

TREX CO INC  
Form 10-Q  
October 29, 2018  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2018**

**OR**

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

**For the transition period from                      to**

**Commission File Number: 001-14649**

**Trex Company, Inc.**

**(Exact name of registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**

**54-1910453**  
**(I.R.S. Employer**

**incorporation or organization)**

**Identification No.)**

**160 Exeter Drive**

**Winchester, Virginia**  
**(Address of principal executive offices)**

**22603-8605**  
**(Zip Code)**

**Registrant's telephone number, including area code: (540) 542-6300**

**Not Applicable**

**(Former name, former address and former fiscal year, if changed since last report)**

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 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, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.:

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act): Yes No

The number of shares of the registrant's common stock, par value \$.01 per share, outstanding at October 17, 2018 was 58,754,240 shares.

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**TREX COMPANY, INC.**

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**PART I**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements****TREX COMPANY, INC.****Condensed Consolidated Statements of Comprehensive Income**

(Unaudited)

(In thousands, except share and per share data)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net sales	\$ 166,380	\$ 140,194	\$ 544,279	\$ 442,941
Cost of sales	99,170	84,910	309,241	250,473
Gross profit	67,210	55,284	235,038	192,468
Selling, general and administrative expenses	28,132	24,919	90,603	75,409
Income from operations	39,078	30,365	144,435	117,059
Interest (income) expense, net	(222)	59	377	515
Income before income taxes	39,300	30,306	144,058	116,544
Provision for income taxes	9,829	10,208	34,657	39,715
Net income	\$ 29,471	\$ 20,098	\$ 109,401	\$ 76,829
Basic earnings per common share	\$ 0.50	\$ 0.34	\$ 1.86	\$ 1.31
Basic weighted average common shares outstanding	58,741,973	58,808,098	58,785,546	58,771,444
Diluted earnings per common share	\$ 0.50	\$ 0.34	\$ 1.85	\$ 1.30
Diluted weighted average common shares outstanding	59,084,117	59,156,432	59,111,303	59,126,994
Comprehensive income	\$ 29,471	\$ 20,098	\$ 109,401	\$ 76,829

See Notes to Condensed Consolidated Financial Statements (Unaudited).



**Table of Contents****TREX COMPANY, INC.****Condensed Consolidated Balance Sheets**

(In thousands)

	<b>September 30, 2018 (Unaudited)</b>	<b>December 31, 2017</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 107,313	\$ 30,514
Accounts receivable, net	87,915	66,882
Inventories	35,451	34,524
Prepaid expenses and other assets	18,106	16,878
<b>Total current assets</b>	<b>248,785</b>	<b>148,798</b>
Property, plant and equipment, net	108,233	103,110
Goodwill and other intangibles	74,608	71,319
Other assets	3,283	3,000
<b>Total assets</b>	<b>\$ 434,909</b>	<b>\$ 326,227</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 18,198	\$ 9,953
Accrued expenses and other liabilities	52,244	46,266
Accrued warranty	5,400	6,290
Line of credit		
<b>Total current liabilities</b>	<b>75,842</b>	<b>62,509</b>
Deferred income taxes	1,286	1,286
Non-current accrued warranty	27,235	28,709
Other long-term liabilities	1,892	2,473
<b>Total liabilities</b>	<b>106,255</b>	<b>94,977</b>
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.01 par value, 3,000,000 shares authorized; none issued and outstanding		
Common stock, \$0.01 par value, 120,000,000 shares authorized; 69,991,454 and 69,844,222 shares issued and 58,754,048 and 58,856,860 shares outstanding at September 30, 2018 and December 31, 2017, respectively	700	349
Additional paid-in capital	122,725	122,043
Retained earnings	391,770	282,370

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Treasury stock, at cost, 11,237,406 and 10,987,362 shares at September 30, 2018 and December 31, 2017, respectively	(186,541)	(173,512)
Total stockholders' equity	328,654	231,250
Total liabilities and stockholders' equity	\$ 434,909	\$ 326,227

See Notes to Condensed Consolidated Financial Statements (Unaudited).

**Table of Contents****TREX COMPANY, INC.****Condensed Consolidated Statements of Cash Flows**

(Unaudited)

(In thousands)

	<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Operating Activities</b>		
Net income	\$ 109,401	\$ 76,829
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,164	12,065
Stock-based compensation	5,045	3,913
Loss on disposal of property, plant and equipment	50	1,720
Other non-cash adjustments	(408)	(405)
Changes in operating assets and liabilities:		
Accounts receivable	(21,034)	(14,407)
Inventories	(927)	4,860
Prepaid expenses and other assets	(3,155)	1,799
Accounts payable	8,245	1,203
Accrued expenses and other liabilities	619	(2,438)
Income taxes receivable/payable	4,369	7,698
Net cash provided by operating activities	115,369	92,837
<b>Investing Activities</b>		
Expenditures for property, plant and equipment and intangibles	(21,611)	(11,108)
Proceeds from sales of property, plant and equipment	83	
Acquisition of business		(71,523)
Net cash used in investing activities	(21,528)	(82,631)
<b>Financing Activities</b>		
Borrowings under line of credit	172,250	201,000
Principal payments under line of credit	(172,250)	(201,000)
Repurchases of common stock	(17,723)	(3,617)
Proceeds from employee stock purchase and option plans	681	288
Net cash used in financing activities	(17,042)	(3,329)
Net increase in cash and cash equivalents	76,799	6,877
Cash and cash equivalents, beginning of period	30,514	18,664



Cash and cash equivalents, end of period	107,313	\$ 25,541
Supplemental Disclosure:		
Cash paid for interest	\$ 662	\$ 416
Cash paid for income taxes, net	\$ 39,170	\$ 32,016

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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**TREX COMPANY, INC.**

**Notes to Condensed Consolidated Financial Statements**

**For the Nine Months Ended September 30, 2018 and 2017**

**(Unaudited)**

**1. BUSINESS AND ORGANIZATION**

Trex Company, Inc. (Company) is the world's largest manufacturer of wood-alternative decking and railing products, with more than 25 years of product experience, which are marketed under the brand name Trex®. The Company manufactures and distributes high-performance, low-maintenance wood/plastic composite outdoor living products and related accessories. A majority of its products are manufactured in a proprietary process that combines reclaimed wood fibers and scrap polyethylene. On July 31, 2017, through its newly-formed, wholly-owned subsidiary, Trex Commercial Products, Inc., the Company acquired certain assets and assumed certain liabilities of Staging Concepts Acquisition, LLC (SC Company) and thus expanded its markets to also become a market leader for the design, engineering and marketing of modular and architectural railing, staging, acoustical and seating systems for the commercial and multi-family market, including sports stadiums and performing arts venues. Additional information on the acquisition of SC Company is presented in Note 5. Subsequent to the acquisition, the Company began operating in two reportable segments, Trex Residential Products and Trex Commercial Products. The Company is incorporated in Delaware. The principal executive offices are located at 160 Exeter Drive, Winchester, Virginia 22603, and the telephone number at that address is (540) 542-6300.

**2. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, the accompanying condensed consolidated financial statements do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal and recurring adjustments except as otherwise described herein) considered necessary for a fair presentation have been included in the accompanying condensed consolidated financial statements.

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Trex Wood-Polymer Espana, S.L. and Trex Commercial Products, Inc. The accounts of Trex Wood-Polymer Espana, S.L. are included in the condensed consolidated financial statements for all periods presented. The Condensed Consolidated Statements of Comprehensive Income and the Condensed Consolidated Statements of Cash Flows of the Company include the operations and cash flows of Trex Commercial Products, Inc. for the three and nine months ended September 30, 2018, and from the date of acquisition of SC Company through September 30, 2017 for the three and nine months ended September 30, 2017. The Company's Condensed Consolidated Balance Sheet includes the assets and liabilities of Trex Commercial Products, Inc. for all periods presented.

The consolidated results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018. These condensed

consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 included in the Annual Report of Trex Company, Inc. on Form 10-K, as filed with the U.S. Securities and Exchange Commission.

### **3. RECENTLY ADOPTED ACCOUNTING STANDARDS**

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-09, *Compensation - Stock Compensation (Topic 718), Scope Modification Accounting*. The guidance clarified when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value (or calculated intrinsic value, if those amounts are being used to measure the award under ASC 718), the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The guidance was effective prospectively for annual periods beginning on or after December 15, 2017. Adoption of the new standard did not have a material impact on the Company's financial condition or results of operations.

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In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805), Clarifying the Definition of a Business*. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets: if so, the set of transferred assets and activities is not a business. The guidance was effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Adoption of the new standard did not have a material impact on the Company's financial condition or results of operations.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The guidance is intended to reduce diversity in practice across all industries in how certain transactions are classified in the statement of cash flows. The guidance was effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Adoption of the new standard did not have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and issued subsequent amendments to the initial guidance in August 2015 within ASU No. 2015-14, in March 2016 within ASU No. 2016-08, in April 2016 within ASU No. 2016-10, in May 2016 within ASU No. 2016-12, and in December 2016 within ASU No. 2016-20 (collectively, Topic 606). The Company adopted Topic 606 on January 1, 2018 and applied Topic 606 under the full retrospective method. The Company determined the appropriate revenue recognition for its contracts with customers by analyzing the type, terms and conditions of its contracts with its customers. The Company has consistently applied the accounting policies to all periods presented in these Condensed Consolidated Financial Statements. Adoption of Topic 606 did not have an impact on the Company's financial condition or results of operations other than increased disclosures. Refer to Note 13, *Revenue*, for a discussion of the Company's accounting policy related to revenue from contracts with customers.

