

March 10, 2017

The Honorable Brian Sandoval
Office of the Governor
101 North Carson Street
Carson City, Nevada 89701

Mr. Richard Combs, Director
Legislative Counsel Bureau
401 South Carson Street
Carson City, Nevada 89701

Re: Tesla Gigafactory Compliance Audit Report

Dear Governor Sandoval and Director Combs:

Pursuant to NRS 360.955 and the Tesla Motors Incentive Agreement (“Agreement”) the Governor’s Office of Economic Development (“Office”) has certified the fourth compliance audit of Tesla Motors, Inc. (“Tesla”) for the period covering July 1, 2016 through September 30, 2016. The Agreement allows Tesla to report on a period shorter than one fiscal year. As such, the Office has determined all requirements have been met to issue to Tesla transferable tax credits totaling \$11,567,061.

If further information is required, please contact me at your convenience.

Respectfully yours,



Michael Dang
Director of Business Operations

Attachment: Report of Independent Accountants on Applying Agreed Upon Procedures
Tesla Motors, Inc., July 1, 2016 through September 30, 2016

cc: Steve Hill
Tesla Motors, Inc.



March 10, 2017

Steve Hill
Executive Director
Governor's Office of Economic Development
555 E. Washington Avenue, Suite 5400
Las Vegas, NV 89101

RE: TESLA SB-1 COMPLIANCE REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2016

Dear Executive Director Hill:

Pursuant to NRS 360.955 and the Tesla Motors Incentive Agreement ("Agreement"), we have submitted the fifth compliance audit report for the period covering July 1, 2016 through September 30, 2016, which indicates \$12,042,061 of transferable tax credits earned during this period.

Upon certification of the compliance report for the period covering July 1, 2016 through September 30, 2016, we will issue an irrevocable declaration to GOED for \$11,567,061 pursuant to NRS 360.945. \$475,000 of transferable tax credit will be carried over until the issuance of the compliance audit report for the period ending June 30, 2017.

If you have any questions or required additional information, please do not hesitate to contact me at (650) 681-6543 or susan@tesla.com.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Susan Repo". The signature is fluid and cursive.

Susan Repo
Corporate Treasurer
Tesla, Inc.



**Report of Independent Accountants on Applying
Agreed-Upon Procedures**

Tesla, Inc.

July 1, 2016 through September 30, 2016

Report of Independent Certified Public Accountants

Management
Tesla, Inc.

We have performed the procedures listed below, which were agreed to by management of Tesla, Inc. (the “Company” or “Lead Participant”) and the State of Nevada (the “Regulator”) (collectively, the “Specified Parties”), solely to assist you in determining compliance with the State of Nevada SB1 Incentive Compliance agreement for the period of July 1, 2016 through September 30, 2016. Tesla Motors, Inc.’s management is responsible for the schedules of qualified employees and construction employees and the listing of all capital investments made by each Participant (as defined in the SB1 Incentive Compliance Agreement) in the State of Nevada. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Company and the State of Nevada. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are as follows.

Required Qualified Employee Audit Data (Exhibits A-C)

- We obtained a schedule from each Participant listing all qualified employees of the Project Site for the period of July 1, 2016 through September 30, 2016.
- We selected a sample of 25% of the qualified employee additions during the period per the summary sheet. For each selected qualified employee: we agreed wages paid to paystubs or W-2 forms (or equivalent system-generated payroll reports) to include wages, 401(k) contributions, and cafeteria plan contributions; we agreed residency status to a copy of their current (during the period under review) and valid Nevada driver’s license or a copy of their current (during the period under review) motor vehicle registration; and we agreed qualified employee status to the payroll information obtained above to verify that the qualified employee is employed full-time and scheduled to work for an average of 30 hours per week at the Project site and has been for at least three consecutive months as of quarter-end, as well as proof that the qualified employee was offered coverage under a plan of health insurance provided by the Participant. Our sample selected resulted in the 90% accuracy threshold being met.
- We recalculated the average wage of qualified employees to verify that the minimum average wage of \$22.00 was met without exception.
- We recalculated the residency as a percentage of qualified employees to verify the percentage reported and that at least 50% of qualified employees are Nevada residents, as required, was met without exception.

