ALAMO GROUP INC
Form DEF 14A
March 19, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)
Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12
ALAMO GROUP INC.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):
x No fee required.
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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

ALAMO GROUP INC.
1627 East Walnut Street
Seguin, Texas 78155

Dear Fellow Stockholders:

You are cordially invited to attend the 2015 Annual Meeting of Stockholders of Alamo Group Inc., to be held on Thursday, May 7, 2015, at 9:00 a.m. local time, at the Hotel Contessa, 306 W. Market Street, San Antonio, Texas 78205. We hope that you will be able to attend the meeting. Matters on which action will be taken at the meeting are explained in detail in the notice of meeting and proxy statement accompanying this letter.

In addition to the specific matters to be acted upon, there will be a report on the progress of the Company and an opportunity for questions of general interest to the stockholders.

Whether or not you expect to be present and regardless of the number of shares you own, please mark, sign and mail the enclosed proxy in the envelope provided as soon as possible. Stockholders may also vote through the Internet or by telephone. If you attend the meeting, you may revoke your proxy and vote in person.

Thank you for your support. We hope to see you at the meeting.

/s/ James B. Skaggs
James B. Skaggs
Chairman of the Board of Directors
March 19, 2015

ALAMO GROUP INC.
1627 East Walnut Street
Seguin, Texas 78155

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD MAY 7, 2015

To the Stockholders of
Alamo Group Inc.

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Alamo Group Inc. (the "Company") will be held at the Hotel Contessa, 306 W. Market Street, San Antonio, Texas, on Thursday, May 7, 2015, at 9:00 a.m. local time, for the following purposes:

(1) to elect seven (7) directors to the Board of Directors to serve until the next Annual Meeting of Stockholders or until their successors are elected and qualified;

(2) to ratify the Audit Committee's appointment of KPMG LLP as the Company's independent auditors for the 2015 fiscal year;

(3) to approve the Alamo Group Inc. 2015 Incentive Stock Option Plan; and

(4) to transact such other business as may properly come before the meeting or any adjournment thereof.

In accordance with the Bylaws of the Company, the Board of Directors fixed the record date for the meeting as March 19, 2015. Only stockholders of record at the close of business on that date will be entitled to vote at the meeting or any adjournment thereof.

Stockholders who do not expect to attend the meeting in person are urged to sign the enclosed proxy and return it promptly. A return envelope is enclosed for that purpose. Stockholders may also vote through the Internet or by telephone. Instructions for voting through the Internet or by telephone are included on the proxy card.

A complete list of stockholders entitled to vote at the meeting, showing the address of each stockholder and the number of shares registered in the name of each stockholder, shall be open to the examination by any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten business days prior to the meeting, commencing April 23, 2015, at the offices of the Company's Counsel, which is Strasburger & Price, LLP, Attorneys at Law, The Bakery Building, 2301 Broadway Street, San Antonio, Texas 78215-1157.

By Order of the Board of Directors
/s/ Robert H. George
Robert H. George
Secretary

Dated: March 19, 2015

ALAMO GROUP INC.
1627 East Walnut Street
Seguin, Texas 78155

PROXY STATEMENT

The accompanying Proxy is solicited by the Board of Directors (the "Board of Directors" or the "Board") of Alamo Group Inc., a Delaware corporation (the "Company," "we," "our," or "us"), to be voted at the 2015 Annual Meeting of Stockholders (the "Annual Meeting") to be held on May 7, 2015, and at any meeting scheduled as a result of any adjournments thereof. The meeting will be held at 9:00 a.m. local time, at the Hotel Contessa, 306 W. Market Street, San Antonio, Texas. This Proxy Statement and the accompanying Proxy are being mailed to stockholders on or about March 31, 2015. The Annual Report of the Company for fiscal 2014 including audited financial statements for the fiscal year ended December 31, 2014, and a proxy card are enclosed.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting To Be Held on May 7, 2015: Our Proxy Statement and our Annual Report, which includes our Form 10-K for the fiscal year ended December 31, 2014, are available free of charge on our website at: www.alamo-group.com/investor_relations/financial_reports.html.

VOTING AND PROXIES

Only holders of record of common stock, par value $.10 per share ("Common Stock"), of the Company at the close of business on March 19, 2015 (the "Record Date") shall be entitled to vote at the meeting. There were 20,000,000 authorized shares of Common Stock and 11,332,193 shares of Common Stock outstanding on the Record Date. Each share of Common Stock is entitled to one vote. Any stockholder giving a proxy has the power to revoke the same at any time prior to its use by giving notice in person or in writing to the Secretary of the Company.

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Common Stock is necessary to constitute a quorum at the 2015 Annual Meeting of Stockholders and any adjournment thereof.

Votes Required to Approve a Proposal

Each director will be elected by a majority of the votes cast with respect to such director. A "majority of the votes cast" means that the number of votes cast "for" a director exceeds the number of votes cast "against" that director. Under Delaware law, if the director is not elected at the annual meeting, the director will continue to serve on the Board as a "holdover director." As required by the Company's Bylaws, each director has submitted an irrevocable letter of resignation as director that becomes effective if he or she is not elected by stockholders and the Board accepts the resignation. If a director is not elected, the Nominating/Corporate Governance Committee will consider the director's resignation and recommend to the Board whether to accept or reject the resignation. The Board will decide whether to accept or reject the resignation and publicly disclose its decision and, if it rejects the resignation, the rationale behind the decision, within 90 days after the election results are certified.

The ratification of KPMG LLP's appointment as the Company's independent auditor and the adoption of the Alamo Group Inc. 2015 Incentive Stock Option Plan each require the affirmative vote of a majority of the shares represented at the Annual Meeting and entitled to vote thereat.

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspectors of election appointed by the Company for the meeting. The inspectors of election will treat abstentions and broker non-votes as shares that are present for purposes of determining the presence of a quorum. Abstentions may be specified on all proposals.

Abstentions are present and entitled to vote for purposes of determining the approval of any matter submitted to the stockholders for a vote and will thus have the same effect as a negative vote on the proposal to approve and to ratify the appointment of KPMG LLP and the adoption of the Incentive Stock Option Plan. Shares voting “abstain” on any nominee for director will be excluded from the vote and will have no effect on the election of directors. If a broker indicates on a proxy that it does not have the discretionary authority as to certain shares to vote on a particular matter, those shares will not be considered present and entitled to vote with respect to that matter.

BENEFICIAL OWNERSHIP OF COMMON STOCK

Listed in the following table are the only beneficial owners of more than five percent of the Company's outstanding Common Stock that the Company is aware of as of February 27, 2015. In addition, this table includes the outstanding voting securities beneficially owned by the Company's directors, by its executive officers that are listed in the Summary Compensation Table, and by its directors and executive officers as a group as of February 27, 2015. Unless indicated otherwise below, the address of each person named on the table below is: c/o Alamo Group Inc., 1627 East Walnut Street, Seguin, Texas 78155.

Beneficial Owner of Common Stock	Amount and Nature of Beneficial Ownership[1]		Percent of Class[2]
Henry Crown and Company c/o Brian Gilbert Gould & Ratner LLP 222 N. LaSalle Street, Suite 800 Chicago, IL 60601	1,700,000	[3]	15.02 %
Dimensional Fund Advisors LP Palisades West, Building One 6300 Bee Cave Road Austin, TX 78746	991,051	[4]	8.75%
Royce & Associates LLC 745 Fifth Avenue New York, NY 10151	961,404	[5]	8.49%
Wellington Management Group, LLP c/o Wellington Management Company LLP 280 Congress Street Boston, MA 02210	596,409	[6]	5.27%
Ronald A. Robinson	228,575	[7]	2.02%
Jerry E. Goldress	37,704	[8][9]	*
James B. Skaggs	36,804	[8][9]	*
David W. Grzelak	19,204	[8][9]	*
Gary L. Martin	5,136	[8]	*
Roderick R. Baty	10,204	[9]	*
Helen W. Cornell	4,704	[9]	*
Geoffrey Davies	22,000		*
Dan E. Malone	15,800	[7]	*

Richard D. Pummell	19,000	(7)	*
Jeffery A. Leonard	4,000	(7)	*
All Directors and Executive Officers as a Group (13 Persons)	470,996	(7)(8)(9)	4.16%

* Less than 1% of class.

(1) In each case, the beneficial owner has sole voting and investment power, except as otherwise provided herein.

(2) The calculation of percent of class is based on the number of shares of Common Stock outstanding as of February 27, 2015, being 11,321,093 shares.

(3) Based on Schedule 13D/A, dated December 21, 2013, by which Bgear Investors LLC, a Delaware limited liability company ("Bgear"), Henry Crown and Company, an Illinois limited partnership (the "Manager"), Henry Crown and Company, a Delaware corporation ("HC&Co") and Duroc LLC reported that (i) on December 14, 2013, Duroc LLC made a distribution of all of our shares held by it to its members, and (ii) Bgear and the Manager had shared voting and dispositive power over 1,361,700 shares and HC&Co had sole voting and dispositive power over 338,300 shares.

(4) Based on 961,404 to Schedule 13G, dated February 5, 2014, by which Dimensional Fund Advisors LP reported that as of December 31, 2014, it had shared voting power over none of such shares, had sole voting power over 956,657 shares and had sole dispositive power over 991,051 shares. Dimensional Fund Advisor LP reported beneficial ownership in 991,051 shares as of December 31, 2014.

(5) Based on Schedule 13G, dated January 5, 2015, by which Royce & Associates, LLC reported that on December 31, 2014, they had sole voting power over 961,404 shares and had shared voting power over none of the shares and sole dispositive power over 961,404 shares. Royce & Associates, LLC, reported beneficial ownership of the 961,404 shares as of December 31, 2014.

(6) Based on 13G dated February 12, 2015, by which Wellington Management Group, LLP reported that as of December 31, 2014, it had shared voting power over 356,477 shares, had sole voting power over none of the shares and had shared dispositive power over 596,409 shares. Wellington Management Group, LLP reported beneficial ownership in 596,409 shares as of December 31, 2014.

(7) Includes: shares available for exercise under various stock options as follows: 55,000 shares for Mr. Robinson; 8,800 shares for Mr. Malone; 8,000 shares for Mr. Pummell; 4,000 shares for Mr. Leonard; and 59,000 shares for other executive officers.

(8) Includes: shares available for exercise under non-qualified stock options as follows: 15,500 shares for Mr. Grzelak; 4,136 shares for Mr. Martin; 3,200 shares for Mr. Skaggs; and 1,600 shares for Mr. Goldress.

(9) Includes: unvested restricted stock awards that have power to vote and receive dividends as follows: 2,028 shares each for Ms. Cornell, Mr. Goldress, Mr. Grzelak, Mr. Skaggs and, 1,903 shares for Mr. Baty.

PROPOSAL 1 - ELECTION OF DIRECTORS

The Bylaws of the Company provide that the number of directors which shall constitute the whole Board of Directors shall be fixed and determined from time to time by resolution adopted by the Board of Directors. Currently, the size of the Board of Directors has been fixed at seven (7) directors.

Each director elected at the Annual Meeting will serve until the next Annual Meeting of Stockholders or until a successor is elected and qualified. Unless otherwise instructed, shares represented by properly executed proxies in the accompanying form will be voted for the individuals nominated by the Board of Directors set forth below. Although the Board of Directors anticipates that the listed nominees will be able to serve, if at the time of the meeting any such nominee is unable or unwilling to serve, such shares may be voted at the discretion of the proxy holders for a substitute nominee. The Nominating/Corporate Governance Committee of the Board of Directors recommended the individuals listed below to the Board of Directors and the Board of Directors nominated them. Certain information concerning such nominees, including all positions with the Company and principal occupations during the last five years, is set forth below.

We have provided below information about our nominees, all of whom are incumbent directors, including their ages, years of service as directors, and business experience. We have also included information about each nominee's specific experience, qualifications, attributes, or skills that led the board to conclude that he/she should serve as one of our directors in light of our business and structure.

All of our nominees bring to our board extensive management and leadership experience gained through their service as executives and, in several cases, chief executive officers or chief financial officers of diverse businesses. In these executive roles, they have taken hands-on, day-to-day responsibility for strategy and operations, including management of capital, risk and business cycles. In addition, several nominees bring private and public company board experience - either significant experience on other boards or long service on our board - that broadens their knowledge of board policies and processes, rules and regulations, issues and solutions.

NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS

Roderick R. Baty, age 61, was appointed a director of the Company on August 3, 2011. Mr. Baty served as Chairman and Chief Executive Officer of NN, Inc., from May 2001 until his retirement in May 2013. NN, Inc. is a publicly owned global manufacturer of high-quality bearing components, industrial rubber and plastic products, and precision metal components serving a variety of markets, including the automotive industry, original equipment manufacturers, HVAC, heavy equipment and many other industrial end markets. Mr. Baty joined NN in 1995 as Vice President of Sales and Marketing/Chief Financial Officer and

was elected to the Board of Directors. In 1997, he was named President and Chief Executive Officer, and was elected Chairman of the Board in 2001. Prior to joining NN, Inc., Mr. Baty served as President and Chief Operating Officer of Hoover Precision Products from 1990 to 1995. Hoover Precision Products is a North American specialist manufacturer of precision balls serving various industries including automotive, aerospace, anti-friction bearings, pumps, medical, pen, and furniture applications. Mr. Baty brings to the Board senior executive leadership experience in the areas of public company governance, operational, financial and strategic management within industrial and manufacturing companies.