**4. NEW ACCOUNTING STANDARDS NOT YET ADOPTED**

In June 2018, the FASB issued ASU No. 2018-07, *Compensation - Stock Compensation (Topic 718)*. The ASU expands the scope of Topic 718, which currently only includes share-based payments issued to employees, to also include share-based payments issued to nonemployees for goods or services. The ASU supersedes Subtopic 505-50, *Equity - Equity-Based Payment to Non-Employees*. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted. The Company intends to adopt the guidance on January 1, 2019 and does not believe adoption will have a material impact on its financial condition or results of operations.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment*. The guidance removes Step 2 of the goodwill impairment test and eliminates the need to determine the fair value of individual assets and liabilities to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The guidance will be applied prospectively, and is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for any impairment tests performed on testing dates after January 1, 2017. The Company intends to adopt the guidance on January 1, 2020 and does not believe adoption will have a material impact on its financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, and issued subsequent amendments to the initial guidance in January 2018 within ASU No. 2018-01 and in July 2018 within ASU Nos. 2018-10 and 2018-11. The standard requires lessees to recognize leases on the balance sheet as a right-of-use asset and a lease liability, other than leases that meet the definition of a short-term lease. The liability will be equal to the present value of the lease payments. The asset will be based on the liability, subject to adjustment. Currently, under existing U.S. generally accepted accounting principles, the Company does not recognize on the balance sheet a right-of-use asset or lease liability related to its operating leases. For income statement purposes, the leases will continue to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) and finance leases will result in a front-loaded expense pattern (similar to current capital leases). The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The standard allows an entity to elect to have a date of initial application as of the beginning of the period of adoption. The standard provides for the option to elect a package of practical expedients upon adoption. The Company intends to adopt the standard on January 1, 2019 and continues to assess its lease population and its option to elect certain practical expedients as defined in the new standard. The Company expects expanded financial statement note disclosure in addition to recognizing a right-of-use asset and lease liability for its operating leases on the balance sheet. The Company continues to evaluate the impacts of the pending adoption. As such, the Company's preliminary assessments are subject to change.

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On July 31, 2017, through its newly-formed, wholly-owned subsidiary, Trex Commercial Products, Inc., the Company acquired certain assets and assumed certain liabilities of SC Company for \$71.8 million. The Company used cash on hand and \$30.0 million of funding from its existing revolving credit facility, which was fully paid on August 17, 2017, to acquire the assets. The acquired business designs, engineers and markets modular architectural railing, staging, acoustical and seating systems for the commercial and multi-family market, including sports stadiums and performing arts venues. As a result of the purchase, the Company gained access to growing commercial markets, expanded its custom design and engineering capabilities, and added the contract architect and specifier communities as new channels for its products.

The acquisition was accounted for using the acquisition method of accounting under accounting principles generally accepted in the United States, which requires, among other things, that the assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The fair values of consideration transferred and net assets acquired were determined using a combination of Level 2 and Level 3 inputs as specified in the fair value hierarchy in Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*. The Company believes that the fair values assigned to the assets acquired and liabilities assumed are based on reasonable assumptions. The Company's Condensed Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2018 includes the results of operations of Trex Commercial Products, Inc. The Company's Condensed Consolidated Balance Sheets include the assets and liabilities of Trex Commercial Products, Inc. for all periods presented.

Total consideration of \$71.8 million was allocated to the assets acquired and liabilities assumed, as follows (in thousands):

Accounts receivable, net	\$ 8,357
Contract retainage	1,948
Inventories, net	2,344
Prepaid expenses and other assets	1,223
Revenues in excess of billings	3,463
Fixed assets, net	1,264
Intangible assets	4,900
Goodwill	57,938
Accounts payable	(3,990)
Accrued liabilities and other expenses	(2,329)
Billings in excess of revenues	(1,752)
Customer Deposits	(1,562)
<b>Total estimated consideration</b>	<b>\$ 71,804</b>

Goodwill of \$57.9 million is primarily attributable to the potential opportunity for the Company to offer full service railing systems in the growing commercial and multi-family market, access to a complementary product category with a track record of substantial revenue growth, the ability to achieve economies of scale around raw material procurement, an increase in the range of products the Company may offer its core customers, and intangible assets that do not qualify for separable or legal criterion, such as an assembled workforce. The amount of goodwill that is expected to be amortized and deductible for tax purposes in 2018 is \$3.9 million. All of the goodwill was recorded to the Trex Commercial Products reportable segment. The fair value attributed to intangible assets, which consists of

production backlog and trade names and trademarks, was amortized straight line over 12 months and was based on the estimated economics of the assets. The fair value attributed to the intangible assets acquired and goodwill was based on assumptions and other information compiled by management, including independent valuations that utilized established valuation techniques.

During the three and nine months ended September 30, 2018, Trex Commercial Products, Inc. generated \$19.4 million and \$52.9 million of net sales, respectively, and \$1.7 million and \$2.0 million of net income, respectively, which included amortization expense of \$0.4 million and \$2.9 million, respectively. From July 31, 2017 through September 30, 2017, Trex Commercial Products, Inc. generated \$9.2 million of revenue and incurred a net loss of \$75 thousand, which included amortization expense of \$0.8 million.

The following pro forma results of Trex Company, Inc. are prepared for comparative purposes only and do not necessarily reflect the results that would have occurred had the acquisition occurred at the beginning of the periods presented or the results which may occur in the future. The following unaudited pro forma results of operations assumes the acquisition occurred on January 1, 2017 (in thousands, except per share amounts):

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**Historical Prices Of The Fund Or The Securities Included In The Fund Should Not Be Taken As An Indication Of The Future Performance Of The Fund During The Term Of The Securities.**

The trading price of the shares of the Fund will determine the price of the Fund and, therefore, whether the securities will be automatically called prior to stated maturity, the amount payable to you at maturity and whether contingent coupon payments will be made. As a result, it is impossible to predict whether the closing price of the Fund will fall or rise compared to its starting price. The trading price of the shares of the Fund will be influenced by complex and interrelated political, economic, financial and other factors that can affect the markets in which the Fund and the securities comprising the Fund are traded and the values of the Fund and such securities. Accordingly, any historical prices of the Fund do not provide an indication of the future performance of the Fund.

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**Market Linked Securities Auto-Callable with Contingent Coupon  
and Contingent Downside**

**Principal at Risk Securities Linked to the SPDR® S&P® Oil & Gas Exploration & Production ETF  
due September 24, 2019**

**Risk Factors (Continued)**

**An Investment In The Securities Is Subject To Risks Associated With Investing In Stocks In The Oil And Gas Exploration And Production Industry.**

The Fund, because it is concentrated in the oil and gas exploration and production industry, may be adversely affected not only by the performance of the companies in the oil and gas exploration and production industry in which it invests but also may be more susceptible to any single economic, market, political or regulatory occurrence affecting the oil and gas exploration and production industry. Oil and gas companies develop and produce crude oil and natural gas and provide drilling and other energy resources production and distribution related services. Stock prices for these types of companies are affected by supply and demand both for their specific product or service and for energy products in general. The price of oil and gas, exploration and production spending, government regulation, world events and economic conditions will likewise affect the performance of these companies. Correspondingly, securities of companies in the energy field are subject to swift price and supply fluctuations caused by events relating to international politics, energy conservation, the success of exploration projects, and tax and other governmental regulatory policies. Weak demand for the companies' products or services or for energy products and services in general, as well as negative developments in these other areas, would adversely impact the Fund's performance. Oil and gas exploration and production can be significantly affected by natural disasters as well as changes in exchange rates, interest rates, government regulation, world events and economic conditions. These companies may be at risk for environmental damage claims.

In addition, the Fund is classified as non-diversified. A non-diversified fund generally may invest a larger percentage of its assets in the securities of a smaller number of issuers. As a result, the Fund may be more susceptible to the risks associated with these particular companies, or to a single economic, political or regulatory occurrence affecting these companies.

**The Fund May Not Be Representative Of An Investment In The Oil And Gas Exploration And Production Industry.**

The Fund does not represent a direct investment in the oil and gas exploration and production industry. The Fund consists of securities of companies whose primary lines of business are directly associated with the oil and gas exploration and production industry. As a result, the fund closing price of the Fund will be influenced by a variety of economic, financial and other factors affecting those companies, some of which may be unrelated to the market or other conditions applicable to the oil and gas exploration and production industry. As a result, the Fund may not perfectly correlate with the performance of the oil and gas exploration and production industry and the fund closing price of the Fund could decrease even if the performance of the oil and gas exploration and production industry as a whole increases.

**Changes That Affect The Fund Or The Underlying Index May Adversely Affect The Value Of The Securities And The Amount You Will Receive At Stated Maturity.**

The policies of the sponsor of the Fund (the fund sponsor ) concerning the calculation of the Fund's net asset value, additions, deletions or substitutions of securities in the Fund and the manner in which changes in the underlying index are reflected in the Fund, and changes in those policies, could affect the closing price of the shares of the Fund and, therefore, may affect the value of the securities, the likelihood of the occurrence of an automatic call, the amount payable at stated maturity and whether contingent coupon payments will be made. Similarly, the policies of the sponsor of the underlying index (the underlying index sponsor ) concerning the calculation of the underlying index and the addition, deletion or substitution of securities comprising the underlying index and the manner in which the underlying index sponsor takes account of certain changes affecting such securities may affect the level of the underlying index and the closing price of the shares of the Fund and, therefore, may affect the value of the securities, the likelihood of the occurrence of an automatic call, the amount payable at stated maturity and whether contingent coupon payments will be made. The underlying index sponsor could also discontinue or suspend calculation or dissemination of the underlying index or materially alter the methodology by which it calculates the underlying index. Any such actions could adversely affect the value of the securities.

**We Cannot Control Actions By Any Of The Unaffiliated Companies Whose Securities Are Included In The Fund Or The Underlying Index.**

Actions by any company whose securities are included in the Fund or in the underlying index may have an adverse effect on the price of its security, the closing price of the Fund on any calculation day, the ending price and the value of the securities. We are not affiliated with any company whose security is represented in the Fund or the underlying index. These companies will not be involved in the offering of the securities and will have no obligations with respect to the securities, including any obligation to take our or your interests into consideration for any reason. These companies will not receive any of the proceeds of the offering of the securities and will not be responsible for, and will not have participated in, the determination of the timing of, prices for, or quantities of, the securities to be issued. These companies will not be involved with the administration, marketing or trading of the securities and will have no obligations with respect to any amounts to be paid to you on the securities.

