

YINGLI GREEN ENERGY HOLDING CO LTD  
Form 20-F  
April 26, 2012  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2011**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-33469

**Yingli Green Energy Holding Company Limited**  
(Exact Name of Registrant as Specified in Its Charter)

**Cayman Islands**  
(Jurisdiction of Incorporation or Organization)

**No. 3055 Middle Fuxing Road, Baoding 071051, People's Republic of China**  
(Address of Principal Executive Offices)

**Zongwei Li, Chief Financial Officer**

**Telephone: (86 312) 8929-700**

**Facsimile: (86 312) 8929-800**

**No. 3055 Middle Fuxing Road**

**Baoding 071051, People's Republic of China**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Ordinary Shares, par value US\$0.01 per share American Depositary Shares, each representing one Ordinary Share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by the annual report: 152,633,366 Ordinary Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

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If  Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

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**YINGLI GREEN ENERGY HOLDING COMPANY LIMITED**

**ANNUAL REPORT ON FORM 20-F**

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**CONVENTIONS THAT APPLY TO THIS ANNUAL REPORT ON FORM 20-F**

Unless otherwise indicated, references in this annual report to:

- Euro and Euro are to the legal currency of the member states of the European Union that adopted such currency as their single currency in accordance with the Treaty Establishing the European Community (signed in Rome on March 25, 1957), as amended by the Treaty on European Union (signed in Maastricht on February 7, 1992);
- US\$ and U.S. dollars are to the legal currency of the United States;
- ADRs are to the American depositary receipts, which, if issued, evidence our ADSs;
- ADSs are to the American depositary shares, each representing one ordinary share, par value US\$0.01 per share, of our company;
- China and the PRC are to the People's Republic of China, excluding, for the purpose of this annual report only, Taiwan and the special administrative regions of Hong Kong and Macau;
- convertible senior notes are to our zero coupon convertible senior notes due 2012;
- RMB and Renminbi are to the legal currency of the PRC;
- shares and ordinary shares are to our ordinary shares, par value US\$0.01 per share; and
- we, us our and our company refer to Yingli Green Energy Holding Company Limited, a company incorporated in the Cayman Islands, all direct and indirect consolidated subsidiaries of Yingli Green Energy Holding Company Limited, and our predecessor, Baoding Tianwei Yingli New Energy Resources Co., Ltd., or Tianwei Yingli, and its consolidated subsidiary, unless the context otherwise requires or as otherwise indicates.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not Applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not Applicable.

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

The following tables present our selected consolidated financial information. You should read this information together with the consolidated financial statements and related notes and information under Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report. The historical results are not necessarily indicative of results to be expected in any future periods.

The selected consolidated statement of operations data (other than ADS data) and other consolidated financial data for the years ended December 31, 2009, 2010 and 2011 and the selected consolidated balance sheet data as of December 31, 2010 and 2011 have been derived from our audited consolidated financial statements included elsewhere in this annual report.

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The selected consolidated statement of operations data (other than ADS data) and other consolidated financial data for the years ended December 31, 2007 and 2008 and the selected consolidated balance sheet data as of December 31, 2007, 2008 and 2009 have been derived from our audited consolidated financial statements not included in this annual report.

The consolidated financial statements of Yingli Green Energy have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP.

	<b>Yingli Green Energy</b>					
	<b>For the Year Ended December 31,</b>					
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	
	<b>(In thousands, except share, ADS, per share and per ADS data)</b>					
	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>RMB</b>	<b>US\$</b>
<b>Consolidated Statement of Operations Data</b>						
Net revenues	4,059,323	7,553,015	7,254,869	12,499,987	14,667,965	2,332,094
Gross profit	1,040,604	1,767,216	1,714,373	4,152,785	2,449,679	389,215
Impairment of goodwill					273,382	43,436
Impairment of long-lived assets			131,177		2,275,024	361,465
Provision for inventory purchase commitments					851,694	135,321
Income (loss) from operations	679,543	1,153,300	318,550	2,780,598	(2,695,068)	(428,203)
Interest expense	(65,945)	(162,131)	(376,336)	(438,011)	(626,737)	(99,578)
Foreign currency exchange gains (losses)	(32,662)	(66,286)	38,389	(338,216)	(190,475)	(30,264)
Loss on debt extinguishment			(244,744)			
Loss from revaluation of embedded derivative			(231,345)			
Income tax benefit (expense)	(12,928)	5,588	31,831	(333,466)	133,413	21,197
Loss (earnings) attributable to the noncontrolling interests	(192,612)	(293,300)	(78,865)	(311,257)	56,866	9,035
Net income (loss) attributable to Yingli Green Energy(1)	387,909	653,826	(531,595)	1,386,776	(3,208,911)	(509,845)
Net income (loss) applicable to Yingli Green Energy's ordinary shareholders	334,758	653,826	(531,595)	1,386,776	(3,208,911)	(509,845)
Basic earnings (loss) per ordinary share and per ADS(1)	2.99	5.13	(3.83)	9.15	(20.46)	(3.25)
Diluted earnings (loss) per ordinary share and per ADS(1)	2.88	5.05	(3.83)	8.86	(20.46)	(3.25)
<b>Weighted average ordinary shares and ADSs outstanding</b>						
Basic	97,444,766	127,419,040	138,759,177	151,542,518	156,805,040	156,805,040
Diluted	101,023,067	129,494,385	138,759,177	156,558,197	156,805,040	156,805,040



	<b>Yingli Green Energy</b>				
	<b>For the Year Ended December 31,</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
	<b>(In percentages)</b>				
<b>Other Consolidated Financial Data</b>					
Gross profit margin(2)	25.6%	23.4%	23.6%	33.2%	16.7%
Operating profit (loss) margin(2)	16.7%	15.3%	4.4%	22.2%	(18.4)%
Net profit (loss) margin(2)	9.6%	8.7%	(7.3)%	11.1%	(21.9)%

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	As of December 31,					
	2007	2008	2009	2010	2011	
	RMB	RMB	RMB	RMB	RMB	US\$
<b>Consolidated Balance Sheet Data</b>						
Cash	961,077	1,108,914	3,248,086	5,856,132	4,181,038	664,300
Accounts receivable, net	1,240,844	1,441,949	1,750,898	1,909,319	2,130,377	338,483
Inventories	1,261,207	2,040,731	1,665,021	2,524,956	2,670,919	424,366
Prepayments to suppliers	1,056,776	774,014	329,457	573,937	386,939	61,478
Total current assets	5,072,908	6,061,133	7,956,475	12,907,061	12,738,295	2,023,911
Long-term prepayments to suppliers	637,270	674,164	678,311	504,326	1,322,714	210,158
Property, plant and equipment, net	1,479,829	3,385,682	6,573,851	9,933,956	12,389,184	1,968,443
Total assets	7,657,579	11,067,796	16,257,105	24,188,494	27,483,413	4,366,674
Short-term borrowings, including current portion of long-term debt(3)	1,261,275	2,044,200	3,501,027	5,857,878	8,225,076	1,306,833
Convertible senior notes			1,291,843		9,218	1,465
Total current liabilities	1,519,577	2,829,419	6,939,388	9,782,978	12,949,612	2,057,486
Senior secured convertible notes			100,139	83,213		
Long-term debt, excluding current portion		662,956	752,809	2,496,482	3,451,899	548,451
Total liabilities	2,859,346	4,895,526	8,071,246	13,914,878	20,429,752	3,245,960
Shareholders' equity: ordinary shares	9,884	9,922	11,363	11,881	12,011	1,908
Noncontrolling interests	754,799	1,395,151	1,550,785	1,922,744	1,892,464	300,682
Total shareholders' equity	4,798,233	6,172,270	8,185,859	10,273,616	7,053,661	1,120,714

	For the Year Ended December 31,				
	2007	2008	2009	2010	2011
<b>Consolidated Operating Data</b>					
PV modules sold (in megawatts)(4)	142.5	281.5	525.3	1,061.6	1,603.8

(1) Commencing January 1, 2007, one of our principal operating subsidiaries, Tianwei Yingli, began enjoying certain exemptions from income tax. From 2011 Yingli Hainan began enjoying certain exemptions from income tax.

The decrease (increase) in net income (loss) attributable to Yingli Green Energy effects and decrease (increase) in basic and diluted earnings (loss) per share effects without the tax holidays for the years ended December 31, 2007, 2008, 2009, 2010 and 2011 are as follows:

	For the Year Ended December 31,					
	2007	2008	2009	2010	2011	
	RMB	RMB	RMB	RMB	RMB	US\$
Net income (loss) attributable to Yingli Green Energy	78,357	196,873	(51,226)	94,632	(52,951)	(8,413)
Basic earnings (loss) per share	0.80	1.55	(0.37)	0.62	(0.34)	(0.05)
	0.78	1.52	(0.37)	0.59	(0.34)	(0.05)

Diluted earnings (loss) per  
share

(2) Gross profit margin, operating profit (loss) margin and net profit (loss) margin represent gross profit, operating profit (loss) and net profit or loss attributable to Yingli Green Energy, respectively, divided by net revenues.

(3) Includes loans guaranteed or entrusted by related parties, which amounted to RMB470.2 million, nil, RMB370.0 million, RMB1,647.2 million and RMB3,197.8 million (US\$508.1 million), as of December 31, 2007, 2008, 2009, 2010 and 2011, respectively.

(4) PV modules sold for a given period represents the total PV modules, as measured in megawatts, delivered to customers under the then effective supply contracts during such period.

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The conversion of Renminbi into U.S. dollars in this annual report is based on the noon buying rate in The City of New York for cable transfers of Renminbi per U.S. dollar as set forth in the H.10 weekly statistical release of the Federal Reserve Board. Unless otherwise noted, all translations from Renminbi to U.S. dollars in this annual report were made at a rate of RMB6.2939 to US\$1.00, the noon buying rate in effect as of December 31, 2011. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. On April 20, 2012, the noon buying rate as set forth in the H.10 weekly statistical release of the Federal Reserve Board was RMB6.3080 to US\$1.00.

The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

Period	Period End	Noon Buying Rate(1)		
		Average(2) (RMB per US\$1.00)	High	Low
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9192	7.2946	6.7800
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
2011				
October	6.3547	6.3710	6.3534	6.3825
November	6.3765	6.3564	6.3400	6.3839
December	6.2939	6.3482	6.2939	6.3733
2012				
January	6.3080	6.3119	6.2940	6.3330
February	6.2935	6.2997	6.2935	6.3120
March	6.2975	6.3125	6.2975	6.3315
April (through April 20, 2012)	6.3080	6.3052	6.3150	6.2975

(1) Source: Federal Reserve Bank of New York for 2008 and prior periods and H.10 weekly statistical release of the Federal Reserve Board for January 2009 and later periods.

(2) Annual averages are calculated by averaging exchange rate on the last business day of each month or the elapsed portion thereof during the relevant period. Monthly averages are calculated using the average of the daily rates during the relevant period.

**B. Capitalization and Indebtedness**

Not Applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not Applicable.

**D. Risk Factors**

**Risks Related to Us and the PV Industry**

*Adverse economic conditions in our target markets as well as an increased supply of PV modules has had and may continue to have a material adverse effect on our profitability and results of operations.*

Demand for our products substantially depends on the general economic conditions in our target markets. The economies of many countries around the world, including those in our target markets, experienced a period of slow economic growth and adverse credit market conditions as a result of the global financial crisis in 2008 and 2009 and the recent sovereign debt crisis in Europe. As PV system projects generally require significant upfront capital expenditures, our customers have historically relied on financing for the purchase of our products. As a result

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of weakened macroeconomic conditions and in particular the adverse credit market conditions, our customers experienced difficulty in obtaining financing on attractive terms or at all. As a result, the growth in demand for PV modules has declined significantly since the fourth quarter of 2008. Although the credit market conditions improved since the second quarter of 2009, which contributed to an increase in the demand for our products, the demand for our products slowed down again in the first quarter and the fourth quarter of 2011, primarily caused by the adjustment of subsidies and economic incentives for PV installations as part of the government austerity measures. The negative effect from the adjustment of government subsidies and economic incentives is partially offset by the significantly reduced PV system cost since the third quarter of 2011.

In addition, the supply of PV modules has increased due to production capacity expansion by PV module manufacturers worldwide in recent years which, together with weakened demand for PV modules, resulted in a decline of prices of PV modules beginning in the fourth quarter of 2008. The average selling price of our PV modules decreased significantly since the fourth quarter of 2008. While we have achieved cost savings through vertical integration, economies of scale and technological improvements, the decrease in the average selling price of our PV modules primarily caused our gross profit margin to decrease significantly from 33.2% for 2010 to 16.7% for 2011.

There can be no assurance that the demand for our products will increase or remain at the current level or such demand will not decline again in the near future, or our cost saving efforts will improve our profitability or prevent our profit margin from further declining under the current macroeconomic conditions. If we experience further declines in demand for our products or decreases in the average selling price of our PV modules in the future, our financial condition and results of operation could be materially and adversely affected.

***The high cost or inaccessibility of financing for solar energy projects has adversely affected and may continue to adversely affect demand for our products and materially reduce our revenue and profits.***

If financing for solar energy projects continues to become more costly or inaccessible, the growth of the market for solar energy applications may be materially and adversely affected, which could adversely affect demand for our products and materially reduce our revenue and profits. The average selling price of our PV modules decreased significantly since the fourth quarter of 2008, partly due to the tightened credit for PV system project financing as the result of the global financial crisis in 2008 and 2009 and the recent sovereign debt crisis in Europe. In addition, rising interest rates could render existing financings more expensive, as well as present an obstacle for potential financings that would otherwise spur the growth of the PV industry. Furthermore, some countries, government agencies and the private sector have, from time to time, provided subsidies or financing on preferred terms for rural electrification programs. Some of our products are used in off-grid solar energy applications, where solar energy is provided to end users independent of an electricity transmission grid. We believe that the availability of financing could have a significant effect on the level of sales of off-grid solar energy applications, particularly in developing countries where users may not have sufficient resources or credit to otherwise acquire PV systems. If these existing financing programs are reduced or eliminated or if financings for solar energy projects continue to be tight or become more expensive, demand for our products would be adversely affected and our revenue and profits could decline.

***A significant reduction in or discontinuation of government subsidies and economic incentives may have a material adverse effect on our results of operations.***

Demand for our products substantially depends on government incentives aimed to promote greater use of solar power. In many countries in which we are currently or intend to become active, the PV markets, particularly the market for on-grid PV systems, would not be commercially viable without government incentives. This is because the cost of generating electricity from solar power currently exceeds the cost of generating electricity from conventional or non-solar renewable energy sources.

The scope of the government incentives for solar power depends, to a large extent, on political and policy developments in a given country related to environmental, economic or other concerns, which could lead to a significant reduction in or a discontinuation of the support for renewable energy sources in such country. For example, in January 2012, Spain announced that it will suspend the subsidized electricity prices paid to new photovoltaic power plants. The German government reduced solar feed-in tariffs for roof-top systems and ground-

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based systems several times in 2009, 2010 and 2011. The German government has also recently proposed significant and accelerated feed-in tariffs reductions for projects up to ten megawatts and an elimination of feed-in tariffs for projects over ten megawatts. In 2010 and May 2011, the Italian government announced annual reductions to feed-in tariffs in an effort to impede its overheating solar market. In addition, in certain countries, including countries to which we export PV products, government financial support of PV products has been, and may continue to be, challenged as being unconstitutional or otherwise unlawful. A significant reduction in the scope or discontinuation of government incentive programs, especially in our target markets, would have a material adverse effect on the demand for our PV modules as well as our results of operations.

***Our failure to obtain polysilicon in sufficient quantities, of appropriate quality and in a timely manner could disrupt our operations, prevent us from operating at full capacity or limit our ability to expand as planned, which will reduce, and limit the growth of, our manufacturing output and revenue.***

Polysilicon is the most important raw material used in the production of our PV products. To maintain competitive manufacturing operations, we depend on timely delivery by our suppliers of polysilicon in sufficient quantities and of appropriate quality. Until the fourth quarter of 2008, there had been an industry-wide shortage of polysilicon. As a result, we had historically faced the prospect of a shortage of polysilicon and late or failed delivery of polysilicon from suppliers. We may experience actual shortage of polysilicon or late or failed delivery in the future for various reasons. For example, the terms of our polysilicon contracts with, or purchase orders to, our suppliers may be altered or cancelled by the suppliers with limited or no penalty to them, in which case we may not be able to recover damages fully or at all.

If we fail to obtain delivery of polysilicon in amounts and according to time schedules as agreed with our suppliers, or at all, we may be forced to reduce production or secure alternative sources of polysilicon in the spot market, which may not provide polysilicon in amounts or quality required by us or at comparable or affordable prices, or at all. Our failure to obtain the required amount and quality of polysilicon on time and at affordable prices can seriously hamper our ability to meet our contractual obligations to deliver PV products to our customers. Any failure by us to meet such obligations could have a material adverse effect on our reputation, retention of customers, market share, business and results of operations and may subject us to claims from our customers and other disputes. In addition, our failure to obtain sufficient amounts of polysilicon of the appropriate quality could result in underutilization of our existing and new production facilities and an increase of our marginal production cost, and may prevent us from implementing capacity expansion as currently planned. Any of the above events could have a material adverse effect on our business, financial condition and results of operations.

***Volatility in polysilicon prices may adversely affect our results of operations.***

Until the fourth quarter of 2008, there had been an industry-wide shortage of polysilicon, primarily due to the growing demand for PV products and limited supply of polysilicon, which resulted in increasing prices of polysilicon under both long-term supply contracts and on the spot market. From the fourth quarter of 2008 to the second quarter of 2009, as the result of increased polysilicon manufacturing capacity and the decrease in the demand for polysilicon due to the global financial crisis in 2008 and 2009, the price of polysilicon has decreased significantly. Although the polysilicon price rebounded between the third quarter of 2010 and the first quarter of 2011 due to the recovery of demand for PV products in certain markets, the polysilicon price has decreased significantly again starting from the second quarter of 2011 as the result of increased polysilicon manufacturing capacity for polysilicon and the pressure from the decreasing average selling price of PV modules. However, there is no assurance that the polysilicon price will not increase in the future. To the extent we are not able to pass any increased costs on to our customers, we may be placed at a competitive disadvantage vis-à-vis our competitors, and our business, cash flows, financial condition and results of operations may be materially and adversely affected.



*Our polysilicon cost may be higher than the market level as a result of our long-term polysilicon purchase commitment with fixed prices, and our in-house polysilicon production may not be cost-effective, both of which may materially and adversely affect our results of operations.*

In response to the industry-wide shortage of polysilicon supply in recent years until the fourth quarter of 2008, we had entered into short-term, medium-term and long-term supply contracts with fixed prices or prices adjustable with set formulas to secure our polysilicon supply. Since the fourth quarter of 2008, the price of

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polysilicon has decreased significantly as the result of increased polysilicon manufacturing capacity and the pressure from decreasing average selling price of PV modules. To address the significant decrease in polysilicon price, we had renegotiated with our suppliers to reduce the purchase price for a substantial amount of polysilicon supplied under certain of our prior polysilicon supply contracts. However, the purchase price under certain of our long-term polysilicon purchase contracts were higher than the continuously declining market price of polysilicon. In 2011, we recognized a total of non-cash provision of RMB851.7 million (US\$135.3 million) on our inventory purchase commitment under long-term polysilicon supply contracts as a result of the continuing decline in the polysilicon price. If the price under our current contracts remains to be higher than the market price of polysilicon, we will have higher cost of polysilicon compared with other competitors who purchase their polysilicon from the spot market.

In order to address the then shortage of polysilicon and supplement our purchase from third-party polysilicon suppliers, we acquired Fine Silicon Co., Ltd., or Fine Silicon, in January 2009 and have developed it into our in-house polysilicon production subsidiary. We initially expected Fine Silicon to reach its full production capacity of 3,000 tons of polysilicon per year by the end of 2011. As of the date of this annual report, we are still in the process of ramping up Fine Silicon's production. We cannot assure you that the polysilicon production at Fine Silicon will be cost-effective. If the market price of polysilicon decreases below the cost of polysilicon produced by Fine Silicon, our use of polysilicon produced by Fine Silicon will increase our cost of revenues. Such increased cost of revenues, combined with the costs and expenses for operating Fine Silicon, will materially and adversely affect our results of operations. As the result of the continuing decline in the polysilicon price in the fourth quarter of 2011, we recognized a non-cash impairment of long-lived assets of Fine Silicon in an amount of RMB 2,275.0 million (US\$361.5 million) to reflect the less than expected profit generating ability.

***Our dependence on a limited number of suppliers for a substantial majority of polysilicon could prevent us from delivering our products in a timely manner to our customers in the required quantities, which could result in order cancellations, decreased revenue and loss of market share.***

In 2009, 2010 and 2011, our five largest suppliers supplied in the aggregate approximately 84.5%, 93.1% and 82.6%, respectively, of our total polysilicon purchases. If we fail to develop or maintain our relationships with these or our other suppliers, we may be unable to manufacture our products, our products may only be available at a higher cost or after a long delay, or we could be prevented from delivering our products to our customers in the required quantities, at competitive prices and on acceptable terms of delivery. Problems of this kind could cause us to experience order cancellations, decreased revenue and loss of market share. In general, the failure of a supplier to supply materials and components that meet our quality, quantity and cost requirements in a timely manner due to lack of supplies or other reasons could impair our ability to manufacture our products or could increase our costs, particularly if we are unable to obtain these materials and components from alternative sources in a timely manner or on commercially reasonable terms. Some of our suppliers have a limited operating history and limited financial resources, and some contracts we entered into with these suppliers do not clearly provide for remedies to us in the event any of these suppliers is not able to, or otherwise does not, deliver, in a timely manner or at all, any materials it is contractually obligated to deliver. We do not expect the production of Fine Silicon, our wholly owned polysilicon production subsidiary, to meet our entire polysilicon needs in the near future. As a result, we expect to continue to rely on third-party polysilicon suppliers for a significant portion of our polysilicon needs and any disruption in their supply of polysilicon to us may adversely affect our business, financial condition and results of operations.

Historically, due to a shortage of raw materials for the production of PV modules, increased market demand for polysilicon raw materials, the failure by some polysilicon suppliers to achieve expected production volumes and certain other factors, a few of our polysilicon suppliers failed to fully perform on their polysilicon supply contractual commitments to us, and we consequently did not receive part of the contractually agreed quantities of polysilicon raw materials from these suppliers. While we were able to replace such expected deliveries of polysilicon through purchases from the spot market and new supply contracts, we cannot assure you that any future failure of our suppliers to deliver agreed quantities of polysilicon could be substantially replaced in a timely manner or at all or that the price of such purchases or terms of such contracts will be favorable to us.



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***We depend, and expect to continue to depend, on a limited number of customers for a significant percentage of our revenues. As a result, the loss of, or a significant reduction in orders from, any of these customers would significantly reduce our revenues and harm our results of operations. In addition, a significant portion of our outstanding accounts receivable is derived from sales to a limited number of customers. Failure of any of these customers to meet their payment obligations would materially and adversely affect our financial position, liquidity and results of operations.***

We currently expect that our results of operations will, for the foreseeable future, continue to depend on the sale of our PV modules to a relatively small number of customers until we become successful in significantly expanding our customer base or diversifying product offerings. In 2009, 2010 and 2011, sales to our five largest customers accounted for approximately 38.8%, 30.8% and 27.7% respectively, of our net revenues. Our relationships with such key customers have been developed over a short period of time and are generally in their early stages. We cannot assure you that we will continue to generate significant revenues from these customers or that we will be able to maintain these customer relationships. In addition, our business is affected by competition in the market for the products that many of our major customers sell, and any decline in the businesses of our customers could reduce the purchase of our products by these customers. The loss of sales to any of these customers could also have a material adverse effect on our business, prospects and results of operations.

In addition, a significant portion of our outstanding accounts receivable were derived from sales to a limited number of customers. As of December 31, 2009, 2010 and 2011, our five largest outstanding accounts receivable balance (net of provisions) accounted for approximately 38.9%, 33.3% and 33.8%, respectively, of our total outstanding accounts receivable. We are exposed to the credit risk of these customers, some of which are new customers with whom we have not had extensive business dealings historically. The failure of any of these customers to meet their payment obligations would materially and adversely affect our financial position, liquidity and results of operations.

***We face intense competition in the PV modules and PV system markets and our PV products compete with different solar energy systems as well as other renewable energy sources in the alternative energy market. If we fail to adapt to changing market conditions and to compete successfully with existing or new competitors, our business prospects and results of operations would be materially and adversely affected.***

The PV market is intensely competitive and rapidly evolving. The number of PV product manufacturers had rapidly increased due to the growth of actual and forecasted demand for PV products and the relatively low barriers to entry. If we fail to attract and retain customers in our target markets for our current and future core products, namely PV modules and PV systems, we will be unable to increase our revenues and market share.

We compete with both local and international producers of solar products, including the solar energy divisions of large conglomerates such as Sharp Corporation, PV module manufacturers such as SunPower Corporation, thin film solar module manufacturers such as First Solar, Inc. and integrated PV product manufacturers such as SolarWorld AG, Renewable Energy Corporation, Suntech Power Holdings Co. Ltd. and Trina Solar Limited.

We may also face competition from new entrants to the PV market, including those that offer more advanced technological solutions or that have greater financial resources, such as semiconductor manufacturers, several of which have announced their intention to start production of PV cells and PV modules. A significant number of our competitors are developing or currently producing products based on technologies believed to be more advanced, including amorphous silicon, string ribbon and nano technologies, some or all of which may eventually offer cost advantages over the crystalline polysilicon technologies we currently use. A widespread adoption of any of these technologies could result in a rapid decline in demand for our products and a resulting decrease in our revenues if we fail to adopt such technologies. In addition, like us, some of our competitors have become, or are becoming, vertically integrated in the PV industry value chain, from silicon ingot manufacturing to PV

system sales and installation. This could further erode our competitive advantage as a vertically integrated PV product manufacturer. In addition, our competitors may also enter into the polysilicon manufacturing business, which may provide them with cost advantages. Furthermore, the entire PV industry also faces competition from conventional energy and non-solar renewable energy providers.

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Many of our existing and potential competitors have substantially greater financial, technical, manufacturing and other resources than we do. The greater size of some of our competitors provides them with cost advantages as a result of their economies of scale and their ability to obtain volume discounts and purchase raw materials at lower prices. Some of our competitors also have better brand name recognition, more established distribution networks, larger customer bases or more in-depth knowledge of the target markets. As a result, they may be able to devote greater resources to the research and development, promotion and sale of their products and respond more quickly to evolving industry standards and changes in market conditions as compared to us. Our failure to adapt to changing market conditions and to compete successfully with existing or future competitors would have a material adverse effect on our business, prospects and results of operations.

***If PV technology is not suitable for widespread adoption, or sufficient demand for PV products does not develop or takes longer to develop than we anticipated, our sales may not continue to increase or may even decline, and we may be unable to sustain profitability.***

The PV market is at a relatively early stage of development and the extent to which PV products will be widely adopted is uncertain. The PV industry may also be particularly susceptible to economic downturns. Market data in the PV industry are not as readily available as those in other more established industries where trends can be assessed more reliably from data gathered over a longer period of time. If PV technology proves unsuitable for widespread adoption or if demand for PV products fails to develop sufficiently, we may not be able to grow our business or generate sufficient revenues to sustain our profitability. In addition, demand for PV products in our targeted markets, including China, may not develop or may develop to a lesser extent than we anticipated. Many factors may affect the viability of widespread adoption of PV technology and demand for PV products, including (i) cost-effectiveness of PV products compared to conventional and other non-solar energy sources and products; (ii) performance and reliability of PV products compared to conventional and other non-solar energy sources and products; (iii) availability of government subsidies and incentives to support the development of the PV industry; (iv) success of other alternative energy generation technologies, such as fuel cells, wind power and biomass; (v) fluctuations in economic and market conditions that affect the viability of conventional and non-solar alternative energy sources, such as increases or decreases in the prices of oil and other fossil fuels; (vi) capital expenditures by end users of PV products, which tend to decrease when economy slows down; and (vii) deregulation of the electric utility industry and broader energy industry.

***Existing regulations and policies governing the electric utility industry, as well as changes to these regulations and policies, may adversely affect demand for our products and materially reduce our revenue and profits.***

The electric utility industry is subject to extensive regulation, and the market for PV products is heavily influenced by these regulations as well as the policies promulgated relating to electric utilities. These regulations and policies often affect electricity pricing and technical interconnection of end-user power generation. As the market for solar and other alternative energy sources continues to evolve, these regulations and policies are being modified and may continue to be modified. Customer purchases of, or further investment in research and development of, solar and other alternative energy sources may be significantly affected by these regulations and policies, which could significantly reduce demand for our products and materially reduce our revenue and profits.

Moreover, we expect that our PV products and their installation will be subject to oversight and regulation in accordance with international, national and local ordinances relating to building codes, safety, environmental protection, utility interconnection and metering and related matters in various countries or regions. We also have to comply with the requirements of individual localities and design equipment to comply with varying standards applicable in the jurisdictions where we conduct business. Any new government regulations or utility policies pertaining to our PV products may result in significant additional expenses to us, our distributors and end users and, as a result, could cause a significant reduction in demand for our PV products, as well as materially and adversely affect our financial condition and results of operations.

*Advance payment arrangements between us and some of our polysilicon suppliers and many of our equipment suppliers expose us to the credit risks of such suppliers and may increase our costs and expenses, which could in turn have a material adverse effect on our liquidity.*

We made advance payments to some of our polysilicon suppliers under long-term supply contracts we signed with them. As of December 31, 2011, we had long-term prepayment balances for polysilicon in a total amount of RMB1,322.7 million (US\$210.2 million) under such long-term contracts. In addition, under existing

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supply contracts with many of our equipment suppliers, consistent with the industry practice, we make advance payments to our suppliers prior to the scheduled delivery dates for equipment. In many such cases, we make the advance payments without receiving collateral for such payments. As a result, our claims for such payments would rank as unsecured claims, which would expose us to the credit risks of our suppliers in the event of their insolvency or bankruptcy. Under such circumstances, our claims against the defaulting suppliers would rank below those of secured creditors, which would undermine our chances of obtaining the return of our advance payments. Accordingly, any of the above scenarios may have a material adverse effect on our financial condition, results of operations and liquidity.

