,480
Derivative financial instruments		225			225
Financial liabilities, measured at fair value					
Derivative financial instruments		3,015	3,748		6,763
2013					
in €'000					
Financial assets, measured at fair value					
Debentures	51,725				51,725
Institutional mutual funds	48,276				48,276
Derivative financial instruments		1,467			1,467
Financial liabilities, measured at fair value					
Derivative financial instruments		667	3,257		3,924

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

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

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

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

The net results for financial instruments in 2014 are as follows:

	From interest	From subsequent measurement	From disposal	Net result
	Currency	translation	Value	
in €'000				
Loans and Receivables (LaR)	643	10,134	-8,563	-1,031
Financial Liabilities Measured at Amortized Cost (FLAC)	-3,398	0	0	0
Financial Assets Held for Trading (FAHft)	1,116	0	-1,287	-4,751
Financial Liabilities Held for Trading (FLHft)	-194	0	-18	0
Available for Sale (AfS)	814	0	0	-235
Total	-1,019	10,134	-9,868	-6,017
				-6,732

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

The net results 2013 for financial instruments are as follows:

	— From interest	— From subsequent measurement	— From disposal	— Net result
in €'000	Currency	Value		
	translation	correction		
Loans and Receivables (LaR)	897	- 4,945	- 9,156	- 585
Financial Liabilities Measured at Amortised Cost (FLAC)	- 3,489	0	0	0
Financial Assets Held for Trading (FAHFT)	1,323	801	339	3,419
Financial Liabilities Held for Trading (FLHFT)	- 253	0	275	0
Held to Maturity (HtM)	56	0	0	0
Available for Sale (AfS)	956	0	0	528
Total	-510	- 4,144	- 8,542	3,362
				- 9,834

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

	in €'000	— Book value	— Cash flows	— <1 year	— 1 to 3 years	— 4 to 5 years	— >5 years
2014							
Trade payables	111,773	111,773	111,773	0	0	0	0
Financial liabilities	69,355	75,029	27,809	23,973	6,960	16,287	
from liabilities towards credit institutions	62,592	68,243	25,269	19,946	6,791	16,237	
from derivatives that do not qualify							
for hedge accounting	6,763	6,786	2,540 ¹	4,027	169	50	
Other financial liabilities	13,865	13,865	13,865	0	0	0	
2013							
Trade payables	60,806	60,806	60,806	0	0	0	0
Financial liabilities	73,379	80,240	41,579	7,763	10,698	20,200	
from liabilities towards credit institutions	69,455	76,118	41,353	7,451	7,228	20,086	
from derivatives that do not qualify							
for hedge accounting	3,924	4,122	226	312	3,470	114	
Other financial liabilities	39,274	39,274	39,274	0	0	0	0

¹ Contains the net cash flow from forward exchange transactions amounting to k€2,363, providing a gross fulfillment. Payment obligations amount to k€29,011, payment claims amount to k€26,648. The closing rate was used for the conversion of the foreign currency transaction.

29. Obligations Under Leases and Other Financial Obligations

The obligations of the SMA Group under operating leases relate mainly to buildings and, to a minor extent, to plant and office equipment. Expenses recognized through profit and loss amounted to €26.1 million (2013: €27.1 million) in the year under review.

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

in €'000	12/31/2014	12/31/2013
Maturity of less than 1 year	13,337	13,065
Maturity of 1 to 5 years	36,157	34,973
Maturity of more than 5 years	6,805	9,911
	56,299	57,949

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

In addition, there were financial obligations towards third parties under the purchase order commitment for investment orders placed amounting to €3.2 million (2013: €5.4 million). There are financial obligations for intangible assets amounting to €2.0 million (2012: €2.5 million). The other financial obligations were within the framework customary for the business.

30. Contingencies

As of December 31, 2014, there were no changes compared to the previous year (€0.05 million).

Notes to the Statement of Cash Flows SMA Group

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

31. Net Cash Flow From Operating Activities

The gross cash flow of €-37.3 million (2013: €11.2 million) reflects the operating income prior to commitment of funds. It fell primarily because of the decline in consolidated earnings before taxes, by €48.5 million year on year.

Net cash flow from operating activities in fiscal 2014 amounted to €-27.6 million (2013: €-2.4 million).