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**Market Linked Securities Auto-Callable with Contingent Coupon  
and Contingent Downside**

**Principal at Risk Securities Linked to the SPDR® S&P® Oil & Gas Exploration & Production ETF  
due September 24, 2019**

**Risk Factors (Continued)**

**We And Our Affiliates Have No Affiliation With The Fund Sponsor Or The Underlying Index Sponsor And Have Not Independently Verified Their Public Disclosure Of Information.**

We and our affiliates are not affiliated in any way with the fund sponsor or the underlying index sponsor (collectively, the sponsors ) and have no ability to control or predict their actions, including any errors in or discontinuation of disclosure regarding their methods or policies relating to the management or calculation of the Fund or the underlying index. We have derived the information about the sponsors, the Fund and the underlying index contained in this pricing supplement from publicly available information, without independent verification. You, as an investor in the securities, should make your own investigation into the Fund, the underlying index and the sponsors. The sponsors are not involved in the offering of the securities made hereby in any way and have no obligation to consider your interests as an owner of the securities in taking any actions that might affect the value of the securities.

**An Investment Linked To The Shares Of The Fund Is Different From An Investment Linked To The Underlying Index.**

The performance of the shares of the Fund may not exactly replicate the performance of the underlying index because the Fund may not invest in all of the securities included in the underlying index and because the Fund will reflect transaction costs and fees that are not included in the calculation of the underlying index. The Fund may also hold securities or derivative financial instruments not included in the underlying index. It is also possible that the Fund may not fully replicate the performance of the underlying index due to the temporary unavailability of certain securities in the secondary market or due to other extraordinary circumstances. In addition, because the shares of the Fund are traded on a securities exchange and are subject to market supply and investor demand, the value of a share of the Fund may differ from the net asset value per share of the Fund. As a result, the performance of the Fund may not correlate perfectly with the performance of the underlying index, and the return on the securities based on the performance of the Fund will not be the same as the return on securities based on the performance of the underlying index.

**You Will Not Have Any Shareholder Rights With Respect To The Shares Of The Fund.**

You will not become a holder of shares of the Fund or a holder of securities included in the underlying index as a result of owning a security. You will not have any voting rights, any right to receive dividends or other distributions or any other rights with respect to such shares or securities. You will have no right to receive delivery of any shares or securities at stated maturity or upon automatic call.

**Anti-dilution Adjustments Relating To The Shares Of The Fund Do Not Address Every Event That Could Affect Such Shares.**

An adjustment factor, as described herein, will be used to determine the fund closing price of the Fund. The adjustment factor will be adjusted by the calculation agent for certain events affecting the shares of the Fund. However, the calculation agent will not make an adjustment for every event that could affect such shares. If an event occurs that does not require the calculation agent to adjust the adjustment factor, the value of the securities may be adversely affected.

**A Contingent Coupon Payment Date, A Call Settlement Date And The Stated Maturity Date May Be Postponed If A Calculation Day Is Postponed.**

A calculation day (including the final calculation day) will be postponed if the applicable originally scheduled calculation day is not a trading day or if the calculation agent determines that a market disruption event has occurred or is continuing on that calculation day. If such a postponement occurs with respect to a calculation day other than the final calculation day, then the related contingent coupon payment date or call settlement date, as applicable, will be postponed. If such a postponement occurs with respect to the final calculation day, the stated maturity date will be the later of (i) the initial stated maturity date and (ii) three business days after the final calculation day as postponed.

**Our Economic Interests And Those Of Any Dealer Participating In The Offering Are Potentially Adverse To Your Interests.**

You should be aware of the following ways in which our economic interests and those of any dealer participating in the distribution of the securities, which we refer to as a participating dealer, are potentially adverse to your interests as an investor in the securities. In engaging in certain of the activities described below, our affiliates or any participating dealer or its affiliates may take actions that may adversely affect the value of and your return on the securities, and in so doing they will have no obligation to consider your interests as an investor in the securities. Our affiliates or any participating dealer or its affiliates may realize a profit from these activities even if investors do not receive a favorable investment return on the securities.

*The calculation agent is our affiliate and may be required to make discretionary judgments that affect the return you receive on the securities.* WFS, which is our affiliate, will be the calculation agent for the securities. As calculation agent, WFS will determine the fund closing price of the Fund on each calculation day, the ending price of the Fund, whether the securities are automatically called, and whether you receive a contingent coupon payment on a contingent coupon payment

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**Market Linked Securities Auto-Callable with Contingent Coupon  
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date and may be required to make other determinations that affect the return you receive on the securities. In making these determinations, the calculation agent may be required to make discretionary judgments, including determining whether a market disruption event has occurred on a scheduled calculation day, which may result in postponement of that calculation day; determining the fund closing price of the Fund if a calculation day is postponed to the last day to which it may be postponed and a market disruption event occurs on that day; adjusting the adjustment factor and other terms of the securities in certain circumstances; if the Fund undergoes a liquidation event, selecting a successor fund or, if no successor fund is available, determining the fund closing price of the Fund on the applicable calculation day and the ending price of the Fund; and determining whether to adjust the fund closing price of the Fund on a calculation day in the event of certain changes in or modifications to the Fund or the underlying index. In making these discretionary judgments, the fact that WFS is our affiliate may cause it to have economic interests that are adverse to your interests as an investor in the securities, and WFS's determinations as calculation agent may adversely affect your return on the securities.

***The estimated value of the securities was calculated by our affiliate and is therefore not an independent third-party valuation.*** WFS calculated the estimated value of the securities set forth on the cover page of this pricing supplement, which involved discretionary judgments by WFS, as described under **Risk Factors The Estimated Value Of The Securities Is Determined By Our Affiliate's Pricing Models, Which May Differ From Those Of Other Dealers** above. Accordingly, the estimated value of the securities set forth on the cover page of this pricing supplement is not an independent third-party valuation.

***Research reports by our affiliates or any participating dealer or its affiliates may be inconsistent with an investment in the securities and may adversely affect the price of the Fund.*** Our affiliates or any participating dealer in the offering of the securities or its affiliates may, at present or in the future, publish research reports on the Fund or the underlying index or the companies whose securities are included in the Fund or the underlying index. This research is modified from time to time without notice and may, at present or in the future, express opinions or provide recommendations that are inconsistent with purchasing or holding the securities. Any research reports on the Fund or the underlying index or the companies whose securities are included in the Fund or the underlying index could adversely affect the price of the Fund and, therefore, adversely affect the value of and your return on the securities. You are encouraged to derive information concerning the Fund from multiple sources and should not rely on the views expressed by us or our affiliates or any participating dealer or its affiliates. In addition, any research reports on the Fund or the underlying index or the companies whose securities are included in the Fund or the underlying index published on or prior to the pricing date could result in an increase in the price of the Fund on the pricing date, which would adversely affect investors in the securities by increasing the price at which the Fund must close on each calculation day (including the final calculation day) in order for investors in the securities to receive a favorable return.

***Business activities of our affiliates or any participating dealer or its affiliates with the companies whose securities are included in the Fund may adversely affect the price of the Fund.*** Our affiliates or any participating dealer or its affiliates may, at present or in the future, engage in business with the companies whose securities are included in the Fund or the underlying index, including making loans to those companies (including exercising creditors' remedies with respect to such loans), making equity investments in those companies or providing investment banking, asset management or other advisory services to those companies. These business activities could adversely affect the price of the Fund and, therefore, adversely affect the value of and your return on the securities. In addition, in the course of these business activities, our affiliates or any participating dealer or its affiliates may acquire non-public information about one or more of the companies whose securities are included in the Fund or the underlying index. If our affiliates or any participating dealer or its affiliates do acquire such non-public information, we and they are not obligated to disclose such non-public information to you.

***Hedging activities by our affiliates or any participating dealer or its affiliates may adversely affect the price of the Fund.*** We expect to hedge our obligations under the securities through one or more hedge counterparties, which may include our affiliates or any participating dealer or its affiliates. Pursuant to such hedging activities, our hedge counterparties may acquire shares of the Fund, securities included in the Fund or the underlying index or listed or over-the-counter derivative or synthetic instruments related to the Fund or such securities. Depending on, among other things, future market conditions, the aggregate amount and the composition of such positions are likely to vary over time. To the extent that our hedge counterparties have a long hedge position in shares of the Fund or any of the securities included in the Fund or the underlying index, or derivative or synthetic instruments related to the Fund or such securities, they may liquidate a portion of such holdings at or about the time of a calculation day or at or about the time of a change in the securities included in the Fund or the underlying index. These hedging activities could potentially adversely affect the price of the shares of the Fund and, therefore, adversely affect the value of and your return on the securities.

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**Risk Factors (Continued)**

*Trading activities by our affiliates or any participating dealer or its affiliates may adversely affect the price of the Fund.* Our affiliates or any participating dealer or its affiliates may engage in trading in the shares of the Fund or the securities included in the Fund or the underlying index and other instruments relating to the Fund or such securities on a regular basis as part of their general broker-dealer and other businesses. Any of these trading activities could potentially adversely affect the price of the shares of the Fund and, therefore, adversely affect the value of and your return on the securities.

*A participating dealer or its affiliates may realize hedging profits projected by its proprietary pricing models in addition to any selling concession and/or distribution expense fee, creating a further incentive for the participating dealer to sell the securities to you.* If any participating dealer or any of its affiliates conducts hedging activities for us in connection with the securities, that participating dealer or its affiliates will expect to realize a projected profit from such hedging activities and this projected profit will be in addition to any concession and/or distribution expense fee that the participating dealer realizes for the sale of the securities to you. This additional projected profit may create a further incentive for the participating dealer to sell the securities to you.

**The U.S. Federal Tax Consequences Of An Investment In The Securities Are Unclear.**

There is no direct legal authority as to the proper U.S. federal tax treatment of the securities, and we do not intend to request a ruling from the Internal Revenue Service (the IRS ). Consequently, significant aspects of the tax treatment of the securities are uncertain, and the IRS or a court might not agree with the treatment of the securities as described in this pricing supplement under United States Federal Tax Considerations. If the IRS were successful in asserting an alternative treatment, the tax consequences of ownership and disposition of the securities might be materially and adversely affected.