***Our growth strategy requires substantial capital expenditures, significant engineering efforts, timely delivery of manufacturing equipment and dedicated management attention, and our failure to complete our expansion plans or otherwise effectively manage our growth could have a material adverse effect on the growth of our sales and earnings.***

Our future success depends on our ability to expand our manufacturing capacity. If we are unable to do so, we will not be able to attain the desired level of economies of scale in our operations or lower our marginal production costs to the level necessary to effectively maintain our pricing and other competitive advantages. We have made substantial capital expenditures for our growth in the past and future expansions. For example, we completed an aggregate of 700 megawatts capacity expansion projects in the second quarter of 2011, bringing our total annual production capacity to 1,700 megawatts. In addition, production capacity expansion projects of another 750 megawatts in total are under construction in Haikou, Tianjin, Hengshui and Baoding, which are expected to start initial production in 2012 and are expected to increase our company's total nameplate production capacity to 2,450 megawatts by the end of 2012. Our growth strategy has required and may continue to require substantial capital expenditures, significant engineering efforts, timely delivery of manufacturing equipment, dedicated management attention and the recruitment and training of new employees and is subject to significant risks and uncertainties, including:

- we may need to continue to contribute significant additional capital to our subsidiaries through the issuance of equity or debt securities or entering into new credit facilities or other arrangements in order to finance the costs of developing the new facilities, which may not be conducted on reasonable terms or at all, and which could be dilutive to our existing shareholders; such capital contributions, if contributed from outside of PRC, also require PRC regulatory approvals in order for such funds to be transferred to our subsidiaries within PRC, which approvals may not be granted in a timely manner or at all;
- we will be required to obtain governmental approvals, permits or documents of similar nature with respect to any new expansion projects, but it is uncertain whether such approvals, permits or documents will be obtained in a timely manner or at all;
- we may experience cost overruns, construction delays, equipment problems, including delays in manufacturing equipment deliveries or deliveries of equipment that is damaged or does not meet our specifications, and other operating difficulties;
- we are using new equipment and technology to lower our unit capital and operating costs, but we cannot assure you that such efforts will be successful; and
- we may not have sufficient management resources to properly oversee capacity expansion as currently planned.



Any of these or similar difficulties could adversely affect our ability to manage the growth of our operations. Any significant delays or constraints to our manufacturing capacity expansion as currently planned could limit our ability to increase sales, reduce marginal manufacturing costs or otherwise improve our prospects and profitability. In addition, we may have over-capacity as a result of our manufacturing capacity expansion if we do not sufficiently increase sales.

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*We may undertake acquisitions, investments, joint ventures or other strategic alliances, which may have a material adverse effect on our ability to manage our business, and such undertakings may be unsuccessful.*

Our strategy includes plans to grow both organically and through acquisitions, participation in joint ventures or other strategic alliances with suppliers or other companies in China and overseas along the PV industry value chain. For example, in January 2009, we completed the acquisition of Cyber Power and its principal operating subsidiary, Fine Silicon, to establish our own in-house polysilicon production capacity.

Acquisitions, investments, joint ventures and other strategic alliances may expose us to new operational, regulatory, market and geographic risks as well as risks associated with additional capital requirements, including:

- our inability to integrate new business, operations, personnel, products, services and technologies;
- unforeseen or hidden liabilities, including exposure to administrative or legal proceedings associated with newly acquired companies;
- the diversion of resources from our existing businesses;
- disagreement with joint venture or strategic alliance partners;
- contravention of regulations governing cross-border investment;
- failure to comply with laws and regulations as well as industry or technical standards of the overseas markets into which we expand;
- our inability to generate sufficient revenues to offset the costs and expenses of acquisitions, strategic investments, joint venture formations or other strategic alliances; and
- potential loss of, or harm to, employees or customer relationships.

Any of these events could disrupt our ability to manage our business, which in turn could have a material adverse effect on our financial condition and results of operations. Such risks could also result in our failure to derive the intended benefits of the acquisitions, strategic investments, joint ventures or other strategic alliances and we may be unable to recover our investment in such initiatives.

*We may not be able to ramp up our in-house polysilicon manufacturing capacity as cost-effective as expected or at all.*

Fine Silicon, our wholly owned polysilicon production subsidiary, started trial production in late 2009 and was initially expected to reach its full production volume of 3,000 tons of polysilicon per year by the end of 2011. As of the date of this annual report, we are still in the process of ramping up Fine Silicon's production. To fully ramp up Fine Silicon's production capacity, we will need to continue to integrate the personnel we have hired and build an effective team and infrastructure to oversee the operation of the facilities and to achieve cost-effective production. We cannot assure you that we will be able to fully ramp up our polysilicon production capacity as expected or at all. Our ability to successfully ramp up polysilicon manufacturing capacity is subject to various risks and uncertainties, including:

- the need to procure supplies of consumables and other materials at reasonable costs and on a timely basis;
- equipment testing delays and cost overruns;
- difficulties in recruitment and training of additional skilled employees, including technicians and managers at different levels;
- diversion of significant management attention and other resources; and
- delays or denials of renewing required permits and approvals for our plant operations, including but not limited to environmental approvals, by relevant government authorities.

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***We only have very limited experience in polysilicon production and may not be successful in producing polysilicon cost-effectively.***

We started trial production of polysilicon through Fine Silicon in late 2009. Prior to that, we had no experience in polysilicon production. The technology used to manufacture polysilicon is complex, requires costly equipment and is continuously being modified in an effort to improve yields and product performance. Microscopic impurities such as dust and other contaminants, difficulties in the manufacturing process, disruptions in the supply of utilities or defects in the key materials and tools used to manufacture polysilicon could interrupt manufacturing, reduce yields or cause a portion of the polysilicon to be difficult or costly to use in wafer production, which would negatively affect our profitability. In the process of ramping up our polysilicon production capacity, if we are unable to overcome technological difficulties, we may be unable to achieve cost-effective production of polysilicon, which could prevent us from successfully implementing our business plans.

Our effective capacity and ability to produce high volumes of polysilicon will depend on the cycle times for each batch of polysilicon. We may encounter problems in our manufacturing process or facility construction process as a result of, among other things, production failures, construction delays, human error, equipment malfunction or process contamination, all of which could seriously harm our operations. We may experience production delays if any modifications we make in the manufacturing process to shorten production cycles are unsuccessful. Moreover, the failure to achieve acceptable manufacturing levels cost-effectively at our own polysilicon production facility would result in the need to source a larger portion of our polysilicon requirements from third parties and therefore may cause our polysilicon costs not to be competitive, which could adversely affect our business, financial condition and results of operations.

***If we are unable to operate our polysilicon production facilities effectively or natural disasters or other operational disruptions occur, our business, financial condition and results of operations could be adversely affected.***

Production of polysilicon requires the use of volatile materials and chemical reactions sensitive to temperature and pressure and requires the use of external controls to maintain safety and provide commercial production yields. The occurrence of a catastrophic event as a result of a natural disaster or human error or otherwise at our polysilicon production facilities could threaten, disrupt or destroy a significant portion or all of our polysilicon production capacity at such facility for a significant period of time. Furthermore, our polysilicon production facilities will be highly reliant on our ability to maintain temperatures and pressure at appropriate levels, the supply of steam at a consistent pressure, the availability of adequate electricity and our ability to control the application of such electricity. Accordingly, mistakes in operating our equipment or an interruption in the supply of electricity at our production facilities could result in the production of substandard polysilicon or substantial shortfalls in production and could reduce our production capacity for a significant period of time. Damage or loss of revenue from any such event or disruption may not be adequately covered by insurance, could also damage our reputation, and any of which could have a material adverse effect on our business, financial condition and results of operations.

***Polysilicon and ingot production is energy-intensive and if our energy costs rise or if our energy supplies are disrupted, our results of operations may be materially and adversely affected.***

The polysilicon and ingot production process is highly dependent on a constant supply of electricity to maintain the optimal conditions for production. If these levels are not maintained, we may experience significant delays in the production of polysilicon and ingots. With the rapid development of the Chinese economy, demand for electricity has continued to increase. There have been shortages in electricity supply in various regions across China, especially during peak seasons such as summer. In the event that electricity and other energy supplies to our manufacturing facilities are disrupted, our business, results of operations and financial condition could be materially and adversely affected. In addition to shortages, we are subject to potential risks of interruptions in energy supply due to equipment failure, weather events or other causes. There can be no assurance that we will not face power related problems in the future.

Even if we had access to sufficient sources of electricity, as we consume substantial amounts of electricity in our manufacturing process, any significant increase in the costs of electricity could adversely affect our profitability. The electricity price in China will also be largely dependent on the price for coal, which has been increasing. If electricity and other energy costs were to increase, our business, financial condition, results of operations or liquidity position could be adversely affected.

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***Fluctuations in exchange rates have in the past and may continue to adversely affect our results of operations.***

Most of our sales are currently denominated in Euros or U.S. dollars, while a substantial portion of our costs and expenses is denominated in Renminbi, Euros and U.S. dollars. In addition, we must constantly convert one currency into another to make payments. Therefore, fluctuations in currency exchange rates could have a significant effect on our results of operations due to mismatches among various foreign currency-denominated transactions, including sales of PV modules in overseas markets and purchases of silicon raw materials and equipment in China, and the time gap between the signing of the related contracts and cash receipts and disbursements related to such contracts.

In 2011, we recognized a net foreign currency exchange loss of RMB190.5 million (US\$30.3 million) primarily due to the depreciation of the Euro and the U.S. dollar against the Renminbi. We have entered into hedging and foreign currency forward arrangements to limit our exposure to foreign currency exchange risk. However, we will continue to be exposed to foreign currency exchange risk to the extent that our hedging and foreign currency forward arrangements do not cover all of our expected revenues denominated in foreign currencies. We cannot predict the effect of exchange rate fluctuations on our foreign currency exchange gains or losses in the future. We may continue to reduce the effect of such exposure through hedging or other similar arrangements, but because of the limited availability of such instruments in China, we cannot assure you that we will always find a hedging arrangement suitable to us, or that such derivative activities will be effective in managing our foreign exchange risk.

In addition, our functional currency for our PRC subsidiaries is Renminbi. Our sales generated by our PRC subsidiaries which are denominated in foreign currencies need to be translated into Renminbi when they are recorded as our revenues. Therefore, depreciation of foreign currencies in which our sales are denominated, such as the Euro and the U.S. dollar, against the Renminbi will cause our reported revenues to decline. In 2010 and 2011, the depreciation of the Euro and U.S. dollar against the Renminbi adversely affected our total net revenues, as a majority of our PV module shipments were under contracts denominated in the Euro and the U.S. dollar. Any further depreciation of foreign currencies in which our sales are denominated against the Renminbi will continue to adversely affect our revenues and results of operations.

***Our product development initiatives and other research and development efforts may fail to improve manufacturing efficiency or yield commercially viable new products.***

We are making efforts to improve our manufacturing processes and improve the quality of our PV products. We believe that the efficient use of polysilicon is essential to reducing our manufacturing costs. We have been exploring several measures to improve the efficient use of polysilicon in our manufacturing process, including reducing the thickness of silicon wafers. However, the use of thinner silicon wafers may have unforeseen negative consequences, such as increased breakage and reduced reliability and conversion efficiency of our PV cells and modules. As a result, reducing the thickness of silicon wafers may not lead to the cost reductions we expect to achieve, while at the same time it may reduce customer satisfaction with our products, which in turn could have a material adverse effect on our customer relationships, reputation and results of operations.

We are also exploring ways to improve our PV module products. Additional research and development efforts will be required before our products in development may be manufactured and sold at a commercially viable level. We cannot assure you that such efforts will improve the efficiency of manufacturing processes or yield new products that are commercially viable. In addition, the failure to realize the intended benefits from our product development initiatives could limit our ability to keep pace with the rapid technological changes, which in turn would hurt our business and prospects.

For example, in order to meet the increasing demand for our products and further drive down costs through increased cell conversion efficiency and the larger scale of manufacturing, we started to implement Project PANDA, a research and development project for next-generation high efficiency monocrystalline PV cells, in June 2009. In

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2011, we achieved an average efficiency rate of 19.0% on the PANDA commercial production lines and a record cell conversion efficiency rate of 20.0% on the PANDA trial production line. However, as we are new to the monocrystalline technology, we may not be able to overcome all technical challenges in the process of commercializing new technology developed from Project PANDA and maintain or further improve the cell conversion efficiency rate we have achieved. In addition, we only have limited experience with customer demands in the monocrystalline PV market and may not be able to adapt to the monocrystalline PV market conditions. The established and more experienced competitors in the monocrystalline PV market may possess superior technology and have better known brand names than us. If we fail to successfully continue commercializing our monocrystalline PV technology or are unable to operate competitively in the monocrystalline market, we may not be able to recover the cost of our investments, which may have a material adverse effect on our business, financial condition, results of operations and prospects.

***Our operating results may fluctuate from period to period.***

Our results of operations are subject to many factors out of our control, which include, among others, changes in costs of raw materials, delays in equipment delivery, suppliers' failure to perform their delivery obligations, cancellation or delay of customers' orders, interruptions in utilities supply and other key production inputs, general economic conditions and changes in government policies or incentive schemes, and uncertainties relating to or accounting charges caused by any of these factors. Any one or combination of these factors may cause our results of operations to fluctuate significantly from period to period or deviate from the expectations of the investment community or our own projections. For example, in the first quarter of 2011, due to the uncertainties relating to the timing of a proposed reduction in feed-in tariffs for solar power in Italy, certain orders we expected to deliver to customers in Italy in that quarter were delayed to the subsequent quarters or cancelled, which caused a decrease in our PV module shipments for the first quarter 2011 from the previous quarter. In the same quarter, increases in polysilicon cost and auxiliary raw materials had a negative impact on our gross margin. For these reasons, our results of operations for the first quarter 2011 were lower than the guidance we previously provided to the investment community. In addition, in the fourth quarter of 2011, due to the challenging solar market conditions and the significant reduction of our market capitalization since the second quarter of 2011, we recognized an impairment of long-lived assets of Fine Silicon in an amount of RMB 2,275.0 million (US\$361.5 million) to reflect its less than expected profit-generating ability due to the continuing decline in the spot market price of polysilicon, and an impairment of goodwill of RMB 273.4 million (US\$43.4 million) originated from the historical acquisitions of equity interests in 2006, 2007 and 2008 in Tianwei Yingli, an operating subsidiary of our company. In the same quarter, we also recognized a provision on our inventory purchase commitment under long-term polysilicon supply contracts in an amount of RMB 851.7 million (US\$135.3 million) as a result of continuing decline in the polysilicon purchase price. These non-cash charges significantly and adversely affected our results of operations in the fourth quarter and full year 2011. As a result, comparing our results of operations on a period-to-period basis may not be meaningful, and you should not rely on our past results or projections as an indication of our future performance.

***Failure to achieve satisfactory output of our PV modules and PV systems could result in a decline in sales.***

The manufacture of PV modules and PV systems is a highly complex process. Disruptions or deviations in one or more components of the manufacturing process can cause a substantial decrease in output and, in some cases, disrupt production significantly or result in no output. Historically, we had from time to time experienced lower-than-anticipated manufacturing output during the ramp-up period of production lines. This often occurred during the production of new products, the installation of new equipment or the implementation of new process technologies. As we bring additional lines or facilities into production, we may operate at less than intended capacity during the ramp-up period and produce less output than expected. This would result in higher marginal production costs which could have a material adverse effect on our profitability.



*Unsatisfactory performance of or defects in our products may cause us to incur additional warranty expenses, damage our reputation and cause our sales to decline.*

Before September 30, 2011, our PV modules are typically sold with a two- or five-year limited warranty for defects in materials and workmanship, and a 10-year and 25-year warranty guaranteeing 90% and 80% of initial power generation capacity, respectively. From October 1, 2011, we implemented a new and improved warranty term that guarantees 91.2% of nameplate power for 10 years, and 80.7% of nameplate power for a period

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of 25 years for multicrystalline PV modules and 98.0% of nameplate power for the first year, 92.0% of nameplate power for 10 years, and 82.0% of nameplate power for a period of 25 years for monocrystalline Panda PV modules. In addition, based on customers' specific requirements, we also provide our multicrystalline PV modules with linear-based warranty which guarantees each year's power output during the twenty-five-year warranty period. As a result, we bear the risk of warranty claims long after we have sold our products and recognized revenues. We have sold PV modules only since January 2003, and none of our PV modules has been in use for the entire warranty periods. In connection with our PV system sales in the PRC, we provide a one- to five- year warranty against defects in our modules, storage batteries, controllers and inverters. As of December 31, 2009, 2010 and 2011, our accrued warranty costs amounted to RMB189.2 million, RMB303.6 million and RMB457.7 million (US\$72.7 million), respectively. Moreover, because our products have only been in use for a relatively short period of time, our assumptions regarding the durability and reliability of our products may not be accurate, and because our products have relatively long warranty periods, we cannot assure you that the amount of accrued warranty by us for our products will be adequate in light of the actual performance of our products. If we experience a significant increase in warranty claims, we may incur significant repair and replacement costs associated with such claims. Furthermore, widespread product underperformances or failures will damage our reputation and customer relationships and may cause our sales to decline, which in turn could have a material adverse effect on our financial condition and results of operations.

***Natural disasters, acts of war or terrorism or other factors beyond our control may adversely affect our business, results of operations and financial condition.***

Natural disasters such as earthquakes, floods, severe weather conditions or other catastrophic events may severely affect the regions where we, our suppliers or our customers operate. For example, in March 2011, Japan experienced a strong earthquake, measuring approximately 9.0 on the Richter magnitude scale, and severe tsunami created by the earthquake, causing widespread damage and casualties. These natural disasters could cause a material economic downturn in the affected area or internationally. Although we have limited exposure to this catastrophic event, any future disasters in areas where we, our suppliers or our customers operate could have a material adverse effect on our business prospects, financial condition and results of operations.

Similarly, war, terrorist activity, threats of war or terrorist activity, social unrest as well as geopolitical uncertainty and international conflict and tension, for example, the armed conflicts in Libya which started in 2011 could affect international economic development. In turn, there could be a material adverse effect on our business, financial condition and results of operations. In addition, we may not be adequately prepared in terms of contingency planning or have recovery capabilities in place to deal with a major incident or crisis. As a result, our operational continuity may be adversely and materially affected.

***We have limited insurance coverage and may incur uncovered losses resulting from business interruption or natural disasters.***

We have limited insurance coverage and we do not maintain any business interruption insurance coverage. As a result, we may have to pay, out of our own funds, for financial and other losses, damages and liabilities, including those in connection with or resulting from natural disasters and other events beyond our control, which could have a material adverse effect on our financial condition and results of operations.

***We obtain some of the equipment used in our manufacturing process from a small number of selected suppliers and if our equipment is damaged or new or replacement equipment is not delivered to us in a timely manner or is otherwise unavailable, our ability to deliver products timely will suffer, which in turn could result in cancellations of orders and loss of revenue for us.***

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Some of the equipment used in our production of polysilicon ingots, wafers, PV cells and PV modules, such as ingot casting furnaces, diffusion furnaces and wire saws, have been customized to our specifications, are not readily available from multiple vendors and would be difficult to repair or replace. There are also limited sources of supply for the principal polysilicon manufacturing equipment we use and we may not be able to replace such sources at reasonable costs and on a timely basis or at all. If any of our key equipment suppliers were to experience financial difficulties or go out of business, we may have difficulties with repairing or replacing our key equipment in the event of any damage to or a breakdown of such equipment. Furthermore, new or replacement equipment may not

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be delivered to us in a timely manner. In such cases, our ability to deliver products in a timely manner would suffer, which in turn could result in cancellations of orders from our customers and loss of revenue for us. In addition, the equipment we need for our expansion is in high demand. A supplier's failure to deliver the equipment in a timely manner, in sufficient quantity and on terms acceptable to us could delay our capacity expansion and otherwise disrupt our production schedule or increase our production costs.

***If the practice of requiring many of our customers to make advance payments when they place orders with us ceases, we may experience increased needs to finance our working capital requirements and may be exposed to increased credit risk, which may materially and adversely affect our financial position and results of operations.***

We require many of our customers to make an advance payment representing a small percentage of their orders, which is a business practice that helps us manage our accounts receivable, prepay our suppliers and reduce the amount of funds that we needed to finance our working capital requirements. However, this practice had historically ceased for a certain period of time, which in turn had increased our need to obtain additional short-term borrowings to fund our cash requirements. We cannot assure you that this practice will not cease again in the future. If this practice ceases, we may not be able to secure additional financing on a timely basis or on terms acceptable to us or at all. Currently, a significant portion of our revenue is derived from credit sales to our customers, generally with payments due within three months after shipment. As a result, any future decrease in the use of cash advance payments by our customers may negatively impact our short-term liquidity and, coupled with increased credit sales to a small number of major customers, expose us to additional and more concentrated credit risk since a significant portion of our outstanding accounts receivable is derived from sales to a limited number of customers. As of December 31, 2009, 2010 and 2011, our five largest outstanding accounts receivable balance accounted for approximately 38.9%, 33.3% and 33.8%, respectively, of our total outstanding accounts receivable. The failure of any of these or other customers to meet their payment obligations would materially and adversely affect our financial position, liquidity and results of operations. For example, as the result of two customers' prolonged failure to settle accounts receivable and the continuing deterioration of their financial condition and creditworthiness, we made a total provision of RMB315.5 million in 2009 for the doubtful accounts receivable related to these two customers. Although we have been able to maintain adequate working capital primarily through short-term borrowing, our convertible senior notes offering, the follow-on offering, other debt issuances and long-term bank borrowings, any failure by our customers to settle outstanding accounts receivable in the future could materially and adversely affect our cash flow, financial condition and results of operations.

***We face risks associated with the marketing and sale of our PV products internationally, and if we are unable to effectively manage these risks, our ability to expand our business abroad will be limited.***

In 2009, 2010 and 2011, we sold 95.5%, 94.0% and 77.8%, respectively, of our products to customers outside of China, including customers in Germany, the United States, Italy, Spain, the Netherlands, France, the United Kingdom, Japan, Israel and Slovenia. We intend to further grow our business activities in China's domestic market and the various international markets, in particular in the United States, South Africa and selected countries in southern Europe and Southeast Asia where we believe the PV market is likely to grow significantly in the near term. The marketing and sale of our PV products to international markets expose us to a number of risks, including, but not limited, to:

- fluctuations in foreign currency exchange rates;
- increased costs associated with maintaining the ability to understand the local markets and follow their trends, as well as develop and maintain effective marketing and distributing presence in various countries;

- the availability of advance payments made by our customers;
- difficulty in providing customer service and support in these markets;
- difficulty in staffing and managing overseas operations;
- failure to develop appropriate risk management and internal control structures tailored to overseas operations;

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- difficulty and cost relating to compliance with the different commercial and legal requirements of the overseas markets;
- failure to obtain or maintain certifications for our products or services in these markets;
- inability to obtain, maintain or enforce intellectual property rights;
- unanticipated changes in prevailing economic conditions and regulatory requirements; and
- trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses.

We export a substantial amount of our products to Europe. In 2009 and 2011, there were discussions which indicated that the European Union might seek to start anti-dumping and countervailing duty investigations on PV products imported from China. If such investigations are started against Chinese exporters or if the European Union imposes anti-dumping or other trade protection measures, including increase tariffs on PV products imported from China, our export to Europe may be materially and adversely affected.

In recent years, we also export an increasing amount of our products to the United States. On September 9, 2010, the United Steel Workers filed a petition with the United States Trade Representative, or USTR, alleging the PRC government has engaged in unfair trade policies and practices with respect to certain domestic industries, including the solar power industry. The petition alleges that China employs a wide range of World Trade Organization-inconsistent policies that protect and unfairly support its domestic producers of wind and PV energy products, advanced batteries and energy-efficient vehicles. According to the petition, these policies include export restraints, prohibited subsidies, discrimination against foreign companies and imported goods, technology transfer requirements, and domestic subsidies causing serious prejudice to U.S. interests. Subsequently, USTR initiated an investigation under Section 301 of the 1974 Trade Act, which is ongoing as of the date of this annual report. If as the result of such investigation the United States imposes anti-subsidies or other trade protection measures, our exports to the United States may be materially and adversely affected.

On January 7, 2011, the U.S. President Barack Obama signed into law the Military Authorization Law, which contains a Buy American provision that prohibits the United States Defense Department from purchasing Chinese-made solar panels. On October 19, 2011, SolarWorld and six other companies filed a petition with the U.S. government, claiming that Chinese companies dump (i.e., sell at unfairly low prices) crystalline silicon photovoltaic, or CSPV cells into the U.S., and have received improper subsidies from the Chinese government. On December 5, 2011, the U.S. International Trade Commission, or the ITC preliminarily determined that there is a reasonable indication that imports of Chinese CSPV cells are causing material injury to the U.S. industry. The U.S. Department of Commerce, or the DOC has issued its preliminary determination for the countervailing investigation on March 19, 2012, determining a preliminary subsidy rate of 3.61% applicable to Yingli solar cells produced in China that are imported, including as part of solar modules, into the U.S. The DOC is expected to issue its preliminary determination for the antidumping investigation in May 2012. After the DOC preliminary determinations, imports of the subject merchandise are subject to the antidumping and countervailing duties, and importers are required to post bonds or cash deposits at the time of entry of the goods. The DOC and the ITC will issue final determinations as early as May and July 2012, respectively, but more likely the dates

will be extended until September and October 2012. Such investigations have brought significant uncertainties to our business in the U.S. market, and if as the result of such investigations the United States imposes antidumping and countervailing tariffs or other trade protection measures, our exports to the United States may be materially and adversely affected.

Since early 2012, there have been discussions that an antidumping investigation may be launched in India. These discussions are that the case will cover both CSPV and thin-film cells, originated from not only Mainland China, but also from Taiwan, Malaysia and the United States. Although we historically have limited shipment to India, if such investigation is initiated, and as the result of such investigation the Indian government imposes anti-dumping or other trade protection measures, our prospect to explore the Indian market may be materially and adversely affected.

There can be no assurance that any government or international trade body will not institute adverse trade policies or remedies against exports from China in the future. Any significant changes in international trade policies, practices or trade remedies, especially those instituted in our target markets or markets where our major customers are located, could increase the price of our products compared to our competitors or decrease our customers' demand for our products, which may adversely affect our business prospects and results of operations.

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Our business in foreign markets requires us to respond timely and effectively to rapid changes in market conditions in the relevant countries. Our overall success as a global business depends, in part, on our ability to succeed in different legal, regulatory, economic, social and political conditions. We may not be able to develop and implement policies and strategies that will be effective in each location where we do business. To the extent that we conduct business in foreign countries by means of participations or joint ventures, there are additional risks. See We may undertake acquisitions, investments, joint ventures or other strategic alliances, which may have a material adverse effect on our ability to manage our business, and such undertakings may be unsuccessful. A change in one or more of the factors described above may have a material adverse effect on our business, prospects, financial condition and results of operations.

***We require a significant amount of cash to fund our operations as well as meet future capital requirements. If we cannot obtain additional capital when we need it, our growth prospects and future profitability may be materially and adversely affected.***

We require a significant amount of cash to fund our operations. We will also require cash to meet future capital requirements, which are difficult to predict in the rapidly changing PV industry. In particular, we will need substantial capital to fund the further expansion of our production capacity, the ramp-up of our in-house polysilicon production capacity, as well as research and development activities in order to remain competitive.

Our ability to obtain additional financing in the future is subject to a variety of uncertainties, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for financing activities by manufacturers of PV and related products; and
- economic, political and other conditions in China and elsewhere.

In particular, as a result of weakened macroeconomic conditions including continuing adverse credit market conditions, we have experienced and may continue to experience increasing difficulty in obtaining financing on acceptable terms or at all. We cannot assure you that financing will be available in amounts or on terms acceptable to us, or at all. If we are unable to obtain sufficient funding in a timely manner or on commercially acceptable terms or at all, our growth prospects and future profitability may be materially and adversely affected. Furthermore, the sale of additional equity or equity-linked securities would result in further dilution to our shareholders and the incurrence of indebtedness has and may continue to result in increased fixed obligations and has and could continue to lead to the imposition of financial or other restrictive covenants that would restrict our operations.

***We have issued, and may issue in the future, equity securities or securities convertible into or exchangeable for our ordinary shares, which may cause our existing shareholders to incur further dilution upon conversion of such securities.***



We have issued, and may issue in the future, equity securities or securities convertible into our ordinary shares. In the event that the securities convertible into our ordinary shares are converted, our existing shareholders may incur further dilution. For example, in June 2009, we offered 18,390,000 ADSs, representing 18,390,000 of our ordinary shares, to the public and raised approximately US\$227.3 million in net proceeds. In January 2009, we issued an aggregate amount of US\$49.4 million of senior secured convertible notes due 2012, or senior secured convertible notes, to Trustbridge Partners II, L.P., or Trustbridge, or its affiliates. See Item 7.B. Major Shareholders and Related Party Transactions – Related Party Transactions – Cyber Power Acquisition and Issuance of Senior Secured Convertible Notes for additional information. From June 2009 to January 2012, we issued an aggregate of 11,588,713 ordinary shares to Trustbridge as a result of the conversion of the full amount of the senior secured convertible notes. In addition, in connection with a credit agreement between Yingli China and a fund managed by Asia Debt Management Hong Kong Limited, or ADM Capital, entered into in January 2009, we issued 4,125,000 warrants to ADM Capital under the terms of a warrant agreement entered into in April 2009. From May 2010 to May 2011, a total of 2,454,271 ordinary shares in the form of ADSs were issued to ADM Capital in connection with its exercise of the total 4,125,000 warrants. Any future issuance of equity securities or securities convertible into or exchangeable for our equity securities may cause further dilution to our existing shareholders.

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*If our future acquisitions, expansions, or market changes or other developments cause us to require additional funds, we may issue additional securities convertible into our ordinary shares, and our existing shareholders could incur substantial dilution.*

Our substantial indebtedness could adversely affect our business, financial condition and results of operations, as well as our ability to meet any of our payment obligations under the debentures and our other debt.

