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Trina Solar Ltd.

18 March 2008

Initiation Report

Vertical integration to drive long term growth

ADR — **BUY**
Fundamental Stock

Ticker: TSL
Target price: US$42.73
Current price: US$29.29

Fundamental research indicates a **46%** upside in the ADR for the coming 6-24 months. We have calculated the target price based on fundamental factors using the weighted average of target prices obtained using DCF and comparative valuation methodologies.

We rate the ADR a BUY based on fundamental factors, with a 6-24 month target price of US$42.73.

European ADR — **BUY**

Ticker: TSLy.F
Target Price: €34.18
Current Price: €18.57

The European ADR is expected to appreciate **84%** over the next 6-24 months. In addition to the 46% fundamental upside, approximately 38 percentage points' further upside are attributable purely to the anticipated appreciation of the US dollar against the euro over the same period.

We rate the European ADR a BUY, with a 6-24 month target price of €34.18.

Supervisor: Nirav Shah
Analyst: Simi Panicker
Editor: James Smithies
Global Research Director: Satish Betadpur, CFA

Next news due:
1Q 08 results, May 2008

Investment horizon - short term actionable trading strategies

This report addresses the needs of strategic investors with a long term investment horizon of 6-24 months. If this report is provided to you by your broker under the Global Settlement, you may now also access (free of charge) the short term trading outlook that we publish from time to time for this issuer, looking at the coming 5-30 days for readers with a shorter trading horizon. These are available online only at www.researchoracle.com.

Report summary

Trina Solar Ltd. (Trina Solar), an integrated Chinese solar module manufacturer, is expected to experience strong growth in revenues and margins over the medium and long term, driven by rising demand for photovoltaic (PV) modules around the world. We expect the global PV market to grow at a CAGR of over 30% over the next 5 years (driven by government incentives and the rising cost of hydrocarbons), and Trina Solar's vertically-integrated business model positions it to take full advantage this of market opportunity. The company is currently pursuing capacity expansion initiatives, which are expected to support volume and revenue growth over the coming years. However, at present the growth potential of the sector is being partially constrained by a shortage of manufacturing capacity for virgin polysilicon, a principal material required to produce the silicon wafers used in PV modules. This shortage has been caused by rapid growth in demand for polysilicon from the PV and semiconductor industries, set against only a limited increase in polysilicon manufacturing capacity. However, we expect the polysilicon supply-demand situation to ease by 2009, reflecting growth in polysilicon manufacturing capacity. We expect this to lower PV companies' operating costs, supporting profitability. Furthermore, solar companies have recently been securing long term polysilicon supply contracts in order to guarantee their polysilicon supplies and facilitate greater economies of scale. Furthermore, Trina Solar recently announced plans to build its own polysilicon production facility by 2012, which will limit the company's dependence on third-party suppliers and enhance its value chain. While reserves of conventional energy such as oil, gas and coal are depleted, and in view of the rising pressure on developed countries to adhere to Kyoto Protocol norms, we believe that solar energy harnessed through PV modules will become an increasingly mainstream source of energy going forward. Based on the growth potential of the industry and Trina Solar's vertically-integrated business model, we view the ADR as a good investment opportunity at current levels.

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Currency impact for US investors

The company reports in US dollars, which we assume is its major trading currency. Earnings forecasts are therefore also expressed in US dollars. As a result, the impact of currency movements on the price of the ADR is assumed to be neutral. Where specific currency risks are identified these will be highlighted in the report.

Currency impact on the European ADR

The impact by itself of the anticipated currency movements on the European ADR (now €18.57), without considering changes in the share price, is positive and is expected to be:

Over 6 months: €19.27

Over 12 months: €21.54

Over 24 months: €23.43

Investment Thesis

Company overview

Trina Solar is one of the few vertically-integrated companies in the solar industry which manufactures monocrystalline ingots, wafers and PV modules. Trina Solar's predecessor company, Changzhou Trina Solar Energy Co., Ltd. (Trina China), was incorporated in December 1997. Its initial business was the installation of PV systems, however the company became a primary PV module manufacturer in 2004. In order to facilitate an Initial Public Offering, Trina Solar was incorporated on 14 March 2006 in the Cayman Islands to act as a holding company. Trina Solar acquired 100% stake in Trina China, a wholly-owned subsidiary through which Trina Solar conducts most of its operations. Trina Solar was listed on the New York Stock Exchange (NYSE) on 19 December 2006.

Business overview

Trina aims to become fully vertically-integrated by the end of FY 2008

Trina Solar is engaged in the production and sale of PV cells and modules. In order to secure its feedstock requirements and to ensure economies of scale, Trina Solar began manufacturing monocrystalline ingots and wafers in 2005 and 2006, respectively. It also began in-house production of PV cells in April 2007; prior to this, the company relied entirely on toll manufacturers (third-parties which would convert the company's wafers into PV cells) for production of its PV cells. Currently, however, toll manufacturers account for only 25% of Trina Solar's PV cell requirements. Furthermore, the company's PV modules contain their own ingots and wafers. As a result, the company's business model is almost fully integrated at this stage. The company aims to produce 100% of its PV cell requirement in-house, thus achieving full integration, by the end of FY 2008. We believe that Trina Solar's vertically-integrated business model will enable the company to both standardize its quality control procedures and achieve greater economies of scale and improved margins, going forward.

The company manufactures its PV cells and modules using crystalline technology. According to Solarbuzz LLC (Solarbuzz), an independent solar energy research and consulting company, crystalline technology accounted for 92% of all PV installations in 2006 (compared to thin film technology, which accounted for the balance). While thin film technology leads to lower costs of production for PV cells and modules (as it uses less silicon), it also has lower typical efficiency rates (the amount of energy delivered to the grid relative to the solar energy absorbed by the PV cell or module) of between 6% and 11%, compared to between 17% and 18% for crystalline technology.

Trina aims to increase its PV module production capacity to 350 MW by the end of FY 2008

At the end of FY 2007, the company had an annual PV module manufacturing capacity of 150 megawatts (MW), and aims to reach a capacity of 350 MW by the end of FY 2008. Trina Solar primarily manufactures monocrystalline and multicrystalline PV modules with a capacity of 160-185 watts (W) and 180 W-220 W, respectively. At present, Trina Solar's PV cells have typical efficiency rates of 17% and 15.6% for monocrystalline and multicrystalline cells, respectively; the company expects to improve these rates to 19% and 18% respectively by 2010, in effect raising its PV modules' power output to approximately 240 W-250 W.