**Non-U.S. holders should note that persons having withholding responsibility in respect of the securities may withhold on any coupon payment paid to a non-U.S. holder, generally at a rate of 30%. To the extent that we have withholding responsibility in respect of the securities, we intend to so withhold.**

In addition, Section 871(m) of the Internal Revenue Code of 1986, as amended (the Code ), imposes a withholding tax of up to 30% on dividend equivalents paid or deemed paid to non-U.S. investors in respect of certain financial instruments linked to U.S. equities. In light of IRS regulations providing a general exemption for financial instruments issued in 2017 that do not have a delta of one, the securities should not be subject to withholding under Section 871(m). However, the IRS could challenge this conclusion.

We will not be required to pay any additional amounts with respect to amounts withheld.

You should read carefully the discussion under **United States Federal Tax Considerations** in this pricing supplement and consult your tax adviser regarding the U.S. federal tax consequences of an investment in the securities.

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**Hypothetical Returns**

**If the securities are automatically called:**

If the securities are automatically called prior to stated maturity, you will receive the original offering price of your securities plus a final contingent coupon payment on the call settlement date. In the event the securities are automatically called, your total return on the securities will equal any contingent coupon payments received prior to the call settlement date and the contingent coupon payment received on the call settlement date.

**If the securities are not automatically called:**

If the securities are not automatically called prior to stated maturity, the following table illustrates, for a range of hypothetical ending prices of the Fund:

the hypothetical percentage change from the starting price to the hypothetical ending price; and

the hypothetical redemption amount payable at stated maturity per security (excluding the final contingent coupon payment, if any).

<b>Hypothetical ending price</b>	<b>Hypothetical percentage change from the starting price to the hypothetical ending price</b>	<b>Hypothetical payment at stated maturity per security</b>
\$56.32	75.00%	\$1,000.00
\$51.49	60.00%	\$1,000.00
\$48.27	50.00%	\$1,000.00
\$45.05	40.00%	\$1,000.00
\$41.83	30.00%	\$1,000.00
\$38.62	20.00%	\$1,000.00
\$35.40	10.00%	\$1,000.00
\$32.18 <sup>(1)</sup>	0.00%	\$1,000.00
\$28.96	-10.00%	\$1,000.00
\$25.74	-20.00%	\$1,000.00
\$24.135	-25.00%	\$1,000.00
\$23.81	-26.00%	\$740.00
\$22.53	-30.00%	\$700.00
\$19.31	-40.00%	\$600.00

\$16.09	-50.00%	\$500.00
\$12.87	-60.00%	\$400.00
\$8.05	-75.00%	\$250.00

(1) The starting price.

The above figures do not take into account contingent coupon payments, if any, received during the term of the securities. As evidenced above, in no event will you have a positive rate of return based solely on the redemption amount received at maturity; any positive return will be based solely on the contingent coupon payments, if any, received during the term of the securities.

The above figures are for purposes of illustration only and may have been rounded for ease of analysis. If the securities are not automatically called prior to stated maturity, the actual amount you will receive at stated maturity will depend on the actual ending price.

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**Hypothetical Payment at Stated Maturity**

Set forth below are three examples of calculations of the redemption amount at stated maturity (rounded to two decimal places), assuming that the securities have not been automatically called prior to stated maturity and assuming the hypothetical ending prices indicated in the examples.

**Example 1. Ending price is greater than the starting price, and the redemption amount is equal to the original offering price of your securities at maturity:**

Starting price: \$32.18

Hypothetical ending price: \$48.27

Threshold price: \$24.135, which is 75% of the starting price

Since the hypothetical ending price is greater than the threshold price, the redemption amount would equal the original offering price. Although the hypothetical ending price is significantly greater than the starting price in this scenario, the redemption amount will not exceed the original offering price.

In addition to any contingent coupon payments received during the term of the securities, on the stated maturity date you would receive \$1,000 per security as well as a final contingent coupon payment.

**Example 2. Ending price is less than the starting price but greater than the threshold price, and the redemption amount is equal to the original offering price of your securities at maturity:**

Starting price: \$32.18

Hypothetical ending price: \$28.96

Threshold price: \$24.135, which is 75% of the starting price

Since the hypothetical ending price is less than the starting price, but not by more than 25%, you would be repaid the original offering price of your securities at maturity.

In addition to any contingent coupon payments received during the term of the securities, on the stated maturity date you would receive \$1,000 per security as well as a final contingent coupon payment.

**Example 3. Ending price is less than the threshold price, and the redemption amount is less than the original offering price of your securities at maturity:**

Starting price: \$32.18

Hypothetical ending price: \$16.09

Threshold price: \$24.135, which is 75% of the starting price

Since the hypothetical ending price is less than the starting price by more than 25%, you would lose a portion of the original offering price of your securities and receive the redemption amount equal to:

$$\$1,000 \quad \$1,000 \times \frac{\$32.18 - \$16.09}{\$32.18} = \$500.00$$

In addition to any contingent coupon payments received during the term of the securities, on the stated maturity date you would receive \$500.00 per security, but no final contingent coupon payment.

These examples illustrate that you will not participate in any appreciation of the Fund, but will be fully exposed to a decrease in the Fund if the ending price is less than the threshold price.

To the extent that the ending price differs from the values assumed above, the results indicated above would be different.

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**Additional Terms of the Securities**

Wells Fargo will issue the securities as part of a series of senior unsecured debt securities entitled Medium-Term Notes, Series K, which is more fully described in the prospectus supplement. Information included in this pricing supplement supersedes information in the prospectus supplement and prospectus to the extent that it is different from that information.

**Certain Definitions**

A trading day means a day, as determined by the calculation agent, on which the relevant stock exchange and each related futures or options exchange with respect to the Fund or any successor thereto, if applicable, are scheduled to be open for trading for their respective regular trading sessions.

The relevant stock exchange for the Fund means the primary exchange or quotation system on which shares (or other applicable securities) of the Fund are traded, as determined by the calculation agent.

The related futures or options exchange for the Fund means each exchange or quotation system where trading has a material effect (as determined by the calculation agent) on the overall market for futures or options contracts relating to the Fund.

**Calculation Agent**

Wells Fargo Securities, LLC, one of our subsidiaries, will act as calculation agent for the securities and may appoint agents to assist it in the performance of its duties. Pursuant to a calculation agent agreement, we may appoint a different calculation agent without your consent and without notifying you.

The calculation agent will determine whether the securities are automatically called prior to stated maturity, the amount of the payment you receive upon automatic call or at stated maturity and the contingent coupon payments, if any. In addition, the calculation agent will, among other things:

determine whether a market disruption event has occurred;

determine the fund closing price of the Fund under certain circumstances;

determine if adjustments are required to the fund closing price of the Fund under various circumstances; and

if the Fund undergoes a liquidation event, select a successor fund (as defined below) or, if no successor fund is available, determine the fund closing price.

All determinations made by the calculation agent will be at the sole discretion of the calculation agent and, in the absence of manifest error, will be conclusive for all purposes and binding on us and you. The calculation agent will have no liability for its determinations.

### **Market Disruption Events**

A market disruption event means any of the following events as determined by the calculation agent in its sole discretion:

- (A) The occurrence or existence of a material suspension of or limitation imposed on trading by the relevant stock exchange or otherwise relating to the shares (or other applicable securities) of the Fund or any successor fund on the relevant stock exchange at any time during the one-hour period that ends at the close of trading on such day, whether by reason of movements in price exceeding limits permitted by such relevant stock exchange or otherwise.
- (B) The occurrence or existence of a material suspension of or limitation imposed on trading by any related futures or options exchange or otherwise in futures or options contracts relating to the shares (or other applicable securities) of the Fund or any successor fund on any related futures or options exchange at any time during the one-hour period that ends at the close of trading on that day, whether by reason of movements in price exceeding limits permitted by the related futures or options exchange or otherwise.
- (C) The occurrence or existence of any event, other than an early closure, that materially disrupts or impairs the ability of market participants in general to effect transactions in, or obtain market values for, shares (or other applicable securities) of the Fund or any successor fund on the relevant stock exchange at any time during the one-hour period that ends at the close of trading on that day.
- (D) The occurrence or existence of any event, other than an early closure, that materially disrupts or impairs the ability of market participants in general to effect transactions in, or obtain market values for, futures or options contracts relating to shares (or other applicable securities) of the Fund or any successor fund on any related futures or options exchange at any time during the one-hour period that ends at the close of trading on that day.

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**Additional Terms of the Securities (Continued)**

- (E) The closure of the relevant stock exchange or any related futures or options exchange with respect to the Fund or any successor fund prior to its scheduled closing time unless the earlier closing time is announced by the relevant stock exchange or related futures or options exchange, as applicable, at least one hour prior to the earlier of (1) the actual closing time for the regular trading session on such relevant stock exchange or related futures or options exchange, as applicable, and (2) the submission deadline for orders to be entered into the relevant stock exchange or related futures or options exchange, as applicable, system for execution at the close of trading on that day.
- (F) The relevant stock exchange or any related futures or options exchange with respect to the Fund or any successor fund fails to open for trading during its regular trading session.

For purposes of determining whether a market disruption event has occurred:

- (1) close of trading means the scheduled closing time of the relevant stock exchange with respect to the Fund or any successor fund; and
- (2) the scheduled closing time of the relevant stock exchange or any related futures or options exchange on any trading day for the Fund or any successor fund means the scheduled weekday closing time of such relevant stock exchange or related futures or options exchange on such trading day, without regard to after hours or any other trading outside the regular trading session hours.

If a market disruption event occurs or is continuing on any calculation day, then such calculation day will be postponed to the first succeeding trading day on which a market disruption event has not occurred and is not continuing; however, if such first succeeding trading day has not occurred as of the eighth trading day after the originally scheduled calculation day, that eighth trading day shall be deemed to be the calculation day. If the calculation day has been postponed eight trading days after the originally scheduled calculation day and a market disruption event occurs or is continuing with respect to the Fund on such eighth trading day, the calculation agent will determine the closing price of the Fund on such eighth trading day based on its good faith estimate of the value of the shares (or other applicable securities) of the Fund as of the close of trading on such eighth trading day.