We currently have a significant amount of debt and debt service requirements. As of December 31, 2011, we had RMB8,225.1 million (US\$1,306.8 million) in outstanding short-term borrowings (including the current portion of long-term debt), RMB2,406.4 million (US\$382.3 million) in outstanding medium-term notes and RMB3,451.9 million (US\$548.5 million) in outstanding long-term debt (excluding the current portion). This level of debt could have significant consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under the debentures and our other outstanding debt;
- resulting in an event of default if we fail to comply with any of the financial and other restrictive covenants contained in our debt agreements, which event of default could result in cross-defaults in all of our other debt obligations which would lead to all of our debt becoming immediately due and payable;
- reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes as a result of interest payments, and limiting our ability to obtain additional financing for these purposes;
- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and
- placing us at a competitive disadvantage compared to our competitors that have less debt or are otherwise less leveraged.

Any of these factors could have an adverse effect on our business, financial condition and results of operations as well as our ability to meet our payment obligations under the debentures and our other debt.

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Our ability to meet our payment and other obligations under our debt instruments depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate adequate cash flow from operations to support our operations and service our debt obligations, or that future debt or equity will be available to us under our existing or any future credit facilities or otherwise, in an amount sufficient to enable us to meet our payment obligations under our outstanding debt while continuing to fund our other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment and other obligations under our outstanding debt.

*If we fail to comply with financial covenants under our loan agreements, our financial condition, results of operations and business prospects may be materially and adversely affected.*

We have entered into and may in the future enter into loan agreements containing financial covenants that require us to maintain certain financial ratios, including debt to EBITDA ratios. We may not be able to comply with some of those financial covenants from time to time. For example, the worsening operating environment that had

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generally affected companies operating in our industry since the fourth quarter of 2008 had led to potential breaches of certain financial covenants under some of our loan agreements. In response to such potential breaches, we had to negotiate with the relevant lenders terms of prepayment or to amend those financial covenants to prevent actual breaches from occurring, for example, by resetting the financial covenants for the relevant periods in the relevant loan agreements or beginning testing for compliance with financial covenants at a later date. However, if we need to negotiate with lenders again in the future with respect to prepayment or to amend financial covenants or other relevant provisions under such loan agreements to address potential breaches, we cannot assure you that we would be able to reach agreements with the lenders to avoid a breach. Furthermore, in connection with any future amendments to such covenants, our lenders may impose additional operating and financial restrictions on us and otherwise seek to modify the terms of our existing loan agreements in ways that are adverse to us. As a result, we cannot assure you that we will be able to continue to comply with the financial covenants under our loan agreements in the future. If the operating environment deteriorates, we may not be able to comply with some of the financial covenants under some of our loan agreements in future periods. If we are in breach of one or more financial covenants under any of our loan agreements and are not able to obtain waivers from the lenders or prepay such loan, such breach would constitute an event of default under the loan agreement. As a result, repayment of the indebtedness under the relevant loan agreement may be accelerated, which may in turn require us to repay the entire principal amount including interest accrued, if any, of certain of our other existing indebtedness prior to their maturity under cross-default provisions in our existing loan agreements. If we are required to repay a significant portion or all of our existing indebtedness prior to their maturity, we may lack sufficient financial resources to do so. Furthermore, a breach of those financial covenants will also restrict our ability to pay dividends. Any of those events could have a material adverse effect on our financial condition, results of operations and business prospects.

***We have significant short-term borrowings outstanding, and we may not be able to obtain extensions when they mature.***

As of December 31, 2009, 2010 and 2011, our outstanding short-term borrowings (including the current portion of long-term debt) were RMB3,501.0 million, RMB5,857.9 million, and RMB8,225.1 million (US\$1,306.8 million), respectively, and bore a weighted average interest rate of 5.1%, 4.9% and 6.2%, respectively, of which RMB370.0 million, RMB1,647.2 million and RMB3,197.8 million (US\$508.1 million), respectively, were arranged or guaranteed by related parties.

Generally, these loans contain no specific renewal terms, although we had traditionally negotiated renewal of certain of the loans shortly before they would mature. However, we cannot assure you that we will be able to renew similar loans in the future as they mature. If we are unable to obtain renewals of any future loans or sufficient alternative funding on reasonable terms, we will have to repay these borrowings with cash generated by our future operations, if any. We cannot assure you that our business will generate sufficient cash flow from operations to repay our future borrowings.

***A majority of our production, storage, administrative and research and development facilities are located in close proximity to one another in an industrial park in China. Any damage or disruption at these facilities would have a material adverse effect on our business, financial condition and results of operations.***

A majority of our production, storage, administrative, research and development facilities are located in close proximity to one another in an industrial park in Baoding, Hebei Province, China. A natural disaster or other unanticipated catastrophic event, including power interruption, and war, could significantly disrupt our ability to manufacture our products and operate our business. If any of our production facilities or material equipment were to experience any significant damage or downtime, we would be unable to meet our production targets and our business would suffer.

Our manufacturing processes generate noise, waste water, gaseous and other industrial wastes. This creates a risk of work-related accidents and places high demands on work safety measures. No major injuries have occurred at our facilities in connection with work-related accidents to date. Nonetheless, we cannot assure you that accidents involving serious or fatal injuries will not occur at our facilities. Furthermore, there is a risk of contamination and environmental damage associated with hazardous substances used in our production processes. The materialization of any of the above risks could have a material adverse effect on our business, financial condition and results of operations.

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***Our principal shareholder has significant influence over our management and their interests may not be aligned with our interests or the interests of our other shareholders, including holders of our ADSs.***

Yingli Power, which is 100% beneficially owned by the family trust of and controlled by Liansheng Miao, the chairperson of our board of directors and our chief executive officer, currently beneficially owns approximately 31.8% of our outstanding ordinary shares. Yingli Power has significant influence over us, including on matters relating to mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. The interests of this shareholder may conflict with our interests or the interests of our other shareholders.

***Tianwei Baobian has significant influence over Tianwei Yingli, one of our principal operating entities, and Tianwei Baobian may influence Tianwei Yingli from taking actions that are in the best interest of us or Tianwei Yingli. In addition, Tianwei Baobian will have significant influence over us if it exercises the subscription right, and Tianwei Baobian's interests may not be aligned with our interests or the interests of our shareholders.***

Tianwei Baobian currently owns a 25.99% equity interest in Tianwei Yingli, one of our principal operating entities. Tianwei Baobian has significant influence over Tianwei Yingli through its board representation in Tianwei Yingli and other rights in accordance with the joint venture contract with us and the articles of association of Tianwei Yingli.

Tianwei Baobian is entitled to appoint three of the nine directors of Tianwei Yingli. Tianwei Baobian is also entitled to appoint a director to serve as the chairperson of the board of Tianwei Yingli. Tianwei Baobian may have different views and approaches with respect to the management and operation of Tianwei Yingli from those of us. Tianwei Baobian may disagree with us in the management and operation of Tianwei Yingli and may vote against actions that we believe are in the best interest of Tianwei Yingli or us. For example, directors appointed by Tianwei Baobian may vote against matters that require unanimous approval of all directors. Directors appointed by Tianwei Baobian may also hinder or delay adoption of relevant resolutions by not attending a board meeting, thereby preventing achievement of a quorum and forcing the meeting to be postponed for no more than seven days. See Item 4.A. History and Development of the Company Restructuring Joint Venture Contract Tianwei Yingli's Management Structure Board of Directors. Due to Tianwei Baobian's ability to exercise influence over Tianwei Yingli through its appointed directors, and through its other rights under the joint venture contract, any significant deterioration of our relationship or our disagreement with Tianwei Baobian may cause disruption to Tianwei Yingli's business, which could in turn result in a material adverse effect on our business prospects, financial condition and results of operations.

Tianwei Baobian may also have disagreement or dispute with us with respect to our respective rights and obligations on matters such as the exercise of Tianwei Baobian's right to subscribe for ordinary shares newly issued by us in exchange for its equity interest in Tianwei Yingli. Except in limited circumstances, we may not be able to unilaterally terminate the joint venture contract in the event of such disagreement or dispute even if such termination would be in our best interest. See Item 4.A. History and Development of the Company Restructuring Joint Venture Contract Tianwei Yingli's Management Structure Unilateral Termination of the Joint Venture Contract. Any such disputes may result in costly and time-consuming litigations or other dispute resolution proceedings which may significantly divert the efforts and resources of our management and disrupt our business operations.

Furthermore, Tianwei Baobian may transfer all or a part of its equity interest in Tianwei Yingli pursuant to the joint venture contract entered into between Tianwei Baobian and us. If we fail to exercise our right of first refusal in accordance with the procedures set forth in the joint venture contract and are thus deemed to have consented to any such proposed transfer by Tianwei Baobian to a third party or if Tianwei Baobian transfers its equity interest in Tianwei Yingli to its affiliates, such third party or such Tianwei Baobian's affiliate will become a holder of Tianwei

Yingli's equity interest. The interests of such third party or such Tianwei Baobian's affiliate may not be aligned with our interests or the interest of Tianwei Yingli. See Item 4.A. History and Development of the Company Restructuring Joint Venture Contract Tianwei Yingli's Management Structure Right of First Refusal.

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In addition, the Baoding State-Owned Assets Supervision and Administration Commission completed the transfer of all of its equity interest in Tianwei Group, Tianwei Baobian's controlling shareholder, to China South Industries Group Corporation, or China South. It is unclear how Tianwei Baobian's business strategy with respect to its shareholding in Tianwei Yingli will change subsequent to the acquisition by China South of Tianwei Group and how such change, if any, will affect the management and operation of Tianwei Yingli.

Furthermore, Tianwei Baobian may exercise the subscription right, and if it exercises the subscription right, it will become a significant shareholder of us. If Tianwei Baobian becomes our shareholder, it will have significant influence over our and Tianwei Yingli's business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our or Tianwei Yingli's assets, election of directors and other significant corporate actions. If Tianwei Baobian becomes our shareholder, its interests may not be aligned with ours or our shareholders.

***We may not be able to obtain adequate funding to acquire the equity interest in Tianwei Yingli held by Tianwei Baobian.***

Under the joint venture contract entered into between Tianwei Baobian and us, Tianwei Baobian may request us to make best efforts to purchase from Tianwei Baobian all but not part of its equity interest in Tianwei Yingli. Upon such request by Tianwei Baobian, we will undertake to use our best efforts to assist Tianwei Baobian in completing the transfer of such equity interest held by Tianwei Baobian. The manner and the price at which Tianwei Baobian sells its equity interest in Tianwei Yingli will be decided by mutual agreement between Tianwei Baobian and us based on the fair market value of its and our equity interest in Tianwei Yingli, respectively, and in accordance with relevant PRC laws and regulations. If the purchase of Tianwei Baobian's equity interest in Tianwei Yingli is required to be paid in cash, we may not be able to obtain adequate funding in time and on terms acceptable to us, if at all, to pay for such purchase price.

***Negative rumors or media coverage of Tianwei Baobian, our affiliates or business partners, could materially and adversely affect our reputation, business and financial condition.***

Since all of Tianwei Yingli's equity interests are held together by us and Tianwei Baobian, negative rumors or media coverage of Tianwei Baobian, whether or not accurate and whether or not applicable to us, may have a material adverse effect on our reputation, business and financial condition. For example, in October 2006, there were news articles containing allegations, among others, that Tianwei Baobian had materially overstated its results of operations related to the export sales of Tianwei Yingli's PV product components and its local tax rates in its published financial statements. We cannot assure you that there will not be similar or other negative rumors or media coverage related to Tianwei Baobian, our affiliates or business partners in the future.

***If the parent company of our minority partner in Tianwei Yingli or any affiliate of such parent company engages in sanctioned activities inconsistent with the laws and policies of other countries, the reputation of Tianwei Yingli and us may be negatively affected. As a result, some of our shareholders may divest our shares and prospective investors may decide not to invest in our shares, which may cause the price of our ADSs to decline.***

The United States and other countries maintain economic and other sanctions against several countries, or the sanctioned countries, and persons engaged in specified activities, such as support of the proliferation of weapons of mass destruction and of terrorism. Baoding Tianwei Group Corporation, or Tianwei Group, the parent company of Tianwei Baobian, our minority joint venture partner which owns 25.99% in one of our



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operating subsidiaries, Tianwei Yingli, was acquired by China South in March 2008. There have been news reports that China South, Tianwei Group and Tianwei Baobian conducted construction activities in or exported transformers to some sanctioned countries, including Iran and Sudan, in recent years. China North Industries Corporation, or Norinco, an affiliate of China South, was designated by the U.S. State Department under the Iran Nonproliferation Act of 2000 as engaged in the transfer to Iran of equipment and technology having the potential to make a material contribution to the development of weapons of mass destruction. Norinco was also reported to have had activities in and exported products to some sanctioned countries, including Iran, Sudan and Syria, some of which include military products and applications. In addition, Norinco is listed as one of the prohibited companies by some state and municipal governments, universities and investors due to its business relationships with the sanctioned countries. Certain of the sanctioned countries in which China South, Tianwei Group, Tianwei Baobian and Norinco have been reported to have had activities, such as Iran, Syria and Sudan, are identified by the U.S. State Department as state sponsors of terrorism and are subject to U.S. economic sanctions and export controls.

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We have no control over Tianwei Baobian, Tianwei Group, China South, Norinco or other affiliated entities resulted from China South's acquisition of Tianwei Group, nor has any of such entities requested Tianwei Yingli or us to have contacts with or otherwise conduct any sanctioned activity in any of the sanctioned countries. However, to the extent such affiliated entities are involved in activities that, if performed by a U.S. person, would be illegal under U.S. sanctions, or if any of such affiliated entities becomes subject of any economic sanctions maintained by the United States or other countries or entities, reputational issues relating to Tianwei Yingli or us may arise, and the investor sentiment with respect to our ADSs may be affected. Investors in the United States may believe that the value of their investment in us may be adversely affected due to our affiliation with such entities, or they may choose not to invest in, and to divest any investments in, issuers that are associated even indirectly with sanctioned activities or sanctioned countries. Any negative investor sentiment as the result of such reputational issues may cause the price of our ADSs to decline and adversely affect the value or your investment in us.

***Our joint venture partner, Tianwei Baobian, has entered into competing businesses with us, which may adversely affect our business, prospects, financial condition and results of operations.***

Our joint venture contract with Tianwei Baobian and Tianwei Yingli's articles of association does not impose non-competition restrictions upon Tianwei Baobian. While Tianwei Baobian's current principal business is the manufacture of large electricity transformers, Tianwei Baobian has entered into the PV business through investments in various companies that are engaged in the manufacture of polysilicon, ingots, wafers, PV cells or PV modules and thin film modules. As these companies continue to expand their business, they may compete with us for both supply of raw materials and customers, and we may not have any legal right to prevent them from doing so. In addition, the parent of Tianwei Baobian has also made investments in the PV business. Because of Tianwei Baobian's familiarity with and its ability to influence Tianwei Yingli's business, competition from Tianwei Baobian or its affiliates could have a material adverse effect on our business, prospects, financial condition and results of operations.

***The grant of employee share options and other share-based compensation could adversely affect our net income.***

We adopted our 2006 stock incentive plan in December 2006. Our board of directors approved in April 2007 and our shareholders approved in May 2007 amendment No. 1 to the 2006 stock incentive plan to increase the number of ordinary shares we are authorized to issue under the 2006 stock incentive plan. Our board of directors approved in July 2009 and our shareholders approved in August 2009 amendment No. 2 to the 2006 stock incentive plan to increase the number of ordinary shares we are authorized to issue under the 2006 stock incentive plan. Under the 2006 stock incentive plan, as amended, we may grant to our directors, employees and consultants up to 2,715,243 restricted shares and options to purchase up to 10,030,195 of our ordinary shares. As of the date of this annual report, we have granted to eight executive officers, 393 employees, six non-employee and four independent directors options to purchase 6,032,965 ordinary shares in the aggregate (excluding forfeited options) and an aggregate of 10,000 restricted but unvested shares (excluding forfeited restricted shares) to DBS Trustee Limited, or the trustee, for the benefit of one executive officers and 12 employees and one non-employee. See Item 6.B. Directors, Senior Management and Employees Compensation of Directors and Executive Officers' 2006 Stock Incentive Plan. We account for compensation costs for all share-based awards including share options granted to our directors and employees using a fair-value based method, which may have a material and adverse effect on our reported earnings. Moreover, the additional expenses associated with share-based compensation may reduce the attractiveness of such incentive plan to us. However, if we reduce the scope of our stock incentive plan, we may not be able to attract and retain key personnel, as share options are an important tool to recruit and retain qualified and desirable employees.

***Our results of operations are difficult to predict, and if we do not meet the market expectations, the price of our ADSs or our convertible notes will likely decline.***

Our results of operations are difficult to predict and have fluctuated from time to time in the past. We expect that our results of operations may continue to fluctuate from time to time in the future. It is possible that our

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results of operations in some reporting periods will be below market expectations. Our results of operations will be affected by a number of factors as set forth in Item 5 Operating and Financial Review and Prospects. If our results of operations for a particular reporting period are lower than the market expectations for such reporting period, investors may react negatively, and as a result, the price of our ADSs or our convertible notes may materially decline.

***Evaluating our business and prospects may be difficult because of our limited operating history.***

There is limited historical information available about us upon which you can base your evaluation of our business and prospects. We started selling PV modules in January 2003 and have experienced a high growth rate since then. As a result, our historical results of operations may not provide a meaningful basis for evaluating our business, financial performance and prospects. We may not be able to achieve a similar growth rate in future periods and at higher volumes. Accordingly, you should not rely on our results of operations for any prior periods as an indication of our future performance. You should consider our business and prospects in light of the risks, expenses and challenges that we will face as an early-stage company seeking to develop and manufacture new products in a rapidly developing market.

***Our limited intellectual property protection inside and outside of China may undermine our competitive position and subject us to intellectual property disputes with third parties, both of which may have a material adverse effect on our business, results of operations and financial condition.***

As of the date of this annual report, we had a total of 103 issued patents in China and had made 177 patent applications. Other than the know-how available in the public domain, we have developed in-house unpatented technical know-how that we use to manufacture our products. Many elements of our manufacturing processes involve proprietary know-how, technology or data, either developed by us in-house or transferred to us by our equipment suppliers, which are not covered by patents or patent applications, including manufacturing technologies and processes and production line and equipment designs. We rely on a combination of patent, trademark, anti-unfair competition and trade secret laws, as well as nondisclosure agreements and other methods to protect our intellectual property rights. Nevertheless, these measures provide only limited protection and the actions we take to protect our intellectual property rights may not be adequate. Third parties may infringe or misappropriate our proprietary technologies or our other intellectual property rights, which could have a material adverse effect on our business, financial condition or results of operations. Policing the unauthorized use of proprietary technology can be difficult and expensive. Also, litigation may be necessary to protect our trade secrets or determine the validity and scope of the proprietary rights of others. We cannot assure you that the outcome of such potential litigation will be in our favor. Such litigation may be costly and may divert management attention as well as our other resources away from our business. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover them from other parties. An adverse determination in any such litigation could result in the loss of our intellectual property rights and may harm our business, prospects and reputation.

We have exported, and expect to continue to export, a substantial portion of our PV products outside of China. Because we do not have, and have not applied for, any patents for our proprietary technologies outside of China, it is possible that others may independently develop substantially equivalent technologies or otherwise gain access to our proprietary technologies and obtain patents for such intellectual properties in other jurisdictions, including the countries to which we export our PV modules. If any third parties are successful in obtaining patents for technologies that are substantially equivalent to or the same as our proprietary technologies in any of our markets before we are and enforce their intellectual property rights against us, our ability to sell products containing the allegedly infringing intellectual property in those markets will be materially and adversely affected. If we are required to stop selling such allegedly infringing products, seek license and pay royalties for the relevant intellectual properties or redesign such products with non-infringing technologies, our business, results of operations and financial condition will be materially and adversely affected.



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***We may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to us, could cause us to pay significant damage awards.***

Our success depends, in large part, on our ability to use and develop technology and know-how without infringing the intellectual property rights of third parties. The validity and scope of claims relating to PV technology patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain.

The steps we take in our product development to ensure that we are not infringing the existing intellectual property rights of others, such as review of related patents and patent applications prior to our product developments, may not be adequate. While we are not currently aware of any action pending or threatened against us, we may be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties. The defense and prosecution of intellectual property suits and related legal and administrative proceedings can be both costly and time-consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or to redesign our PV modules or subject us to injunctions prohibiting the manufacture and sale of our PV modules or the use of our technologies. Protracted litigation could also cause our customers or potential customers to defer or limit their purchase or use of our PV modules until the resolution of such litigation.

***Our business depends substantially on the continuing efforts of our executive officers and key technical personnel, and our ability to maintain a skilled labor force. Our business may be materially and adversely affected if we lose their services.***

Our future success depends substantially on the continued services of our executive officers, in particular Liansheng Miao, our chief executive officer, Xiangdong Wang, our vice president, Zhiheng Zhao, our vice president, Zongwei Li, our chief financial officer, Xiaoqiang Zheng, our chief operating officer, Dengyuan Song, our chief technology officer and Jingfeng Xiong, our vice president. We do not maintain key employee life insurance on any of our executive officers. If one or more of our executive officers are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. In addition, if any of our executive officers join a competitor or forms a competing company, we may lose some of our customers. Each of our executive officers has entered into an employment agreement with us, which contains confidentiality and non-competition provisions. However, if any disputes were to arise between one of our executive officers and us, we cannot assure you of the extent to which such officer's employment agreement could be enforced in China.

Furthermore, recruiting and retaining capable personnel, particularly experienced engineers and technicians familiar with our PV products manufacturing processes, is vital to maintaining the quality of our PV products and to continuously improving our production methods. There is substantial competition for qualified technical personnel, and we cannot assure you that we will be able to attract or retain qualified technical personnel. If we are unable to attract and retain qualified employees, key technical personnel and our executive officers, our business may be materially and adversely affected.

***Failure to manage our growth, or otherwise develop appropriate internal organizational structures, internal control environment and risk monitoring and management systems in line with our fast growth could result in a material adverse effect on our business, prospects, financial condition and results of operations.***

Our business and operations have been expanding rapidly. Significant management resources must be expended to develop and implement appropriate structures for internal organization and information flow, an effective internal control environment and risk monitoring and management systems in line with our fast growth as well as to hire and integrate qualified employees into our organization. It is challenging for us to hire, integrate and retain qualified employees in key areas of operations, such as engineers and technicians who are familiar with the PV industry. In addition, disclosure and other ongoing obligations associated with being a public company further increase the challenges to our finance, legal and accounting team. It is possible that our existing risk monitoring and management system could prove to be inadequate. If we fail to appropriately develop and implement structures for internal organization and information flow, an effective internal control environment and a risk monitoring and management system, we may not be able to identify unfavorable business trends, administrative oversights or other risks that could materially and adversely affect our business, prospects, financial condition and results of operations.

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***Compliance with construction and environmental regulations can be expensive, and noncompliance with present or future construction and environment regulations may result in adverse publicity, potentially significant monetary damages and fines and supervision of our business operations.***

Historically, we had started construction and operation of certain of our facilities without having obtained all of the necessary construction permits as required under the relevant regulations. We are also constructing certain facilities as part of our capacity expansion projects while applying for the relevant construction permits. Both our prior and current failure to obtain the relevant construction permits before the commencement of construction of our facilities may subject us to fines or penalties, which may adversely affect our construction process, business operations and results of operations.

In addition, the failure by us to control the use of, or to adequately restrict the discharge of, hazardous substances could subject us to potentially significant monetary damages and fines or suspensions in our business operations. Our manufacturing processes generate noise, waste water, gaseous and other industrial wastes and are required to comply with national and local regulations regarding environmental protection. We believe we are currently in compliance with present environmental protection requirements in all material respects, and have obtained all necessary environmental permits. In addition, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. If we fail to comply with any future environmental regulations, we may be required to pay substantial fines, suspend production or cease operations. See Item 4.B. Business Overview PRC Government Regulations Environmental Regulations .

***Negative publicity of us, or our affiliates, could materially and adversely affect our reputation, business and operating results.***

Negative publicity of us, or our affiliates, whether or not accurate and whether or not applicable to us, may have a material adverse effect on our reputation, business and financial condition. In addition, historically there has been negative publicity of us, and our affiliates. We cannot assure you that there will not be additional negative publicity of the similar nature in the future. Any such negative publicity, regardless of its veracity, could harm our reputation and in turn adversely affect our business and results of operations.

***Our independent registered public accounting firm s audit documentation related to their audit reports included in this annual report may include audit documentation located in the Peoples Republic of China. The Public Company Accounting Oversight Board currently cannot inspect audit documentation located in China and, as such, you may be deprived of the benefits of such inspection.***

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the U.S. Securities and Exchange Commission, as auditors of companies that are traded publicly in the United States and a firm registered with the U.S. Public Company Accounting Oversight Board, or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Our operations are conducted in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the Chinese authorities. Accordingly, no audit documentation located in China related to our independent registered public accounting firm s reports included in our filings with the U.S. Securities and Exchange Commission is currently inspected by the PCAOB.

Inspections conducted by the PCAOB outside of China have identified deficiencies in those firms audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in China



prevents the PCAOB from regularly evaluating audit documentation located in China and its related quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

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The inability of the PCAOB to conduct inspections in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures as compared to audits outside of China that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

***The ordinary shares underlying our ADSs purchased or received upon the conversion of the convertible notes could become redeemable by us without your approval.***

Under the express terms of our ordinary shares, the ordinary shares underlying the ADSs in our issued and outstanding share capital are not, and the ordinary shares receivable upon the conversion of the convertible notes will not be, redeemable. However, our board of directors may pass resolutions to allow us to redeem the ordinary shares from the holders and two-thirds of the votes cast by the holders of the ordinary shares may approve such variation of share rights. The minority shareholders will not be able to prevent their share rights being varied in such a way and their ordinary shares could become redeemable by us as a result.

***We have adopted a shareholders rights plan, which, together with the other anti-takeover provisions of our articles of association, could discourage a third party from acquiring us, which could limit our shareholders' opportunity to sell their shares, including ordinary shares represented by our ADSs, at a premium.***

Our current articles of association contain provisions that limit the ability of others to acquire control of our company or cause us to engage in change-of-control transactions. On October 17, 2007, our board of directors adopted a shareholders rights plan, which was amended on June 2, 2008. Under this rights plan, one right was distributed with respect to each of our ordinary shares outstanding at the closing of business on October 26, 2007. These rights entitle the holders to purchase ordinary shares from us at half of the market price at the time of purchase in the event that a person or group obtains ownership of 15% or more of our ordinary shares (including by acquisition of the ADSs representing an ownership interest in the ordinary shares) or enters into an acquisition transaction without the approval of our board of directors.

This rights plan and the other anti-takeover provisions of our articles of association could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transaction. Our existing authorized ordinary shares confer on the holders of our ordinary shares equal rights, privileges and restrictions. The shareholders have, by virtue of adoption of our third amended and restated articles of association, authorized the issuance of shares of par value of US\$0.01 each without specifying any special rights, privileges and restrictions. Therefore, our board of directors may, without further action by our shareholders, issue our ordinary shares, or issue shares of such class and attach to such shares special rights, privileges or restrictions, which may be different from those associated with our ordinary shares. Preferred shares could also be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue ordinary shares or issue preferred shares, the price of our ADSs and the notes may fall and the voting and other rights of the holders of our ordinary shares and ADSs may be materially and adversely affected.

***A simple majority of the holders of our shares who vote at a general meeting may sub-divide any of our shares into shares of a smaller par value and may determine that, among the shares so sub-divided, some of such shares may have preferred or other rights or restrictions that are different from those applicable to other such shares.***

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Under our articles of association, a simple majority of the holders of our shares who vote at a general meeting may sub-divide any of our shares into shares of a smaller par value than is fixed by our articles of association, subject to the Companies Law of the Cayman Islands, and may by such resolution determine that, among the shares so sub-divided, some of such shares may have preferred or other rights or restrictions that are different from those applicable to the other such shares resulting from the sub-division. Any sub-divided shares will be allocated on a pro-rated basis among the holders of our shares, and a two-thirds vote of any class of shares having special rights or restrictions as a result of such sub-division will be required to further vary the special rights or restrictions attached to such shares. The purpose of this provision is to give flexibility to the shareholders to vary the share capital by effecting a sub-division and alter the rights attaching to the sub-divided shares in order to facilitate

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transactions where shareholders provide benefits or contribute assets to our company in consideration of an enhancement of the rights of their shares rather than an issue of new shares. However, as the minority shareholders will not be able to prevent the majority shareholders from effecting such sub-division and designation of special rights or restrictions, such rights of our majority shareholders may discourage investors making an investment in us, which may have a material adverse effect on the price of our ADSs and the notes.

***The quorum for the general meeting of our shareholders is one-third of our issued voting shares. Accordingly, shareholder resolutions may be passed without the presence of the majority of our shareholders in person or by proxy.***

The quorum required for the general meeting of our shareholders is two shareholders entitled to vote and present in person or by proxy or, if the shareholder is a corporation, by its duly authorized representative representing not less than one-third in nominal value of our total issued voting shares. Therefore, subject to obtaining the requisite approval from a majority of the shareholders so present, a shareholder resolution may be passed at our shareholder meetings without the presence of the majority of our shareholders present in person or by proxy. Such rights by the holders of the minority of our shares may discourage investors from making an investment in us, which may have a material adverse effect on the price of our ADSs and the notes.

***If a poll is not demanded at our shareholder meetings, voting will be by show of hands and shares will not be proportionately represented.***

Voting at any of our shareholder meetings is by show of hands unless a poll is demanded. A poll may be demanded by the chairperson of the meeting, or by at least three shareholders present in person or by proxy, or by any shareholder or shareholders present in person or by proxy holding at least 10% of the total voting rights of all shareholders having the right to vote at the meeting, or by a shareholder or shareholders present in person or by proxy holding shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on the shares conferring that right. If a poll is demanded, each shareholder present in person or by proxy will have one vote for each ordinary share registered in his name. If a poll is not demanded, voting will be by show of hands and each shareholder present in person or by proxy will have one vote regardless of the number of shares registered in his name. In the absence of a poll, shares will therefore not be proportionately represented.

