ANNUAL FINANCIAL STATEMENTS **2007**

SECURING SUCCESS THROUGH **PARTNERSHIP**

Corporate Profile

Homag Group AG's management lays claim to being the world's leading manufacturer of machines and equipment for the woodworking industry. As a global player, we are present in more than 60 countries and hold an estimated 24 per cent share of the market. In the fields of furniture manufacturing, structural elements and timber frame house construction, we offer our customers perfectly aligned solutions, from the stand-alone machine through to complete production lines. A wide range of supporting services and specially tailored control software make our range unique.

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Key Group Figures *

		2007	2006	Variance %
Total sales revenue	EUR millions	836.9	736.5	13.6%
Sales revenue Germany	EUR millions	173.5	149.2	16.3%
Sales revenue outside Germany	EUR millions	663.4	587.3	13.0%
thereof Europe	EUR millions	450.3	387.3	16.3%
North America	EUR millions	95.2	95.9	-0.7%
Asia/Pacific	EUR millions	91.7	82.5	11.2%
Foreign share	%	79.3%	79.7%	-0.6%
EBITDA [1]	EUR millions	103.3	85.0	21.5%
EBITDA	as % of sales revenue	12.3%	11.5%	7.0%
EBITDA	as % of total operating performance	12.0%	11.5%	4.8%
EBIT [1]	EUR millions	82.2	65.2	26.0%
EBIT	as % of sales revenue	9.8%	8.9%	10.8%
EBIT	as % of total operating performance	9.6%	8.8%	8.6%
Net profit (before minority interests)	EUR millions	35.2	22.2	58.4%
Earnings per share [2]	€	2.12	1.38	53.6%
- thereof earnings per share from continuing operations	€	2.12	1.85	
- thereof earnings per share from discontinued operations	€	0.00	-0.47	
ROCE [3] after taxes	%	17.6%	14.4%	22.2%
ROCE [4] before taxes	%	28.9%	23.7%	21.9%
Equity at the balance sheet date	EUR millions	166.1	104.0	59.7%
Own funds as of the balance sheet date [5]	EUR millions	207.6	144.4	43.8%
Own funds ratio	%	36.5%	29.9%	22.1%
Capital expenditures on property, plant and equipment	EUR millions	22.7	31.0	-26.7%
Depreciation of property, plant and equipment	EUR millions	16.8	15.9	5.7%
Employees	On average for the period	4,941	4,623	6.9%
thereof trainees	On average for the period	338	346	-2.3%
Personnel expenses before employee profit participation	EUR millions	250.5	223.8	11.9%
Order intake accumulated [6]	EUR millions	746.6	625.7	19.3%
Order backlog as of the balance sheet date [6]	EUR millions	255.0	192.6	32.4%

* IFRS

[1] After deducting "other taxes", before taking into account employee profit participation expense and IPO expense

[2] Profit for the period after minority interests based on 15,095,349 shares – weighted average – (prior year 14,561,345)

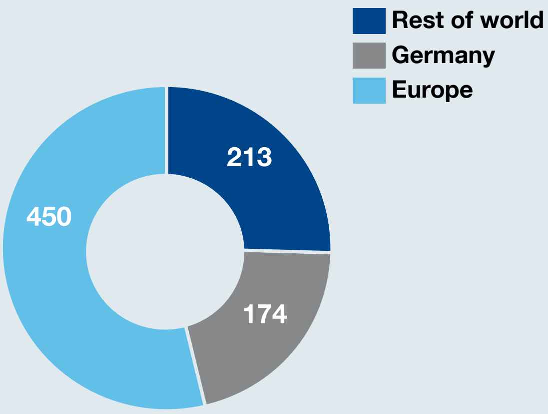
[3] (EBIT x 61%) / Capital Employed (Non-current assets + Net Working Capital)

[4] EBIT / Capital Employed (Non-current assets + Net Working Capital)

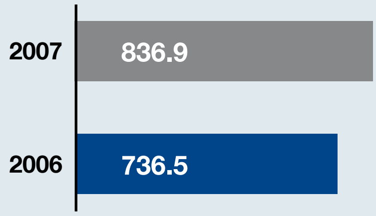
[5] Equity plus profit participation rights and silent participation

[6] Order intake and order backlog only contain own machines without merchandise, spare parts and service

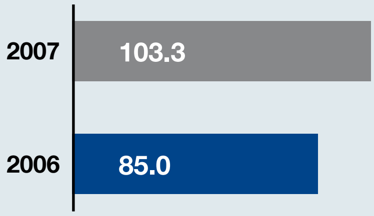
SALES REVENUE BY REGION in EUR millions



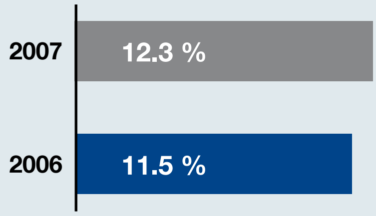
SALES REVENUE in EUR millions



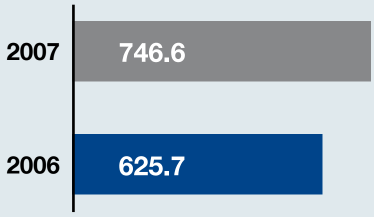
EBITDA in EUR millions



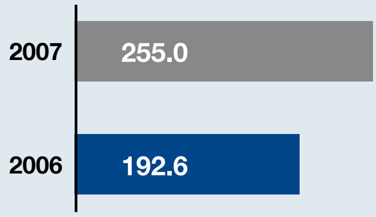
EBITDA as % of sales revenue



ORDER INTAKE in EUR millions



ORDER BACKLOG in EUR millions



Foreword by the Management Board

Dr. Joachim Brenk (CEO)
Born 1961

Head of Sales, Service, Project Business, Marketing
Joined the Company in 2005

Achim Gauß
Born 1961

Head of Research, Development, Design
Joined the Company in 1989

Andreas Hermann
Born 1968

CFO, Head of IT, Personnel
Joined the Company in 2000

Ladies and Gentlemen,
Dear shareholders,

HOMAG Group AG made its debut on the stock exchange on July 13, 2007, thus reaching a further decisive milestone in the Company's successful history while securing its future. The Company has also immediately attracted greater public interest following the IPO. We view this enhanced interest as an opportunity and actively communicate with our stakeholders. This naturally includes timely and comprehensive reports that address all issues affecting the HOMAG Group.

There were numerous positive developments in fiscal 2007 to report: HOMAG Group AG has continued on its course of profitable growth and has further expanded its position as the industry's leading global player. Growth in sales revenue and order intake reached record levels at 14 percent and 19 percent respectively. These key indicators were undoubtedly buoyed by the favorable economic conditions and the healthy development of the industry. But we have also set the course for growth based on

Herbert Högemann
Born 1954

Head of Production, Materials Management, Quality Management
Joined the Company in 2007

Rolf Knoll
Born 1949

Head of Investment Management
Joined the Company in 1999

our pro-active approach to the market and by introducing products with even greater appeal.

Clients were again impressed by our innovative machines and systems at the world's largest trade show for the industry LIGNA, which was held in May. More than 30,000 visitors came to our Innovations Center at our trade show stand "HOMAG City".

Apart from the order and sales revenue situation, we also want our success to be measured on the development of earnings. Here, we again achieved a considerable improvement compared to 2006, with all earnings indicators outpacing the rise in sales revenue. This is partially the result of more efficient processes and consistent cost management, which have driven down the ratio of personnel expenses to total operating performance, for instance.

We can also be extremely satisfied with fiscal 2007 with regard to the development of business. And naturally we want to share the rewards of the positive development of fiscal 2007 with you, our shareholders. The management board and the supervisory board propose the distribution of a dividend of EUR 0.90 per share – up 125 percent on our last distribution. This shareholder-friendly dividend policy will be maintained in the future. We are interested in keeping dividend distributions stable, although the amount paid out will of course depend on the development of earnings.

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We are not satisfied, however, with the development of our share price in the year of our IPO. Our flotation coincided with what was still a very favorable market environment on the stock exchange. Indeed, conditions were so positive that the record peak reached by the German stock indices on that day had not been matched prior to the editorial deadline for this annual report. Smaller stocks in particular fell significantly from mid-July 2007 as is reflected by the development of the SDAX, which closed the year more than 20 percent below its peak level and continued to fall sharply at the beginning of 2008.

This adverse environment also weighed on the HOMAG share. This does, however, explain why the share price is trailing behind the development of the SDAX. We believe that the price development does not reflect the positive development of business at HOMAG Group AG since flotation. In view of the low price/earnings ratio and our Company's sound fundamentals, we consider our share to be attractive in relation to comparable companies.

We are intent on convincing the capital market of this. We have maintained close links to numerous investors and analysts since 2007. For instance, we presented HOMAG Group AG in the course of the IPO to more than 100 financial experts at all of the major European stock exchanges. We also actively communicated our financial development after the flotation, conducting numerous direct talks and conference calls with institutional investors, and we were present at numerous road shows in Frankfurt, London, Paris, Amsterdam, Rotterdam, Edinburgh, Oslo, Copenhagen and Stuttgart. The response was largely positive as can be seen from the six analyst reports issued by February 2008 that have rated the HOMAG share at "buy" five times and "hold" once. We also consider establishing contact with private investors of great importance, either by calling them directly or providing them with continually updated information on our website.

We plan to intensify this communication with capital market participants and create sustained awareness. Indeed, we can give plenty of good reasons for investing in HOMAG Group AG and our shares. We have again achieved an excellent start to the fiscal year with a high order backlog, and we can look to 2008 with optimism. Our aim is to grow faster than our market and achieve high single-digit growth in sales revenue. We will naturally continue to keep an eye on costs and plan to generate additional income with our successful profit-enhancement program "Projekt 2008", especially in the area of procurement. Consequently, we anticipate the increase in earnings to at least match the expected sales revenue growth, while significantly raising net profit in particular.

We will maintain our value-driven corporate governance in order to achieve a sustainable increase in the value of HOMAG Group AG and the invested capital. As the global leader in our industry, we plan to stay at the forefront of technological development and fuel the Company's profitable growth with innovative and improved products.

We hope our annual report 2007 will make for interesting reading. Submerge into the HOMAG Group's world in the following pages: Visit "HOMAG City", our trade show stand at LIGNA 2007, find out more about the latest developments in modern furniture manufacturing or how a timber house is produced on our machines. Our high-speed production line for the production of flooring is certain to impress you and take a look at how quick and easy it is to order replacement parts today.

We would like to take this opportunity to express our gratitude to our customers and business partners for investing in a firm relationship that is founded on mutual trust. Our employees have earned our utmost recognition for their dedication, which has made the HOMAG Group's success possible. Dear shareholders, we are grateful for the trust you have placed in us and your commitment to HOMAG Group AG.

Schopfloch, April 2008

The Board of Management

Dr. Joachim Brenk

Achim Gauß

Andreas Hermann

Andreas Hermann

Herbert Högemann

Rolf Knoll

Market Leader is Host to the World

> Welcome to the HOMAG Group at the LIGNA 2007

Every two years, the world's biggest trade fair for the wood-working industry takes place in Hanover. When the LIGNA opened its doors again in May 2007, the HOMAG Group was the single biggest exhibitor at this lead trade fair, this time with a stand extending over

more than 6,000 square metres. Join us on a tour over our trade fair stand – welcome to HOMAG City!

Over 100 exhibited plants and machines, 35 km of laid cables, 3 live demonstrations and over 30,000 visitors to the Innovation Centre alone – these are just some of the key data marking the HOMAG Group trade fair presentation at the LIGNA 2007.
Any visitor entering HOMAG City is surrounded on all sides by state-of-the-art engineering. Large-scale machines and plants are at work sawing, drilling or trimming wooden workpieces – all fully automatically. Generally there is only one operator in charge of a machine, whose job consists of monitoring progress in front of a screen.

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The LIGNA in figures

The LIGNA 2007 is deemed to have been the most successful ever. The lead trade fair for the woodworking industry registered growth in every sector, with 1,832 exhibitors from 49 countries presenting their innovations on a total area of more than 135,000 square metres.

Over 107,000 trade visitors registered interest in the technical innovations on show. The fact that 56 per cent of exhibitors and just short of 43 per cent of visitors travelled from abroad to attend the show clearly demonstrates the international orientation of the LIGNA.

One plant, for instance, directly selects the right edging material from a choice of over 20 coils, and uses it to close the open edges of a chipboard panel. The edge is processed in several work steps until there is no longer any overhanging material and the end finish is perfectly smooth. Here too, no manual intervention is required – everything runs automatically and at an impressively breathtaking speed.

Impressions from the LIGNA

From the raw panel to the finished shelving unit
This combination of speed and high precision is a theme echoed in the other plants on show here at HOMAG City. As visitors move around the stand, gradually they are able to visualize how shelving units, tables, whole kitchens and also staircases and doors are created from the individual components. Even here, there is not necessarily any need for human intervention: Given the right combination and network configuration of machines, a ready assembled and packaged shelving unit will actually emerge from the end of a HOMAG Group production line.

Volume plus quality
However, there is a lot more behind the apparently effortless conveyor belt mass production than meets the eye on a casual glance around the trade fair stand. Although high-volume, high-speed production is possible, the benefits of intelligent control engineering and modern software mean that individual production is possible, too. The machines are built with enough flexibility to allow individual processing of different workpieces – even on a just-in-time basis and down to batch sizes as low as one.

At HOMAG City, visitors actually get to see something that is generally speaking invisible – the comprehensive range of all-round support services we offer for our producing units. The high degree of complexity surrounding modern machines and plants makes these services an increasingly important aspect of our work. Using innovative simulation technology, for instance, it is possible to configure an individually tailored production plant and watch it in operation. Or our new online portal eparts allows spare parts to be ordered with outstanding ease and convenience over the Internet.

Impressive innovations
The HOMAG Group provides impressive proof of its technological cutting edge in the Innovation Center. The blue cube on the 1st floor of the trade fair stand presides over the whole of the exhibition hall and stands as a symbol of the very latest up-to-the-minute innovations from the HOMAG Group on show to international specialists from around the globe: New and further developments for even faster, more flexible and more economical machine generations. Just one example from the field of processing unit technology: A new, freely rotatable drilling head is on show which is also capable of sawing and trimming and so covers almost every operating requirement without the need for a tool change.

There is a consensus among visitors to HOMAG City: The HOMAG Group presentation in Hanover has made a huge impression. Once again, HOMAG has proved that it has the right solutions to address practically any operating assignment in the field of woodworking – from the simple shelf or laminate floor plank through to the complete timber frame house. And anyone who was unsure before is in no doubt whatever once they leave the HOMAG Group stand that they have been in the presence of the world market leader!

Modern worktop production
at Nolte Küchen

How Modern Furnishing Worlds are Created

> State of the art in furniture production

The most frequent field of application for machines and plants from the HOMAG Group has traditionally been furniture production. It is here that the strengths of the company group are fully brought to bear. The range of precisely coordinated machines supplied by the HOMAG Group covers every conceivable processing step for highly efficient, flexible and economical production, ensuring that furniture manufacturers are ideally equipped to meet modern production demands and stay abreast of the very latest technological developments.

In the field of furniture production, this technical cutting edge is expressed in fields such as innovative lightweight technology or the production of kitchen worktops through to prestigious projects such as equipment of the Olympic Village for the 2008 Olympics in China.

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Large-scale plant for high-grade kitchen worktops
Modern kitchen furniture presents a major challenge to manufacturers. While kitchen elements are a mass produced commodity on the one hand, at the same time they are highly individual. In particular when it comes to fitted kitchens, no finished configuration of cabinets and worktops is quite like another. This places stringent demands on the machines and plants used to produce kitchen furniture, which are expected to operate at high speed but still provide extreme flexibility. Other criteria include precise fitting accuracy and perfect quality – in particular when producing top-class luxury fitted kitchens.

The company Nolte in Ostwestfalen has specialized in just this type of sophisticated top-of-the-range fitted kitchen. This is Germany's second biggest fitted kitchen brand manufacturer, operating in an area of 77,000 sq.m. using state-of-the-art manufacturing technology. To produce its worktops, which depend upon production accuracy to the millimetre, Nolte Küchen opted for an innovative and extensive production line from the HOMAG Group: This highly productive complete production line totals 140 metres in length and 25 metres in width, comprising several panel dividing saws, machines for sizing and edge banding, as well as handling and transport systems.

This configuration permits just-in-time production to customer order with a selection of over 100 decor finishes. The worktop is initially cut to the precise customer dimension using a cutting waste optimization system. The edges are then processed on various machines – depending on whether the panel is straight, U or L shaped. Cut-outs to accommodate hobs or sinks are recessed and prepared as required. Also integrated in the production plant supplied by the HOMAG Group in 2007 is facility for automatic transport-proof worktop packaging. The standardized intelligent control system used permits the entire production process to be centrally controlled from the office.

Although each order is custom produced, the whole process runs at breathtaking speed: 1700 worktops are manufactured every day in two-shift operation, adding up to over 100 individual top-quality worktops every hour.

Lightweight furniture construction for IKEA
A top-quality appearance and low weight coupled with high stability and strength alongside sparing use of resources through minimal consumption of wood as a raw material: These are the underlying attributes of lightweight construction furniture. This is made possible by using wood to produce only the facings, while the core material is made up of materials such as paper honeycomb.

When it comes to manufacturing and further processing these lightweight materials, however, an enormous amount of technical expertise is called for. This is precisely the sort of challenge the highly innovative HOMAG Group excels at. The Group companies were involved with the development of lightweight construction technology from a very early stage, and have succeeded in finding solutions to all the associated production problems. From panel manufacturing through sealing of the open edges and intelligent fastening technology through to the finish packaged item of furniture: HOMAG Group plants and machines cover the complete process chain for the manufacture of lightweight products such as shelving units, cabinets or tables.

The functional benefits and wide-ranging design scope opened up by this new technology were picked up on by IKEA at a very early stage. One of the Swedish furnishing giant's main suppliers, the company Swedwood, addressed this demand by investing heavily in lightweight technology in 2007. The HOMAG Group was chosen to act as partner in equipping the company's factories in Poland, Portugal and the USA. One of the important features of the production lines installed at Swedwood is Homag's patented double edge technique, which is used to close the open edges of the lightweight panels with both a support edge and a decor layer in a single work step. This highly economical technique provides protection against the edges being pushed inwards and has helped secure the success of IKEA furnishing ranges such as Billy, Ivar and co.

Honeycomb core: a modern and economical material

2008 Olympics with the HOMAG Group

When the world's top athletes gather at the upcoming 2008 Olympic Games in Peking to thrill onlookers with new record-breaking sporting achievements, this could just have a little something to do with the HOMAG Group AG: A Homag customer of many years' standing, the "Hong Kong Royal Furniture Group" is the exclusive furniture supplier to the 2008 Olympiad. As well as the media area and the apartments to be used by functionaries, the company will also be equipping the entire Olympic Village with furniture – including amongst others 17,600 beds for the over 10,000 single and double rooms to be used by the athletes, as well as around 14,000 sofas

The majority of the Olympia furniture will be produced on machines and plants supplied by the HOMAG Group. A large number of panel dividing saws, four edge banding machines and a new machine line delivered in August 2007 all ensure top quality production of the furniture needed in the Royal Furniture Group factory. All of which provide the best possible conditions for the production of top quality beds, and a refreshing night's sleep for the Olympic contestants!