**Anti-dilution Adjustments Relating to the Fund; Alternate Calculation**

*Anti-dilution Adjustments*

The calculation agent will adjust the adjustment factor as specified below if any of the events specified below occurs with respect to the Fund and the effective date or ex-dividend date, as applicable, for such event is after the pricing date and on or prior to the final calculation day.

The adjustments specified below do not cover all events that could affect the Fund, and there may be other events that could affect the Fund for which the calculation agent will not make any such adjustments, including, without limitation, an ordinary cash dividend. Nevertheless, the calculation agent may, in its sole discretion, make additional adjustments to any terms of the securities upon the occurrence of other events that affect or could potentially affect the market price of, or shareholder rights in, the Fund, with a view to offsetting, to the extent practical, any such change, and preserving the relative investment risks of the securities. In addition, the calculation agent may, in its sole discretion, make adjustments or a series of adjustments that differ from those described herein if the calculation agent determines that such adjustments do not properly reflect the economic consequences of the events specified in this pricing supplement or would not preserve the relative investment risks of the securities. All determinations made by the calculation agent in making any adjustments to the terms of the securities, including adjustments that are in addition to, or that differ from, those described in this pricing supplement, will be made in good faith and a commercially reasonable manner, with the aim of ensuring an equitable result. In determining whether to make any adjustment to the terms of the securities, the calculation agent may consider any adjustment made by the Options Clearing Corporation or any other equity derivatives clearing organization on options contracts on the Fund.

For any event described below, the calculation agent will not be required to adjust the adjustment factor unless the adjustment would result in a change to the adjustment factor then in effect of at least 0.10%. The adjustment factor resulting from any adjustment will be rounded up or down, as appropriate, to the nearest one-hundred thousandth.

(A) *Stock Splits and Reverse Stock Splits*

If a stock split or reverse stock split has occurred, then once such split has become effective, the adjustment factor will be adjusted to equal the *product* of the prior adjustment factor and the number of securities which a holder of one share (or other applicable security) of the Fund before the effective date of such stock split or reverse stock split would have owned or been entitled to receive immediately following the applicable effective date.



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**Additional Terms of the Securities (Continued)**

*(B) Stock Dividends*

If a dividend or distribution of shares (or other applicable securities) to which the securities are linked has been made by the Fund ratably to all holders of record of such shares (or other applicable security), then the adjustment factor will be adjusted on the ex-dividend date to equal the prior adjustment factor plus the *product* of the prior adjustment factor and the number of shares (or other applicable security) of the Fund which a holder of one share (or other applicable security) of the Fund before the ex-dividend date would have owned or been entitled to receive immediately following that date; provided, however, that no adjustment will be made for a distribution for which the number of securities of the Fund paid or distributed is based on a fixed cash equivalent value.

*(C) Extraordinary Dividends*

If an extraordinary dividend (as defined below) has occurred, then the adjustment factor will be adjusted on the ex-dividend date to equal the *product* of the prior adjustment factor and a fraction, the numerator of which is the closing price per share (or other applicable security) of the Fund on the trading day preceding the ex-dividend date, and the denominator of which is the amount by which the closing price per share (or other applicable security) of the Fund on the trading day preceding the ex-dividend date exceeds the extraordinary dividend amount (as defined below).

For purposes of determining whether an extraordinary dividend has occurred:

- (1) extraordinary dividend means any cash dividend or distribution (or portion thereof) that the calculation agent determines, in its sole discretion, is extraordinary or special; and
- (2) extraordinary dividend amount with respect to an extraordinary dividend for the securities of the Fund will equal the amount per share (or other applicable security) of the Fund of the applicable cash dividend or distribution that is attributable to the extraordinary dividend, as determined by the calculation agent in its sole discretion.

A distribution on the securities of the Fund described below under the section entitled **Reorganization Events** below that also constitutes an extraordinary dividend will only cause an adjustment pursuant to that **Reorganization Events** section.

*(D) Other Distributions*

If the Fund declares or makes a distribution to all holders of the shares (or other applicable security) of the Fund of any non-cash assets, excluding dividends or distributions described under the section entitled *Stock Dividends* above, then the calculation agent may, in its sole discretion, make such adjustment (if any) to the adjustment factor as it deems appropriate in the circumstances. If the calculation agent determines to make an adjustment pursuant to this paragraph, it will do so with a view to offsetting, to the extent practical, any change in the economic position of a holder of the securities that results solely from the applicable event.

*(E) Reorganization Events*

If the Fund, or any successor fund, is subject to a merger, combination, consolidation or statutory exchange of securities with another exchange traded fund, and the Fund is not the surviving entity (a reorganization event ), then, on or after the date of such event, the calculation agent shall, in its sole discretion, make an adjustment to the adjustment factor or the method of determining the redemption amount, whether the securities are automatically called prior to stated maturity, whether a contingent coupon payment will be made or any other terms of the securities as the calculation agent determines appropriate to account for the economic effect on the securities of such event, and determine the effective date of that adjustment. If the calculation agent determines that no adjustment that it could make will produce a commercially reasonable result, then the calculation agent may deem such event a liquidation event (as defined below).

***Liquidation Events***

If the Fund is de-listed, liquidated or otherwise terminated (a liquidation event ), and a successor or substitute exchange traded fund exists that the calculation agent determines, in its sole discretion, to be comparable to the Fund, then, upon the calculation agent's notification of that determination to the trustee and Wells Fargo, any subsequent fund closing price for the Fund will be determined by reference to the fund closing price of such successor or substitute exchange traded fund (such exchange traded fund being referred to herein as a successor fund ), with such adjustments as the calculation agent determines are appropriate to account for the economic effect of such substitution on holders of the securities.

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**Additional Terms of the Securities (Continued)**

If the Fund undergoes a liquidation event prior to, and such liquidation event is continuing on, the date that any fund closing price of the Fund is to be determined and the calculation agent determines that no successor fund is available at such time, then the calculation agent will, in its discretion, calculate the fund closing price for the Fund on such date by a computation methodology that the calculation agent determines will as closely as reasonably possible replicate the Fund, provided that if the calculation agent determines in its discretion that it is not practicable to replicate the Fund (including but not limited to the instance in which the underlying index sponsor discontinues publication of the underlying index), then the calculation agent will calculate the fund closing price for the Fund in accordance with the formula last used to calculate such fund closing price before such liquidation event, but using only those securities that were held by the Fund immediately prior to such liquidation event without any rebalancing or substitution of such securities following such liquidation event.

If a successor fund is selected or the calculation agent calculates the fund closing price as a substitute for the Fund, such successor fund or fund closing price will be used as a substitute for the Fund for all purposes, including for purposes of determining whether a market disruption event exists. Notwithstanding these alternative arrangements, a liquidation event with respect to the Fund may adversely affect the value of the securities.

If any event is both a reorganization event and a liquidation event, such event will be treated as a reorganization event for purposes of the securities unless the calculation agent makes the determination referenced in the last sentence of the section entitled *Anti-dilution Adjustments Reorganization Events* above.

***Alternate Calculation***

If at any time the method of calculating the Fund or a successor fund, or the underlying index, is changed in a material respect, or if the Fund or a successor fund is in any other way modified so that the Fund does not, in the opinion of the calculation agent, fairly represent the price of the securities of the Fund or such successor fund had such changes or modifications not been made, then the calculation agent may, at the close of business in New York City on the date that any fund closing price is to be determined, make such calculations and adjustments as, in the good faith judgment of the calculation agent, may be necessary in order to arrive at a closing price of the Fund comparable to the Fund or such successor fund, as the case may be, as if such changes or modifications had not been made, and calculate the fund closing price and the redemption amount and determine whether the securities are automatically called prior to stated maturity and whether a contingent coupon payment will be made with reference to such adjusted closing price of the Fund or such successor fund, as applicable.

**Events of Default and Acceleration**

If an event of default with respect to the securities has occurred and is continuing, the amount payable to a holder of a security upon any acceleration permitted by the securities, with respect to each security, will be equal to the

redemption amount, calculated as provided herein, plus a portion of a final contingent coupon payment, if any. The redemption amount and any final contingent coupon payment will be calculated as though the date of acceleration were the final calculation day. The final contingent coupon payment, if any, will be prorated from and including the immediately preceding contingent coupon payment date to but excluding the date of acceleration.

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**The SPDR® S&P® Oil & Gas Exploration & Production ETF**

The Fund is issued by The SPDR Series Trust, a registered open-end management investment company. The Fund seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of the S&P® Oil & Gas Exploration & Production Select Industry Index. For a description of the S&P Oil & Gas Exploration & Production Select Industry Index, please see [S&P Oil & Gas Exploration & Production Select Industry Index](#) below.

Information provided to or filed with the Securities and Exchange Commission (the SEC) by the Fund under the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended, can be located by reference to SEC file numbers 333-57793 and 811-08839 and can be inspected and copied at the public reference facilities maintained by the SEC or through the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, information may be obtained from other sources including, but not limited to, press releases, newspaper articles and other publicly disseminated documents. None of such publicly available information is incorporated by reference into this pricing supplement. The Fund is listed on the NYSE Arca, Inc. under the ticker symbol XOP.

This pricing supplement relates only to the securities offered hereby and does not relate to the Fund. We have derived all disclosures contained in this pricing supplement regarding the Fund from the publicly available documents described in the preceding paragraph. In connection with the offering of the securities, neither we nor the agent has participated in the preparation of such documents or made any due diligence inquiry with respect to the Fund. Neither we nor the agent has independently verified the accuracy or completeness of any information with respect to the Fund in connection with the offer and sale of the securities. Furthermore, we cannot give any assurance that all events occurring prior to the date hereof (including events that would affect the accuracy or completeness of the publicly available documents described in the preceding paragraph) that would affect the trading price of the Fund (and therefore the price of the Fund at the time we price the securities) have been publicly disclosed. Subsequent disclosure of any such events or the disclosure of or failure to disclose material future events concerning the Fund could affect the payment at maturity with respect to the securities and therefore the trading prices of the securities.