***If we are or become a passive foreign investment company, or a PFIC, it could result in adverse United States federal income tax consequences to U.S. investors.***

We believe that we were not a PFIC for our taxable year ended on December 31, 2011, and we do not expect to become one for our current taxable year or in the future, although there can be no assurance in this regard. If, however, we are or become a PFIC, U.S. investors could be subject to additional United States federal income taxes on gain recognized with respect to the ADSs or ordinary shares and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules. Non-corporate U.S. investors will not be eligible for reduced rates of taxation on any dividends received from us, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. U.S. investors are urged to consult their tax advisors concerning the United States federal income tax consequences of holding ADSs or ordinary shares if we are considered a PFIC in any taxable year.

**Risks Related to Doing Business in China**

*Adverse changes in political and economic policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could reduce the demand for our products and materially and adversely affect our competitive position.*

Our business is based in China and some of our sales are made in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China.

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The Chinese economy differs from the economies of most developed countries in many respects, including:

- the level of government involvement;
  
- the level of development;
  
- the growth rate;
  
- the control of foreign exchange; and
  
- the allocation of resources.

While the Chinese economy has grown significantly in the past 20 years, the growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be materially and adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

In addition, we cannot assure you that the Chinese economy will continue to grow, or that if there is growth, such growth will be steady and uniform, or that if there is a slowdown, such slowdown will not have a negative effect on our business. For example, the growth rate of China's gross domestic product has slowed down in recent years, from 10.3% in 2010 to 9.2% in 2011. The Chinese government has set the gross domestic product growth rate at 7.5% for 2012. We cannot assure you that the various macroeconomic measures, monetary policies and economic stimulus package adopted by the PRC government to guide economic growth and the allocation of resources will be effective in sustaining the fast growth rate of the Chinese economy.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of the productive assets in China is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over Chinese economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of renewable energy investments and expenditures in China, which in turn could lead to a reduction in demand for our products and consequently have a material adverse effect on our businesses.

*Uncertainties with respect to the PRC legal system could have a material adverse effect on us.*

We are incorporated in Cayman Islands and are subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to Sino-foreign equity joint venture companies and wholly foreign owned companies. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

*The PRC rule on mergers and acquisitions may subject us to sanctions, fines and other penalties and affect our future business growth through acquisition of complementary business.*

On August 8, 2006, six PRC government and regulatory authorities, including the PRC Ministry of Commerce, or the MOFCOM, and the Chinese Securities Regulatory Commission, or the CSRC, promulgated a rule

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entitled Provisions regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule, which became effective on September 8, 2006 and was amended on June 22, 2009. The M&A Rule, as amended, among other things, established procedures and requirements that could make merger and acquisition activities by foreign investors time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Furthermore, MOFCOM promulgated the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisition of Domestic Enterprises by Foreign Investors in August 2011, or the MOFCOM Security Review Rules, which came into effect on September 1, 2011, to implement the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated on February 3, 2011, or Circular No. 6. According to the MOFCOM Security Review Rules, a security review is required for mergers and acquisitions by foreign investors of PRC domestic enterprises (i) having national defense and security concerns, and (ii) where the foreign investors may acquire the de facto control of the PRC domestic enterprises having national security concerns such as key farm products, key energy and resources, and key infrastructure, transportation, technology and major equipment manufacturing industries. Circular No. 6, however, does not define the term of key or major, nor has it exhausted all the industries that may be deemed as sensitive industries subject to the security review. When deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the security review by MOFCOM, the principle of substance over form should be applied and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through nominee holding structure, trusts, indirect investments, leases, loans, control through contractual arrangements, offshore transactions, or other means. We believe that our current business is not in an industry related to national security. However, we cannot preclude the possibility that MOFCOM or other government agencies may release interpretations or new rules contrary to our understanding or broaden the scope of such security review in the future. In the future, we may grow our business in part by acquiring complementary businesses, although we do not have any plans to do so at this time. Complying with the requirements of these regulations in order to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the MOFCOM, may delay or inhibit the completion of such transactions, which could affect our ability to expand our business or maintain our market share.

***PRC regulations relating to overseas investment by PRC residents may restrict our overseas and cross-border investment activities and adversely affect the implementation of our strategy as well as our business and prospects.***

In 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued a number of rules regarding offshore investments by PRC residents. The rule currently in effect, the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Return Investment Activities of Domestic Residents Conducted Via Offshore Special Purpose Companies, known as SAFE Notice 75, was issued in October 2005. SAFE Notice 75 requires PRC residents to register with and/or receive approvals from SAFE in connection with certain offshore investment activities. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore special purpose company or overseas funds raised by such offshore company, or any other material change involving a change in the capital of the offshore special purpose company. Moreover, to further clarify the implementation of SAFE Notice 75, since May 2007, SAFE has issued guidance to its local branches regarding the operational procedures for such registration, which provides more specific and stringent requirements on the registration relating to SAFE Notice 75, including the most recent Notice of SAFE on Printing and Distributing the Implementing Rules for the Administration of Foreign Exchange in Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or Circular 19, which came into effect as of July, 2011. The guidance imposes obligations on PRC subsidiaries of the offshore special purpose company to coordinate with and supervise the beneficial owners of the offshore entity who are PRC citizens or residents to complete the SAFE registration process. If the shareholders or beneficial owners fail to comply, the PRC subsidiaries are required to report the noncompliance to the local branches of SAFE. Since we are a Cayman Islands company with a substantial portion of shares held by Yingli Power Holding Company Ltd., a British Virgin Islands company controlled by Mr. Liansheng Miao, our chairperson and chief executive officer and a PRC resident, Mr. Miao is subject to the registration requirements under SAFE Notice 75 and Circular 19.



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Mr. Miao made the requisite SAFE registration with respect to his investment in Yingli Power Holding Company Ltd. and us in August 2006. Mr. Miao amended his SAFE registration in June 2007, January 2008 and October 2009, in connection with our initial public offering in June 2007, the secondary and convertible senior notes offerings in December 2007, the issuance of senior secured convertible notes and the follow-on offering in 2009, respectively. We have requested our other beneficial owners who are PRC residents to make the necessary applications and filings in connection with our offshore financing transactions as required under SAFE Notice 75 and Circular 19. However, we cannot assure you that all of our beneficial owners who are PRC residents have complied with our request to apply for or obtain any registrations or approvals required under these or other regulations or legislation, such as any amendment registrations with local SAFE in relation to their ownership changes in us.

The failure or inability of Mr. Miao or any of our other beneficial owners who are PRC residents to comply with the registration procedures set forth in SAFE Notice 75 and Circular 19 may subject Mr. Miao or such beneficial owner who is a PRC resident to fines and legal penalties, result in potential liability for our PRC subsidiaries, such as Tianwei Yingli, and in some instances, for their legal representatives and other liable individuals, limit our ability to contribute additional capital into or provide loans to our PRC subsidiaries, such as Tianwei Yingli, and may also limit their ability to pay dividends or otherwise distribute profits to us, or otherwise adversely affect us. See Item 4.B. Business Overview PRC Government Regulations Regulation of Foreign Exchange in Certain Onshore and Offshore Transactions .

***Dividends we may receive from our operating subsidiaries located in the PRC may be subject to PRC withholding tax.***

The Enterprise Income Tax Law, or the EIT Law, and its implementation rules provide that an income tax rate of 10% may be applicable to dividends payable to non-PRC investors that are non-resident enterprises , to the extent such dividends are derived from sources within the PRC, unless any such non-PRC investor s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. Furthermore, a circular issued by the Ministry of Finance and the State Administration of Taxation on February 22, 2008 stipulates that undistributed earnings generated prior to January 1, 2008 are exempt from enterprise income tax. We are a Cayman Islands holding company, Yingli International is a British Virgin Islands intermediate holding company and Cyber Lighting is a Hong Kong intermediate holding company. The Cayman Islands and the British Virgin Islands where such holding companies are incorporated do not have a tax treaty with China. According to the Arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income entered into in August 2006, or the Mainland and the Hong Kong Taxation Arrangement, subject to the confirmation of the in-charge local tax authority, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong will be subject to withholding tax at a rate of no more than 5%, the foreign investor is the beneficial owner and owns directly at least 25% the equity interest of the foreign-invested enterprise. Furthermore, the State Administration of Taxation promulgated the Notice on How to Understand and Determine the Beneficial Owners in Tax Agreement in October 2009, or Circular 601, which provides guidance for determining whether a resident of a contracting state is the beneficial owner of an item of income under China s tax treaties and tax arrangements. According to Circular 601, a beneficial owner generally must be engaged in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. A conduit company normally refers to a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. Substantially all of our income may be derived from dividends we receive from our operating subsidiaries located in the PRC. Thus, dividends for earnings accumulated beginning on January 1, 2008 payable to us by our subsidiaries in China, if any, will be subject to a 10% income tax or, in the case of the dividends paid to Cyber Lighting, 5% income tax (subject to the confirmation of the local tax authority), if we are considered as non-resident enterprises under the EIT Law. We intend to reinvest indefinitely undistributed earnings generated in 2010 and therefore have not recognized a deferred tax liability for those earnings. If we are subject under the EIT Law to such income tax for any dividends we may receive from our subsidiaries, it will materially and adversely increase our income tax expense.

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***We and some of our subsidiaries may be deemed resident enterprises under the EIT Law and be subject to PRC taxation as to our worldwide income.***

The EIT Law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation rules for the EIT Law issued by the State Council, a de facto management body is defined as a body that has substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties and other factors of an enterprise. On April 22, 2009, the State Administration of Taxation promulgated the Notice Regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or SAT Circular 82 which sets out criteria for determining whether de facto management bodies are located in China for overseas incorporated, domestically controlled enterprises. However, as this circular only applies to enterprises incorporated under laws of foreign countries or regions that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of de facto management bodies for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries. Therefore, although substantially all of our management is currently located in the PRC, it remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises. If the PRC tax authorities determine that Yingli Green Energy and some of our subsidiaries, such as Yingli International, Yingli Capital, Yingli Hong Kong, Cyber Power and Cyber Lighting, are PRC resident enterprises, we and such subsidiaries may be subject to the enterprise income tax at the rate of 25% as to our global income, which could have an impact on our effective tax rate and an adverse effect on our net income and results of operations, although dividends distributed from our PRC subsidiaries to us would be exempt from the PRC dividend withholding tax, since such income distribution is exempted under the EIT Law if paid to PRC resident recipients.

***Dividends payable by us to non-PRC holders of our ordinary shares or ADS and gains on the sale of our ordinary shares or ADSs may become subject to taxes under PRC tax laws.***

Under the EIT Law and implementation rules issued by the State Council, PRC income tax at the rate of 10% is applicable to payments of dividends to investors that are non-resident enterprises, which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such payments of dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or ordinary shares by such investors is also subject to the 10% PRC income tax if such gain constitutes income derived from sources within the PRC. It is currently unclear what constitutes income derived from sources within the PRC. Therefore, it is unclear whether dividends we may pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and be subject to PRC tax. Furthermore, the State Administration of Taxation promulgated the Notice on How to Understand and Determine the Beneficial Owners in Tax Agreement in October 2009, or Circular 601, which provides guidance for determining whether a resident of a contracting state is the beneficial owner of an item of income under China's tax treaties and tax arrangements. According to Circular 601, a beneficial owner generally must be engaged in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. A conduit company normally refers to a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. We cannot assure you that any dividends to be distributed by us to our non-PRC shareholders and ADS holders whose jurisdiction of incorporation has a tax treaty with China providing for a different withholding arrangement will be entitled to the benefits under the relevant withholding arrangement.

If we are required under the EIT Law to withhold PRC income tax on dividends payable to non-PRC holders of our ordinary shares or ADSs, or if you are required to pay PRC income tax on the transfer of our ordinary shares or ADSs, the value of your investment in our ordinary shares or ADSs may be materially and adversely affected.



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***The strengthened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our acquisition strategy.***

In order to strengthen their scrutiny over the direct or indirect transfer of equity interest in a PRC resident enterprise by a non-resident enterprise, the PRC State Administration of Taxation issued, on December 10, 2009, the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer, or Circular 698, which became effective retroactively on January 1, 2008. Under Circular 698, the PRC State Administration of Taxation has the authority to redefine the nature of an equity transfer where offshore vehicles are interposed for tax-avoidance purposes and without reasonable commercial purpose. Since we consistently pursue acquisitions as one of our growth strategies, and have conducted and may conduct acquisitions involving complex corporate structures, the PRC tax authorities may, at their discretion, adjust the capital gains or request us to submit additional documentation for their review in connection with any of our acquisitions, thus causing us to incur additional acquisition costs.

***Restrictions on currency exchange may limit our ability to receive dividends from our PRC subsidiaries and their ability to obtain overseas financing.***

Under the Foreign Currency Administration Rules, the foreign exchange incomes of domestic entities and individuals can be remitted into China or deposited abroad, subject to the terms and conditions to be issued by SAFE. Our PRC subsidiaries are able to pay dividends to their shareholders, including us, in foreign currencies without prior approval from SAFE, by complying with certain procedural requirements. However, we cannot assure you that the PRC government will not take measures in the future to restrict access to foreign currencies for current account transactions, including payment of such dividends.

Foreign exchange transactions for capital account items, such as direct equity investments, loans and repatriation of investments, by our PRC subsidiaries continue to be subject to significant foreign exchange controls and require the approval of PRC governmental authorities, including SAFE. In particular, if our PRC subsidiaries borrow foreign currency-denominated loans from us or other foreign lenders, these loans must be registered with the local offices of SAFE. These limitations could affect their ability to obtain additional equity or debt funding that is denominated in foreign currencies.

***PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from making additional capital contributions or loans to our PRC subsidiaries.***

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, are subject to PRC regulations. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment our PRC subsidiaries are approved to make under relevant PRC laws and the respective registered capital of our PRC subsidiaries, and must be registered with the local branch of SAFE as a procedural matter. In addition, our capital contributions to our PRC subsidiaries must be approved by MOFCOM or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which could adversely affect their liquidity and its ability to fund its working capital and expansion projects and meet its obligations and commitments.

In addition, our capital contributions and, in limited circumstances, loans, to Tianwei Yingli are also subject to approvals by Tianwei Baobian, the holder of the minority equity interest in Tianwei Yingli. See Item 4.A. History and Development of the Company Joint Venture Contract

Increase or Reduction of Tianwei Yingli's Registered Capital.

*We rely principally on dividends and other distributions on equity paid by our PRC operating subsidiaries and limitations on their ability to pay dividends to us could have a material adverse effect on our business and results of operations.*

We are a holding company and we rely principally on dividends and other distributions on equity paid by our PRC operating subsidiaries, including Tianwei Yingli, Yingli China, Fine Silicon and Hainan Yingli New

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Energy Resources Co., Ltd., or Hainan Yingli, a PRC limited liability company and a majority-owned subsidiary of Yingli China, for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders, service any debt we may incur and pay our operating expenses. If Tianwei Yingli, Yingli China, Fine Silicon or Hainan Yingli incurs debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us.

As entities established in China, Tianwei Yingli, Yingli China, Fine Silicon and Hainan Yingli are subject to certain limitations with respect to dividend payments. PRC regulations currently permit payment of dividends only out of accumulated profits as determined in accordance with accounting standards and regulations in China. As a Sino-foreign equity joint venture, Tianwei Yingli is also required to set aside each year a percentage, as decided by its board of directors, of its after-tax profits based on PRC accounting standards to its reserve fund, enterprise development fund and employee bonus and welfare fund. As of December 31, 2011, such restricted reserves of Tianwei Yingli amounted to RMB243.0 million (US\$38.6 million) and its accumulated profits that were unrestricted and were available for distribution amounted to RMB2,817.3 million (US\$447.6 million).

As a foreign investment enterprise, each of Yingli China and Fine Silicon is required to allocate at least 10% of its after-tax profits to its reserve fund until the cumulative amount of such reserve fund reaches 50% of its registered capital, and to set aside a certain amount of its after-tax profits each year, if any, to its employee bonus and welfare fund. These reserves may not be distributed as cash dividends. As of December 31, 2011, such restricted reserves of Yingli China amounted to RMB130.1 million (US\$20.7 million), and its accumulated profits that was unrestricted and was available for distribution amounted to RMB1,526.0 million (US\$242.5 million).

As a PRC domestic company, Hainan Yingli is required to allocate at least 10% of its after-tax profits to its reserve fund until the cumulative amount of such reserve fund reaches 50% of its registered capital. These reserves may not be distributed as cash dividends. As of December 31, 2011, such restricted reserves of Hainan Yingli amounted to RMB27.9 million (US\$4.4 million) and its accumulated profits that were unrestricted and were available for distribution amounted to RMB313.3 million (US\$49.8 million).

In addition, if any of our PRC operating subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Limitations on the ability of our PRC operating subsidiaries to pay dividends to us could adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct our business. Accordingly, if for any of the above or other reasons, we cannot receive dividends from our PRC operating subsidiaries, our liquidity, financial condition and ability to make dividend distributions to our shareholders will be materially and adversely affected.

***SAFE rules and regulations may limit our ability to convert and transfer the net proceeds from our financings to our PRC subsidiaries, which may adversely affect the business expansions of our PRC subsidiaries, and we may not be able to convert the net proceeds from our financings into Renminbi to invest in or acquire any other PRC companies.***

On August 29, 2008, SAFE promulgated Circular 142, or SAFE Notice 142, a notice regulating the conversion by a foreign invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The notice requires that the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without SAFE's approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of SAFE Notice 142 may result in severe penalties, such as heavy fines. As SAFE Notice

142 may significantly limit our ability to transfer the net proceeds from our financings to our PRC subsidiaries, the business expansions of our PRC subsidiaries may be adversely affected. In addition, we may not be able to convert the net proceeds from our financings into Renminbi to invest in or acquire any other PRC companies.

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*All employee participants in our existing stock option plans who are PRC citizens may be required to register with SAFE. We may also face regulatory uncertainties that could restrict our ability to adopt additional option plans for our directors and employees under PRC law.*

Pursuant to the Implementation Rules of the Administrative Measures on Individual Foreign Exchange, or the Individual Foreign Exchange Rules, promulgated on January 5, 2007 by SAFE and the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas-listed Company, or the Share Option Rules, promulgated in February 2012 by SAFE, which terminated the Operating Procedures on Administration of Foreign Exchange for Domestic Individuals Participating in Employee Share Ownership Plans and Share Option Plans of Overseas-listed Company issued by SAFE in March 2007, PRC citizens or residents habitually residing in the PRC continuously for over one year, who are granted shares or share options by an overseas-listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas-listed company or qualified PRC agents, to register with SAFE and complete certain other procedures related to the share holding plan, share option plan or other similar share incentive plans. Concurrent with the registration with SAFE, the PRC subsidiary or qualified PRC agent shall obtain the approval for an annual allowance with respect to the foreign exchange in connection with the share holding or share option exercises as well as the approval of opening a special foreign exchange account at a PRC domestic bank to hold the funds required in connection with the share purchase or share option exercise, returned principal or profits upon sale of shares, dividends issued on the stock and any other income or expenditures approved by SAFE. Currently, the participating PRC residents' foreign exchange income received from the sale of share and dividends distributed by the overseas-listed company must be fully remitted into the domestic foreign currency account before distribution to such participants. In addition, the PRC agents are required to amend or deregister the registrations with SAFE in case of any material change in, or termination of, the share incentive plans, within the time periods provided by the Share Option Rules. The failure to comply with such provisions may subject us and the participants of our employee stock option plan who are PRC citizens to fines and legal sanctions and prevent us from further granting options under our employee stock option plan to our employees, which could adversely affect our business operations.

*We face risks related to health epidemics and other outbreaks of contagious diseases.*

Our business could be adversely affected by the effects of avian flu, SARS or another epidemic or outbreak. In 2005 and 2006, there were reports on the occurrences of avian flu in various parts of China, including a few confirmed human cases. During 2007 and early 2008, there have been reports of outbreaks of a highly pathogenic avian flu, caused by the H5N1 virus, in certain regions of Asia and Europe. In 2009 and 2010, there have been reports on the occurrences of swine flu, caused by the H1N1 virus, in Mexico, the United States, China and certain other countries and regions around the world. An outbreak of avian flu or swine flu in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, particularly in Asia. Additionally, any recurrence of Severe Acute Respiratory Syndrome, or SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in 2003 which affected China, Hong Kong, Taiwan, Singapore, Vietnam and certain other countries, would also have similar adverse effects. These outbreaks of contagious diseases, and other adverse public health developments in China, would have a material adverse effect on our business operations. These could include restrictions on our ability to travel or to ship our products outside of China, as well as cause temporary closure of our manufacturing facilities. Such closures or travel or shipment restrictions would severely disrupt our business operations and adversely affect our financial condition and results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu, swine flu, SARS or any other epidemic.

**Risks Related to Our ADSs**

*The market price for our ADSs has been volatile.*



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The market price for our ADSs has been and will continue to be highly volatile. Since our ADSs became listed on the NYSE on June 8, 2007, the trading prices of our ADSs have ranged from US\$2.50 to US\$41.50 per ADS, and the last reported trading price on April 23, 2012 was US\$3.40 per ADS.

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The price of our ADSs may continue to fluctuate in response to factors including the following:

- announcements of technological or competitive developments;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- announcements regarding patent litigation or the issuance of patents to us or our competitors;
- announcements of studies and reports relating to the conversion efficiencies of our products or those of our competitors;
- actual or anticipated fluctuations in our quarterly results of operations;
- changes in financial projections or estimates about our financial or operational performance by securities research analysts;
- changes in the economic performance or market valuations of other PV technology companies;
- addition or departure of our executive officers and key research personnel;
- release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares or ADSs; and
- sales or perceived sales of additional ordinary shares or ADSs.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our ADSs.

***Substantial future sales or perceived sales of our ADSs in the public market could cause the price of our ADSs to decline.***

As of the date of this annual report, we had 156,575,020 ordinary shares outstanding, including 108,933,980 ordinary shares represented by ADSs. All ADSs sold in our public offerings are freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. All of the remaining ordinary shares outstanding are, subject to the applicable requirements of Rule 144 under the Securities Act, available for sale. If our existing shareholders sell, or are perceived as intending to sell, substantial amounts of our ordinary shares or ADSs, including those issued upon the exercise of our outstanding stock options, the market price of our ADSs could fall. Such sales, or perceived potential sales, by our existing shareholders might make it more difficult for us to issue new equity or equity-related securities in the future at a time and place we deem appropriate.

***Holders of ADSs have fewer rights than shareholders and must act through the depositary to exercise those rights.***

Holders of ADSs do not have the same rights of our shareholders and may only exercise the voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. As a holder of ADSs, you will not be treated as one of our shareholders and you will not have shareholder rights. Instead, the depositary will be treated as the holder of the shares underlying your ADSs. However, you may exercise some shareholders' rights through the depositary, and you will have the right to withdraw the shares underlying your ADSs from the deposit facility.

Under our current articles of association, the minimum notice period required to convene a general meeting will be ten days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We plan to make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholder meeting.

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*The depositary for our ADSs will give us a discretionary proxy to vote our ordinary shares underlying your ADSs if you do not vote at shareholders meetings, except in limited circumstances, which could adversely affect your interests.*

Under the deposit agreement for the ADSs, the depositary will give us a discretionary proxy to vote our ordinary shares underlying your ADSs at shareholders meetings if you do not vote, unless:

- we have failed to provide the depositary with the notice of meeting and related voting materials at least 30 days prior to the date of such shareholders meeting;
- we have instructed the depositary that we do not wish a discretionary proxy to be given;
- we have informed the depositary that there is substantial opposition as to a matter to be voted on at the meeting;
- a matter to be voted on at the meeting would have a material adverse effect on shareholders; or
- voting at the meeting is made on a show of hands.

The effect of this discretionary proxy is that you cannot prevent our ordinary shares underlying your ADSs from being voted, absent the situations described above, and it may make it more difficult for shareholders to influence our management. Holders of our ordinary shares are not subject to this discretionary proxy.

*You may not receive distributions on our ordinary shares or any value for them if it is illegal or impractical to make them available to you.*

The depositary of our ADSs has agreed to pay you the cash dividends or other distributions it or the custodian for our ADSs receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of our ordinary shares your ADSs represent. However, the depositary is not responsible if it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed pursuant to an applicable exemption from registration. The depositary is not responsible for making a distribution available to any holders of ADSs if any government approval or registration required for such distribution cannot be obtained after reasonable efforts are made by the depositary. We have no obligation to take any other action to permit the distribution of our ADSs, ordinary shares, rights or anything else to holders of our ADSs. This means that you may not receive the distributions we make on our ordinary shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material and adverse effect on the value of your ADSs.

*You may be subject to limitations on transfers of your ADSs.*

Your ADSs are transferable on the books of the depositary. However, the depositary may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

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*As a holder of our ADSs, your right to participate in any future rights offerings may be limited, which may cause dilution to your holdings and you may not receive cash dividends if it is impractical to make them available to you.*

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to you in the United States unless we register the rights and the securities to which the rights relate under the Securities Act or an exemption from the registration requirements is available. Also, under the deposit agreement, the depositary bank will not make rights available to you unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act, or exempted from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, as a holder of our ADSs, you may be unable to participate in our rights offerings and may experience dilution in your holdings.

In addition, the depositary of our ADSs has agreed to pay to you the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. You will receive these distributions in proportion to the number of ordinary shares your ADSs represent. However, the depositary may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depositary may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them. In these cases, the depositary may decide not to distribute such property and you will not receive such distribution.

*We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than that under U.S. law, you may have less protection for your shareholder rights than you would under U.S. law.*

Our corporate affairs are governed by our memorandum and articles of association, the Cayman Islands Companies Law and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by minority shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands have a less developed body of securities laws than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands.

As a result of all of the above, shareholders of a Cayman Islands company may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as shareholders of a company incorporated in a jurisdiction in the United States. For example, contrary to the general practice in most corporations incorporated in the United States, Cayman Islands law does not require that shareholders approve sales of all or substantially all of a company's assets. The limitations described above will also apply to the depositary who is treated as the holder of the shares underlying your ADSs.

*You may have difficulty enforcing judgments obtained against us.*

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We are a Cayman Islands company and substantially all of our assets are located outside of the United States. Substantially all of our current operations are conducted in the PRC. In addition, most of our directors and officers are nationals and residents of countries other than the United States and a substantial majority of the assets of these persons are located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon these persons. It may also be difficult for you to enforce judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are

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located outside of the United States. In addition, there is uncertainty as to whether the courts of the Cayman Islands or the PRC would recognize or enforce judgments of U.S. courts against us or such persons predicated upon the civil liability provisions of the securities laws of the United States or any state. In addition, it is uncertain whether such Cayman Islands or PRC courts would be competent to hear original actions brought in the Cayman Islands or the PRC against us or such persons predicated upon the securities laws of the United States or any state.

**ITEM 4. INFORMATION ON THE COMPANY**

**A. History and Development of the Company**

Our predecessor and one of our operating subsidiaries, Tianwei Yingli, was established as a PRC limited liability company in August 1998. Through a series of equity transfers among holders of Tianwei Yingli's equity interests and additional equity contributions into Tianwei Yingli from 1998 to 2006, Yingli Group, a PRC company controlled by Mr. Liansheng Miao, and Tianwei Baobian, a PRC listed company, became the only two holders of equity interests in Tianwei Yingli as of August 9, 2006 and held 51% and 49% equity interest in Tianwei Yingli, respectively.

Yingli Green Energy was incorporated on August 7, 2006 in the Cayman Islands as part of a restructuring of the equity interest in Tianwei Yingli to facilitate investments by foreign financial investors in Tianwei Yingli and the listing of our shares on an overseas stock market to achieve such investors' investment goal and exit and liquidity strategies. On August 25, 2006, Yingli Green Energy entered into a Sino-foreign equity joint venture company contract with Tianwei Baobian under which, among others, we granted to Tianwei Baobian a right to subscribe for newly issued ordinary shares of us in exchange for all but not part of Tianwei Baobian's equity interest in Tianwei Yingli. Tianwei Baobian may exercise this subscription right only after certain conditions (as described below) are satisfied. On September 5, 2006, Yingli Group transferred all of its 51% equity interest in Tianwei Yingli to us in a transaction between entities under common control. As a result of such transfer, Tianwei Yingli became our subsidiary. For financial statements reporting purposes, Tianwei Yingli is deemed to be our predecessor. Through a series of additional equity contributions into Tianwei Yingli, we have increased our equity interest in Tianwei Yingli to 74.01%.

In addition to Tianwei Yingli, we have also established or acquired subsidiaries in strategic locations in the PRC, including Haikou, Tianjin, Hengshui, Lhasa, Lanzhou, Kunming, Guangzhou, Beijing, Suzhou, Yantai and Shanghai, etc. to manufacture, assemble or sell PV modules and systems and ancillary materials.

In August 2007, we established Yingli Green Energy (International) Holding Company Limited, or Yingli International, a British Virgin Islands company limited by shares, as our wholly-owned subsidiary and the intermediate holding company primarily for expanding our international and domestic presence. Under Yingli International, we have established:

- Yingli Energy (China) Company Ltd., or Yingli China, a PRC limited liability company, as a wholly-owned subsidiary of Yingli International. Yingli China is primarily engaged in the research, manufacturing, sale and installation of renewable energy products.



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- Yingli Green Energy Europe GmbH, or Yingli Europe, a German limited liability company, as a wholly-owned subsidiary of Yingli International. Yingli Europe is primarily engaged in the sale and marketing of PV products and relevant accessories in Europe.
  
- Yingli Green Energy Greece Sales GmbH, or Yingli Greece, a German limited liability company, with Yingli International holding 60% equity interest in Yingli Greece. Yingli Greece is primarily engaged in the production, sale and marketing of PV products and relevant products in Greece, Cyprus, the Balkans and the Middle East.
  