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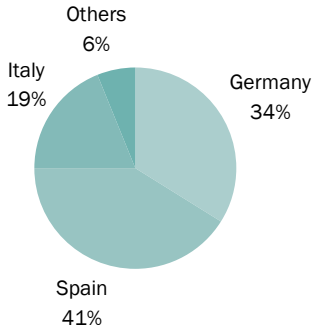
Currently, the solar industry is facing an industry-wide shortage of polysilicon. In view of this, most PV manufacturers have entered into long term purchase agreements with silicon suppliers in order to secure their future silicon needs. Trina Solar has arrangements with several global and domestic suppliers, including Wacker Chemical AG (Wacker), DC Chemical Co., Ltd. (DC Chemical), Nitol Group (Nitol) and Sichuan Yongxiang Polysilicon Co., Ltd. (Sichuan Yongxiang). Furthermore, Trina Solar is currently developing a captive polysilicon plant with a capacity of 10,000 metric tons, which is set to be completed by 2012. This project is expected to cost US$1 bn and is expected to secure a part of the company's polysilicon needs when the plant becomes operational by 2012. Meanwhile, the long term contracts outlined above are expected to take care of the company's silicon needs until the company's polysilicon plant is operational. Currently, 80% of Trina Solar's production is based on reclaimable silicon materials, which typically cost less than virgin polysilicon. According to the company, this results in cost savings of approximately 30%-50% against the spot price of virgin silicon.

Spain, Germany and Italy account for most of Trina Solar's sales

Trina Solar's customers include distributors, wholesalers and system integrators, and the majority of its sales take place in Germany, Spain and Italy, where government incentives have led to increased usage of solar power. During FY 2007, the company generated approximately 34%, 41% and 19% of its total revenues from Germany, Spain and Italy, respectively. Trina Solar plans to diversify its geographic presence by entering into emerging solar markets such as the US, Belgium, the Netherlands, Greece, France, the Czech Republic and South Korea.

Geographic revenue mix (FY 2007)



Source: Company data

Industry overview

Advantages of solar energy relative to other sources

Currently, the majority of global electricity requirements are met through conventional sources of energy, such as coal and oil. However, these sources are subject to depletion and a gradual increase in cost due to scarcity. Furthermore, the extraction and use of hydrocarbon energy sources has an adverse impact on the environment. In view of this, renewable energy has attracted increasing attention in recent years as a potential alternative source of energy. Renewable energy also generates positive externalities within developed economies, such as enhanced job creation and reduced dependence on foreign oil imports, which in turn limits exposure to regional geopolitical tension. Furthermore, the use of renewable energy sources reduces the impact of costly emissions control measures.

We believe that solar energy has advantages over other forms of renewable energy

We believe that solar power enjoys some advantages over other renewable sources of energy, such as wind and hydroelectric power, due to the abundance and broad accessibility of sunlight compared to the problems associated with locating appropriate sites for wind or hydroelectric energy projects. Furthermore, according to a 24 February 2005 article in *New Scientist*, hydroelectric energy projects may, under certain circumstances, produce more greenhouse gases than energy projects based on hydrocarbons. Hydroelectric energy projects may also require the displacement of large human populations, potentially leading to delays. Furthermore, wind power projects can be highly capital-intensive (especially offshore wind platforms) and may produce unpredictable amounts of energy due

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to fickle air flow. Therefore, we believe that solar energy, in view of its potential advantages and the array of government incentive programs supporting it, will become a mainstream source of energy going forward.

PV industry witnessing strong growth in demand and revenues

The global solar market grew from 254 MW in installations in 2000, to 1,744 MW by 2006

The worldwide PV market has realized strong growth over the past decade, mainly reflecting government incentives to encourage the use of alternative energy in Europe and the US. According to Solarbuzz, the global solar power market, as measured by annual PV installations, increased from 254 MW in 2000 to 1,744 MW in 2006, a CAGR of 37.9% over the period. During 2001-2006, PV market revenues grew from approximately US$2.0 bn to US$10.6 bn, representing a CAGR of 32.0%. Solarbuzz estimates that worldwide PV market revenues will climb to US$31.5 bn by 2011; we believe this growth will reflect increasing demand for non-conventional clean energy sources throughout the world. The European Photovoltaic Industry Association (EPIA), at its second International Conference on Solar Photovoltaic (PV) Investments, 19-20 February 2008, forecast that global PV installations would reach 11 gigawatts (GW) by 2012 (2.3 GW in 2007). Furthermore, a recent study published by the EPIA in September 2007, the solar industry is expected to generate annual revenues of approximately US$300 bn by 2030. The Energy Information Administration (EIA) estimates that global electricity demand will almost double by 2030, and we expect solar energy to capture a large share of this additional demand (source: *International Energy Outlook 2007*, May 2007).

Future growth prospects are promising

The Chinese government aims to source 16% of its energy requirements from renewable sources by 2020

The growth of the solar market depends in large part on various incentives offered by governments throughout the world. Supported by various incentive programs within the European Union (EU), China and the US, we believe that the solar energy market will be able to maintain its recent strong growth trend (25%-30% over the past few years). The US government announced its *Solar America Initiative* in 2006, with the objective of making solar energy cost-competitive with conventional forms of energy by 2010 and to grow American installed PV capacity from 112 MW in 2006 to 2,850 MW by 2010. Separately, EU member states at a March 2007 Brussels summit, in order to transition the EU to a low-carbon economy, resolved to source 20% of their energy needs from renewables by FY 2020. We believe that Germany, which remained the world's largest PV market in 2007 with 1,100 MW of PV installations, will continue to provide strong growth potential, going forward. In October 2007, the Spanish government revised its installed PV capacity target from 400 MW to 1,200 MW by 2010, mainly in reflection of the fact that it is already close to meeting its previous target of 400 MW. In 2007, Italy had a total installed PV capacity of 25 MW (+65% y-o-y). The EPIA projects that, going forward, Italy's installed PV capacity will grow at a CAGR of 30% over the next 10 years. In France, installed PV capacity was 45 MW in 2007; the EPIA estimates that French installed PV capacity will reach 500 MW by 2013 and approximately 7-8 GW by 2020, representing an average annual growth rate of around 30% over the next decade. Installed PV capacity in other European markets such as Belgium, the Netherlands, Greece, and the Czech Republic is also growing rapidly. In Asia, the South Korean PV market is witnessing strong growth, supported by attractive feed-in tariffs of approximately US$0.70 per kWh and an impressive PV installed capacity target of 1.3 GW to be achieved by 2011 (its present installed PV capacity is 50 MW as of December 2007). Japan aims to quadruple its electricity generation from PV modules to approximately 4.8 GW by 2010. Elsewhere, the Chinese government enacted its *Chinese Renewable Energy Program* in February 2006, setting the objective of meeting 16% of its energy needs from renewable energy sources by 2020. According to the China Solar Industry Beijing Review, held by the Chinese government on 22 March 2007, the *Chinese Renewable Energy Program* is expected to generate 500 MW of annual PV installation capacity by 2010, 3 GW by 2020, and 60 GW by 2050. We believe that the extent of these government programs provides fertile ground for future growth in the solar energy industry.