We and/or our affiliates may presently or from time to time engage in business with the Fund. In the course of such business, we and/or our affiliates may acquire non-public information with respect to the Fund, and neither we nor any of our affiliates undertakes to disclose any such information to you. In addition, one or more of our affiliates may publish research reports with respect to the Fund. The statements in the preceding two sentences are not intended to affect the rights of investors in the securities under the securities laws.

**The S&P® Oil & Gas Exploration & Production Select Industry Index**

We obtained all information contained in this pricing supplement regarding the S&P Oil & Gas Exploration & Production Select Industry Index, including, without limitation, its make-up, method of calculation, and changes in its components, from publicly available information. That information reflects the policies of, and is subject to change by, S&P Dow Jones Indices LLC (S&P Dow Jones Indices), the sponsor of the S&P Oil & Gas Exploration & Production Select Industry Index. S&P Dow Jones has no obligation to continue to publish, and may discontinue

publication of, the S&P Oil & Gas Exploration & Production Select Industry Index at any time. Neither we nor the agent has independently verified the accuracy or completeness of any information with respect to the S&P Oil & Gas Exploration & Production Select Industry Index in connection with the offer and sale of the securities.

On July 2, 2012, The McGraw-Hill Companies, Inc. (McGraw-Hill), which owned the S&P Indices business, and CME Group, Inc., which is a 90% owner of the joint venture that owned the Dow Jones Indexes business, announced the launch of a new joint venture, S&P Dow Jones Indices LLC. S&P Dow Jones Indices LLC owns the S&P Indices business and the Dow Jones Indexes business, including the S&P Oil & Gas Exploration & Production Select Industry Index.

### *General*

The S&P Oil & Gas Exploration & Production Select Industry Index (the S&P Oil & Gas Index) is an equally-weighted index that is designed to measure the performance of the following sub-industry groups of the S&P® Total Market Index (the S&P TM Index): integrated oil & gas, oil & gas exploration & production and oil & gas refining & marketing. The S&P TM Index is a benchmark that measures the performance of the United States equity market. The S&P TM Index offers broad market exposure to companies of all market capitalizations, including all common equities listed on the New York Stock Exchange, the NYSE MKT, the NASDAQ Global Select Market, the NASDAQ Select Market and the NASDAQ Capital Market. Only United States companies are eligible for inclusion in the S&P TM Index. The S&P Oil & Gas Index is one of the 21 S&P Select Industry Indices (collectively, the Select Industry Indices and each, a Select Industry Index), each designed to measure the performance of a sub-industry or group of sub-industries based on the Global Industry Classification Standards (GICS). The S&P Oil & Gas Index includes companies in the following sub-industries: integrated oil & gas, oil & gas exploration & production and oil & gas refining & marketing. Each of the component stocks in the S&P Oil & Gas Index is a constituent company within the oil & gas exploration & production industry of the S&P TM Index.

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**The SPDR® S&P® Oil & Gas Exploration & Production ETF (Continued)**

*Index Inclusion Criteria*

To be eligible for inclusion in a Select Industry Index, including the S&P Oil & Gas Index, companies must be in the S&P TM Index, must be included in the relevant GICS sub-industry (e.g., homebuilding) and must satisfy one of the two following combined size and liquidity criteria:

float-adjusted market capitalization above \$500 million and float-adjusted liquidity ratio ( FALR ) above 90%;  
or

float-adjusted market capitalization above \$400 million and FALR above 150%.

All companies satisfying the above requirements are included in the applicable Select Industry Index. The total number of companies in each Select Industry Index should be at least 35. If there are fewer than 35 stocks in a Select Industry Index, stocks from a supplementary list of highly correlated sub-industries, that meet the market capitalization and liquidity thresholds above, are included in order of their float-adjusted market capitalization to reach 35 constituents. Minimum market capitalization requirements may be relaxed to ensure there are at least 22 companies in each Select Industry Index as of each rebalancing effective date. Existing index constituents are removed at the quarterly rebalancing effective date if either their float-adjusted market capitalization falls below \$300 million or their FALR falls below 50%.

*Eligibility Factors*

*Market Capitalization.* Float-adjusted market capitalization should be at least \$400 million for index inclusion. Existing index components must have a float-adjusted market capitalization of \$300 million to remain in the index at each rebalancing.

*Liquidity.* The liquidity measurement used is a liquidity ratio, defined by dollar value traded over the previous 12 months divided by float-adjusted market capitalization as of the index-rebalancing date. Stocks having a float-adjusted market capitalization above \$500 million must have a liquidity ratio greater than 90% to be eligible for addition to a Select Industry Index. Stocks having a float-adjusted market capitalization between \$400 and \$500 million must have a liquidity ratio greater than 150% to be eligible for addition to a Select Industry Index. Existing index constituents must have a liquidity ratio greater than 50% to remain in a Select Industry Index at the quarterly rebalancing. The length of time to evaluate liquidity is reduced to the available trading period for IPOs or spin-offs that do not have 12 months of trading history.

*Domicile.* Only U.S. companies are eligible for inclusion in the Select Industry Indices.

*Takeover Restrictions.* At the discretion of S&P, constituents with shareholder ownership restrictions defined in company bylaws may be deemed ineligible for inclusion in a Select Industry Index. Ownership restrictions preventing entities from replicating the index weight of a company may be excluded from the eligible universe or removed from the applicable Select Industry Index.

*Turnover.* S&P believes turnover in index membership should be avoided when possible. At times a company may appear to temporarily violate one or more of the addition criteria. However, the addition criteria are for addition to a Select Industry Index, not for continued membership. As a result, an index constituent that appears to violate criteria for addition to a Select Industry Index will not be deleted unless ongoing conditions warrant a change in the composition of the applicable Select Industry Index.

*Sector Classification.* A Select Industry Index includes companies in the applicable GICS sub-industries.

#### *Index Construction and Calculations*

The Select Industry Indices are equally-weighted, with adjustments to constituent weights to ensure concentration and liquidity requirements, and calculated by the divisor methodology. The initial divisor is set to have a base index value of 1000 on December 17, 1999. The index value is simply the index market value divided by the index divisor. In order to maintain index series continuity, it is necessary to adjust the divisor at each rebalancing.

#### *Constituent Weightings*

At each quarterly rebalancing, stocks are initially equally-weighted using closing prices as of the second Friday of the last month of quarter as the reference price. Adjustments are then made to ensure that there are no stocks whose weight in the applicable Select Industry Index is more than can be traded in a single day for a \$500 million portfolio.

S&P calculates a maximum basket liquidity weight for each stock in the applicable Select Industry Index using the ratio of its three-month average daily value traded to \$500 million. Each stock's weight in the applicable Select Industry Index is, then, compared to its maximum basket liquidity weight and is set to the lesser of its maximum basket liquidity weight or its initial equal weight. All excess weight is redistributed across the applicable Select Industry Index to the uncapped stocks. If necessary, a final adjustment is made to ensure that no stock in the applicable Select Industry Index has a weight greater than 4.5%. This step of the iterative weighting process



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may force the weight of those stocks limited to their maximum basket liquidity weight to exceed that weight. In such cases, S&P will make no further adjustments.

*Timing of Changes*

*Additions.* Companies are added between rebalancings only if a deletion in the applicable Select Industry Index causes the stock count to fall below 22. In those cases, each stock deletion is accompanied with a stock addition. The new company will be added to the applicable Select Industry Index at the weight of the deleted constituent. In the case of mergers involving at least one index constituent, the merged company will remain in the applicable Select Industry Index if it meets all of the eligibility requirements. The merged company will be added to the applicable Select Industry Index at the weight of the pre-merger index constituent. If both companies involved in a merger are index constituents, the merged company will be added at the weight of the company deemed the acquirer in the transaction. In the case of spin-offs, the applicable Select Industry Index will follow the S&P TM Index's treatment of the action. If the S&P TM Index treats the pre- and post-spun company as a deletion/addition action, using the stock's when-issued price, the applicable Select Industry Index will treat the spin-off this way as well.

*Deletions.* A company is deleted from the applicable Select Industry Index if the S&P TM Index drops the constituent. If a constituent deletion causes the number of companies in the relevant index to fall below 22, each stock deletion is accompanied with a stock addition. In case of GICS changes, where a company does not belong to a qualifying sub-industry after the classification change, it is removed from the applicable Select Industry Index at the next rebalancing.

*Index Maintenance*

The membership of the Select Industry Indices is reviewed quarterly. Rebalancings occur after the closing on the third Friday of the quarter ending month. The reference date for additions and deletions is after the closing of the last trading date of the previous month. Closing prices as of the second Friday of the last month of the quarter are used for setting index weights.

The tables below summarize the types of index maintenance adjustments and indicate whether or not an index adjustment is required.

*S&P TM Index Actions*

**S&P TM Index Action**

**Adjustment Made to index**

**Divisor Adjustment?**

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Constituent deletion	If the constituent is a member of the applicable Select Industry Index, it is dropped.	Yes
Constituent addition	Only in cases where the deletion causes the component count to fall below 22 stocks, then the dropped stock is accompanied by an add assuming the weight of the dropped stock.	No, except in the case of stocks removed at \$0.00
	For equal and modified market cap weighted indices, when a stock is removed from an index at a price of \$0.00, the stock's replacement will be added to the index at the weight using the previous day's closing value, or the most immediate prior business day that the deleted stock was not valued at \$0.00.	
Share changes between quarterly share adjustments	None.	No
Quarterly share changes	There is no direct adjustment, however, on the same date the applicable Select Industry Index rebalancing will take place.	Only because of the index rebalancing.
GICS change	None. If, after the GICS change, a company no longer qualifies to belong to the applicable Select Industry Index, it is removed at the next rebalancing.	No

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*Corporate Actions*

<b>Corporate Action</b>	<b>Adjustment Made to index</b>	<b>Divisor Adjustment?</b>
Spin-off	In general, both the parent company and spin-off companies will remain in the index until the next index rebalancing, regardless of whether they conform to the theme of the index. When there is no market-determined price available for the spin, the spin is added to the index at zero price at the close of the day before the ex-date.	No
Rights Offering	The price is adjusted to the price of the parent company minus (the price of the rights subscription/rights ratio). Index shares change so that the company's weight remains the same as its weight before the rights offering.	No
Stock Dividend, Stock Split, Reverse Stock Split	Index shares are multiplied by and price is divided by the split factor.	No
Share Issuance, Share Repurchase, Equity Offering or Warrant Conversion	None.	No
Special Dividends	Price of the stock making the special dividend payment is reduced by the per share special dividend amount after the close of trading on the day before the dividend ex-date.	Yes

**Historical Information**

We obtained the closing prices of the Fund listed below from Bloomberg Financial Markets, without independent verification.