- Yingli Green Energy Americas, Inc., or Yingli Americas, a Delaware limited liability company, as a wholly-owned subsidiary of Yingli International. Yingli Americas is principally engaged in the production, sale and marketing of PV products and relevant accessories and investments in renewable energy projects.

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- Yingli Green Energy International Trading Limited, or YGE International Trading, as a wholly-owned subsidiary of Yingli China. YGE International Trading is a Hong Kong limited liability company. The principal business of YGE International Trading is the sale of PV products and purchase of raw materials.
- Yingli Green Energy Italia S.R.L., or Yingli Italia, an Italian limited liability company, as a wholly-owned subsidiary of Yingli International. Yingli Italia is primarily engaged in the sale and marketing of PV products and relevant accessories in Italy.
- Yingli Energy (Beijing) Co. Ltd., or Yingli Beijing, a PRC limited liability company, with Yingli International holding 90% equity interest in Yingli Beijing. Yingli Beijing is primarily engaged in the sale and manufacture of PV modules and PV systems.
- Yingli Green Energy Spain, S.L.U., or Yingli Spain, a Spanish limited liability company, as a wholly-owned subsidiary of Yingli International. Yingli Spain is primarily engaged in the sale and marketing of PV products, relevant accessories and investments in renewable energy projects, as well as after sales services.
- Yingli Green Energy Singapore Company Pte. Limited, or Yingli Singapore, a Singapore limited liability company, as a wholly-owned subsidiary of Yingli International. Yingli Singapore is primarily engaged in the research and experimental development on electronics.
- Yingli Green Energy Chile SpA, or Yingli Chile, a Chile limited liability company, as a wholly-owned subsidiary of Yingli international. Yingli Chile is primarily engaged in the sale and marketing of PV products and relevant accessories in Chile.
- Yingli Green Energy Do Brasil S.A., or Yingli Brazil, a Brazil limited liability company, with Yingli international holding 99.9% equity interest in Yingli Brazil. Yingli Brazil is primarily engaged in the sale and marketing of PV products and relevant accessories in Brazil.

In January 2009, we completed the acquisition of Cyber Power Group Limited, or Cyber Power, which, through its principal operating subsidiary in China, Fine Silicon Co., Ltd., has started production of polysilicon with a designed annual production capacity of 3,000 tons.

Our principal executive offices are located at No. 3055 Middle Fuxing Road, Baoding, Hebei Province, People's Republic of China. Our telephone number at this address is (86 312) 8929-700 and our fax number is (86 312) 8929-800. Our agent for service of process in the United States is Law Debenture Corporate Services Inc., located at 400 Madison Avenue, New York, New York 10017. Our registered office in the Cayman Islands is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Investor inquiries should be directed to us at the address and telephone number of our principal executive offices set forth above. Our website is [www.yinglisolar.com](http://www.yinglisolar.com). The information contained on our website is not part of this annual report.

### **Our Initial Public Offering**

On June 13, 2007, we completed our initial public offering, in which we offered and sold 26,550,000 ordinary shares in the form of ADSs, raising US\$274.5 million in proceeds before expenses to us, and Yingli Power sold 2,450,000 ordinary shares in the form of ADSs. Upon the exercise of the underwriters' option to purchase additional ADSs, certain of our Series A and Series B shareholders sold an aggregate of 500,000 ordinary shares in the form of ADSs.

### **Our Convertible Senior Notes Offering and Secondary Offering**

In December 2007, we completed our convertible senior notes offering and secondary offering, in which we offered and sold an aggregate principal amount of US\$172.5 million zero coupon convertible senior notes due

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2012 and raised an aggregate of US\$168.2 million in proceeds, before expenses, and several of our shareholders sold an aggregate of 6,440,000 ordinary shares in the form of ADSs. As of December 31, 2011, most of the convertible senior notes due 2012 have been repaid while principal amount of US\$1.2 million is still outstanding.

**Our Guaranteed Senior Secured Convertible Notes**

In January 2009, we entered into a note purchase agreement with Trustbridge, under the terms of which we have issued an aggregate amount of US\$49.4 million of senior secured convertible notes due 2012 to Trustbridge or its affiliate. In June 2009, we issued 2,000,000 ordinary shares to Trustbridge as a result of the conversion of US\$8.7 million of the senior secured convertible notes. In the third quarter of 2010, we issued 6,000,688 ordinary shares to Trustbridge as a result of the conversion of US\$26.2 million of the senior secured convertible notes. In January 2012, we issued 3,588,025 ordinary shares to Trustbridge as a result of the conversion of the remaining US\$14.6 million of the senior secured convertible notes. As a result, the senior secured convertible notes have been fully converted.

**ADM Capital Warrants**

In January 2009, Yingli China entered into a credit agreement with ADM Capital for a three-year loan facility of up to US\$80.0 million for Yingli China's production capacity expansion and general corporate uses. In April 2009, Yingli China drew down US\$50.0 million of the loan facility and we entered into a warrant agreement whereby we issued to ADM Capital 4,125,000 warrants. Each warrant provides for the right to acquire one ordinary share at an initial strike price of US\$5.64, which is based on the 20-trading day volume weighted average closing price per ADS on the New York Stock Exchange for the period prior to the issuance of the warrant, subject to customary anti-dilution and similar adjustments. In June 2009, we and ADM Capital revised the warrant agreement and modified the terms so that (i) the initial strike price decreased from US\$5.64 per share to US\$5.06 per share, (ii) upon the exercise of the put option by the warrant holders, we may, at our sole discretion, elect to settle the put price in (a) cash, (b) shares or (c) a combination of cash and shares and (iii) the number of ordinary shares we are obligated to issue upon the exercise of the put option by the warrant holders was capped. In May 2010, 498,612 ordinary shares in the form of ADSs were issued to ADM Capital in connection with its exercise of 825,000 warrants. In November 2010, 511,599 ordinary shares in the form of ADSs were issued to ADM Capital in connection with its exercise of 825,000 warrants. In May 2011, 1,444,060 ordinary shares in the form of ADSs were issued to ADM Capital in connection with its exercise of 2,475,000 warrants. As a result, nil warrants remain outstanding as of the date of this annual report. See Item 5.F. Operating and Financial Review and Prospects Tabular Disclosure of Contractual Obligations.

**Follow-on Offering**

In June 2009, we completed a follow-on public offering, in which we offered and sold an aggregate of 18,390,000 ordinary shares in the form of ADS, raising a total of US\$227.3 million in net proceeds, and Yingli Power sold 3,000,000 ordinary shares of ADSs.

**Medium-Term Notes Offering**

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On October 13, 2010, one of our principal operating subsidiaries, Tianwei Yingli, registered its plan to issue up to 2.4 billion RMB-denominated unsecured five-year medium-term notes, or the Registered Issue, with the PRC National Association of Financial Market Institutional Investors, or NAFMII. Under the Registered Issue, Tianwei Yingli successfully completed the issuance of RMB1.0 billion unsecured medium-term notes on October 13, 2010, or the First Tranche Issue. The Registered Issue allows Tianwei Yingli to issue RMB-denominated unsecured five-year medium-term notes in two tranches on the PRC inter-bank debenture market. The First Tranche Issue was successfully completed on October 13, 2010 and will mature on October 13, 2015. Tianwei Yingli has an option to call the notes at the end of the third year from issuance. The First Tranche Issue bears a fixed annual interest rate of 4.3% in the first three years, which will increase to 5.7% in the remaining two years if Tianwei Yingli chooses not to call the notes on October 13, 2013. The second tranche with a principle amount of RMB1.4 billion (US\$222.4 million), or the Second Tranche Issue, was issued on May 10, 2011 and will mature on May 12, 2016. The Second Tranche Issue bears a fixed annual interest rate of 6.15%.

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**Joint Venture Contract**

Tianwei Baobian was established under the PRC law in September 1999 and its common shares have been listed on the Shanghai Stock Exchange since January 2001. The principal business of Tianwei Baobian is the manufacture of large electricity transformers. The controlling shareholder of Tianwei Baobian is Baoding Tianwei Group Co., Ltd., or Tianwei Group, a wholly state-owned limited liability company established in the PRC in January 1991. The controlling person of Tianwei Group is China South. Tianwei Baobian became a shareholder of Tianwei Yingli in April 2002.

We entered into a joint venture contract with Tianwei Baobian on August 25, 2006 and amended the joint venture contract on October 10, 2006, November 13, 2006, December 18, 2006 and September 28, 2007, respectively. The joint venture contract is governed by PRC law and sets forth the respective rights and obligations of us and Tianwei Baobian relating to Tianwei Yingli. The major provisions of this joint venture contract include the following:

***Tianwei Yingli's Management Structure Board of Directors***

*The board of directors of Tianwei Yingli, or the board, is its highest authority and has the power to decide all matters important to Tianwei Yingli.*

The board consists of nine directors, six of whom are appointed by us and three of whom are appointed by Tianwei Baobian. Each director is appointed for a term of three years and may serve consecutive terms if re-appointed by the party which originally appointed such director. Each director may be removed by its appointing party, at any time, with or without cause and may be replaced by a nominee appointed by such party before the expiration of such director's term of office.

The chairperson of the board is the legal representative of Tianwei Yingli. The chairperson has the right to vote as any other director and does not have a casting vote. Tianwei Baobian is entitled to appoint a director to serve as the chairperson of the board and we are entitled to appoint a director to serve as the vice chairperson of the board.

A unanimous approval of all directors present in person or by proxy at the meeting of the board or, in the event of a written resolution, a unanimous approval of all directors, is required for resolutions involving the following matters:

- amendment to the articles of association of Tianwei Yingli;
  
- merger of Tianwei Yingli with another entity;

- division of Tianwei Yingli;
- termination or dissolution of Tianwei Yingli; and
- increase, reduction or transfer of the registered capital of Tianwei Yingli.

Resolutions of the board involving any other matters may be adopted by the affirmative vote of a simple majority of all directors present in person or by proxy at a meeting of the board.

The board is required to meet at least once each quarter. In addition to the regular meetings, the board may hold interim meetings. Each director has one vote at a meeting of the board. Board meetings are convened and presided over by the chairperson or, in his or her absence, by the vice chairperson or, in the absence of the vice chairperson, by a director elected by the majority of the directors. The board may adopt written resolutions in lieu of a board meeting, as long as the resolutions to be adopted are delivered to all directors and affirmatively signed and adopted by each director. The board members are required to act in accordance with board resolutions and may not do anything to jeopardize the interests of Tianwei Yingli.

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A quorum for a meeting of the board is two thirds of the board members present, in person (including through telephone or video conference) or by proxy. If a meeting has been duly called and a quorum in person or by proxy is not present, no resolutions made at the meeting will be valid, and the director presiding over this meeting is required to postpone the meeting for no more than seven working days and send written notice of postponement to all directors. Any director who fails to attend the postponed meeting in person or by proxy will be deemed to be present at the meeting and be counted in the quorum, but such director will be deemed to have waived his or her voting rights.

***Supervisors***

Tianwei Yingli is required to have two supervisors. Tianwei Baobian and we each appoint one supervisor. Each supervisor is appointed for a term of three years and may serve consecutive terms if re-appointed by the party which originally appointed such supervisor. The supervisors may attend board meetings as non-voting members and make inquiries and suggestions as to matters submitted to board meetings for resolution. The major duties and powers of the supervisors are as follows:

- inspect financial affairs of Tianwei Yingli;
  
- monitor acts of directors and senior managers in the performance of their duties to Tianwei Yingli, and propose removal of directors or senior managers who have violated any laws, regulations, the articles of association of Tianwei Yingli or any board resolutions;
  
- demand directors and senior managers to correct any of their act that harms Tianwei Yingli's interests; and
  
- propose interim meetings of the board.

***Senior Management***

Tianwei Yingli is required to have one chief executive officer and one chief financial officer. We nominate the chief executive officer for appointment by the board. The chief executive officer serves a term of three years and may serve consecutive terms if re-nominated by us and re-appointed by the board. The chief executive officer has overall responsibilities for the daily operation and management of Tianwei Yingli and reports directly to the board. The chief executive officer nominates the chief financial officer for appointment by the board. The chief financial officer is responsible for financial matters of Tianwei Yingli and reports to the chief executive officer.

***Subscription Right***



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Under the joint venture contract, we granted to Tianwei Baobian a right to subscribe for ordinary shares newly issued by us in exchange for all but not part of Tianwei Baobian's equity interest in Tianwei Yingli. Tianwei Baobian may exercise the subscription right if, and only if, the following conditions are satisfied:

- we have completed our initial public offering;
- our ordinary shares are listed on a qualified securities exchange, which is defined under the joint venture contract to include, among others, the NYSE; and
- Tianwei Baobian or its affiliates obtains all necessary approvals from relevant PRC government authorities for acquiring our ordinary shares as a result of exercising the subscription right.

Subject to applicable laws in the PRC, the Cayman Islands, any jurisdiction in which our ordinary shares are listed and any jurisdiction in which a qualified securities exchange, including the NYSE, is located and further subject to the listing rules of such exchange, Tianwei Baobian may exercise the subscription right by sending a written notice to us within one month following the first date on which all conditions listed above are satisfied, accompanied by copies of related approvals and opinion of counsel.

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Prior to exercising its subscription right, Tianwei Baobian is required to retain an asset valuation firm reasonably acceptable to us to obtain a valuation of Tianwei Baobian's equity interest in Tianwei Yingli in accordance with internationally accepted valuation methods and relevant PRC laws and regulations. The valuation report will need to be acknowledged by both Tianwei Baobian and us. Under relevant PRC laws and regulations, the value of Tianwei Baobian's equity interest in Tianwei Yingli agreed by Tianwei Baobian and us for the purpose of Tianwei Baobian's exercise of the subscription right shall not be lower than 90% of the value of such equity interest as indicated in the valuation report.

The number of our new ordinary shares that we are obligated to issue to Tianwei Baobian upon its exercise of the subscription right will be calculated according to the following formula:

$$\begin{array}{rcccl} \text{Number of new shares to be} & & & & \text{Percentage of Tianwei Baobian's} \\ \text{issued to Tianwei Baobian} & = & \text{Total number of our shares} & & \text{equity interest in Tianwei Yingli} \\ & & \text{immediately before the} & & \text{immediately before the exercise of the} \\ & & \text{exercise of the subscription} & \times & \text{subscription right} \\ & & \text{right} & & \text{Percentage of our equity interest in} \\ & & & & \text{Tianwei Yingli immediately before} \\ & & & & \text{the exercise of the subscription} \\ & & & & \text{right(1)} \end{array}$$

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(1) Tianwei Baobian and we have agreed that the effective equity interest percentage in Tianwei Yingli indirectly held by Tianwei Baobian by way of its ownership of the equity interest in us following its exercise of the subscription right must be equal to the equity interest percentage in Tianwei Yingli directly held by Tianwei Baobian immediately prior to the exercise of the subscription right.

In addition, Tianwei Baobian may request us to make best efforts to purchase from Tianwei Baobian all but not part of its equity interest in Tianwei Yingli. Upon such request by Tianwei Baobian, we will undertake to use our best efforts to assist Tianwei Baobian in completing the transfer of such equity interest held by Tianwei Baobian. The manner and the price at which Tianwei Baobian sells its equity interest in Tianwei Yingli will be decided by mutual agreement between Tianwei Baobian and us based on the fair market value of its and our equity interest in Tianwei Yingli, respectively, and in accordance with relevant PRC laws and regulations.

*Tianwei Yingli's Registered Capital*

Tianwei Yingli currently has a registered capital of RMB3,375.2 million. We currently hold 74.01% of Tianwei Yingli's equity interest, and Tianwei Baobian currently holds the remaining 25.99%. The registered capital of a company refers to the total amount of the capital subscribed by the equity interest holders of such company, as registered with relevant authorities. A shareholder of a company is entitled to the rights to and interests in such company in proportion to the fully paid amount of the registered capital of such company for which such shareholder subscribes or as otherwise agreed among the shareholders of such company. Such rights and interests include the rights to nominate directors to the board and receive dividends in proportion to the fully paid amount of the registered capital subscribed by such equity interest holders or as otherwise agreed among such equity interest holders. Under the PRC law, the rights and interests of a shareholder to a limited liability company are generally referred to as equity interest.

*Increase or Reduction of Tianwei Yingli's Registered Capital*

*Approval by the Board and the Relevant PRC Authority*

Any increase or reduction of Tianwei Yingli's registered capital is subject to unanimous approval of all directors present in person or by proxy at a meeting of the board or, in the event of a written resolution, the unanimous approval of all directors, as well as approval of the relevant PRC authority.

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*Preemptive Right*

If the board resolves to increase Tianwei Yingli's registered capital, both Tianwei Baobian and we have the preemptive right to make additional contributions to the registered capital in proportion to its and our respective equity interests in Tianwei Yingli as of the date of the board's resolution. If Tianwei Baobian and we choose to make such additional contributions, we are obligated to pay in full our respective additional contributions within 30 days after the relevant PRC authority approves the increase of Tianwei Yingli's registered capital.

If a party notifies the board in writing of its decision not to make all or part of the additional contribution that it is entitled to make, or fails to pay in full its additional contribution within 30 days after the approval by the relevant PRC authority (such party being the non-contributing party), the other party has the right, but not the obligation, to make an additional contribution to the extent that the first party fails or elects not to contribute (such other party, if it so contributes, being the contributing party). In this event, the board will retain an independent asset valuation firm to obtain a valuation of Tianwei Yingli in accordance with internationally accepted valuation methods and relevant PRC laws and regulations. If the non-contributing party does not make any additional contribution to Tianwei Yingli's registered capital while the contributing party does, the contributing party's shareholding percentage in Tianwei Yingli immediately after its contribution will be calculated as follows:

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(1) Fair market value means the expected value of Tianwei Yingli immediately following the contribution by the contributing party to Tianwei Yingli's registered capital.

*Our Additional Contribution to Tianwei Yingli's Registered Capital with Proceeds from our Public Offering or Private Placements*

Notwithstanding the above, if we intend to use proceeds from our public offering or any private placement transaction to make additional contributions to Tianwei Yingli's registered capital, Tianwei Baobian must cause all directors appointed by Tianwei Baobian to vote in favor of an increase of Tianwei Yingli's registered capital, and to take all actions necessary to obtain the approval of the relevant PRC authority. In such event, the board shall retain an independent asset valuation firm to obtain a valuation of Tianwei Yingli in accordance with internationally accepted valuation methods and relevant PRC laws and regulations. The percentage of our equity interest in Tianwei Yingli immediately after we make an additional contribution to Tianwei Yingli's registered capital with proceeds of our public offering or any private placement transaction will be calculated as follows:

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(1) Fair market value means the expected value of Tianwei Yingli immediately following our contribution to Tianwei Yingli's registered capital with proceeds from our public offering or from a private placement transaction, as the case may be. After our additional contribution as described above, Tianwei Baobian's equity interest in Tianwei Yingli will be diluted in the same proportion as our equity interest in Tianwei Yingli immediately prior to such additional contribution.

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*Transfer of Equity Interests in Tianwei Yingli*

All or part of the equity interests in Tianwei Yingli held by Tianwei Baobian and us may be transferred to third parties subject to the provisions described below.

*Right of First Refusal*

The party intending to transfer all or any part of its equity interest in Tianwei Yingli (such party being the transferring party) is required to send a written notice, or the offer notice, to the other party (such party being the non-transferring party) and the board of Tianwei Yingli, notifying them of the transferring party's intent to transfer such equity interest, or the offered interest, the terms and conditions of the proposed transfer and the identity of the proposed third-party transferee. The non-transferring party may exercise its right of first refusal by sending a written notice, or the acceptance notice, to the transferring party within 30 days after receipt of the offer notice, notifying the transferring party of the non-transferring party's intent to acquire all, but not less than all, of the offered interest.

The non-transferring party will be deemed to have consented to the proposed transfer if the transferring party has not received an acceptance notice within 30 days after the non-transferring party's receipt of the offer notice. In such an event, the transferring party may transfer the offered interest to the proposed third-party transferee within 60 days after expiration of the 30-day period as provided above and on terms no more favorable than specified in the offer notice, and the non-transferring party is obligated to sign a statement indicating its consent and waiver of its right of first refusal.

Notwithstanding the right of first refusal as described above, after completion of our initial public offering and listing of our ADSs on the NYSE, all or any part of the interest in Tianwei Yingli held by Tianwei Baobian or us may be transferred to its or our respective affiliates, and the other party is obligated to consent to such transfer.

*Approval by the Board and the Relevant PRC Authority*

Any transfer of an equity interest in Tianwei Yingli is subject to the unanimous approval of all directors present in person or by proxy at a meeting of the board or, in the event of a written resolution, the unanimous approval of all directors. Such transfer is also subject to the approval of relevant PRC authorities.

In the case of any transfer of an equity interest in Tianwei Yingli to a third party with a deemed consent of the non-transferring party or any affiliate transfer following the completion of our initial public offering and listing of our ADSs on the NYSE, each as described above, the non-transferring party is obligated to (i) cause each director appointed by it to consent to such transfer and approve related amendments to the articles of association of Tianwei Yingli at a board meeting and (ii) use its best efforts to obtain the approval of relevant PRC authorities.

*No Transfer to Tianwei Yingli's Competitors*

Under an amendment to the joint venture contract dated October 10, 2006, Tianwei Baobian and we may not transfer any of its or our equity interest, as applicable, in Tianwei Yingli to any third party that is engaged in a competing business with Tianwei Yingli.

***Encumbrance***

Neither Tianwei Baobian nor we may mortgage, pledge, charge or otherwise encumber all or any part of its or our respective equity interests, as applicable, in Tianwei Yingli without the prior written consent of the other party or the approval of relevant PRC authorities.

***Profit Distribution***

The maximum amount of dividend payable by Tianwei Yingli to its equity interest holders is calculated based on its retained earnings as calculated under PRC accounting regulations, and prior to the payment of

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dividends, Tianwei Yingli is required to pay income taxes according to PRC laws and make allocations of retained earnings to the reserve fund, enterprise development fund and employee bonus and welfare fund each at a percentage decided by the board each fiscal year. Any dividends paid by Tianwei Yingli are required to be distributed to Tianwei Baobian and us in proportion to its and our respective equity interests in Tianwei Yingli. Tianwei Yingli may not distribute any profit to its equity interest holders until all losses incurred in previous fiscal years are fully recovered. Undistributed profits accumulated in previous fiscal years may be distributed together with profits from the current fiscal year.

*Unilateral Termination of the Joint Venture Contract*

Either Tianwei Baobian or we may unilaterally terminate the joint venture contract if:

- Tianwei Yingli or the other equity interest holder is bankrupt, enters into a liquidation or dissolution proceeding, ceases business or becomes incapable of repaying debts that are due,
- an event of force majeure occurs and is continuing for over six months and the equity interest holders of Tianwei Yingli cannot find an equitable solution, or
- Tianwei Yingli's business license is terminated, cancelled or revoked.

Under the joint venture contract, force majeure is defined as any event which (i) is beyond the control of the parties thereto, (ii) is not foreseeable, or if foreseeable, unavoidable and (iii) prevents either party from performing all or a material part of its respective obligations.

Under the Company Law and other relevant PRC laws and regulations, the business license of a company may be terminated, cancelled or revoked by the relevant registration authority if such company:

- obtains its company registration by making false statement of registered capital, submitting false certificates or by concealing material facts through other fraudulent means, and the registration authority deems such activities to be a material noncompliance with applicable laws and regulations;
- fails to commence operation for more than six months without proper cause, or suspends operation on its own without proper cause for more than six consecutive months after commencement of operation;



- conducts illegal activities jeopardizing the national security and social public interests;
- engages in relevant business activities which require special permits or approval without obtaining such permits or approval, and the registration authority deems such activities to be a material noncompliance with applicable laws and regulations;
- refuses to accept the annual inspection within the time limit, or conceals facts or resorted to deception during the annual inspection, and the registration authority deems such activities to be a material noncompliance with applicable laws and regulations; or
- forges, alters, leases, lends or transfers its business license, and the registration authority deems such activities to be a material noncompliance with applicable laws and regulations.

Under relevant PRC laws and regulations, Tianwei Yingli's board of directors is required to establish a liquidation committee to carry out the liquidation of Tianwei Yingli upon the expiration or termination of the joint venture contract. The liquidation committee must conduct a thorough examination of Tianwei Yingli's assets and liabilities. During the course of the liquidation proceedings, Tianwei Yingli may continue its existence, but may not conduct any business activities unrelated to the liquidation process. The proceeds from the liquidation of Tianwei Yingli's assets must be used first to settle any and all of its outstanding debts, salaries, labor insurance and liquidation-related fees and taxes, and the balance of the proceeds must be distributed to Tianwei Yingli's shareholders in proportion to their respective contributions to Tianwei Yingli's registered capital. Upon completion

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of the liquidation, the liquidation committee must submit a liquidation report to relevant PRC authorities to effect deregistration and make a public announcement of the termination of the joint venture contract.

***Dispute Resolution***

All disputes arising from or in connection with the existence, interpretation, validity, termination or performance of the joint venture contract are required to be submitted to the Hong Kong International Arbitration Center for final and binding arbitration in accordance with the arbitration rules of the United Nations Commission on International Trade Law then prevailing. Before an arbitration proceeding may be commenced, (1) the party seeking arbitration must send a written notice to the other party requesting arbitration and describing the nature of the dispute and (2) within 90 days of such notice Tianwei Baobian and we must have engaged in efforts to resolve the dispute amicably, but such efforts have failed.

***Governing Law***

The execution, validity, interpretation and performance of the joint venture contract, as well as resolution of disputes under such contract, are governed by PRC law.

**B. Business Overview**

**Overview**

We are one of the leading vertically integrated photovoltaic, or PV, product manufacturers in the world. We design, manufacture and sell PV modules, and design, assemble, sell and install PV systems. With an overall annual manufacturing capacity of over 1,700 megawatts for each of crystalline polysilicon ingots and wafers, PV cells and PV modules as of the date of this annual report, we believe we are currently one of the largest manufacturers of PV products in the world as measured by annual manufacturing capacity. With our in-house polysilicon manufacturing capacity, which started trial production in late 2009, our current products and services substantially cover the entire PV industry value chain, ranging from the manufacture of polysilicon, crystalline polysilicon ingots and wafers, PV cells and PV modules to the manufacture of PV systems and the installation of PV systems. We believe we are one of the largest PV companies in the world to have adopted a vertically integrated business model. Our end-products include PV modules and PV systems in different sizes and power outputs. We sell PV modules under our own brand names, Yingli and Yingli Solar, to PV system integrators and distributors located in various markets around the world, including Germany, the United States, Italy, China, Spain, the Netherlands, France, the United Kingdom, Japan, Israel and Slovenia.

In 2002, we began producing PV modules with an initial annual manufacturing capacity of three megawatts and have significantly expanded production capacities of our PV products in the past to the current level. We currently plan to expand our overall annual manufacturing capacity of each of polysilicon ingots and wafers, PV cells and PV modules to 2,450 megawatts by the end of 2012 by building another 750 megawatts of manufacturing capacity in Haikou, Tianjin, Hengshui and Baoding. In addition, our in-house polysilicon production subsidiary, Fine Silicon, has

a designed annual production capacity of 3,000 tons of polysilicon and is currently ramping up its production.

### **Our Products and Services**

Our products and services include the manufacture of polysilicon ingots and wafers, PV cells, PV modules and integrated PV systems, which encompass substantially the entire PV industry value chain, with the manufacture of polysilicon feedstock being the only significant exception. In January 2009, we acquired Cyber Power, a development stage enterprise designed to produce polysilicon. Cyber Power, through its principal operating subsidiary, Fine Silicon, has a designed annual production capacity of 3,000 tons of polysilicon and is currently ramping up its production. However, we do not expect that our in-house polysilicon production capacity will meet our entire polysilicon needs in the near future.

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***Polysilicon***

Our polysilicon production process starts with the production of sodium aluminum hydrogen, or SAH, and silicon tetrafluoride, or STF. We produce SAH with sodium, aluminum and hydrogen through the SAH reactor. STF is produced from silica, sulfuric acid and sodium aluminum tetrafluoride, or SAF, through the STF reactor. SAH and STF are then fed into the silane reactor to produce silane. After purification, we transfer silane into the chemical vapor disposition, or CVD, reactor to produce polysilicon.

***Polysilicon Ingots and Blocks***

A polysilicon ingot is formed by melting, purifying and solidifying polysilicon feedstock into a brick-shaped ingot. Now we produce 400 kilogram with the size of 840 millimeters x 840 millimeters x 250 millimeters and 420 kilogram multicrystalline polysilicon ingots with the size of 840 millimeters x 840 millimeters x 262 millimeters, which accounts for a little more than half quantity of our ingots. The polysilicon ingots are then cut into blocks. Our polysilicon blocks are generally available in the size of 156 millimeters x 156 millimeters x 250 millimeters and 156 millimeters x 156 millimeters x 262 millimeters. We use our polysilicon blocks to produce polysilicon wafers.

***Polysilicon Wafers***

The polysilicon blocks are then sliced into wafers with wire saws. Thinner wafers enable a more efficient use of polysilicon, and thus lower the cost per watt of power produced. The thickness of our wafers was 180 microns as of December 31, 2011. The diameter of our wafers was 130 microns as of December 31, 2011. Our wafers are generally available in the size of 156 millimeters x 156 millimeters. At times historically when we had produced an excess amount of wafers as a result of the disparity in our wafer manufacturing capacity and the PV cell capacity, we provided the excess wafers to third-party toll manufacturers which processed wafers into PV cells and return the PV cells to us for a processing fee under toll manufacturing arrangements. In 2010 we entered into toll manufacturing arrangements with third-party toll manufacturers, which accounted for a very small percentage of our total production volume. For the year of 2009 and 2011 we did not have such toll manufacturing arrangements.

***PV Cells***

A PV cell is a device made from a polysilicon wafer that converts sunlight into electricity by a process known as the photovoltaic effect. The conversion efficiency of a PV cell is the ratio of electrical energy produced by the cell to the energy from sunlight that reaches the cell. The conversion efficiency of PV cells is determined to a large extent by the quality of wafers used to produce the PV cells, which is, in turn, determined by the mix of different types of polysilicon raw materials used in the ingot casting process. The annual average conversion efficiency for our multicrystalline cells was 16.2%, 16.5% and 17.0% in 2009, 2010 and 2011, respectively.