Helen W. Cornell, age 56, was appointed a director of the Company on March 10, 2011. Ms. Cornell retired as Executive Vice President and Chief Financial Officer of Gardner Denver, Inc. in November of 2010. Gardner Denver, Inc. is a leading global manufacturer of highly engineered products, including compressors, liquid ring pumps, and blowers for various industrial, medical, environmental, transportation and process applications. Ms. Cornell was first employed by a predecessor company of Gardner Denver, Inc. in May of 1988, was promoted to an officer position when Gardner Denver, Inc. became a separate entity in November of 1993, and served in various executive positions with Gardner Denver, Inc. and its subsidiaries from 1993 until her retirement in 2010. Ms. Cornell's extensive experience as chief financial officer of Gardner Denver, Inc., formerly a public company acquired by KKR Inc., brings valuable operational and financial experience to our Board.

Jerry E. Goldress, age 84, has been a director of the Company since 2000 and is Chairman and Chief Executive Officer of Grisanti, Galef & Goldress, Inc. ("GGG"), a turnaround management consulting firm. Mr. Goldress has been with GGG since 1973 and has been its Chairman and Chief Executive Officer since 1981. In his consulting capacity, he has been President of more than one hundred manufacturing, distribution and retail organizations. Mr. Goldress' experience as a management consultant brings a broad understanding of the strategic priorities of diverse industries, coupled with extensive knowledge of operational, financial and strategic issues facing public and private companies.

David W. Grzelak, age 65, has been a director of the Company since August 2006. Mr. Grzelak became Chairman and Chief Executive Officer of Komatsu America Corporation in April 2002. He retired from his position as Chief Executive Officer of Komatsu America in April 2012 and retired as Chairman in July 2013. Mr. Grzelak currently serves as a consultant for Komatsu. Komatsu America Corporation is a wholly-owned subsidiary of Komatsu Ltd., a global company incorporated in Japan that engages in the manufacturing, development, marketing and sale of a diversified range of industrial-use products and services. Komatsu America Corporation manufactures and markets Komatsu lines of hydraulic excavators, wheel loaders, crawler dozers, off-highway trucks and motor graders. Mr. Grzelak brings to the Board valuable insights on distribution, marketing and sales of the Company's products as well as operational and financial expertise.

Gary L. Martin, age 68, has been a director of the Company since May 2007. In 2008, Mr. Martin was elected Chairman of the Board of Capital Southwest Corporation, a publicly owned venture capital investment company located in Dallas, Texas. In 2007, he was elected President and CEO of Capital Southwest Corporation, where he served as Vice President since 1992 and as a Director since 1988. He retired as President and CEO in June of 2013 and as Executive Chairman in December of 2013. He retired as a director of Capital Southwest in April of 2014. From 1979 through April 2007, Mr. Martin was Chief Executive Officer and President of The Whitmore Manufacturing Company, which is a specialty manufacturer of lubricants and coatings for industrial applications. Capital Southwest Corporation directly or indirectly owns 100% of Whitmore Manufacturing Company. Mr. Martin's daily experience leading a public company equips him to understand and guide management decisions and actions related to planning, risk management, investor relations, marketing and capital management. Mr. Martin has also demonstrated success in his business and leadership skills serving as chief executive officer and president of The Whitmore Manufacturing Company.

Ronald A. Robinson, age 62, has been President, Chief Executive Officer and a director of the Company since 1999. Mr. Robinson previously was President of Svedala Industries, Inc., the U.S. subsidiary of Svedala Industries AB of

Malmo, Sweden, a leading manufacturer of equipment and systems for the worldwide construction, mineral processing and materials handling industries. Mr. Robinson joined Svedala in 1992 when it acquired Denver Equipment Company of which he was Chairman and Chief Executive Officer. Mr. Robinson has a deep knowledge and understanding of our Company and our lines of business. Mr. Robinson has demonstrated his leadership abilities and his commitment to our company.

James B. Skaggs, age 77, has been a director of the Company since 1996 and was appointed as Chairman of the Board in May 2011. Mr. Skaggs retired as Chairman of the Board, Chief Executive Officer and President of Tracor, Inc. in June 1998. Tracor provided technology products and services to governmental and commercial customers worldwide in the areas of information systems, aerospace, defense and systems engineering. Mr. Skaggs was Tracor's Chief Executive Officer, President and a Director from November 1990 and its Chairman of the Board from December 1993 until his retirement. Mr. Skaggs' extensive experience as chairman, chief executive officer and president of a public company demonstrates his leadership capability and business acumen. In addition, Mr. Skaggs brings public company operational, financial and corporate governance experience to our Board of Directors.

The following table shows the current membership of each Committee of the Board and the number of meetings held by each Committee during 2014:

	Compensation Committee	Audit Committee	Nominating/Corporate Governance Committee
James B. Skaggs			
Roderick R. Baty		X	X
Helen W. Cornell	X	Chair	
Jerry E. Goldress	X	X	Chair
David W. Grzelak	X	X	X
Gary L. Martin	Chair		X
Ronald A. Robinson			
Number of Fiscal 2014 Meetings	3	4	2

INFORMATION CONCERNING DIRECTORS

None of the nominees for director or the executive officers of the Company has a familial relationship with any of the other executive officers or other nominees for director. Ms. Cornell is a director of Owensboro Grain Co. LLC and she serves as Chair of the Audit Committee and is a member of the Executive Committee. Ms. Cornell is a director of Hillenbrand, Inc., a publicly traded company where she serves as a member of the Management Development and Compensation Committee, Nominating and Corporate Governance Committee and the Mergers and Acquisitions Committee. Ms. Cornell is also a director and Chair of the Audit Committee of DOT Foods, Inc. Except as disclosed above, none of the directors or nominees is a director or has been a director over the past five years of any other company which has a class of securities registered under, or is required to file reports under, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or of any company registered under the Investment Company Act of 1940, as amended. Mr. Goldress was a director of Rockford Corporation until his retirement in October 2012. Mr. Baty was a director of NN, Inc. until his retirement in May 2013. Mr. Martin was a director of Capital Southwest Corporation until April 2014.

Non-management directors may meet in executive session, without the Chief Executive Officer, at any time, and there are regularly scheduled non-management executive sessions at each meeting of the Board of Directors and Committees thereof. The Chairman of the Board and the Chair of each Committee preside over their respective executive sessions.

In determining independence, each year the Board affirmatively determines whether each director has any "material relationships" with the Company other than as a director. When assessing the "materiality" of a director's relationship with the Company, the Board considers all relevant facts and circumstances, not merely from the director's standpoint, but from that of the persons or organizations with which the director has an affiliation, and the frequency or regularity of the services, whether the services are being carried out at arm's length in the ordinary course of business and whether the services are being provided substantially on the same terms to the Company as those prevailing at the time from unrelated parties for comparable transactions.

The Board of Directors has determined that all of the current directors except Mr. Robinson, President and CEO, have no material relationships with the Company or its auditors and are independent within the meaning of the New York Stock Exchange ("NYSE") listing standards on director independence and the director independence standards established under the Company's Corporate Governance, which are available at www.alamo-group.com under the "Our Commitment" tab.

If you and other interested parties wish to communicate with the Board of Directors of the Company, you may send correspondence to the Corporate Secretary, Alamo Group Inc., 1627 East Walnut Street, Seguin, Texas 78155. The Secretary will submit your correspondence to the Board or to the appropriate Committee or Board member, as applicable. The Board's policy regarding stockholder communication with the Board of Directors is available at www.alamo-group.com under the "Our Commitment" tab.

Stockholders and other interested parties may communicate with non-management directors of the Board by sending their correspondence to the Chairman of the Board, Alamo Group Inc., 1627 East Walnut Street, Seguin, Texas 78155.

The Board has delegated some of its authority to three Committees of the Board of Directors. These are the Audit Committee, Nominating/Corporate Governance Committee, and Compensation Committee. All three Committees have published charters on the Company's website www.alamo-group.com under the "Our Commitment" tab.

Vote required. Each director will be elected by a majority of the votes cast with respect to such director. All proxies will be voted "FOR" these nominees unless a contrary choice is indicated. Shares voting "abstain" on any nominee for director will be excluded from the vote and will have no effect on the election of directors.

THE BOARD OF DIRECTORS HAS APPROVED THE SLATE OF DIRECTORS AND RECOMMENDS A VOTE "FOR" THE ELECTION OF ALL SEVEN NOMINEES, WHICH IS DESIGNATED AS PROPOSAL NO. 1 ON THE ENCLOSED PROXY.

MEETINGS AND COMMITTEES OF THE BOARD

During the fiscal year ended December 31, 2014, the Board held sixteen meetings. Each director attended in person or by phone 99% of the total number of meetings of the Board and Committees on which the director served during 2014. It is a policy of the Board that all directors attend the Annual Meeting of Stockholders. All of our directors attended the Annual Meeting of Stockholders in May 2014.

BOARD LEADERSHIP STRUCTURE

The Board does not have a policy on whether the same person should serve as both the CEO and Chairman of the Board or, if the roles are separate, whether the chairman should be selected from the non-employee directors or should be an employee. The Board believes that it should have the flexibility to make these determinations at any given point in time in the way that it believes best to provide appropriate leadership for the Company at that time.

Currently, Mr. Skaggs serves as Chairman of the Board and Mr. Robinson serves as CEO. The CEO is responsible for setting the strategic direction for the Company and the day-to-day leadership and performance of the Company, while the Chairman of the Board provides guidance to the CEO and sets the agenda for Board meetings and presides over meetings of the full Board. The Board believes that its current leadership structure is appropriate at this time.

THE BOARD ROLE IN RISK OVERSIGHT

The Board has an active role in overseeing management of the Company's risk. The Board regularly reviews information regarding the Company's operational, financial, legal and regulatory, strategic and reputational risks which is usually conveyed to the Board by the senior management of the Company or by one of the Board's Committees. Because overseeing risk is an ongoing process and inherent in the Company's strategic decisions, the Board also discusses risk throughout the year at other meetings in relation to specific proposed actions.

The Board has delegated certain risk management oversight responsibility to the Board committees. The Audit Committee oversees risks related to the Company's accounting, auditing, reporting, financial practices (including the integrity of the Company's financial statements), administration and financial controls and compliance with legal and regulatory requirements. The Audit Committee also reviews and discusses the Company's policies with respect to risk assessment and risk management. The Compensation Committee oversees risks relating to the Company's compensation, incentive compensation, and equity-based compensation plans. The Nominating/Corporate Governance Committee oversees risks relating to the composition and organization of the Board.

The Company believes that its leadership structure also enhances the risk oversight function of the Board. Our Chairman and our CEO regularly discuss material risks facing the Company with management and other members of

the Board. Our CEO, as a member of the Board, is also expected to report candidly to his fellow directors on his assessment of the material risks the Company faces, based upon the information he receives as part of his management responsibilities. Both our Chairman and our CEO are well equipped to lead Board discussions on risk issues.

THE AUDIT COMMITTEE

In January 2014, the Audit Committee of the Board of Directors consisted of Ms. Cornell (Chair), Messrs. Baty, Goldress, and Grzelak, and in May 2014 they were reappointed. The Committee met four times during fiscal 2014. All

Committee members were present at the meetings. The duties and responsibilities of the Committee include, among other things, to:

- appoint, approve compensation and oversee the work of the independent auditor;
- review at least annually a report by the independent auditor describing the firm's internal control procedures and any material issues raised by the most recent internal control review;
- preapprove all audit services and associated fees by the independent auditors;
- preapprove all permissible non-audit services to be provided by the independent auditor;
- review the independence of the independent auditor;
- review scope of audit and resolve any difficulties or disagreements with management encountered during the audit or any interim periods;
- review and discuss with management and the independent auditor the annual audit and quarterly financial statements of the Company;
- recommend to the Board whether the financial statements should be included in the Annual Report Form 10-K and in the quarterly reports on form 10-Q, in both cases, as reviewed;
- review adequacy and effectiveness of the Company's internal controls;
- review adequacy and effectiveness of the Company's disclosure controls and management reports thereon;
- approve the scope of the internal auditor's audit plan;
- review and approve earnings press releases, financial information and earnings guidance, if any;
- review financial risk assessment presented by management;
- oversee the Company's compliance systems with respect to legal and regulatory requirements, review the Company's Code of Business Conduct and Ethics and monitor compliance with such code;
- review complaints regarding accounting, internal accounting controls and auditing matters, including a way to report anonymously;
- review the Company's adherence to regulations for the hiring of employees and former employees of the independent auditor; and
- review and evaluate annually the qualifications, performance and independence of the independent auditor, including a review and evaluation of the lead partner of the independent auditor, and assure regular rotation of the lead audit partner as required by law.