The following graph sets forth daily closing prices of the Fund for the period from January 1, 2007 to September 19,

2017. The closing price on September 19, 2017 was \$32.18. The historical performance of the Fund should not be taken as an indication of the future performance of the Fund during the term of the securities.

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The following table sets forth the high and low closing prices, as well as end-of-period closing prices, of the Fund for each quarter in the period from January 1, 2007 through June 30, 2017 and for the period from July 1, 2017 to September 19, 2017.

	<b>High</b>	<b>Low</b>	<b>Last</b>
<b>2007</b>			
First Quarter	\$40.98	\$35.39	\$40.58
Second Quarter	\$48.98	\$40.94	\$45.71
Third Quarter	\$48.36	\$41.66	\$46.98
Fourth Quarter	\$53.28	\$47.66	\$52.06
<b>2008</b>			
First Quarter	\$55.83	\$44.79	\$53.73
Second Quarter	\$71.31	\$54.44	\$70.15
Third Quarter	\$70.93	\$42.68	\$44.83
Fourth Quarter	\$43.38	\$22.97	\$29.64
<b>2009</b>			
First Quarter	\$33.48	\$23.41	\$26.60
Second Quarter	\$38.25	\$27.54	\$31.72
Third Quarter	\$39.61	\$28.51	\$38.62
Fourth Quarter	\$43.36	\$36.91	\$41.21
<b>2010</b>			
First Quarter	\$44.07	\$39.22	\$42.13
Second Quarter	\$45.82	\$38.57	\$38.99
Third Quarter	\$42.85	\$38.05	\$42.26
Fourth Quarter	\$52.71	\$42.18	\$52.69
<b>2011</b>			
First Quarter	\$64.50	\$52.75	\$64.50
Second Quarter	\$64.97	\$54.71	\$58.78
Third Quarter	\$65.24	\$42.80	\$42.80
Fourth Quarter	\$57.56	\$39.99	\$52.69
<b>2012</b>			
First Quarter	\$61.34	\$52.67	\$56.91
Second Quarter	\$57.85	\$45.20	\$50.40
Third Quarter	\$59.35	\$48.73	\$55.69
Fourth Quarter	\$57.38	\$50.69	\$54.07

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2013			
First Quarter	\$62.10	\$55.10	\$60.49
Second Quarter	\$62.61	\$54.71	\$58.18
Third Quarter	\$66.47	\$58.62	\$65.89
Fourth Quarter	\$72.74	\$65.02	\$68.53
2014			
First Quarter	\$71.83	\$64.04	\$71.83
Second Quarter	\$83.45	\$71.19	\$82.28
Third Quarter	\$82.08	\$68.83	\$68.83
Fourth Quarter	\$66.84	\$42.75	\$47.86
2015			
First Quarter	\$53.94	\$42.55	\$51.66
Second Quarter	\$55.63	\$46.43	\$46.66
Third Quarter	\$45.22	\$31.71	\$32.84
Fourth Quarter	\$40.53	\$28.64	\$30.22
2016			
First Quarter	\$30.96	\$23.60	\$30.35
Second Quarter	\$37.50	\$29.23	\$34.81
Third Quarter	\$39.12	\$32.75	\$38.46
Fourth Quarter	\$43.42	\$34.73	\$41.42
2017			
First Quarter	\$42.21	\$35.17	\$37.44
Second Quarter	\$37.89	\$30.17	\$31.92
July 1, 2017 to September 19, 2017	\$32.91	\$29.09	\$32.18

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**Benefit Plan Investor Considerations**

Each fiduciary of a pension, profit-sharing or other employee benefit plan to which Title I of the Employee Retirement Income Security Act of 1974 ( ERISA ) applies (a plan ), should consider the fiduciary standards of ERISA in the context of the plan's particular circumstances before authorizing an investment in the securities. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan. When we use the term holder in this section, we are referring to a beneficial owner of the securities and not the record holder.

Section 406 of ERISA and Section 4975 of the Code prohibit plans, as well as individual retirement accounts and Keogh plans to which Section 4975 of the Code applies (also plans ), from engaging in specified transactions involving plan assets with persons who are parties in interest under ERISA or disqualified persons under the Code (collectively parties in interest ) with respect to such plan. A violation of those prohibited transaction rules may result in an excise tax or other liabilities under ERISA and/or Section 4975 of the Code for such persons, unless statutory or administrative exemptive relief is available. Therefore, a fiduciary of a plan should also consider whether an investment in the securities might constitute or give rise to a prohibited transaction under ERISA and the Code.

Employee benefit plans that are governmental plans, as defined in Section 3(32) of ERISA, certain church plans, as defined in Section 3(33) of ERISA, and foreign plans, as described in Section 4(b)(4) of ERISA (collectively, Non-ERISA Arrangements ), are not subject to the requirements of ERISA, or Section 4975 of the Code, but may be subject to similar rules under other applicable laws or regulations ( Similar Laws ).

We and our affiliates may each be considered a party in interest with respect to many plans. Special caution should be exercised, therefore, before the securities are purchased by a plan. In particular, the fiduciary of the plan should consider whether statutory or administrative exemptive relief is available. The U.S. Department of Labor has issued five prohibited transaction class exemptions ( PTCEs ) that may provide exemptive relief for direct or indirect prohibited transactions resulting from the purchase or holding of the securities. Those class exemptions are:

PTCE 96-23, for specified transactions determined by in-house asset managers;

PTCE 95-60, for specified transactions involving insurance company general accounts;

PTCE 91-38, for specified transactions involving bank collective investment funds;

PTCE 90-1, for specified transactions involving insurance company separate accounts; and

PTCE 84-14, for specified transactions determined by independent qualified professional asset managers.

In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide an exemption for transactions between a plan and a person who is a party in interest (other than a fiduciary who has or exercises any discretionary authority or control with respect to investment of the plan assets involved in the transaction or renders investment advice with respect thereto) solely by reason of providing services to the plan (or by reason of a relationship to such a service provider), if in connection with the transaction of the plan receives no less, and pays no more, than adequate consideration (within the meaning of Section 408(b)(17) of ERISA).

Any purchaser or holder of the securities or any interest in the securities will be deemed to have represented by its purchase and holding that either:

no portion of the assets used by such purchaser or holder to acquire or purchase the securities constitutes assets of any plan or Non-ERISA Arrangement; or

the purchase and holding of the securities by such purchaser or holder will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any Similar Laws.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the securities on behalf of or with plan assets of any plan consult with their counsel regarding the potential consequences under ERISA and the Code of the acquisition of the securities and the availability of exemptive relief.

The securities are contractual financial instruments. The financial exposure provided by the securities is not a substitute or proxy for, and is not intended as a substitute or proxy for, individualized investment management or advice for the benefit of any purchaser or



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**Benefit Plan Investor Considerations (Continued)**

holder of the securities. The securities have not been designed and will not be administered in a manner intended to reflect the individualized needs and objectives of any purchaser or holder of the securities.

Each purchaser or holder of the securities acknowledges and agrees that:

- (i) the purchaser or holder or its fiduciary has made and shall make all investment decisions for the purchaser or holder and the purchaser or holder has not relied and shall not rely in any way upon us or our affiliates to act as a fiduciary or adviser of the purchaser or holder with respect to (a) the design and terms of the securities, (b) the purchaser or holder's investment in the securities, or (c) the exercise of or failure to exercise any rights we have under or with respect to the securities;
- (ii) we and our affiliates have acted and will act solely for our own account in connection with (a) all transactions relating to the securities and (b) all hedging transactions in connection with our obligations under the securities;
- (iii) any and all assets and positions relating to hedging transactions by us or our affiliates are assets and positions of those entities and are not assets and positions held for the benefit of the purchaser or holder;
- (iv) our interests may be adverse to the interests of the purchaser or holder; and
- (v) neither we nor any of our affiliates is a fiduciary or adviser of the purchaser or holder in connection with any such assets, positions or transactions, and any information that we or any of our affiliates may provide is not intended to be impartial investment advice.

Purchasers of the securities have the exclusive responsibility for ensuring that their purchase, holding and subsequent disposition of the securities does not violate the fiduciary or prohibited transaction rules of ERISA, the Code or any Similar Law. Nothing herein shall be construed as a representation that an investment in the securities would be appropriate for, or would meet any or all of the relevant legal requirements with respect to investments by, plans or Non-ERISA Arrangements generally or any particular plan or Non-ERISA Arrangement.



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**United States Federal Tax Considerations**

The following is a discussion of the material U.S. federal income and certain estate tax consequences of the ownership and disposition of the securities. It applies to you only if you purchase a security for cash at its stated principal amount and hold it as a capital asset within the meaning of Section 1221 of the Code. This discussion does not address all of the tax consequences that may be relevant to you in light of your particular circumstances or if you are a holder subject to special rules, such as:

a financial institution;

a regulated investment company ;

a real estate investment trust ;

a tax-exempt entity, including an individual retirement account or Roth IRA ;

a dealer or trader subject to a mark-to-market method of tax accounting with respect to the securities;

a person holding a security as part of a straddle or conversion transaction or who has entered into a constructive sale with respect to a security;

a U.S. holder (as defined below) whose functional currency is not the U.S. dollar; or

an entity classified as a partnership for U.S. federal income tax purposes.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds the securities, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. If you are a partnership holding the securities or a partner in such a partnership, you should consult your tax adviser as to your particular U.S. federal tax consequences of holding and disposing of the securities.