In addition, we have commercialized 600 megawatts of monocrystalline production capacity for each of monocrystalline ingots and wafers, cells and modules in Baoding, Hebei Province. These production lines are designed to produce next-generation high efficiency monocrystalline PV cells based on the technology developed through Project PANDA, a collaboration project among us, the Energy Research Centre of the

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Netherlands, a leading solar research center in Europe, and Tempres Systems, a wholly-owned subsidiary of Amtech Systems, Inc., a global supplier of production and automation systems and related supplies for the manufacture of PV cells. We achieved an average cell conversion efficiency rate of 19.0% on the PANDA commercial lines, and a record cell conversion efficiency rate of 20.0% on the PANDA trial production line in 2011.

We generally use all of our PV cells in the production of our PV modules. In 2011, as we were able to achieve a utilization rate of our PV module production capacity above 100% to meet strong market demand, we purchased PV cells from third parties to meet the excess PV module production capacity. We anticipate that we may continue to purchase PV cells from third parties from time to time in the future.

Table of Contents***PV Modules***

A PV module is an assembly of PV cells that are electrically interconnected, laminated and framed in a durable and weatherproof package. Currently, most of our PV modules are made with PV cells produced by us. Historically, we have used toll manufacturing arrangements on a limited scale, and most of our PV modules produced by third-party PV module manufacturers under such toll manufacturing arrangements used PV cells produced by us. As the result of a utilization rate of our PV module production capacity above 100%, which exceed the utilization rate of our PV cell production capacity, a small portion of our PV modules were made with PV cells provided by third-party suppliers. Our PV modules are made with a frame design that we believe enhances their ability to withstand strong wind and vibrations. A majority of PV modules produced by us have outputs ranging from 150 to 270 watts. The following table sets forth the major types of modules produced by us:

<b>Dimensions (mm x mm)</b>	<b>Weight (Kilograms)</b>	<b>Maximum Power (Watts)</b>		<b>Optimum Operating Voltage (Volts)</b>
1310 x 990	15.8	150	195	23
1650 x 990	19.5	200	245	29
1650 x 990	19.5	225	270	30

***Integrated PV Systems***

A PV system consists of one or more PV modules that are physically mounted and electrically interconnected with system components such as batteries and power electronics, to produce and store electricity. We produce PV systems and also design, assemble, sell and install stand-alone PV systems for lighting systems, mobile communication base stations and residential applications. In order to focus on our core PV products and their components, we no longer produce controllers, inverters and other components used in our PV systems but instead source them from third-party manufacturers and sell them to our customers as part of our PV systems. We typically install these systems on-site for our customers. For our larger PV systems, we work with the customers on-site to design, install, test and oversee the system start-up. Installation, testing and initial start-up of a PV system generally takes up to four months.

***Manufacturing***

We started producing PV modules in 2002 and started producing polysilicon ingots and wafers in October 2003 and PV cells in March 2004. As of the date of this annual report, we have the capacity to produce over 1,700 megawatts each of polysilicon ingots and wafers, PV cells and PV modules per year. We use our polysilicon wafers and PV cells as materials in the production of PV modules.

***Manufacturing Process***

**Polysilicon.** Fine Silicon produces high-quality solar-grade and electronic-grade polysilicon through an energy-efficient and environmentally sound manufacturing process. Unlike traditional trichlorosilane (TCS)-based polysilicon technology, Fine Silicon's approach eliminates the use of any chlorides or TCS and produces sulfate as the only by-product, which can be used as raw materials in the chemical industry, thereby

saving power and minimizing the environmental impact.

Our polysilicon production process starts with the production of sodium aluminum hydrogen, or SAH, and silicon tetrafluoride, or STF. We produce SAH with sodium, aluminum and hydrogen through the SAH reactor. STF is produced from silica, sulfuric acid and sodium aluminum tetrafluoride, or SAF, through the STF reactor. SAH and STF are then fed into the silane reactor to produce silane. After purification, we transfer silane into the CVD reactor to produce polysilicon.

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The following diagram illustrates our polysilicon production process:

*Polysilicon Ingots.* The quality of polysilicon ingots determines, to a large extent, the quality of our final PV products. To produce polysilicon ingots, polysilicon is melted in a quartz crucible within a furnace. The melted polysilicon then undergoes a crystal growing process, gradually anneals and forms an ingot. To reduce the cost of polysilicon, we use a mix of high-purity polysilicon and lower-purity polysilicon, including polysilicon scraps such as the discarded tops and tails of ingots, pot scraps and broken or unused silicon wafers. Our employees undertake the labor-intensive process of sorting through the polysilicon feedstock to separate polysilicon that meets our specified standards for the production of ingots. The polysilicon feedstock used in the production of multicrystalline polysilicon ingots is not required to have the same level of purity as that used to produce monocrystalline silicon ingots. Nonetheless, impurities in polysilicon feedstock present a challenge to the production of polysilicon ingots because impurities are difficult to separate in the casting process.

*Blocks and Wafers.* Polysilicon ingots are cut into polysilicon blocks, which are edge-ground to avoid breakage during the wafer-slicing process. Polysilicon blocks are then sliced into polysilicon wafers.

*PV Cells.* The silicon wafers undergo an ultrasonic cleaning process to remove oil and surface particles, followed by a chemical cleaning process to remove the impurity and create a suede-like structure on the wafer surface, which reduces the PV cell's reflection of sunlight and increases the PV cell's absorption of solar energy. Through a diffusion process, we then introduce certain impurities into the silicon wafers and form an electrical field within the PV cell. We achieve the electrical isolation between the front and back surfaces of the silicon wafer by edge isolation, or removing a very thin layer of silicon around the edge. We then apply an anti-reflection coating to the front surface of the wafer to enhance its absorption of sunlight. We screen-print negative and positive metal contacts, or electrodes, on the front and back surfaces of the PV cell, respectively, with the front contact in a grid pattern to collect the electrical current. Silicon and metal electrodes are then connected through an electrode firing process in a conveyor belt furnace at a high temperature. Testing and sorting complete the manufacturing process for PV cells.



The diagram below illustrates the PV cell manufacturing process:

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*PV Modules.* PV modules are formed by interconnecting multiple PV cells into desired electrical configurations through welding. The interconnected cells are laid out and laminated in a vacuum. Through these processes, the PV modules are weather-sealed, and thus are able to withstand high levels of ultraviolet radiation, moisture, wind and sand. Assembled PV modules are packaged in a protective aluminum frame prior to testing.

The following diagram illustrates the PV module manufacturing process:

*PV Systems.* PV system production involves the design, manufacturing, installation and testing of PV systems. We design PV systems according to our customers' requirements. We integrate PV modules and other system components into PV systems by electronically interconnecting PV modules with system components such as inverters, storage batteries and electronic circuitry to produce, store and deliver electricity. For small PV systems such as portable electricity supply systems used for transmitter-receivers, we complete the integration and testing procedures in our facilities in Baoding before such systems are sold to the end-customers. For mid-sized PV systems such as PV lighting systems, we complete the integration process in Baoding, but install and test for our customers on-site. For large PV systems, such as on-grid solar power stations and stand-alone PV systems, we work with the customers on-site to design, install, test and oversee the system startup.

***Manufacturing Capacity Expansion***

In 2002, we began producing PV modules with an initial annual manufacturing capacity of three megawatts and have significantly expanded production capacities of our PV products in the past to the current level. We currently plan to expand our overall annual manufacturing capacity of each of polysilicon ingots and wafers, PV cells and PV modules to 2,450 megawatts by the end of 2012 by building another 750 megawatts of manufacturing capacity in total in Haikou, Tianjin, Hengshui and Baoding. In addition, our in-house polysilicon manufacturing plant, Fine Silicon, has a designed annual production capacity of 3,000 tons of polysilicon and is currently ramping up its production.

The following table sets forth our production capacities for ingot and wafers, PV cells and PV modules at the end of each period indicated.

	2009	As of December 31, 2010 (Megawatts)	2011
Ingot and wafers	600	1,000	1,700
PV cells	600	1,000	1,700

PV modules	600	1,000	1,700
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***Raw Materials***

Raw materials required in our manufacturing process include aluminum, sodium, hydrogen, silica, sulfuric acid, polysilicon, polysilicon scraps crucibles, silicon carbides, cutting fluid, steel cutting wires, metallic pastes, laminate materials, tempered glass, aluminum frames, solder, batteries and other chemical agents and electronic components. We generally use vendors who have demonstrated quality control and reliability and maintain multiple supply sources for each of our key raw materials and other consumables so as to minimize any potential disruption of our operations from supply problems with any one vendor. We generally evaluate the quality and delivery performance of each vendor periodically and adjust quantity allocations accordingly. We maintain adequate supply of raw materials and other consumables based upon periodic estimates of our outstanding customer orders.

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In 2009, 2010 and 2011, we purchased the substantial majority of our raw materials and other consumables (other than polysilicon) from approximately 10 to 15 overseas suppliers and the rest from Chinese suppliers. Where possible, we seek to procure raw materials and other consumables from suppliers with proven quality and cost advantages.

Polysilicon is the most important raw material used in our production process. Due to growing global demand for polysilicon, prices for polysilicon had increased substantially in the past few years until the fourth quarter in 2008. From the fourth quarter of 2008 to the second quarter of 2009, as the result of increased polysilicon manufacturing capacity and the decrease in the demand for polysilicon due to the global financial crisis in 2008 and 2009, the price of polysilicon decreased significantly. Although the polysilicon price rebounded between the third quarter of 2010 and first quarter of 2011 due to the recovery of demand for PV products in certain markets, the polysilicon price has decreased significantly starting from the second quarter of 2011 as the result of increased polysilicon manufacturing capacity for polysilicon and the pressure from the decreasing average selling price of PV modules. Any significant increase of the price for polysilicon would materially and adversely affect our profitability and results of operations. Our average purchase price of polysilicon per kilogram decreased by 16.8% in 2011 compared to 2010.

Historically, we had relied on spot market purchase to meet a significant portion of our polysilicon needs. In order to secure adequate and timely supply of polysilicon, we are actively seeking to further strengthen our relationships with our polysilicon suppliers and establish strategic relationships with them. We have entered into various purchase agreements and memorandums of understanding with local and foreign suppliers, including some of the world's major polysilicon suppliers. Supplies under these purchase agreements started in early 2009. However, we cannot assure you that we will be able to secure sufficient quantities of polysilicon to support the expansion of our manufacturing capacity as currently planned.

From 2006 to 2010, we entered into seven long-term supply contracts with Wacker Chemie AG, or Wacker, a German polysilicon supplier, for supplies of polysilicon from 2009 through 2013, from 2009 through 2017, from 2010 through 2018, from 2009 through 2011, from 2010 through 2017, from 2011 through 2013 and from 2011 through 2018, respectively. In addition, we entered into one long-term supply agreements in February 2008 with OCI Company Ltd., or OCI, formerly known as DC Chemical, for supplies of polysilicon for the period from 2009 through 2013. From 2009 to the date of this annual report, we entered into another two long-term supply contracts with OCI, for supplies of polysilicon from 2011 through 2015 and from 2012 through 2018, respectively. We also entered into a polysilicon supply contract with Daqo New Energy Corp., or Daqo, formerly known as Sailing, for polysilicon to be delivered from the fourth quarter of 2008 through the end of 2010. In August, 2010, we entered into another polysilicon supply agreement with Daqo for supplies of polysilicon from 2011 through 2012. In March 2011, we entered into a long-term polysilicon supply agreement with Hemlock Semiconductor Pte. Ltd., or Hemlock, for supplies of polysilicon from 2013 through 2020. In November 2011, we entered into an amendment to this long-term supply agreement to purchase polysilicon starting from 2012 through 2020 instead of 2013 through 2020 and revised certain commercial terms such as total contract quantity, advance payment arrangement and unit prices.

In January 2009, we acquired Cyber Power, which was then a development stage enterprise designed to produce polysilicon. Fine Silicon, the principal operating subsidiary of Cyber Power, has a designed annual production capacity of 3,000 tons of polysilicon and is currently ramping up its production. However, we do not expect that our in-house polysilicon production capacity will meet our entire polysilicon needs in the near future.

*Quality Control*

We employ quality assurance procedures at key stages of our manufacturing process to identify and solve quality problems. Our quality assurance procedures start with raw material quality assurance, which includes annual evaluation of our major raw material suppliers and inspection of all raw materials upon their arrival at our factory. We also have quality control procedures in place at all key stages of our wafer, PV cell and PV module production processes. In addition, all of our wafers, PV cells and PV modules are tested before they are used in the next manufacturing step or sent to our warehouse for sale. If a problem is detected, a failure analysis is performed to determine the cause. To ensure the accuracy and effectiveness of our quality assurance procedures, we provide ongoing training to our production line employees. Our senior management team is actively involved in establishing quality assurance policies and managing quality assurance performance on a continuous basis.

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We have received many types of international certifications for our products and quality assurance programs, which we believe demonstrates our technological capabilities and foster customer confidence. The following table sets forth the major certifications we have received and major test standards our products have met as of the date of this annual report:

<b>Certification or Test Dates</b>	<b>Certification or Test Standard</b>	<b>Relevant Products</b>
February 2004, and renewed in February 2010	ISO 9001: 2000 (renewed as ISO 9001:2008) quality system certification, established by the International Organization for Standardization, an organization formed by delegates from member countries to establish international quality assurance standards for products and manufacturing processes.	The design and manufacturing of crystalline silicon solar modules, solar cells, multi-crystalline silicon wafers and multi-crystalline silicon ingots
April 2004, December 2010 and renewed in February 2012	UL certification, authorized by Underwriters Laboratories Inc., an independent, not-for-profit product-safety testing and certification organization in the United States; evaluated in accordance to USL (Standard for Safety, Flat-Plate Photovoltaic Modules and Panels, UL 1703) and CNL (Canadian Other Recognized Document, ULC/ORD-C1703-01, Flat-Plate Photovoltaic Modules and Panels).	Certain models of PV modules
August 2004, July 2005, January 2006, February 2007, May 2007, July 2007, June 2008, May 2009, November 2009, February 2010, August 2010, November 2010, April 2011, June 2011, November 2011 and December 2011	TÜV certification, conducted by TÜV Immissionsschutz und Energiesysteme GmbH, an independent approval agency in Germany, against the requirements of Safety Class II Test (Crystalline terrestrial Photovoltaic (PV) Modules Design qualification and type approval, IEC61215:2005, Photovoltaic (PV) module safety qualification, IEC61730 and ammonia corrosion testing, IEC 62716) on PV modules.	Certain models of PV modules
January 2007 and renewed in February 2010	ISO 14001: 2004 certification for environment management system.	The design and manufacturing of crystalline silicon solar modules, solar cells, multi-crystalline silicon wafers and multi-crystalline silicon ingots
July 2010	Golden Solar certification by CGC, against the requirement of IEC61215:2005.	Certain models of our PV modules
March 2011	Golden Solar certification by CGC, against the requirement of IEC61215:2005.	PANDA series modules
August 2011	JET certification, conducted by Japan Electrical Safety & Environment	Certain models of PV modules



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Certification or Test Dates	Certification or Test Standard	Relevant Products
	Technology Laboratories, an independent approval agency in Japan, against the requirement of IEC61215 and IEC61730.	
August 2011	MCS certification authorized by United Kingdom Accreditation Service (UKAS), a non-profit independent certification company, against the requirement of MSC 010-1.5 and MSC 005-2.3.	Certain models of PV modules
September 2011	KEMCO certification, conducted by Korea Energy Management Corporation in Korea, against the requirement of IEC61215 and IEC61730.	PANDA series modules

**Markets and Customers**

Our products are sold in China's domestic market and in various international markets, including Germany, the United States, Italy, Spain, France, the Netherlands, the United Kingdom, Japan, Israel and Slovenia. The following table sets forth the revenues generated from our major markets as percentages of our net revenues for the periods indicated.

	Year Ended December 31,		
	2009 %	2010 %	2011 %
Germany	63.1	56.6	44.9
PRC	4.5	6.0	22.2
United States	2.0	9.7	14.6

For a breakdown of our net revenue by geographic regions for 2009, 2010 and 2011, see Note 25 to our audited consolidated financial statements included elsewhere in this annual report. For the revenue contributions by our customers that individually accounted for greater than 10% of our net revenues for 2009, 2010 and 2011, see Note (2)(c) to our audited consolidated financial statements included elsewhere in this annual report.

The products that we sell are primarily PV modules. These modules are sold primarily to installers, PV system integrators, property developers and other value-added resellers, who incorporate our PV modules into large on-grid integrated PV systems with batteries, inverters, mounting structures and wiring systems.

We sell our PV modules typically through supply contracts with a term of less than one year and are obligated to deliver PV modules according to pre-agreed prices and schedules.



**Sales and Marketing**

We currently sell our PV modules primarily to distributors, wholesalers, power plant developers and operators and PV system integrators. Our focus on specific types of customers depends largely on the demand in the specific markets. Distributors and wholesalers tend to be large volume purchasers. We also work with solar power plant developers and operators by supplying solar modules for select downstream projects. PV system integrators typically design and sell integrated systems that include our branded PV modules along with other system components. Some of the PV system integrators also resell our modules to other system integrators.

We employ a total of approximately 300 marketing and sales personnel at our headquarters in Baoding and also in Haikou, Tianjin, Hengshui, Lhasa, Lanzhou, Kunming, Guangzhou, Beijing, Suzhou, Yantai and Shanghai. We believe the adoption of China's Renewable Energy Law and the PRC government's commitment to develop

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renewable energy sources will contribute to rapid growth of the PV market in China. We plan to leverage our existing relationships with end-users to increase our sales in China, especially our sales of PV systems. As part of our effort to expand overseas, we have built a sales team of 83 representatives located in Germany, Spain, Italy, Greece, France, Singapore, Chile, Brazil and the United States, and expect to further expand our overseas sales force.

In order to avoid brand confusion and build more direct relationships with our customers, we have actively promoted our brand name through participation in trade shows and exhibitions, advertisements on newspapers and trade magazines and various sponsorships. For example, to strengthen our leadership position in our existing markets and to establish our presence in emerging markets, we became an official sponsor of the 2014 FIFA World Cup Brazil™ in June 2011. Our sponsorship rights include ticketing and hospitality rights, perimeter-board advertising, as well as the right to use FIFA World Cup™ emblems and logo. We expect our sponsorship activities to increase business opportunities in Brazil and other regions in Latin America. We were also an official sponsor of the 2010 FIFA World Cup™ in South Africa. Our sponsorship agreement for the 2010 FIFA World Cup™ provided us with global marketing rights, including certain ticket, perimeter-board advertising, and media rights as well as the right to showcase our solar products at the fan zones in the FIFA World Cup™ stadiums. The agreement also gives us the right to place our company logo next to the FIFA World Cup™ Official Emblem and advertise or promote our products and services. In August 2011, we became the first official renewable energy partner of United States Soccer. Through 2014, we will support U.S. Soccer's ongoing efforts to develop the game at all levels, as well as working with U.S. Soccer to provide solar energy for local athletic centers in disadvantaged communities across the U.S. On January 22, 2011, we became an Official Premium Partner of FC Bayern München, or FCB, one of the most successful and popular football clubs in the world. Our sponsorship as an Official Premium Partner in the renewable energy business sector commences the second leg of season 2010/2011 and continues until the end of season 2013/2014. Under this sponsorship, we have a series of marketing rights, including ticketing and hospitality, advertising and media/public relations as well as the right to market and sell our solar products in the official FCB fan shops.

**Customer Support and Services**

We provide customer support and service in China through dedicated teams of technical service personnel located in Baoding, Haikou, Tianjin, Hengshui, Lhasa, Lanzhou, Kunming, Guangzhou, Beijing, Suzhou, Yantai and Shanghai. Our customer support and service teams coordinate their activities with the marketing, technology, quality and manufacturing departments.

We provide customer support and service to overseas customers through our overseas subsidiaries and regional headquarters located in our major markets, such as Germany, Spain, Italy, Greece, France, Singapore and the United States. Before September 30, 2011, our PV modules are typically sold with a two- or five-year limited warranty for defects in materials and workmanship, and a 10-year and 25-year warranty against declines of more than 10% and 20% of initial power generation capacity, respectively. From October 1, 2011, we implemented a new and improved warranty terms that guarantees 91.2% of nameplate power for 10 years, and 80.7% of nameplate power for a period of 25 years for multicrystalline PV modules and 98.0% of nameplate power for the first year, 92.0% of nameplate power for 10 years, and 82.0% of nameplate power for a period of 25 years for monocrystalline Panda PV modules. In addition, based on customers' specific requirements, we also provide our multicrystalline PV modules with linear-based warranty which guarantees each year's power output during the twenty-five-year warranty period. As a result, we bear the risk of warranty claims long after we have sold our products and recognized revenues. In connection with our PV system sales in the PRC, we provide a one- to five- year warranty against defects in our modules, storage batteries, controllers and inverters. Because our products have only been in use for a relatively short period of time, our assumptions regarding the durability and reliability of our products may not be accurate, and because our products have relatively long warranty periods, we cannot assure you that the amount of accrued warranty provided by us for our products will be adequate in light of the actual performance of our products. See Item 3.D. Risk Factors Risks Related to Us and the PV Industry Unsatisfactory performance of or defects in our products may cause us to incur additional warranty expenses, damage our reputation and cause our sales to decline.



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**Intellectual Property**

We have registered our trademarks Yingli and Yingli Solar in China. We have full rights to use Yingli Solar in a number of foreign jurisdictions where we sell or plan to sell our products, including all members of the European Union, the United States and Canada. As of the date of this annual report, we had a total of 103 issued patents in China and had made 177 patent applications. We rely on a combination of patent, trademark, anti-unfair competition and trade secret laws, as well as nondisclosure agreements and other methods to protect our intellectual property rights. Other than the know-how available in the public domain, we have developed in-house unpatented technical know-how that we use to manufacture our products. Many elements of our manufacturing processes involve proprietary know-how, technology or data, either developed by us in-house or transferred to us by our equipment suppliers, which are not covered by patents or patent applications, including manufacturing technologies and processes and production line and equipment designs. We have taken security measures to protect these elements. Substantially all of our research and development personnel are parties to confidentiality, non-competition and proprietary information agreements with us. These agreements address intellectual property protection issues and require our employees to assign to us all of the inventions, designs and technologies that they develop during their terms of employment with us. We also take other precautions, such as internal document and network assurance and using a separate dedicated server for technical data. We have not had any material intellectual property claims since our inception. See Item 3.D. Risk Factor Risks Related to Us and the PV Industry Our limited intellectual property protection inside and outside of China may undermine our competitive position and subject us to intellectual property disputes with third parties, both of which may have a material adverse effect on our business, results of operations and financial condition.

**Competition**

The PV market is intensely competitive and rapidly evolving. The number of PV product manufacturers had rapidly increased due to the growth of actual and forecasted demand for PV products and the relatively low barriers to entry. The weakened demand for PV modules due to weakened macroeconomic conditions and tightened credit for PV project financing, combined with the increased supply of PV modules due to production capacity expansion by PV module manufacturers worldwide in recent years, has caused the price of PV modules to decline beginning in the fourth quarter of 2008. We expect that the prices of PV products, including PV modules, may continue to decline over time due to increased supply of PV products, reduced manufacturing costs from economies of scale, advancement of manufacturing technologies and cyclical downturns in the price of polysilicon. If we fail to attract and retain customers in our target markets for our current and future core products, namely PV modules and PV systems, we will be unable to increase our revenues and market share.

In 2009, 2010 and 2011, a significant portion of our revenues have been derived from overseas markets, including Germany, the United States, Italy, Spain, France, the Netherlands, the United Kingdom, Japan, Israel and Slovenia. In these markets, we compete with both local and international producers of solar products, including the solar energy divisions of large conglomerates such as Sharp Corporation, PV module manufacturers such as SunPower Corporation, thin film solar module manufacturers such as First Solar, Inc., and integrated PV product manufacturers such as SolarWorld AG, Renewable Energy Corporation, Suntech Power Holdings Co., Ltd. and Trina Solar Limited. In 2011, sales to China accounted for approximately 22.2% of our total revenues, compared to approximately 6.0% in 2010. We expect more competition from China local PV module manufactures as we continue our expansion in China market.

We may also face competition from new entrants to the PV market, including those that offer more advanced technological solutions or that have greater financial resources, such as semiconductor manufacturers, several of which have announced their intention to start production of PV cells and PV modules. A significant number of our competitors are developing or currently producing products based on PV technologies which may be believed to be more advanced, including amorphous silicon, string ribbon and nano technologies, which eventually offer cost advantages over the crystalline polysilicon technologies currently used by us. A widespread adoption of any of these technologies could result in a rapid decline in demand for our products and a resulting decrease in our revenues if we fail to adopt such technologies. In addition, like us, some of our competitors have become, or are becoming, vertically integrated in the PV industry value chain, from silicon ingot manufacturing to

PV system sales and installation. This could further erode our competitive advantage as a vertically integrated PV product manufacturer. In addition, our competitors may also enter into the polysilicon manufacturing business, which may provide them with cost advantages. Furthermore, the entire PV industry also faces competition from conventional energy and non-solar renewable energy providers.

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With respect to PV modules, we compete primarily in terms of price, reliability of delivery, consistency in the average wattage of our PV modules, durability, appearance and the quality of after-sale services. We believe our highly bankable and cost-effective products, strong brand name, well-established reputation and integrated service model make our PV modules competitive. We sell small commercial, personal and home-use PV systems primarily in China where we have competitive advantages over our overseas competitors because of our closer proximity to customers in China and better understanding of their needs. We also have domestic competitors in China. With respect to large integrated PV system projects, we compete primarily in terms of price, design and construction experience, aesthetics and conversion efficiency. See Item 3.D. Risk Factors Risks Related to Us and the PV Industry We face intense competition in the PV modules and PV system markets and our PV products compete with different solar energy systems as well as other renewable energy sources in the alternative energy market. If we fail to adapt to changing market conditions and to compete successfully with existing or new competitors, our business prospects and results of operations would be materially and adversely affected.

## **Environmental Matters**

Our manufacturing processes generate noise, waste water, gaseous waste and other industrial waste. We have installed various types of anti-pollution equipment in our facilities to reduce, treat, and where feasible, recycle the wastes generated in our manufacturing process. The most significant environmental contaminant we generate is waste water. We have built special facilities to filter and treat waste water generated in our production process and recycle the water back into our production process. The other major environmental contaminant we generate is gaseous waste. We treat such gas in our special facilities to reduce the contaminant level to below the applicable environmental protection standard before discharging the gas into the atmosphere. Our operations are subject to regulation and periodic monitoring by local environmental protection authorities. The Chinese national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels, require the payment of fines for serious violations and provide that the Chinese national and local governments may at their own discretion close or suspend the operation of any facility that fails to comply with orders requiring it to cease or remedy operations causing environmental damage.

No such penalties have been imposed on us or our subsidiaries, and we believe we are currently in compliance with present environmental protection requirements in all material respects, and have obtained all necessary environmental permits for all of our production expansion projects. We are not aware of any other pending or threatened environmental investigation proceeding or action by any governmental agency or third party.

## **Insurance**

We maintain an insurance policy covering losses due to fire, earthquake, flood and a wide range of other natural disasters. Insurance coverage for our inventory, fixed assets and on-going projects amounted to approximately RMB13,003.4 million as of the date of this annual report. We also maintain insurance policies in respect of marine, air and inland transit risks of our products. In addition, we have obtained product liability insurance coverage. The insurance policy covers bodily injuries and property damages caused by the products we sold, supplied or distributed up to specified limits. We do not maintain any insurance coverage for business interruption or key-man life insurance on our executive officers. We consider our insurance coverage to be adequate. However, significant damage to any of our manufacturing facilities and buildings, whether as a result of fire or other causes, could have a material adverse effect on our results of operations. See Item 3.D. Risk Factors Risks Related to Us and the PV Industry We have limited insurance coverage and may incur uncovered losses resulting from business interruption or natural disasters.

## **PRC Governmental Regulations**

This section sets forth a summary of the most significant regulations or requirements that affect our business activities in China. Certain of these regulations and requirements, such as those relating to tax, equity joint ventures, foreign currency exchange, dividend distribution, regulation of foreign exchange in certain onshore and offshore transactions, and regulations of overseas listings, may affect our shareholders' right to receive dividends and other distributions from us.

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***Renewable Energy Law and Other Government Directives***

In February 2005, China enacted its Renewable Energy Law, which became effective on January 1, 2006, or the 2006 Renewable Energy Law. The 2006 Renewable Energy Law sets forth the national policy to encourage and support the use of solar and other renewable energy and the use of on-grid generation. On December 26, 2009, the Standing Committee of the National People's Congress adopted an amendment to the 2006 Renewable Energy Law, or the Amended Renewable Energy Law, which became effective on April 1, 2010. While the 2006 Renewable Energy Law has laid the legal foundation for developing renewable energy in China, the Amended Renewable Energy Law has introduced practical implementing measures to enhance such development.

The Amended Renewable Energy Law details the principles, main content and key issues of the renewable energy development and utilization plans, further elaborates the requirements for grid companies to purchase the full amount of electricity generated from renewable energy by setting out the responsibilities and obligations of the government, the power companies and the grid companies, respectively, and also clarifies that the state will set up a special fund, referred to as the renewable energy development fund, to compensate the difference between the tariff for electricity generated from renewable energy and that generated from conventional energy sources. The proceeds of the renewable energy development fund may also be used to support renewable energy scientific research, finance rural clean energy projects, build independent power systems in remote areas and islands, and build information networks to exploit renewable energy. It is anticipated that China will publish more detailed implementing rules for the Amended Renewable Energy Law and make corresponding changes to those existing implementing rules relating to renewable energy.

China's Ministry of Construction issued a directive in June of 2005, which seeks to expand the use of solar energy in residential and commercial buildings and encourages the increased application of solar energy in townships. In addition, China's State Council promulgated a directive in June of 2005, which sets forth specific measures to conserve energy resources and encourage exploration, development and use of solar energy in China's western areas, which are not fully connected to electricity transmission grids, and other rural areas.