The Audit Committee reports to the Board on its activities and findings.

The Board has determined that under current NYSE listing standards all members of the Committee are financially literate, are "Audit Committee financial experts," and are independent under the Company's Corporate Governance Guidelines and NYSE listing requirements, and that each has accounting or related financial management expertise as required by the NYSE listing standards. The Committee's Charter and Corporate Governance Guidelines, which have been approved by the Board, are reviewed at least annually and may be viewed on the Company's website www.alamo-group.com under the "Our Commitment" tab.

REPORT OF THE AUDIT COMMITTEE

The information contained in this report shall not be deemed to be "soliciting material" or "filed" with the Securities and Exchange Commission (the "SEC") or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically incorporates it by reference into a document filed under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act.

The Audit Committee is currently comprised of four independent members of the Company's Board of Directors. Each member of the Audit Committee is independent under applicable law and NYSE listing requirements. The duties and responsibilities of the Audit Committee are set forth in the Audit Committee Charter, which the Board of Directors reviews on an annual basis.

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal control over financial reporting. In fulfilling its oversight responsibilities in fiscal 2014, the Committee reviewed and discussed with management the Quarterly Reports on Form 10-Q and the audited financial statements included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2014, including the quality, not just the acceptability, of the accounting principles, the reasonableness of significant adjustments, and the clarity of disclosures in the financial statements.

The Committee reviewed with management and with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed by the independent auditors with the Committee under generally accepted auditing standards (including Statement on Auditing Standards No. 61). In addition, the Committee has discussed with the independent auditors the applicable requirements of the Public Company Accounting Oversight Board regarding independent accountant communications with the Audit Committee concerning independence as described in Item 407(d)(3)(i) of Regulation S-K, and considered the compatibility of non-audit services with the auditors' independence.

The Committee discussed with the independent auditors the overall scope and plans for their audit. They also discussed with management and the internal auditor the overall scope and plans for the Company's assessment of internal control. The Committee meets with the independent auditors and the internal auditor, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls over financial reporting and the overall quality of the Company's financial reporting. The Committee met four times during fiscal 2014. All Committee members were present at the meetings.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board approved) that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2014, for filing with the SEC. The Audit Committee also recommended, subject to stockholder ratification, the appointment of KPMG LLP as the Company's independent auditors for the fiscal year 2015. Audit, audit-related and any permitted non-audit services provided to the Company by KPMG LLP are subject to preapproval by the Audit Committee.

AUDIT COMMITTEE

Helen W. Cornell, Chair

Roderick R. Baty, Member
Jerry E. Goldress, Member
David W. Grzelak, Member

THE NOMINATING/CORPORATE GOVERNANCE COMMITTEE

In January 2014, the Nominating/Corporate Governance Committee consisted of Messrs. Goldress (Chair), Baty, Grzelak, and Martin, and they were reappointed in May 2014. During 2014, the Committee held two meetings. All Committee members were present at the meetings. The Committee has the responsibility, among other things, to:

- evaluate director candidates and has sole authority to retain a search firm in that effort, approve its fees and scope of service;
- recommend to the Board of Directors nominees for Board election by the stockholders based upon their qualifications, knowledge, skills, expertise, experience and diversity;
- review Board composition to reflect the appropriate balance of knowledge, skills, expertise, experience and diversity;
- review size of the Board and the frequency and structure of Board meetings;
- recommend to the Board establishment, elimination, size and composition of standing Committees;
- review, at least annually, the Company's Code of Business Conduct & Ethics;
- oversee and establish procedures for the annual evaluation of the Board and management;
- develop, recommend to the Board and review annually a set of corporate governance guidelines; and
- coordinate with the Compensation Committee regarding director compensation for nonemployee directors.

The Board of Directors has determined that the members of the Committee are independent under the Company's Corporate Governance Guidelines and NYSE listing requirements. The Committee's Charter and the Company's Corporate Governance Guidelines are reviewed at least annually and may be viewed on the Company's website www.alamo-group.com under the "Our Commitment" tab.

The Nominating/Corporate Governance Committee will consider director candidates recommended by stockholders. The Committee's Policy Regarding Director Candidates Recommended by Shareholders, the Company's Corporate Governance Guidelines (including our standards of director independence), the charters of our Board Committees, and the Company's Code of Conduct and Ethics are on our website www.alamo-group.com under the "Our Commitment" tab and are available in print at no charge to any stockholder who requests them by writing to Corporate Secretary, Alamo Group Inc., 1627 East Walnut Street, Seguin, Texas 78155.

Any stockholder of the Company who complies with the notice procedures set forth below and is a stockholder of record at the time such notice is delivered to the Company may make a director recommendation for consideration by the Nominating/Corporate Governance Committee. A stockholder may make recommendations at any time, but recommendations for consideration as nominees at the Annual Meeting of Stockholders must be received not less than 120 days before the first anniversary of the date of the proxy statement released to stockholders in connection with the previous year's annual meeting. Therefore, to submit a candidate for consideration for nomination at the 2016 Annual Meeting of Stockholders, a stockholder must submit the recommendation, in writing, by December 3, 2015. The written notice must demonstrate that it is being submitted by a stockholder of the Company and include information about each proposed director candidate, including name, age, business address, principal occupation, principal qualifications and other relevant biographical information. In addition, the stockholder must provide confirmation of each candidate's consent to serve as a director. A stockholder must send recommendations to the Nominating/Corporate Governance Committee, Alamo Group Inc., 1627 East Walnut Street, Seguin, Texas 78155.

The Nominating/Corporate Governance Committee identifies, evaluates and recommends director candidates to the Board of Directors. In identifying and recommending nominees for positions on the Board of Directors, the Nominating/Corporate Governance Committee places primary emphasis on (i) judgment, character, expertise, skills and knowledge useful to the oversight of our business; (ii) diversity of viewpoints, backgrounds, experiences and other demographics; (iii) business or other relevant experience; and (iv) the extent to which the interplay of the

nominee's expertise, skills, knowledge and experience with that of other members of the Board will build a board that is active, collegial and responsive to the needs of the Company. Although diversity may be a consideration in the Committee's process, the Committee and the Board of Directors do not have a formal policy with regard to the consideration of diversity in identifying director nominees. Nominees are not discriminated against on the basis of gender, race, religion, national origin, sexual orientation, disability or any other basis prescribed by law.

Upon identifying a director candidate, the Committee initially determines the need for additional or replacement Board members and evaluates all the director candidates under the criteria described above, based on the information the Committee receives with the recommendation or otherwise possesses, which may be supplemented by certain inquiries. If the Committee

determines, in consultation with other Board members including the Chair, that a more comprehensive evaluation is warranted, the Committee may then obtain additional information about the director candidate's background and experience, including by means of interviews. The Committee will then evaluate the director candidate further, again using the evaluation criteria described above. The Committee receives input on such director candidates from other directors, and recommends director candidates to the full Board of Directors for nomination. The Committee may engage a third party to assist in the search for director candidates or to assist in gathering information regarding a director candidate's background and experience. If the Committee engages a third party, the Committee approves the fee that the Company pays for these services.

THE COMPENSATION COMMITTEE

In January 2014, the Compensation Committee of the Board of Directors consisted of Messrs. Martin (Chair), Goldress, Grzelak and Ms. Cornell and they were reappointed in May 2014. The Committee met three times during fiscal 2014. All Committee members were present at the meetings. The duties and responsibilities of the Committee include, among other things, to:

- review and approve, at least annually, the goals and objectives relevant to the CEO compensation and the structure of the Company's plans for executive compensation, incentive compensation, equity-based compensation and its general compensation, and employee benefit plans, and make recommendations to the Board;
- evaluate annual performance of the CEO in light of the goals of the Company's executive compensation plans, and recommend his or her compensation based on this evaluation;
- in consultation with the CEO, review, evaluate and recommend to the Board the compensation of all executive officers and key managers;
- evaluate and recommend to the Board, in conjunction with input of the Nominating and Corporate Governance Committees, compensation of directors for Board and Committee service;
- review and recommend to the Board any severance agreement made with any executive officer;
- review and recommend to the Board the amount and terms of all individual stock options or grants;
- review and recommend to the Board all equity-based and incentive compensation plans that are subject to stockholder approval; and
- approve and issue the annual report on executive compensation required by the SEC for inclusion in the Company's proxy statement.

The Compensation Committee may delegate its duties and responsibilities to subcommittees as it deems necessary and advisable. The role of our executive officers in determining compensation is discussed below under "Compensation Discussion and Analysis." The Compensation Committee has authority under its charter to retain, at the Company's expense, such consultants and other advisers as it deems necessary to assist it in the fulfillment of its duties. The Committee did not retain a compensation consultant in 2014.

The Board of Directors has determined that the members of the Committee are independent under the Company's Corporate Governance Guidelines, the NYSE listing requirements, the Exchange Act and the rules and regulations of the SEC. The Committee's Charter and the Company's Corporate Governance Guidelines are reviewed at least annually and may be viewed on the Company's website www.alamo-group.com under the "Our Commitment" tab.

At the 2014 Annual Meeting of Stockholders, the Company received over 90% approval on the non-binding ("Say-On-Pay") Proposal on the Compensation of our Chief Executive Officer and Named Executive Officers. The impact of the vote supports the Company's ongoing compensation package. We also received a majority vote on our proposal to review Say-On-Pay every three years.

COMPENSATION DISCUSSION AND ANALYSIS

This section provides information regarding the compensation program in place for the Company's principal executive officer, principal financial officer, and the three most highly compensated executive officers other than the principal executive officer and principal financial officer ("Named Executive Officers" or "NEOs"). All NEOs are listed in the Summary Compensation Table. This section also includes information regarding, among other things, the overall objectives of the Company's compensation program and each element of compensation that we provide.

Objectives of Our Compensation Program

The Compensation Committee of the Board of Directors has responsibility for establishing, implementing, monitoring and approving the compensation program for NEOs and other selected key executives and managers. The Committee reviews and recommends proposed compensation program changes, salaries, annual cash incentive compensation amounts and incentive stock options for the NEOs and key managers to the Board of Directors for approval. The Committee acts pursuant to its charter that has been approved by the Board. If a compensation consultant is retained by the Committee, it shall have sole authority to retain and terminate the consulting firm, approve the firm's fees and other retention terms.

The compensation program for NEOs is designed to attract, retain and reward talented executives who have the experience and ability to contribute materially to the Company’s long-term success and thereby build value for its stockholders. The program is intended to provide competitive base salaries as well as short-term and long-term incentives which align management and stockholder objectives and provide the opportunity for NEOs to participate in the success of the Company and its individual business units. In setting management pay levels, the Compensation Committee considers the Company’s historical practices, the CEO’s and other NEOs’ past pay and Company and individual performance. The program’s annual cash incentive and its longer term stock-based incentive compensation provide potential upside for exceeding financial targets with downside risk for missing performance targets. This balances retention with reward for delivering increased stockholder value and provides closely aligned objectives for Company management and stockholders. The Company’s success in retaining key employees is evidenced by the fact that the CEO and NEOs of the Company have an average tenure with the Company of more than 10 years.

Role of the CEO and the Compensation Committee in Compensation Decisions

The Compensation Committee reviews and recommends all compensation for the CEO to the Board of Directors for its approval. The Compensation Committee reviews recommendations by the CEO for the compensation of other NEOs as well as other managers and designated key employees. The CEO annually reviews the performance of each NEO (other than the CEO, whose performance is reviewed by the Compensation Committee). The recommendations based on these reviews, including salary adjustments, annual cash incentive awards and stock options, are presented to the Compensation Committee. The Compensation Committee reviews these recommendations and can exercise its discretion in modifying and recommending adjustments to executives. The decision is then recommended by the Compensation Committee to the Board for its approval. Decisions regarding compensation for other key managers participating in the EIP (defined below) are made by the CEO and other NEOs of the Company and are reviewed by the Compensation Committee.

In its compensation process, the Compensation Committee considers whether the Company's executive compensation and benefits program serves the best interests of the Company's stockholders. In that respect, as part of its on-going review of the Company's executive compensation program, the Compensation Committee considered the affirmative stockholder “Say-On-Pay” vote at the Company's Annual Meeting of Stockholders in 2014 (where the stockholders by a vote in excess of 99% of the votes cast at the annual meeting approved the Company’s executive compensation) and determined that the Company's executive compensation philosophy, compensation objectives and compensation elements continued to be appropriate and did not make any changes to the Company's executive compensation program in response to such stockholder vote.

Components of Executive Compensation

For the fiscal year ended December 31, 2014, the principal components of compensation for NEOs were:

- base salary;
- non-equity incentive compensation plan awards;
- qualified and non-qualified stock options, restrictive stock or restrictive stock units awards;

- perquisites; and
- other employee benefits.

Salary

The Company provides NEOs and other key managers with competitive base salaries to compensate them appropriately for services rendered during the fiscal year. The Committee primarily considers the following for each of the NEOs as well as other executive officers and designated key employees:

- the Company's and business unit's performance and individual contributions to that performance;
- experience in the position;
- in selected cases, other relevant factors; and
- recommendations of executive officers.