This discussion is based on the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations, all as of the date of this pricing supplement, changes to any of which subsequent to the date of this pricing supplement may affect the tax consequences described herein, possibly with retroactive effect.

This discussion does not address the effects of any applicable state, local or non-U.S. tax laws, any alternative minimum tax consequences or the potential application of the Medicare tax on investment income. You should consult your tax adviser concerning the application of the U.S. federal income and estate tax laws to your particular situation (including the possibility of alternative treatments of the securities), as well as any tax consequences arising under the laws of any state, local or non-U.S. jurisdiction.

### **Tax Treatment of the Securities**

Due to the absence of statutory, judicial or administrative authorities that directly address the treatment of the securities or instruments that are similar to the securities for U.S. federal income tax purposes, no assurance can be given that the IRS or a court will agree with the tax treatment described herein. We intend to treat a security for U.S. federal income tax purposes as a prepaid derivative contract that provides for a coupon that will be treated as gross income to you at the time received or accrued in accordance with your regular method of tax accounting. In the opinion of our counsel, Davis Polk & Wardwell LLP, this treatment of the securities is reasonable under current law; however, our counsel has advised us that it is unable to conclude affirmatively that this treatment is more likely than not to be upheld, and that alternative treatments are possible.

**You should consult your tax adviser regarding the U.S. federal tax consequences of an investment in the securities. Unless otherwise stated, the following discussion is based on the treatment of the securities as described in the previous paragraph.**

### **Tax Consequences to U.S. Holders**

This section applies only to U.S. holders. You are a U.S. holder if you are a beneficial owner of a security that is, for U.S. federal income tax purposes:

a citizen or individual resident of the United States;

a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia; or

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**United States Federal Tax Considerations (Continued)**

an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

*Tax Treatment of Coupon Payments.* Any coupon payments on the securities should be taxable as ordinary income to you at the time received or accrued in accordance with your regular method of accounting for U.S. federal income tax purposes.

*Sale, Exchange or Retirement of the Securities.* Upon a sale, exchange or retirement of the securities, you should recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement and your tax basis in the securities that are sold, exchanged or retired. For this purpose, the amount realized does not include any coupon paid at retirement and may not include sale proceeds attributable to an accrued coupon, which may be treated as a coupon payment. Your tax basis in the securities should equal the amount you paid to acquire them. This gain or loss should be long-term capital gain or loss if you have held the securities for more than one year at the time of the sale, exchange or retirement, and should be short-term capital gain or loss otherwise. The ordinary income treatment of the coupon payments, in conjunction with the capital loss treatment of any loss recognized upon the sale, exchange or settlement of the securities, could result in adverse tax consequences to holders of the securities because the deductibility of capital losses is subject to limitations.

*Possible Alternative Tax Treatments of an Investment in the Securities.* Alternative U.S. federal income tax treatments of the securities are possible that, if applied, could materially and adversely affect the timing and/or character of income, gain or loss with respect to them. It is possible, for example, that the securities could be treated as debt instruments governed by Treasury regulations relating to the taxation of contingent payment debt instruments. In that event, (i) regardless of your regular method of tax accounting, in each year that you held the securities you would be required to accrue income, subject to certain adjustments, based on our comparable yield for similar non-contingent debt, determined as of the time of issuance of the securities, and (ii) any gain on the sale, exchange or retirement of the securities would be treated as ordinary income. Even if the securities are treated for U.S. federal income tax purposes as prepaid derivative contracts rather than debt instruments, the IRS could treat the timing and character of income with respect to coupon payments in a manner different from that described above.

Other possible U.S. federal income tax treatments of the securities could also affect the timing and character of income or loss with respect to the securities. In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of prepaid forward contracts and similar instruments. The notice focuses in particular on whether to require investors in these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; whether these instruments are or should be subject to the constructive ownership regime, which very generally can operate to recharacterize certain long-term capital gain as ordinary income and impose a notional interest charge; and appropriate transition rules and effective dates. While it is not clear whether the

securities would be viewed as similar to the typical prepaid forward contract described in the notice, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, possibly with retroactive effect. You should consult your tax adviser regarding the possible alternative treatments of an investment in the securities and the issues presented by this notice.

### **Tax Consequences to Non-U.S. Holders**

This section applies only to non-U.S. holders. You are a non-U.S. holder if you are a beneficial owner of a security that is, for U.S. federal income tax purposes:

an individual who is classified as a nonresident alien;

a foreign corporation; or

a foreign trust or estate.

You are not a non-U.S. holder for purposes of this discussion if you are (i) an individual who is present in the United States for 183 days or more in the taxable year of disposition of a security, (ii) a former citizen or resident of the United States or (iii) a person for whom income or gain in respect of the securities is effectively connected with the conduct of a trade or business in the United States. If you are or may become such a person during the period in which you hold a security, you should consult your tax adviser regarding the U.S. federal tax consequences of an investment in the securities.

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**Market Linked Securities Auto-Callable with Contingent Coupon  
and Contingent Downside****Principal at Risk Securities Linked to the SPDR® S&P® Oil & Gas Exploration & Production ETF  
due September 24, 2019****United States Federal Tax Considerations (Continued)**

Because significant aspects of the tax treatment of the securities are uncertain, persons having withholding responsibility in respect of the securities may withhold on any coupon payment paid to you, generally at a rate of 30%. To the extent that we have (or an affiliate of ours has) withholding responsibility in respect of the securities, we intend to so withhold. In order to claim an exemption from, or a reduction in, the 30% withholding, you may need to comply with certification requirements to establish that you are not a U.S. person and are eligible for such an exemption or reduction under an applicable tax treaty. You should consult your tax adviser regarding the tax treatment of the securities, including the possibility of obtaining a refund of any amounts withheld and the certification requirement described above.

*Possible Withholding Under Section 871(m) of the Code.* Section 871(m) of the Code and Treasury regulations promulgated thereunder ( Section 871(m) ) generally impose a 30% withholding tax on dividend equivalents paid or deemed paid to non-U.S. holders with respect to certain financial instruments linked to U.S. equities ( U.S. underlying equities ) or indices that include U.S. underlying equities. Section 871(m) generally applies to instruments that substantially replicate the economic performance of one or more U.S. underlying equities, as determined based on tests set forth in the applicable Treasury regulations (a specified security ). However, the regulations exempt financial instruments issued in 2017 that do not have a delta of one. Based on the terms of the securities and representations provided by us, our counsel is of the opinion that the securities should not be treated as transactions that have a delta of one within the meaning of the regulations with respect to any U.S. underlying equity and, therefore, should not be specified securities subject to withholding tax under Section 871(m).

A determination that the securities are not subject to Section 871(m) is not binding on the IRS, and the IRS may disagree with this treatment. Moreover, Section 871(m) is complex and its application may depend on your particular circumstances. For example, if you enter into other transactions relating to a U.S. underlying equity, you could be subject to withholding tax or income tax liability under Section 871(m) even if the securities are not specified securities subject to Section 871(m) as a general matter. You should consult your tax adviser regarding the potential application of Section 871(m) to the securities.

In the event withholding applies, we will not be required to pay any additional amounts with respect to amounts withheld.

**U.S. Federal Estate Tax**

If you are an individual non-U.S. holder or an entity the property of which is potentially includible in such an individual's gross estate for U.S. federal estate tax purposes (for example, a trust funded by such an individual and with respect to which the individual has retained certain interests or powers), you should note that, absent an applicable treaty exemption, a security may be treated as U.S.-situs property subject to U.S. federal estate tax. If you are such an individual or entity, you should consult your tax adviser regarding the U.S. federal estate tax consequences

of investing in the securities.

### **Information Reporting and Backup Withholding**

Amounts paid on the securities, and the proceeds of a sale, exchange or other disposition of the securities, may be subject to information reporting and, if you fail to provide certain identifying information (such as an accurate taxpayer identification number if you are a U.S. holder) or meet certain other conditions, may also be subject to backup withholding at the rate specified in the Code. If you are a non-U.S. holder that provides an appropriate IRS Form W-8, you will generally establish an exemption from backup withholding. Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against your U.S. federal income tax liability, provided the relevant information is timely furnished to the IRS.

### **FATCA**

Legislation commonly referred to as FATCA generally imposes a withholding tax of 30% on payments to certain non-U.S. entities (including financial intermediaries) with respect to certain financial instruments, unless various U.S. information reporting and due diligence requirements have been satisfied. An intergovernmental agreement between the United States and the non-U.S. entity's jurisdiction may modify these requirements. This legislation applies to certain financial instruments that are treated as paying U.S.-source interest, dividends or dividend equivalents or other U.S.-source fixed or determinable annual or periodical income (FDAP income). If required under FATCA, withholding applies to payments of FDAP income and, after 2018, to payments of gross proceeds of the disposition (including upon retirement) of certain financial instruments treated as paying U.S.-source interest or dividends. While the treatment of the securities is unclear, you should assume that the securities will be subject to the FATCA rules, at least with respect to coupon payments. If withholding applies to the securities, we will not be required to pay any additional amounts with respect to amounts withheld. If you are a non-U.S. holder, or a U.S. holder holding securities through a non-U.S. intermediary, you should consult your tax adviser regarding the potential application of FATCA to the securities.

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**United States Federal Tax Considerations (Continued)**

**THE TAX CONSEQUENCES OF OWNING AND DISPOSING OF THE SECURITIES ARE UNCLEAR. YOU SHOULD CONSULT YOUR TAX ADVISER REGARDING THE TAX CONSEQUENCES OF OWNING AND DISPOSING OF THE SECURITIES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL OR OTHER TAX LAWS.**

**The preceding discussion constitutes the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of owning and disposing of the securities.**

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**Supplemental Plan of Distribution**

We expect that delivery of the securities will be made against payment therefor on or about the issue date specified in this pricing supplement. Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days after the date the securities are priced, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the securities at any time prior to the second business day preceding the issue date will be required, by virtue of the fact that the securities will not settle in T+2, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement; such purchasers should also consult their own advisors in this regard.

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