On April 28, 2007, China's National Development and Reform Commission issued a Circular on the Eleventh Five-year Plan for the Development of High-Technology Industry, pursuant to which China encourages the production of energy materials, including the high-quality silicon materials for solar cell, in order to establish the independent research and production system of new energy materials.

In July 2007, the PRC State Electricity Regulatory Commission issued the Supervision Regulations on the Purchase of All Renewable Energy by Power Grid Enterprises which became effective on September 1, 2007. To promote the use of renewable energy for power generation, the regulations require that electricity grid enterprises must in a timely manner set up connections between the grids and renewable power generation systems and purchase all the electricity generated by renewable power generation systems. The regulations also provide that power dispatch institutions shall give priority to renewable power generation companies in respect of power dispatch services provision.

On August 31, 2007, the National Development and Reform Commission, or NDRC, implemented the National Medium- and Long-Term Programs for Renewable Energy, or MLPRE, aiming to raise consumption of renewable energy to 10% and 15% of total energy consumption by 2010 and 2020, up from 7.5% in 2005, which highlights the government's long-term commitment to the development of renewable energy.



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On October 28, 2007, the Standing Committee of the National People's Congress adopted amendments to the PRC Energy-saving Law, which sets forth policies to encourage the conservation of energy in manufacturing, civic buildings, transportation, government agents and utilities sectors. The amendments also seek to expand the use of the solar energy in construction areas.

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On March 23, 2009, the Ministry of Finance issued the Provisional Measures for Administration of Government Subsidy Funds for Application of Solar Photovoltaic Technology in Building Construction, which outline a subsidy program dedicated to rooftop PV systems with a minimum capacity of 50 kilowatt-peak.

In July 2009, the PRC government announced a new program of incentives for the development of 500 megawatts of large-scale PV projects throughout the country over two to three years. Under this program, on-grid PV projects of at least 300 kilowatts will be eligible for subsidies of 50%. Projects in remote areas with no access to the electricity grid will be eligible for subsidies of 70%.

In July 2010, the Ministry of Housing and Urban-Rural Development issued the City Illumination Administration Provisions or the Illumination Provision. The Illumination Provisions encourage the installation and use of renewable energy system such as PV systems in the process of construction and re-construction of city illumination projects.

On October 10, 2010, the State Council of China promulgated a decision to accelerate the development of seven strategic new industries. Pursuant to this decision, the PRC government will promote the popularization and application of solar thermal technologies by increasing tax and financial policy support, encouraging investment and providing other forms of beneficial support.

In March 2011, the National People's Congress approved the Outline of the Twelfth Five-Year Plan for National Economic and Social Development of the PRC, which includes a national commitment to promote the development of renewable energy and to enhance the competitiveness of the renewable energy industry.

On March 8, 2011, the Ministry of Finance and the Ministry of Housing and Urban-Rural Development jointly promulgated the Notice on Further Application of Renewable Energy in Building Construction, which aims to raise the percentage of renewable energy used in buildings.

On July 24, 2011, the NDRC issued the Notice on Improving the On-grid Tariff Policy for Photovoltaic Generation. Under this Notice, it is required that a uniform national benchmark on-grid tariff for solar energy photovoltaic generation be formulated. Furthermore, for PV projects that had been approved before July 1, 2011 and would be completed by December 31, 2011, the feed-in tariff would be RMB1.15/kWh, including value-added tax, or VAT. Except for PV projects that are constructed in Tibet, for PV projects that are approved after July 1, 2011 and PV projects that had been approved before July 1, 2011 but would not be completed by December 31, 2011, the feed-in tariff including VAT would be RMB1/kWh.

On March 14, 2012, the Ministry of Finance, the NDRC and the National Energy Bureau jointly issued the the interim measures for the management of additional subsidies for renewable-energy power prices, according to which relevant renewable-energy power generation enterprises are entitled to apply for subsidies for their renewable power generation projects that satisfy relevant requirements set forth in the measures.

***Environmental Regulations***

Our manufacturing processes generate noise, waste water, gaseous waste and other industrial waste. We are subject to a variety of governmental regulations related to the storage, use and disposal of hazardous materials. The major environmental regulations applicable to us include the Environmental Protection Law of the PRC, the Law of the PRC on the Prevention and Control of Water Pollution and its implementation rules, the Law of the PRC on the Prevention and Control of Air Pollution and its implementation rules, the Law of PRC on the Prevention and Control of Solid Waste Pollution and the Law of the PRC on the Prevention and Control of Noise Pollution.

In addition, under the Environmental Protection Law of the PRC, the Ministry of Environmental Protection sets national pollutant emission standards. However, provincial governments may set stricter local standards, which are required to be registered at the State Administration for Environmental Protection. Enterprises are required to comply with the stricter of the two standards.

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The relevant laws and regulations generally impose discharge fees based on the level of emission of pollutants. These laws and regulations also impose fines for violations of laws, regulations or decrees and provide for possible closure by the central or local government of any enterprise which fails to comply with orders requiring it to rectify the activities causing environmental damage.

***Equity Joint Ventures***

Tianwei Yingli, as a Sino-foreign equity joint venture enterprise, is an equity joint venture subject to certain PRC laws and regulations. Equity joint ventures, as a form of foreign investment permitted in China, are primarily governed by the following laws and regulations:

- the Company Law (1993), as amended;
  
- the Law on Sino-Foreign Equity Joint Venture Enterprises (1979), as amended; and
  
- Rules on Implementation of the Law on Sino-Foreign Equity Joint Venture Enterprises (1983), as amended.

An equity joint venture is a limited liability company under PRC law and its establishment is subject to the approval of MOFCOM or its authorized local counterpart where such equity joint venture is located. The board of directors is the highest authority of an equity joint venture and has the power to decide all matters important to the equity joint venture. Each director is appointed for a term of no more than four years and may serve consecutive terms if appointed by the party by which he or she was originally appointed. Each director may be removed by its appointing party, at any time, with or without cause and may be replaced by a nominee appointed by such party before the expiration of such director's term of office.

Resolutions of the board of directors of an equity joint venture involving any matters may be adopted by the affirmative vote of a simple majority of all directors present in person or by proxy at a meeting of the board, except that resolutions involving the following matters require a unanimous approval of all directors present in person or by proxy at the meeting of the board:

- amendment to the articles of association of the equity joint venture;
  
- merger of the equity joint venture with another entity;
  
- division of the equity joint venture;

- suspension or dissolution of the equity joint venture; and
- increase or reduction of the registered capital of the equity joint venture.

***Tax***

*Enterprise Income Tax*

PRC enterprise income tax is calculated based on taxable income determined under PRC GAAP and PRC tax laws and regulations.

On March 16, 2007, the National People's Congress passed the Enterprise Income Tax Law, or the EIT Law, and adopts a uniform income tax rate of 25% for most domestic enterprises and foreign investment enterprises. The EIT Law became effective on January 1, 2008. The EIT Law provides a five-year transition period from its effective date for enterprises established before the promulgation date of the EIT Law and which were entitled to preferential tax rates and treatments under the then effective tax laws or regulations. On December 26, 2007, the PRC government issued detailed implementation rules regarding the transitional preferential policies. Furthermore, under the EIT Law, entities that qualify as high and new technology enterprises strongly supported by the state are entitled to the preferential enterprise income tax rate of 15%. The Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation jointly issued the Administrative Regulations on the Recognition of High and New Technology Enterprises on April 14, 2008 and the Guidelines for Recognition of High and New Technology Enterprises on July 8, 2008.

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Under the effective tax laws and regulations, Tianwei Yingli, as a foreign invested enterprise primarily engaged in manufacturing and in operation for more than ten years, was entitled to a two-year exemption from the enterprise income tax from its first profit-making year following its conversion into a Sino-foreign equity joint venture company, specifically 2007 and 2008, and a 50% reduction in the subsequent three years, from 2009 to 2011. Accordingly, Tianwei Yingli was subject to enterprise income tax at 12.5% from 2009 to 2011. In August 2011, Tianwei Yingli renewed the certificate for High and New Technology Enterprise and extended the preferential income tax period for another 3 years starting from 2011. As a result, Tianwei Yingli is entitled to a preferential EIT rate of 15% for 2012 and 2013. Yingli China was established in October 2007 and was recognized by the Chinese government as a High and New Technology Enterprise under the new EIT law in December 2008. In August 2011, Yingli China renewed the certificate for High and New Technology Enterprise and extended the preferential income tax period for another 3 years starting from 2011. As a result, Yingli China is entitled to the preferential EIT rate of 15% from 2011 to 2013. Fine Silicon, which was acquired by us on January 7, 2009, was recognized by the Chinese government as a High and New Technology Enterprise under the new EIT law in November 2009. As a result, Fine Silicon is entitled to the preferential EIT rate of 15% from 2009 to 2011. Yingli Hainan, located in Hainan special economic zone, was established in September 2009 and recognized by the Chinese government as a High and New Technology Enterprise under new EIT law in September 2011. Therefore, Yingli Hainan was entitled to the tax exemption for the first two years and half EIT rate for the subsequent three years upon generating any operational revenues. Yingli Hainan elected to defer the commencement of the abovementioned tax holidays until January 1, 2011. Therefore, Yingli Hainan is entitled to EIT exemption from 2011 to 2012 and a preferential EIT rate of 12.5% from 2013 to 2015.

Furthermore, continued qualification as a high and new technology enterprise is subject to a review every three years by the relevant government authorities in China, and in practice certain local tax authorities also require annual evaluation of the qualification.

Moreover, the EIT Law and its implementation rules impose a 10% withholding tax, unless reduced by a tax treaty or agreement, for distributions of dividends in respect of earnings accumulated beginning on January 1, 2008 by a foreign investment enterprise to its immediate overseas holding company, insofar as the later is treated as a non-resident enterprise. See Item 3.D. Risk Factors Risks Related to Doing Business in China Dividends we may receive from our operating subsidiaries located in the PRC may be subject to PRC withholding tax.

The EIT Law also provides that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income. Under the implementation rules for the EIT Law issued by the State Council, a de facto management body is defined as a body that has substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties and other factors of an enterprise. On April 22, 2009, the State Administration of Taxation promulgated the Notice Regarding Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies, or SAT Circular 82, which sets out criteria for determining whether de facto management bodies are located in China for overseas incorporated, domestically controlled enterprises. However, as this circular only applies to enterprises incorporated under laws of foreign countries or regions that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of de facto management bodies for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries. Therefore, although substantially all of our management is currently located in the PRC, it remains unclear whether the PRC tax authorities would require or permit our overseas registered entities to be treated as PRC resident enterprises. If the PRC tax authorities determine that Yingli Green Energy and some of our subsidiaries, such as Yingli International, Yingli Capital, Yingli Hong Kong, Cyber Power and Cyber Lighting, are PRC resident enterprises, we and such subsidiaries may be subject to the enterprise income tax at the rate of 25% as to our global income. See Item 3.D. Risk Factors Risks Related to Doing Business in China We and some of our subsidiaries may be deemed PRC resident enterprises under the EIT Law and be subject to PRC taxation as to our worldwide income.

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*Value Added Tax*

Pursuant to the Provisional Regulation of the PRC on Value Added Tax and its implementation rules, all entities and individuals that are engaged in the sale of goods, the provision of repairs and replacement services and the importation of goods in China are generally required to pay Value Added Tax at a rate of 17.0% of the gross sales proceeds received, less any creditable Value Added Tax already paid or borne by the taxpayer. In addition, when exporting goods, the exporter is entitled to a portion of or all the refund of value added tax that it has already paid or borne. Imported raw materials that are used by our operating subsidiaries for manufacturing export products and are deposited in bonded warehouses are exempt from import Value Added Tax.

*Foreign Currency Exchange*

Foreign currency exchange in China is primarily governed by the following rules:

- Foreign Currency Administration Rules (1996), as amended; and
- Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (1996).

Under the Foreign Currency Administration Rules, the foreign exchange incomes of domestic entities and individuals can be remitted into China or deposited abroad, subject to the conditions and time limits to be issued by the PRC State Administration of Foreign Exchange, or SAFE. According to the Foreign Currency Administration Rules, the Renminbi is convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of Renminbi for capital account items, such as direct investment, loan, securities investment, derivative transactions and repatriation of investment, however, is still subject to the approval of, and/or the registration with, SAFE or its local branches.

Under the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange, foreign-invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from SAFE or its local branches. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by the Ministry of Commerce, SAFE and the National Reform and Development Commission or their local counterparts. Currently, the PRC laws and regulations do not provide clear criteria as to how to obtain SAFE approval. SAFE and its local branches have broad discretion as to whether to issue SAFE approval.

*Dividend Distribution*

The principal regulations governing distribution of dividends paid by foreign invested enterprises include:

- the Company Law (1993), as amended;
- the Law on Sino-Foreign Equity Joint Venture Enterprises (1979), as amended;
- the Rules on Implementation of the Law on Sino-Foreign Equity Joint Venture Enterprises (1983), as amended;
- the Enterprise Income Tax Law (2007);
- the Rules of Implementation of the Enterprise Income Tax Law (2007);
- the Wholly Foreign Owned Enterprise Law (1986), as amended; and
- the Administrative Rules under the Wholly Foreign Owned Enterprise Law (1990), as amended.

Under these regulations, Sino-foreign equity joint venture enterprises and wholly foreign owned enterprises in China may pay dividends only out of their retained earnings, if any, determined in accordance with PRC GAAP. The board of directors of a Sino-foreign equity joint venture enterprise has the discretion to allocate a portion of its after-tax profits to reserve funds, employee bonus and welfare funds and enterprise development funds, which may



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not be distributed to equity owners as dividends. Wholly foreign owned enterprises in China are required to allocate at least 10% of their after-tax profits each year, if any, to their reserve funds until the cumulative amounts in such reserve funds have reached 50% of the registered capital of such enterprises, and to set aside a certain amount of its after-tax profits each year, if any, to its employee bonus and welfare fund. These reserves may not be distributed as cash dividends.

The EIT Law and its implementation rules provide that enterprises established outside of China whose de facto management bodies are located in China are considered resident enterprises and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation rules for the EIT Law issued by the State Council, a de facto management body is defined as a body that has substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties and other factors of an enterprise. On April 22, 2009, the State Administration of Taxation promulgated SAT Circular 82 which sets out criteria for determining whether de facto management bodies are located in China for overseas incorporated, domestically controlled enterprises. However, as this circular only applies to enterprises incorporated under laws of foreign countries or regions that are controlled by PRC enterprises or groups of PRC enterprises, it remains unclear how the tax authorities will determine the location of de facto management bodies for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries.

Furthermore, the State Administration of Taxation promulgated the Notice on How to Understand and Determine the Beneficial Owners in Tax Agreement in October 2009, or Circular 601, which provides guidance for determining whether a resident of a contracting state is the beneficial owner of an item of income under China's tax treaties and tax arrangements. According to Circular 601, a beneficial owner generally must be engaged in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. The conduit company normally refers to a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. It remains unclear whether any dividends to be distributed by us to our non-PRC shareholders and ADS holders whose jurisdiction of incorporation has a tax treaty with China providing for a different withholding arrangement will be entitled to the benefits under the relevant withholding arrangement.

***Regulation of Foreign Exchange in Certain Onshore and Offshore Transactions***

In October 2005, SAFE issued the Notice on Issues Relating to the Administration of Foreign Exchange in Fund-raising and Return Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies, or SAFE Notice 75, which became effective as of November 1, 2005. SAFE Notice 75 suspends the implementation of two prior regulations promulgated in January and April of 2005 by SAFE. SAFE Notice 75 states that Chinese residents, whether natural or legal persons, must register with the relevant local SAFE branch prior to establishing or taking control of an offshore entity established for the purpose of overseas equity financing involving onshore assets or equity interests held by them. The term Chinese legal person residents as used in SAFE Notice 75 refers to those entities with legal person status or other economic organizations established within the territory of China. The term Chinese natural person residents as used in SAFE Notice 75 includes all Chinese citizens and all other natural persons, including foreigners, who habitually reside in China for economic benefit.

Chinese residents are required to complete amended registrations with the local SAFE branch upon (i) injection of equity interests or assets of an onshore enterprise to the offshore entity, or (ii) subsequent overseas equity financing by such offshore entity. Chinese residents are also required to complete amended registrations or filing with the local SAFE branch within 30 days of any material change in the shareholding or capital of the offshore entity, such as changes in share capital, share transfers and long-term equity or debt investments, and providing security. Chinese residents who have already incorporated or gained control of offshore entities that have made onshore investment in China before SAFE Notice 75 was promulgated must register their shareholding in the offshore entities with the local SAFE branch on or before March 31, 2006.

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Under SAFE Notice 75, Chinese residents are further required to repatriate back into China all of their dividends, profits or capital gains obtained from their shareholdings in the offshore entity within 180 days of their receipt of such dividends, profits or capital gains. However, under the amended Foreign Currency Administration Rules, the foreign exchange incomes of domestic entities and individuals can be remitted into China or deposited

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abroad, subject to the conditions and time limits to be issued by SAFE. The registration and filing procedures under SAFE Notice 75 are prerequisites for other approval and registration procedures necessary for capital inflow from the offshore entity, such as inbound investments or shareholders loans, or capital outflow to the offshore entity, such as the payment of profits or dividends, liquidating distributions, equity sale proceeds, or the return of funds upon a capital reduction.

To further clarify the implementation of SAFE Notice 75, SAFE issued Circular 19, according to which the PRC subsidiaries of the offshore special purpose company are required to coordinate with and supervise the beneficial owners of the offshore entity who are PRC citizens or residents to complete the SAFE registration process. If the shareholders or beneficial owners fail to comply, the PRC subsidiaries are required to report the noncompliance to the local branches of SAFE. Under the relevant rules, failure to comply with the registration procedures set forth in SAFE Notice 75 and Circular 19 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant Chinese residents to penalties under PRC foreign exchange administration regulations and result in potential liability for our PRC Subsidiaries, and in some instances, for their legal representatives and other liable individuals.

On August 29, 2008, SAFE promulgated Circular 142, or SAFE Notice 142, a notice regulating the conversion by a foreign invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. The notice requires that the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies may only be used for purposes within the business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without SAFE's approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of SAFE Notice 142 will result in severe penalties, such as heavy fines. As a result, SAFE Notice 142 may significantly limit our ability to transfer the net proceeds from our financings to our PRC subsidiaries, which may adversely affect the business expansions of our PRC subsidiaries, and we may not be able to convert the net proceeds from our financings into Renminbi to invest in or acquire any other PRC companies.

***Regulations of Employee Share Options***

In December 2006, the People's Bank of China promulgated the Administrative Measures on Individual Person Foreign Exchange, or the PBOC Regulation, setting forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under the current account and the capital account. In January 2007, SAFE issued the implementation rules for the PBOC Regulation which, among others, specified the approval requirement for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plan or stock options plan of an overseas listed company. Consequently, in February 2012, SAFE promulgated the Share Option Rules, under which PRC citizens or residents habitually residing in the PRC continuously for over one year, who are granted shares or share options by an overseas-listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas-listed company or qualified PRC agents, to register with SAFE and complete certain other procedures related to the share holding plan, share option plan or other similar share incentive plans. Concurrent with the registration with SAFE, the PRC subsidiary or the qualified PRC agent shall obtain the approval for an annual allowance with respect to the foreign exchange in connection with the share holding or share option exercises as well as the approval of opening a special foreign exchange account at a PRC domestic bank to hold the funds required in connection with the share purchase or share option exercise, returned principal or profits upon sale of shares, dividends issued on the stock and any other income or expenditures approved by SAFE. Currently, the participating PRC residents' foreign exchange income received from the sale of share and dividends distributed by the overseas-listed company must be fully remitted into the domestic foreign currency account before distribution to such participants. In addition, the PRC agents are required to amend or deregister the registrations with SAFE in case of any material change in, or termination of, the share incentive plans, within the time periods provided by the Share Option Rules.



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**C. Organizational Structure**

The following diagram illustrates our company's organizational structure, and the place of formation, ownership interest and affiliation of each of our significant subsidiaries as of the date of this annual report.

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(1) Indicates jurisdiction of incorporation.

(2) The principal business of Tianwei Baobian is the manufacture of large electricity transformers. The common shares of Tianwei Baobian are listed on the Shanghai Stock Exchange. Tianwei Baobian is controlled and 51.1% owned by Baoding Tianwei Group Co., Ltd., or Tianwei Group, a wholly state-owned limited liability company established in the PRC, which is in turn controlled by China South Industries Group Corporation.

(3) Indicates the percentage as of the date of this annual report.

(4) The principal business of Cyber Power is the investment in polysilicon manufacturing, provision of financing services and execution of other commercial and financing activities.

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- (5) The principal business of Yingli International is the sale and marketing of PV products and relevant accessories and investments in renewable energy projects.
- (6) The principal business of Tianwei Yingli is the design, manufacture and sale of PV modules and the design, assembly, sale and installation of PV systems.
- (7) The principal business of Cyber Lighting is the investment in polysilicon manufacturing, provision of financing services and execution of other commercial and financing activities.
- (8) The principal business of Yingli Europe is the sale and marketing of PV products and relevant accessories in Europe.
- (9) The principal business of Yingli Chile is the sale and marketing of PV products and relevant accessories in Chile.
- (10) The principal business of Yingli Americas is the sale and marketing of PV products and relevant accessories and investments in renewable energy projects.
- (11) The principal business of Yingli Beijing is the sale and manufacture of PV modules and PV systems.

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(12) The principal business of Yingli Greece is the sale and marketing of PV products and relevant products in Greece, Cyprus, the Balkans and the Middle East.

(13) The principal business of Yingli Spain is the sale and marketing of PV products, relevant accessories and investments in renewable energy projects, as well as after sales services.

(14) The principal business of Yingli China is the research, manufacture, sale and installation of renewable energy products.

(15) The principal business of Fine Silicon is the manufacture of solar-grade and electronic-grade polysilicon.

(16) The principal business of Yingli France is the sale and marketing of PV products and relevant accessories in France and French overseas territories.

(17) The principal business of Yingli Singapore is the research and experimental development on electronics.

(18) The principal business of Yingli Italia is the sale and marketing of PV products and relevant accessories in Italy.

(19) The principal business of Yingli Brazil is the sale and marketing of PV products and relevant accessories in Brazil.

(20) The principal business of Yingli International Trading is import and export trading, investments holding.

(21) The principal business of Hainan Yingli is the research, manufacture, sale and installation of renewable energy products.

**D. Property, Plant and Equipment**

Our principle executive offices are located at No. 3055 Fuxing Middle Road in the National New and High-technology Industrial Development Zone in Baoding, China. We conduct our research, development, manufacturing and management in sites located in Baoding, Hebei Province

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and Haikou, Hainan Province:

Facility Number	Products	Location	Plant Size (Square Meters)	Duration of Land Use Right	Floor Area (Square Meters)	Major Equipment
1.	Ingots, wafers, cells, modules	No. 3055 Fuxing Middle Road, Baoding, Hebei Province	25,842	March 2006 to June 2050 (a plot of 24,579 square meters); December 2006 to November 2050 (a plot of 1,263 square meters)	18,197	Furnace, wire saw, wires quarter, diffusion furnace, sintering furnace, PECVD antireflection coatings manufacturing equipment, automatic printer, laminating machine, solar cell module production line before and after component lamination, automatic glue-spreads working station, solar cell module testing device
2.		No. 3399 North Chaoyang Avenue, Baoding, Hebei Province	232,158	December 2009 to December 2056 (a plot of 104,745 square meters); December 2009 to December 2056 (a plot of 102,886 square meters); and August 2010 to April 2060 (a plot of 24,527 square meters)	316,024	
3.		West Hengyuan Road, Baoding, Hebei Province	207,036	February 2010 to November 2059 (a plot of 163,579 square meters); December 2010 to December 2012 (a plot of 43,457 square meters)	168,849	
4.		No. 722 Cuiyuan Street, Baoding, Hebei Province	11,698	September 2006 to August 2056 (a plot of 5,807 square meters); September 2006 to December 2049 (a plot of 5,891 square meters)	6,216	
5.		No. 333 North Lekai Avenue, Baoding, Hebei Province	15,443	October 2008 to June 2049 (a plot of 6,746 square meters); October 2008 to December 2056 (a plot of 8,697 square meters)	10,691	
6		Tianjin Ninghe Modern Industry Area	272,164	August 2011 to July 2061(a plot of 233,296 square meters); August 2011 to June 2061 (a plot of 38,868 square meters)	102,653	
7			82,603		142,522	



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	North Part of Hengshui Economic Development Zone		February 2012 to December 2061	
8	North Yongsheng Avenue, Lixian,	113,333	June 2011 to December 2060	29,136

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Facility Number	Products	Location	Plant Size (Square Meters)	Duration of Land Use Right	Floor Area (Square Meters)	Major Equipment
		Baoding, Hebei Province				
9.		Shiziling Industrial Park, National Hi-Tech Development Zone, Haikou, Hainan Province	181,339	March 2010 to September 2057	266,452	
10	Polysilicon	No.2666 North Xiangyang Street, Baoding, Hebei Province	544,534	February 2009 to February 2059	51,944	SAH reactor, STF reactor, silane reactor, CVD reactor

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included elsewhere in this annual report. This discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Item 3.D. Risk Factors or in other parts of this annual report.*

**A. Operating Results Overview**

We are one of the leading vertically integrated PV product manufacturers in the world. We design, manufacture and sell PV modules, and design, assemble, sell and install PV systems. We sell PV modules to PV system integrators and distributors located in various markets around the world, including Germany, the United States, Italy, China, Spain, the Netherlands, France, the United Kingdom, Japan, Israel and Slovenia. Currently, we also sell PV systems, primarily to customers in China.

Our manufacturing capacity and operations have grown significantly since we completed construction of our first manufacturing facilities for PV modules in 2002. We use most of the polysilicon, polysilicon ingots and wafers and PV cells we produce for the production of PV modules, which we sell to third-party customers. We sold 525.3 megawatts, 1,061.6 megawatts and 1,603.8 megawatts of PV modules in 2009, 2010 and 2011, respectively. In addition, in January 2009, we completed the acquisition of Cyber Power, which, through its principal operating subsidiary in China, Fine Silicon, has a designed annual production capacity of 3,000 tons of polysilicon and is currently ramping up its production. With our in-house polysilicon manufacturing capacity, our current products and services substantially cover the entire PV industry value chain, ranging from the manufacture of polysilicon, multicrystalline polysilicon ingots and wafers, PV cells and PV modules to the manufacture of PV systems and the installation of PV systems.

The most significant factors that affect our financial performance and results of operations are:

- industry demand;
- government subsidies and economic incentives;
- the availability and accessibility of financing to our customers;
- capacity
- competition and product pricing;
- price of polysilicon;
- vertically integrated manufacturing capabilities;
- manufacturing technologies; and
- foreign governments and international trade bodies trade protection measures.

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***Industry Demand***

Our business and revenue growth depend on the market demand for PV products. Although solar power technology has been used for several decades, the PV market grew significantly only in the past several years. According to PHOTON Consulting, the global PV market, as measured by annual PV system installation at end-user locations, increased from 1.6 gigawatts in 2005 to 26.8 gigawatts in 2011. In addition, as of January, 2012, PHOTON Consulting forecasted global PV industry revenues and PV system installations to be US\$154 billion (Total solar power installations revenue pool) and 54.5 gigawatts in 2016, respectively. However, demand for our PV products also depends on the general economic conditions in our target markets. Since the second half of 2008, economies around the world, including those in our target markets, have experienced a period of slow economic growth as compared to prior years. Partly as a result of these weakened worldwide macroeconomic conditions, the growth in demand for PV modules had declined significantly since the fourth quarter of 2008. Starting from the second quarter of 2009, the macroeconomic environment began to improve, which led to an increase of demand for our products. The growth of demand for our products from some of our target markets slowed down in the first quarter of 2011, primarily caused by the adjustment of subsidies and economic incentives for PV installations as part of the government austerity measures. The negative effect from the adjustment of government subsidies and economic incentives is partially offset by the significantly reduced PV system cost since the third quarter of 2011. However, we cannot assure you that the cost reduction of PV systems will continue or will ultimately have a positive effect on the general operating environment of our industry.

***Government Subsidies and Economic Incentives***

We believe that the near-term growth of the market for PV products depends in part on the availability and size of government subsidies and economic incentives. Today, the cost of solar power substantially exceeds the cost of electrical power generated from conventional fossil fuels such as coal and natural gas. As a result, governments in many countries, including Germany, Italy, France, South Korea, the United States, China, Greece, Israel, South Africa, the United Kingdom, India, Australia, Thailand, Singapore, Japan and Czech Republic have provided subsidies and economic incentives for the use of renewable energy such as solar power to reduce dependency on conventional fossil fuels as a source of energy. These subsidies and economic incentives have been in the form of capital cost rebates, feed-in tariffs, tax credits, net metering and other incentives to end-users, distributors, system integrators and manufacturers of solar power products, including PV products.

The demand for our PV modules and PV systems in our current, targeted or potential markets is affected significantly by these government subsidies and economic incentives. See Item 3.D. Key Information Risk Factors Risks Related to Us and the PV Industry A significant reduction in or discontinuation of government subsidies and economic incentives may have a material adverse effect on our results of operations.

On March 23, 2009, the PRC Ministry of Finance issued the Provisional Measures for Administration of Government Subsidy Funds for Application of Solar Photovoltaic Technology in Building Construction, which outlined a subsidy program dedicated to rooftop PV systems with a minimum capacity of 50 kilowatt-peak. In July 2009, the PRC government announced the Golden Sun program, a program of incentives for the development of large-scale PV projects throughout the country. Under this program, on-grid PV projects of at least 300 kilowatts are eligible for subsidies of 50%. Projects in remote areas with no access to the electricity grid will be eligible for subsidies of 70%. On August 1, 2011, the NDRC announced the feed-in tariff policy for on-grid PV systems. For PV projects that had been approved before July 1, 2011 and would be completed by December 31, 2011, the feed-in tariff would be RMB1.15/kWh, including value-added tax, or VAT. Except for PV projects that are constructed in Tibet, for PV projects that are approved after July 1, 2011 and PV projects that had been approved before July 1, 2011 but would not be completed by December 31, 2011, the feed-in tariff including VAT would be RMB1/kWh.