The base salary level for Ronald A. Robinson, President and Chief Executive Officer, is normally recommended by the Committee and approved by the Board of Directors in March of each year, with an effective date of May 1. The base salary levels for all of our NEOs, other executive officers and designated key employees are also determined by the Committee based on those factors described in the preceding paragraph and are approved and generally reset on the same dates as for the CEO.

For 2014, the Committee recommended to the Board for approval and the Board approved an increase in salaries for the CEO and NEOs and designated key employees effective May 1, 2014. Mr. Robinson's salary for 2014 increased from $510,000 to $555,000. The salary increases for the remaining NEOs were as follows: Mr. Davies from $328,900 to $352,000; Mr. Leonard from $279,000 to $300,000; Mr. Pummell from $260,000 to $275,000; and Mr. Malone from $256,000 to $267,000. Increases in base salaries were subject to criteria such as cost of living increase, performance of the Company, performance of the Division, asset management, cash flow and improved responsiveness to market conditions.

For 2015, the Committee recommended to the Board for approval and the Board approved an increase in salaries for the CEO and NEOs and designated key employees effective May 1, 2015. Mr. Robinson's salary for 2015 was increased from $555,000 to $610,000. The salary increases for the remaining NEOs were as follows: Mr. Davies from $352,000 to $354,640; Mr. Leonard from $300,000 to $320,000; and Mr. Malone from $267,000 to $280,000. Mr. Pummell announced his retirement on March 2, 2015, effective May 1, 2015. Increases in base salaries were subject to criteria such as cost of living increase, performance of the Company, performance of the Division, asset management, cash flow and improved responsiveness to market conditions.

Executive Incentive Plan

In March 2014, the Board of Directors approved the Company's Executive Incentive Plan (the "EIP"), subject to stockholder approval (which was obtained at the Company's annual meeting in 2014). The EIP is a cash incentive plan which allows the Company to reward the Company's NEOs and key managers based upon three factors:

- the overall performance of the Company;
- the performance of the segment of the Company or division and/or business unit in which the employee is expected to contribute; and
- the individual performance of the employee.

In March of each year, the Compensation Committee reviews with the senior management proposed changes, if any, to the EIP, and then adopts incentive targets for the current year. The Compensation Committee, in its sole discretion, is entitled to interpret the EIP. Amounts under the EIP program are not deemed fully earned until paid.

EIP incentives for our CEO and other NEOs include a 75% objective component and 25% subjective component. All estimated incentives under the EIP are accrued and expensed monthly during each fiscal year and paid within 75 days after the end of the fiscal year.

For 2014, the primary objective component of the EIP was based on the relationship between Actual Earnings and Target Earnings, each as described below, for the Company or each relevant division, subsidiary or business unit. Target Earnings for the Company and its divisions, subsidiaries and units are approved at the beginning of each Plan Year by the Board of Directors based on management's proposed financial plan for the year considering previous earning trends, anticipated market conditions and appropriate goals for earnings growth.

Generally, the primary objective incentive criteria are either the projected diluted earnings per share (EPS), return on assets (ROA) or the projected earnings before interest and taxes (EBIT) for the Company as a whole or the relevant divisions, subsidiaries or units, which include an appropriate accrual for the estimated payments under the EIP.

Actual Earnings are actual EBIT calculated in a manner consistent with the Target Earnings and include adequate accruals to cover all estimated payments under the EIP. EPS, ROA and EBIT for any given year are subject to possible revisions by the Committee if the Committee deems it appropriate to adjust for the effects of items such as extraordinary additions to or reversals of reserves, gains on bargain purchase, goodwill impairment, acquisitions and divestitures, restructuring costs, gains or losses from the sale of assets, and operating income and expenses of discontinued operations. Some EIP participants may have additional objective criteria other than just EPS, ROA or EBIT. For example, some may have specific targets on inventory control, asset management, return on investment, or other criteria specific to that individual's area of responsibility. In these cases, the objective targets are 75% of the total incentive target with a 25% subjective component.

Actual payments under the objective components of the 2014 EIP could range from 0% to 200% of established target payments on the basis of performance. In 2014, 2013 and 2012, all NEOs, with the exception of Mr. Davies in 2013 and 2012, received a percentage of compensation for their objective component.

Actual payments under the subjective components of the 2014 EIP could range from 0% to 150% of established target payments on the basis of performance goals. In 2014, 2013 and 2012, all NEOs received a percentage of compensation for their subjective component.

Based on the actual performance level as a percentage of Target Earnings, the EIP incentive payout is graduated by the incremental performance change beginning at the starting EIP payment threshold of Actual Earnings to determine the incentive earned.

For 2014, the Committee recommended, and the Board of Directors approved, the weighting and criteria for the objective and subjective components of the plan relating to Mr. Robinson. The objective component for Mr. Robinson was diluted EPS subject to adjustments for any extraordinary items (such as, in the case of EPS, goodwill impairment, acquisitions, certain one-time non-operating expenses) as determined by the Committee. This metric helped align management with the interest of our shareholders. The Committee set the EIP Target EPS at $2.81 for Mr. Robinson. For 2014, payouts under the EIP for Mr. Robinson were based on the following:

Objective Component	Criteria
75%	0% of Target payment if less or equal to identified Target EPS ($2.81) is met; 100% of Target payment if identified Target EPS ($3.15) is met; and 200% of Target payment if identified maximum Target EPS ($3.40) is met or exceeded, in each case with incremental increases to determine the incentive earned

Subjective Component	Criteria
5%	Identify and develop a system for evaluating and mitigating high priority risks
5%	Hire a potential business manager and identify others within the Company’s European Division to be possible candidates for the Executive Vice President position in charge of this division
15%	The successful closing, integration and obtainment of accretive earnings associated with the Specialized acquisition

For 2014, the Committee also recommended and the Board of Directors approved the weighting and criteria for the objective and subjective components for Corporate Participants (NEOs other than the CEO and most key managers with the exception of Mr. Davies, Mr. Pummell, Mr. Leonard and operations managers). The objective component was EPS. For 2014, EPS measured consolidated net income from continuing operations excluded for these managers (including Mr. Malone), the impact of goodwill impairment, acquisitions and certain other one-time non-operating expenses divided by the weighted average number of fully diluted Company shares outstanding. This metric helped align management with the interest of our shareholders. For 2014, payouts under the EIP for Corporate Participants were based on the following:

Objective Component	Criteria

75%	0% of Target payment if less or equal to identified Target EPS ($2.81) is met; 100% of Target payment if identified Target EPS ($3.15) is met; and 200% of Target payment if identified maximum Target EPS ($3.40) is met or exceeded, in each case with incremental increases to determine the incentive earned
Subjective Component	Criteria
25%	Based on individual subjective criteria

In the case of Mr. Davies, Mr. Pummell, Mr. Leonard and other key operations managers, the criteria and weighting for the objective and subjective components of the plan are as follows:

Objective Component	Criteria
50%	Actual EBIT for the relevant business unit vs. Target EBIT for the relevant business unit
25%	Actual ROA for the relevant business unit vs. Target ROA or Actual inventory turns for the relevant business unit vs. Target inventory turns
Subjective Component	Criteria
25%	Based on individual subjective criteria

Since the specific quantitative targets for the business units are confidential, we do not publicly disclose these targets for several reasons, including our belief that disclosure would cause us competitive harm. We believe disclosing the quantitative targets would provide competitors and other third parties with insights into the Company's internal confidential strategic and planning processes and other confidential matters, which might allow our competitors to predict certain business strategies. The intent is to set the targets at challenging but achievable levels, which normally require performance improvements year over year.

The chart below reflects each NEO's Target incentive as a percentage of base salary at 100% of Target performance.

NEO	% of Base Salary Incentive at Target Performance
Ronald A. Robinson	75%
Geoffrey Davies	40%
Richard D. Pummell	40%
Jeffery A. Leonard	35%
Dan E. Malone	35%

In 2014 on a consolidated level, the Company achieved 132% of the incentive Target EPS. This resulted in an objective incentive payout of 132% of Target. Mr. Davies achieved 104% of the Target EBIT criteria, for a 104% Target payout. He also received a 100% payout for return on assets. Mr. Leonard achieved 200% of Target EBIT criteria, for a 200%
Target payout and a 200% payout for return on assets. Mr. Pummell achieved less than the starting threshold of the Target EBIT criteria, for a 0% Target payout. He also received a 0% payout for return on assets.

In March 2015, the Committee approved total non-equity incentive and special performance bonus payments of $4,574,610 for the 2014 performances to participating employees. Total incentive payments for all EIP participants expensed in 2013 and paid in March 2014 were $3,576,058.

Included in these totals were payments to Ronald A. Robinson, President and Chief Executive Officer, of $818,181 ($412,088 related to the objective component of the EIP, $156,094 related to the individual subjective component of the EIP and $250,000 as an extra performance bonus for Mr. Robinson's efforts related to the acquisition of Specialized business units and for the public offering of the Capital Southwest shares) and $641,070 ($535,500 related to the objective component of the EIP, $105,570 related to the individual subjective component of the EIP) applicable

to 2014 and 2013, respectively. The primary factors affecting Mr. Robinson's compensation include, among other things, his overall leadership of the Company, the growth of the Company, the management of the Company during difficult economic conditions, succession planning, risk assessment, corporate strategy, return on assets, and his efforts contributing to the continued long-term success of the Company.

Mr. Davies' non-equity incentive compensation was $136,741 ($99,231 related to the objective component of the EIP and $37,510 related to the individual subjective component of the EIP) and $33,952 ($0 related to the objective component of the EIP and $33,952 related to the individual subjective component of the EIP) for 2014 and 2013, respectively. The primary factors affecting Mr. Davies' compensation include, among other things, leadership of the European Division during difficult economic

conditions, productivity, efficiency, increased market coverage throughout Europe, consistent profitability in all European operations, succession planning, and his efforts contributing to the continued long-term success of the Company.

Mr. Leonard's non-equity incentive compensation was $260,000 ($180,000 related to the objective component of the EIP, $45,000 related to the individual subjective component of the EIP and $35,000 as an extra performance bonus for Mr. Leonard's efforts related to the acquisition of Specialized business units) and $130,851 ($99,115 related to the objective component of the EIP, $31,736 related to the individual subjective component of the EIP) for 2014 and 2013, respectively. The primary factors affecting Mr. Leonard's compensation include, among other things, leadership of the Industrial Division, productivity, efficiency, consistent profitability in all industrial units, adherence to annual budgets, complete integration of Tenco operations, and his efforts contributing to the continued long-term success of the Company.

Mr. Pummell's non-equity incentive compensation was $34,375 ($0 related to the objective component of the EIP, $34,375 related to the individual subjective component of the EIP) and $126,360 ($93,860 related to the objective component of the EIP, $32,500 related to the individual subjective component of the EIP related to the subjective component of the EIP) for 2014 and 2013, respectively. The primary factors affecting Mr. Pummell's compensation include, among other things, leadership of the Agricultural Division, productivity, efficiency, consistent profitability in all agricultural units, adherence to annual budgets, succession planning, development of new international markets, and his efforts contributing to the continued long-term success of the Company.

Mr. Malone's non-equity incentive compensation was $171,719 ($92,516 related to the objective component of the EIP, $29,203 related to the individual subjective component of the EIP and $50,000 as an extra performance bonus for Mr. Malone's efforts related to the acquisition of Specialized business units and for the public offering of the Capital Southwest shares) and $156,800 ($134,400 related to the objective component of the EIP, $22,400 related to the individual subjective component of the EIP related to the subjective component of the EIP) for 2014 and 2013, respectively. The primary factors affecting Mr. Malone's compensation include, among other things, his involvement in cost control initiatives, developing corporate benchmarking standards, expanding international procurement capabilities, expense management, his contribution to the Company's achievement of its objective goals and to the enhancement of shareholder return, and his efforts contributing to the continued long-term success of the Company.

Awards made to the NEOs under the EIP for performance in 2014 are reflected in the "Non-Equity Incentive Compensation Plan" column of the Summary Compensation Table on page 20.

Equity Award Programs

The Company's equity award programs relate stockholder value and long-term compensation. These programs provide an opportunity for increased equity ownership by our executives while maintaining competitive levels of total compensation.

From time to time the Committee has recommended, and the Board of Directors has granted, equity awards which have consisted of qualified and non-qualified stock options and restricted stock units to NEOs, key employees and directors. Equity award levels vary among participants based on their performance and positions within the Company.

Equity awards are granted to a limited number of key employees who the Committee believes have a level of responsibility that can affect the overall performance of the Company or a major segment thereof. They may also be issued to non-employees who are members of the Board of Directors. The amount of the grants and frequency are totally at the discretion of the Board of Directors, based on recommendations from the Compensation Committee.

These awards are used to provide a longer-term incentive than annual cash bonuses and are viewed as encouraging key employee retention. Since the ultimate value of the award is tied to the Company's stock price, it further aligns the individual's performance with that of the Company's shareholders.

