

SMA SOLAR TECHNOLOGY AG

Analyst / Investor Presentation

Financial Results 2014

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SMA ends 2014 with a high loss. The restructuring is well on track.



- > With c. 40 GWdc global new installation stalled. SMA's management estimates a global revenue decline of c. 10% to 3.9 EUR bn due to continuous high price pressure.
- > SMA defended its global market share of 20% based on revenues. Particular strong market position in Europe, North America, India and Australia as well as in the Utility and Commercial market segments.
- > Sales declined by c. 14% to 805 MEUR due to the collapse of European solar markets and high price pressure in all segments. Strong international presence with a share of 76% (2013: 71%).
- > High operating loss of 165 MEUR (2013: 89 MEUR) due to high fixed costs, China business and one-off items. EBIT includes 50 MEUR provision for restructuring and 22 MEUR for write-down of Zeyersolar goodwill and other Zeyersolar assets.
- > High Net Working Capital ratio of 31% due to increased level of finished goods for UK and North American solar projects.
- > Solid balance sheet structure with an equity ratio of 47% and net cash of 225 MEUR¹.
- > Restructuring is on track. Trade insurance companies (Atradius, Coface, Euler/Hermes) support the restructuring process.

> **SMA's management confirmed 2015 full year sales and earnings guidance.² Sales and earnings in Q1 2015 will improve significantly compared to last year.**

1. Net cash plus restricted cash

2. Sales between 730 MEUR and 770 MEUR ; EBIT between -30 MEUR and -60 MEUR; Depreciation/Amortization of c. 70 MEUR

1. Market environment and competitive landscape

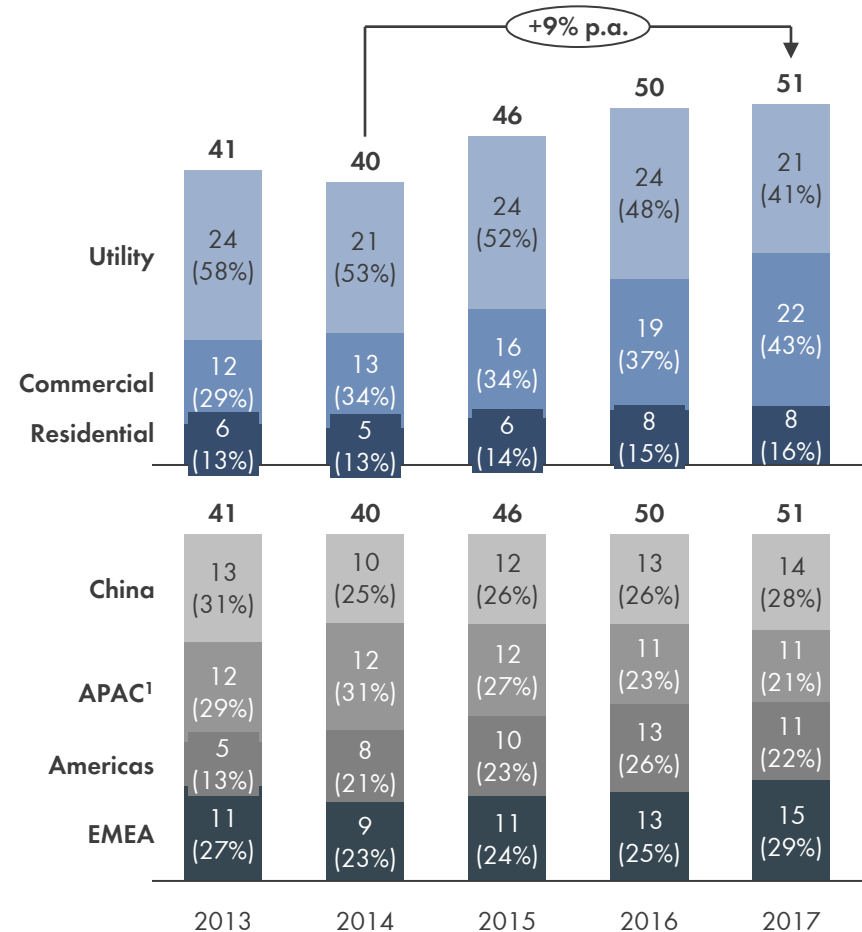


New PV installations to reach 46 GW in 2015 and 51 GW in 2017 – US, JP, CN account for more than 50%



- > Global demand stalled at 40 GWdc in 2014. Until 2017 SMA estimates a global market growth to 51 GWdc. This corresponds to a growth rate of 9% p.a.
- > Germany has lost its pioneering role and accounts only for <5% of global demand (2010: ~50%) in GWdc. Since 2013, China has become the driving force of new installations with a global market share of roughly 25%.
- > The relevance and share of the Chinese market will remain stable in future years. EMEA, Americas and Asia/Pacific¹ will each account for approximately 20-30% of global demand.
- > The Commercial segment will show the strongest development of all segments. Major mature markets shift policies to promote distributed generation.

Global new PV Installations per Segment/Region (GWdc)^{2,3}



> In 2010 EMEA was the world's largest region with 13 GWdc (81% of global), thereof Germany 7.4 GWdc