The change in net working capital is partly due to a significant increase in inventories and trade payables. The change to inventories relevant to the Statement of Cash Flows amounted to €-25.9 million. In addition, a €51.0 million increase in trade payables relevant to the statement of cash flows occurred.

32. Net Cash Flow From Investing Activities

In fiscal year 2014, net cash flow from investing activities amounted to €24.7 million compared to the previous year's figure of €34.4 million. The outflow of funds for investments in fixed assets and intangible assets amounted to €75.5 million (2013: €53.2 million). The outflow of funds from the asset deals with Danfoss and Phoenix relevant to the statement of cash flows totaled €3.4 million in fiscal year 2014.

Pursuant to IAS 7.17, monetary investments with a term to maturity of more than three months are allocated to the net cash flow from investing activities.

33. Net Cash Flow From Financing Activities

In fiscal year 2014, net cash flow from financing activities amounted to €-10.0 million (2013: €-16.4 million). It included the repayment of loan liabilities for Jiangsu Zeversolar New Energy Co., Ltd., (Zeversolar) and SMA Immo as well as borrowings from Zeversolar in fiscal year 2014.

In fiscal year 2013, SMA Solar Technology AG's dividend payment of €20.8 million and the cash flows from the acquisition of further minority shares in Jiangsu Zeversolar were reported here.

34. Cash and Cash Equivalents

Cash and cash equivalents amounting to €184.0 million (2013: €192.4 million) include cash in hand, bank balances and short-term deposits with an original term to maturity of less than three months.

Other Disclosures

35. Events After the Balance Sheet Date

The Supervisory Board of SMA Solar Technology AG reduced the number of Managing Board members in the course of the company's transformation. Lydia Sommer therefore left the SMA Managing Board at the end of February 2015.

At the start of 2015, Martin Kinne became the new Managing Board member responsible for Sales and Service.

The restructuring resolved in 2014 specifies a staff reduction of 800 full-time positions in Germany, among other measures. A plan developed in January 2015 resulted in an additional reduction of another 800 full-time positions. Therefore, the unfortunate but necessary layoffs are expected to affect a total of 1,600 full-time positions worldwide, thus exceeding the staff reduction targets agreed upon as of the reporting date.

36. Related Party Disclosures

According to the definition contained in IAS 24, related parties are persons responsible for planning, controlling and monitoring the Company's activities. Accordingly, related parties include the members of the Managing Board and the Supervisory Board of SMA Solar Technology AG as well as their close relatives. The group of related parties was expanded by Danfoss', acquisition of a 20% stake in SMA.

The group of related parties was extended to include the Board Member for Technical Development, Dr.-Ing. Jürgen Reinert, on April 1, 2014. On June 10, 2014, Marko Werner left the Managing Board and thus also the group of related parties.

In August 2014, Prof. (em.) Dr.-Ing. Werner Kleinkauf resigned from the Supervisory Board. He was with SMA from the very beginning, supporting the company as a source of ideas, a mentor and an adviser. Kim Fausing was appointed as his successor. He is Chief Operations Officer at Danfoss and responsible for the Climate & Energy and Power Solutions business segments as well as Global Procurement. Alexander Naujoks also stepped down from his office effective September 30, 2014. As his successor, Heike Haigis will take his place as employee representative on the Supervisory Board. Heike Haigis holds the position of Trade Union Secretary at IG-Metall.

On May 28, 2014, SMA concluded an agreement regarding a close strategic partnership with Danfoss A/S. As part of this partnership, Danfoss acquired a 20% stake in SMA and therefore now also belongs to the group of related parties. SMA acquired the entire inverter segment from Danfoss on May 28, 2014. Details on the inverter segment acquisition are described under Section 4. Business Combinations. SMA also entered into a strategic partnership with Danfoss in the areas of Purchasing, Sales and R&D. Furthermore, SMA will perform services on behalf of Danfoss. All agreements were concluded under fair market conditions. Business relations between SMA and Danfoss in the fiscal year are presented in the table below. There are no material collaterals or guarantees.