Stock options are granted at the NYSE's closing price of the Company's Common Stock on the effective date of grant and thus will have no ultimate value unless the value of the Company's Common Stock appreciates. The Company has never granted options with an exercise price that is less than the closing price of the Company's Common Stock on the grant date, nor has it granted options which are priced on a date other than the effective date of the grant. We do not grant options during blackout periods when insider transactions are prohibited. The Committee believes these options provide a significant incentive for the option holders to enhance the value of the Company's Common Stock by continually improving the Company's performance.

All qualified and non-qualified options granted by the Committee become vested and exercisable for 20% of the total optioned shares after one year following the grant and for an additional 20% of the total optioned shares after each succeeding

year until the option is fully exercisable. The options have a term of 10 years. For options granted prior to February 2006, upon termination or retirement of the employee or Director option holder, the option holder has 30 days to exercise vested shares except in the case of death (which is subject to a one-year limitation). For options granted after February 2006, if the option holder is at least 62 years of age and has at least 5 years of service with the Company, then all outstanding options become fully vested upon termination of employment (not for cause), retirement or death.

In 2005, stockholders approved the 2005 Incentive Stock Option Plan that allows for the issuance of incentive stock options.
In 2009, stockholders approved the 2009 Equity Incentive Plan that allows for the issuance of non-qualified stock options, restricted stock or restricted stock units or any combination thereof. Non-qualified stock options issued under the Plan become vested and exercisable for 20% of the total optioned shares after one year following the date of grant and for an additional 20% of the total optioned shares after each succeeding year until the option is fully exercisable. Restricted stock and restricted stock units generally vest over four years at 25% per year. The awards are valued at the closing price of the Company's common stock on the NYSE on the date of the grant.

In 2014, the Company awarded Mr. Robinson non-qualified stock options to purchase 25,000 shares because of his individual performance and leadership. The options (a) will vest in equal annual installments over the five-year period commencing on the first anniversary of the date of grant (which was May 12, 2014) provided that he is employed by the Company on each such date (subject to certain exceptions), (b) have an exercise price equal to the closing price of the Company's common stock on the New York Stock Exchange on the date of grant, and (c) have a term of ten (10) years from such date. The options are subject to vesting upon a Change in Control, as defined in the relevant plan under which they were issued. The options were issued under the Company's 2009 Equity Incentive Plan.
In 2014, the Company awarded Mr. Leonard incentive stock options to purchase 4,000 shares because of his individual performance and leadership. The options (a) will vest in equal annual installments over the five-year period commencing on the first anniversary of the date of grant (which was May 12, 2014) provided that he is employed by the Company on each such date (subject to certain exceptions), (b) have an exercise price equal to the closing price of the Company's common stock on the New York Stock Exchange on the date of grant, and (c) have a term of ten (10) years from such date. The options are subject to vesting upon a Change in Control, as defined in the relevant plan under which they were issued. The options were issued under the Company's 2005 Incentive Stock Option Plan.
In 2014, the Company awarded Mr. Malone incentive stock options to purchase 2,500 shares because of his individual performance and leadership. The options (a) will vest in equal annual installments over the five-year period commencing on the first anniversary of the date of grant (which was May 12, 2014) provided that he is employed by the Company on each such date (subject to certain exceptions), (b) have an exercise price equal to the closing price of the Company's common stock on the New York Stock Exchange on the date of grant, and (c) have a term of ten (10) years from such date. The options are subject to vesting upon a Change in Control, as defined in the relevant plan under which they were issued. The options were issued under the Company's 2005 Incentive Stock Option Plan.
In 2014, the Company awarded Mr. Davies incentive stock options to purchase 3,000 shares because of his individual performance and leadership. The options (a) will vest in equal annual installments over the five-year period commencing on the first anniversary of the date of grant (which was May 12, 2014) provided that he is employed by the Company on each such date (subject to certain exceptions), (b) have an exercise price equal to the closing price of the Company's common stock on the New York Stock Exchange on the date of grant, and (c) have a term of ten (10) years from such date. The options are subject to vesting upon a Change in Control, as defined in the relevant plan under which they were issued. The options were issued under the Company's 2005 Incentive Stock Option Plan.
In 2014, the Company awarded Mr. Pummell incentive stock options to purchase 1,000 shares because of his expansion of an international project. These options (a) will vest in equal annual installments over the five-year period commencing on the first anniversary of the date of grant (which was May 12, 2014) provided that he is employed by the Company on each such date (subject to certain exceptions), (b) have an exercise price equal to the closing price of

the Company's common stock on the New York Stock Exchange on the date of grant, and (c) have a term of ten (10) years from such date. The options are subject to vesting upon a Change in Control, as defined in the relevant plan under which they were issued. The options were issued under the Company's 2005 Incentive Stock Option Plan.

Supplemental Retirement Plan

The Board of Directors of the Company adopted the Alamo Group Inc. Supplemental Executive Retirement Plan (the "SERP"), effective as of January 3, 2011. The SERP benefits certain key management or other highly compensated employees of the Company and/or certain subsidiaries who are selected by the Compensation Committee and approved by the Board to participate, including Ronald A. Robinson, President and Chief Executive Officer, Dan E. Malone, Executive Vice President and Chief Financial Officer, Robert H. George, Vice President, Secretary and Treasurer, Richard D. Pummell, Vice President of the Agricultural Division, and Richard J. Wehrle, Vice President and Controller. Mr. Leonard was approved on March 7, 2013, by the Board of Directors to be a participant in the SERP according to its terms and conditions. Mr. Davies, who is part of a retirement plan in the United Kingdom, is not included in the SERP.

The SERP is intended to provide a benefit from the Company upon retirement, death or disability, or a change in control of the Company. Accordingly, the SERP obligates the Company to pay to a participant a Retirement Benefit (as defined in the SERP) upon the occurrence of certain payment events to the extent a participant has a vested right thereto. A participant's right to his Retirement Benefit becomes vested in the Company's contributions upon 10 years of Credited Service (as defined in the SERP) following the effective date of the SERP or a change in control of the Company. The Retirement Benefit is based on 20% of the final three year average salary of each participant on or after his or her Normal Retirement Age (65 years of age). In the event of the participant's death or a change in control, the participant's vested Retirement Benefit will be paid in a lump sum to the participant or his estate, as applicable, within 90 days after the participant's death or a change in control, as applicable. In the event the participant is entitled to a benefit from the SERP due to disability, retirement or other termination of employment, the benefit will be paid in monthly installments over a period of fifteen years.

Perquisites

The Company's NEOs and key managers receive various perquisites provided by or paid for by the Company. These perquisites can include memberships in social and professional clubs, car allowances, a 401(k) restoration plan, and gross-up payments equal to the taxes payable on certain perquisites:

- Club memberships - reimbursement for dues and business expenses, usually negotiated at start of employment.
- Car allowances/company vehicles - an allowance paid monthly for usage of a personal vehicle or a company vehicle is provided where required, also usually negotiated at start of employment.
- 401(k) restoration plan - provides a supplemental compensation benefit to a select group of executive officers and highly compensated employees who cannot participate at the same level as other employees of the Company.
- Gross-up payments - provided in certain limited situations, such as commuting and relocation expenses, that are taxable events.
- Retirement Plans in other countries.
- Reimbursement of certain commercial airfare, hotel and vehicle expenses in connection with Mr. Robinson's commuting that was approved by the Committee.

We provide these perquisites because, in many cases, such as membership in social and professional clubs, the perquisites are often used by the executives for business-related activities and entertainment, and these perquisites are provided by many companies to their NEOs and are therefore necessary to enable the Company to retain and recruit capable managers. With respect to the last item listed above, the Board agreed to reimburse certain expenses in connection with Mr. Robinson's commuting from his home in Colorado Springs, Colorado, to the Company's corporate office in Seguin, Texas, including commercial airfare, hotel and car rental.

The Committee reviews the perquisites provided to the NEOs on an annual basis, in an attempt to ensure that they continue to be appropriate in light of the Committee's overall goal of designing a compensation program for NEOs.

Other Employee Benefits

NEOs participate in all other benefits generally offered to employees.

Tax Implications

As part of its role, the Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code (the "Code"), which provides that the Company may not deduct compensation of more than

$1,000,000 that is paid to certain individuals. The Company believes that compensation paid under the management incentive plans is generally fully deductible for federal income tax purposes.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors oversees the Company's compensation program on behalf of the Board. In fulfilling its oversight responsibilities, the Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth in this Proxy Statement.

In reliance on the review and discussions referred to above, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company's Proxy Statement to be filed in connection with the Company's 2015 Annual Meeting of Stockholders, which will be filed with the SEC.

COMPENSATION COMMITTEE

Gary L. Martin, Chair
Helen W. Cornell, Member
Jerry E. Goldress, Member
David W. Grzelak, Member

EXECUTIVE COMPENSATION
SUMMARY COMPENSATION TABLE

The following table describes the annual compensation for our NEOs for the fiscal years 2014, 2013 and 2012.

Name and Principal Position	Year	Salary ($)[1]	Bonus Payments ($)	Stock Awards ($)	Option Awards ($)[2]	Non-Equity Incentive Plan Compensation ($)[3]	Change of Pension Value ($)[4]	All Other Compensation ($)[5][6]	Total ($)
	2014	540,611	250,000	—	693,000	568,181	184,920	102,743	2,339,455
Ronald A. Robinson	2013	504,265	—	—	514,000	641,070	—	110,302	1,769,637
President & CEO	2012	482,306	—	—	—	294,919	140,204	106,064	1,023,493
Geoffrey Davies	2014	358,188	—	—	160,530	136,741	—	40,996	696,455
VP & Managing	2013	327,753	—	—	—	33,952	—	46,928	408,633
Director, Alamo Group Europe Ltd. [7]	2012	311,034	—	—	73,800	39,525	—	35,614	459,973
	2014	291,010	35,000	—	214,040	225,000	61,279	20,834	847,163
Jeffery A. Leonard	2013	275,606	—	—	—	130,851	76,107	17,144	499,708
VP Industrial Division	2012	265,565	—	—	147,600	70,116	—	18,377	501,658
	2014	272,094	—	—	53,510	34,373	138,459	18,388	516,826
Richard D. Pummell	2013	258,825	—	—	—	126,360	43,419	13,852	442,456
VP Agricultural Division[8]	2012	247,924	—	—	73,800	113,250	120,770	17,748	573,492
Dan E. Malone	2014	263,606	50,000	—	69,300	121,719	100,921	14,722	684,743
Executive VP &	2013	253,299	—	—	102,800	156,800	4,476	9,029	526,404
CFO, Principal Financial Officer	2012	242,601	—	—	—	62,892	70,317	11,658	387,468

(1) With the exception of Mr. Davies, the Company pays NEOs on a bi-weekly basis. In 2012, 2013 and 2014, the salaries represent normal 26 pay periods. Mr. Davies is paid on a monthly basis.

(2) The amount shown in this column constitutes options granted under the Company's stock option programs. The amounts are valued based on the aggregate grant date fair value of the award in accordance with FASB ASC 718. See Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for a discussion of the relevant assumptions used in calculating grant date fair value pursuant to FASB ASC 718. The grant date fair value for options is based on the Black-Scholes option pricing model in which the option fair value as of the grant date (May 12, 2014) was determined to be $27.72.

(3) EIP incentives approved and paid in 2013, 2014 and 2015.

(4) The amount reflects the increase in present value of accumulated benefits under the Supplemental Executive Retirement Plan (SERP).

(5) With the exception of Mr. Davies, amounts represent the Company's contribution under the Alamo Group (USA) Inc. tax-qualified 401(k) plan (the "401(k) Plan"). In the case of Mr. Robinson, each year the amounts include perquisites in excess of $10,000 which include reimbursement of commuting expenses ($62,155 in 2014, $59,483 in 2013 and $61,552 in 2012), a car allowance, club dues and restoration payments pursuant to the Alamo Group

Inc. 401(k) Restoration Plan. Such restoration payments are equivalent to matching contributions that would have been or would be made under the Company's 401(k) plan but were forgone due to certain limitations on contributions to 401(k) plans in the Internal Revenue Code of 1986.

(6) Mr. Davies' amount reflects Alamo Group Europe Ltd.'s contribution to Mr. Davies' retirement plan in the United Kingdom.

(7) Mr. Davies' compensation was paid in British pounds and is reflected in US dollars based on the average daily exchange rate for the year, which was 1.6476 in 2014, 1.5647 in 2013, and 1.5854 in 2012.

(8) Mr. Pummell announced his retirement on March 2, 2015, effective May 1, 2015.

Employment Agreements

All NEOs of the Company serve at the discretion of the Board of Directors. The NEOs are appointed to their positions by the Board until the next annual meeting of directors or until their successors have been duly qualified and appointed. There are currently no employment agreements with any NEOs of the Company.

