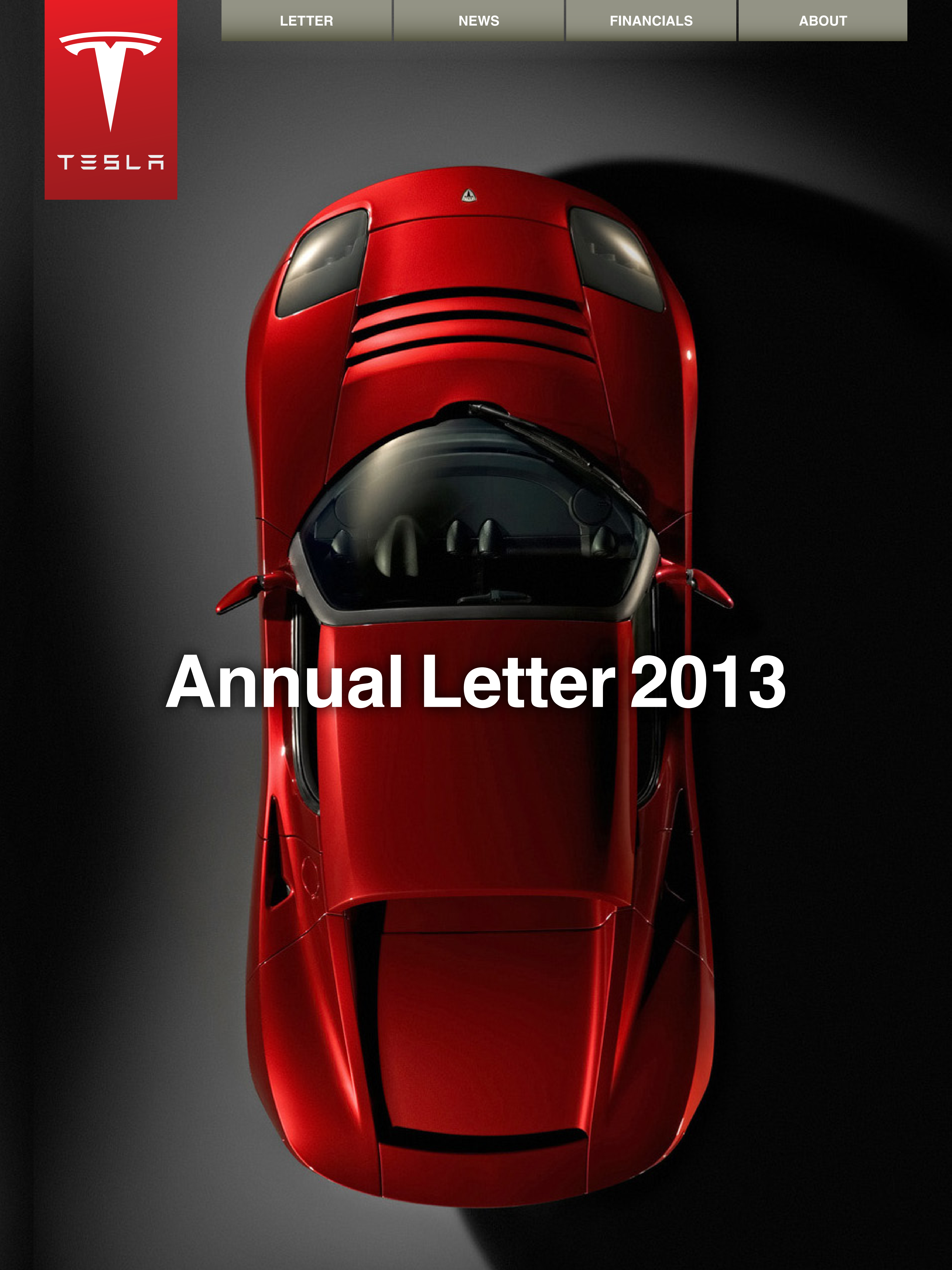
TESLA



Annual Letter 2013

TESLA

MAY 9, 2012

Dear Fellow Shareholders

We are pleased to report that we have nearly completed all regulatory approvals and certifications required to begin delivery of Model S to our customers in the United States. Thus, we anticipate that initial deliveries will begin in June, ahead of our announced schedule of July.

On the Powertrain side of our business, we completed the Toyota RAV4 EV development program in Q1 and started deliveries of production components, also ahead of schedule. The RAV4 EV marries the efficiency of an EV

with the versatility of an SUV – in fact it is the only electric SUV on the market. With the largest battery pack of any non-premium EV, it is expected to have a city range of almost 170 miles, more than 60% above the Nissan Leaf. The electric RAV4 is a high performance version of the RAV4 with outstanding acceleration and excellent handling due to the low center of gravity afforded by the floor mounted battery pack.