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in €'000	2014	2013
Goods acquired from Danfoss	12,342	
Services acquired from Danfoss	5,539	
Services sold to Danfoss	2,148	
Outstanding receivables as of 12/31/2014	216	
Outstanding liabilities as of 12/31/2014	4,682	

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

Dipl.-Ing. Roland Grebe,
 Board Member for Technical Innovation

Lydia Sommer,
 Board Member for Finance and HR/CFO
 (until February 28, 2015)

Dr.-Ing. Jürgen Reinert
 Board Member for Technical Development

Dipl.-Kfm. Pierre-Pascal Urbon,
 Board Member for Strategy/CEO

Marko Werner
 Chief Sales Officer (until June 10, 2014)

SMA Group division management was comprised of:

Jürgen Dolski (Zeversolar)

Dr.-Ing. Jürgen Reinert (PPS up to and including March 2014)

Jon Ivar Ekker (Zeversolar)

Andreas Schmidt (MPS up to and including May 2014)

Jeanette Klockgether (PPS up to and including August 2014)

Sven Schreiber (Zeversolar)

Rainer Krug (MPS up to and including June 2014)

Franz Sistemich (Service up to and including June 2014)

Souleymane Niang (Service up to and including May 2014)

Michael Wengeler (PPS up to and including June 2014)

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

Dr.-Ing. h. c. Günther Cramer, † Chairman of the Foundation Managing Board Chairman	Dr. Günther Häckl, Employee Representative
Dr. Erik Ehrentraut, Consultant Deputy Chairman	Dipl.-Ing. Johannes Häde, Employee Representative
Dipl.-Ing. Peter Drews, Chairman of the Foundation Managing Board	Mirko Zeidler, Employee Representative
Kim Fausing, COO Danfoss (as of September 23, 2014)	Joachim Schlosser, Employee Representative
Dipl.-Ing. Reiner Wettlaufer, Chairman of the Foundation Managing Board	Oliver Dietzel, Trade Union Secretary
Prof. (em.) Dr.-Ing. Werner Kleinkauf, University Professor (until August 27, 2014)	Alexander Naujoks, Trade Union Secretary (until September 30, 2014)
Dr. Winfried Hoffmann, Consultant	Heike Haigis, Trade Union Secretary (as of September 30, 2014)

Sadly, company founder and long-standing Supervisory Board Chairman Dr.-Ing. h. c. Günther Cramer died on January 6, 2015, after a long, difficult illness. Dr.-Ing. h. c. Günther Cramer spent his entire life shaping the history of SMA as a pioneer and leader of the energy transition.

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

Total compensation of the members of the active Managing Board and the division management in the year under review amounted to €4.2 million, (previous year: €3.9 million), of which €3.0 million (previous year: €1.6 million) went to the Managing Board. The non-performance-based component amounted to €2.4 million, the performance-based component to €1.8 million (2013: €0 million), €1.4 million of which went to the Managing Board. The compensation relates exclusively to short-term benefits. No compensations for tasks in subsidiaries were granted.

Included in the performance-based compensation of the Managing Board is a direct grant from the Company founders with a gross total of €1.25 million, which was recognized in full under personnel expenses. The amount had to be used to acquire shares in the Company. No lock-up periods were agreed upon for the shares. The acquisition had been completed by all Managing Board members by December 31, 2014. The average stock price was €16.44. The grant was made for services rendered for the Company as part of their Managing Board work.

The total compensation of the members of the Supervisory Board in the year under review amounted to €0.5 million (2013: €0.5 million). €0.4 million (2013: €0.4 million) of this was non-performance-based fixed compensation, and €0.1 million (2013: €0.1 million) was compensation for committee work. As in the previous year, this did not

include any variable salary components. Kim Fausing waives his entitlements from the Company. The remuneration paid to the members of the Managing and Supervisory Boards is shown in detail in a separate remuneration report in line with the criteria of the German Corporate Governance Code. The complete Remuneration Report is included in the Consolidated Management Report.

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

Prof. (em.) Dr.-Ing. Werner Kleinkauf
 Member of the Supervisory Board of Seeger Engineering AG

Dr. Winfried Hoffmann
 Chairman of the Supervisory Board of Solar Fabrik AG;
 Member of the Supervisory Board of ISFH (Hannover);
 Member of the Boards of Trustees of the research institutes Fraunhofer ISE, ZSW (Stuttgart) and NEXT.

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

37. Objectives and Methods Concerning Financial Risk Management

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

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

INTEREST RISK

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

If the market interest rate had increased by 1.0 percentage point, the impact on the financial result would have been €0.1 million (2013: €0.3 million). The effect on equity in relation to the market valuation of financial instruments of the available-for-sale category would have been neutral (December 31, 2013: €0.5 million). The calculation of sensitivities with regard to interest rates decreasing by 1.0 percentage point assumed a base rate of a minimum of 0%. Under these circumstances, the effect on earnings before taxes would have been €-0.1 million (2013: €-0.1 million), and the effect on equity would have been neutral (December 31, 2013: €-0.6 million).