2014 GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#) [2]	Exercise or Base Price of Option Awards ($/Sh)	Grant-I Fair Va of Stoc and Option Awards ($) [3]
		Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)				
Ronald A. Robinson		—	416,250	780,469	—	—	—	—	—	—	—
	5/12/2014	—			—	—	—	—	25,000	53.51	693,000
Geoffrey Davies		—	140,800	255,750	—	—	—	—	—	—	—
	5/12/2014	—			—	—	—	—	3,000	53.51	83,160
Jeffery A. Leonard		—	120,000	225,000	—	—	—	—	—	—	—
	5/12/2014	—			—	—	—	—	4,000	53.51	110,880
Richard D. Pummell		—	110,000	206,250	—	—	—	—	—	—	—
	5/12/2014	—			—	—	—	—	1,000	53.51	27,720
Dan E. Malone		—	93,450	175,219	—	—	—		Yes		The dividen reinves in the underly stock o underly ETF
		Stock Dividend		Yes		Where shareholders receive “B” new shares for every “A” share held, the number of shares is adjusted by multiplying the original					

		number of shares by the quotient of (a) the sum of A and B divided by (b) A.
Stock Split	Yes	Where shareholders receive “B” new shares for every “A” share held, the number of shares is adjusted by multiplying the original number of shares by the quotient of B divided by A.
Stock Cash Acquisition	Yes	Where company X is acquired, proceeds equal to the original number of shares of company X multiplied by the latest available price determined by the calculation agent are reinvested proportionally across the index. If an ad-hoc situation applies, then a notional position in company X, where the valuation of the notional position is exactly equal

		to the proceeds, will be maintained in the base index during the two index business day notice period prior to the effective date.
Stock Merger	Yes	If company Y, the acquirer, is currently in the index, and irrespective of whether or not an ad-hoc situation applies to the adjustment event, then where shareholders receive “B” new shares of company Y for every “A” share of company X held, the shares of company X are replaced by shares of company Y where the number of shares of company Y is obtained by multiplying the original number of shares of company X by the quotient of B divided by A. If the acquirer is not a current index constituent,

then the shares of the acquired company will be removed from the index and the proceeds will be reinvested proportionally across the index. If an ad-hoc situation applies and the acquirer company Z is not a current index constituent, and where shareholders receive “C” shares of company Z for every “A” share of company X held, then for the two index business day notice period, the shares of company X will be replaced by shares of company Z obtained by multiplying the original number of shares of company X by the quotient of C divided by A. The shares of company Z will be removed from the index on the effective date and

		proceeds will be reinvested proportionally across the index.
Stock Spinoff	Yes	Where shareholders receive “B” new shares of spun-off company Y for every “A” share of parent company X held, a position in company Y is initiated where the number of shares of company Y is obtained by multiplying the original number of shares of company X by the quotient of B divided by A. If the effective date of the spinoff is a base index rebalancing day, the effective proceeds of the spinoff obtained by multiplying the original number of shares of company X by the quotient of B divided by A and that further multiplied by the latest

		available price of company Y determined by the index calculation agent are reinvested in company X. The proceeds received from the sale of the delisted securities are reinvested proportionally across the index. If an ad-hoc situation applies, then a notional cash position equal to the proceeds will be maintained in the base index during the two index business day notice period prior to the effective date.
Stock Delisting	Yes	

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For potential adjustment events not listed in the table above, the index calculation agent may make adjustments if it determines that the event could have a diluting or concentrative effect on the theoretical value of the underlying stock shares or the underlying ETF shares, if applicable, and would not otherwise be accounted for in the index. Any such adjustments are publicly announced in advance wherever practicable.

The Index Committee and Index Calculation Agent

An index committee is responsible for overseeing the index, the methodology and the implementation thereof, while the index calculation agent is responsible for the calculation of the index, including responding to index market disruption events (as defined under "Index Market Disruption Events" above) and potential adjustment events. The index committee will initially be comprised of three full-time employees of Motif Capital Management, Inc. or one or more of its affiliates.

The index committee may exercise limited discretion with respect to the index, as contemplated by the methodology, including in determining the underlying stocks included in the base index and theme revenue. Any such changes or actions are publicly announced as promptly as is reasonably practicable and normally at least five index business days prior to their effective date. The index calculation agent may from time to time consult the index committee on matters of interpretation with respect to the methodology.

Data Error

If the index calculation agent determines that the price made available by the relevant exchange reflects a manifest error for an underlying stock or the underlying ETF, if applicable, with a non-zero weighting in the index (or the published level of the notional interest rate) reflects a manifest error, the calculation of the index shall be delayed until such time as a corrected price or level is made available. In the event a corrected price or level is not made available on a timely basis or in the event that the price made available for an underlying stock or the underlying ETF, if applicable (or the published level of a notional interest rate), is subsequently corrected and such correction is published, then the index calculation agent may, if practicable and if the index calculation agent determines, acting in good faith, that such error is material, adjust or correct the relevant calculation or determination, including the price of the underlying stock or the underlying ETF, if applicable, as of any index business day to take into account such adjustment or correction.

On any index business day during which the price of for an underlying stock or the underlying ETF, if applicable, reflects such an error (and such error has not been corrected), the underlying stock target weights, underlying ETF target weight, if applicable, and the base index weight will be calculated using the price made available by the relevant exchange (notwithstanding any manifest error). If the calculation agent determines that any such error is material (as described above) and if the relevant exchange subsequently corrects such price it has made available, the index value may be calculated using such corrected price, but the quantities of the underlying stocks and the underlying ETF, if applicable, implied by the underlying stock target weights and the underlying ETF weight, if applicable, and the base index weight (each prior to the error being corrected) will not be adjusted.

Non-Data Error

If there is a missed potential adjustment event (as described under "Potential Adjustment Events" above) (a "missed potential adjustment event") or a deviation from the index methodology as described in this document (a "missed index methodology event"), and a correction can be made within 2 days or fewer after such missed potential adjustment event or missed index methodology event, the index calculation agent will recalculate the index value for the index business day on which such event occurred and each following index business day on which the index value was affected by such missed potential adjustment event or missed index methodology event, using the corrected potential adjustment event adjustment or index methodology. If such a correction occurs more than 2 days after such missed corporate event or missed index methodology event, the index will not be recalculated.

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The following summary flow chart is provided for purposes of illustration only and should be read together with, and not as a substitute for, the preceding disclosure regarding the index.

SUMMARY FLOW CHART I: REBALANCING

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The following summary flow chart is provided for purposes of illustration only and should be read together with, and not as a substitute for, the preceding disclosure regarding the index.

SUMMARY FLOW CHART II: TOTAL THEME REVENUE

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Closing Levels of the Index

The closing level of the index has fluctuated in the past and may, in the future, experience significant fluctuations. Any upward or downward trend in the historical or hypothetical closing level of the index during the period shown below is not an indication that the index is more or less likely to increase or decrease at any time during the life of your notes.

We cannot give you any assurance that the future performance of the index or the underlying stocks will result in your receiving an amount greater than the outstanding face amount of your notes on the stated maturity date.

Neither we nor any of our affiliates make any representation to you as to the performance of the index. Before investing in the offered notes, you should consult publicly available information to determine the level of the index between the date of this prospectus supplement and the date of your purchase of the offered notes. The actual performance of the index over the life of the offered notes, as well as the cash settlement amount, may bear little relation to the historical index performance information or hypothetical performance data shown below.

The graph below shows the daily closing levels of the index from September 28, 2008 through September 28, 2018 (using hypothetical performance data and historical closing levels). Since the index was launched on June 1, 2016 and has a limited operating history, the graph includes hypothetical performance data for the index prior to its launch on June 1, 2016. The hypothetical performance data prior to June 1, 2016 was obtained from the index sponsor's website, without independent verification. The index sponsor advises that such hypothetical performance data was derived using the index rules as of June 1, 2016, but applied retroactively using historical underlying stock and notional interest rate levels. The historical closing levels from June 1, 2016 through September 28, 2018 were obtained from Bloomberg Financial Services, without independent verification. (In the graph, historical closing levels can be found to the right of the vertical solid line marker.) You should not take the hypothetical performance data or historical closing levels of the index as an indication of the future performance of the index.

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Average Allocation Between the Base Index and the Money Market Position for Each Month

Historically, a very significant portion (up to approximately 92%) of the index consistently has been allocated to the money market position. The graph below shows the average allocation between the base index (consisting of the underlying stocks) and the money market position for each month from August 2008 through August 2018. This graph uses hypothetical performance data for the index prior to its launch on June 1, 2016 using the index rules as of June 1, 2016, but applied retroactively using historical underlying stock and notional interest rate levels. (In the graph below, this hypothetical information can be found to the left of the vertical solid line marker.) You should not take the historical information or hypothetical data as an indication of the future performance of the index.

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Performance of the Notional Interest Rate (3-Month USD LIBOR) Reflected in the Money Market Position

The money market position reflects the returns accruing on a hypothetical cash investment in a notional money market account denominated in U.S. dollars that accrues interest at the notional interest rate, which is equal to 3-month USD LIBOR.

The graph below illustrates the historical levels of the 3-month USD LIBOR rate from September 28, 2008 through September 28, 2018. The level of the 3-month USD LIBOR rate has fluctuated in the past and may, in the future, experience significant fluctuations. Any historical upward or downward trend in the level of the 3-month USD LIBOR rate during the period shown below is not an indication that the level of the 3-month USD LIBOR rate is more or less likely to increase or decrease at any time during the life of the Notes. See “U.K. Regulators Will No Longer Persuade or Compel Banks to Submit Rates for Calculation of LIBOR After 2021; Interest Rate Benchmark May Be Discontinued” and “Additional Risk Factors Specific to Your Notes — Regulation and Reform of “Benchmarks”, Including LIBOR and Other Types of Benchmarks, May Cause such “Benchmarks” to Perform Differently Than in the Past, or to Disappear Entirely, or Have Other Consequences Which Cannot be Predicted” for more information about 3-month USD LIBOR.

You should not take the historical level of the 3-month USD LIBOR rate as an indication of future levels of the 3-month USD LIBOR rate.

Neither we nor any of our affiliates make any representation to you as to the performance of the 3-month USD LIBOR rate. The actual levels of the 3-month USD LIBOR rate during the term of the notes may bear little relation to the historical levels of the 3-month USD LIBOR rate shown below.

We obtained the 3-month USD LIBOR rates shown in the graph below from Reuters, without independent verification.

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Underlying Stocks With Weights Equal to or in Excess of 5% of the Index as of September 28, 2018

Lockheed Martin Corporation, The Boeing Company, General Dynamics Corporation, Raytheon Company and Northrop Grumman Corporation are registered under the Securities Exchange Act of 1934 (the "Exchange Act"). Companies with stocks registered under the Exchange Act are required to file financial and other information specified by the U.S. Securities and Exchange Commission ("SEC") periodically. Information filed with the SEC can be inspected and copied at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. In addition, information filed by these underlying stock issuers with the SEC electronically can be reviewed through a web site maintained by the SEC. The address of the SEC's web site is sec.gov. Information filed with the SEC by each of the above-referenced underlying stock issuers under the Exchange Act can be located by referencing its SEC file number specified below.

The graphs below show the daily historical closing prices of Lockheed Martin Corporation, The Boeing Company, General Dynamics Corporation, Raytheon Company and Northrop Grumman Corporation from September 28, 2008 through September 28, 2018, adjusted for corporate events, if applicable. We obtained the prices in the graphs below using data from Bloomberg Financial Services, without independent verification. We have taken the descriptions of the underlying stock issuers set forth below from publicly available information without independent verification.

According to publicly available information, Lockheed Martin Corporation is a security and aerospace company. Information filed with the SEC by Lockheed Martin Corporation under the Exchange Act can be located by referencing SEC file number 001-11437.

According to publicly available information, The Boeing Company is an aerospace firm. Information filed with the SEC by The Boeing Company under the Exchange Act can be located by referencing SEC file number 001-00442.

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According to publicly available information, General Dynamics Corporation is an aerospace and defense company. Information filed with the SEC by General Dynamics Corporation under the Exchange Act can be located by referencing SEC file number 001-03671.

According to publicly available information, Raytheon Company develops products and services for defense and government markets. Information filed with the SEC by Raytheon Company under the Exchange Act can be located by referencing SEC file number 001-13699.

According to publicly available information, Northrop Grumman Corporation is a security company. Information filed with the SEC by Northrop Grumman Corporation under the Exchange Act can be located by referencing SEC file number 001-16411.

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Comparative Performance of the Index and the S&P Aerospace & Defense Select Industry Index

For comparative purposes, the graph below shows the performance, from September 28, 2008 through September 28, 2018, of the index (in blue, and using historical information and hypothetical performance data, as explained below) and the S&P Aerospace & Defense Select Industry Index (in red). The S&P Aerospace & Defense Select Industry Index is a modified equal-weighted index that is designed to measure the performance of stocks in the S&P Total Market Index that are classified in the GICS® aerospace & defense sub-industry. The S&P Total Market Index tracks all U.S. common stocks listed on the NYSE, NYSE Arca, NYSE American (formerly NYSE MKT), NASDAQ Global Select Market, NASDAQ Select Market, NASDAQ Capital Market, Bats BZX, Bats BYX, Bats EDGA, Bats EDGX or IEX. Because the S&P Aerospace & Defense Select Industry Index only includes stocks in the aerospace & defense sub-industry, there are fewer sub-industries represented by the S&P Aerospace & Defense Select Industry Index than the six sub-industries represented by the index.