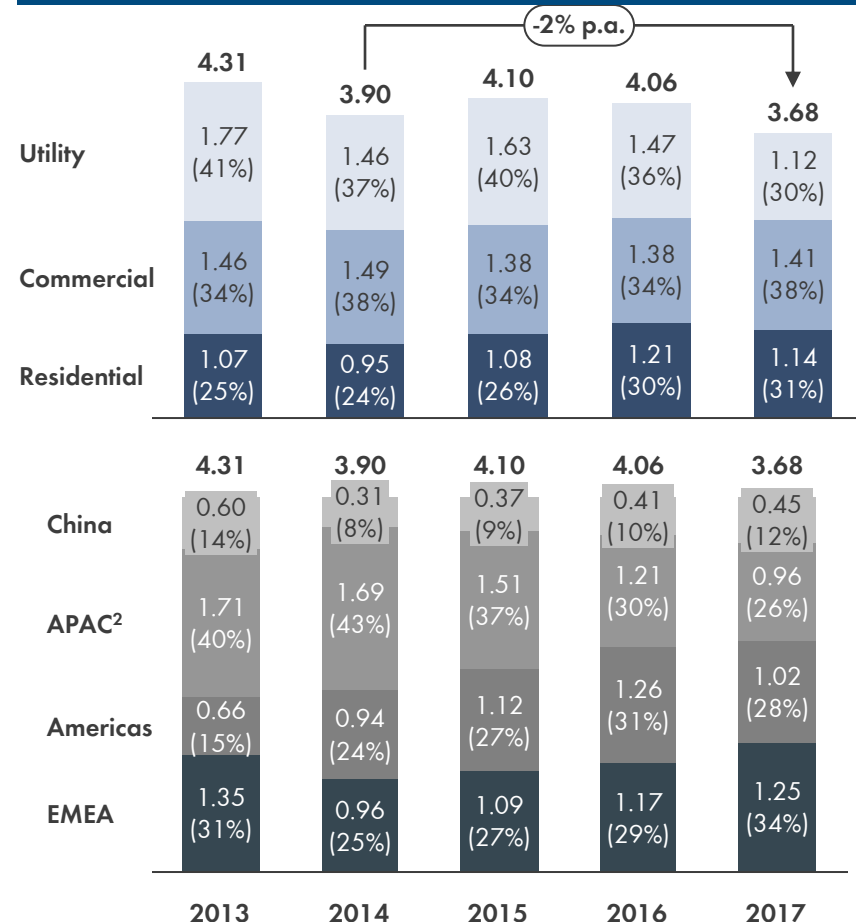
1. Excluding China
 2. Excluding Off-grid systems
 3. Source: SMA MI Market Model

SMA expects a declining PV inverter market in Euro terms until 2017



- > Global demand decreased by 10% to EUR 3.9 bn in 2014 due to high price pressure in all segments and regions.
- > Global demand in Euro will increase by 5% mainly due to volume effects in 2015. The continuous price pressure will lead to an overall decline in Euro terms until 2017.
- > China will not contribute more than EUR 500 m p.a. to the global PV inverter market in the next years. Japan is more than twice as big as China in Euro terms.
- > The Americas region will grow until 2016, when a policy change in the US is expected to result in a sudden drop of the utility segment.
- > Despite losses in some mature European markets, the EMEA region will grow, mainly driven by growth in the Middle East and Africa.

Global new PV Installations per Segment/Region (EUR bn)¹



> Japan (EUR ~1.2 bn) and USA (EUR ~870 m) will be by far the largest markets in Euro terms in 2015, whereas the rest of the global PV market is highly fragmented.

1. Prices according to IHS World Market Report (July 2014) ; SMA MI Market Model

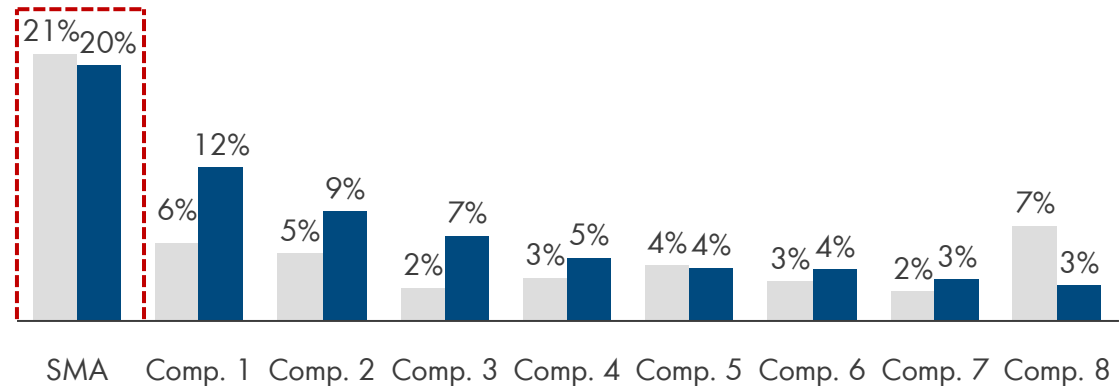
2. Excluding China

Only a few players serve all PV applications and all solar markets

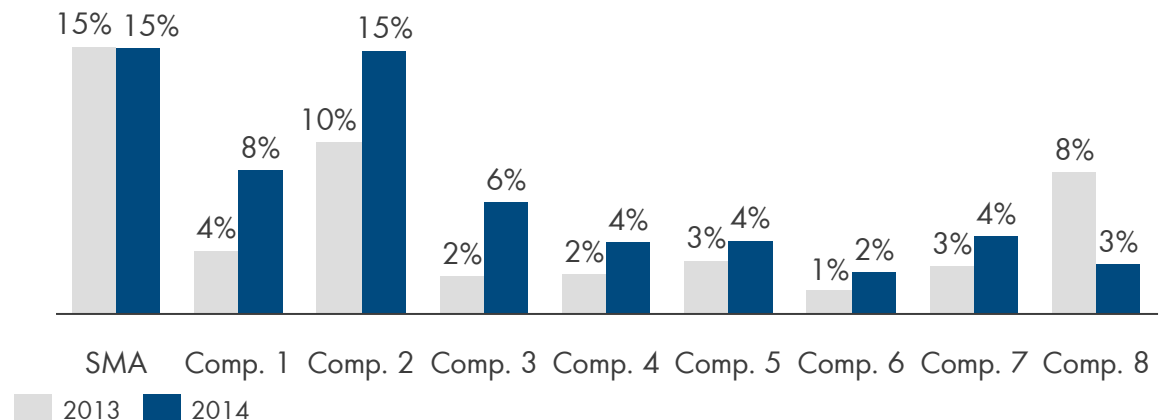


- > The solar market is highly concentrated. The top 5 players account for 53% of the global market in 2014 .
- > SMA is the **only** specialized PV manufacturer with a complete product portfolio, global reach and high innovation rate.
- > Many competitors with a regional focus and limited product offering exited the market already or are about to exit (e.g. Advanced Energy, Solarmax, Sunways, Siemens, Satcon)².
- > Rise of few Japanese and Chinese players is mainly due to local market developments.