FOREIGN CURRENCY RISK

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

SMA assesses risks from an economical point of view. From an economical point of view, foreign currency risks arise in the form of direct transaction risks that derive from any (current or planned) receivable or payable denominated in a foreign currency and the resulting payment flow. The SMA Group's extensive business activity in North America means that foreign currency risks at present mainly arise in U.S. dollars or Canadian dollars. In light of the fact that a large portion of the added value attributable to the North American companies is generated locally and sales in the local currency are balanced by expenditure in the local currency, the operative foreign currency risk in the SMA Group is limited. An intra-Group guideline ensures that SMA companies report their foreign currency risks to the Corporate Treasury. The remaining Group-wide risk is hedged by the Corporate Treasury through the use of currency derivatives concluded externally with banks. Forward exchange transactions are the most commonly used method in this case. The use of options as part of the hedging strategy is also possible. In addition, derivatives were used to hedge Zeversolar's financing against rate fluctuations.

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

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

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

An increase of 5% in the euro with respect to the U.S. dollar on December 31, 2014, would have led to a positive change in the currency derivatives of €0.8 million (2013: €1.5 million). A decrease of 5% in the euro with respect to the U.S. dollar on December 31, 2014, would have led to a reduction in the value of the currency derivatives of €0.9 million (2013: €1.7 million). An increase of 5% in the euro in relation to the Canadian dollar on December 31, 2014, would have led to a negative change in the corresponding derivatives of €0.2 million. In

contrast, a decrease of 5% in the euro would have resulted in a €0.2 million increase in value. An increase of 5% in the euro in relation to the Chinese renminbi on December 31, 2014, would have led to a positive change in the corresponding derivatives of €0.8 million; a decrease of 5% in the euro would have resulted in a €0.8 million decline in value. These exchange rate effects would have increased the EBT by €1.4 million (2013: €1.7 million), or decreased it by €1.5 million (2013: €-2.0 million). The accumulated result of differences in exchange rates and exchange hedging in the fiscal year amounts to €1.0 million (2013: €0.9 million).

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

CREDIT RISK

For all deliveries to customers, collateral is requested depending on the volume of the respective transaction and the specific customer and country risk. Data from the previous business relationship, including payment practices and additional credit reports, are also used to avoid non-payment. In addition, the Group performs a customer credit check, which is based on certain financial key ratios. By setting a credit limit in a timely manner or suspending orders, the Group avoids being exposed to a significant risk of non-payment. The maximum non-payment risk is limited to the book value disclosed in Section 19. There are no major concentrations of non-payment risks within the Group.

See also section 19
page 144 et seqq.

With respect to all of the Group's other financial assets such as cash and cash equivalents, available-for-sale financial investments and derivative financial instruments, the maximum credit risk, should the counterparty fail to pay, corresponds to the book value of these instruments. This counterparty default risk is analyzed on a continuous basis and managed by means of corresponding business allocation – also taking into account potential opportunities – with regard to cluster risks and creditworthiness risks.

LIQUIDITY RISK

The Company uses financial planning tools for early detection of future liquidity requirements. According to current planning, it can be assumed that the financial requirements will be covered in a reliably predictable time frame. Insurance contracts are concluded to hedge against the financial consequences of possible liability risks and damage claims, insofar as this is reasonable and possible. The cover provided by such contracts is reviewed and adapted regularly.

CAPITAL MANAGEMENT

The strategic objective of capital management within the SMA Group is to ensure financial flexibility and independence in order to make rapid use of the opportunities in a photovoltaic market characterized by strong growth. Profitable employment of the capital is measured through regular monitoring of net working capital. Within the SMA Group, net working capital is defined as the sum of inventories and trade receivables less trade payables. In order to be able to usefully measure relative capital consumption even in the event of strong corporate growth, net working capital is expressed in relation to sales. Through debtor management, which ensures that receivables are collected in good time, and linking the evolution of inventories to sales as well as a constant dividend policy, the Company creates the conditions for its objectives in terms of financial flexibility and independence. In accordance with our intra-Group guidelines, the net working capital ratio determined in this way has to be below 21%. In the year under review, the equity ratio of the SMA Group was 46.8% (2013: 57.5%) and the Net Working Capital ratio was 31.2% (2013: 26.6%).

