


MEETING DATE	Wed, 21 Mar 2018 9:00 am	TYPE	EGM	ISSUE DATE	Tue, 20 Feb 2018
MEETING LOCATION	Tesla Training Center Facility, 45201 Fremont Boulevard, Fremont, California 94538				
CURRENT INDICES	PIRC Global				
SECTOR	Motor vehicles and passenger car bodies				

COMPANY OVERVIEW

Tesla, Inc. designs, develops, manufactures and sells high-performance fully electric vehicles, and energy storage systems, as well as installs, operates and maintains solar and energy storage products. It is the world's only vertically integrated energy company, offering end-to-end clean energy products, including generation, storage and consumption. The Company currently produces and sells two fully electric vehicles, the Model S sedan and the Model X sport utility vehicle (SUV). Tesla Motors, Inc. has wholly-owned subsidiaries in North America, Europe and Asia. The Company was incorporated in the state of Delaware on July 1, 2003.

MEETING SPECIFIC INFORMATION

Voting majority

Approval of the CEO Performance Award requires (1) the affirmative vote of the holders of a majority of the total votes of shares of Tesla common stock cast in person or by proxy at the Special Meeting, pursuant to the NASDAQ Stock Market Rules, (2) the affirmative vote of a majority of the voting power of the shares present in person or represented by proxy at the Special Meeting and entitled to vote on the proposal, pursuant to Tesla's amended and restated bylaws, and (3) the affirmative vote of the holders of a majority of the total votes of shares of Tesla common stock not owned, directly or indirectly, by Elon Musk or Kimbal Musk, cast in person or by proxy at the Special Meeting, pursuant to the resolutions of the Board approving the CEO Performance Award.

PROPOSALS

ADVICE

1 Approve Stock Option Grant to Elon Musk

Oppose

Shareholders are being asked to approve the proposed Performance Award for the CEO, Elon Musk (CEO Performance Award). The CEO Performance Award consists of a 10-year grant of stock options with 12 potential vesting tranches that vest only if one market capitalisation milestone and one operational milestone are both achieved. The estimated realisable value of the award is \$55.8 billion. For the first tranche, Tesla's current market capitalisation has to increase to \$100 billion and the Company must meet an additional operational milestone. For each subsequent tranche, Tesla must increase its market capitalisation in additional \$50 billion increments-up to a total of \$650 billion-and achieve another previously unmet operational milestone at each level. In addition, Mr. Musk must also remain as Tesla's CEO or serve as both Executive Chairman and Chief Product Officer, in each case with all leadership ultimately reporting to him, at the time each milestone is met in order for the corresponding tranche to vest.

Background: In 2012, the Board approved a compensation program for Mr. Musk that would vest only upon the achievement of certain market capitalisation and operational milestones. The vesting milestones for the 2012 Performance Award included 10 tranches, with each tranche requiring Tesla both to (i) grow market capitalisation by an additional \$4 billion, and (ii) achieve an additional specified operational milestone. The operational milestones were: completion of prototypes (Model X Alpha, Model X Beta, Model 3 Alpha, Model 3 Beta); completion of Production Vehicles (Model X and Model 3), the aggregate vehicle production of 100,000, 200,000 and 300,000 vehicles separately and Gross margin of 30% or more for four consecutive quarters. It is stated that only the gross margin milestone has not been achieved and remains outstanding. Consequently, the Board developed the 2017 CEO Performance Award to incentivise Mr. Musk to lead Tesla through the next phase of its development.