Revenue Market Share¹



Market Share in GW¹



> **SMA is the #1 in the global PV industry and the trendsetter**

1. Source: SMA analysis based on intern. financial reports and IHS market shares as well as SMA estimates

2. Source: Public Information

2. SMA's Unique Positioning



SMA will set new standards in the solar inverter industry with key innovations



Highlights



- > Integrated web-interface and wireless connection for rapid configuration in the field
- > Low weight for easy commissioning
- > Higher switching frequencies and compact design to reduce material costs



- > Extreme compact and light weight inverter (75 kg)
- > Cost reduction through bundling of common central functions in the inverter manager
- > High flexibility at optimized system costs due to decentralized layout for utility applications



- > Central inverter with up to 2.5 MW power and attractive price point
- > New 1500 V_{DC} technology allows connection of more solar modules compared to the former 1000V_{DC} technology
- > Commissioning possible w/o connection to the grid
- > Highest available production capacity¹
- > Complete solution incl. transformer and switch gear secures higher energy yield, plant availability and reduction of installation costs

Facts

- > Efficiency (max): 97.2%
- > Module Coverage: c. 80%
- > Input Voltage Range: 80-600V

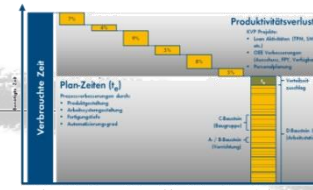
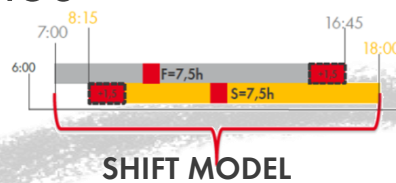
- > Efficiency (max): 98.8%
- > Module Coverage: c. 80%
- > Input Voltage Range: 570-800V

> *System Solution available as well*

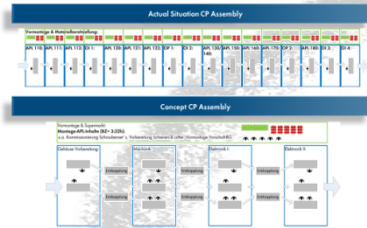
- > Efficiency (max): 98.5%
- > Module Coverage: c. 80%
- > Input Voltage Range: 450-1500V

> *System Solution available as well*

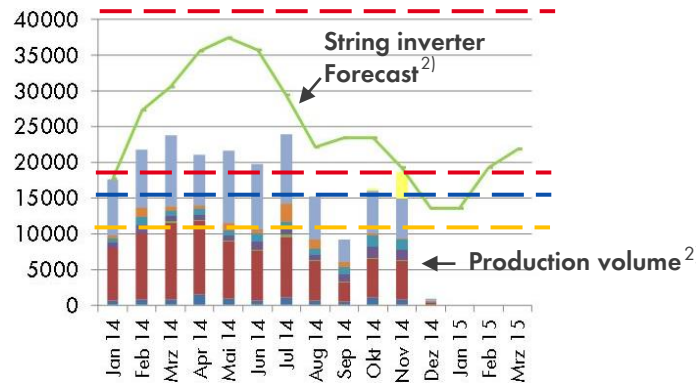
SMA has a flexible production with sites in Kassel, Denver, Capetown and Suzhou



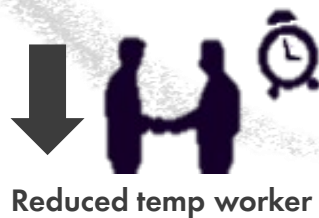
Work system



Lean production



Production comprehensive Worker pool



Production relocation / Consolidation



> The Danfoss alliance creates value due to joint volumes, but also in terms of changes within supply base, materials and design

SMA has the most powerful global sales & service infrastructure in the solar inverter industry



AMERICAS

Sales + Service Subs.: ²	3
Sales + Service Prof.: ²	149 FTE
Sales ¹ as of Total:	40%
O+M under contract:	840 MW

EMEA

Sales + Service Subs.: ²	8
Sales + Service Prof.: ²	334 FTE
Sales ¹ as of Total:	40%
O+M under contract:	180 MW

APAC

Sales + Service Subs.: ²	5
Sales + Service Prof.: ²	115 FTE
Sales ¹ as of Total:	20%
O+M under contract:	0 MW