- We agreed the schedule of qualified employees obtained from each participant to the Required Qualified Employee Audit Data form without exception.
- We recalculated the transferable tax credit determined by the Company based on the number of qualified employees as noted above and traced to the combined summary and transferable tax credit form, without exception.

Required Combined Construction Employee Audit Data (Exhibit F)

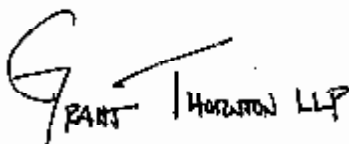
- We obtained a schedule from each Participant listing all construction employees of the Project Site for the period of July 1, 2016 through September 30, 2016.
- We selected a sample of 25% of the construction employee additions during the period listed as Nevada residents per the summary sheet. For each selected construction employee, we agreed residency status to a current (during the period under review) and valid Nevada driver's license. Our sample selected resulted in the 90% accuracy threshold being met.
- We recalculated the residency as a percentage of construction employees to verify the percentage reported and that at least 50% of construction employees are Nevada residents, as required, was met without exception.
- We agreed the schedule of construction employees obtained from each participant to the Required Combined Construction Employee Audit Data form without exception.

Required Property Audit Data (Exhibits A, D-E)

- We obtained the real and personal property listings from each Participant listing all capital investments made by each Participant in the state of Nevada for the period of July 1, 2016 through September 30, 2016.
- We selected a sample of property additions during the period of 25% of the total book value of property additions during the period.
- We reviewed the supporting documentation obtained for the sampled property additions to determine that the addition meets the definition of capital investments per the Incentive Agreement, and verified determination of depreciable life. Our sample selected resulted in the 90% accuracy threshold being met.
- We footed the listings by asset class/depreciable life without exception.
- We agreed the listings obtained from each participant to the Required Property Audit Data form, by asset class/depreciable life grouping and in total without exception.
- We recalculated the transferable tax credit determined by the Company based on the total Capital Investment for the period as noted above and traced to the Combined Summary and Transferable Tax Credit form without exception.

We were not engaged to and did not conduct an examination or a review, the objective of which is the expression of opinion or limited assurance in determining the compliance with the State of Nevada SB1 Incentive Compliance agreement. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Tesla, Inc. and the State of Nevada and is not intended to be and should not be used by anyone other than these specified parties.



Reno, Nevada
March 10, 2017

Exhibit A

Combined Summary and Transferable Tax Credit

Qualified Project Name: Lead Participant: Reporting Period: Project to Date Period:	Gigafactory Project Tesla, Inc. (FKA: Tesla Motors, Inc.) July 1, 2016 - September 30, 2016 October 17, 2014 - September 30, 2016
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	Reporting Period	Project to Date Period
Number of New Qualified Employees (NQE)	38	369
Number of NQEs who are Nevada Residents	41	337
Residency as a Percent		91%
Average Wage of Qualified Employees		\$ 50.46
Nevada residency requirements verified:	Yes	Yes
Qualified Employees requirements verified:	Yes	Yes
Total Capital Investment	\$ 231,341,220	\$ 839,018,351
Number of Qualified Employees (NQE)	38	369
Dollar Credit per NQE	\$ 12,500	\$ 12,500
Qualified Employee Tax Credit	\$ 475,000	\$ 4,612,500
Total Capital Investment	\$ 231,341,220	\$ 839,018,351
Percent Credit	5%	5%
Capital Investment Tax Credit	\$ 11,567,061	\$ 41,950,918
Total Transferable Tax Credit	\$ 12,042,061	\$ 46,563,418