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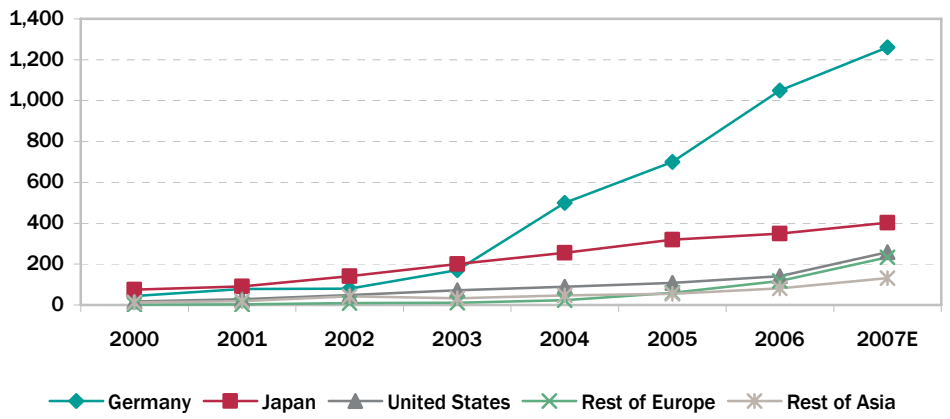
Annual PV installations by country (MW)



Source: PV Market Update: Demand Grows Quickly and Supply Races to Catch Up, Prometheus Institute for Sustainable Development, Renewable Energy World, July 2007.

Concerns in the growth forecast of the solar industry

Germany is expected to raise its solar feed-in tariffs over the next 1-2 years, effectively reducing subsidies

Because solar power is more expensive than conventional sources of energy, concerted government efforts are currently required to make it attractive in the marketplace. The possibility of a slowdown in global economic growth and development pay pose a risk to these government programs. Furthermore, the German government is expected to raise its reduction in feed-in tariffs in 1-2 years' time, which will effectively lower the subsidies available to solar energy producers. If this trend is followed worldwide, there could be an adverse impact on solar producers' margins. However, we believe that this will be partially offset by an increase in polysilicon capacity, which should reduce constraints on supplies and thereby lead to a reduction in PV producers' raw material costs. Furthermore, given the increasing pressure on developed nations to meet their Kyoto protocol goals and the need to respond to rising energy prices, particularly for hydrocarbons, we believe that solar energy will become an increasingly significant component of the world's energy mix.

Solar industry facing a shortage of polysilicon

Polysilicon supply expected to improve from 2009 onwards

The solar industry is currently facing a shortage of polysilicon, one of the principal raw materials in the production of PV cells and PV modules. This shortage has led to a substantial increase in prices and is resulting therefore having an adverse impact on PV producers' margins. Demand for polysilicon from the semiconductor industry fell after 2000, leaving silicon producers with excess capacity, meaning that very little capacity was added between 2000 and 2005 and that silicon producers were not prepared for the rebound in semiconductor demand after 2005. This situation has been compounded by the significant growth in the PV industry has witnessed significant growth which further led to increased demand for polysilicon. However, according to data published in November 2007 by QY Research, a market research and survey institute in China, the demand-supply situation is expected to improve from 2009 onwards as a number of companies in Europe, China, Japan and the US plan to add significant levels of polysilicon capacity. Furthermore, the polysilicon shortage has encouraged manufacturers of PV cells and PV modules to use polysilicon more efficiently, as well as to develop cheaper substitutes. Furthermore, most PV manufacturers, including Trina Solar (see 'Long term polysilicon supply contracts to improve economies of scale', below) have secured long term purchase agreements with silicon suppliers to guarantee their future polysilicon needs; we believe this will enable the solar companies to enhance their profitability going forward.

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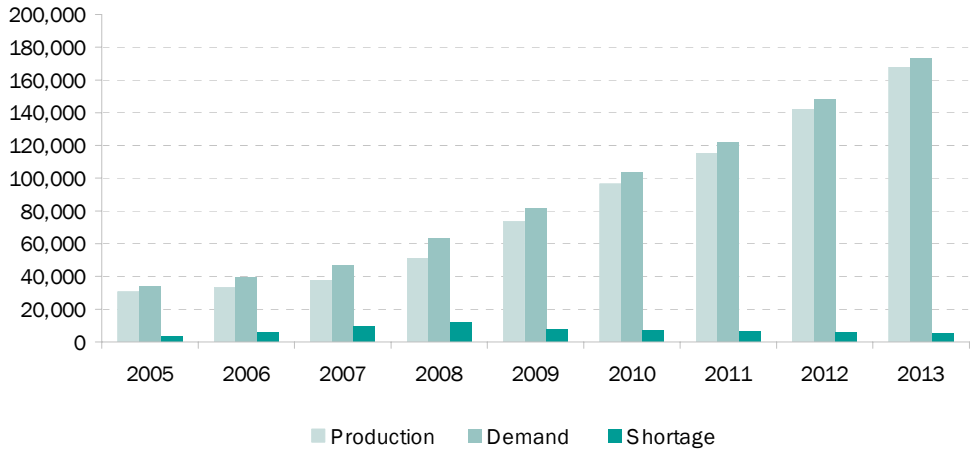
Global polysilicon demand and supply (tons)



Source: QY Research

Peer comparison

The solar industry competes with both conventional and non-solar renewable energy sources

The solar industry presents relatively few barriers to entry, considering that the manufacturing of PV cells and modules is more labor- than capital-intensive. While high polysilicon prices may act as a deterrent to new producers in the near term, we anticipate easing in polysilicon supplies over the next 2 years, which will further lower barriers to entry. Solar companies compete primarily with producers of conventional energy sources (such as crude oil and gas) and non-solar renewable energy companies (producers of energy from wind, biofuels, hydroelectric dams and so forth).

Furthermore, Trina Solar competes with other solar module manufacturers such as Yingli Green Energy Holding Co., Ltd. (Yingli Green), Solarfun Power Holding Co., Ltd. (Solarfun), Suntech Power Holding Co., Ltd. (Suntech) and SolarWorld AG (SolarWorld).