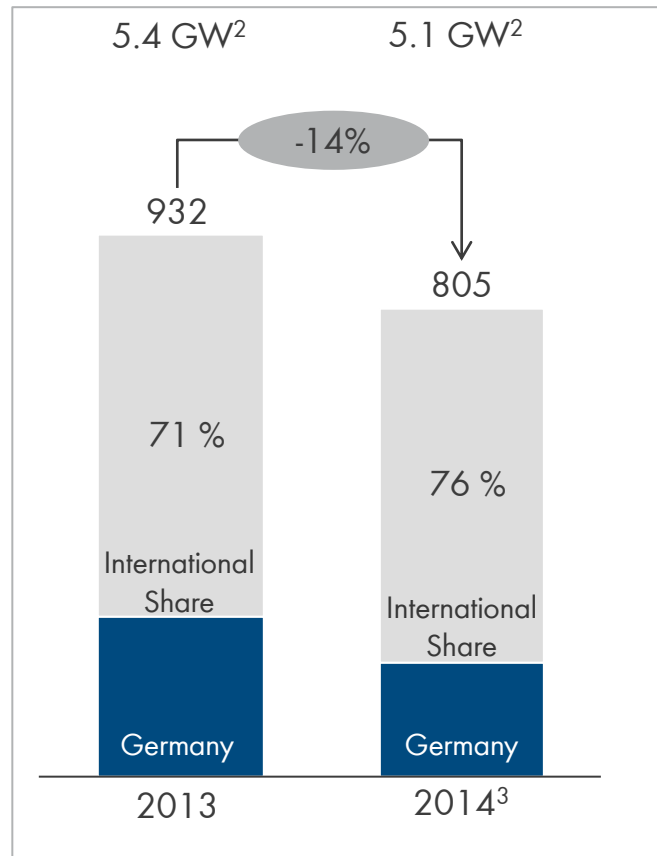
3. Financials



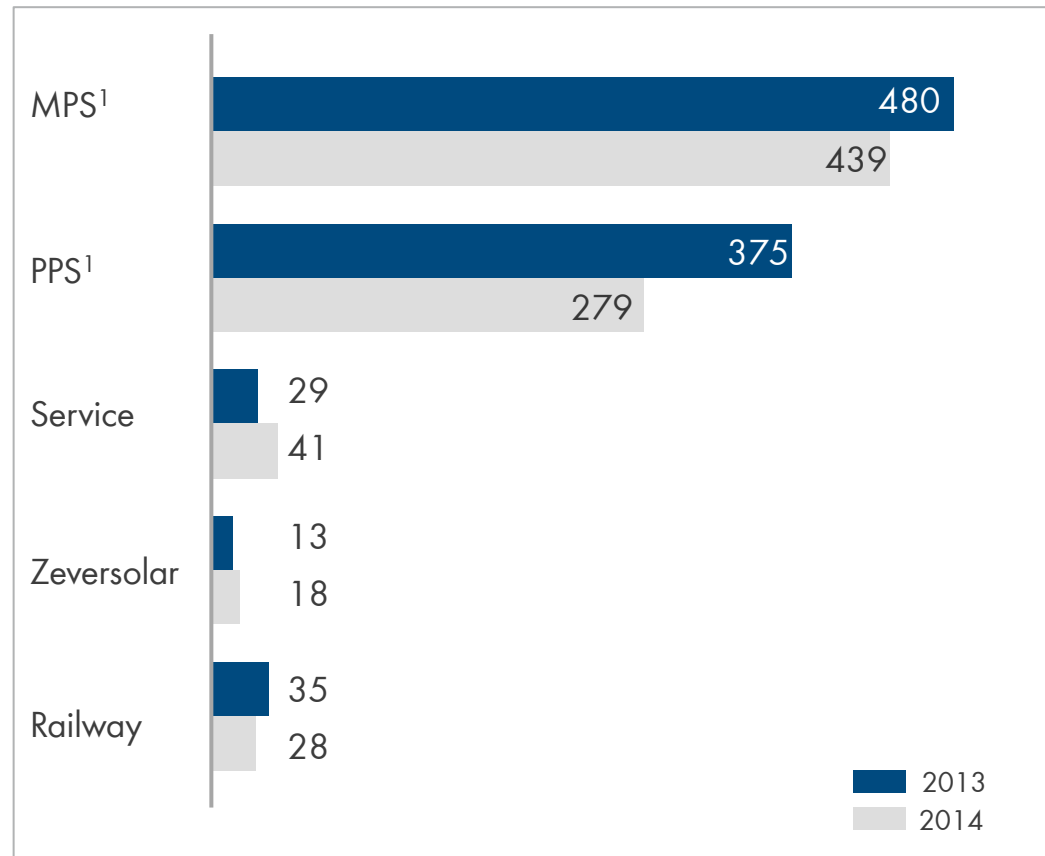
SMA lost nearly 130 MEUR in sales due to lower volumes and continuous price pressure



Group Sales (MEUR)



Sales by Segment (MEUR)



➤ The strong decline in the PPS division is mainly due to significant lower volumes in North America and Europe. Sales of the MPS division are impacted by lower German demand.

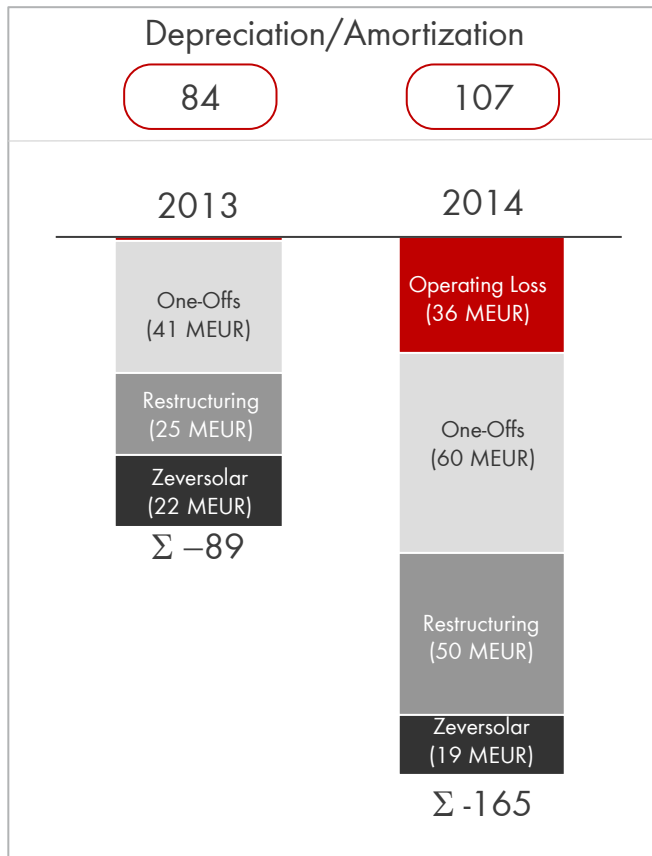
1. MPS: Medium Power Solutions; PPS: Power Plant Solutions
2. Sold Inverter Power