Terms: Non-qualified stock options with an exercise price of \$350.02 per share are to be granted. The milestones are 12 market capitalisation milestones and 16 operational milestones (up to 12 may be paired with market capitalisation milestones) for all tranches to vest. There are two operational milestones: total revenue and adjusted EBITDA. Each of the 12 tranches vests only when both a Market Capitalisation Milestone and an Operational Milestone are certified by the Board as having been met. Any one of the 16 Operational Milestones can be matched with any one of the 12 Market Capitalization Milestones, but any single Operational Milestone may only satisfy the vesting requirement for one tranche. The term of the award is ten years with a post-exercise holding period of five years. There is a post-termination of employment exercise period of one year. It is noted that there is no acceleration of vesting upon termination of employment, death or disability. In addition, there is no automatic acceleration of vesting upon a change in control of Tesla, but in a change in control situation the achievement of the milestones will be based solely on the Market Capitalisation Milestones. There is a clawback provision such that vesting of the CEO performance award will be subject to a clawback in the event that financial statements are restated in a way that a tranche would not have otherwise vested.

Recommendation: The Plan can be described as an audacious attempt to retain and incentivise the current CEO, Elon Musk. There are certain positive aspects of the plan. These include: (i) Long term focus: longer-term incentivisation schemes such as this with a ten year framework are encouraged; (ii) Link to performance: it is noteworthy that the plan includes performance targets more so given that the Tax Act has removed the tax-deductability element for performance related pay schemes; (iii) absence of accelerated vesting on termination and on a change of control and (iii) the fact that it is not a free issue of shares but options with a \$350 exercise price. That being said, the negatives highlighted (see section 'supporting information' below) far outweigh any identified positives.

Triodos opposes this resolution.

SUPPORTING INFORMATION FOR RESOLUTIONS

Proposal 1 - Approve Stock Option Grant to Elon Musk

Significant negatives: (i) Absence of a concrete rationale: the rationale given for the plan, being the necessity to incentivise Mr. Musk and align his interests with that of shareholders is considered fundamentally flawed. Given Mr. Musk's already substantial shareholding of 22%, there is no need to further align or incentivise him. Again, the Board

says 'The Board believes that the 2012 Performance Award was instrumental in motivating Mr. Musk to lead Tesla's achievement of the objectives set out in the original Tesla Master Plan, thereby generating the significant stockholder value that was created during the process.' It is considered that as an entrepreneur, it is not monetary reward that has led Mr. Musk to lead the company forward. This is underlined by the fact that he has not cashed in his vested stock options from the 2012 award.

(ii) Governance concerns: There are concerns that the plan would give Mr. Musk greater control of the Company by other means. This is due to the fact that if Mr. Musk hits all 12 performance milestones, he could own as much as 28.3% of Tesla. In addition, there are governance concerns given that there is insufficient independence on the Board. Furthermore, only one member of the Compensation Committee is considered independent. This raises concerns at to a lack of independent oversight and robust challenge on the Board.

(iii) Choice of metrics: previous targets for the 2012 award included production targets. While these are excluded from the current award, it is noted from recent reports that production issues remain. Therefore these may be more appropriate. In addition, with the absence of a gross margin target, Mr. Musk is released from attaining the one target that he previously failed to meet. Furthermore, the use of adjusted EBITDA is not considered appropriate. The company could borrow substantial sums which would raise its market capitalisation but the cost would be excluded from one of the operational milestones. These adjustments often take account of real costs which are borne by shareholders but which, in the case of executive remuneration, management are not held responsible for. Also, the use of market capitalisation as a target is not appropriate, being tied to share price, as there are many external factors which influence share price that are out of the control of executives. Prices may rise on the back of general movements in the market.

(iv) Excessiveness/Dilution: The estimated value of the award is significantly excessive at \$55.8 billion. In addition, it is considered that no more than 10% of outstanding shares over ten years should be granted. Under the award, there are 12 tranches with 1% of outstanding shares awarded at each tranche, which is considered excessive.

(v) Remuneration Committee Discretion: It is noted that there are 16 operational milestones, of which 12 of these may be paired with market capitalisation milestones for all tranches to vest. Any one of the 16 operational milestones may be matched with any one of the 12 market capitalisation milestones. This seems to allow some discretion with respect to which operational guidelines are attached to which market cap milestones, giving the Remuneration committee a degree of discretion over the targets.

(vi) The clawback provision operating on the plan is not sufficiently robust as it only covers cases of financial restatements. It is considered that clawbacks should operate beyond this one scenario.