The company is incurring significant SG&A costs

In 3Q 07 (which is the most recent common set of results available for all peer group companies), Trina Solar's revenues grew by 155.2% y-o-y, which is broadly in line with the peer group's average for the period and reflects healthy growth in demand for PV modules. During the same period, Trina Solar reported a gross margin of 22.3%, eclipsing both Solarfun and Suntech due to the company's largely integrated operations. However, the company's gross margin was weaker than those of Yingli Green and SolarWorld, both of which are already fully integrated producers. Furthermore, Trina Solar is currently incurring significant Selling, General and Administrative (SG&A) expenses in order to facilitate its expansion plans (see 'Focus on geographic diversification', below). Consequently, the company reported operating and net margins of 8.4% and 7.7%, respectively, below peer group averages of 16.5% and 12.5%. However, we expect the company's margins to improve from FY 2009 onwards, supported by lower polysilicon costs, reflecting industry-wide easing of the demand-supply situation as well as the completion of the company's captive polysilicon plant in FY 2012. In addition, the company expects to reach 100% in-house PV cell production by the end of FY 2008, thereby achieving full vertical integration.

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Peer comparison (3Q 07)

Company	Trina Solar Ltd.	Yingli Green Energy Holding Co., Ltd.	Solarfun Power Holding Co., Ltd.	Suntech Power Holdings Co. Ltd.	SoalrWorld AG	Peer group average
Revenues	82.6	170.4	100.6	386.7	244.1	N/A
y-o-y growth	155.2%	123.4%	312.0%	137.3%	15.9%	148.7%
Gross profit	18.4	40.4	16.1	80.0	130.0	N/A
Margin	22.3%	23.7%	16.0%	20.7%	53.2%	27.2%
Operating income	6.9	29.9	8.4	56.1	82.1	N/A
Margin	8.4%	17.6%	8.3%	14.5%	33.7%	16.5%
Net income	6.3	23.9	8.1	54.1	45.4	N/A
Margin	7.7%	14.0%	8.0%	14.0%	18.6%	12.5%

Source: Company data

FY 2007 review

Trina Solar's revenues increased 163.6% y-o-y to US$301.8 mn in FY 2007

Trina Solar's total revenues increased 163.6% y-o-y to US$301.8 mn in FY 2007, driven by strong growth in shipments of PV modules (27.4 MW in FY 2006, 75.9 MW in FY 2007). Cost of Goods Sold (COGS) increased from 72.5% of revenues in FY 2006 to 75.5% in FY 2007, due mainly to rising polysilicon costs. Consequently, the gross margin narrowed by 304 bps y-o-y to 24.5% during the year. However, in spite of higher nominal operating costs, strong growth in the top-line meant that operating costs, as a percentage of revenues, declined from 12.7% in FY 2006 to 12.4% in FY 2007. Factoring in the change in the gross margin, Trina Solar's overall operating margin narrowed by 276 bps y-o-y to 12.0% in FY 2007. Strong revenue growth, coupled with performance at the operating level, led to growth in the reported bottom-line from US$12.4 mn in FY 2006 to US$34.8 mn in FY 2007. Extraordinary and non-recurring items reported during the year include other income of US$1.3 mn (compared to other expenses of US$0.08 mn in FY 2006), US$0.4 mn in income from discontinued operations (compared to a loss from discontinued operations of US$0.8 mn in FY 2006) and foreign exchange losses of US$2.0 mn (nil in FY 2006). Excluding these items, Trina Solar's adjusted[1] net income increased 165.8% y-o-y to US$35.2 mn in FY 2007.

4Q 07 review

Meanwhile, the 4Q 07 top-line grew by 161.5% y-o-y to US$101.4 mn

Trina Solar's total revenues increased 161.5% y-o-y to US$101.4 mn in 4Q 07, driven by strong growth in shipments of PV modules (8.98 MW in 4Q 06, 23.91 MW in 4Q 07). The company's gross profit increased 233.5% y-o-y to US$300.9 mn, with a gross margin of 29.7% (24.2% in 4Q 06). Improvement in the gross margin primarily reflected increased economies of scale during 4Q 07 (COGS fell from 75.8% of revenues in 4Q 06 to 70.3% in 4Q 07). During the quarter, operating profit increased 176.9% y-o-y to US$16.2 mn, driven by top-line growth but partially offset by higher operating costs. Operating expenses increased from 9.1% of revenues in 4Q 06 to 13.7% in 4Q 07, mainly reflecting the company's ongoing expansion activities. As a result, the operating margin increased from 15.1% in 4Q 06 to 16.0% in 4Q 07. Meanwhile, the bottom-line grew from US$4.6 mn in 4Q 06 to US$15.7 mn in 4Q 07, driven primarily by strong top-line growth. The bottom-line was further supported by tax benefits and growth in interest income during the quarter. Extraordinary and non-recurring items reported during the quarter include other income of US$0.5 mn (compared to other income of US$0.003 mn in 4Q 06), US$0.2 mn in income from discontinued operations (compared to income of US$0.2 mn from discontinued operations in 4Q 06) and foreign exchange losses of US$1.4 mn (nil in 4Q 06). Excluding these items, Trina Solar's adjusted net income increased 275.4% y-o-y to US$16.5 mn in 4Q 07.

Increase in manufacturing capacity to support volume growth

Despite only beginning to manufacture PV cells and modules in 2004, the company's production capacity reached 150 MW by FY 2007. In order to capitalize on the significant demand potential for PV modules, the company plans to increase its production capacity to 350 MW by the end of FY 2008. The company also plans to expand its production capacity to a total of 1 GW by FY 2010. We believe

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that these ambitious expansion plans will enable the company to achieve strong economies of scale, placing it in a strong position to capture growing demand for solar energy, going forward.

Focus on geographic diversification

During FY 2007, Trina Solar generated approximately 34%, 41% and 19% of its total revenues from Germany, Spain and Italy. During the same period, the company also entered developing solar markets such as the Netherlands, Belgium, France, Greece, and South Korea; each of these markets is expected to witness significant growth in installed PV capacity over the next 5-10 years (see 'Future growth prospects are promising', above). The company also plans to enter the US market in FY 2008. We believe that Trina Solar's entry into these fast-growing markets will provide further stimulus to its top-line in future.

Improvement in cell efficiency to improve operational efficiency

Reduction in wafer thickness to curb silicon usage

Trina Solar is constantly pursuing efforts to improve the efficiency of its PV cells by reducing the thickness of its solar wafers. In 1Q 08, the company reduced its solar wafers from a thickness of 200 micros to 180 microns. The wafer sawing process wastes approximately 50% of the total silicon in the ingot. Therefore, any reduction wafer thickness enables the company to significantly lower its raw material costs. Going forward, Trina Solar aims to reduce the thickness of its solar wafers to 140 microns and 160 microns for monocrystalline and multicrystalline wafers, respectively, by FY 2010. These moves will also raise the efficiency of its monocrystalline and multicrystalline cells, from a typical 17.0% and 15.5% at present to 19% and 18%, respectively. In turn, this is expected to increase the company's PV module power to 240 W-250 W by 2010.