3. Sales Guidance (Dec. 2014): 775 MEUR to 790 MEUR

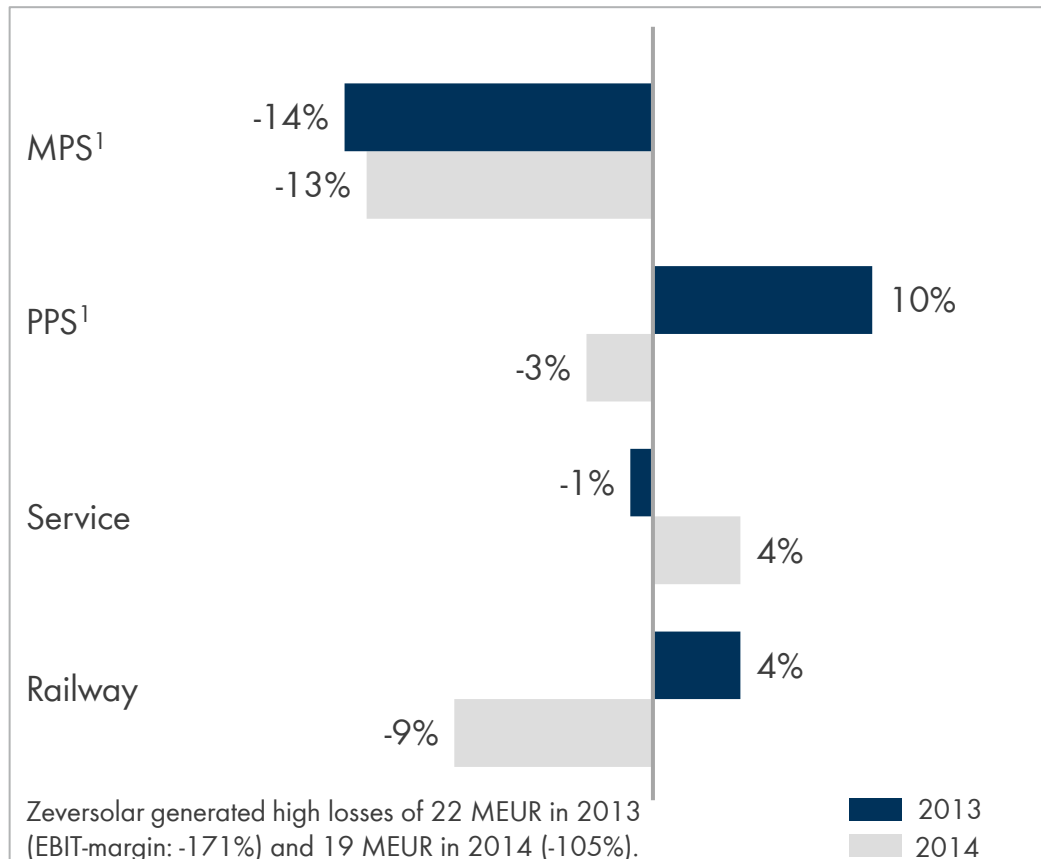
2014 earnings are heavily impacted by overcapacity, Zeversolar's operating loss and one-offs



Group EBIT (MEUR)



EBIT-margin by Segment



- > Sales decreased much faster than the fixed cost structure of the MPS and PPS division. The service division turned profitable for the first time.

SMA has a solid balance sheet structure with an equity ratio of 47% and a net cash position of 225 MEUR



Group Balance Sheet (MEUR)				Net Working Capital			
	2013	2014	Change		2013	2014	Change
Non Current Assets	507	488	-4%	Raw Material & Consumables	100	100	0%
Working Capital	308	363	+18%	Unfinished Goods & WiP ¹	27	25	-7%
Other Assets	46	42	-9%	Finished Goods	57	78	+38%
Cash & Deposits	399	287	-28%	Inventory	184	203	+10%
TOTAL	1,260	1,180	-6%	Trade Receivables	124	160	+29%
Shareholders' Equity	724	552	-24%	Working Capital	308	363	+18%
Provisions	199	213	+7%	Trade Payables	61	112	+84%
Trade Payables	61	112	+84%	Net Working Capital	247	251	+2%
Financial Liabilities	73	69	-5%	as % of LTM ² Sales	27%	31%	n.m.
Interest bearing debt	69	62	-10%	Days Sales Outstanding (DSO)	48	64	+33%
Others	203	234	+15%	Days Payables Outstanding (DPO)	24	51	+113%
TOTAL	1,260	1,180	-6%				

➤ SMA's management already implemented a measures to reduce the Net Working Capital to 23-26% as of sales by the end of 2015.

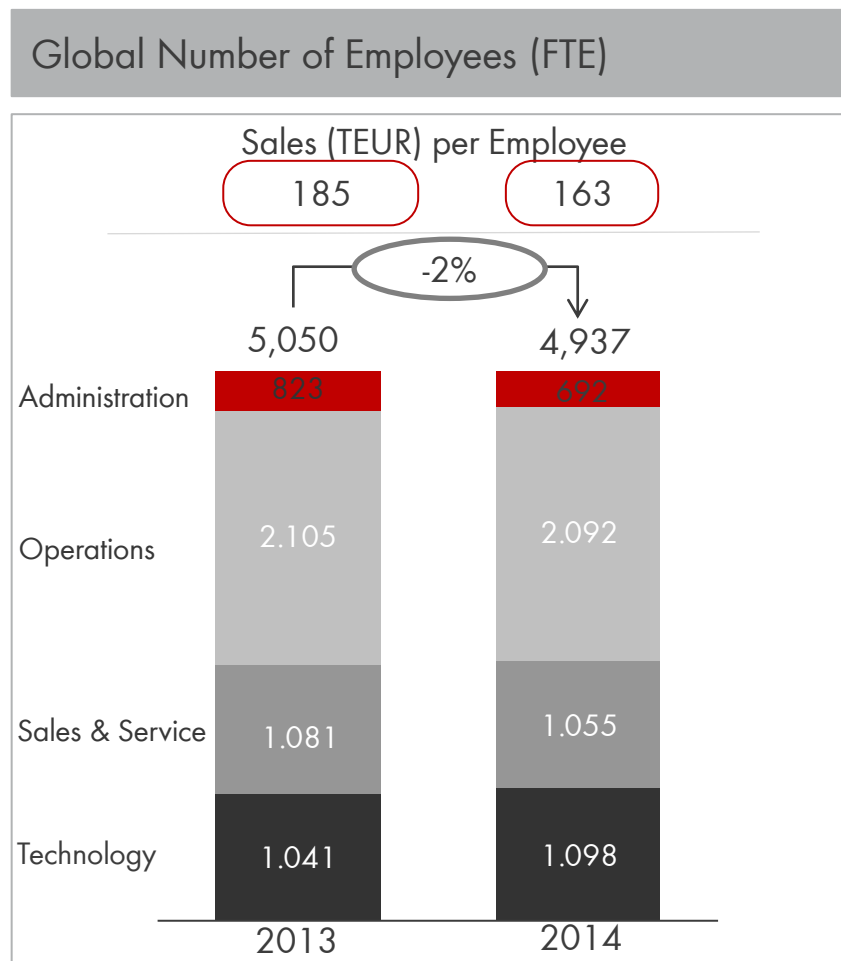
1. WiP: Work in Progress

2. LTM: Last 12 Months

High losses and increased Net Working Capital reduced SMA's net cash position



Cash Flow (MEUR)			
	2013	2014	Change
Gross Cash Flow	11	-37	-433%
Cash Flow from Operations	-2	-28	
Net Capital Expenditures	-50	-73	+46%
Free Cash Flow Adjusted	-52	-102	-2%
Acquisitions	-22	-3	-86%
Net Investments ¹	106	101	-53%
Free Cash Flow IFRS	32	-3	-112%
Net Cash BoP	404	330	-26%
Changes	-74	-105	-18%
Net Cash EoP	330	225	-32%