Production plant in the Hong Kong Royal Furniture Group factory

Around the World in 80 Days

> The fastest flooring plant ever produced

The use of wood as a natural raw material in the home is gaining in popularity the world over. This trend has resulted in a steady increase in demand for parquet and laminate flooring over a number of years. Consequently flooring manufacturers are keen to install ever more efficient and higher-speed plants and machines: Another specialist field of the HOMAG Group. Already today, over 60 per cent of laminate flooring produced the world over has been made on a HOMAG machine. And more impressively still: HOMAG also produced the world's fastest flooring plant.

Unprocessed formats are fed fully automatically with pinpoint precision into the almost 100 metre long machine line before being divided and processed into finished laminate planks at a feed rate of up to 350 m/min. In a first work step, the panels are rip cut and then cross cut by a total of 11 saw blades. The individual parts produced using this process are quickly forwarded to high-performance machines which trim connecting grooves into the longitudinal sides.

The connected packaging plant finally lays the correctly counted number of planks plus laying instructions into cartons, and welds them into film wrapping. This completes the production process, and the finished products are transported to the shipping department.

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Pinpoint precision coupled with extreme speed
Although this process may initially sound relatively straightforward, in practice it is highly complex and demands extreme precision. All the steps of the overall processing sequence have to be precisely intercoordinated. It is only with perfect interlinking and configuration of the individual machines as well as the use of a standardized control system that a smooth, trouble-free material flow can be achieved.

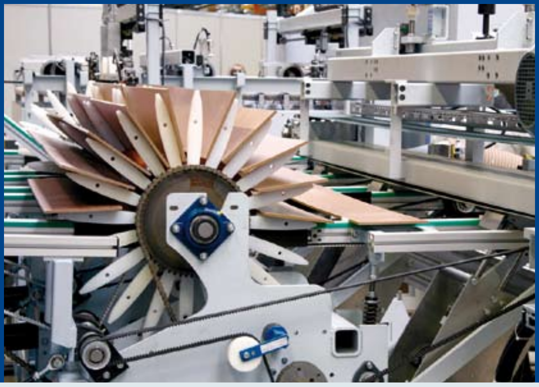
A factor which has to be borne in mind at all times is the enormous speed reached by the world's

Egger Holzwerkstoffe, Brilon factory, production plants for laminate flooring

fastest flooring production plant. Production of 350 metres per minute adds up to 500 kilometres of laminate planks every single day. End to end, this would provide enough planks to reach from Hamburg to Rome in even less than four days of production. And after just 80 days of production, the produced quantity would be enough to actually reach right around the globe.

Calculating another way, the high-speed machine line produces one square metre of laminate per second. This means an output sufficient to cover every floor of 20 average-sized family homes within just one hour. This means, around 90,000 square metres of laminate are produced every day.

So the next floor you walk across could well be a true champion – produced on the fastest flooring production plant in the world!



> How timber frame houses are constructed today

Because of the pleasant living atmosphere it creates in the home, timber frame construction looks back on a long tradition. However, in recent years the possibilities afforded by technical progress have changed the face of timber house construction. It is no longer necessary for homes to be built laboriously board by board or beam by beam on the building site. Innovative production plants from the HOMAG Group are able to carry out these tasks in modern factories to a high degree of precision. This produces modular elements which only have to be assembled on site. Just such

Russian Factory with State-of-the-art Production

a timber house construction factory took up production in Russia in 2007.

The new timber frame house factory on the southern outskirts of St. Petersburg is ideally equipped: The 9,000 sq.m. production hall houses 20 machines and plants supplied by WEINMANN Holzbausystemtechnik, the HOMAG Group's timber house construction specialist. This complete plant, which encompasses practically the complete WEINMANN product range, has been built with a view to tackling the growing housing shortage in the Russian metropolises of Moscow and St. Petersburg. In a first site set aside for house construction, the Russian Government plans to construct around 2,800 timber frame detached family homes by 2010. Not a problem for the St. Petersburg-based factory, which was designed for a production output of 550 to 650 houses per year right from its inauguration in May 2007. During the current year 2008, a further extension of the factory's capacity with additional WEINMANN machines is set to actually double the maximum output, allowing the production of around 1,200 homes per annum. Additional housing programs, areas set aside for house building and house production facilities are already in the concrete planning stage in Russia or have already been implemented.

Step by step to the finished timber house

The extremely high output of the new factory is solely possible due to a highly efficient production process which constructs the individual components from which the finished houses are ultimately produced. There are separate lines for wall production, ceiling element production and roof element production. The wall production starts at the framing station, where the wooden frame is assembled as the supporting construction. The first internal layer of plasterboard panels, a vapour barrier made of film and a second plasterboard panel are then attached. This work step is carried out using the WEINMANN multifunction bridge, which is equipped with an automatic tool changer for up to twelve different tools. Consequently, this machine is also able to produce the recesses for installation openings and sockets.

By using a reversible table, the wall is then turned over onto its other side, where the insulating

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material and electrical components are mounted manually. Closure of the wall then takes place automatically by mounting an wood-based panel. The inner walls are now finished. Plaster base panelling is attached to the outer walls, and base plastering and rendering completed before transporting the elements to the wall storage facility. Roof and ceiling element production takes place using predominantly the same techniques as for wall production, although a weatherproof film is integrated in the roof elements in addition to the insulation. The multifunction bridge can also be used here to mount formwork and battens, and for processing the roof covering.

Simple on-site assembly

Finally, all the elements are batched by order and placed in rainproof packaging ready for

dispatch. They are then transported by truck to their intended destination. Once on site, the construction process proceeds at high speed: The wall elements are lifted off the truck by crane and screwed onto the concrete floor slab, in which the necessary boreholes have already been made. The ceiling and second level are then erected and finally the roof elements mounted. By the second day, a rain-proof construction is already in place.

All services included

WEINMANN has supplied a lot more to Russia than just is plants and machines: The service package includes the essential expertise needed for complete, trouble-free timber house production. From planning of the first houses including the necessary static calculations, wall details and heating technology through the generation of CAD drawings and finished machine data to comprehensive production training to ensure precise production and assembly of the timber frame house elements, the specialist for timber house construction provides a complete all-round service package.

Full-line supplier in a growing market

Day by day, the work being carried out in the St. Petersburg factory is helping to fulfil the dreams of countless Russian families hoping for a better living condition quality in pleasant and comfortable surroundings. The wooden house construction may also look forward to an exciting future in other regions of the world. Around 70 per cent of all homes built in the USA are timber frame constructions, for instance. Despite this promise of growth, production has so far lagged way behind the potential offered by modern technology. The HOMAG Group is poised ready to play an active role in the continuing boom of the timber frame house industry. As well as the components for house construction, the Group has all the right credentials when it comes to plants and machines for the production of interior fittings. It has intelligent solutions to offer for the production of doors, windows, staircases, flooring or complete kitchens – as a one-stop supplier for the complete construction and equipment of new homes.

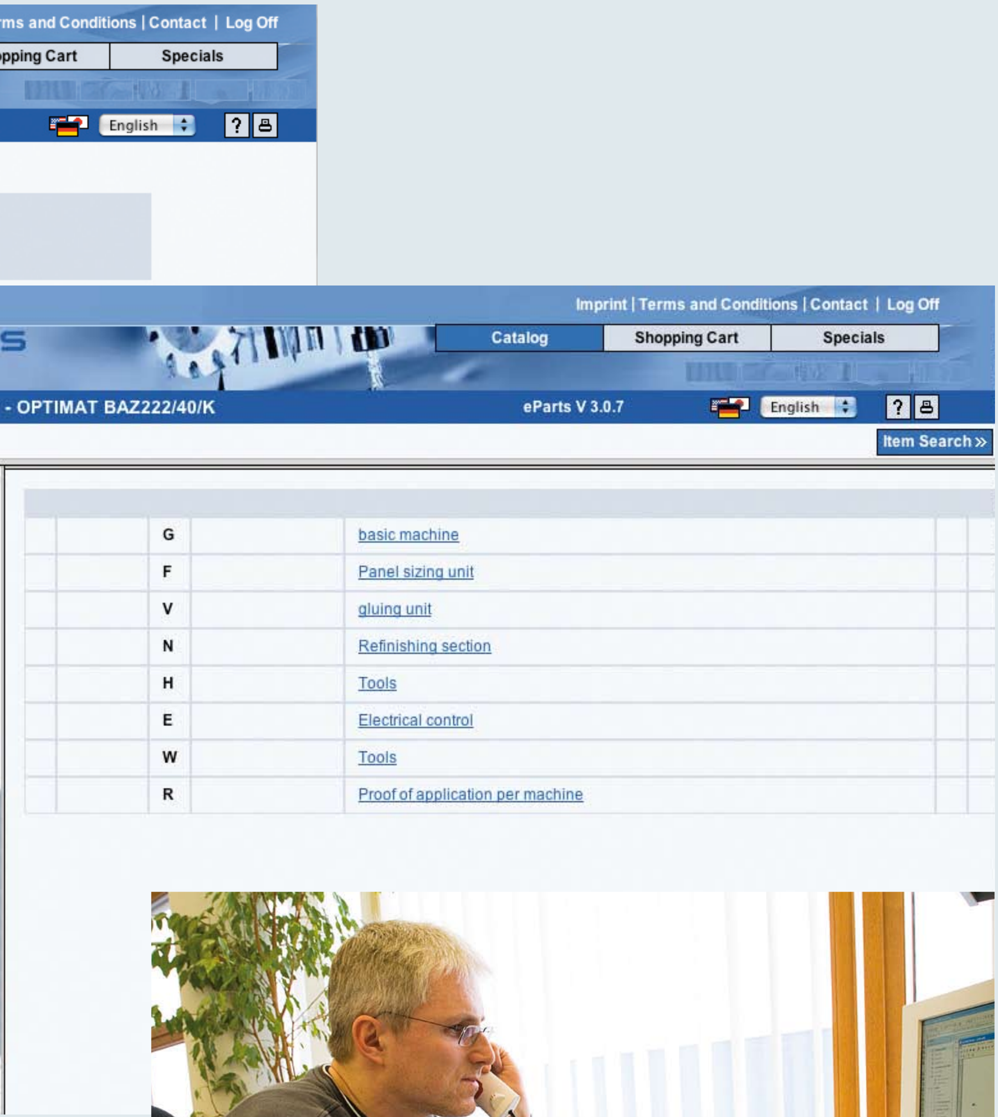
Timber frame house construction with machines from Weinmann in the St. Petersburg factory

Modern woodworking machines and plants are complex, high-tech products featuring comprehensive control engineering and intelligent software solutions. This means that there is an ever greater demand for qualified consulting and service back-up for our producing units. By offering a unique package of services, the HOMAG Group guarantees all-round customer support – before, during and after a plant or machine purchase. One of these services is an innovative online portal entitled eparts, for the fast, simple identification and procurement of spares.

Spare Parts Around the Clock

> New online portal ensures a fast and simple purchase order process

Since May 2007, the eparts service has provided HOMAG Group customers with the assurance that "the right spare part for my machine is just a few mouse clicks away." At the beginning of 2008, over 30,000 machines with all spare parts were available through the online portal, making this the biggest machine-specific, individually generated spare parts database of its kind anywhere in the industry.



Spare parts ordering made simple

Although eparts is the culmination of complex logistical processes and software programs, as well as an unbelievable flood of data, the user remains blissfully unaware of this tremendous and complex input behind the scenes, and only needs to execute a few simple mouse clicks to find and order the right spare part. After logging in, the user only sees details and pictures of the machines which actually exist in his workshop or production hall.

After selecting the relevant machine requiring a spare part, structural drawings, parts lists and photos simplify the search for the right spare. Using a special search function, parts can be selectively located, for example by entering the part designation. A list is also provided for each machine, containing the most important and frequently required spare and wearing parts. After identifying the part, the user can check its availability as soon as the part has been sent to the shopping basket. Other parts can then be selected or the order submitted straight away. This means that users waste a minimum amount of time on the purchase order process and are able to concentrate on other tasks. It is a simple matter to check up on the order status at any time in the system.

Permanent availability

Needless to say, the eparts service is available in several languages around the world 24-7 for orders and enquiries. Given the speed and convenience of this method of ordering spares, it seems almost a shame that clients who have purchased top-quality, highly durable machines and plants from the HOMAG Group will only rarely have occasion to use this handy service module.

Report of the Supervisory Board

In fiscal 2007, the supervisory board fulfilled its duties prescribed by law, the articles of incorporation and bylaws and the rules of procedure. It regularly advised the management board as regards its corporate management function and supervised its activities on an ongoing basis. The supervisory board regularly obtained information from the management board concerning the development of business, the results of operations and the financial position as well as the risk management of HOMAG Group AG and provided advice with respect to these activities. The chairman of the supervisory board was also in close personal contact with the management board outside the supervisory board meetings and kept abreast of the current development of business and significant business transactions.

Significant Matters on the Agenda

A total of eight supervisory board meetings were held during the fiscal year 2007. Where necessary, the supervisory board passed resolutions by written circulation. A central topic of discussion in the first six months of the year was the IPO of HOMAG Group AG on July 13, 2007. The supervisory board was closely involved throughout the entire IPO process and gave its approval when required.

Additional key topics during supervisory board meetings included the Group's strategic orientation. The supervisory board and the management board discussed the value-added strategy as well as the overall strategy for sales activities in Asia and dealt with the issue of planning for the period 2008 through 2012. Other key points on the agenda included the sales organization of the corporate group, the settling of financial liabilities in connection with IMA Klessmann GmbH, the construction of a new production hall at the subsidiary WEINMANN Holzbausystemtechnik GmbH and corporate governance. In the year under review, the supervisory board was also engaged with internal personnel matters including the election of a new chairperson and deputy chairperson to the supervisory board as well as the appointment of members to the accounting, HR, mediation and nominations committees.

Work Performed by the Supervisory Board's Committees

The supervisory board had five committees in fiscal 2007. The accounting committee met five times. Topics examined by the accounting committee mainly included IFRS accounting and risk management. At three meetings, the personnel committee discussed and ratified the remuneration structure of the management board. At the supervisory board meetings, the chairmen of each committee regularly reported on the work of the committees.

The committee that was set up to deal with the divestiture of the former subsidiary IMA did not convene a meeting in the year under review as the related financial liabilities were settled in March. It was not necessary to convene the mediation committee in the past fiscal year. On December 20, 2007, the supervisory board set up a nominations committee pursuant to the recommendation of No. 5.3.3 of the German Corporate Governance Code. The committee did not meet in the year under review.

Personnel Changes on the Supervisory Board and the Management Board

The following personnel changes were made on the supervisory board: Ms. Ingrid Hornberger-Hiller and the chairman and founder of the Company Mr. Gerhard Schuler stepped down from the supervisory board. On the same day, Mr. Schuler was elected honorary chairman of the supervisory board by the annual general meeting. Also on the same day, Mr. Ralf Hengel and Mr. Torsten Grede became members of the supervisory board. Mr. Grede was elected chairman. On March 31, 2007, Mr. Karl Frey stepped down from the supervisory board and was replaced by Mr. Ernst Esslinger on May 14, 2007. The deputy chairman

Mr. Franz Hipp passed away on October 18, 2007. Ms. Carmen Hettich-Günther was appointed to the supervisory board on November 21, 2007. Mr. Jochen Meyer was elected deputy chairman on December 20, 2007. Due to severe illness, Mr. Franz Hipp was only able to attend less than 50 percent of the supervisory board meetings. All other members of the supervisory board attended more than half of the meetings.

There were no personnel changes on the management board in the year under review.

The supervisory board wishes to thank all former members for their dedication. It also wishes to express its condolences and sympathies to Mr. Franz Hipp's family on their bereavement. His many years of commitment and dedication will always be remembered at HOMAG.

Financial Statements and Consolidated Financial Statements 2007

The financial statements of HOMAG Group AG, the management report, the consolidated financial statements and the group management report prepared by the management board for the fiscal year 2007 were audited, with reference to the bookkeeping, by Ernst & Young AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart. On June 22, 2007, the annual general meeting elected the auditors of the financial statements and engaged them to audit the financial statements and consolidated financial statements. The auditor did not have any reservations and certified this by rendering an unqualified opinion. The documentation pertaining to the financial statements together with the audit reports were made available to the supervisory board in a timely manner. This as well as the proposal for the appropriation of profits by the management board were examined in depth and discussed in detail in April 2008 at the meeting of the accounting committee and the meeting of the supervisory board at which the financial statements were ratified. The auditors took part in the meeting of the accounting committee and the meeting of the supervisory board at which the financial statements were ratified. Here, the auditors reported on the significant findings of their audit and were available to provide additional explanations.

Based on the review performed by the accounting committee and its own review, the supervisory board has approved the findings of the audit of the financial statements. No objections arose from the review performed by the accounting committee or the supervisory board's review. The supervisory board has approved the financial statements and management report as well as the consolidated financial statements and group management report as of December 31, 2007 prepared by the management board, which are herewith ratified. The supervisory board approves the proposal by the management board to pay a dividend from retained earnings of EUR 0.90 per participating no-par value share.

The supervisory board wishes to thank the members of the management board and all employees for their personal commitment during the year, which is reflected in the success achieved by the HOMAG Group in the fiscal year.

Schopfloch, April 23, 2008

On behalf of the supervisory board

Torsten Grede
Chairman

Corporate Governance Report

Joint Report of the Management Board and Supervisory Board of HOMAG Group AG on Corporate Governance

Corporate Governance at HOMAG Group AG

Responsible management and control as well as a long-term increase in the value of the Company are goals long embraced by HOMAG Group AG. These principles are key elements of the German Corporate Governance Code, which we expressly support. In our view, the Code creates greater transparency in order to further enhance the confidence of the capital markets and investors. With two exceptions, we have complied with all the recommendations of the Code (see declaration of compliance) and follow many of the suggestions.

An important element of corporate governance in the HOMAG Group is a clear segregation of duties and responsibilities between management board, supervisory board and annual general meeting while at the same time ensuring that management board and supervisory board work together closely and efficiently. Communicating actively and openly within the Company and dealing responsibly with risks are other important elements.

Management and Control Structure

The Supervisory Board

The supervisory board has twelve members and in accordance with the law on codetermination consists of an equal number of shareholder and employee representatives. The representatives of the shareholders are elected by the annual general meeting, the employee representatives by the employees. The maximum age for supervisory board members is 70. However, this only applies to the supervisory board members to be elected by the annual general meeting.

In order to permit independent advice to and supervision of the management board, the supervisory board only has one former member of the management board. The supervisory board members may not be on the board or act in an advisory capacity at any of the Company's major competitors. The supervisory board members are required to inform the supervisory board of any conflicts of interest that might arise, in particular due to their acting in an advisory or board function at customers, suppliers, investors or other business associates. In its report to the annual general meeting, the supervisory board provides information about any conflicts of interest that may have arisen and the way they were dealt with. Material conflicts of interest that are of a permanent nature inherent in a member of the supervisory board lead to the termination of the office. In the reporting year, there were no such conflicts of interest among the supervisory board members of HOMAG Group AG. Consulting or other service agreements between members of the supervisory board and the Company are subject to the approval of the supervisory board. Contracts of this kind only existed with Mr. Gerhard Schuler in the reporting period who had been chairman of the supervisory board until he retired on March 19, 2007; since then he has been honorary chairman of the supervisory board. The consultant agreement was concluded in 1999 between HOMAG Holzbearbeitungssysteme AG, a subsidiary of HOMAG Group AG and Mr. Schuler; for his advisory services Mr. Schuler receives annual payments of around EUR 61,000.