During 4Q 07, the company began producing 220 W multicrystalline PV modules. During the same quarter, the company increased its in-house cell production to over 75%. According to the company, full in-house production of PV cells will lead to savings of approximately US$0.30 per watt (the company's 4Q 07 total manufacturing cost per watt was US$2.84). Therefore, once the company achieves full in-house cell production, becoming fully vertically-integrated, it is expected to realize stronger margins.

Long term polysilicon supply contracts to improve economies of scale

The company has secured 80% and 60% of its respective FY 2008 and FY 2009 polysilicon needs

In order to secure its silicon requirements, Trina Solar has entered into many short term, medium term and long term agreements with domestic and overseas silicon suppliers. In 1Q 07, the company entered into a 6-year agreement with Wacker, beginning 2009. Wacker will supply Trina Solar with enough high-purity polysilicon to produce approximately 150 MW of PV modules over the 6-year contract period. During the same quarter, the company signed an agreement with DC Chemical, worth US$120 mn, for the supply of polysilicon over a 7-year period beginning 2009. In 4Q 07, the company secured an agreement with Nitol, which will supply enough virgin polysilicon to produce over 200 MW of modules over a period of 5 years beginning in 2009. The company also signed an agreement with Sichuan Yongxiang in November 2007, guaranteeing the supply of enough virgin polysilicon to produce approximately 1,300 MW of PV modules over a 6-year period from mid-2008 onwards. As a result of its efforts to secure purchase agreements, the company has guaranteed 80% and 60% of its silicon requirements for FY 2008 and FY 2009, respectively. Going forward, we believe that these agreements will enable the company to scale up its production in a stable and cost-effective manner, enhancing its profitability.

In 1Q 07, the company announced an agreement with Q-Cells AG. Under this agreement, the company will supply Q-Cells with an unspecified amount of high-quality monocrystalline wafers, which will be processed into high-efficiency cells by Q-Cells for Trina Solar's module assembly facility. Q-Cells is also expected to provide technical assistance to Trina Solar throughout the agreement period. In 1Q 08, Trina Solar signed another agreement covering the purchase of primary converter and reactor systems for its planned polysilicon production project from GT Solar Inc., for a total consideration of approximately US$49 mn. Furthermore, in 4Q 07, the company announced that it has signed a US$154 mn agreement with Meyer Berger AG for to source cell and wafer production equipment based on Inner Diameter (ID) cropping technology as well as band and wire saws, in order to help the company realize its expansion objectives through FY 2010. We are encouraged by these

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arrangements, which we view as a further signal of careful and solid execution of the company's expansion plans.

Long term sales agreements to support top-line growth

Trina Solar has already guaranteed the sale of nearly all of its targeted FY 2008 production

In 2Q 07, the company signed a sales contract to supply between 80 MW and 150 MW of PV modules to Ibersolar Energia S.A. of Spain between FY 2007 and FY 2010, depending on requirements. In 3Q 07, the company confirmed initial shipments on 4 recently-signed contracts, covering 88 MW-99 MW of sales to new accounts in Italy and Germany over the next 2-3 years. In the same quarter, the company signed a 1 MW contract with EniPower S.p.A., one of the largest energy companies in Italy, which contains an option for a further 5 MW. As a result of these efforts to secure long term sales contracts, Trina Solar has already guaranteed that it will sell all of its targeted 1H 08 production and 80% of its targeted 2H 08 production, which we view as a strong positive and which are expected to guarantee stable revenues through at least FY 2010.

Financial Projections

Top-line and margin outlook

We expect Trina Solar's top-line to grow at a CAGR of 33.3% over the period FY 2007-FY 2017

We expect Trina Solar to achieve strong revenue growth over our forecast period, driven by growing demand for solar energy and ongoing government support across the world. Trina Solar's total revenues are therefore forecast to grow by 156.2% y-o-y to US$773.2 mn in FY 2008 and 80.2% y-o-y to US$1,393.6 mn in FY 2009, reflecting higher shipments of PV modules. Furthermore, Trina Solar plans to increase its PV installation capacity to 350 MW per annum by FY 2008 (150 MW at present). We expect the company to sell approximately 210 MW of PV modules during FY 2008 and 400 MW during FY 2009, reflecting increased production capacity and persistently strong demand. We expect Trina Solar's top-line to grow at a CAGR of 92.5% during FY 2007-FY 2010. Over our forecast period of FY 2007-FY 2017, we expect total revenues to grow at a CAGR of 33.3%.

Trina Solar's margins are expected to narrow over the near term, reflecting lower Average Selling Prices (ASPs) and rising costs for raw materials stemming from the ongoing polysilicon shortage. We expect the gross margin to narrow from 24.5% in FY 2007 to 22.1% in FY 2008. However, we anticipate strong improvement in the gross margin from FY 2009 onwards, as the industry-wide polysilicon demand-supply situation eases and the company's long term purchase contracts take effect. Furthermore, the company expects its captive polysilicon manufacturing facility is expected to be completed by FY 2012, with production capacity of 10,000 metric tons. The company expects to achieve operating costs of approximately US$30-US$35 per kilogram of silicon, compared to an industry average cost of US$60-US$65 in 2007 (source: Solarbuzz), within 6-9 months of the opening of the plant. The operating margin is expected to decline from 12.0% in FY 2007 to 10.0% in FY 2008 and 9.8% in FY 2009, reflecting higher SG&A and research & development costs, in line with the company's ongoing expansion efforts. However, margins are expected to recover thereafter, supported by lower polysilicon costs.

Earnings outlook

We forecast adjusted EPS of US$2.76 in FY 2008 (+92.4% y-o-y). During FY 2007-FY 2017, we expect adjusted net income to grow from US$35.2 mn to US$801.4 mn, at a CAGR of 36.7%, reflecting strong top-line growth and recovery in margins as discussed above.

Stock price movement

The Trina Solar ADR was listed on the NYSE on 19 December 2006. Since then, the movement in the ADR price has been highly volatile. The ADR has declined by 26% over the past year, compared to a fall of 7% on the benchmark NYSE Composite Index.