BOARD AND COMMITTEE COMPOSITION (post-Meeting)

DIRECTOR	GENDER	INDEPENDENT BY		BOARD	AC	RC	NC	SC	TENURE
		PIRC	COMPANY						
Elon Musk	M	No	No	Ch & CEO	-	-	-	-	13
Brad W. Buss	M	No	No	NED	-	-	-	-	8
Robyn M. Denholm	F	Yes	Yes	NED	C	M	M	-	3
Ira Ehrenpreis	M	No	Yes	NED	-	C	C	-	10
Antonio J. Gracias	M	No	Yes	SID	M	M	M	-	10
Stephen T. Jurvetson	M	No	Yes	NED	M	-	-	-	8
Kimbal Musk	M	No	No	NED	-	-	-	-	13
Linda Johnson Rice	F	Yes	Yes	NED	-	-	-	-	<1
James Murdoch	M	Yes	Yes	NED	-	-	-	-	<1
Number of Meetings				-	-	-	-	-	
Number of NED only Meetings				-					

PIRC assesses a non-executive director's independence according to PIRC's shareholder guidelines. Comments represent PIRC's analysis based on information in the report and accounts. AC = Audit Committee, RC = Remuneration Committee, NC = Nomination Committee, SC = Sustainability Committee, C = Chairperson of Committee, M = Member of Committee.

BOARD OF DIRECTORS (post-Meeting)

ELON MUSK				CHAIRMAN & CHIEF EXECUTIVE	
AGE	45	TENURE	13 Years	COMMITTEES	None
OTHER POSITION	Space Exploration Technologies Corporation [CEO, CTO, Ch]; ex-PayPal [Co-Fnd]; ex-SolarCity Corporation [Ch]; ex-Zip2 Corporation [Co-Fnd]				
INDEPENDENT BY PIRC	N	INDEPENDENT BY COMPANY		N	
COMMENT	Class III Director. He owns 22.0% of the Company's outstanding common stock.				
BRAD W. BUSS				NON-EXECUTIVE DIRECTOR	
AGE	53	TENURE	8 Years	COMMITTEES	None
OTHER POSITION	Advance Auto Parts, Inc [NED]; Cavium, Inc. [NED]; ex-Altera Corp. [VP]; ex-CaféPress.com [NED]; ex-CaféPress.com [NED]; ex-Cypress Semiconductor Corporation [EVP, CFO]; ex-SolarCity Corp. [CFO]; ex-Zaffire, Inc. [CFO]				
INDEPENDENT BY PIRC	N	INDEPENDENT BY COMPANY		N	
COMMENT	Class III Director. Not considered independent as Mr Buss is the former CFO of SolarCity, where Mr. Musk, the Company's CEO and Chairman, served as Chairman until its acquisition by the Company in November 2016.				
ROBYN M. DENHOLM				NON-EXECUTIVE DIRECTOR	
AGE	53	TENURE	3 Years	COMMITTEES	A*,R,N
OTHER POSITION	Telstra Corporation Limited [COO]; ex-ABB Ltd [Dir]; ex-Arthur Andersen & Company [Exec]; ex-Juniper Networks, Inc. [EVP, CFO]; ex-Sun Microsystems, Inc. [SVP, CAO]; ex-Toyota Motor Corporation Australia [Exec]				
INDEPENDENT BY PIRC	Y	INDEPENDENT BY COMPANY		Y	
COMMENT	Class I Director.				