For further information on the work of the supervisory board and its committees as well as on the cooperation between management board and supervisory board is provided in the report of the supervisory board on pages 28 et seq.

The Management Board
The management board of HOMAG Group AG consists of five members and has a CEO.

The supervisory board of HOMAG Group AG has issued a code of procedure for the management board. The management board conducts the business of the Company with joint responsibility of all its members. It is bound to act in the interest of the Company and to increase the long-term value of the Company. The management board develops the Company's strategy, consults with the supervisory board on this and ensures that it is implemented. The management board ensures that the law and corporate guidelines are observed and encourages group companies to comply as well. In addition to that, the management board is responsible for ensuring that appropriate risk management and risk steering is in place in the Company.

The management board keeps the supervisory board informed regularly, promptly and comprehensively about all questions of relevance to the Company. Before the beginning of the next fiscal year, it presents a business plan to the supervisory board. During the fiscal year, measures requiring the approval of the supervisory board must be submitted to the supervisory board without delay.

The Annual General Meeting
The shareholders of HOMAG Group AG protect their rights in the annual general meeting. This is where they exercise their voting rights. Among other things, the annual general meeting adopts resolutions on profit appropriation, the exoneration of the management board and of the supervisory board and the election of the auditor. Amendments to the articles of incorporation and measures to increase or decrease capital are resolved exclusively by the annual general meeting and implemented by the management board.

The shareholders have the opportunity to exercise their voting right in the annual general meeting in person or by a proxy of their choice or by a proxy appointed by HOMAG Group AG who is bound to follow instructions.

Financial Reporting and Annual Audit
The financial statements of HOMAG Group AG are prepared in accordance with the German commercial code (HGB), the consolidated financial statements according to International Financial Reporting Standards (IFRS).

The auditor and group auditor are elected by the annual general meeting in accordance with the legal provisions. Before the election nomination for the audit is made, the supervisory board obtains a declaration from the auditor they have in mind stating if and whether there are any business, financial, personal or other relations between the auditor and its bodies and audit seniors on the one hand and HOMAG Group AG and its board members on the other which could give rise to doubts about independence. It was agreed with the auditor that the chairman of the supervisory board would be informed without delay of any grounds for disqualification or any factors affecting impartiality if they arise during the audit, unless they are remedied immediately. The supervisory board also agrees with the auditor that the auditor will immediately report all significant findings and events of relevance for the duties of the supervisory board that may arise during the audit and that the auditor will inform the supervisory board or mention this in the audit report if facts are found during the audit that indicate that the statement made by the management board to the supervisory board is incorrect.

Risk Management
For details of the risk management of HOMAG Group AG, please see pages 60 et seq. of this annual report.

Transparency
Great importance is attached at the Company to the provision of timely and consistent information. To this end, the Company uses the internet. If unexpected events arise at HOMAG Group AG between the regular reporting dates that could potentially have a significant influence on the market price of the HOMAG Group share, such events are announced in ad hoc reports.

Remuneration Report

The remuneration report considers the rulings of the German commercial code and the principles of the German Corporate Governance Code. It is at the same time part of the management report and the group management report.

Remuneration of the Supervisory Board
The remuneration paid to the supervisory board is governed by Art. 14 of the articles of incorporation and bylaws of HOMAG Group AG. It is based on the duties and responsibilities of the supervisory board members and the economic performance of the Group.

For each full fiscal year of membership, the members of the supervisory board received fixed remuneration of EUR 10,000. In addition, for each full fiscal year, they receive variable remuneration of EUR 500 for each percentage by which the dividend payment for the year in question exceeds 10 percent of the capital stock of the Company, but at most EUR 20,000. The chairman receives three times the fixed and variable compensation together, the deputy chairman one-and-a-half times that amount.

Supervisory board members who are also committee members in accordance with the articles of incorporation receive a lump-sum fee of EUR 1,000 per committee meeting. The chairman receives twice this amount.

Supervisory board members who did not belong to the supervisory board for the whole fiscal year, are remunerated based on their length of service on the supervisory board. Fixed and variable remuneration is payable with the dividend which serves as a calculation base for the variable remuneration.

The members of the supervisory board are also reimbursed for all out-of-pocket expenses as well as for the VAT payable on their remuneration and out-of-pocket expenses.

Directors and Officers Liability Insurance (D&O insurance) has been taken out by the Company for the supervisory board members.

The table below shows a breakdown of the remuneration of the supervisory board for the fiscal year 2007:

EUR k	**Fixed remuneration**	**Remuneration for committee work**	**Performance-based remuneration**	**Total remuneration**
Gerhard Schuler [1], honorary chairman	7	0	60	67
-thereof for prior year	*0*	*0*	*45*	*45*
Torsten Grede [2], chairman	23	6	45	74
Jochen Meyer [3), 4)], deputy chairman	10	0	35	45
-thereof for prior year	*0*	*0*	*15*	*15*
Franz Hipp [4), 5)]	15	6	53	74
-thereof for prior year	*0*	*0*	*23*	*23*
Ingrid Hornberger-Hiller [6]	3	0	20	23
-thereof for prior year	*0*	*0*	*15*	*15*
Dr. Jochen Berninghaus	10	0	27	37
-thereof for prior year	*0*	*0*	*8*	*8*
Klaus M. Bukenberger	10	3	31	44
-thereof for prior year	*0*	*0*	*11*	*11*
Ernst Esslinger [4), 7)]	7	0	15	22
Wilhelm Freiherr von Haller	10	5	35	50
-thereof for prior year	*0*	*0*	*15*	*15*
Karl Frey [4), 8)]	3	0	20	23
-thereof for prior year	*0*	*0*	*15*	*15*
Ralf Hengel [9]	7	0	15	22
Carmen Hettich-Günther [4), 10)]	3	0	5	8
Hannelore Knowles [4]	10	3	35	48
-thereof for prior year	*0*	*0*	*15*	*15*
Reinhard Löffler	10	13	35	58
-thereof for prior year	*0*	*0*	*15*	*15*
Reiner Neumeister [4]	10	7	35	52
-thereof for prior year	*0*	*0*	*15*	*15*
Reinhard Seiler [4]	10	0	35	45
-thereof for prior year	*0*	*0*	*15*	*15*
Total	**148**	**43**	**501**	**692**

1) Chairman until March 19, 2007, honorary chairman from March 19, 2007, remuneration as honorary chairman not included here
2) Member and chairman from March 19, 2007
3) Deputy chairman from December 20, 2007
4) Employee representative
5) Member and deputy chairman until October 18, 2007
6) Member until March 19, 2007
7) Member from May 14, 2007
8) Member until March 31, 2007
9) Member from March 19, 2007
10) Member from November 21, 2007

Remuneration of Management Board
The remuneration of the management board of HOMAG Group AG is agreed and reviewed by the personnel committee of the supervisory board. In the competition for highly qualified leaders, the remuneration model is designed as an incentive for the management board and at the same time meets high standards by taking personal performance and the success of the Company into account.

The direct remuneration is made up of a fixed salary and a variable performance-based component. The variable component consists of a short-term and a long-term incentive system and is based on indicator-based targets. It is also capped. There are no stock option plans. The members of the management board are not remunerated for board functions at subsidiaries.

There is no company pension scheme for the members of the management board.

Fixed remuneration
The non-performance-based fixed remuneration of the members of the management board consists of an annual fixed salary and incidental benefits. The annual salary is fixed for the term of the service agreements of the management board members and is paid out in twelve equal monthly installments. The incidental benefits consist of the value of the use of a company car that can be recognized for tax purposes and the payment of an insurance premium. The insurance premium is a group D&O insurance policy for accident and financial loss.

Loans and advances have not been granted to the members of the management board in the reporting year, nor have any declarations of liability been made.

Variable remuneration component
The performance-based remuneration components consist of a short-term incentive (STI) and a long-term incentive (LTI).

The STI is based on the value added (VA) as an indicator of the increase in value of HOMAG Group AG. The STI is calculated on a straight-line basis from a positive VA greater than 0.00 percent up to a fixed indicator (5.5 percent VA) and is paid out in this amount. The STI is capped at this indicator.

As an incentive system with long-term effect, the LTI bonus is based on fixed targets for the price development of the HOMAG Group share. To obtain the LTI bonus, the accumulated VA over the fiscal years 2007, 2008 and 2009 (reference period) must also be positive. This basic LTI bonus, which is also determined on a straight-line basis, is capped at 18 percent VA.

Another component of the LTI bonus is tied to the development of the HOMAG Group share during the reference period and can either increase or decrease the basic LTI bonus.

In a first step, the increase in the value of the share between the first listing (relative opening price) and the end of the reference period (relative closing price) is determined; the supervisory board considers this in its evaluation of the value development of the share price.

If the share price increases by up to 70 percent – relative closing price starting from the relative opening price – the second part of the LTI bonus, a “mark-up amount” (also calculated on a straight-line basis) is due for payment.

If the price of the share drops, a so-called “mark-down” is calculated in the same way; in this case a maximum drop in value of 70 represents the lower limit. Mark-up and mark-down have been agreed by contract and are of the same amount.

The LTI bonus is paid out in two installments, 50 percent no later than the annual general meeting in the fiscal year 2009, the second after the annual general meeting in the fiscal year 2010.

The remuneration of the management board members for fiscal 2007 breaks down as follows:

EUR k	Fixed salary	Short-term incentive [1]	Long-term incentive [2]	Benefits in kind	Total remuneration
Dr. Joachim Brenk	285	450	163	7	905
Achim Gauß	215	363	147	8	733
Andreas Hermann	193	375	130	5	703
Herbert Högemann	193	300	130	7	630
Rolf Knoll	211	363	147	7	728
Total	**1,097**	**1,851**	**717**	**34**	**3,699**

[1] To be paid out after the 2008 annual general meeting for 2007.
[2] The first third of the fair value of the LTI remuneration was transferred to the provision. Payments of 50% each will be paid after the 2010 annual general meeting for 2009 and 2011 for 2010. This is not the actual value but the fair value.

Shareholdings of Board Members

As of December 31, 2007, the members of the management board held a total of 81,936 shares. This is 0.52% of the capital stock of HOMAG Group AG. As no member of the management board held more than one percent of the capital stock in the reporting period, an individual break-down is not required. Based on notifications made by members of the supervisory board to the Company, the shareholdings of the members of the supervisory board and honorary chairman are as follows:

Member of the supervisory board	No. of shares	as a %
Ralf Hengel and related parties	386,631	2.46%
Erich und Hanna Klessmann Stiftung [1]	749,452	4.78%
Deutsche Beteiligungs AG and certain parallel funds managed by it [2]	4,896,304	31.21%
Total	**6,032,387**	**38.45%**

[1] Dr. Jochen Berninghaus, member of the Company's supervisory board is also a member of the board of trustees of the Erich und Hanna Klessmann Stiftung.
[2] Torsten Grede, member of the Company's supervisory board, is also a member of the management board of Deutsche Beteiligungs AG, and member of management of certain parallel funds managed by it.

Honorary supervisory board chairman	No. of shares	as a %
Gerhard Schuler	923,361	5.89%

The table below shows the transactions that have to be reported in accordance with Sec. 15a WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act]. For up-to-date information on directors' dealings, please refer to our homepage at www.homag-group.com.

Directors' dealings pursuant to Sec. 15a WpHG from July 13, 2007 to December 31, 2007:

Trading day	Stock exchange	Name	Function	Type	No. of shares	Price in EUR	Total volume in EUR
Nov. 23, 2007	XETRA	Achim Gauß	Member of the management board	Purchase	1,436	21.00	30,156.00

The following notifications were also made:

Trading day	Stock exchange	Name	Function	Type	No. of shares	Price in EUR	Total volume in EUR
Nov. 21, 2007	XETRA	Gerhard Schuler	Honorary chairman	Purchase	1,700	19.88544	33,805.25
Nov. 22, 2007	XETRA	Gerhard Schuler	Honorary chairman	Purchase	11,600	19.83053	230,034.15
Nov. 23, 2007	XETRA	Gerhard Schuler	Honorary chairman	Purchase	1,538	19.86504	30,552.43
Nov. 23, 2007	XETRA	Gerhard Schuler	Honorary chairman	Purchase	123	19.95	2,453.85
Nov. 29, 2007	XETRA	Gerhard Schuler	Honorary chairman	Purchase	2,888	19.9697	57,672.49
Nov. 30, 2007	XETRA	Gerhard Schuler	Honorary chairman	Purchase	1,666	20.00	33,320.00
Dec. 4, 2007	XETRA	Gerhard Schuler	Honorary chairman	Purchase	5,444	19.99082	108,830.02
Dec. 18, 2007	XETRA	Gerhard Schuler	Honorary chairman	Purchase	9,000	19.968	179,712.00

Declaration of Compliance in Accordance with Sec. 161 AktG

The management board and supervisory board of HOMAG Group AG declare in accordance with Sec. 161 AktG:
HOMAG Group AG comply with and will, in future, comply with the recommendations of the “Government Commission German Corporate Governance Code” as amended June 14, 2007 with the exception of the following sections and has continued to comply with it since July 13, 2007, the day of the initial listing of HOMAG Group AG, with the following exceptions:

1. No. 7.1.2 Sentence 3 (publication of the consolidated financial statements within 90 days and the interim reports within 45 days)

   The Company intends to follow this recommendation in future. Due to the first-time report after the IPO, the six-month and nine-month reports were published 46 days after the end of the reporting period. The 2007 annual report with the consolidated financial statements will be published within the legally required period of four months.

2. No. 3.8 (deductible for D&O insurance)

   The existing D&O insurance only provides for a deductible for US damages for all persons covered by the insurance.
   The Company does not believe that a further deductible will make a material contribution to compliance with the rules of proper governance and thus diverges from the Code in this respect.

Schopfloch, January 18, 2008

For the supervisory board of Homag Group AG

Torsten Grede
Chairman of the Supervisory Board

For the management board of Homag Group AG

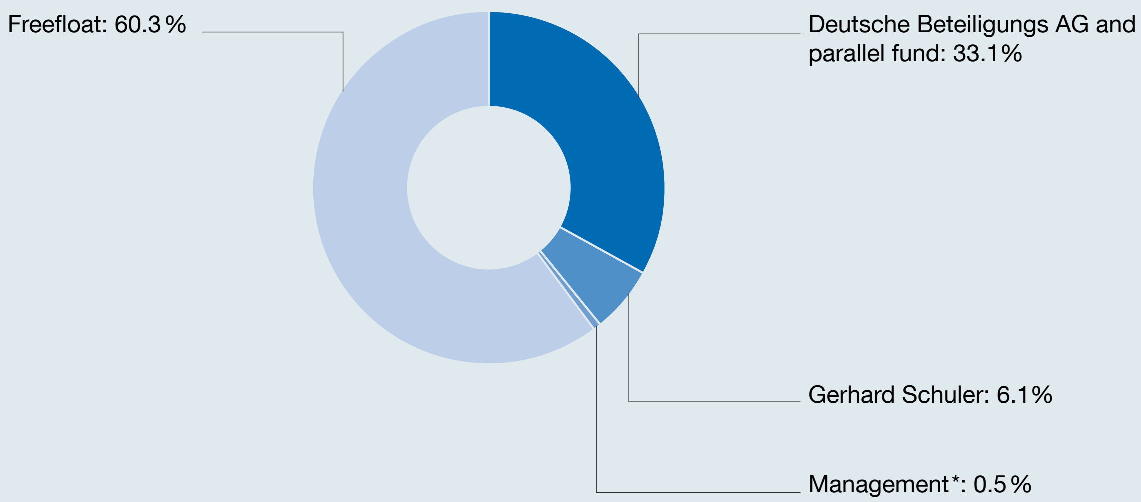
Dr. Joachim Brenk
CEO

The HOMAG Group AG Share

Flotation

The HOMAG Group AG shares have been listed on the Prime Standard of the Frankfurt stock exchange since July 13, 2007. On the whole, feedback from institutional investors on the international road show in the run-up to our IPO was extremely positive and the share offering was consequently oversubscribed several times over. Including the greenshoe option, a total of 6,299,461 shares were issued. Of those, 1,126,655 shares stem from a capital increase, 4,870,923 shares from the selling shareholders and 301,883 shares from an increased allocation option granted by the selling shareholders. At a placement price of EUR 31, the issue volume reached approximately EUR 195 million – some EUR 35 million (gross) of which flowed to the Company.

Shareholder structure as of February 29, 2008 [1)]



[1)] Method of calculation according to Dt. Boerse AG
* Lock-up ends January 12, 2009

Development of Stock Markets

The first six months of 2007 were extremely positive for the stock market, which benefited from the economy's good fundamentals. In the course of our first day of listing on July 13, both the German stock exchange index DAX and the German small cap index SDAX reached a new all-time high with 8,151 and 6,684 points respectively. Partly due to the US real estate and finance crisis, neither index was able to maintain this high level and dropped quite significantly in the weeks that followed. By year-end 2007, however, the DAX was able to recover substantially closing at 8,067 points or just under its peak level. By contrast, the SDAX continued to fall, ending 2007 at 5,191 points or 20 percent below its peak value.

Development of the HOMAG Share

Following initial listing, the HOMAG share was able to distance itself from the pessimistic mood on the trading floor well into August, fluctuating around its issue price of EUR 31. Despite the healthy development of the first six months of the year, the financial market also associated our share with the US real estate crisis and the share price dropped to EUR 24 by late August. After a temporary recovery during which the price fluctuated around the EUR 28 mark, the HOMAG share slid back down from the end of October and stood at EUR 20.70 at year-end 2007.

Development at the Beginning of 2008

Owing to rising uncertainty as to the repercussions of the US real estate and finance crisis, the prevailing mood at the stock exchange worsened significantly again at the beginning of 2008. As a result, the DAX lost well over 10 points, falling below the 7,000 point mark. The SDAX was even harder hit. At the beginning of the year it had temporarily lost almost 20 percentage points. In the first weeks of 2008, the HOMAG share followed the trend of the SDAX very closely, before rallying somewhat in the second half of February, at times exceeding EUR 21.

We believe that the development of the share price between our IPO and up to 2008 does not reflect the positive development of business at HOMAG Group AG and, in view of the low price/earnings ratio together with our Company's sound fundamentals, we consider our share to be attractive in relation to comparable companies.

SDAX Listing

Since October 1, 2007, our shares have been listed on the SDAX of the German Stock Exchange, the German index that lists the 50 largest small cap companies. Following an unscheduled index adjustment, our shares were promoted to the SDAX within three months of our initial listing after satisfying the capitalization and sales revenue criteria for SDAX listing required by the German Stock Exchange. Our share has attracted greater interest from analysts and investors following this upgrade.

Dividend Policy

On principle, we maintain a shareholder-friendly dividend policy that addresses the interest of investors in attractive dividend payments. The amount of dividends paid takes account of the development of earnings and our goal of keeping dividend distributions stable. For fiscal 2007, the management board and supervisory board of HOMAG Group AG propose to the shareholders' meeting the distribution of a dividend of EUR 0.90 per share.

Communication with the Capital Market
The aim of our financial communication activities is to establish an open, unbiased and continuous exchange of information with the capital market. In the course of our IPO on July 13, 2007, we appreciated a keen interest in our share from analysts and investors. In preparation for the IPO, we presented the HOMAG Group AG to more than 100 analysts at the major European stock exchanges.