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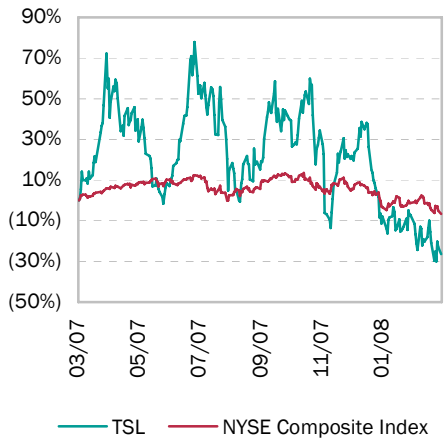
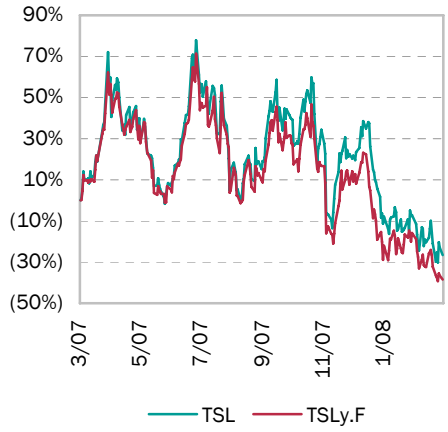
Stock price movement





Source: Bloomberg

Valuation

We are valuing the Trina Solar ADR using a Discounted Cash Flow (DCF) valuation and comparative valuation methodologies based on Price-to-earnings (P/E) and Price-to-sales (P/S) multiples, considering our FY 2009 estimates. The DCF method values the stream of future cash flows discounted to the present day using the company's Weighted Average Cost of Capital (WACC), and as such is a good measure of the company's value in absolute terms. Comparative valuations based on P/E and P/S multiples enable us to compare the peer group's current operating performance. In our view, the P/S method is appropriate as sales demonstrate the significance of the size and growth of companies such as Trina Solar and its competitors. Meanwhile, the P/E method is a good indicator of the earning power of a company relative to its peers.

Comparative valuation

Based on a target P/E multiple of 13.00x, the ADR is valued at US$41.84 per share

When we consider P/E multiples, Trina Solar currently trades at 21.02x and at a FY 2009 forward multiple of 9.68x. We believe that an improvement in the polysilicon demand-supply situation will lower the company's costs, going forward. Furthermore, Trina Solar has secured most of its silicon wafer requirements for the next 2 years, which will enable it to scale up its production in a stable, cost-effective manner while improving its margins. In order to value the Trina Solar ADR in this report, we assign a target P/E multiple of 13.00x, lower than its current multiple but higher than its FY 2009E forward multiple. Applying this target multiple to our FY 2009 adjusted net income estimate, we arrive at a target price of US$41.84 for the Trina Solar ADR.

Based on a target P/S multiple of 0.75x, the ADR is valued at US$43.97 per share

When we consider P/S multiples, Trina Solar currently trades at 2.45x and at a FY 2009 forward multiple of 0.53x. Going forward, we expect Trina Solar to realize strong top-line growth, capturing rising demand for solar energy around the world. Therefore, in order to value the Trina Solar ADR in this report, we are assign a target P/S multiple of 0.75x, lower than the current multiple but higher than the company's FY 2009E forward multiple. Applying this target multiple to our FY 2009 sales estimate, we arrive at a target price of US$43.97 for the Trina Solar ADR.

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Trina Solar Ltd.

18 March 2008

Comparative valuation: P/E approach

Company	3-yr trading range	TTM trading range	TTM average	Current	Forward FY 2009
Trina Solar Ltd.	N/A	N/A	N/A	21.02	9.68
Yingli Green Energy Holding Co., Ltd.	N/A	N/A	N/A	33.90	9.40
Solarfun Power Holding Co., Ltd.	N/A	N/A	N/A	28.56	6.25
Suntech Power Holding Co., Ltd.	N/A	30.6 - 95	46.89	29.60	8.46
SolarWorld AG	20 - 67.99	20.9 - 50.19	31.83	27.68	15.07
Peer group average				28.15	9.77

Source: Bloomberg, IIIR estimates

Comparative valuation: P/S approach

Company	3-yr trading range	TTM trading range	TTM average	Current	Forward FY 2009
Trina Solar Ltd.	N/A	N/A	N/A	2.45	0.53
Yingli Green Energy Holding Co., Ltd.	N/A	N/A	N/A	2.71	0.91
Solarfun Power Holding Co., Ltd.	N/A	N/A	N/A	1.77	0.60
Suntech Power Holding Co., Ltd.	N/A	4.29 - 11.4	6.30	3.40	1.43
SolarWorld AG	2.47 - 9.41	4.04 - 7.92	6.19	4.45	2.59
Peer group average				2.96	1.21
Valuation metrics-FY 2009E					

Source: Bloomberg, IIIR estimates

Based on our DCF valuation we value the Trina Solar's NYSE stock at US$ 42.32 per share

DCF valuation

Using our DCF valuation methodology, we arrive at a target price of US$42.60 for the Trina Solar ADR. We have based our valuation on the following assumptions:

WACC of 14.90%: We have assumed a risk-free rate of 3.75%, which is the 3-month average return on the 10-year US Treasury bond. We then calculated the WACC by multiplying the cost of equity (which stands at 17.14%), and the tax-adjusted cost of debt (which stands at 5.18%) by their estimated respective weights of 0.81 and 0.19. This yielded a WACC of 14.90%.

Terminal growth rate of 3%: We have developed explicit Free Cash Flow (FCF) estimates for FY 2007-FY 2020. Thereafter, we have assumed a perpetual growth rate of 3.00% (implied terminal year exit P/E and P/S multiples of 15.46x and 0.85x, respectively).

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Trina Solar Ltd.

18 March 2008

Discounted Cash Flow: Key financial data						
All figures in US$ mn, unless specified	FY 2007A	FY 2008E	FY 2009E	FY 2010E	FY 2011E	FY 2012E
Total revenues	302	773	1,394	2,151	2,794	3,389
EBITDA	42	97	189	351	521	710
Margin	14.0%	12.5%	13.6%	16.3%	18.7%	21.0%
Operating income	36	77	136	252	366	525
Margin	12.0%	10.0%	9.8%	11.7%	13.1%	15.5%
Net income*	35	66	77	139	178	284
Cash from operations	5	(180)	(112)	(18)	128	257
Total assets	600	1,316	2,110	2,842	3,378	3,809
Debt	172	778	1,424	1,945	2,231	2,331
Shareholders' equity	367	432	509	648	826	1,110
Total liabilities and equity	600	1,316	2,110	2,842	3,378	3,809
Free Cash Flow (FCF) analysis						
NOPLAT		73	118	219	275	394
Depreciation and amortization		20	53	99	155	185
Change in working capital		(267)	(247)	(264)	(212)	(217)
Capex		(350)	(510)	(663)	(451)	(375)
FCF		(524)	(586)	(609)	(233)	(13)
Discount factor		0.90	0.78	0.68	0.59	0.51
PV of UFCF		(470)	(457)	(413)	(138)	(7)
Terminal cash flow						8,043
Perpetual growth rate						3.00%
WACC						14.90%

WACC	
Risk-free rate	3.75%
Equity risk premium	7.52%
Beta	1.78
Cost of equity	17.14%
Marginal cost of debt	6.90%
Marginal tax rate	25.00%
Tax-adjusted cost of debt	5.18%
Debt/capital ratio	18.67%
WACC	14.90%

Source: Bloomberg, IIIR estimates

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DCF sensitivity analysis (in US$)

		Terminal growth rate				
		2.00%	2.50%	3.00%	3.50%	4.00%
WACC	15.90%	27.27	30.37	32.10	33.99	0.00
	15.40%	32.64	34.34	36.18	38.17	40.33
	14.90%	38.56	40.50	**42.60**	44.89	47.39
	14.40%	45.08	47.31	49.73	52.37	55.26
	13.90%	52.30	54.86	57.65	60.71	64.08

Source: IIIR estimates

Weighted average valuation

Based on our weighted average valuation we value the ADR at US$42.73 per share

We are assigning a weighting of 60% to the target price derived using our DCF methodology and 20% to each of the target prices derived using our comparative valuation methodologies. This weighting reflects our estimate of intrinsic value as well as market expectations and sentiments. Using our weighted average methodology, we value the Trina Solar ADR at US$42.73 per share for the coming 6-24 months, which indicates a potential upside of 46% from current levels. We therefore rate the Trina Solar ADR a BUY on fundamental grounds. The European ADR is rated a BUY (see page 1).