38. Auditor Fees

The fees paid to the auditor and recorded as an expense in the year under review break down as follows:

	2014	2013
in €'000	—	—
Financial statement auditing	365	359
Other audit-related services	17	17
Other services	4	39
	386	415

The cost of financial statement auditing comprises the fees for the audit of the Consolidated Financial Statements as well as for the audit of the Financial Statements of SMA Solar Technology AG and its domestic subsidiaries, provided they are obligated to perform an audit pursuant to Section 316 of the German Commercial Code. The fees for audit-related services and other audit work include expenses for the review of the Interim Consolidated Financial Statements. The fees for other services contain expenses for agreed upon single auditing and consulting activities, which were performed during the reporting year.

39. Declaration on the German Corporate Governance Code in Accordance With Section 161 AktG

The declaration required under Section 161 AktG on the recommendations issued by the Government Commission German Corporate Governance Code was given by the Managing Board and the Supervisory Board on December 3, 2014, and made permanently available to shareholders on the SMA website at www.SMA.de.

See also
www.SMA.de

40. Consolidated Financial Statements

As the ultimate parent company, SMA Solar Technology AG prepares the Consolidated Financial Statements for the largest scope of consolidation as of December 31, 2014, which are filed with the operator of the Electronic Federal Gazette and subsequently published in the Electronic Federal Gazette.

Niestetal, March 3, 2015

SMA Solar Technology AG
The Managing Board

Roland Grebe

Martin Kinne

Dr.-Ing. Jürgen Reinert

Pierre-Pascal Urbon

Responsibility Statement

We assure to the best of our knowledge that, in accordance with the applicable accounting standards, the Consolidated Financial Statements give a fair view of the net assets, financial position and results of operations of the Group and that the Consolidated Management Report gives a fair view of the course of business including the results of operations and the Group's position and describes the fundamental opportunities and risks of the probable development of the Group.

Niestetal, March 3, 2015

SMA Solar Technology AG
The Managing Board

Roland Grebe

Martin Kinne

Dr.-Ing. Jürgen Reinert

Pierre-Pascal Urbon

Auditor's Report

(Translation – the German text is authoritative)

We have audited the Consolidated Financial Statements prepared by SMA Solar Technology AG, Niestetal – comprising the balance sheet, the income statement, the statement of changes in equity, the statement of cash flows and the Notes on the Consolidated Financial Statements – and the Consolidated Management Report for the fiscal year from January 1, 2014, to December 31, 2014. The preparation of the Consolidated Financial Statements and the Consolidated Management Report in accordance with IFRS, as adopted by the European Union (EU), and the additional requirements of German commercial law pursuant to Section 315a (1) HGB ("German Commercial Code") is the responsibility of the Company's Managing Board. Our responsibility is to express an opinion on the Consolidated Financial Statements and the Consolidated Management Report based on our audit.

We conducted our audit of the Consolidated Financial Statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the Consolidated Financial Statements in accordance with the applicable accounting standards and in the Consolidated Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible errors are taken into account in the determination of audit procedures. The effectiveness of the accounting-related Internal Control System and the evidence supporting the disclosures in the Consolidated Financial Statements and the Consolidated Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the Annual Financial Statements of those entities included in the Consolidated Financial Statements, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Managing Board, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Consolidated Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements of SMA Solar Technology AG, Niestetal, comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Consolidated Management Report is consistent with the Consolidated Financial Statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hanover, March 3, 2015

Deloitte & Touche GmbH
Wirtschaftsprüfungsgesellschaft

Scharpenberg	Schwibinger
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Other Information

- 166 — **Glossary**
- 166 — Technical Glossary
- 168 — Financial Glossary

- 170 — **Registered Trademarks**
- 170 — **Disclaimer**

Glossary

Technical Glossary

AC (Alternating Current)

Grid-compliant current.