Our work continued after the flotation, conducting numerous direct talks with institutional investors, and we were present at eight road shows between August and December 2007, including in London, Frankfurt, Paris, Amsterdam and Stuttgart. During additional conference calls concerning the published quarterly results, we are available to discuss and answer any queries about the current development of business. By February 2008 the HOMAG share had been rated in six analyses prepared by various institutes, and had received either “buy” or “overweight” ratings on five occasions and a “hold” rating once.

Performance of the Homag Group share from first day of listing July 13, 2007 to February 29, 2008

Source: XETRA

We maintain contact with private investors by calling them directly and via our website, which serves as a continually updated information resource. The public obtains additional information on the current performance of the HOMAG Group from reports in newspapers and business publications. To this end, we organize press conferences and issue press releases to keep the media posted on the latest developments.

In order to raise awareness in our share further, we joined the Baden-Württemberg Small Caps (BWSC) in December 2007, a joint initiative of the high-earnings corporations in the region. The BWSC's objective is to increase shareholder value in a sustainable manner by bundling the activities of member companies.

Share performance indicators

ISIN code		DE0005297204
Stock exchange segment		Prime Standard
Index	since Oct. 1, 2007	SDAX
Number of shares (according to commercial register entry)	until Jul. 11, 2007 since Jul. 12, 2007	14,561,345 15,688,000
	no-par value ordinary bearer shares	
First day of trading		Jul. 13, 2007
Price high Jul. 13 - Dec. 31, 2007	Jul. 13, 2007	EUR 31.89
Price low Jul. 13 - Dec. 31, 2007	Nov. 22, 2007	EUR 19.81
Price as at Dec. 28, 2007		EUR 20.70
Market capitalization (Dec. 28, 2007)		EUR 324.7 million

Group Management Report

Group Management Report for 2007

1. Business and General Economic Conditions

1.1 Group Structure and Management System

Legal and Company Structure
HOMAG Group AG is the parent company of the HOMAG Group and acts as financial holding. Its main function is to define the corporate strategy and to monitor its implementation. Other core activities include management of equity investments and liquidity management. HOMAG Group AG holds 100 percent of the shares in HOMAG Holzbearbeitungssysteme AG. The latter has active operations and acts as management company for numerous subsidiaries in which it holds the majority of the shares. The Group has ten domestic and four foreign production entities as well as 21 sales and service entities.

The operations of the production entities are managed by the respective local management. An equity investments officer in the holding company is also responsible for these subsidiaries. According to their size, the domestic production companies hold equity investments in HOMAG Vertriebs-Beteiligungs GmbH and thus exercise control over the foreign sales and service entities.

The following changes were made to the corporate structure in fiscal 2007:

- In December 2007, HOMAG GUS GmbH concluded a profit and loss transfer agreement with HOMAG Vertriebs-Beteiligungs GmbH.

- In 2007, 94 percent of the shares in SCHULER Business Solutions AG were transferred from HOMAG Group AG to HOMAG Holzbearbeitungssysteme AG. This transfer was motivated by the fact that SCHULER Business Solutions AG has very close ties to HOMAG Holzbearbeitungssysteme AG, especially in the area of research and development.

- The shareholding in MAW Montagetechnik GmbH was increased from 97 percent to 100 percent.

Company Structure
HOMAG Group AG is organized into to the “Industry”, “Cabinet Shops”, “Sales & Service” and “Other” segments. The “Industry” segment comprises those entities whose core business activities center on the provision of system solutions for industrial companies. The segment offers holistic, optimally aligned systems comprising machines, handling, data links, information technology and logistics, while covering the main processes of the wood processing workflow.

The “Cabinet Shops” segment comprises those group entities that offer products tailored to the special requirements of smaller workshops. Apart from high quality and productivity, the success factors of this segment include simple operation and flexible applications at a competitive price.

The Sales & Services segment comprises the business activities of the HOMAG sales and service entities in Germany and abroad. Our global sales and service network affords customers worldwide competent support at any time, and allows them to benefit from fast on-site service.

The “Other” segment primarily comprises the holding activities of HOMAG Group AG, foreign production facilities in regions with potential in the future, the services division with the software and consulting portfolio of SCHULER Business Solutions AG and the timber frame house construction division.

The HOMAG Group can also be divided into product groups. “Machines” encompasses our modular line of standard machines for the entry-level and mid-range market segments. “Cells” includes the machines linked to form production lines for flexible job production and automated mass production. This product group also includes complete machining centers. “Factory installations” contain holistic system solutions with complete integration of machine controls in a network and professional control technology. This is rounded off by our comprehensive service offering across all product groups.

Corporate Management
HOMAG Group AG is primarily managed based on the key performance indicators gearing, gearing ratio, EBITDA, EBT, ROCE, earnings per share (EPS) and net bank borrowing. Planned annual key performance indicators are monitored using monthly reporting. An additional significant element of corporate management is the balanced scorecard. It is the keystone of our risk management and, together with the key performance indicators, provides data regarding our market leadership and internal processes as well as personnel information.

1.2 Economic and Market Conditions

Development of the Economy
According to the calculations of the IfW [“Institut für Weltwirtschaft”: Institute for World Economy”] the world economy exhibited extremely robust growth of 4.8 percent in 2007. Growth was primarily driven by the emerging economies, especially China with GDP growth in excess of 11 percent, India up 9 percent and Russia with growth in excess of 8 percent. Significant growth was also recorded in the other countries of eastern Asia and in Latin America, averaging out at more than 5 percent. By contrast, the economies of industrial nations weakened somewhat with growth of 2.5 percent in 2007 compared to 2.9 percent in 2006. This is essentially due to significantly lower GDP growth in the US of 2.2 percent following the real estate and finance crisis that hit the US in summer 2007. The other industrial nations also began to feel the effect of the crisis. For instance, economic growth in Japan was about 2 percent.

A slowdown could also be seen in the European Union, although the economy performed well in 2007 overall with growth of 3.0 percent. GDP in the euro zone rose by 2.6 percent, with Spain, Ireland, Greece and the Netherlands, amongst others, generating strong growth, while the French and Italian economies developed below trend. Most eastern European countries reported solid growth. Indeed, the Polish, Czech, Romanian and Bulgarian economies each grew by about 6 percent, while Slovakia, Latvia and Lithuania each exceeded the 8 percent mark.

The German economy generated strong growth, with GDP rising 2.5 percent. Growth impetus primarily originated abroad – exports were up 7.8 percent, buoyed by unabated demand for German goods and services. At a domestic level, growth was again shouldered by investment in capital goods. Companies' capital expenditures on machines, plant and vehicles exceeded the prior-year level by 8.2 percent. However, consumption expenditure failed to make a contribution, with consumer spending actually decreasing marginally.

Mechanical and Plant Engineering
According to the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], 2007 was a record year for the German mechanical and plant engineering industry, with sales revenue rising some 13 percent coupled with high capacity utilization. At the same time, exports reached record levels, mainly due to the pent-up demand in eastern Europe and Russia as well as strong growth in EU countries. In addition, domestic business developed very favorably in 2007, up more than 17 percent.

A sub-industry of the mechanical engineering industry, the wood processing machines industry has a small number of players with global operations and an extensive portfolio of offerings. In addition, numerous smaller companies are active in the industry, usually specializing in one type of machine. The Italian companies Biesse Group and SCM Group are the HOMAG Group's largest competitors. The trend in the last few years reveals that the major players have been increasing their market share because customers increasingly value an international presence and prefer to procure complete large-scale systems from a single manufacturer. According to our estimates, the three companies mentioned above had obtained a combined market share of almost 50 percent in 2007.

The volume of the market relevant to the HOMAG Group was estimated at EUR 3.5 billion in 2007. Based on order intake, the world market expanded in 2007 by about 15 percent compared to the prior year. The competent industry association within the VDMA estimates the sales revenue growth generated by the wood processing machines industry at 23 percent in Germany and 8 percent abroad. Based on the same data, foreign growth was primarily attributable to the euro zone.

1.3 Business Development

Order Intake and Sales Revenue
HOMAG Group AG has made good use of the growth opportunities created by the favorable economic and market environment, and the Company developed extremely well in 2007. Our strong performance in the fiscal year is endorsed by record sales revenue and order intake. Indeed, order intake in 2007 rose 19 percent to EUR 747 million (prior year: EUR 626 million). Order intake climbed 32 percent to EUR 255 million as of December 31, 2007 compared to year-end 2006 (EUR 193 million). Our total operating performance thus improved by 16 percent to EUR 860 million (prior year: EUR 741 million) and sales revenue increased by 14 percent to EUR 837 million (prior year: EUR 736 million).

On the back of these growth rates, our development exceeded the prevailing trend in our industry segment, allowing us to strengthen our market leadership, and indeed expand it. Furthermore, we did not sacrifice earnings in favor of sales revenue, and in most cases we were able to impose our prices on the market. The discount ratio remained practically unchanged in 2007, thus leaving our margins intact.

An examination of our worldwide sales markets reveals a balanced growth scenario with rising sales revenue across all regions. Our ratio of exports remained steady at 80 percent in 2007. South American markets in particular exhibited a healthy development, up 35 percent. The investment backlog in Germany also eased, allowing us to achieve growth of 16 percent. The strong performance on other European markets continued, with growth of 16 percent on average, and we recorded growth of 11 percent on Asian markets.

Segment Sales Revenue

Individually, our business segments developed extremely well and were able to raise sales revenue significantly. For instance, the “Industry” segment reported sales revenue growth of 13 percent reaching EUR 494 million (prior year: EUR 438 million), with large scale plants in our project business making a far greater contribution to sales revenue. The “Cabinet Shops” segment rose 17 percent to EUR 232 million (prior year: EUR 198 million), while the “Sales & Services” segment reported an improvement of 13 percent in sales revenue to EUR 297 million (prior year: EUR 264 million). We recorded the greatest sales revenue growth in the “Other” segment, up 36 percent to EUR 76 million (prior year: EUR 56 million). Growth in this area was driven by timber frame house construction, where sales revenue rose again compared to the strong growth rates of 2006, almost doubling from EUR 23.6 million to EUR 46.0 million.

Significant Events in Fiscal 2007

Our successful participation in numerous trade fairs, which revealed strong demand for our products across the board, contributed to the extremely positive development of business in 2007. Our participation in May in the industry’s largest trade fair in the world, LIGNA, which is held every two years, stands out in this context. We were the largest exhibitor with over 6,000 m² of exhibition space on which we presented our products to a large number of very enthusiastic visitors. The annual in-house trade fair held in September at what is by far our largest subsidiary, HOMAG Holzbearbeitungssysteme AG, was also very successful. With a record attendance of more than 2,000 visitors, “HOMAG Treff” reported the strongest order intake in its history.

An important event that marked our past fiscal year was our successful IPO. HOMAG Group AG’s shares have been listed on an official market (Prime Standard) of the Frankfurt stock exchange since July 13, 2007. Our shares were upgraded to the SDAX, the small cap index of the German stock exchange on which the shares of 50 stock corporations are traded (additional information concerning the IPO and our share is presented in the section “The HOMAG Group AG Share” on pages 38 to 41 of the annual report).

At the beginning of October 2007, we decided to channel capital expenditures of about EUR 3 million into the expansion for production area at two subsidiaries. We intend to increase the production area at WEINMANN Holzbausystemtechnik GmbH in St. Johann-Lonsingen in the Swabian region of Germany by 2,800 m². Construction at our specialist in the field of plant and machinery for prefabricated timber frame houses commenced at the end of November, and the expansion is expected to be completed in May 2008. Some 25 new jobs will be created as a result at WEINMANN in the course of the coming year. We have brought forward the capital expenditures, which had originally been planned for 2008, in response to the high demand for timber framed prefabricated houses. We expect this move to afford us a positive drive for other sales areas of the HOMAG Group, especially in connection with interior extension construction for timber framed houses. We also see in this additional sales potential for our plant and machinery for manufacturing construction components, including flooring, staircases, windows and doors. Our aim is to benefit from cross-selling effects.

At BARGSTEDT Handlingsysteme GmbH in Hemmoor near Hamburg, our specialist for plant and machinery in the field of transport and handling, the production area will be expanded by 2,000 m^2. The aim of this expansion, which began at the end of 2007 and is scheduled to be completed by spring 2008, is to upgrade the professional basis of the growing project business.

1.4 Employees

Due to the excellent business development in the fiscal year, the number of employees increased in 2007 – but at a slower pace than total operating performance. An annual-average of 4,941 workers was employed by the Group, compared to 4,623 employees in 2006. As of December 31, the headcount rose from 4,701 to 5,114. Over 400 new jobs were thus created in the HOMAG Group in 2007. Of that figure, some 280 new jobs were created in our German manufacturing facilities and about 30 at our plants in Poland and China. The other new employees were hired in connection with the expansion and establishment of our sales companies abroad, mostly in India, Singapore and Russia. At year-end 2007, 4,036 workers were employed in Germany and 1,078 abroad, primarily in China, Poland and Spain.

Broken down by segment, the "Industry" segment had an annual-average headcount of 2,601 in 2007 (prior year: 2,498 employees), the "Cabinet Shops" segment had 1,070 (prior year: 987 employees) the "Sales & Service" segment had 642 (prior year: 566 employees) and the "Other" segment had 628 employees (prior year: 572 employees).

Training

We consider it our social responsibility to offer young people training opportunities. At the same time, our training policy creates valuable opportunities and represents a sensible investment in the future as a means of obtaining qualified professionals. That is the reason for our traditionally high ratio of trainees, which stood at about 10 percent in 2007. In total, the HOMAG Group had 376 trainees the fiscal year, 320 in technical and 56 in commercial positions. On principle, we endeavor to offer trainees permanent positions when they have completed their training.

In the course of our recruitment activities, we also cooperate with universities and offer placements to students writing their final-year thesis. In addition, our group companies hire interns and students during their work experience semester.

Our employees' skills and knowledge are key factors for the HOMAG Group's success. Training programs and initiatives to improve qualifications form a central element of our personnel development in order to ensure that employees are always at the cutting edge of industry developments and to secure our competitive position. Moreover, our in-house management development program ensures that most specialist and management positions are filled by internal applicants.

Employees as Fellow Entrepreneurs

We see our employees as fellow entrepreneurs, and since 1974 we have been providing them the opportunity of investing in their company. For instance, about 99 percent of the entitled workforce holds investments in HOMAG Holzbearbeitungssysteme AG at present. Profits of about EUR 7 million were distributed to employees in 2007 in connection with this employee participation model.

1.5 Sustainability

As a large manufacturing Group, we are acutely aware of our social responsibility and our obligations toward future generations. Actively protecting the environment and a conscientious use of natural resources are therefore of central importance to our corporate policy – particularly in light of the fact that our wood processing products are designed for a market that uses a renewable natural resource.

Practically all of our production locations have been awarded ISO 9001 certification, and out largest subsidiary HOMAG Holzbearbeitungssysteme AG is additionally certified under ISO 14001. Our processes meet high standards with regard to environmental compatibility. HOMAG Holzbearbeitungssysteme AG also has an internal catalog of measures aimed at reducing waste and energy consumption. Moreover, we only use solvent-free coatings.

We have also implemented numerous individual measures to keep energy consumption as low as possible. For instance, the lighting system at one of our companies was completely modernized and replaced by an energy-saving concept. At our Chinese production facilities we have provided shuttle busses for employees, and less the five percent travel to work by car as a result. We use environmentally friendly, bio-degradable packaging to dispatch our machines and replacement parts.

In the course of the change in shareholder structure, a comprehensive environmental due diligence was performed in spring of 2007, and no objections were raised.

1.6 Research and Development

In 2007, the HOMAG Group has again substantiated its claim to being a technology and innovation leader in the industry through continuous new and further developments across the entire product range. This was demonstrated at LIGNA, the world’s most important trade fair for the industry, where we were ranked first to third in the category of “mechanical processing” innovations.

In 2007, 684 of the 4,384 workers employed at the HOMAG Group’s production companies were assigned to R&D activities.

The development projects introduced in 2006 for standard products were concluded in the year under review. The resulting innovations include a stationary drill for double drill processing with and without workpiece handling. We have developed a new line and extended an existing line of our range of small edge banding machines, allowing us to offer small and medium-sized workshops attractive solutions.

As regards CNC technology, we have extended our successful “Venture” and “Vangtage” lines by introducing numerous clamping innovations and optional units that allow us to better address customers’ individual needs. In combination with new software components, this allows high-efficiency and low-labor production units. Numerous innovations were made that improve the product range and performance of panel sizing saws, including increasing the saw speed and camera-controlled adjustment of the saw blade.

In the expanding field of lightweight construction, we are able to offer customers considerable added value with a laminating module and the patented “double edge” technique.

In the field of batch size 1 industrial production, we were able to introduce a large number of innovations in cooperation with customers. Critical modules are now available for the area of storage and sorting including a sort memory system with vertical design and a modular vertical buffer unit. We have developed four sorting concepts from 1,000 to 10,000 workpieces per shift for the batch size 1 concept. Since these machines can only work economically with seamless software, we have developed a modular software package for the manufacturing technology, which was successfully implemented at customers’ plants.

To complete the materials flow and logistics product program the delivery line was extended to include a single or multi-story panel store as well as a flexible spare part store. The HOMAG Group is thus the only company in this market segment to offer its customers seamless and complete solutions comprising machines, control technology and software for all product areas from a single source. In order to provide small and medium-sized businesses a batch size 1 production solution, we have developed the “flex line.” This machine is specifically designed for their needs and has been successfully launched on the market.

We have developed a special pressure beam saw for the East Asian market, which is manufactured in China and has enabled us to take competitors’ market shares. We have enhanced the performance of the entry-level double-end tenoner product line, which is already produced in China, as well as the line of entry-level sanding machines.

In the field of timber frame house construction, we were able to relaunch the WBZ beam processing station as well as the WBS beam saw worldwide.

We have developed a modular simulation system that allows us to advice customers and provide them better support during the offer phase. As a result, the planned machines can now be modeled in a simulation in advance, and an analysis of critical activities can be performed so that the offer can be optimized.

With e-Parts, we have created a system for online handling of replacement parts. Following an extremely successful introduction in Germany, it will now be extended to include European customers before going into operation worldwide.

1.7 Changes in Company Boards

There were no changes in the management board in the year under review. The following changes were made to the supervisory board as of March 19, 2007. In the course of the change in the shareholder structure of HOMAG Group AG, Gerhard Schuler was elected honorary chairman of the supervisory board and has thus stepped down from the supervisory board together with Ingrid Hornberger-Hiller. Since then, Torsten Grede has been the chairman of the supervisory board, and Ralf Hengel has been newly appointed to the supervisory board. Effective March 31, 2007, Karl Frey left the supervisory board, and was replaced by Ernst Esslinger on May 14. In mid-October 2007, the deputy chairman of the supervisory board Franz Hipp passed away. On November 21, Carmen Hettich-Günther took the vacant position on the supervisory board – Jochen Meyer was elected as the new deputy chairman on December 20, 2007.

1.8 Disclosure Pursuant to Sec. 315 (4) HGB

Composition of issued capital (No. 1): Issued capital of EUR 15,688,000 comprises 15,688,000.00 no-par value bearer shares.

Restrictions relating to the voting rights or transferability of shares (No. 2): The management board is not aware of any restrictions, especially arising from agreements between shareholders, concerning voting rights. Regarding trading restrictions, we refer to the lock-up agreed in the course of the IPO. In accordance with the lock-up agreement, existing shareholders and members of management holding shares at the time of the IPO have an obligation to the syndicate of banks to refrain from directly or indirectly offering, selling, or marketing their shares in the Company, or announcing intention of this without prior agreement of Dresdner Kleinwort and JPMorgan for a period of six months (shareholders) or eighteen months (members of the management board) following the Company’s IPO on the official market.