ADR (TSL): Weighted average price (US$)

Methodologies	Weight assigned	Target price	Weighted average price
Target price using DCF approach	60.0%	42.60	25.56
Target price using P/E approach	20.0%	41.84	8.37
Target price using P/S approach	20.0%	43.97	8.79
Weighted average ADR target price			**42.73**
Current ADR price			29.29
Upside/(downside) from current levels			46%

Source: IIIR estimates

Key Risks to Fundamental Rating

Polysilicon supply constraints

Unexpected polysilicon supply constraints may lead to margin reduction

The solar industry is currently facing a shortage of silicon wafers. Although Trina Solar has secured most of its silicon needs for the next 2 years through long term purchase contracts, we believe that any unexpected constraints in polysilicon supplies would present a downside risk to our rating, as the company's profitability would be adversely impacted. On the other hand, should spot polysilicon prices fall significantly, the company may be adversely affected by the fixed pricing of its purchase contracts. Finally, Trina Solar may not be able to achieve satisfactory economies of scale from its new polysilicon plant if spot prices fall below US$35 per kilogram by 2012.

Slowdown in PV market growth

The PV market has grown rapidly over the past few years, driven by government incentive programs, rising prices for conventional energy sources and growing environmental concerns. However, at this stage, solar energy would not be price-competitive with other forms of both conventional and renewable energy without the assistance of subsidies. Therefore, any scaling back of government

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incentive programs (beyond what we have anticipated), or any reduction in prices for conventional energy sources could significantly reduce demand for solar energy and, in turn, demand for PV modules.

Sharper-than-expected fall in ASPs

If ASPs decline faster than we forecast, in response to growing competitive pressure or excess supplies of polysilicon, the company's top-line may underperform our estimates, presenting a downside risk to our rating.

Financial Statements

Forecast profit and loss statement
All figures in US$ mn, unless specified

	FY 2007A	1Q 08E	2Q 08E	3Q 08E	4Q 08E	FY 2008E	FY 2009E
Total revenues	301.8	121.4	175.3	211.4	265.2	773.2	1,393.6
y-o-y change	163.6%	185.3%	132.7%	156.1%	161.5%	156.2%	80.2%
Gross profit	73.8	27.9	38.4	46.1	58.9	171.3	320.5
Margin	24.5%	23.0%	21.9%	21.8%	22.2%	22.1%	23.0%
EBITDA	42.2	16.3	22.6	25.2	32.9	96.9	188.8
Margin	14.0%	13.4%	12.9%	11.9%	12.4%	12.5%	13.6%
Operating income	36.3	11.3	17.7	20.2	27.9	77.2	136.0
Margin	12.0%	9.3%	10.1%	9.6%	10.5%	10.0%	9.8%
Net income*	35.2	9.9	15.5	17.7	24.7	65.6	76.5
Margin	11.7%	8.2%	8.9%	8.4%	9.3%	8.5%	5.5%
Diluted EPS (US$)*	1.43	0.40	0.63	0.72	1.00	2.76	3.22

**Excluding non-recurring items*

Source: Company data, IIIR estimates

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Trina Solar Ltd.

18 March 2008

Forecast balance sheet

All figures in US$ mn	FY 2007A	FY 2008E	FY 2009E
Current assets			
Cash and cash equivalents	60	190	214
Accounts receivable	72	180	305
Inventories	59	169	268
Other current assets	152	243	331
Total current assets	342	782	1,119
Non-current assets			
Property, plant and equipment	197	527	985
Others	60	7	6
Total assets	600	1,316	2,110
Current liabilities			
Accounts payable	10	14	21
Bank borrowing	164	0	0
Other current liabilities	47	84	142
Total current liabilities	220	98	163
Non-current liabilities	4	8	14
Long term bank borrowing	8	778	1,424
Series A, B and C preference shares	0	0	0
Shareholders' equity	367	432	509
Total liabilities and shareholders' equity	600	1,316	2,110

Source: Company data, IIIR estimates

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18 March 2008

Forecast cash flow statement

All figures in US$ mn, unless specified	FY 2008E	FY 2009E
Net Income/(loss)*	66	77
Adjustments		
Depreciation and amortization	20	53
Others	2	6
Change in operating assets and liabilities		
Accounts receivable	(108)	(125)
Inventories	(111)	(99)
Accounts payable	34	52
Others	(82)	(75)
Working capital (consumed)/released	(267)	(247)
Net cash from operating activities	(180)	(112)
Cash flows from investing activities		
Investments in property, plant and equipment	(350)	(510)
Others	54	0
Net cash from investing activities	(296)	(510)
Cash flows from financing activities		
Changes in equity	0	0
Changes in debt	606	646
Others		
Net cash from financing activities	606	646
Net (decrease)/increase in cash and cash equivalents	130	25
Cash and cash equivalents at the beginning of the year	60	190
Cash and cash equivalent at the end of the year	190	214

NOTE: The company has not yet released its FY 2007 cash flow figures

**Excluding non-recurring items*

Source: IIIR estimates

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Trina Solar Ltd.