For comparative purposes, each of the index and the S&P Aerospace & Defense Select Industry Index have been adjusted to have a closing level of 100.00 on September 28, 2008 by dividing the applicable closing level on each day by that index's closing level on September 28, 2008 and multiplying the quotient by 100.00. The historical closing levels of the index from June 1, 2016 to September 28, 2018 used to create this graph reflect the actual performance of the index and were obtained from Bloomberg Financial Services, without independent verification. (In this graph, the historical closing levels of the index can be found to the right of the vertical solid line marker.) The index sponsor of the index advises that the hypothetical performance data from September 28, 2008 through May 31, 2016 used to create this graph was derived using the index rules as of June 1, 2016, but applied retroactively using historical underlying stock and notional interest rate levels. The daily historical closing levels of the S&P Aerospace & Defense Select Industry Index from September 28, 2008 through September 28, 2018 used to create this graph were obtained from Bloomberg Financial Services, without independent verification. You should not take this graph, or the hypothetical performance data or historical closing levels of the index, or the historical closing levels of the S&P Aerospace & Defense Select Industry Index, used to create this graph, as an indication of the future performance of the index or the correlation (if any) between the level of the index and the level of the S&P Aerospace & Defense Select Industry Index.

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Additional Selected Performance Information for the Index

The following table provides additional selected hypothetical data and historical performance information for the index as of September 28, 2018. The data prior to June 1, 2016 reflected in this table is hypothetical and was derived using the index rules as of June 1, 2016, but applied retroactively using historical underlying stock and notional interest rate levels. We obtained all of the hypothetical data and historical performance information in this table from the index sponsor, without independent verification. You should not take the historical information or hypothetical data as an indication of the future performance of the index.

Effective Performance (1M)	2,1%
Effective Performance (6M)	3.8%
Effective Performance (1Y)	12.7%
Effective Performance (3Y)	52.7%
Effective Performance (5Y)	59.2%
Effective Performance (10Y)	106.7%
Annualized Performance (since June 2011)*	8.7%
Annualized Volatility (since June 2011)*	7.8%
Return over risk (since June 2011)**	1.11
Maximum Peak-to-Trough Drawdown (since June 2011)***	10.2%

*Calculated on an annualized basis since June 1, 2011.

**Calculated by dividing the annualized performance by the annualized volatility since June 1, 2011.

***The largest percentage decline in the index level from any previously occurring level since June 1, 2011.

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License Agreement

Motif is a registered trademark of Motif Investing, Inc. ("Motif Investing") and has been licensed for use by Motif Capital Management, Inc. ("Motif Capital") and sublicensed for certain purposes by GS Finance Corp. ("Goldman"). The "Motif Capital National Defense 7 ER Index" is a product of Motif Capital and has been licensed for use by Goldman. Goldman's notes are not sponsored, endorsed, sold or promoted by Motif Investing, Motif Capital, or their respective affiliates. Neither Motif Capital nor Motif Investing make any representation or warranty, express or implied, to the owners of the notes or any member of the public regarding the advisability of investing in securities generally or in the notes particularly or the ability of the Motif Capital National Defense 7 ER Index to track general market performance.

Motif Capital's only relationship to Goldman with respect to the Motif Capital National Defense 7 ER Index is the licensing of the Index and certain trademarks, service marks and/or trade names of Motif Capital, other than a non-controlling interest held by The Goldman Sachs Group Inc., Goldman's parent company, in Motif Investing Inc., the index sponsor's ultimate parent company. The Motif Capital National Defense 7 ER Index is determined, composed and calculated by Motif Capital without regard to Goldman or the notes. Motif Capital has no obligation to take the needs of Goldman or the owners of the notes into consideration in determining, composing or calculating the Motif Capital National Defense 7 ER Index. Motif Capital is not responsible for and has not participated in the determination of the prices, and amount of the notes or the timing of the issuance or sale of the notes or in the determination or calculation of the equation by which the notes are to be converted into cash. Motif Capital has no obligation or liability in connection with the administration, marketing or trading of the notes. There is no assurance that investment products based on the Motif Capital National Defense 7 ER Index will accurately track index performance or provide positive investment returns. Inclusion of a security within an index is not a recommendation by Motif Capital to buy, sell, or hold such security, nor is it considered to be investment advice.

MOTIF CAPITAL DOES NOT GUARANTEE THE ADEQUACY, ACCURACY, TIMELINESS AND/OR THE COMPLETENESS OF THE MOTIF CAPITAL NATIONAL DEFENSE 7 ER INDEX OR ANY DATA RELATED THERETO OR ANY COMMUNICATION, INCLUDING BUT NOT LIMITED TO, ORAL OR WRITTEN COMMUNICATION (INCLUDING ELECTRONIC COMMUNICATIONS) WITH RESPECT THERETO. MOTIF CAPITAL SHALL NOT BE SUBJECT TO ANY DAMAGES OR LIABILITY FOR ANY ERRORS, OMISSIONS, OR DELAYS THEREIN. MOTIF CAPITAL MAKES NO EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIMS ALL WARRANTIES, OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE OR AS TO RESULTS TO BE OBTAINED BY GOLDMAN, OWNERS OF THE NOTES, OR ANY OTHER PERSON OR ENTITY FROM THE USE OF THE MOTIF CAPITAL NATIONAL DEFENSE 7 ER INDEX OR WITH RESPECT TO ANY DATA RELATED THERETO. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL MOTIF CAPITAL BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY, OR OTHERWISE.

THERE ARE NO THIRD PARTY BENEFICIARIES OF ANY AGREEMENTS OR ARRANGEMENTS BETWEEN MOTIF CAPITAL AND GOLDMAN.

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SUPPLEMENTAL DISCUSSION OF FEDERAL INCOME TAX CONSEQUENCES

The following section supplements the discussion of U.S. federal income taxation in the accompanying prospectus. The following section is the opinion of Sidley Austin llp, counsel to GS Finance Corp. and The Goldman Sachs Group, Inc. It applies to you only if you hold your notes as a capital asset for tax purposes. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a bank;
- a regulated investment company;
- a life insurance company;
- a tax-exempt organization;
- a partnership;
- a person that owns the notes as a hedge or that is hedged against interest rate risks;
- a person that owns the notes as part of a straddle or conversion transaction for tax purposes; or
- a United States holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

This section is based on the U.S. Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

You should consult your tax advisor concerning the U.S. federal income tax and other tax consequences of your investment in the notes, including the application of state, local or other tax laws and the possible effects of changes in federal or other tax laws.

United States Holders

This subsection describes the tax consequences to a United States holder. You are a United States holder if you are a beneficial owner of notes and you are:

- a citizen or resident of the United States;
- a domestic corporation;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If you are not a United States holder, this section does not apply to you and you should refer to "— United States Alien Holders" below.

Your notes will be treated as debt instruments subject to special rules governing contingent payment debt instruments for U.S. federal income tax purposes. Under those rules, the amount of interest you are required to take into account for each accrual period will be determined by constructing a projected payment schedule for your notes and applying rules similar to those for accruing original issue discount on a hypothetical noncontingent debt instrument with that projected payment schedule. This method is applied by first determining the yield at which we would issue a noncontingent fixed rate debt instrument with terms and conditions similar to your notes (the "comparable yield") and then determining as of the issue date a payment schedule that would produce the comparable yield. These rules will generally have the effect of requiring you to include amounts in income in respect of your notes, even though you will not receive any payments from us until maturity.

We have determined that the comparable yield for the notes is equal to 3.4028% per annum, compounded semi-annually with a projected payment at maturity of $1,106.32 based on an investment of $1,000.

Based on this comparable yield, if you are an initial holder that holds a note until maturity and you pay your taxes on a calendar year basis, we have determined that you would be required to report the following amounts as ordinary income, not taking into account any positive or negative adjustments you may be required to take into account based on the actual payments on the notes, from the note each year:

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Accrual Period	Interest Deemed to Accrue During Accrual Period (per $1,000 note)	Total Interest Deemed to Have Accrued from Original Issue Date (per $1,000 note) as of End of Accrual Period
October 3, 2018 through December 31, 2018	$8.22	$8.22
January 1, 2019 through December 31, 2019	$34.60	$42.82
January 1, 2020 through December 31, 2020	$35.79	$78.61
January 1, 2021 through October 1, 2021	$27.71	$106.32

You are required to use the comparable yield and projected payment schedule that we compute in determining your interest accruals in respect of your notes, unless you timely disclose and justify on your U.S. federal income tax return the use of a different comparable yield and projected payment schedule.

The comparable yield and projected payment schedule are not provided to you for any purpose other than the determination of your interest accruals in respect of your notes, and we make no representation regarding the amount of contingent payments with respect to your notes.

If you purchase your notes at a price other than their adjusted issue price determined for tax purposes, you must determine the extent to which the difference between the price you paid for your notes and their adjusted issue price is attributable to a change in expectations as to the projected payment schedule, a change in interest rates, or both, and reasonably allocate the difference accordingly. The adjusted issue price of your notes will equal your notes' original issue price plus any interest deemed to be accrued on your notes (under the rules governing contingent payment debt instruments) as of the time you purchase your notes. The original issue price of your notes will be the first price at which a substantial amount of the notes is sold to persons other than bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. Therefore, you may be required to make the adjustments described above even if you purchase your notes in the initial offering if you purchase your notes at a price other than the issue price.

If the adjusted issue price of your notes is greater than the price you paid for your notes, you must make positive adjustments increasing (i) the amount of interest that you would otherwise accrue and include in income each year, and (ii) the amount of ordinary income (or decreasing the amount of ordinary loss) recognized upon maturity by the amounts allocated under the previous paragraph to each of interest and the projected payment schedule; if the adjusted issue price of your notes is less than the price you paid for your notes, you must make negative adjustments, decreasing (i) the amount of interest that you must include in income each year, and (ii) the amount of ordinary income (or increasing the amount of ordinary loss) recognized upon maturity by the amounts allocated under the previous paragraph to each of interest and the projected payment schedule. Adjustments allocated to the interest amount are not made until the date the daily portion of interest accrues.

Because any Form 1099-OID that you receive will not reflect the effects of positive or negative adjustments resulting from your purchase of notes at a price other than the adjusted issue price determined for tax purposes, you are urged to consult with your tax advisor as to whether and how adjustments should be made to the amounts reported on any Form 1099-OID.

You will recognize income or loss upon the sale, exchange or maturity of your notes in an amount equal to the difference, if any, between the cash amount you receive at such time and your adjusted basis in your notes. In general, your adjusted basis in your notes will equal the amount you paid for your notes, increased by the amount of interest you previously accrued with respect to your notes (in accordance with the comparable yield and the projected payment schedule for your notes), and increased or decreased by the amount of any positive or negative adjustment, respectively, that you are required to make if you purchase your notes at a price other than the adjusted issue price determined for tax purposes.

Any income you recognize upon the sale, exchange or maturity of your notes will be ordinary interest income. Any loss you recognize at such time will be ordinary loss to the extent of interest you included as income in the current or previous taxable years in respect of your notes, and, thereafter, capital loss. If you are a noncorporate holder, you would generally be able to use such ordinary loss to offset your income only in the taxable year in which you recognize the ordinary loss and would generally not be able to carry such ordinary loss forward or back to offset income in other taxable years.

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Pursuant to recently enacted legislation, for taxable years beginning after December 31, 2018, with respect to a debt instrument issued with original issue discount, such as the notes, an accrual method taxpayer that reports revenues on an applicable financial statement generally must recognize income for U.S. federal income tax purposes no later than the taxable year in which such income is taken into account as revenue in an applicable financial statement of the taxpayer. For this purpose, an "applicable financial statement" generally means a financial statement certified as having been prepared in accordance with generally accepted accounting principles or that is made on the basis of international financial reporting standards and which is used by the taxpayer for various specified purposes. This rule could potentially require such a taxpayer to recognize income for U.S. federal income tax purposes with respect to the notes prior to the time such income would be recognized pursuant to the rules described above. Potential investors in the notes should consult their tax advisors regarding the potential applicability of these rules to their investment in the notes.

United States Alien Holders

If you are a United States alien holder, please see the discussion under "United States Taxation — Taxation of Debt Securities — United States Alien Holders" in the accompanying prospectus for a description of the tax consequences relevant to you. You are a United States alien holder if you are the beneficial owner of the notes and are, for U.S. federal income tax purposes:

- a nonresident alien individual;
- a foreign corporation; or
- an estate or trust that in either case is not subject to U.S. federal income tax on a net income basis on income or gain from the notes.

We will not attempt to ascertain whether any underlying stock issuer would be treated as a "United States real property holding corporation" ("USRPHC"), within the meaning of Section 897 of the Internal Revenue Code. If any underlying stock issuer was so treated, certain adverse U.S. federal income tax consequences could possibly apply to a United States alien holder. You should refer to information filed with the SEC with respect to each underlying stock issuer and consult your tax advisor regarding the possible consequences to you, if any, if the issuer of a particular underlying stock is or becomes a USRPHC.