Reactive Power

Reactive power is an electronics term that describes pulsating power with an alternating positive and negative sign. The positive and negative components of the power output cancel each other out, which yields an average value of zero. This is why it is also referred to as power grid oscillation. The counterpart to reactive power is active power. In an AC grid, it likewise has a pulsating value, although this is generally positive. Only active power can be used to operate electrical consumers. The sum of active power and reactive power is called apparent power. All electrical operating resources and the entire grid infrastructure must be designed in accordance with this. Apparent power arises if the voltage and current values, likewise pulsating, are out of phase, that is, they attain their maximum or minimum offset with regard to time. This phase displacement can have two directions and is practically unavoidable in the technical application of inverters, because almost every electronic component causes a degree of phase displacement in one direction or the other. Modern inverters are capable of compensating for the phase displacement within a grid, thereby eliminating the useless reactive power from the grid. Through a certain degree of phase displacement, they are also capable of lowering the grid voltage, which usually rises undesirably when active power is fed into the grid.

Change-of-Control Clause

Provision in the board member and management employment contracts that provides a special termination right in case of a change of ownership or a change in majority shareholders, usually against payment of a firmly agreed compensation, continued payment of remuneration, often also a corresponding pension provision.

Commercial Range

This includes photovoltaic inverters suitable for grid-connected photovoltaic systems with a performance range between 30 kW and 500 kW (SMA definition of the target group: tradespersons with supplementary revenue from PV systems).

Compliance

Legally compliant conduct

Corporate Governance

Procedures for managing and controlling companies in a manner that is responsible and aimed at long-term value creation.

DC (Direct Current)

Direct current must be converted to grid-compliant alternating current (AC) for the network supply.

Diesel-Powered Grid

An isolated, decentralized power grid with diesel generators as the primary power source. Diesel-powered grids are used mainly where an energy supply is not possible via a central utility grid. With PV systems integrated into diesel-powered grids, the use of diesel generators is not a must. PV-diesel hybrid systems make a considerable contribution to the reduction of fuel costs and CO₂ emissions.

EPIA

European Photovoltaic Industry Association

German Renewable Energy Sources Act (EEG)

The Erneuerbare-Energien-Gesetz (EEG; Renewable Energy Sources Act) is a law prioritizing renewable energy sources with the aim of supporting development of technologies for power generation from renewable sources.

EEG Apportionment

The EEG apportionment stipulates how subsidization costs resulting from renewable energy power generation are distributed among consumers. The apportionment is based on the difference between the revenues and expenditures that arise from consumption of EEG current generated from renewable energy sources.

Industrial Range

This includes photovoltaic inverters suitable for grid-connected photovoltaic systems with a power range higher than 500 kW (SMA definition of the target group: investors whose primary goal is to sell energy).

Off-Grid System

PV off-grid systems are stand-alone power grids fed by the energy of a solar system, for example. These systems are not connected to a utility grid.

Medium Voltage

Voltage range from 1,000 V to 60,000 V

Grid Management

For decentralized generation plants, participation in grid management means that they have to adapt their feed-in to meet current grid distribution capacities. It affects all solar systems feeding in at medium voltage level.

Integrated Plant Control

Using Integrated Plant Control, the inverter can map the Q(U) characteristic curve specified by the grid operator without measuring at the grid-connection point. Operating resources that are connected between the inverter and grid-connection point can be automatically offset by the inverter. Integrated Plant Control increases the efficiency of a PV system as it eliminates additional costs for centralized control gear for PV farms, measurement at the grid-connection point as well as installation and commissioning of the above. System structure and maintenance are made simpler and clearer.

Photovoltaics (PV)

Conversion of radiation energy – in particular solar energy – to electricity by means of photovoltaic cells.

Q at Night

There is a constant demand for reactive power in PV power plants and large PV systems. During the day, the demand for reactive power is easily met by SMA inverters capable of providing reactive power. With Q at Night, PV power plants with SMA system solutions can now also provide compensating reactive power during the night. Costs, which would otherwise be incurred through the necessary purchase of external reactive power, now no longer apply. Moreover, it provides the opportunity to generate added income by supplying additional reactive power to the grid operator.

Q on Demand 24/7

Using Q on Demand 24/7, the inverter can remain connected to the utility grid around-the-clock and supply reactive power throughout the complete unit circle, as needed. This enables the inverter to play a part in stabilizing the utility grid, even at night.

Residential Range

This includes photovoltaic inverters suitable for grid-connected photovoltaic systems with a performance range between 1 kW and 30 kW (SMA definition of the target group: private PV system operators).