18 March 2008

Industry context for our recommendation – Solar Power Components and Equipment

Company	Ticker	Key issues	Fundamental rating
LDK Solar Co. Ltd.	LDK	LDK Solar is expected to experience solid growth in revenues and margins, going forward, as we believe the solar energy industry will grow at a CAGR of over 30% over the next 5 years, supported by government subsidies and incentives to use renewable energy resources, growth in demand for energy across the world and concerns over environmental pollution. Furthermore, the company' 4Q 07 results were broadly in line with our estimates and, going forward, it has given an encouraging Management outlook. In view of this we maintain our positive outlook for the company and do not anticipate a change in our BUY rating for the NYSE common stock.	BUY
JA Solar Holdings Co. Ltd.	JASO	JA Solar reported strong revenue growth in 3Q 07, driven by strong growth in shipment of PV cells during the quarter. The company's margins in 3Q 07 were above our estimate for the quarter. We believe that increasing demand for solar energy, coupled with higher production capacity and production output, will support revenue growth, going forward. Given the solid growth in the solar energy industry, supported by growing demand for renewable energy sources, as well as improvement in margins, reflecting long term raw material purchase agreements, we maintain our positive outlook for the common stock.	BUY
Suntech Power Holdings Co. Ltd.	STP	Suntech reported strong 4Q 07 and FY 2007 results which were, however, below our estimates for the period. Going forward, Management's FY 2008 revenue guidance is also below our estimates and Suntech expects greater quantities of reasonably priced raw materials to only become available from mid-2008, which will impact the company's margins in the near term. In view of this we expect to revise our estimates, and thereby our target price, downwards. Therefore, although the ADR price has declined significantly since our last update report and the target price continues to support a BUY rating, we temporarily downgrade the Suntech ADR from a BUY to HOLD until we can fully revalue the ADR in our next update report.	HOLD
Trina Solar Ltd.	**TSL**	**Trina Solar is a vertically integrated solar module manufacturer, and is expected to achieve strong top-line and margin growth, going forward, as expect demand for solar modules is expected to grow strongly around the world. We believe that the solar energy industry will continue to grow at a CAGR of over 30% over the next 5 years, supported by government subsidies and incentives to switch to renewable energy. Furthermore, we feel that Trina Solar's integrated business model will enable it to effectively capture this market opportunity. In view of this, we believe the Trina Solar stock is a compelling investment opportunity at current levels.**	**BUY**
Yingli Green Energy Holding Co. Ltd.	YGE	Yingli Green is an integrated PV module manufacturer in the solar industry and is expected to achieve strong growth in revenues and margins going forward, as we expect demand for PV modules to continue to increase worldwide. We believe that the solar energy industry will continue to grow at a CAGR of over 30% over the next 5 years, supported by government subsidies and incentives to switch to renewable energy, as well as sustained high hydrocarbon prices; this is expected, in turn, to stimulate demand for PV cells and modules. We feel that Yingli Green's vertically-integrated business model will enable it to effectively capture this market opportunity. Given the solid growth potential in the solar energy industry and anticipated improvement in margins, we view the Yingli Green ADR as a compelling investment opportunity at current levels.	BUY

Source: IIIR

Glossary

Feed-in-tariff: A mandated tariff, above the market rate, paid by a utility to PV electricity producers in order to encourage production of PV energy.

Monocyrstalline ingot: Silicon feedstock must be converted into silicon ingots in order to enable further processing into wafers, cells and modules. Monocrystalline ingots are used in the production of monocrystalline modules, which have a higher sunlight-to-electricity conversion efficiency rates, compared to multicrystalline modules.

Photovoltaic (PV) cells: A PV cell is a device made from silicon wafer that converts lights into electricity by a common process known as photovoltaic effect.

Photovoltaic (PV) modules: A PV module is an assembly of PV cells that have been electrically interconnected and laminated in a durable and weather proof package.

Reclaimable silicon: Reclaimable silicon is sourced from tops and tails of discarded portions of silicon ingots, pot scraps and broken silicon wafers acquired primarily from the semiconductor industry. These materials then undergo mechanical grinding and chemical cleaning before they are used to produce high-quality ingots. The cost of reclaimable silicon is typically lower than that of pure silicon.

Virgin Silicon: Virgin silicon is pure silicon, the key feedstock for almost the solar modules produced by the PV industry.

Footnotes

[1] We have adjusted the reported EPS, for non-recurring income/expenses by subtracting/adding the non-recurring items from/to net income to arrive at our adjusted EPS. Note, however, that in doing so we have not recalculated the tax liability for the period to reflect the above change and have used the provision for tax as reported in the income statement for the period.

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18 March 2008

Guide to IIIR's research approach

Valuation methodologies

We apply the following methodologies to triangulate the 'fair value' for the stock assessed fundamentally:

DCF valuation:- The DCF method values the stream of future cash flows discounted to the present day, most often using the company's WACC. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm and Free Cash Flow to Equity. The selection of a particular approach depends on the particular company being researched and valued.

Comparative valuation:- In Comparative valuation or Relative valuation, various comparative multiples including Price/Earnings, Price/Sales, Enterprise Value/Sales, EV/EBITDA ratios are used to assess the relative worth and performance of companies which operate in the same industry/industries and are thereby in the same peer group. In general at least two multiples will inform the valuation of every stock.

Other methodologies:- Other methodologies such as Dupont Analysis, EVA, Dividend Discount Method and P/NAV are applied where appropriate.

The target price derived from each methodology is then weighted, based on industry characteristics, to provide a weighted average target or 'fair value' for the stock.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 10%.

Hold recommendations assume that value is fully reflected in the current share price or that the overall view on the stock is fully compensated by the currency impact (where applicable).

Sell recommendations are expected to deteriorate, based on consideration of the fundamental view and the currency impact (where applicable) by at least 10%.

Currency impact and premium/discount

Our fundamental analysis is always conducted on the security which is traded in the company's reporting currency. For global equities coverage, we also factor in any currency impact on the target price of the derivative security. In most cases, the derivative security will be the ADR, but in cases where the company reports in US dollars, we assume the company's major trading currency is the US dollar and therefore, since the impact of US dollar fluctuations will be minimized, the currency impact is applied to the non-US issue. We assume that fluctuations in the exchange rate linking the two securities will always impact the derivative security which may result in higher or lower returns compared to the base security and therefore may result in a different rating compared to the fundamentally assessed security. IIIR forecasts forward exchange rates for all major currency pairs utilizing its proprietary methodology. The forward exchange rates are overlaid on the target price for the fundamental stock over the defined investment horizon to derive the target price for the derivative security, helping investors to identify additional opportunities and risks associated with investing in a stock in US dollars or local currency.

Note that under some circumstances the currency impact alone can be responsible for driving a buy or sell rating on an otherwise fundamentally neutral conclusion.

In certain cases, the two issues under coverage may trade at a premium or discount which is not explained by the exchange rate impact. Typically this will be a premium or discount of the derivative stock relative to the base security. Our approach factors in the 12-month average premium or discount to our forecast target price. However, to forecast the target price based only on currency impact for investors, we factor in the *current* premium/discount in order to clearly isolate the upside/downside purely attributable to currency impact.

Technical condition

IIIR also provides a view on the technical condition for all fundamentally assessed securities in our reports (where data is available) utilizing our proprietary Pronet product. This component of the report aims to provide investors with an alternative assessment of the technical condition of the security and is not considered when deriving the target price and rating for the common stock and ADR.

Disclaimer

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