***Availability and Accessibility of Financing for Solar Energy Applications***

PV systems projects generally require significant upfront expenditures, and as a result, our customers have historically relied on financing for the purchase of our products. If financing for solar applications becomes

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inaccessible, the growth of the market for solar energy applications may be adversely affected. For example, the average selling price of our PV modules decreased significantly from the fourth quarter of 2008 to the second quarter of 2009, partly due to tighter credit for PV system project financing as a result of the continuing adverse credit market conditions. In addition, rising interest rates could render existing financings more expensive, as well as serve as an obstacle for potential financings that would otherwise spur the growth of the PV industry.

***Capacity***

In order to take advantage of expected long-term market demand for PV products, we have been expanding our manufacturing capacity. We started producing PV modules in 2002 with initial manufacturing capacity of three megawatts, polysilicon ingots and wafers in October 2003 with initial manufacturing capacity of six megawatts and PV cells in March 2004 with initial annual manufacturing capacity of three megawatts. In accordance with our business model of a vertically integrated PV product manufacturer, we expanded our manufacturing capacity for each of polysilicon ingots and wafers, PV cells and PV modules to 600 megawatts as of December 31, 2009, 1,000 megawatts as of December 31, 2010 and 1,700 megawatts as of December 31, 2011.

The size of manufacturing capacity has a significant bearing on the profitability and competitive position of PV product manufacturers. Achieving economies of scale from expanded manufacturing capacity is critical to maintaining our competitive position in the PV industry as manufacturers with greater economies of scale may manage their production more efficiently, obtain a greater market share by offering their products at a more competitive price by virtue of their greater ability to obtain volume discounts from their polysilicon and other raw material suppliers and have other bargaining leverage.

Currently, we are in the process of further expanding our production capacity by building another 750 megawatts of PV manufacturing capacity in Haikou, Tianjin, Hengshui and Baoding. Combined with our existing capacity, these expansion projects are expected to bring our total overall annual production capacity to 2,450 megawatts of PV products by the end of 2012.

In addition, our in-house polysilicon production subsidiary, Fine Silicon, has a designed annual production capacity of 3,000 tons of polysilicon and is currently ramping up its production.

***Competition and Product Pricing***

PV modules, which are currently our principal products, are priced primarily on the basis of the number of watts of electricity they generate and the market price per watt for PV modules. We price our PV modules based on the prevailing market prices at the time we enter into sales contracts with our customers or as our customers place their purchase orders with us, taking into account various factors including, among others, the size of the contract or the purchase order, the strength and history of our relationship with a particular customer and our polysilicon costs. We believe that the quality of our PV products and our low-cost manufacturing capabilities have enabled us with flexibility in adjusting the price of our products in accordance with our sales strategy and market demands. Since 2003 and until the beginning of the fourth quarter of 2008, the average selling prices of PV modules had been rising across the industry, primarily due to the high demand for PV modules as well as rising polysilicon costs during the same period.

The weakened demand for PV modules due to weakened macroeconomic conditions, combined with the increased supply of PV modules due to production capacity expansion by PV module manufacturers worldwide in recent years, has caused the price of PV modules to decline beginning in the fourth quarter of 2008. The credit market conditions have improved since the second quarter of 2009, which has contributed to an overall increase in the demand for our products in the second half of 2009. However, decreasing costs of raw materials continued to put pressure on the selling prices of the PV modules. The average selling prices in 2010 declined during the first, the second and the third quarter, and slightly bounced back in the fourth quarter of 2010 which was primarily attributable to the robust market demand, broader recognition of our premium brand and diversified customer base. The average selling price in 2011 declined moderately in the first and second quarter, declined sharply in the third quarter and continued to drop in the fourth quarter, which was primarily due to reduced government subsidies and increased supply of PV products. We expect that the prices of PV products, including PV modules, may continue to decline in 2012 due to declined demand caused by reduced government subsidies and increased supply of PV

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products on the market. Fluctuations in prevailing market prices may have a material effect on the prices of our PV modules and our profitability, particularly if prices of PV modules continue to decline or if prices of PV modules rise at a slower pace than the cost of polysilicon increases.

We sell our PV modules primarily through sales contracts with a term of less than one year and are obligated to deliver PV modules according to pre-agreed prices and delivery schedules.

*Price of Polysilicon*

Polysilicon is the most important raw material used in our manufacturing process. Until the third quarter of 2008, an industry-wide shortage of polysilicon coupled with rapidly growing demand from the solar power industry caused rapid increases of polysilicon prices. However, during the fourth quarter of 2008 and the first half of 2009, polysilicon prices declined continually as a result of significant new manufacturing capacity coming on line and falling demand for solar power products and semiconductor devices resulting from the global financial crisis and credit market conditions. Since the third quarter of 2010, the polysilicon price has rebounded due to the recovery of demand for PV products in main markets. From the second quarter of 2011, the polysilicon price has decreased significantly as the result of increased polysilicon manufacturing capacity for polysilicon and the pressure from the decreasing average selling price of PV modules. Our average purchase price of polysilicon per kilogram decreased by 28.9% in 2010 compared to 2009 and decreased by 16.8% in 2011 compared to 2010.

The average price of polysilicon over the medium to long term will depend on a number of factors, including the macroeconomic environment, the scope and progress of current and future manufacturing capacity expansion plans of the polysilicon suppliers, the level of demand for polysilicon from the PV and semiconductor industries and any changes in government regulations and subsidies in respect of PV and other alternative energy industry that may significantly affect the demand outlook for polysilicon. We believe that none of these factors can be predicted with reasonable certainty as of the date of this annual report, and the average price of polysilicon may increase or decrease significantly over the medium to long term as a result of any combination of such factors.

Our process technology enables us to increase our utilization of polysilicon scraps, the price of which has historically been lower than high-purity polysilicon, in the production of ingots and wafers. However, as the price of high purity polysilicon has declined significantly since the fourth quarter of 2008, we have been utilizing an increased proportion of high purity polysilicon in our manufacturing process to further ensure the high quality standards of our PV modules.

Historically, we had relied on spot market purchase to meet a significant portion of our polysilicon needs. In order to secure adequate and timely supply of polysilicon, we have also in the past entered into various purchase agreements and memorandums of understanding with local and foreign suppliers, including some of the world's major polysilicon suppliers. Supplies under these purchase agreements started in early 2009. In response to the significant decrease in polysilicon price since the fourth quarter of 2008, we have renegotiated with our suppliers to reduce the purchase price for a substantial amount of polysilicon supplied under certain of our prior polysilicon supply contracts. In the fourth quarter of 2011, due to the continuing decline in the spot market price of polysilicon, we recognized an impairment of long-lived assets of Fine Silicon of RMB2,275.0 million (US\$361.5 million) to reflect the less than expected profit-generating ability of Fine Silicon's assets. We further recognized a provision of RMB851.7 million (US\$135.3 million) on our inventory purchase commitment under long-term polysilicon supply contracts as a result of continuing decline in the polysilicon purchase price. Our management has been negotiating with our suppliers on further adjusting the prices under these long-term contracts. The provision would be reversed to the extent of the amount recovered if the actual purchase prices upon delivery are revised down. On the other hand, we cannot assure you that we will be able to secure sufficient quantities of polysilicon to support



the expansion of our manufacturing capacity as currently planned. See Item 3.D. Risk Factors – Risks Related to Us and the PV Industry. Our polysilicon cost may be higher than the market level as a result of our long-term polysilicon purchase commitment with fixed prices, and our in-house polysilicon production may not be cost-effective, both of which may materially and adversely affect our results of operations. and Item 3.D. Risk Factors – Risks Related to Us and the PV Industry. Our failure to obtain polysilicon in sufficient quantities, of appropriate quality and in a timely manner could disrupt our operations, prevent us from operating at full capacity or limit our ability to expand as planned, which will reduce, and limit the growth of, our manufacturing output and revenue.

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From 2006 to 2010, we entered into seven long-term supply contracts with Wacker for supplies of polysilicon from 2009 through 2013, from 2009 through 2017, from 2010 through 2018, from 2009 through 2011, from 2010 through 2017, from 2011 through 2013 and from 2011 through 2018, respectively. In addition, we entered into one long-term supply agreement in February 2008 with OCI for supplies of polysilicon for the period from 2009 through 2013. From 2009 to the date of this annual report, we entered into another two long-term supply contracts with OCI, for supplies of polysilicon from 2011 through 2015 and from 2012 through 2018, respectively. We also entered into a polysilicon supply contract with Daqo for polysilicon to be delivered from the fourth quarter of 2008 through the end of 2010. In August, 2010, we entered into another polysilicon supply agreement with Daqo for supplies of polysilicon from 2011 through 2012. In March 2011, we entered into a long-term polysilicon supply agreement with Hemlock for supplies of polysilicon from 2013 through 2020. In November 2011, we entered into an amendment to this long-term supply agreement to purchase polysilicon starting from 2012 through 2020 instead of 2013 through 2020 and revised certain commercial terms such as total contract quantity, advance payment arrangement and unit prices.

In January 2009, we acquired Cyber Power, which was then a development stage enterprise designed to produce polysilicon. Fine Silicon, the principal operating subsidiary of Cyber Power, has a designed annual production capacity of 3,000 tons of polysilicon and is currently ramping up its production. However, we do not expect that our in-house polysilicon production capacity will meet our entire polysilicon needs in the near future.

***Vertically Integrated Manufacturing Capabilities***

We believe our vertically integrated business model offers us several advantages, particularly in areas of cost reduction and quality control, over our competitors that depend on third parties to source core product components. First, the vertical integration enables us to capture margins at every stage of the PV product value chain in which we are engaged. Second, by streamlining our manufacturing processes, we can reduce production costs and costs associated with toll manufacturing, packaging and transportation as well as breakage losses that occur during shipment between various production locations associated with toll manufacturing arrangements. Third, we control operations at substantially all stages of the PV value chain, including research and development, which enables us to more closely monitor the quality of our PV products from start to finish, and design and streamline our manufacturing processes in a way that enables us to leverage our technologies more efficiently and reduce costs at each stage of the manufacturing process. We believe that the synergy effect from our vertically integrated business model has enabled us to reduce the quantity of polysilicon we use to make PV modules, improve the conversion efficiency of our PV cells and reduce the lead time needed to fulfill our customer orders.

***Manufacturing Technologies***

The advancement of manufacturing technologies is important in increasing the conversion efficiency of PV cells and reducing the production costs of PV products. Because PV modules are priced based on the number of watts of electricity they generate, higher conversion efficiency generally leads to higher revenues from the sale of PV modules.

We continually make efforts to develop advanced manufacturing technologies to increase the conversion efficiency of our PV cells. We employ a number of techniques to reduce our production costs while striving to reach a PV cell conversion efficiency ratio that is on par with or above an acceptable range. Our research and development team continues to focus on finding ways to improve our manufacturing technology and reduce manufacturing costs without compromising the quality of our products.

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For our newly adopted monocrystalline PV technologies, we have been in collaboration with the Energy Research Centre of the Netherlands, a leading solar research center in Europe, and Tempres Systems, a wholly-owned subsidiary of Amtech Systems, Inc., a global supplier of production and automation systems and related supplies for the manufacture of PV cells, to implement Project PANDA, a research and development project for next-generation high efficiency monocrystalline PV cells since June 2009. Our 300 megawatts of PANDA production capacity for each of monocrystalline ingots and wafers, cells and modules in Baoding, Hebei Province has started initial production in July 2010. We achieved an average cell conversion efficiency rate of 19.0% on the PANDA commercial production lines and a record cell conversion efficiency rate of 20.0% on the PANDA trial production line in 2011.

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*Foreign Governments and International Trade Bodies Trade Protection Measures*

Our businesses in foreign markets are subject to trade protection measures and adverse trade policies or remedies promulgated by foreign governments and international trade bodies against exports from China.

In 2009 and 2011, there were discussions which indicated the European Union might seek to start anti-dumping and countervailing duty investigations on PV products imported from China. If such investigations are started against Chinese exporters or if the European Union imposes anti-dumping or other trade protection measures, including increase tariffs on PV products imported from China, our export to Europe may be materially and adversely affected.

On September 9, 2010, the United Steel Workers filed a petition with the United States Trade Representative, or USTR, alleging the PRC government has engaged in unfair trade policies and practices with respect to certain domestic industries, including the solar power industry. The petition alleges that China employs a wide range of World Trade Organization-inconsistent policies that protect and unfairly support its domestic producers of wind and PV energy products, advanced batteries and energy-efficient vehicles. According to the petition, these policies include export restraints, prohibited subsidies, discrimination against foreign companies and imported goods, technology transfer requirements, and domestic subsidies causing serious prejudice to U.S. interests. Subsequently, USTR initiated an investigation under Section 301 of the 1974 Trade Act, which is ongoing as of the date of this annual report. If as the result of such investigation the United States imposes anti-subsidies or other trade protection measures, our export to the United States may be materially and adversely affected. On January 7, 2011, the U.S. President Barack Obama signed into law the Military Authorization Law, which contains a Buy American provision that prohibits the United States Defense Department from purchasing Chinese-made solar panels. On October 19, 2011, SolarWorld and six other companies filed a petition with the U.S. government, claiming that Chinese companies dump (i.e., sell at unfairly low prices) crystalline silicon photovoltaic, or CSPV cells into the U.S., and have received improper subsidies from the Chinese government. On December 5, 2011, the U.S. International Trade Commission, or the ITC preliminarily determined that there is a reasonable indication that imports of Chinese CSPV cells are causing material injury to the U.S. industry. The U.S. Department of Commerce, or the DOC has issued its preliminary determination for the countervailing investigation on March 19, 2012, determining a preliminary subsidy rate of 3.61% applicable to Yingli solar cells produced in China that are imported, including as part of solar modules, into the U.S. The DOC is expected to issue its preliminary determination for the antidumping investigation in May 2012. After the DOC preliminary determinations, imports of the subject merchandise are subject to the antidumping and countervailing duties, and importers are required to post bonds or cash deposits at the time of entry of the goods. The DOC and the ITC will issue final determinations as early as May and July 2012, respectively, but more likely the dates will be extended until September and October 2012. Such investigations have brought significant uncertainties to the U.S. market, and if as the result of such investigations the United States imposes antidumping and countervailing tariffs or other trade protection measures, our export to the United States may be materially and adversely affected. Since early 2012, there have been discussions that an antidumping investigation may be launched in India. These discussions are that the case will cover both CSPV and thin-film cells, originated from not only Mainland China, but also from Taiwan, Malaysia and the United States.

If such investigations instituted in our target markets lead to any adverse trade protection measures or remedies against exports from China, the prices of our products will be forced to increase significantly and we may loss customers orders to our competitors, which may materially and adversely affect our business prospects and results of operations.

*Net Revenues*

We currently derive net revenues from three sources:

- sales of PV modules, which are currently our principal source of revenues and are primarily driven by market demand as well as our manufacturing capacity;
- sales of PV systems, which consist of sales of PV systems and related installation services; and
- other revenues, which consist primarily of sales of raw materials and low efficiency PV cells.

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The following table sets forth each revenue source as a percentage of total consolidated net revenues for the periods indicated.

	2009		2010			2011		% of Total Net Revenue
	RMB	% of Total Net Revenue	RMB	% of Total Net Revenue	RMB	US\$		
(In thousands, except percentages)								
Net revenues:								
Sales of PV modules	7,158,441	98.7%	12,276,854	98.2%	14,397,086	2,287,467		98.1%
Sales of PV systems	50,197	0.7	56,662	0.5	53,731	8,537		0.4
Other revenues	46,231	0.6	166,471	1.3	227,148	36,090		1.5
Total net revenues	7,254,869	100.0%	12,499,987	100.0%	14,677,965	2,332,094		100.0%

Our net revenues are net of business tax, value-added tax, city construction tax and education surcharge. Key factors affecting our net revenues include the average selling price per watt and wattage of our PV modules sold.

We have been dependent on a limited number of customers for a significant portion of our revenues. In 2009, 2010 and 2011, sales to our five largest customers accounted for approximately 38.3%, 30.8% and 27.7% respectively, of our net revenues. Our largest customers have changed from year to year due to the rapid growth of the sales of our PV modules, our diversification into new geographic markets and our ability to find new customers willing to place large orders with us.

We currently sell most of our PV modules to customers located in Europe, the PRC and the United State. The following table sets forth our total consolidated net revenues by geographic region for the periods indicated:

Country/Region	2009		For the Year Ended December 31, 2010			2011		% of Total Revenues
	Revenues RMB	% of Total Revenues	Revenues RMB	% of Total Revenues	Revenues RMB	US\$		
(In thousands, except percentages)								
Europe:								
Germany	4,575,675	63.1%	7,078,239	56.6%	6,595,109	1,047,857		44.9%
Spain	431,520	5.9	704,355	5.7	511,757	81,310		3.5
France	99,915	1.4	236,522	1.9	352,107	55,944		2.4
Italy	445,861	6.1	853,788	6.8	700,646	111,321		4.8
Belgium	163,091	2.3			70,236	11,159		0.5
Netherlands	348,710	4.8	471,889	3.8	222,413	35,338		1.5
Czech Republic	174,405	2.4	286,901	2.3	9,899	1,573		0.1
Cyprus	162,064	2.2	5,264	0.1				
Greece	76,984	1.1	453,050	3.6	210,487	33,443		1.4
United Kingdom	9,331	0.1	174,875	1.4	227,122	36,086		1.5
Rest of Europe	5,087	0.1	41,582	0.3	169,516	26,933		1.2
Subtotal Europe	6,492,643	89.5	10,306,465	82.5	9,069,292	1,440,964		61.8
China	328,505	4.5	745,917	6.0	3,261,886	518,263		22.2
Hong Kong	56,862	0.8	16,500	0.1				

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United States	147,383	2.1	1,216,962	9.7	2,137,219	339,570	14.6
Japan	1,819	0.0	22,854	0.2	51,236	8,141	0.3
South Korea	218,135	3.0	154,769	1.2	13,036	2,071	0.1
Rest of World	9,522	0.1	36,520	0.3	145,296	23,085	1.0
Total net revenues	7,254,869	100.0%	12,499,987	100.0%	14,677,965	2,332,094	100.0%

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All of our net revenues from sales of PV systems are currently derived from China.

***Cost of Revenues***

Our cost of PV module sales consists primarily of:

- *Polysilicon.* The cost of polysilicon is the largest component of our total cost of revenues. We purchase polysilicon from various suppliers, including silicon manufacturers and distributors.
- *Other Raw Materials.* Other raw materials include crucibles, silicon carbides, cutting fluid, steel cutting wires, alkaline detergents, metallic pastes, laminate materials, silica gel, tempered glass, aluminum frames, solder, junction boxes, cables, connectors and other chemical agents and electronic components.
- *Toll Manufacturing.* We process silicon raw materials into ingots and produce wafers, PV cells and PV modules in-house. As our PV cell manufacturing capacity could be less than the production capacities for our wafers and PV modules, We have used toll manufacturing arrangements for PV cells. Besides, we also entered into toll manufacturing arrangement for specific PV modules to meet the requirements of our customers on a limited scale.
- *Direct Labor.* Direct labor costs include salaries and benefits for personnel directly involved in the manufacturing activities.
- *Overhead.* Overhead costs include utilities, maintenance of production equipment, land use rights and other ancillary expenses associated with the manufacturing activities.
- *Depreciation of Property, Plant and Equipment.* Depreciation of property, plant and equipment is provided on a straight-line basis over the estimated useful life, which is thirty years for buildings, four to ten years for machinery and equipment, three to five years for furniture and fixtures and eight to ten years for motor vehicles, taking into account their estimated residual value. Due to our capacity expansion, depreciation in absolute terms has increased significantly. We expect this trend to continue as we continue to expand our manufacturing capacity and build new facilities to attain an overall annual manufacturing capacity for each of polysilicon ingots and wafers, PV cells and PV modules of 2,450 megawatts by the end of 2012.

The cost of PV systems includes the costs of PV modules, batteries, inverters, other electronic components and related materials and labor.



Our cost of revenues is affected primarily by our ability to control raw material costs, achieve economies of scale in our operations and manage our vertically integrated product chain efficiently. Furthermore, we balance automation and manual operation in our manufacturing process, and have been able to increase operating efficiencies and expand our manufacturing capacity cost-effectively.

***Gross Profit and Gross Margin***

Our gross profit is affected by a number of factors, including the average selling prices for our PV products, the cost of polysilicon, product mix, economies of scale and benefits from vertical integration and our ability to cost-efficiently manage our raw material supply. Our gross profit was RMB2,449.7 million (US\$389.2 million) in 2011. Our gross profit margin was 16.7% in 2011, compared to 33.2% in 2010 and 23.6% in 2009. The significant decrease in gross margins from 2010 to 2011 was primarily a result of the continuous decline in the average selling price of PV modules and the non-cash inventory provision we recognized in the third and fourth quarters of 2011.

We may continue to face margin compression pressure in the sales of PV modules due to the decrease in the average selling price of our PV modules and increasingly intense competition in the PV module market,

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although a decrease in our average purchase price of polysilicon per kilogram has alleviated some of the margin compression pressure. Furthermore, we believe that the economies of scale achieved in our expanded PV businesses and the cost reduction achieved through research and development efforts at each stage of our vertically integrated manufacturing process, among other factors, will have a positive effect on our gross profit margins over time.

***Operating Expenses***

Our operating expenses consist of:

- *Selling expenses*, which consist primarily of advertising costs, salaries and employee benefits of sales personnel, sales-related travel and entertainment expenses, sales related shipping costs, warranty costs, amortization of intangible assets (including backlog and customer relationships), share-based compensation expenses and other selling expenses including sales commissions paid to our sales agents. The selling expenses as a percentage of net revenues decreased in 2011 as a result of expanded scale of business. We expect that selling expenses will continue to decrease as a percentage of net revenues over time as we achieve greater economies of scale.

Before September 30, 2011, our PV modules are typically sold with a two- or five-year limited warranty for defects in materials and workmanship, and a 10-year and 25-year warranty guaranteeing 90% and 80% of initial power generation capacity, respectively. From October 1, 2011, we implemented a new and improved warranty terms that guarantees 91.2% of nameplate power for 10 years, and 80.7% of nameplate power for a period of 25 years for multicrystalline PV modules and 98.0% of nameplate power for the first year, 92.0% of nameplate power for 10 years, and 82.0% of nameplate power for a period of 25 years for monocrystalline Panda PV modules. In addition, based on customers' specific requirements, we also provide our multicrystalline PV modules with linear-based warranty which guarantees each year's power output during the twenty-five-year warranty period. These warranties require us to fix or replace the defective products. We currently accrue the equivalent of 1% of gross revenues for potential warranty obligations. In 2011, we recorded warranty expense of RMB154.1 million (US\$24.5 million).

- *General and administrative expenses*, which consist primarily of salaries and benefits for our administrative and finance personnel, audit, legal and consulting fees, other travel and entertainment expenses, bank charges, amortization of technical know-how, depreciation of equipment used for administrative purposes and share-based compensation expenses.
- *Research and development expenses*, which consist primarily of costs of raw materials used in research and development activities, salaries and employee benefits for research and development personnel, and prototype and equipment costs relating to the design, development, testing and enhancement of our products and manufacturing process. We are a party to several research grant contracts with the PRC government under which we receive funds for specified costs incurred in certain research projects. We record such amounts as a reduction to research and development expenses when the related research and development costs are incurred. We expect our research and development expenses (not adjusted for offsets by government grants) to increase as we place a greater strategic focus on PV system sales in overseas markets and as we continue to hire additional research and development personnel and focus on continuous innovation of process technologies for our PV products. We conduct our research and development, design and manufacturing operations in China, where the costs of skilled labor, engineering and technical resources, as well as land, facilities and utilities, tend to be lower than those in more developed countries.

- *Provision of doubtful accounts receivable*, which represents our estimated losses on accounts receivable resulting from customers inability or failure to make payments under our sales contracts. We consider age of doubtful accounts receivable, historical collection experience, customer specific facts and current economic conditions.

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- *Impairment of long-lived assets*, which represents the difference between the carrying amount and the fair value of the long-lived assets that are considered to be impaired. Long-lived assets, such as property, plant, and equipment and intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Historically, intangible assets arose from the purchase price allocation in connection with our acquisitions of equity interests in Tianwei Yingli in 2006, 2007 and 2008. Due to the significant decrease in the price of polysilicon since the fourth quarter of 2008, we recognized impairment of intangible assets in 2009 in connection with the long-term polysilicon supply agreements entered into by Tianwei Yingli. In the fourth quarter of 2011, we recognized an impairment of property, plant and equipment of Fine Silicon of RMB2,275.0 million (US\$361.5 million) to reflect the less than expected profit-generating ability of Fine Silicon's assets due to a continuing decline in the spot market price of polysilicon.
- *Impairment of goodwill*, which relates to the impairment charge of RMB 273.4 million (US\$43.3 million) for the goodwill originated from the historical acquisitions of equity interests in Tianwei Yingli. During the fourth quarter of 2011, we experienced both a decline in our operating results and a significant decrease in the market capitalization of our company, which represents one single reporting unit for the purpose of assessing goodwill impairment. In performing the first step of the impairment test of goodwill as of December 31, 2011, we determined that the fair value of our Company, which was estimated by us taking into account the quoted market price of our company's ADSs and an appropriate control premium amount, was less than the carrying value of its net assets. Accordingly, we performed the second step of the impairment test and determined that the implied fair value of the goodwill to be zero. As a result, we recorded an impairment charge to fully write off the carrying value of the goodwill as of December 31, 2011.
- *Provision on the inventory purchase commitment under long-term polysilicon supply contracts*. In 2011, we recognized a provision of RMB851.7 million (US\$135.3 million) on our inventory purchase commitment under the long-term polysilicon supply contracts as a result of continuing decline in the polysilicon purchase price.

**Taxation**

Under current laws of the Cayman Islands and the British Virgin Islands, we are not subject to income or capital gains tax. Additionally, dividend payments made by us are not subject to withholding tax in the Cayman Islands and the British Virgin Islands.

In accordance with the FIE Income Tax Law and its implementation rules, as a foreign invested enterprise primarily engaged in manufacturing and in operation for more than ten years, Tianwei Yingli was entitled to an exemption from the 25% enterprise income tax for two years from its first profit making year following its conversion into a Sino-foreign equity joint venture company, specifically 2007 and 2008, and a 50% reduction in the subsequent three years, from 2009 to 2011.

On March 16, 2007, the National People's Congress passed the EIT Law, which replaces the FIE Income Tax Law and adopts a uniform income tax rate of 25% for most domestic enterprises and foreign investment enterprises. The EIT Law became effective on January 1, 2008. The EIT Law provides a five-year transition period from its effective date for enterprises established before the promulgation date of the EIT Law and which were entitled to preferential tax rates and treatments under the then effective tax laws or regulations. On December 26, 2007, the PRC government issued detailed implementation rules regarding the transitional preferential policies. Furthermore, under the EIT Law, entities that qualify as high and new technology enterprises strongly supported by the state are entitled to the preferential enterprise income tax rate of 15%. The Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation jointly issued the Administrative Regulations on the Recognition of High and New Technology Enterprises on April 14, 2008 and the Guidelines for Recognition of High and New Technology Enterprises on July 8, 2008. Under the EIT Law and the various implementation rules, Tianwei Yingli continues to enjoy its

unexpired tax holiday which is applied to the new income tax rate of 25%,

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resulting in a tax rate of 0% for 2008, 12.5% for 2009 to 2011. In August 2011, Tianwei Yingli renewed the certificate of High and New Technology Enterprise and extended the preferential income tax period for another three years starting from 2011. As a result, Tianwei Yingli is entitled to a preferential EIT rate of 15% from 2012 to 2013. Yingli China was established in October 2007 and was recognized by the Chinese government in December 2008 as a High and New Technology Enterprise, the preferential enterprise income tax rate of 15% was applicable to Yingli China from 2008 to 2010. In August 2011, Yingli China renewed the certificate of High and New Technology Enterprise and extended the preferential income tax period for another three years starting from 2011. As a result, Yingli China is entitled to the preferential EIT rate of 15% from 2011 to 2013. In addition, Fine Silicon was recognized by the Chinese government in November 2009 as a High and New Technology Enterprise. As a result, Fine Silicon is entitled to the preferential enterprise income tax rate of 15% from 2009 to 2011. Yingli Hainan was established in September 2009 in Hainan special economic zone and recognized by the Chinese government as a High and New Technology Enterprise under new EIT law in September 2011. Therefore, Yingli Hainan was entitled to the tax exemption for the first two years and half EIT rate for the subsequent three years upon generating any operational revenues. Yingli Hainan elected to defer the commencement of the abovementioned tax holidays until January 1, 2011. Therefore, Yingli Hainan is entitled to EIT exemption from 2011 to 2012 and a preferential EIT rate of 12.5% from 2013 to 2015.

Furthermore, continued qualification as a high and new technology enterprise is subject to a three-year review by the relevant government authorities in China, and in practice certain local tax authorities also require annual evaluation of the qualification.

Moreover, the EIT Law and its implementation rules impose a 10% withholding tax, unless reduced by a tax treaty or agreement for distributions of dividends in respect of earnings accumulated beginning on January 1, 2008 by a foreign investment enterprise to its immediate overseas holding company, insofar as the later is treated as a non-resident enterprise. Distributions of earnings generated before January 1, 2008 are exempt from such withholding tax. Therefore, we have not recognized a deferred tax liability for undistributed earnings through December 31, 2007. We intend to reinvest indefinitely undistributed earnings generated in 2010 and therefore have not recognized a deferred tax liability for those earnings.

Yingli Green Energy Europe GmbH and Yingli Green Energy Greece Sales GmbH, two of our major overseas subsidiaries, are located in Germany and subject to a corporation income tax rate of 15% plus a solidarity surcharge of 5.5% on corporation income taxes and a trade income tax rate of 12.775%, resulting in an aggregate income tax rate of 28.6%. The German tax law and its relevant regulations impose a withholding income tax at 26.375% for dividends distributed by a Germany-resident enterprise to its immediate holding company outside Germany.