Sunbelt

The region between the 20th and 40th parallel in the Northern and Southern Hemispheres, a large portion of which is desert, is also known as the Sunbelt due to the high duration and intensity of sunshine there, making it an ideal location for PV systems.

String Inverter

With string technology, the PV generator is divided into individual module areas, and each of these individual "strings" is assigned its own string inverter.

W, kW, MW, GW

Units for power:

1 kilowatt (kW) = 1,000 watts (W)

1 megawatt (MW) = 1,000 kilowatts

1 gigawatt (GW) = 1,000 megawatts

Financial Glossary

Inverter

An inverter is an electrical device that converts direct into alternating voltage or direct into alternating current.

Wp

Abbreviation for Watt peak. Unit used for the standardized rated power of a photovoltaic cell or a photovoltaic module under standard conditions.

Xetra

Exchange Electronic Trading: fully electronic trading system at the Frankfurt Securities Exchange (FWB) for the spot market. More than 90% of the shares traded in Germany are traded using the Xetra platform.

Central Inverter

Inverters for large-scale PV power plants that are used with centralized design concepts.

Gross Cash Flow

Shows the operating income prior to any commitment of funds. It is calculated by considering earnings before income tax and the financial result – plus interest received, depreciation and amortization, changes in other provisions, profit/loss from the disposal of fixed assets and other non-cash expenses/revenues less interest paid and income tax paid.

Gross Profit

Sales minus cost of sales

EBIT

Earnings before interest and taxes

EBITDA

Earnings before interest, taxes, depreciation and amortization

EBIT Margin

$$\frac{\text{Operating profit}}{\text{Sales}} \times 100$$

(the higher the %age, the higher the earning power)

EBT

Earnings before taxes

Equity Ratio

Shows the share of equity in total assets.

Return on Equity (After Taxes)

The return on equity (after taxes) is the consolidated net profit divided by the averaged total equity for the reporting period (average of total equity at the beginning and end of the reporting period).

Free Cash Flow

Operating cash flow minus investments plus negative investments in fixed and intangible assets. Free cash flow is important because it allows a company to pay dividends or to buy back shares. Therefore, free cash flow is a measure of how much cash can be paid to the shareholders of a company.

Return on Assets (After Taxes)

The return on assets (after taxes) is the consolidated net profit divided by the average total assets of the reporting period (average of total assets at the beginning and end of the reporting period).

IAS

International Accounting Standards; newer standards refer to the initials IFRS

IASB

International Accounting Standards Board

IFRIC

Interpretations of the International Financial Reporting Interpretations Committee on IAS/IFRS

IFRS

International Financial Reporting Standards defined by the IASB

Net Cash Flow From Operating Activities

Outflow/inflow of liquid funds, unaffected by investments, disinvestments and financing activities

Net Cash Flow From Financing Activities

Outflow/inflow of liquid funds from equity financing and debt financing

Net Cash Flow From Investing Activities

Outflow/inflow of liquid funds from investments and disinvestments

Net Cash

Liquid funds and securities contained within working capital and cash on hand pledged as collateral less interest bearing financial liabilities

Net Working Capital

The total amount of short-term, interest-free working capital (inventories plus trade receivables less trade payables)

Net Working Capital Ratio

Net working capital in relation to net sales

Operating Profit (EBIT)

Earnings before interest and taxes

Return on Sales

Ratio of EBT to sales

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FINANCIAL CALENDAR

05/13/2015	Publication of Quarterly Financial Report: January to March 2015
	Analyst Conference Call: 9:00 a. m. (CET)
05/21/2015	Annual General Meeting 2015
08/13/2015	Publication of Half-Yearly Financial Report: January to June 2015
	Analyst Conference Call: 9:00 a. m. (CET)
11/12/2015	Publication of Quarterly Financial Report: January to September 2015
	Analyst Conference Call: 9:00 a. m. (CET)

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Contact

SMA Solar Technology AG

Sonnenallee 1

34266 Niestetal

Germany

Tel.: +49 561 9522-0

Fax: +49 561 9522-100

E-Mail: info@SMA.de

www.SMA.de

Investor Relations

Tel.: +49 561 9522-2222

Fax: +49 561 9522-2223

E-Mail: IR@SMA.de





SMA Solar Technology AG
Sonnenallee 1
34266 Niestetal
Germany
Tel.: +49 561 9522-0
Fax: +49 561 9522-100
E-Mail: info@SMA.de