- > The number of employees (FTE) in Germany decreased by -7% to 3,352. The increase of 134 FTE (+9%) abroad is mainly due to America, China and Japan.

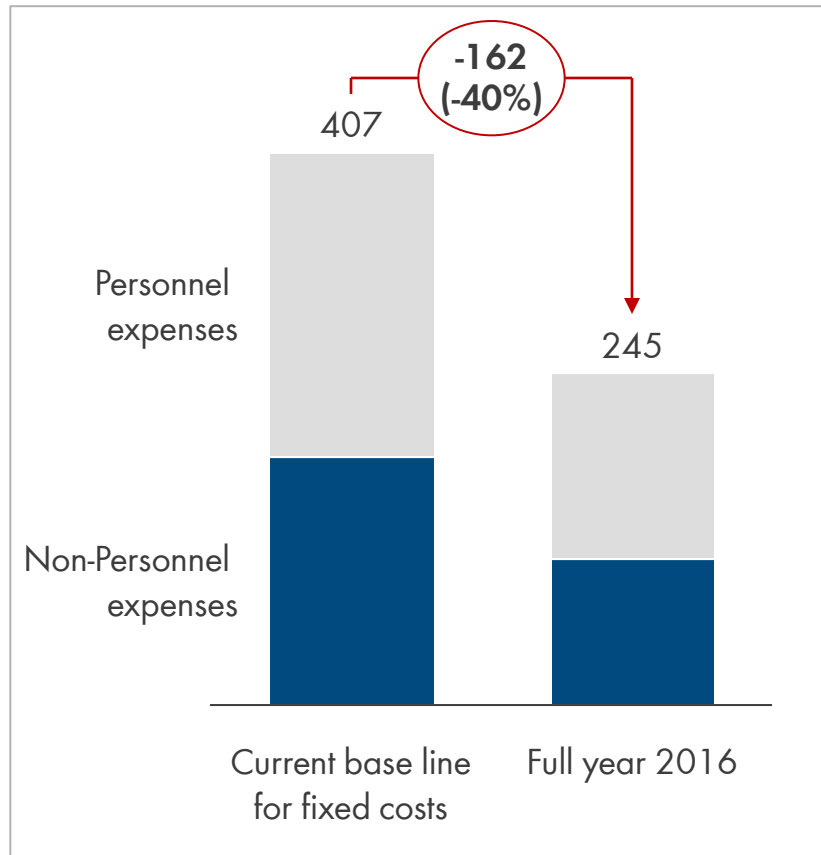
4. Transformation & Outlook



SMA strives to reduce its break-even point to less than 700 MEUR by the end of 2015



Fixed cost base (in MEUR)



Key transformation measures (FTE)¹

Technology	<ul style="list-style-type: none"> > Downsizing Kassel, Denver, Suzhou > Reduction of ext. service providers > Focus R&D projects / portfolio
From 1,050 to 570	
Operations	<ul style="list-style-type: none"> > Outsourcing of non-core activities > Phase out interim managers > Improvement of SCM and central inverter production
From 2,030 t. 1,500	
Administration	<ul style="list-style-type: none"> > Restructuring CFO/CEO functions > Centralization of administration funct. > Reduction of non-personnel expenses
From 630 to 380	
Sales & Marketing	<ul style="list-style-type: none"> > Reduction of back office staff > Downsizing of communication & marketing > Closure of subsidiaries
From 450 to 270	
Service	<ul style="list-style-type: none"> > Rightsizing infrastructure EMEA/APAC > Reduction of service level
From 510 to 420	
Others	<ul style="list-style-type: none"> > Reduction of office/production space > Restructuring of IT services

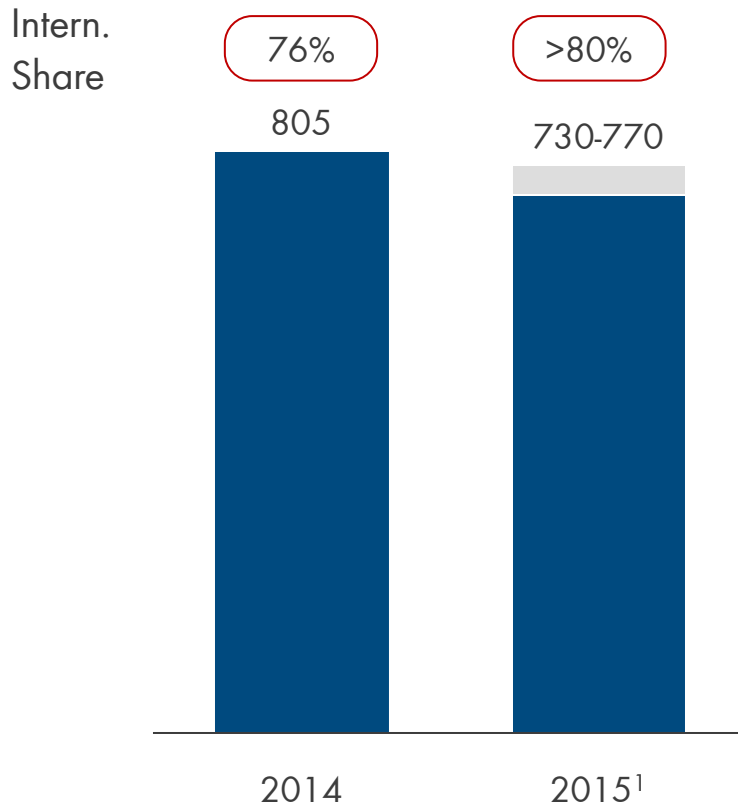
> Implementation of transformation is on schedule – the planned staff reduction is expected to be realized without involuntary layoffs.