Direct or indirect capital investments exceeding 10 percent (No. 3): We refer to the section “shareholder structure” regarding direct or indirect capital investments exceeding 10 percent. Deutsche Beteiligungs AG and the funds managed by it hold a capital investment and voting right in the Company of greater than 10 percent.

Shareholders with special rights (No. 4): There are no shareholders in HOMAG Group AG with special rights granting control.

Type of voting right control for interest in capital held by employees (No. 5): No employees who cannot exercise their rights of control directly have an interest in capital of HOMAG Group AG.

Legal provisions and statutes on the appointment and dismissal of members of the Board of Management and amendments to the articles of incorporation and bylaws (No. 6):

a) **Appointment of management board members:** Pursuant to Sec. 84 (1) Sentence 1 AktG, the supervisory board may appoint members of the management board for a maximum term of five years. Reappointment or extension of the term of office is allowed, for a term of up to five years each time. In accordance with Sec. 84 (1) Sentence 3 AktG, reappointment or the extension of terms of office may be carried out no earlier than one year before expiry of the current term of office and requires a new resolution by the supervisory board. In accordance with Sec. 84 (1) Sentence 4 AktG, an appointment term of less than five years may be extended without the need for a new resolution by the supervisory board provided that the total term of office does not exceed five years.

   Art. 5 (1) of the articles of incorporation and bylaws states that the management board must comprise at least three members. In accordance with Art. 5 (2) of the articles of incorporation and bylaws, the supervisory board is responsible for determining the number of members of the management board, appointing, changing and terminating employment contracts, as well as for the revocation of appointments. It is also responsible for appointing the chairperson and the deputy chairperson of the management board.

b) **Dismissal of management board members:** The appointment of management board members or the chairperson can be revoked by the supervisory board in accordance with Sec. 84 (3) Sentence 1 AktG if there is good reason to do so. Pursuant to Sec. 84 (3) Sentence 2 AktG, good reason could include gross breach of duty, inability to carry out regular management duties or a breach of trust on the part of the annual general meeting, unless the reasons for this were clearly unfounded. Pursuant to Sec. 84 (3) Sentence 4 AktG, the revocation of the appointment of the management board is effective until legally shown to be otherwise.

c) **Amendments to the articles of incorporation and bylaws:** In accordance with Sec. 179 (1) AktG, the articles of incorporation and bylaws may only be amended by resolution of the annual general meeting. The supervisory board is authorized, however, to pass resolutions amending the current version of the articles of incorporation and bylaws in accordance with Art. 15 of the articles of incorporation and bylaws in conjunction with Sec. 179 (1) Sentence 2 AktG.

   In accordance with Sec. 179 (2) Sentence 1 AktG, a resolution to amend the articles of incorporation and bylaws at the annual general meeting requires a majority of at least three quarters of the share capital represented when the resolution is adopted. Pursuant to Sec. 179 (2) Sentence 2 AktG, the articles of incorporation and bylaws can prescribe a larger share capital majority to amend the purpose of the Company and other requirements. In accordance with this legal authorization, Art. 20 (1) of the articles of incorporation and bylaws prescribes that resolutions of the annual general meeting require a simple majority of the votes cast, unless legal regulations prescribe otherwise. In such cases where the law requires a majority of the share capital represented when passing a resolution, a simple majority of the share capital represented suffices, unless legal regulations prescribe otherwise.

Authority of the management board, in particular regarding the possibility to issue or redeem shares (No. 7): HOMAG Group AG is managed by the management board, and represented by it both in and out of court. The members of the management board are bound to conduct the Company's business in accordance with the law, the articles of incorporation and bylaws, the rules of procedure for the management board including the allocation of duties plan and the provisions requiring the approval of the supervisory board pursuant to Sec. 111 (4) Sentence 2 AktG.

As regards the issue of shares and purchase of treasury shares, the management board has passed the following resolutions:

a) *Authorization to issues shares:* Pursuant to Art. 4 (3) of the articles of incorporation and bylaws, the management board is authorized with the approval of the supervisory board to raise the share capital in the period until May 31, 2012, once or several times, by a total of up to EUR 5,824,536.00 by issuing new no-par value bearer shares in exchange for cash or contributions in kind (authorized capital II). The management board is entitled to decide on the conditions of share issue with the approval of the supervisory board. In addition, the management board is authorized, subject to the approval of the supervisory board, to preclude existing shareholders' subscription rights under the following circumstances:

- for fractional amounts

- for capital increases in return for contributions in kind for the purpose of acquiring a company, part of a company or an equity investment in a company

- in the case of capital increases in return for cash contributions, if the issue price of the new shares is not significantly lower than the listed price of identical shares already listed when the issue price is finalized by the management board within the meaning of Sec. 203 (1) and (2) and Sec. 186 (3) Sentence 4 AktG, and the new shares with precluded subscription rights do not exceed an amount of 10 percent of share capital on the date of authorization. Shares disposed of during the term of authorized capital II precluding the subscription rights of the shareholders pursuant to Sec. 71 (1) No. 8 Sentence 5 and Sec. 186 (3) Sentence 4 AktG, as well as those with conversion or exercise rights or obligations issued after this authorization was granted pursuant to Sec. 221 (4) and Sec. 186 (3) Sentence 4 AktG are not allowed to exceed 10 percent of the share capital.

  By resolution of the annual general meeting on June 22, 2007, the management board was authorized, subject to the approval of the supervisory board, to raise the share capital of HOMAG Group AG in the period until June 30, 2008 once or several times up to a total of EUR 1,456,134.00 by issue of no-par value bearer shares in exchange for cash and/or contribution in kind, in order to place shares in the course of the IPO. In the course of the IPO of July 13, 2007, 1,126,655 new shares were issued. The management board is authorized to issue new shares to increase capital by the remaining difference of EUR 329,479.00 in the period until June 30, 2008.

The supervisory board is authorized to amend the articles of incorporation and bylaws to take into account capital increase from authorized capital, or upon expiry of the authorization time limit.

b) Authorization to purchase treasury shares: Pursuant to Sec. 71 (1) No. 8 AktG, the Company is authorized, with the approval of the supervisory board, to purchase treasury shares up until November 30, 2008 with an imputed share in share capital of EUR 1,456,134.00. The Company may not use the authorization to trade with treasury shares. The Company can exercise the authorization wholly or in part, once or several times. The management board can choose to purchase the treasury shares either a) from the stock exchange or b) from a public offer made to all shareholders.

Subject to the approval of the supervisory board, the management board is authorized to redeem the treasury shares purchased pursuant to this authorization without requiring any further resolutions by the annual general meeting. Moreover, subject to the approval of the supervisory board, they can be sold in a way other than on the stock exchange, provided that the treasury shares are purchased in exchange for contributions in cash and at a price that does not fall materially short of the quoted price of the same category of the Company's shares at the time of the sale. The total imputed share in share capital attributable to the number of treasury shares sold under this authorization together with the imputed share in share capital attributable to new shares issued, while precluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG directly or by analogy, since the resolution granting this authorization was passed, may not exceed a total of 10 percent of the share capital as of the date on which this authorization is exercised.

Subject to the approval of the supervisory board, the management board is also authorized to offer the treasury shares purchased under the aforementioned authorization to third parties in the course of business combinations or for the purpose of acquiring entities, parts of entities or equity investments. The price at which the Company's shares are sold to third parties may not fall short by more than five percent (excluding incidental purchase costs) of the average closing rate of the Company's shares in XETRA trading (or a functionally comparable successor system taking the place of the XETRA system) on the Frankfurt am Main stock exchange during the five trading days prior to the agreement with the third party. Shareholders' subscription rights are thus precluded.

Material agreements of the Company subject to the condition of a change of control as a result of a takeover bid (No. 8): HOMAG Group AG is party to a syndicated loan agreement governing a syndicated loan of EUR 180,000,000. Under this syndicated loan agreement, the banks are entitled to cancel for due cause some or all of the syndicated loans granted and demand their immediate redemption. Due cause includes in particular cases in which a third party (a person a group of people acting together) purchase at least 50 percent of the voting rights and/or at least 50 percent of the share capital of HOMAG Group AG. For this purpose, voting rights are allocated pursuant to Sec. 30 WpÜG ["Wertpapiererwerbs- und Übernahmegesetz": Securities Acquisition and Takeover Act]. Third parties include all persons, with the exception of the shareholders of HOMAG Group AG as of February 15, 2007.

Compensation agreements of the company with the members of the management board and employees in the event of a takeover bid (No. 9): The Company has not entered into compensation agreements with the members of the management board or employees in the event of a takeover bid.

1.9 Remuneration of the Management Board and Supervisory Board

The remuneration report considers the rulings of the German commercial code and the principles of the German Corporate Governance Code. It is at the same time part of the management report and the group management report.

Remuneration of the Supervisory Board
The remuneration paid to the supervisory board is governed by Art. 14 of the articles of incorporation and bylaws of HOMAG Group AG. It is based on the duties and responsibilities of the supervisory board members and the economic performance of the Group.

For each full fiscal year of membership, the members of the supervisory board received fixed remuneration of EUR 10,000. In addition, for each full fiscal year, they receive variable remuneration of EUR 500 for each percentage by which the dividend payment for the year in question exceeds 10 percent of the capital stock of the Company, but at most EUR 20,000. The chairman receives three times the fixed and variable compensation together, the deputy chairman one-and-a-half times that amount.

Supervisory board members who are also committee members in accordance with the articles of incorporation receive a lump-sum fee of EUR 1,000 per committee meeting. The chairman receives twice this amount.

Supervisory board members who did not belong to the supervisory board for the whole fiscal year, are remunerated based on their length of service on the supervisory board. Fixed and variable remuneration is payable with the dividend, which serves as a calculation base for the variable remuneration.

The members of the supervisory board are also reimbursed for all out-of-pocket expenses as well as for the VAT payable on their remuneration and out-of-pocket expenses.

Directors and Officers Liability Insurance (D&O insurance) has been taken out by the Company for the supervisory board members.

The table below shows a breakdown of the remuneration of the supervisory board for the fiscal year 2007:

EUR k	Fixed remuneration	Remuneration for committee work	Performance-based remu-neration	Total remuneration
Gerhard Schuler [1], honorary chairman	7	0	60	67
-thereof for prior year	*0*	*0*	*45*	*45*
Torsten Grede [2], chairman	23	6	45	74
Jochen Meyer [3], [4], deputy chairman	10	0	35	45
-thereof for prior year	*0*	*0*	*15*	*15*
Franz Hipp [4], [5]	15	6	53	74
-thereof for prior year	*0*	*0*	*23*	*23*
Ingrid Hornberger-Hiller [6]	3	0	20	23
-thereof for prior year	*0*	*0*	*15*	*15*
Dr. Jochen Berninghaus	10	0	27	37
-thereof for prior year	*0*	*0*	*8*	*8*
Klaus M. Bukenberger	10	3	31	44
-thereof for prior year	*0*	*0*	*11*	*11*
Ernst Esslinger [4], [7]	7	0	15	22
Wilhelm Freiherr von Haller	10	5	35	50
-thereof for prior year	*0*	*0*	*15*	*15*
Karl Frey [4], [8]	3	0	20	23
-thereof for prior year	*0*	*0*	*15*	*15*
Ralf Hengel [9]	7	0	15	22
Carmen Hettich-Günther [4], [10]	3	0	5	8
Hannelore Knowles [4]	10	3	35	48
-thereof for prior year	*0*	*0*	*15*	*15*
Reinhard Löffler	10	13	35	58
-thereof for prior year	*0*	*0*	*15*	*15*
Reiner Neumeister [4]	10	7	35	52
-thereof for prior year	*0*	*0*	*15*	*15*
Reinhard Seiler [4]	10	0	35	45
-thereof for prior year	*0*	*0*	*15*	*15*
Total	**148**	**43**	**501**	**692**

[1] Chairman until March 19, 2007, honorary chairman from March 19, 2007, remuneration as honorary chairman not included here
[2] Member and chairman from March 19, 2007
[3] Deputy chairman from December 20, 2007
[4] Employee representative
[5] Member and deputy chairman until October 18, 2007
[6] Member until March 19, 2007
[7] Member from May 14, 2007
[8] Member until March 31, 2007
[9] Member from March 19, 2007
[10] Member from November 21, 2007

Remuneration of Management Board

The remuneration of the management board of HOMAG Group AG is agreed and reviewed by the personnel committee of the supervisory board. In the competition for highly qualified leaders, the remuneration model is designed as an incentive for the management board and at the same time meets high standards by taking personal performance and the success of the Company into account.

The direct remuneration is made up of a fixed salary and a variable performance-based component. The variable component consists of a short-term and a long-term incentive system and is based on indicator-based targets. It is also capped. There are no stock option plans. The members of the management board are not remunerated for board functions at subsidiaries.

There is no company pension scheme for the members of the management board.

Fixed remuneration

The non-performance-based fixed remuneration of the members of the management board consists of an annual fixed salary and incidental benefits. The annual salary is fixed for the term of the service agreements of the management board members and is paid out in twelve equal monthly installments. The incidental benefits consist of the value of the use of a company car that can be recognized for tax purposes and the payment of an insurance premium. The insurance premium is a group D&O insurance policy for accident and financial loss.

Loans and advances have not been granted to the members of the management board in the reporting year, nor have any declarations of liability been made.

Variable remuneration component

The performance-based remuneration components consist of a short-term incentive (STI) and a long-term incentive (LTI).

The STI is based on the value added (VA) as an indicator of the increase in value of HOMAG Group AG. The STI is calculated on a straight-line basis from a positive VA greater than 0.00 percent up to a fixed indicator (5.5 percent VA) and is paid out in this amount. The STI is capped at this indicator.

As an incentive system with long-term effect, the LTI bonus is based on fixed targets for the price development of the HOMAG Group share. To obtain the LTI bonus, the accumulated VA over the fiscal years 2007, 2008 and 2009 (reference period) must also be positive. This basic LTI bonus, which is also determined on a straight-line basis, is capped at 18 percent VA.

Another component of the LTI bonus is tied to the development of the HOMAG Group share during the reference period and can either increase or decrease the basic LTI bonus.

In a first step, the increase in the value of the share between the first listing (relative opening price) and the end of the reference period (relative closing price) is determined; the supervisory board considers this in its evaluation of the value development of the share price.

If the share price increases by up to 70 percent – relative closing price starting from the relative opening price – the second part of the LTI bonus, a “mark-up amount” (also calculated on a straight-line basis) is due for payment.

If the price of the share drops, a so-called “mark-down” is calculated in the same way; in this case a maximum drop in value of 70 represents the lower limit. Mark-up and mark-down have been agreed by contract and are of the same amount.

The LTI bonus is paid out in two installments, 50 percent no later than the annual general meeting in the fiscal year 2009, the second after the annual general meeting in the fiscal year 2010.

The remuneration of the management board members for the fiscal 2007 breaks down as follows:

EUR k	Fixed salary	Short-term incentive [1]	Long-term incentive [2]	Benefits in kind	Total remuneration
Dr. Joachim Brenk	285	450	163	7	905
Achim Gauß	215	363	147	8	733
Andreas Hermann	193	375	130	5	703
Herbert Högemann	193	300	130	7	630
Rolf Knoll	211	363	147	7	728
Total	**1,097**	**1,851**	**717**	**34**	**3,699**

[1] To be paid out after the 2008 annual general meeting for 2007.
[2] The first third of the fair value of the LTI remuneration was transferred to the provision. Payments of 50% each will be paid after the 2010 annual general meeting for 2009 and 2011 for 2010. This is not the actual value but the fair value.

2. Results of Operations, Net Assets and Financial Position

2.1 Results of Operations

In 2007, the extremely positive development of business and the associated significant increase in sales revenue have resulted in excellent results of operations and a clear increase in earnings for HOMAG Group AG compared to 2006. Rigorous cost management has allowed us to raise all earnings indicators at a faster rate than the increase in sales revenue and total operating performance, setting new records in the Company’s history. In the year under review, our profit-enhancement program “Project 2008” focused on increasing productivity as well as improving efficiency across all areas. We achieved these targets, as can be seen from the lower ratio of personnel expenses for instance, which decreased to 29.1 percent (prior year: 30.2 percent). As a result of the good order situation, our cost of materials increased to EUR 394.3 million (prior year: EUR 340.5 million) – the cost of materials ratio remained unchanged at 45.9 percent (prior year: 45.9 percent).

Expenses of EUR 3.2 million with effect on earnings were incurred in connection with our IPO in July 2007, which have been partially deducted from the earnings indicators to allow for better comparability. Total expenditure in connection with the IPO came to EUR 4.5 million. The earnings figures for 2007 include costs of about EUR 5 million incurred in connection with the Company's participation in the world's largest trade fair for our industry, LIGNA. Comparable costs were not incurred in 2006. Taking these effects into account, the year-on-year increase in earnings is even more positive.

Earnings Indicators
In 2007, the Group's EBITDA before IPO costs and employee participation expenses improved by 22 percent to EUR 103.3 million (prior year: EUR 85.0 million). EBIT increased by 26 percent to EUR 82.2 million (prior year: EUR 65.2 million) before IPO costs and expenses from employee participation or to EUR 75.3 million (prior year: EUR 57.7 million) after employee participation.

The financial result including income from associates improved from EUR -13.6 million in the comparable prior-year period to EUR -10.8 million, despite an overall increase in interest rates. This improvement is attributable to the good development of business and the rigorous management of net working capital, which allowed us to significantly lower net bank borrowing. In addition, the capital increase in connection with the IPO led to a reduction in interest payments.

This resulted in EBT before IPO costs and employee participation expenses of EUR 71.4 million (prior year: EUR 51.6 million), and of EUR 64.5 million (prior year: EUR 44.1 million) including profit participation expenses, representing a clear increase of 46 percent. EBT in 2006 still included results from discontinued operations of EUR -6.8 million relating to the sale of the IMA Group. Taking this and the IPO costs from 2007 into account, EBT amounts to EUR 61.2 million in 2007, compared to EUR 37.3 million in 2006.

Our tax ratio increased in 2007, primarily on account of the remeasurement of deferred tax assets recognized on unused tax losses. Due to the new German business tax reform act, the deferred tax assets recognized had to be adjusted to account for the lower tax rate, since these were recognized based on the expected tax relief in future fiscal years on the basis of the tax rate in effect on the date of utilization. The net profit of the Group for the year before minority interests thus increased by 58 percent to EUR 35.2 million (prior year: EUR 22.2 million). The share attributable to the parent amounts to EUR 32.0 million (prior year: EUR 19.9 million). As a result, earnings per share improved by 54 percent to EUR 2.12 (prior year: EUR 1.38). Adjusted for IPO costs and based on continuing operations, earnings per share amounted to EUR 2.34 in 2007 and EUR 1.85 in 2006.

The main determinants of return on capital employed (ROCE) rose in 2007. Capital employed thus increased on the back of the increase in net working capital. The EBIT increase was even greater so that ROCE before taxes based on EBIT before IPO costs and employee participation expenses rose from 23.7 percent in 2006 to 28.9 percent. After taxes (using a tax rate of 39 percent), ROCE increased based on EBIT before IPO costs and employee participation expenses from 14.4 percent to 17.6 percent.