We recently signed an agreement with Daimler to create an entire electric powertrain for a new Mercedes-Benz EV, thus formalizing the joint effort kicked off in Q4 last year. This program is expected to exceed in value the sum of all powertrain agreements signed in Tesla history. Producing at this expected volume will allow for economies of scale that give the resulting vehicle a cost of ownership that is on par with its gasoline equivalent.

We are excited to begin deliveries of Model S. Stay tuned for opportunities to see and test drive Model S. We want you to experience for yourselves how electric vehicles can surpass their internal combustion counterparts in every way.

“Stay tuned for opportunities to see and test drive Model S.

In closing, one of our customers in Europe let us know he recently drove his Roadster past the 200,000 kilometer mark. At Tesla, we are going the distance, one customer at a time.

Thank you for your interest in Tesla Motors.

Sincerely,

Elon Musk
Chairman, Product Architect and CEO

Deepak Ahuja
Chief Financial Officer

MAY 9, 2012

Model S Deliveries to Begin in June

All aspects of the Model S program remain on track to commence deliveries in June. The Tesla Factory is producing vehicles at a steadily increasing rate, and so far this year we have built about 50 Beta and about 30 Release Candidate prototypes. All these vehicles are dedicated to a comprehensive testing program, including crash and safety testing, systems integration, reliability testing, and quality audits.

Model S has now been fully certified by the U.S. Environmental Protection Agency (EPA) and the State of California. We have also successfully completed almost all of the crash testing required under the National Traffic and Motor Vehicle Safety Act using our Release Candidate prototypes. Once we complete and document the tests, we will be able to sell our vehicles in the United States. This leaves us confident we can begin Model S customer deliveries in June, ahead of our announced schedule of July.

> **We can begin Model S customer deliveries in June.**

We expect the safety rating of Model S will be independently determined by the National Highway Traffic Safety Administration (NHTSA) and other groups. Under NHTSA's New Car Assessment Program (NCAP), selected cars are independently purchased and crash tested. NHTSA then assigns "star ratings" to tested cars using the NCAP standards. Based on our internal crash tests and consistent with these published standards, we believe Model S will achieve NHTSA's top, 5-star, rating. Compliance testing for global markets continues and will be announced as achieved.

Delivering the first few customer cars in June highlights the fact that Model S will be fully compliant and available for purchase in the U.S. These cars will carry customer, rather than manufacturer, license plates, signifying that they are fully homologated and completely street legal. We plan to continue making customer deliveries on a slow, methodical ramp, and remain confident in our target of 5,000 vehicle deliveries by year end.

Strong Reservations; Model S Marketing to Accelerate

We had over 9,800 Model S reservations at quarter end, and shortly thereafter topped 10,000. Our growth in reservations during the quarter is particularly significant given that we did not add any new stores during that period. In addition, we also took about 1,000 Model X reservations during the quarter, after its successful introduction in February. We don't plan to make quarterly Model X reservation updates until next year, when Model X becomes a greater focus of our marketing activities.

During the quarter, we completed an agreement with Athlon Car Lease to introduce Model S to corporate customers across Europe. This comes on top of our existing Roadster lease agreement with Athlon. As part of this agreement, Athlon Car Lease reserved 150 Model S sedans to ensure early availability of the car for its customers. This is the first Model S fleet reservation made worldwide by a leasing company. Our lease program with Athlon covers several major countries on the European continent, including Germany, France, Italy, Spain, Belgium and the Netherlands.

> **All customers will receive Tesla Personal Delivery.**

We have recently started contacting our Signature Series reservation holders to lock in exterior color, interior decor and other options as we prepare to begin deliveries. All customers will receive Tesla Personal Delivery and have the option to pick up their car at the Tesla Factory in Fremont, California or have their Model S delivered to any location of their choice, including at home.

Our stores continue to see very strong visitor traffic. In the first quarter we had over 410,000 visitors at our six New Design stores and galleries in North America. The pace of marketing the Model S is beginning to accelerate. In April, we opened a store in Oslo, Norway, and plan to open ten additional stores this year at strategic locations domestically, several of which will be in the northeast corridor of the United States. Our reservation holders and the general public will be able to test drive Model S in North America for the first time this summer. These store openings and test drive events should build consumer interest, brand awareness and store visitor traffic as more people experience Model S firsthand.