1. Without temporary employees, trainees, interns;
FTE = Full Time Equivalent

The SMA Management Board estimates a sales decline of up to 10% for 2015



SMA sales (MEUR)



Comments

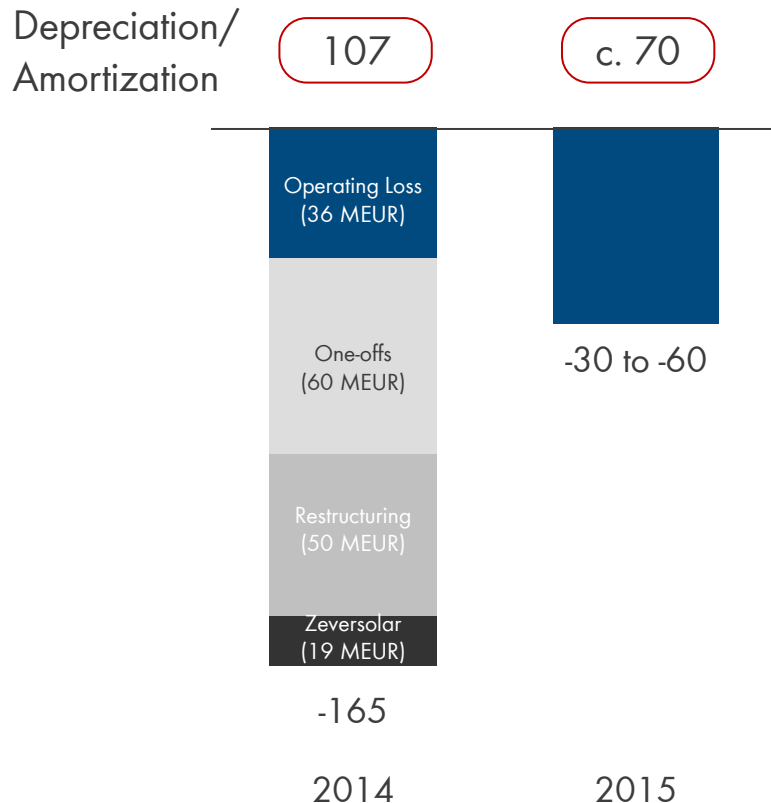
- > The estimated sales figure 2015 assumes a slight increase of inverter power sold in the best case
- > The sales range is based on further price concessions (ASP)² compared to 2014
- > String inverters will account for more than 50% of sales in 2015. The large string inverters will gain importance. Central inverters will account for >30% and service for >5% in 2015
- > More than 80% of sales will be generated outside Germany – Key international markets are North America, Japan, UK and Australia

1. Sales Guidance 2015
2. ASP: Average Selling Price

SMA's cost-cutting measures will impact the financial figures in the second half of 2015 at the earliest



SMA EBIT (MEUR)



Comments

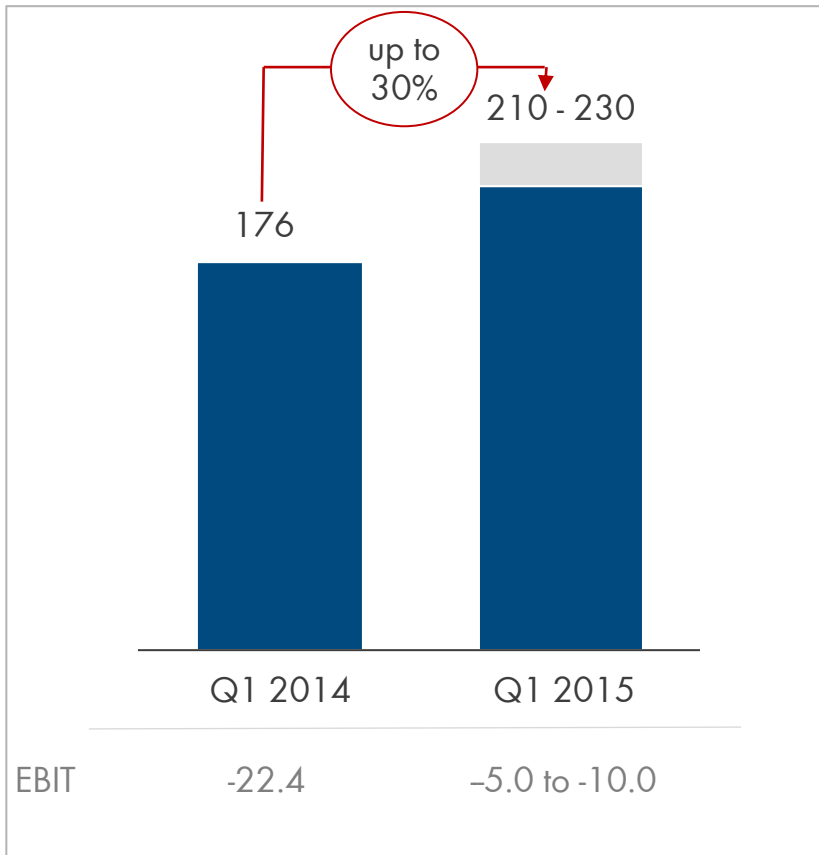
- > Cost-out initiatives and programs to improve efficiency total up to 10-20 MEUR and will support gross margin
- > R+D expenditure will be limited to less than 10% of sales
- > Due to the downsizing of Zeversolar the Management Board does not assume further operating losses in 2015
- > Capital expenditures (w/o cap. R+D)¹ will be reduced to 15-20 MEUR
- > Operating cash flow is expected to be negative despite NWC-deployment (target 23-26% of sales)

> The business model of SMA is profitable after the implementation of the restructuring measures

SMA will increase sales by up to 30% in Q1 2015 compared to last year's first quarter and reduce the operating loss.