In addition, the Treasury Department has issued regulations under which amounts paid or deemed paid on certain financial instruments ("871(m) financial instruments") that are treated as attributable to U.S.-source dividends could be treated, in whole or in part depending on the circumstances, as a "dividend equivalent" payment that is subject to tax at a rate of 30% (or a lower rate under an applicable treaty), which in the case of amounts you receive upon the sale, exchange or maturity of your notes, could be collected via withholding. If these regulations were to apply to the notes, we may be required to withhold such taxes if any U.S.-source dividends are paid on any underlying stocks or the underlying ETF included in the index during the term of the notes. We could also require you to make certifications (e.g., an applicable Internal Revenue Service Form W-8) prior to the maturity of the notes in order to avoid or minimize withholding obligations, and we could withhold accordingly (subject to your potential right to claim a refund from the Internal Revenue Service) if such certifications were not received or were not satisfactory. If withholding was required, we would not be required to pay any additional amounts with respect to amounts so withheld. These regulations generally will apply to 871(m) financial instruments (or a combination of financial instruments treated as having been entered into in connection with each other) issued (or significantly modified and treated as retired and reissued) on or after January 1, 2021, but will also apply to certain 871(m) financial instruments (or a combination of financial instruments treated as having been entered into in connection with each other) that have a delta (as defined in the applicable Treasury regulations) of one and are issued (or significantly modified and treated as retired and reissued) on or after January 1, 2017. In addition, these regulations will not apply to financial instruments that reference a "qualified index" (as defined in the regulations). We have determined that, as of the issue date of your notes, your notes will not be subject to withholding under these rules. In certain limited circumstances, however, you should be aware that it is possible for United States alien holders to be liable for tax under these rules with respect to a combination of transactions treated as having been entered into in connection with each other even when no withholding is required. You should consult your tax advisor concerning these regulations, subsequent official guidance and regarding any other possible alternative characterizations of your notes for U.S. federal income tax purposes.

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Foreign Account Tax Compliance Act (FATCA) Withholding

Pursuant to Treasury regulations, Foreign Account Tax Compliance Act (FATCA) withholding (as described in "United States Taxation—Taxation of Debt Securities—Foreign Account Tax Compliance Act (FATCA) Withholding" in the accompanying prospectus) will generally apply to obligations that are issued on or after July 1, 2014; therefore, the notes will generally be subject to FATCA withholding. However, according to published guidance, the withholding tax described above will not apply to payments of gross proceeds from the sale, exchange or other disposition of the notes made before January 1, 2019.

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EMPLOYEE RETIREMENT INCOME SECURITY ACT

This section is only relevant to you if you are an insurance company or the fiduciary of a pension plan or an employee benefit plan (including a governmental plan, an IRA or a Keogh Plan) proposing to invest in the notes.

The U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA") and the U.S. Internal Revenue Code of 1986, as amended (the "Code"), prohibit certain transactions ("prohibited transactions") involving the assets of an employee benefit plan that is subject to the fiduciary responsibility provisions of ERISA or Section 4975 of the Code (including individual retirement accounts, Keogh plans and other plans described in Section 4975(e)(1) of the Code) (a "Plan") and certain persons who are "parties in interest" (within the meaning of ERISA) or "disqualified persons" (within the meaning of the Code) with respect to the Plan; governmental plans may be subject to similar prohibitions unless an exemption applies to the transaction. The assets of a Plan may include assets held in the general account of an insurance company that are deemed "plan assets" under ERISA or assets of certain investment vehicles in which the Plan invests. Each of The Goldman Sachs Group, Inc. and certain of its affiliates may be considered a "party in interest" or a "disqualified person" with respect to many Plans, and, accordingly, prohibited transactions may arise if the notes are acquired by or on behalf of a Plan unless those notes are acquired and held pursuant to an available exemption. In general, available exemptions are: transactions effected on behalf of that Plan by a "qualified professional asset manager" (prohibited transaction exemption 84-14) or an "in-house asset manager" (prohibited transaction exemption 96-23), transactions involving insurance company general accounts (prohibited transaction exemption 95-60), transactions involving insurance company pooled separate accounts (prohibited transaction exemption 90 1), transactions involving bank collective investment funds (prohibited transaction exemption 91-38) and transactions with service providers under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code where the Plan receives no less and pays no more than "adequate consideration" (within the meaning of Section 408(b)(17) of ERISA and Section 4975(f)(10) of the Code). The person making the decision on behalf of a Plan or a governmental plan shall be deemed, on behalf of itself and the plan, by purchasing and holding the notes, or exercising any rights related thereto, to represent that (a) the plan will receive no less and pay no more than "adequate consideration" (within the meaning of Section 408(b)(17) of ERISA and Section 4975(f)(10) of the Code) in connection with the purchase and holding of the notes, (b) none of the purchase, holding or disposition of the notes or the exercise of any rights related to the notes will result in a nonexempt prohibited transaction under ERISA or the Code (or, with respect to a governmental plan, under any similar applicable law or regulation), and (c) neither The Goldman Sachs Group, Inc. nor any of its affiliates is a "fiduciary" (within the meaning of Section 3(21) of ERISA or, with respect to a governmental plan, under any similar applicable law or regulation) with respect to the purchaser or holder in connection with such person's acquisition, disposition or holding of the notes, or as a result of any exercise by The Goldman Sachs Group, Inc. or any of its affiliates of any rights in connection with the notes, and neither The Goldman Sachs Group, Inc. nor any of its affiliates has provided investment advice in connection with such person's acquisition, disposition or holding of the notes.

If you are an insurance company or the fiduciary of a pension plan or an employee benefit plan (including a government plan, an IRA or a Keogh plan) and propose to invest in the notes, you should consult your legal counsel.

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SUPPLEMENTAL PLAN OF DISTRIBUTION

GS Finance Corp. has agreed to sell to GS&Co., and GS&Co. has agreed to purchase from GS Finance Corp., the aggregate face amount of the offered notes specified on the front cover of this prospectus supplement. GS&Co. proposes initially to offer the notes to the public at the original issue price set forth on the cover page of this prospectus supplement, and to certain securities dealers at such price less a concession not in excess of 0.92% of the face amount.

In the future, GS&Co. or other affiliates of GS Finance Corp. may repurchase and resell the offered notes in market-making transactions, with resales being made at prices related to prevailing market prices at the time of resale or at negotiated prices. GS Finance Corp. estimates that its share of the total offering expenses, excluding underwriting discounts and commissions, will be approximately $20,000. For more information about the plan of distribution and possible market-making activities, see “Plan of Distribution” in the accompanying prospectus.

We will deliver the notes against payment therefor in New York, New York on October 3, 2018. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on any date prior to two business days before delivery will be required to specify alternative settlement arrangements to prevent a failed settlement.

We have been advised by GS&Co. that it intends to make a market in the notes. However, neither GS&Co. nor any of our other affiliates that makes a market is obligated to do so and any of them may stop doing so at any time without notice. No assurance can be given as to the liquidity or trading market for the notes.

Any notes which are the subject of the offering contemplated by this prospectus supplement, the accompanying prospectus and the accompanying prospectus supplement may not be offered, sold or otherwise made available to any retail investor in the European Economic Area. Consequently no key information document required by Regulation (EU) No 1286/2014 (the “PRIIPs Regulation”) for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. For the purposes of this provision:

(a) the expression “retail investor” means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “MiFID II”); or

(ii) a customer within the meaning of Directive 2002/92/EC (as amended, the “Insurance Mediation Directive”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Directive 2003/71/EC (as amended, the “Prospectus Directive”); and

(b) the expression an “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), GS&Co. has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of notes which are the subject of the offering contemplated by this prospectus supplement, the accompanying prospectus and the accompanying prospectus supplement to the public in that Relevant Member State except that, with effect from and including the Relevant Implementation Date, an offer of such notes may be made to the public in that Relevant Member State:

a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant dealer or dealers nominated by the issuer for any such offer; or

c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes referred to above shall require us or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

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For the purposes of this provision, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the notes may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA does not apply to GS Finance Corp. or The Goldman Sachs Group, Inc.

All applicable provisions of the FSMA must be complied with in respect to anything done by any person in relation to the notes in, from or otherwise involving the United Kingdom.

The notes may not be offered or sold in Hong Kong by means of any document other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) and any rules made thereunder, or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance; and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere) which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder.

This prospectus supplement, along with the accompanying prospectus supplement and the accompanying prospectus have not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement, along with the accompanying prospectus supplement and the accompanying prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA")) under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to conditions set forth in the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor, the securities (as defined in Section 239(1) of the SFA) of that corporation shall not be transferable for six months after that corporation has acquired the notes under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer in that corporation's securities pursuant to Section 275(1A) of the SFA, (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in Section 276(7) of the SFA, or (6) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore ("Regulation 32").

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is a trust (where the trustee is not an accredited investor (as defined in Section 4A of the SFA)) whose sole purpose is to hold investments and each beneficiary of the trust is an accredited investor, the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that trust has acquired the notes under Section 275 of the SFA except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA), (2) where such transfer arises from an offer that is made on terms that such rights or interest are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each

transaction (whether such amount is to be paid for in cash or by exchange of securities or other assets), (3) where no consideration is or will be given for the transfer, (4) where the transfer is by operation of law, (5) as specified in Section 276(7) of the SFA, or (6) as specified in Regulation 32.

The notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended), or the FIEA. The notes may not be offered or sold, directly or indirectly, in Japan or to or for

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the benefit of any resident of Japan (including any person resident in Japan or any corporation or other entity organized under the laws of Japan) or to others for reoffering or resale, directly or indirectly, in Japan or to or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of the FIEA and otherwise in compliance with any relevant laws and regulations of Japan.

The notes are not offered, sold or advertised, directly or indirectly, in, into or from Switzerland on the basis of a public offering and will not be listed on the SIX Swiss Exchange or any other offering or regulated trading facility in Switzerland. Accordingly, neither this prospectus supplement nor any accompanying prospectus supplement, prospectus or other marketing material constitute a prospectus as defined in article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus as defined in article 32 of the Listing Rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland. Any resales of the notes by the underwriters thereof may only be undertaken on a private basis to selected individual investors in compliance with Swiss law. This prospectus supplement and accompanying prospectus and prospectus supplement may not be copied, reproduced, distributed or passed on to others or otherwise made available in Switzerland without our prior written consent. By accepting this prospectus supplement and accompanying prospectus and prospectus supplement or by subscribing to the notes, investors are deemed to have acknowledged and agreed to abide by these restrictions. Investors are advised to consult with their financial, legal or tax advisers before investing in the notes.

Conflicts of Interest

GS&Co. is an affiliate of GS Finance Corp. and The Goldman Sachs Group, Inc. and, as such, will have a “conflict of interest” in this offering of notes within the meaning of Financial Industry Regulatory Authority, Inc. (FINRA) Rule 5121. Consequently, this offering of notes will be conducted in compliance with the provisions of FINRA Rule 5121. GS&Co. will not be permitted to sell notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

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VALIDITY OF THE NOTES AND GUARANTEE

In the opinion of Sidley Austin llp, as counsel to GS Finance Corp. and The Goldman Sachs Group, Inc., when the notes offered by this prospectus supplement have been executed and issued by GS Finance Corp., the related guarantee offered by this prospectus supplement has been executed and issued by The Goldman Sachs Group, Inc., and such notes have been authenticated by the trustee pursuant to the indenture, and such notes and the guarantee have been delivered against payment as contemplated herein, (a) such notes will be valid and binding obligations of GS Finance Corp., enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith), provided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above and (b) such related guarantee will be a valid and binding obligation of The Goldman Sachs Group, Inc., enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith), provided that such counsel expresses no opinion as to the effect of fraudulent conveyance, fraudulent transfer or similar provision of applicable law on the conclusions expressed above. This opinion is given as of the date hereof and is limited to the laws of the State of New York and the General Corporation Law of the State of Delaware as in effect on the date hereof. In addition, this opinion is subject to customary assumptions about the trustee's authorization, execution and delivery of the indenture and the genuineness of signatures and certain factual matters, all as stated in the letter of such counsel dated July 10, 2017, which has been filed as Exhibit 5.6 to registration statement on Form S-3 filed with Securities and Exchange Commission by GS Finance Corp. and The Goldman Sachs Group, Inc. on July 10, 2017.

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We have not authorized anyone to provide any information or to make any representations other than those contained or incorporated by reference in this prospectus supplement, the accompanying prospectus supplement or the accompanying prospectus. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus supplement, the accompanying prospectus supplement and the accompanying prospectus is an offer to sell only the notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement, the accompanying prospectus supplement and the accompanying prospectus is current only as of the respective dates of such documents.

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Prospectus Supplement

Prospectus Supplement dated July 10, 2017

Prospectus dated July 10, 2017

$281,000

GS Finance Corp.

Motif Capital National Defense 7 ER Index-Linked Notes due 2021

guaranteed by
The Goldman Sachs Group, Inc.

Goldman Sachs & Co. LLC