Segment Results

Results improved across all segments in the year under review compared to 2006. As a result, EBITDA before IPO costs and employee participation expenses increased to EUR 60.8 million (prior year: EUR 50.0 million) in the “Industry” segment, to EUR 28.9 million (prior year: EUR 25.1 million) in the “Cabinet Shops” segment, to EUR 10.0 million (prior year: EUR 8.9 million) in the “Sales & Services” segment and to EUR 7.0 million (prior year: EUR 3.8 million) in the “Other” segment.

2.2 Net Assets and Financial Position

Net Assets

The balance sheet total of HOMAG Group AG increased to EUR 569.4 million as of December 31, 2007 (prior year: EUR 483.7 million). On the assets side, this is primarily due to an increase in receivables and inventories, which have risen on the back of the good business situation and the corresponding high volume of deliveries and the large number of machines in the production phase. We also had a large balance of cash and cash equivalents as of the balance sheet date since these developed with a time lag and could not be used at year-end 2007 to redeem bank liabilities. Excluding the special effects of the high liquidity level, the balance sheet total has increased at a slower pace compared to total operating performance.

Looking at the equity and liabilities side of the balance sheet, the Company’s equity capitalization has increased substantially owing to the IPO on July 13, 2007 and the associated cash inflow of some EUR 35 million – or about EUR 30 million after deducting IPO costs – as well as the good earnings position. Indeed, the equity ratio as of December 31, 2007 came to 29 percent, compared to 22 percent at year-end 2006. Taking participating capital and the obligations from employee profit participation into account, the equity ratio climbed to 36 percent (December 31, 2006: 30 percent).

As of year-end 2007, we were able to decrease our net bank borrowing significantly to EUR 61 million due to an increase in cash inflow (prior year: EUR 113 million as of December 31, 2006). This was possible despite the expenses of EUR 5 million incurred in connection with LIGNA, the liquidity of about EUR 8 million required to purchase the remaining shares in HOLZMA Plattenaufteiltechnik GmbH as well as the dividends paid to shareholders totaling EUR 6 million. The sharp decline of about EUR 52 million in net bank borrowing is due to the net cash inflow of EUR 30 million relating to the IPO as well as the good results of operations. On the equity and liabilities side, line items trade payables and prepayments received increased significantly. Consequently, it was possible to finance a considerable portion of the increase in current assets using interest-free liabilities.

Financial Position

In July 2007, we concluded a new syndicated loan agreement with the existing syndicate of banks as follow-up financing to secure the liquidity of the HOMAG Group in the medium term. Owing to the positive development of the Company, we were able to significantly improve the conditions and collateral arrangements compared to the preceding agreement. Moreover, HOMAG Group AG was released as of March 30, 2007 from all secondary liability for liabilities and bank guarantees of the IMA group companies.

Cash flow from operating activities improved significantly in 2007, reaching EUR 52.7 million (prior year: EUR 29.8 million). This covered the cash paid for capital expenditures and left a free cash flow of EUR 19.6 million (prior year: EUR 1.2 million). Cash flow from financing activities totaled EUR 10.5 million (prior year: EUR -0.2 million). Overall, cash and cash equivalents amounted to EUR 47.6 million as of December 30, 2007 (prior year: EUR 17.5 million).

2.3 Capital Expenditures, Amortization and Depreciation

Following the high level of capital expenditure in fiscal 2006 geared at the expansion of production locations in Germany and abroad, investment in intangible assets and property, plant and equipment the year under review has declined again as planned. Capital expenditures in 2007 came to EUR 35.0 million (prior year: EUR 36.8 million) and was thus 4.1 percent of total operating performance. In 2007, investment was primarily made on machinery, partially to increase capacity, and in the area of information technology.

Property, plant and equipment and intangible assets increased to EUR 164.9 million as of December 31, 2007 (prior year: EUR 156.2 million). This increase is attributable to the increase in development cost from EUR 1.7 million to EUR 7.5 million as of December 31, 2007. In this context, the preconditions in the entities for recording and allocating costs to individual development projects were improved further in the year under review, thus allowing their capitalization.

Amortization and depreciation also increased to EUR 21.2 million (prior year: EUR 19.8 million). Compared to the prior year, this development mainly reflects the considerable rise in amortization of capitalized development expenditure.

As in prior years, capital expenditures significantly exceeded amortization and depreciation, thus contributing to maintaining the business value in the long term.

3. Subsequent Events

After the close of the fiscal year 2007, there were no events of any significance for the net assets, financial position and results of operations of HOMAG Group AG, or any other important events which could affect the development of the Company.

4. Risk Report

Due to its international business operations, HOMAG Group AG is naturally exposed to a number of risks. The objective of the monitoring system is to identify and measure possible risks arising from entrepreneurial activities, allowing a timely and targeted response. From today's viewpoint there are no identifiable risks to the continued existence of HOMAG Group AG as a going concern.

Risk Management
We have implemented a group-wide risk management system that is essentially based on the management accounting system and is continually enhanced. In 2007, we prepared a risk management manual for HOMAG Group AG, with a balanced scorecard as its central element. The new manual is to be successively implemented throughout the entire Group. We also extended and honed our risk management system to our needs by introducing project controlling, a sales profitability analysis and detailed segment reporting.

HOMAG Group AG's risk management system is primarily based on the definition of targets derived from the multiple-year planning. Developments in individual areas are monitored using the monthly reporting system. In the course of multiple-year planning, financial data and non-financial data – what is referred to as scorecard indicators – are defined, and their compliance is monitored by management accounting. The scope of the analysis includes data relating to market penetration, innovation power or employee satisfaction. The risks to the Group or its subsidiaries subject to mandatory monitoring or reporting are regularly monitored and, in the event of unexpected developments, notified to the management board and supervisory board immediately.

Both of the comprehensive due diligence reports prepared at the end of 2006 and in spring of 2007 in the course of the change in ownership and for the IPO up to the middle of the year – the results of which are included in the registration statement – did not reveal any risks to the continued existence of the Group as a going concern.

Economic Risks
The significant risks to the development of HOMAG Group AG, as a company active on the capital goods market, stem from the economic development of the markets relevant to the Group. Experience has shown that weak economic conditions deter companies from investing, and thus affect the Group's sales performance. However, our worldwide presence allows us to limit our dependence on individual markets. In addition, we adjust our production planning and capacities to reflect changes in order intake at any early stage. Please refer to the forecast report for information about the crisis in the US.

Customer Risks
Although an increasing share of sales revenue in the Group is generated from large customers, we do not see at present a risk to the continued existence of the Company as a going concern as regards dependence on a single customer, since no single customer generates more than 5 percent of total sales revenue. There is a fundamental risk of bad debt. We counter this risk by obtaining advance payments based on the stage of completion of projects and by taking out insurance on a case-by-case basis. Our low bad debt ratio in the past indicates that our measures are effective.

Product and Development Risks
As a company laying claim to technological and market leadership, we endeavor to recognize new developments taking place in our sector at an early juncture. This is related, however, to potential risks from negative developments and technical risks from the introduction of new technology. We aim to counter these risks with strong links to our customers, which enables us to promptly identify new developments in the sector as well as to receive early feedback on new developments. Moreover, procedural work-flows are in place for the product development process, meaning that the expenses related to new developments can be recorded consistently and market opportunities evaluated at an early stage.

Our extraordinarily wide range of products, from equipment and machines for smaller workshops to large industrial equipment, puts us in a position to tailor our services to every customer segment. The Group's ability to continue as a going concern would therefore not be affected by weak sales revenue in one product segment.

We consider the risk posed by new competitors to our position as technology leader to be negligible owing to very high entry barriers in our industry.

Quality Risks
Quality risks cannot be completely eliminated where complex equipment and machines are concerned. These are addressed by means of a comprehensive total quality management system to minimize risks from product liability and warranty claims. The DIN ISO 9000 certification held by the majority of our plants bears witness to the high standard of our quality control system. A high level of standardization within the individual plant components ensures products of a consistently high standard.

Currency Risks
Currency risks are inherent in the international nature of our business activities. Negative effects from exchange differences can indirectly impact on the sales revenue and earnings position of the Group. We take measures including the use of derivative financial instruments on a small scale to limit the consequences of these effects. The Company considers currency risks to be low overall on account of the fact that the majority of sales revenue is generated in Europe and invoices are issued in euro, even for countries outside of the euro zone.

Liquidity and Financing Risks
At present, the financing volume currently available is deemed sufficient to secure the future financing and liquidity requirements of the HOMAG Group. In the course of external financing in 2007, we concluded a new syndicated loan agreement with the existing syndicate of banks in order to secure liquidity in the medium term as planned. Consequently, there are currently no discernable financial risks that could jeopardize the continuation of the Company as a going concern.

5. Forecast

Development of the Economy and Industry

As of the end of 2007, the global economic climate had declined as a consequence of the mortgage and financial crisis in the USA. For this reason, the IfW in Kiel and the International Monetary Fund (IMF) expect that the global economy will lose momentum in 2008. Record highs worldwide for oil prices and persistently high prices for other raw materials curtail growth. Moreover, the strong euro burdened the export business in the euro zone. Global GDP is expected to enjoy growth of around 4 percent in 2008. The fact that growth remains positive is attributable to the steady economic impetus outside the industrial nations; China is expected to see growth in excess of 10 percent, while India and Russia are forecast to generate growth of around 8 percent and over 6 percent respectively. In Latin America and the other countries of eastern Asia besides China, the GDP is predicted to rise by more than 4 percent. The IfW forecasts growth of just 1.9 percent in the industrial nations, however, with increases in the USA and Japan of 1.6 and 1.4 percent respectively.

GDP growth of just over 2 percent is expected for the European Union. In this context, the countries of the euro zone are expected to grow by 2.0 percent, while the forecasts for the countries in eastern Europe (mainly the new EU member states) are considerably higher, exceeding 6 percent on average. According to government estimates, the German economy will lose momentum in 2008, with growth of 1.7 percent. The DIW ["Deutsche Institut für Wirtschaftsforschung": German Institute of Economic Research] takes a more positive view, forecasting a 2.1 percent increase in the GDP in light of conditions which are considered positive overall. Private consumer demand is anticipated to act as a catalyst for this positive economic development in Germany.

The VDMA forecasts growth of approximately 5 percent in the current year. The Federation views the high levels of orders on hand and order intake at the start of 2008 as positive, but warns of risks, which could include recession in the USA.

The industry association within the VDMA responsible for wood processing machines expects growth in sales revenue to reach 11 percent on this market overall in 2008. This also includes areas not served by the HOMAG Group, however, such as machines for use in surface treatment or sawing. Furthermore, this forecast was issued in September 2007 and had already been described as "very optimistic" at the beginning of 2008. The management of the HOMAG Group expects growth of between 5 and 6 percent in 2008 for those market segments relevant to its business activities.

Forecast for HOMAG Group AG

The HOMAG Group started 2008 with an order backlog of EUR 255 million, up 32 percent on December 31, 2006 (EUR 193 million). In January and February of 2008, there continued to be a positive intake of orders, which exceeded targets; we are very satisfied with how this fiscal year has started. Early indications are that the first half of 2008 could even surpass the record figures of the prior-year period in terms of sales revenue and earnings.

We also anticipate that business will continue to develop positively in 2008 as a whole. We aim to exceed the market growth rate for our sector and expect sales revenue to increase by more than 6 percent. Particularly in the field of timber frame house construction and in the project business, we expect significant growth.

The repercussions of the US mortgage and financial crisis have so far been limited to business in the USA and have not been felt elsewhere for the HOMAG Group. The "factory installations" product group continues to develop steadily in the USA, despite a reduction in demand for stand-alone machines. It is possible that the drop in demand in the USA can be countered within the Americas, thanks to high demand in Canada and South America. Regardless of the mortgage and financial crisis in the USA, we anticipate growth in 2008; this is especially true of the eastern European and Asian markets.

We aim to further improve our earnings in 2008 and anticipate substantial growth, particularly in earnings after tax and earnings per share, considerably above planned sales revenue growth. The positive forecast for earnings indicators is mainly due to the fact that the IPO costs incurred in the past were of a non-recurring nature, the interest result has improved and, in particular, the tax burden has decreased following the German business tax reform.

In the final year of the extremely successful profit-enhancement program "Project 2008" we aim to leverage additional income from procurement activities. Moreover, we are already doubling our efforts on the successor program "HOMAG GAP" (HOMAG Group Action Program), which has a five-year planning horizon and with which we aim to take early action to counter the effects that are expected from the collectively negotiated wage agreements in the metal industry and the related rise in personnel costs.

Due to the expected expansion of business we anticipate a further increase in the number of qualified employees in 2008 in order to implement our projects. However, the rise will be below the increase in sales revenue.

We expect capital expenditures to increase in 2008 compared to the level of 2007 due to additional construction measures. We have already started with the expansion of production area at WEINMANN Holzbausystemtechnik GmbH in St. Johann-Lonsingen and at BARGSTEDT Handlingsysteme GmbH in Hemmoor near Hamburg. In addition, there are plans to expand the administration building of HOMAG Holzbearbeitungssysteme AG in Schopfloch.

In the area of equity management, we will continue to examine the possibility of making additional acquisitions in the field of surfacing technology, while further expanding the worldwide sales network.

Fiscal Year 2009

We look to 2009 with confidence and we want to maintain the successful course of business. Owing to the favorable order intake in the first quarter of 2008, our books are already full until fall 2008. Backed by the good order intake expected in the second half of 2008, a good start to 2009 already seems likely. In addition, the world's largest trade fair for the industry LIGNA will again be held in Hanover in spring of next year. As in the past, business is again expected to be fueled by our innovative product developments and enhancements, most of which are being implemented immediately, particularly in the field of standard machines.

The 2009 forecast is subject to uncertainty as regards the future impact of the US real estate and finance crisis as well as the development of the global economy. Despite the existence of such risks, the HOMAG Group today has a greater amount of maneuvering space and can react more flexibly than ever before, and any downturn in the business cycle would have a limited impact on earnings. Overall, we see enormous potential for growth in our segments over the coming years, and we intend to take full advantage of our opportunities as the world's market leader. Our aim is to grow faster than our market, while maintaining our profitable growth strategy.

Consolidated Financial Statements

Consolidated Income Statement for the Fiscal Year 2007

EUR k	Note	2007	2006
Sales revenue	5.1	**836,862**	**736,459**
Increase or decrease in inventories of finished goods and work in process		15,933	2,575
Own work capitalized	5.2	6,826	2,210
		22,759	4,785
Total operating performance		**859,621**	**741,244**
Other operating income	5.3	18,909	12,808
		878,530	**754,052**
Cost of materials	5.4	394,252	340,483
Personnel expenses before employee profit participation	5.5	250,457	223,764
Amortization of intangible assets	5.7	4,395	3,914
Depreciation of property, plant and equipment	5.8	16,788	15,885
Other operating expenses	5.9	133,722	104,773
- thereof IPO costs		*3,249*	*0*
		799,614	**688,819**
Operating result before employee profit participation		**78,916**	**65,233**
Expenses from employee profit participation	5.5	6,902	7,496
Net operating profit		**72,014**	**57,737**
Profit/loss from associates	5.10	320	525
Interest income	5.13	1,853	2,482
Interest expenses	5.13	12,978	16,620
Earnings before taxes		**61,209**	**44,124**
Income taxes	5.14	26,027	15,116
Result of continuing operations		**35,182**	**29,008**
Gain/loss on disposal from discontinued operations	5.15	0	-6,796
Result from discontinued operations		**0**	**-6,796**
Profit for the year		**35,182**	**22,212**
Attributable to minority interests	5.16	3,152	2,265
Attributable to equity holders of Homag Group AG		32,030	19,947
Earnings per share of the equity holders of Homag Group AG in EUR	5.17	2.12	1.38

Consolidated Balance Sheet as of December 31, 2007

ASSETS

EUR k		Note	Dec. 31, 2007	Dec. 31, 2006
Non-current assets				
I.	Intangible assets	6.1, 6.2	25,050	17,401
II.	Property, plant and equipment	6.1, 6.3	139,867	138,790
III.	Investments in associates	6.4	5,960	6,450
IV.	Other investments		862	811
V.	Other financial assets	6.8	3,910	3,371
VI.	Other assets and prepaid expenses	6.9	201	310
VII.	Income tax receivables	6.10	3,053	3,259
VIII.	Deferred taxes	5.14	12,691	20,337
			191,594	**190,729**
Current assets				
I.	Inventories	6.5	128,124	100,770
II.	Receivables and other assets	6.6		
	Trade receivables	6.6	138,938	119,573
	Receivables from long-term construction contracts	6.7	28,579	19,518
	Receivables due from associates	6.6	10,889	8,076
	Other financial assets	6.8	12,556	20,799
	Other assets and prepaid expenses	6.9	8,097	6,695
	Income tax receivables	6.10	1,140	0
III.	Cash and cash equivalents	6.11	47,613	17,506
			375,936	**292,937**
Assets available-for-sale		6.12	**1,831**	**0**
Total assets			**569,361**	**483,666**

EQUITY AND LIABILITIES

EUR k		Note	Dec. 31, 2007	Dec. 31, 2006
Equity				
I.	Issued capital	6.13.1	15,688	14,561
II.	Capital reserves	6.13.2	32,976	0
III.	Revenue reserves	6.13.3	69,534	56,044
IV.	Net loss of the group for the period	6.13.4	32,030	19,947
	Equity attributable to equity holders		150,228	90,552
V.	Minority interests	6.13.5	15,907	13,446
			166,135	**103,998**
Non-current liabilities and provisions				
I.	Non-current financial liabilities	6.14	118,809	80,079
II.	Other non-current liabilities		1,537	3,970
III.	Pensions and other post employment benefits	6.16	2,420	2,578
IV.	Obligations from employee profit participation	6.17	9,814	8,966
V.	Other non-current provisions	6.18	5,354	2,857
VI.	Deferred taxes	5.14	13,241	13,294
			151,175	**111,744**
Current liabilities and provisions				
I.	Current financial liabilities	6.14	32,915	93,473
II.	Trade payables		77,764	54,809
III.	Payments on account received		46,053	28,922
IV.	Liabilities from construction contracts	6.7	2,562	1,265
V.	Liabilities to associates		2,833	1,589
VI.	Other financial liabilities		3,036	831
VII.	Other current liabilities and deferred income		63,089	67,825
VIII.	Tax liabilities		8,713	6,557
IX.	Other current provisions	6.18	15,086	12,653
			252,051	**267,924**
Total liabilities			**403,226**	**379,668**
Total equity and liabilities			**569,361**	**483,666**

Consolidated Cash Flow Statement for Fiscal Year 2007

EUR k	Note	2007	2006
	(4.2.20)		
1. Cash flow from operating activities			
Profit or loss for the period before tax (continuing operations)		**61,209**	**44,124**
Income tax paid (-)		-16,357	-16,564
Interest result		11,125	14,138
Interest paid (-)		-11,952	-12,790
Interest received (+)		1,627	2,482
Impairments (+)/reversal of impairments (-) of non-current assets (netted)		21,183	19,779
Increase (+)/decrease (–) in provisions		6,039	1,344
Other non-cash expenses (+)/income (–)		566	3,685
Share of net profit of associates		-322	-491
Gain (–)/loss (+) on disposals of non-current assets		6	527
Increase (-)/decrease (+) in inventories, trade receivables and other assets		-55,723	-49,443
Increase (+)/decrease (–) in trade payables and other liabilities		35,259	30,362
Cash flow from operating activities of **continuing** operations		**52,660**	**37,153**
Cash flow from operating activities of **discontinued** operations		0	-7,400
Cash flow from operating activities		**52,660**	**29,753**
2. Cash flow from investing activities			
Cash received (+) from disposals of property, plant and equipment		5,011	2,941
Cash paid (–) for investments in property, plant and equipment		-17,165	-25,597
Cash received (+) from disposals of intangible assets		0	159
Cash paid (–) for investments in intangible assets		-12,239	-5,763
Cash received (+) from disposals of financial assets		19	38
Cash (+) paid for the acquisition of consolidated companies		-8,691	0
Cash paid (-) for investments in financial assets		0	-313
Cash flow from investing activities		**-33,065**	**-28,535**

EUR k	Note	2007	2006
	(4.2.20)		
3. Cash flow from financing activities			
Dividends		-5,825	-2,912
Cash paid (-) to minority interests		-720	-680
Cash received from issue of shares		34,926	0
Cash paid (-) from issue of shares		-1,226	0
Cash received (+) from the issue of (financial) liabilities		51,128	70,009
Cash repayment (-) of bonds and (financial) liabilities		-67,737	-66,129
Cash paid (-) for the acquisition of minority interests		0	-522
Cash flow from financing activities of **continued** activities		**10,546**	**-234**
Cash flow from financing activities of **continued** activities		0	0
Cash flow from financing activities		**10,546**	**-234**
4. Cash and cash equivalents at the end of the period			
Change in cash and cash equivalents (subtotal 1 - 3)		30,141	984
Net foreign exchange rate related changes in cash and cash equivalents		-34	502
Cash and cash equivalents at the beginning of the period		**17,506**	**16,020**
Cash and cash equivalents at the end of the period		**47,613**	**17,506**
Cash and cash equivalents at the end of the period *		**47,613**	**17,506**

* Cash and cash equivalents at the end of the period corresponds to the balance sheet item cash and cash equivalents.