Exhibit B

Required Qualified Employee Audit Data

Qualified Project Name: Gigafactory Project
Participant: Tesla, Inc. (FKA: Tesla Motors, Inc.)
Reporting Period: July 1, 2016 - September 30, 2016
Project to Date Period: October 17, 2014 - September 30, 2016

<u>Workforce Composition</u>	Reporting Period	Project to Date Period
Number of New Qualified Employees (NQE)	28	311
Number of NQEs who are Nevada Residents	29	281
Residency as a Percent		90%
Average Wage of Qualified Employees		\$ 49.13

Exhibit C

Required Qualified Employee Audit Data

Qualified Project Name: Gigafactory Project
Participant: Panasonic Energy Corporation of North America
Reporting Period: July 1, 2016 - September 30, 2016
Project to Date Period: October 17, 2014 - September 30, 2016

<u>Workforce Composition</u>	Reporting Period	Project to Date Period
Number of New Qualified Employees (NQE)	10	58
Number of NQEs who are Nevada Residents	12	56
Residency as a Percent		97%
Average Wage of Qualified Employees		\$ 56.60

Exhibit D

Required Property Audit Data

Qualified Project Name:	Gigafactory Project
Participant:	Tesla, Inc. (FKA: Tesla Motors, Inc.)
Reporting Period:	July 1, 2016 - September 30, 2016
Project to Date Period:	October 17, 2014 - September 30, 2016

	Reporting Period	Project to Date Period
Real Property		
Land	\$ -	\$ 8,448,847
Building/Structure	\$ 13,634,551	\$ 85,424,666
Building/Structure - CIP	\$ 125,885,672	\$ 471,190,658
Subtotal	\$ 139,520,223	\$ 565,064,171
Personal Property		
3- year life	\$ 812,928	\$ 1,186,348
5- year life	\$ 7,180	\$ 13,956
7- year life	\$ -	\$ -
10- year life	\$ -	\$ -
15- year life	\$ 13,740,503	\$ 24,021,021
20- year life	\$ -	\$ -
30- year life	\$ -	\$ -
CIP - Life TBD	\$ 25,704,182	\$ 38,032,123
Other Property	\$ 152,222	\$ 226,817
Expensed Property	\$ 380,827	\$ 2,535,593
Subtotal	\$ 40,797,842	\$ 66,015,858
Total Capital Investment	\$ 180,318,065	\$ 631,080,029

Exhibit E

Required Property Audit Data

Qualified Project Name:	Gigafactory Project
Participant:	Panasonic Energy Corporation of North America
Reporting Period:	July 1, 2016 - September 30, 2016
Project to Date Period:	October 17, 2014 - September 30, 2016

	Reporting Period	Project to Date Period
Real Property		
Land	\$ -	\$ -
Building/Structure	\$ -	\$ -
Building/Structure - CIP	\$ -	\$ -
Subtotal	\$ -	\$ -
Personal Property		
3- year life	\$ 2,387,992	\$ 2,398,979
5- year life	\$ -	\$ -
7- year life	\$ -	\$ -
10- year life	\$ -	\$ -
15- year life	\$ -	\$ -
20- year life	\$ -	\$ -
30- year life	\$ -	\$ -
CIP - Life TBD	\$ 48,431,988	\$ 205,025,286
Other Property	\$ -	\$ -
Expensed Property	\$ 203,175	\$ 514,057
Subtotal	\$ 51,023,155	\$ 207,938,322
Total Capital Investment	\$ 51,023,155	\$ 207,938,322

Exhibit F

Combined Required Construction Employee Audit Data

Qualified Project Name:	Gigafactory Project
Lead Participant:	Tesla, Inc. (FKA: Tesla Motors, Inc.)
Reporting Period:	July 1, 2016 - September 30, 2016
Project to Date Period:	October 17, 2014 - September 30, 2016

<u>Workforce Composition</u>	Reporting Period	Project to Date Period
Number of Construction Employees (CE)	990	4,454
Number of CEs who are Nevada Residents	541	2,971
Residency as a Percent	55%	67%
Nevada residency requirements verified:	Yes	Yes