IRA EHRENPREIS		NON-EXECUTIVE DIRECTOR			
AGE	48	TENURE	10 Years	COMMITTEES	R*,N*
OTHER POSITION	DBL Partners [Managing Partner]; Technology Partners [Managing Member]; VCNetwork [Ch]; Western Association of Venture Capitalists [co-Pres]; ex-Cleantech Venture Network [NED]				
INDEPENDENT BY PIRC	N	INDEPENDENT BY COMPANY		Y	
COMMENT	Class III Director. Not considered independent owing to a tenure of over nine years.				
ANTONIO J. GRACIAS		SENIOR INDEPENDENT DIRECTOR			
AGE	46	TENURE	10 Years	COMMITTEES	A,R,N
OTHER POSITION	SpaceX [NED]; Valor Management Corp. [CEO]; ex-SolarCity [NED]				
INDEPENDENT BY PIRC	N	INDEPENDENT BY COMPANY		Y	
COMMENT	Class II Director. Lead Director. Not considered independent owing to a tenure of over nine years.				
STEPHEN T. JURVETSON		NON-EXECUTIVE DIRECTOR			
AGE	50	TENURE	8 Years	COMMITTEES	A
OTHER POSITION	D-Wave Systems Inc. [NED]; Draper Fisher Jurvetson [MD]; SpaceX [NED]; Synthetic Genomics Inc. [NED]				
INDEPENDENT BY PIRC	N	INDEPENDENT BY COMPANY		Y	
COMMENT	Class I Director. Not considered independent as he is a managing director of Draper Fisher Jurvetson ("DFJ"). Through its funds, DFJ is a significant stockholder of SpaceX and Mr. Jurvetson is a director of SpaceX. Tesla and certain Tesla directors have relationships with SpaceX.				
KIMBAL MUSK		NON-EXECUTIVE DIRECTOR			
AGE	44	TENURE	13 Years	COMMITTEES	None
OTHER POSITION	Chipotle Mexican Grill, Inc. [NED]; SpaceX [NED]; The Kitchen [Co-Fnd, CEO]; ex-Zip2 Corporation [co-Fnd]				
INDEPENDENT BY PIRC	N	INDEPENDENT BY COMPANY		N	
COMMENT	Class II Director. Not independent as he is the brother of Elon Musk, CEO and Chairman of the Company.				
LINDA JOHNSON RICE		NON-EXECUTIVE DIRECTOR			
AGE	59	TENURE	<1 Years	COMMITTEES	None
OTHER POSITION	After School Matters [Dir]; Art Institute of Chicago [Trust]; Chicago Public Library [Dir]; Ebony Media Holdings [Div CEO, Ch Emerita]; Grubhub [Dir]; Johnson Publishing Company [Ch & CEO]; Northwestern Memorial Corporation [Dir]; Omnicom Group [Dir]; ex-Bausch & Lomb [Dir]; ex-Continental Bank [Dir]; ex-Dial Corporation [Dir]; ex-Kimberly-Clark Corporation [Dir]; ex-MoneyGram [Dir]; ex-Quaker Oats [Dir]				
INDEPENDENT BY PIRC	Y	INDEPENDENT BY COMPANY		Y	
JAMES MURDOCH		NON-EXECUTIVE DIRECTOR			
AGE	44	TENURE	<1 Years	COMMITTEES	None
OTHER POSITION	21CF [CEO]; Quadrivium [Co-Fnd]; ex-BSkyB [Ch, CEO]; ex-STAR [CEO]; ex-Sky Deutschland [Ch]; ex-Sky Italia [Ch]				
INDEPENDENT BY PIRC	Y	INDEPENDENT BY COMPANY		Y	

BOARD COMPOSITION

BOARD COMPOSITION FOLLOWING THE EGM

			- MEAN	
	Number	% of Board	Number	% of Board
Executive Director	1	11.11	n/a	n/a
Independent NEDs	3	33.33	n/a	n/a
Connected NEDs	5	55.56	n/a	n/a
Other	0	0.0	n/a	n/a
Women	2	22.22		

BOARD COMMITTEES FOLLOWING THE EGM

				- MEAN	
	Number of Members	% Independent by PIRC	% Independent by Company	Number of Members	% Independent by PIRC
Whole Board	9	33.33	66.67	-	-
Audit	3	33.33	100.0	-	-
Remuneration	3	33.33	100.0	-	-
Nomination	3	33.33	100.0	-	-

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