Q1-2015 Sales & EBIT-Guidance (MEUR)



Comments

- > SMA's newly launched products Sunny Tripower 25 as well as the Sunny Tripower 60 are well accepted in key growth regions.
- > The new Sunny Boy 2.5 inverter has been launched according to schedule and the production of the new Sunny Central with 2.5 MW power started in March.
- > Current order backlog totals c. 500 MEUR, thereof c. 350 MEUR from service and c. 150 MEUR from solar and railway business¹.
- > SMA's management expects sales between 210 MEUR and 230 MEUR in Q1 2015. The operating loss (EBIT) will amount to 5 MEUR to 10 MEUR.

> **Nearly 50% of the 2015 full year sales guidance is already covered with sales during the first three months and the order backlog for new product sales.**

Investment Highlights: SMA is a technology driven company with an attractive business model



- ✓ Direct exposure to the global solar market
- ✓ SMA is the #1 for solar inverters for more than 2 decades
- ✓ Proven technology and game changing new products
- ✓ Flexible business model and best-cost sourcing strategy
- ✓ Powerful sales and service infrastructure
- ✓ Transformation process will lead to significant cost reduction
- ✓ Bankable partner due to high equity ratio and net cash position
- ✓ Conservative planning assumptions, despite unique positioning
- ✓ Stable shareholder structure with Danfoss as strategic anchor investor

ENERGY
THAT
CHANGES



SOCIAL MEDIA
www.SMA.de/Newsroom



Appendix: DC to AC conversion rates



	Residential					Commercial					Utility				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
World	0.88	0.88	0.87	0.87	0.87	0.83	0.82	0.83	0.83	0.84	0.83	0.82	0.82	0.82	0.84
Americas	0.77	0.87	0.84	0.83	0.82	0.78	0.79	0.79	0.79	0.79	0.74	0.75	0.75	0.74	0.78
Canada	0.86	0.86	0.86	0.88	0.88	0.86	0.86	0.86	0.88	0.88	0.86	0.86	0.86	0.88	0.88
Chile		0.86	0.86	0.87	0.88	0.88	0.86	0.86	0.87	0.88	0.88	0.86	0.86	0.87	0.88
Mexico	0.88	0.86	0.86	0.87	0.88	0.88	0.86	0.86	0.87	0.88	0.88	0.86	0.86	0.87	0.88
USA	0.77	0.87	0.83	0.82	0.81	0.77	0.77	0.77	0.77	0.77	0.71	0.70	0.69	0.68	0.68
Rest of Americas	0.88	0.86	0.86	0.87	0.88	0.88	0.86	0.86	0.87	0.88	0.88	0.86	0.86	0.87	0.88
China	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83	0.83
APAC	0.87	0.86	0.86	0.87	0.87	0.78	0.78	0.79	0.80	0.81	0.86	0.84	0.83	0.83	0.83
Australia	0.77	0.77	0.77	0.77	0.77	0.80	0.80	0.80	0.80	0.80	0.74	0.74	0.74	0.74	0.74
India	0.87	0.89	0.87	0.87	0.87	0.87	0.89	0.87	0.87	0.87	0.87	0.79	0.79	0.79	0.79
Japan	0.91	0.91	0.91	0.91	0.91	0.77	0.77	0.77	0.77	0.77	0.83	0.83	0.83	0.83	0.83
Korea	0.92	0.91	0.91	0.91	0.90	0.92	0.91	0.91	0.91	0.90	0.92	0.91	0.91	0.91	0.90
Thailand		0.90	0.90	0.90	0.90			0.90	0.90	0.90	0.86	0.90	0.90	0.90	0.90
Rest of APAC	0.92	0.91	0.91	0.91	0.90	0.92	0.91	0.91	0.91	0.90	0.92	0.91	0.91	0.91	0.90
EU	0.92	0.90	0.91	0.92	0.92	0.90	0.90	0.90	0.90	0.91	0.88	0.85	0.87	0.90	0.91
BeNeLux	0.93	0.93	0.93	0.94	0.94	0.93	0.93	0.93	0.94	0.94					
France	0.88	0.90	0.90	0.90	0.90	0.88	0.90	0.90	0.90	0.90	0.88	0.90	0.90	0.90	0.90
East EU	0.91	0.91	0.91	0.91	0.92	0.91	0.91	0.91	0.91	0.92	0.91	0.91	0.91	0.91	0.92
Germany	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
Greece	0.91	0.92	0.92	0.91	0.91	0.91	0.92	0.92	0.91	0.91	0.91	0.92	0.92	0.91	0.91
Italy	1.00	1.00	1.00	1.00	1.00	0.90	0.90	0.90	0.90	0.90	0.80	0.80	0.80	0.80	0.80
Spain & Portugal	0.85	0.81	0.83	0.89	0.90	0.85	0.81	0.83	0.89	0.90	0.85	0.81	0.83	0.89	0.90
UK	0.92	0.92	0.91	0.91	0.91	0.92	0.92	0.91	0.91	0.91	0.92	0.92	0.91	0.91	0.91
Rest of EU	0.92	0.92	0.91	0.91	0.91	0.92	0.92	0.91	0.91	0.91	0.92	0.92	0.91	0.91	0.91
ME	0.90	0.88	0.87	0.87	0.87	0.90	0.88	0.87	0.87	0.87	0.90	0.88	0.87	0.87	0.87
Israel	0.90	0.88	0.87	0.87	0.87	0.90	0.88	0.87	0.87	0.87	0.90	0.88	0.87	0.87	0.87
Turkey	0.90	0.88	0.87	0.87	0.87	0.90	0.88	0.87	0.87	0.87	0.90	0.88	0.87	0.87	0.87
Rest of Middle East				0.87	0.87							0.88	0.87	0.87	0.87
Africa	0.95	0.91	0.90	0.89	0.89	0.94	0.91	0.89	0.89	0.89	0.86	0.87	0.88	0.89	0.89
South Africa	0.85	0.85	0.85	0.86	0.86	0.85	0.85	0.85	0.86	0.86	0.85	0.85	0.85	0.86	0.86
Rest of Africa	0.95	0.93	0.91	0.91	0.90	0.95	0.93	0.91	0.91	0.90	0.95	0.93	0.91	0.91	0.90