Solid Roadster Demand & Gross Margin, Increased R&D Expenses and Strong Cash Position

Q1 revenue was $30.2 million, reflecting sequential quarterly growth in Roadster deliveries in Europe and Asia, and the end of Roadster sales in North America. We delivered 99 Roadsters in the quarter, with unit deliveries up 10% from a year ago in Europe and Asia, combined. This solid growth reflects continued demand for Roadster, despite global economic challenges. Total Roadster deliveries now exceed 2,250, with only about 250 Roadsters remaining for sale in Europe and Asia.

We also delivered the first powertrains to Toyota for the RAV4 EV, and a small number of extra battery packs and chargers to Daimler. Development services revenue reflects our successful achievement of the final milestones on the Toyota RAV4 EV development contract.

Automotive gross margin was very healthy at 28%, as Roadsters are selling at prices consistent with those of last quarter. This is impressive given that this is our last year for Roadster sales. Development services gross margin was also very strong at 45%, and achieved the sequential recovery we communicated last quarter. In total, Q1 gross margin was 34%, representing the highest level in a year.

> **Q1 gross margin was 34%, the highest level in a year.**

Research and development (R&D) expenses were $62.5 million on a non-GAAP basis. This 10% sequential increase in R&D expenses is due to our increasing investments in Model S manufacturing preparedness, process validation, prototype builds and extensive testing at both the car and component levels. Our manufacturing team has grown substantially in this quarter, in order to be well trained and prepared to produce high quality cars. Thus, a substantial portion of our R&D expenses are one-time investments in preparation for Model S production. We have consciously chosen to invest more when needed to reach our safety, quality and performance goals for Model S. This has enabled us to deliver our first customer cars ahead of the announced schedule.

Selling, general and administrative (SG&A) expenses rose 10% sequentially on a non-GAAP basis, primarily due to a full quarter of marketing expense for the stores we opened in Q4.

Our non-GAAP net loss for the quarter was $79 million, or $(0.76) per share, based on 104.8 million weighted common shares outstanding. This includes a $1 million non-cash impact in other expenses, related primarily to the revaluation of our foreign currency denominated assets and liabilities, as a result of the significant weakening of the dollar during the quarter. Capital expenditures were about $68 million in Q1 as we continued to build out the Tesla Factory and invest in tooling for Model S.

We concluded the quarter with $387 million in cash resources. This reflects $283 million in total cash on hand, including our DoE dedicated account, and the additional $104 million we had left to draw on our loan facility with the Department of Energy (DoE). We drew down $84 million from our DoE loan facility in Q1 as our projects remain on track with the DoE under the terms of the loan agreement. Our relationship with the DoE remains strong and we plan to draw down all remaining funds over the next two quarters. We continue to believe that we have adequate liquidity to reach profitability in 2013, based on our current plans.

Updated 2012 Financial Guidance

Given that Model S deliveries are set to begin ahead of our announced July timing, we are raising the bottom end of our prior 2012 revenue guidance by $10 million, to $560-600 million, up from $550-600 million. We expect Q2 revenue will be comparable to the Q1 level, and consistent with our prior guidance that 1H revenue will be about 10% of our full year revenue guidance.

We also reiterate the guidance provided in the Q4 2011 shareholder letter for capital expenditures and gross margin trends. We anticipate our R&D spending should increase sequentially in Q2, by about 20-25% as we continue to grow the manufacturing team prior to launch and incur expenses to complete our final activities related to the development of Model S and the Tesla Factory. With the start of Model S production, one-time development related expenses will decline, and manufacturing expenses will be reflected in cost of goods sold rather than in R&D. Q3 R&D spending should therefore decline substantially.

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MAY 9, 2012

Financials

Tides' financial numbers tell a story of success in 2006: grants to a wide array. Of work throughout all levels of the field, vigorous support for international projects, and a generous payout rate that demonstrates our commitment to social change.

Domestic & international grants	
Domestic	$58,375,537
International	$9,110,633
Operational numbers	
Total assets	$167,742,297
Gifts received	$68,607,557
Support & revenue (including gifts received)	$81,546,327
Expenses (including grants paid)	$76,708,755
Grants paid	$67,486,170

2012 Revenue

Contributed Support	628,000	47%
Special Events	380,000	28%
Fee for Programing	201,000	15%
In Kind Goods	65,000	5%
In Kind Services	60,000	4%
Total	**1,334,000**	**100%**

2012 Expenses

Cook for Kids	710,075	56%
Salaries & related	202,000	16%
Coach for Kids	114,510	9%
Contract Services	51,500	4%
In-kind Goods	65,000	5%
In-kind Services	60,000	5%
Fundraising	40,000	3%
Administrative/Other	33,660	3%
Total	**1,276,745**	**100%**