Statement of Changes in Group Equity

EUR k	Issued capital	Capital reserve	Revenue reserves
Dec. 31, 2005	**14,561**	**0**	**63,420**
Adjustment of balance carried over			-1,689
Acquisitions of minority interests			-357
Other changes			-45
Dividends paid			-2,912
Transactions with shareholders			-2,912
Total income and expense for the year recognized directly in equity			0
Reclassification prior-year earnings			-3,007
Group profit for the year			
Total income recognized for the reporting period			
Dec. 31, 2006	**14,561**	**0**	**55,410**
Acquisitions of minority interests			
Other changes			288
Capital increase due to IPO	1,127	33,800	
Costs from the IPO recognized directly in equity		-1,226	
Tax thereon		402	
Dividends paid			-5,825
Transactions with shareholders	1,127	32,976	-5,825
Other income and expense for the year recognized directly in equity			
Reclassification prior-year earnings			19,947
Group profit for the year			
Total income recognized for the reporting period			
Dec. 31, 2007	**15,688**	**32,976**	**69,820**

Statement of Recognized Income and Expense for the year 2007

EUR k	2007	2006
Actuarial gains and losses	188	105
Deferred taxes on actuarial losses	-66	-40
Currency effects	-1,169	-2,809
Income and expense recorded directly in equity	**-1,047**	**-2,744**
Net result of the group for the year	35,182	22,212
Recognized income and expense	**34,135**	**19,468**
Attributable to minority interests	3,025	2,129
Attributable to equity holders of the parent company	31,110	17,339

Revenue reserves					
Other comprehensive income	Translation reserve	Group profit	Equity before minority interests	Minority interests	Total
-9	**4,137**	**-3,007**	**79,102**	**10,081**	**89,183**
	-886		-2,575	2,575	0
			-357	-765	-1,122
			-45	25	-20
			-2,912	-599	-3,511
			-2,912	-599	-3,511
62	-2,670		-2,608	-136	-2,744
		3,007	0	0	0
		19,947	19,947	2,265	22,212
62	-2,670	19,947	17,339	2,129	19,468
53	**581**	**19,947**	**90,552**	**13,446**	**103,998**
			0	161	161
			288	-5	283
			34,927		34,927
			-1,226		-1,226
			402		402
			-5,825	-720	-6,545
			28,278	-720	27,558
94	-1,014		-920	-127	-1,047
		-19,947	0		0
		32,030	32,030	3,152	35,182
94	-1,014	32,030	31,110	3,025	34,135
147	**-433**	**32,030**	**150,228**	**15,907**	**166,135**

Segment Reporting for Fiscal Year 2007

EUR k	Industry 2007	Industry 2006	Cabinet Shops 2007	Cabinet Shops 2006
Third-party sales	323,507	278,089	104,603	86,132
Sales with group companies from other segments	135,150	115,389	95,000	79,907
Sales revenues with at-Equity financial entities	35,362	44,905	32,847	31,506
Total sales revenue	**494,019**	**438,383**	**232,450**	**197,545**
Cost of materials	-245,328	-210,566	-131,585	-108,903
Personnel expenses	-144,670	-131,802	-52,848	-47,424
Segment result	**60,796**	**49,958**	**28,898**	**25,082**
Depreciation and amortization of property, plant and equipment and intangible assets	-12,758	-12,443	-4,734	-4,178
Expenses from employee profit participation	-4,325	-5,239	-1,851	-1,855
IPO expenses	0	0	0	0
Share in profit of associates	171	339	0	0
Financial result	-5,149	-10,342	-1,445	-1,463
Profit before tax from continuing operations	**38,735**	**22,273**	**20,868**	**17,586**

	Industry		Cabinet Shops	
Assets				
Investments in associates	4,241	4,619	4	2
Capital expenditure [2]	20,563	19,080	10,472	9,759
Segment assets	**403,864**	**364,826**	**139,574**	**111,715**
Segment liabilities	**270,437**	**240,346**	**79,246**	**64,535**
Employees [3]	**2,601**	**2,498**	**1,070**	**987**

[1] EBITDA from continuing operations, before taking into account employee profit participation expenses and IPO cost
[2] The capital expenditures relate to additions to the property, plant and equipment and intabgible assets.
[3] Annual average

Sales & Service		Other		Total segments		Consolidation		Group	
2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
293,550	261,739	40,124	21,601	761,784	647,561	0	0	761,784	647,561
3,347	1,792	29,442	22,071	262,939	219,159	-262,939	-219,159	0	0
3	7	6,865	12,479	75,077	88,897	0	0	75,077	88,897
296,900	**263,538**	**76,431**	**56,151**	**1,099,800**	**955,617**	**-262,939**	**-219,159**	**836,861**	**736,458**
-240,549	-210,428	-36,695	-26,707	-654,157	-556,604	259,905	216,121	-394,252	-340,483
-31,108	-29,039	-21,831	-15,499	-250,457	-223,764	0	0	-250,457	-223,764
10,045	**8,889**	**6,975**	**3,797**	**106,714**	**87,726**	**-3,366**	**-2,694**	**103,348**	**85,032**
-1,593	-1,480	-2,119	-1,886	-21,204	-19,987	21	188	-21,183	-19,799
-237	-249	-489	-153	-6,902	-7,496	0	0	-6,902	-7,496
0	0	-3,249	0	-3,249	0	0	0	-3,249	0
149	186	0	0	320	525	0	0	320	525
34	-1,026	-4,995	-6,564	-11,555	-19,395	430	5,257	-11,125	-14,138
8,398	**6,320**	**-3,877**	**-4,806**	**64,124**	**41,373**	**-2,915**	**2,751**	**61,209**	**44,124**

Sales & Service		Other		Total segments		Consolidation		Group	
1,715	1,829	0	0	5,960	6,450	0	0	5,960	6,450
2,229	1,970	1,711	5,966	34,975	36,775	0	0	34,975	36,775
173,080	**138,004**	**231,474**	**193,209**	**947,992**	**807,754**	**-378,631**	**-324,088**	**569,361**	**483,666**
117,379	**92,107**	**105,837**	**115,431**	**572,899**	**512,419**	**-169,673**	**-132,753**	**403,226**	**379,666**
642	**566**	**628**	**572**	**4,941**	**4,623**	**0**	**0**	**4,941**	**4,623**

Intangible Assets and Property, Plant and Equipment by Region

	Intangible assets		Property, plant and equipment	
EUR k	**2007**	2006	**2007**	2006
Germany	20,662	12,968	113,612	112,631
Other EU countries	1,383	1,412	14,437	14,182
Rest of Europe	1,447	1,447	378	328
North America	3	10	2,205	2,149
South America	284	288	1,998	2,008
Asia/Pacific	1,271	1,276	7,237	7,492
Africa	0	0	0	0
	25,050	**17,401**	**139,867**	**138,790**

Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements for Fiscal Year 2007

1. General

1.1 Application of Accounting Requirements

The consolidated financial statements of Homag Group AG (Homag Group) as of December 31, 2007 were prepared in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), the interpretations of the Standing Interpre¬tation Committee (SIC) and of the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the EU and applicable as of the balance sheet date. The supplementary provisions of Sec. 315a ["Handelsgesetzbuch": German Commercial Code] were also complied with.

The consolidated financial statements have been prepared in euro (group currency) and presented in EUR k. Besides the income statement and balance sheet, a cash flow statement, a statement of changes in equity and a statement of recognized income and expense are presented.

The income statement has been prepared using the nature of expense method.

The consolidated financial statements are prepared as of the balance sheet date of the parent company's financial statements. The parent company's fiscal year is the calendar year.

All those standards (IFRS/IAS) and interpretations (IFRICs) subject to mandatory application for fiscal year 2007 were observed.

1.2 Company Information

Company name and legal form:	Homag Group AG (parent company and ultimate parent of the Group)
Registered offices:	Schopfloch (Germany)
Address:	Homagstrasse 3-5, 72296 Schopfloch
Business purpose and core activities:	Manufacture and sale of machines for the wood processing industry. The Group's activities focus on the production and worldwide sale of woodworking and wood processing machines of all kinds as well as complete systems, i.e. woodworking lines. A sub-division (Schuler Business Solution AG and its subsidiaries) develops and sells software as well as providing consulting services in the same market segment. Machines are produced for the entire

production process from sawing to surface treatment and packaging for wood materials. The machines are sold to manufacturers of wood construction component materials (e.g. wooden flooring, manufacturers of prefabricated post and beam type houses and companies of the furniture industry. Homag Group machines are also used by carpenters and joiners.

1.3 Date of Authorization for Issue of Financial Statements

On April 4, 2008, the management board of Homag Group AG released the 2007 consolidated financial statements and the 2007 group management report for distribution to the supervisory board.

2. Basis of Preparation

2.1 Basis of Consolidation

The consolidated financial statements are based on the annual financial statements of Homag Group AG and the subsidiaries included in consolidation, prepared in accordance with uniform accounting and measurement methods.

Under the purchase method, all subsidiaries are included on whose financial and business policy control can be exercised as defined by the control concept. In this case, the assets and liabilities of a subsidiary are included in full in the consolidated financial statements.

Capital consolidation is performed by offsetting the carrying amount of investments against the proportionate remeasured equity of the subsidiaries at the date of acquisition. The net assets are generally valued at the fair value on the date of purchase of all identifiable assets, liabilities and contingent liabilities. Any debit differences remaining after reassessment are capitalized as goodwill under intangible assets pursuant to IFRS 3. The capitalized goodwill is tested annually for impairment and in the event of an impairment is written down through profit or loss. In addition, impairment tests are always conducted if there are is an indication of impairment. We refer to Section 4.2.1 for further explanations on goodwill.

If a credit difference results from first-time capital consolidation, a reassessment is performed. The reassessment of the assets and liabilities assumed including the contingent liabilities recognized is reviewed again in the course of the reassessment. Any negative difference remaining after the reassessment is recognized immediately in profit or loss.

All intercompany sales revenue, expenses, income as well as receivables and liabilities are consolidated and any intercompany profits or losses from intragroup supplies or services eliminated. Deferred taxes are recognized as required on consolidation entries.

The equity method is used when a significant influence may be exercised on the business policy of the associate, but the entity does not qualify as a subsidiary or a joint venture. Any difference between pro rata equity and the acquisition cost of the equity investment as at the date of acquisition is accounted for using the purchase method of capital consolidation.

All consolidated subsidiaries acquired after January 1, 2005 were accounted for pursuant to IFRS 3. For all business combinations completed before January 1, 2005 the HGB ["Handelsgesetzbuch": German Commercial Code] accounting treatment of capital consolidation was retained pursuant to the accounting option of IFRS 1. In accordance with the general provisions of IFRS, assets and liabilities were determined as at the date of the IFRS opening balance sheet. All differences between the HGB closing balance sheet and the IFRS opening balance sheet were offset against the Group's revenue reserves.

2.2 Acquisition of Minority Interests

The acquisition of additional shares in entities that are already fully consolidated is not clearly regulated in IAS. The Homag Group treats the acquisition of minority interests as equity transactions. Any difference between the acquisition cost of minority interests and the proportionate value of the minority interests as at the date of acquisition is recognized directly in equity under revenue reserves.

2.3 Currency Translation

The functional currency of Homag Group AG is the euro. The financial statements of the consolidated foreign entities are translated pursuant to IAS 21 from the functional currency to euro. Since subsidiaries operate independently within the economic environment of the country in which they are registered, the functional currency is generally the local currency of each entity. Consequently, assets and liabilities are translated at closing rates in the consolidated financial statements, expenses and income at annual average rates.

Any translation differences arising in the balance sheet or income statement from exchange rate differences are also recognized directly in equity.

Currency translation was based on the following exchange rates, among others:

	Closing rate		Average rate	
1 EUR	**Dec. 31, 2007**	**Dec. 31, 2006**	**2007**	**2006**
US dollar	1.47285	1.32027	1.37074	1.25622
Pound sterling	0.73788	0.67431	0.68479	0.68205
Australian dollar	1.68177	1.67467	1.63592	1.66798
Canadian dollar	1.44635	1.53994	1.46919	1.42496
Danish krone	7.45879	7.45787	7.45118	7.45963
Japanese yen	165.41600	157.19900	161.30828	146.09592
Swiss franc	1.65871	1.60965	1.64318	1.57331
Chinese CNY	10.77257	10.32121	10.43471	10.02488

3. Consolidated Group

In addition to Homag Group AG, the consolidated financial statements include 16 entities with registered offices in Germany and 21 entities with registered offices abroad at which Homag Group AG exercises uniform control either directly or indirectly. The list of shareholdings of Homag Group AG is presented in Section 9. In the year under review, the remaining 3% of shares in MAW Montagetechnik GmbH held by minority shareholders were acquired for a purchase price of EUR 1.

3.1 Associates

Stiles Machinery Inc., Grand Rapids, USA, and Homag China Golden Field Ltd., Hong Kong, China, were included in the consolidated financial statements as associates. We refer to Section 9 for further explanations.

3.2 Discontinued Operations

IFRS 5 regulates the presentation of assets held for sale and discontinued operations. Based on the preconditions of IFRS 5, the IMA Klessmann GmbH group, which was sold in 2005, was classified as discontinued operations in the year concerned. The sale took effect on October 31, 2005. The effect from this transaction in 2006 is reflected in the result from discontinued operations.

4. Accounting policies

The financial statements of the subsidiaries included in the consolidated financial statements are prepared as of the same balance sheet date as the parent company using uniform accounting policies. In addition, the financial statements prepared in accordance with local GAAP are adjusted to the accounting policies of the Homag Group to the extent that they diverge from IFRSs.

4.1 Changes in Accounting Policies

The following new and revised standards and interpretations issued by the IASB were applied for the first time:

IFRS 7	Financial Instruments: Disclosure
IAS 1	Presentation of Financial Statements
IFRIC 7	Applying the Restatement Approach under IAS 29. Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The principal effects of these standards are as follows:

IFRS 7 Financial Instruments: Disclosures
This standard requires disclosures that enable users of financial statements to evaluate the significance of the Group's financial instruments for the financial position and performance of the Group and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. The adoption of the standard did not have any effect on the Homag Group's presentation of net assets, financial position or results of operations. The respective comparative figures have been adjusted.

IAS 1 Presentation of Financial Statements
This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. The new disclosures are presented in note 7.2.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRC 7 stipulates that when hyperinflation is identified for the first time in the economy of the reporting entity's functional currency, the entity has to apply the provisions of IAS 29 as if it had always been a hyperinflationary economy. This interpretation does not affect the presentation of the net assets, financial position and results of operations of the Group, since none of the functional currencies of the entities accounted for relate to hyperinflationary economies.

IFRIC 8 Scope of IFRS 2
This interpretation prescribes the application of IFRS 2 for all transactions in which an entity cannot identify specifically some or all of the goods or services received. This applies in particular when consideration for the issue of equity instruments of the entity appears to be less than the fair value. This interpretation is not expected to have any effect on the Group's presentation of net assets, financial position or results of operations.

IFRIC 9 Reassessment of Embedded Derivatives
Pursuant to IFRIC 9 an entity, when it first becomes a party to a contract for a hybrid instrument, must assess whether there are any embedded derivatives contained in the contract. Reassessment is prohibited unless there is a substantial change in the terms of the contract that significantly modifies the cash flows. Since the Group does not have any embedded derivatives that would have to be separated from the host contract, this interpretation had no effect on the presentation of the net assets, financial position and results of operations of the Homag Group.

IFRIC 10 Interim Financial Reporting and Impairment
The Homag Group adopted IFIRC 10 for the first time as of January 1, 2007. The interpretation prescribes that an entity may not reverse an impairment loss recognized in interim financial statements in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. Since the Group has not recognized any such reversals of impairment losses in the past, this interpretation has no effect on the presentation of net assets, financial position and results of operations of the Homag Group.

The following standards that have been issued but are not yet subject to mandatory adoption have been early adopted:

IFRS 8	Operating Segments

The principal effects of these standards are as follows:

IFRS 8 Operating Segments
This standard requires the disclosure of information concerning the Group's business segments and replaces the duty to determine primary (business segments) and secondary (geographical) segment reporting formats for the Group. Additional disclosures on the respective segments are presented in note 7.3 and in segment reporting.

The following standards that have been issued but are not yet subject to mandatory adoption have not been adopted yet:

IFRS 2	Amendments to IFRS 2: Share-based Payments
IFRS 3	Business Combinations
IAS 1	Presentation of Financial Statements
IAS 23	Borrowing Costs
IAS 27	Consolidated and Separate Financial Statements
IAS 32	Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements
IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Agreements
IFRIC 13	Customer Loyalty Programs
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of these standards are as follows:

IFRS 2 Amendments to IFRS 2: Share-based Payments
On the one hand, the amendment concerns clarification that the definition of vesting conditions only relates to the service and performance conditions. On the other hand, the regulations on the accounting treatment of a cancellation of share-based payment arrangements have also been extended to cancellation by employees. The transitional provisions provide for retrospective application of the new regulation. The amendment is applicable for fiscal years beginning on or after January 1, 2009. The amendments to the standard are not expected to have any effect on the Group's presentation of net assets, financial position or results of operations.

IFRS 3 Business Combinations
The standard was subject to comprehensive revision as part of the IASB and FASB convergence project. The significant revisions relate in particular to the introduction of an option for the measurement of minority interests between the purchased goodwill method and the full goodwill method, in which the entire goodwill of the acquired entity must be recognized, including that part attributable to minority interests. Other important aspects include the revaluation to profit or loss of existing capital interests when control is initially obtained (business combination achieved in stages), mandatory accounting for contingent consideration at the date of acquisition and the recognition of transaction costs in profit or loss. The transitional provisions provide for prospective application of the new regulation. There were no changes concerning the assets and liabilities arising from business combinations prior to first-time adoption of the new standard. The revised IFRS 3 is effective for the first time for fiscal years beginning on or after July 1, 2009.

IAS 1 Presentation of Financial Statements
The revised version of the standard involves significant changes in presentation and disclosure of financial information in the financial statements. The new provisions require above all the introduction of a statement of comprehensive income showing both the profit or loss for the period and unrealized gains and losses previously recognized within equity. This statement of comprehensive income is to replace the income statement in its present form. In addition, a statement of financial position is required not only as of the end of the reporting period and the end of the previous reporting period, but also as of the beginning of the comparative period if the entity applies an accounting policy retroactively, corrects an error or reclassifies an item of the financial statements. The revised standard is effective for the first time for fiscal years beginning on or after January 1, 2009. The new standard will have an effect on the form in which the Group's financial information is published, but not on the recognition and measurement of assets and liabilities in the consolidated financial statements.

IAS 23 Borrowing Costs
The amendment requires the recognition of borrowing costs which can be allocated directly to the purchase, construction or manufacture of a qualifying asset. The option for the immediate recognition in profit or loss has thus been abolished. The amendment is applicable for fiscal years beginning on or after January 1, 2009. The amendment is not expected to have any effect on the Homag Group.

IAS 27 Consolidated and Separate Financial Statements
The revisions are a product of the joint project by IASB and FASB to revise accounting regulations relating to business combinations. These primarily relate to accounting for shares not involving control (minority interests) that will in future participate in full in the Group's losses and for transactions that lead to loss of control of a subsidiary and the effects of which are to be recognized in profit or loss. The effects of disposal of shares that do not lead to loss of control should be recorded directly in equity. The transitional provisions that generally require retrospective application of revisions made, provide for prospective application in the cases listed above. Therefore, there were no changes concerning the assets and liabilities arising from such transactions prior to first-time adoption of the new standard. The revisions are effective for the first time for fiscal years beginning on or after July 1, 2009. The amendments to the standard are expected to cause a reclassification between the Group's disclosure of minority interests and revenue reserves.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements
The amendments mainly concern the classification of puttable shareholder contributions as equity or liabilities. The previous regulation forced entities in some cases to report the entity's capital as financial liabilities as a consequence of statutory termination rights on the part of the shareholder. In future, such shareholder contributions are to be classified as equity insofar as settlement at fair value is agreed and the contributions made constitute the most subordinated claim to the net assets of the entity. The amendments to IAS 32 and IAS 1 are mandatory for the first time for fiscal years beginning on or after January 1, 2009. The amendments to the standard are not expected to have any effect on the net assets, financial position or results of operations.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
In accordance with this interpretation, arrangements under which employees are granted rights to an entity's equity instruments are required to be accounted for as equity-settled share-based payment transactions when the entity buys the equity instruments from a third party or the equity instruments needed are granted by the shareholders. The IFRIC interpretation is effective for the first time for fiscal years beginning on or after March 1, 2007. This interpretation is not relevant to the Homag Group at present.

IFRIC 12 Service Concession Arrangements
IFRIC 12 gives guidance on how operators under service concession agreements have to apply IFRS in order to recognize the obligations entered into and the rights received under these agreements. IFRIC 12 is mandatory for the first time for fiscal years beginning on or after January 1, 2008. The interpretation is not relevant to the Homag Group.

IFRIC 13 Customer Loyalty Programmes
According to this interpretation, award credits granted to customers must be accounted for as a separately identifiable component of the sales transactions in which they are granted. Consequently, the fair value of the consideration received must be allocated to the customer loyalty award credits and deferred. Revenue is recognized in the period in which the award credits granted are exercised or forfeited. IFRIC 13 is effective for the first time for fiscal years beginning on or after July 1, 2008. This interpretation is not relevant to the Homag Group at present.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
This interpretation provides guidance for determining the maximum amount of a surplus from a defined benefit plan that can be recognized as an asset pursuant to IAS 19 "Employee Benefits". IFRIC 14 is effective for the first time for fiscal years beginning on or after January 1, 2008. This interpretation is not relevant to the Homag Group at present.

4.2 Accounting Policies for Selected Items

4.2.1 Goodwill

Business combinations are accounted for using the acquisition accounting method pursuant to IFRS 3. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities) of the acquired business at fair value. Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGU), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those CGUs or groups of CGUs. Each CGU or group of CGUs to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment determined in accordance with IFRS 8 "Operating Segments".

Where goodwill forms part of a CGU (group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of under these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and any goodwill is recognized in the income statement.

In the course of the impairment test, the carrying amount of a CGU (group of CGUs) is compared to the recoverable amount. The recoverable amount of the CGU (group of CGUs) is the higher of the fair value less costs to sell and the value in use. The impairment test is performed once a year.

In the year under review, the internal group management was restructured and the resulting organization of group activities into groups of CGUs was adjusted to the segment reporting structure pursuant to IFRS 8, which was prepared for the first time. Accordingly, the following groups of CGUs have been defined for the Homag Group:

- Industry
- Cabinet Shops
- Sales and Service
- Other

In the prior year, the Group's activities were organized into the CGUs sawing, surface, sizing and edge processing, drilling & hardware mounting, assembly / handling / packaging and house construction.

The impairment tests are performed on the defined groups of CGUs in accordance with the provisions of IAS 36 using the discounted cash flow method based on the values in use, which correspond to the recoverable amount. Data from business planning was used for this purpose. The calculation of the present value of future cash flows is based on significant assumptions, particularly with respect to future sales prices, sales quantities and costs. The plan is based on the detailed planning period up to fiscal 2012. The cash flow for 2012 was projected for the period following the detailed planning period, assuming no further changes in working capital and annual replacement investment in the amount of amortization and depreciation.

The main goodwill and the underlying assumptions for the impairment tests are listed in Section 6.2.

4.2.2 Internally Generated Intangible Assets

The internally generated intangible assets solely concern development costs of new products. These are capitalized provided that clear allocation of expenses – i.e. it is possible to determine production costs reliably – and all the other criteria of IAS 38 are met. The cost comprises the costs directly or indirectly allocable to the development process. Pursuant to IAS 38, research costs are treated as current expenses.

Amortization starts upon commencement of commercial use of the asset – generally the start of production – and is applied using the straight-line method over the asset's expected useful life, which is generally five years.

4.2.3 Other Intangible Assets

Intangible assets acquired for a consideration – mainly software – are stated at cost and amortized over their expected useful life of between three and seven years using systematic, straight-line amortization. If there are indications of impairment, the recoverability of the carrying amount is reviewed (impairment test).

4.2.4 Property, Plant and Equipment

Property, plant and equipment of continuing operations are stated at cost less systematic depreciation and accumulated impairment losses. The cost of self-constructed assets includes directly allocable costs as well as appropriate portions of overheads. Borrowing costs are offset as an expense.

Depreciation is generally based on the following useful lives:

	Years
Property	15-33
Other equipment, technical equipment and machines	8-12
Furniture and fixtures	4-15

If there are indications of impairment, the recoverability of the carrying amount is reviewed (impairment test). Impairment losses are recorded on property, plant and equipment in accordance with IAS 36 to the extent that the recoverable amount of the asset falls below its carrying amount. The recoverable amount is the higher of the asset's net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The value in use is determined for each asset individually or, if that is not possible, for the cash-generating unit to which the asset belongs. To determine the estimated cash flow of each cash-generating unit, basic assumptions have to be made. These include assumptions regarding financial planning and the interest rates used for discounting.

If the reasons for an impairment loss recorded in prior years no longer apply, the impairment loss is reversed. The resulting increase in the carrying amount of the asset may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

4.2.5 Government Grants

Pursuant to IAS 20, government grants are only recognized if there is reasonable assurance that they will be received and the Company will comply with the conditions attaching to them.
Government grants related to assets (e.g. investment grants and subsidies) are deducted from the cost of the underlying asset. Grants related to income are recognized in the income statement under other operating income in the period in which the expenses to be compensated are incurred.

4.2.6 Finance Leases and Operating Leases

With finance leases, the economic title is allocated to the lessee in cases in which it bears all risks and rewards incidental to ownership (IAS 17). If the economic title is allocable to the Homag Group, it is recognized as an asset at the inception of the lease at the lower of the fair value or the present value of the minimum lease payments. The leased asset is depreciated over the shorter of the lease term or its useful life, provided that it is not expected that ownership will be obtained at the end of the lease term. The discounted payment obligations resulting from the lease payments are recognized as a liability and reported under financial liabilities.

Should there be any operating leases within the Homag Group, lease payments are expensed as incurred.

4.2.7 Finance Instruments

Financial instruments are contracts that give rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. These include both primary financial instruments (e.g. trade receivables or payables) and derivative financial instruments (transactions to hedge against risks of changes in value).

Financial assets are recognized and derecognized on the settlement date. Financial assets are initially recognized at fair value plus transactions costs, with the exception of financial assets recognized “at fair value through profit or loss”. The latter are initially valued at fair value without taking transaction costs into account.

IAS 39 distinguishes between the following categories of financial instruments:

a. Assets or liabilities at fair value through profit or loss, which include
   aa. held for trading
   ab. designated by the entity as at fair value through profit or loss
b. Held-to-maturity investments
c. Loans and receivables
d. Available-for-sale financial assets
e. Financial liabilities measured at amortized cost

The market value of financial instruments at fair value through profit or loss is the price obtainable on the market, i.e. the price for which the financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. Unrealized gains and losses are recorded with an effect on income.

Loans and receivables originated by the entity and not held for trading are classified as "loans and receivables" and are measured at amortized cost (less impairment losses) using the effective interest rate method.

Derivative financial instruments are financial contracts whose value is derived from the price of an asset (e.g. shares, obligations, money market instruments or commodities) or a reference rate (e.g. currencies, indices and interest rates). Little or no initial investment was required and they will be settled in the future. Examples of derivative financial instruments include options, forward transactions or interest rate swaps.

Gains or losses from fluctuations in the fair value of available-for-sale assets are recognized directly in equity under the revaluation reserve for investments, with the exception of interest determined using the effective interest rate method and gains and losses from the currency translation of monetary items. The latter are recognized in the income statement. If an investment is sold or an impairment determined, any cumulative gain or loss that had been recognized in the revaluation reserve for investments is taken to profit or losses.

Dividends are recognized in the income statement when the Group has obtained a payment claim.

Apart from loans and receivables, the Homag Group mainly has financial instruments held for trading at present. The latter relate to derivative financial instruments that do not satisfy the requirements for hedge accounting. As of December 31, 2007, the Group had not recognized any financial assets or liabilities at fair value through profit or loss (prior year: EUR 0 k).

Within the Homag Group, all derivative financial instruments are allocated as "held for trading" to the category "financial assets at fair value through profit or loss" and recognized at market values as of the balance sheet date. The market values are calculated using standardized actuarial methods (mark-to-market method) or quoted market prices. Gains and losses from the change in the market values of derivative financial instruments are immediately posted to profit or loss. The derivative financial instruments used by the Group are primarily forward exchange contracts and interest rate swaps. These are used to hedge against interest and currency risks.

Impairment of Financial Assets

With the exception of financial assets at fair value through profit or loss, financial assets are tested for impairment at every balance sheet date. Financial assets are impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset with a negative impact on the estimated future cash flows. For financial assets measured at amortized cost, the impairment loss is the difference between the carrying amount of the financial instrument and the present value of the expected future cash flows determined using the original effective interest rate. Losses from the measurement of available-for-sale financial assets at fair value are recognized directly in equity. This does not apply in the case of permanent and/or material impairment losses or exchange losses. Such losses are recognized in profit or loss. When a financial asset classified as available for sale is derecognized, the cumulative gains and losses from fair value measurement recognized directly in equity are recognized in the income statement.

An impairment loss directly reduces the carrying amount of the assets concerned, with the exception of trade receivables, whose carrying amount is reduced via an allowance account. Any impairment losses identified are thus generally recognized through an allowance account. If a bad debt is identified, based on debt collection agency's notification that a receivable has become uncollectible for instance, the corresponding amount is directly deducted from the receivable.

If, in a subsequent period, the amount of the impairment loss (other than impairment losses recognized on financial assets available for sale) decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized.

4.2.8 Inventories

Purchased materials and supplies and merchandise are stated at the lower of cost and net realizable value. Finished goods and work in process are stated at the lower of cost or net realizable value (net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale). In addition to directly allocable costs, they include a proportionate share of production-related overheads. This also includes production-related depreciation, a proportionate amount of production-related administrative expenses as well as pro rata welfare costs (production-based full cost approach). Costs of conversion are determined on the basis of normal capacity.

Borrowing costs are not capitalized.

If the reasons for writing down inventories in the past no longer apply, the write-down is reversed and recognized as a reduction of the cost of materials.

4.2.9 Long-Term Construction Contracts

Construction contracts that satisfy the criteria of IAS 11 are accounted for using the percentage of completion method. The stage of completion to be recognized is calculated per contract, generally using the cost-to-cost method. The corresponding profit on the construction contract is recognized on the basis of the percentage of completion calculated in this way. These contracts are recognized under receivables or liabilities from long-term construction. If the work in process exceeds the prepayments, construction contracts are reported on the asset side under receivables from long-term construction. If the balance is negative after deducting the prepayment, the item is reported under liabilities from long-term construction. Appropriate provisions are created for potential losses if necessary. If the profit on the construction contract cannot be determined reliably, revenue is only recognized to the extent of the contract costs incurred.

4.2.10 Receivables and Other Assets

Receivables and other assets are measured at cost less appropriate write-downs for all recognizable specific risks. Non-current non-interest-bearing receivables are measured at cost using the effective interest rate method.

4.2.11 Deferred Taxes

Deferred taxes are set up in accordance with IAS 12 on all temporary differences between the carrying amounts in the consolidated balance sheet and the tax base of the assets and liabilities (liability method) as well as for unused tax losses. Deferred tax assets for accounting and measurement differences as well as for unused tax losses are only recorded to the extent that it is probable that these differences will lead to realization of the corresponding benefit in the future. Deferred taxes are determined on the basis of the tax rates that apply or that are expected to apply based on the current or expected legislation in the individual countries at the time of realization. The measurement of deferred taxes for German entities takes account of the business tax reform 2008. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities can only be offset against each other provided that they relate to taxes levied by the same taxation authority.

4.2.12 Pensions and Other Post Employment Benefits

Pensions and similar obligations comprise pension commitments from defined benefit plans. The obligations are calculated using the projected unit credit method. This method considers not only the pensions and future claims known on the balance sheet date to determine the obligations but also future anticipated increases in salaries and pensions. The calculation is based on actuarial opinions prepared annually taking account of biometric assumptions. The amount recognized as a defined benefit liability is net of the fair value of plan assets as of the balance sheet date.

Actuarial gains and losses are recognized outside profit or loss in the period in which they occur under total income and expenses for the year recognized directly in equity. Current service cost and interest expenses are disclosed under personnel expenses.

Apart from payments of premiums, the defined contribution plans do not result in any further obligations for the Homag Group.

4.2.13 Obligations from Employee Profit Participation

The companies of the Homag Group grant their employees the option of acquiring a silent participation in the Company. The participation is financed through the granting of loans by the Company; and the loans are repaid via the profit participation rights of participating employees.

Employees that acquire silent participations are entitled to participate in the profits of the Company. This profit participation is partly used to repay the loan granted, and the remaining amount is paid out to the participating employee. Employee benefits in connection with the silent participation program qualify as employee benefits within the meaning of IAS 19. If profit allocable to an employee is paid out directly, this is treated as a short-term employee benefit. If the profit allocable to the employee is used to repay the loan used to finance the silent participation, the Company recognizes a long-term employee benefit, which matures upon termination of the silent participation. This is generally the case when the employee leaves the Company.

The present value of the obligations from employee profit participation is determined by taking account of historical fluctuation rates and biometric data based on actuarial principles.

Expenses from employee profit participation are disclosed separately on the income statement.

4.2.14 Share-based Payments
Management board members are granted share appreciation rights that can only settled in cash (cash-settled share-based payment transactions within the meaning of IFRS 2.30 et seq.).

The costs resulting from cash-settled transactions are initially measured at fair value as at the grant date using an option price model (we refer to note 5.6 for details). The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date and on the grant date. Changes in fair value are recognized in profit or loss.

4.2.15 Other Provisions
Other provisions are set up if there is a present legal or constructive obligation to third parties from a past event. It must be possible to estimate the amount reliably and it must be probable that there will be an outflow of resources.

Long-term provisions due in more than one year are stated at their settlement amount discounted to the balance sheet date, where the time value of money is significant.

4.2.16 Liabilities
Liabilities are recorded at amortized cost. Non-current liabilities not subject to interest due in more than one year are discounted using the effective interest method.

There are no liabilities at the Homag Group that serve trading purposes.

4.2.17 Borrowing Costs
Borrowing costs are recognized as an expense when incurred.

4.2.18 Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Homag Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. Discounts, rebates and VAT are not taken into account. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods
Sales revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured. This is generally the case upon dispatch of the goods. If, apart from delivery, the transaction also includes assembly of the delivered goods, sales revenue is recognized once assembly at the client's premises has been completed – provided the transaction does not qualify as a long-term construction contract within the meaning of IAS 11.

Long-term construction contracts
Sales revenue from long-term construction contacts is recognized pursuant to IAS 11 by reference to the stage of completion.

Interest income
Interest income is recognized as interest accrues.

4.2.19 Assumptions and Estimates

Estimates and assumptions have to be made in the consolidated financial statements that have effects on the amount and disclosure of the assets and liabilities, income and expenses and contingent liabilities reported. The actual values may in some cases differ from the assumptions and estimates. Changes are generally recognized in income pursuant to IAS 8, as and when better information is available.

In the process of applying the accounting policies, the management board made the following assumptions and estimates which had a significant effect on the amounts recognized in the financial statements:

Development Costs
Development costs are capitalized in accordance with the accounting policy explained above in the section "Accounting Policies". Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. The best estimate of the carrying amount of capitalized development costs as of December 31, 2007 was EUR 7,450 k (prior year: EUR 1,741 k).

Impairment of Goodwill
The Group determines at least on an annual basis whether goodwill is impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating a value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2007 was EUR 5,992 k (prior year: EUR 5,992 k). We refer to Section 6.2 for further information.

Deferred Tax Assets
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Corporate income tax losses of EUR 26,081 k were taken into account as of December 31, 2007 (prior year: EUR 45,061 k) together with trade

tax losses of EUR 6,227 k (prior year: EUR 26,300 k) and losses of foreign entities of EUR 6,199 k (prior year: EUR 3,707 k). Income tax losses of EUR 49,100 k (prior year: EUR 47,502 k), trade tax losses of EUR 48,772 k (prior year: EUR 45,613 k) and losses of foreign entities of EUR 8,974 k (prior year: EUR 8,913 k) were not taken into account. We refer to Section 5.14 for further information.

Pensions and Other Post-employment Benefits

The cost of providing post-employment benefits under defined benefit plans is determined using actuarial calculations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The provision for pensions and other post-employment benefits amounted to EUR 2,420 k as of December 31, 2007 (prior year: EUR 2,578 k). We refer to Section 6.16 for further information.

Employee Profit Participation

The obligations from defined benefit plans are determined using actuarial calculations. The actuarial valuation involves making assumptions about discount rates, expected retirement age, mortality rates and expected employee turnover. The liabilities from employee profit participation as of December 31, 2007 amounted to EUR 9,814 k (prior year: EUR 8,966 k). We refer to Section 6.17 for further information.

Share-Based Payments

Within the Homag Group, the cost from the issue of share appreciation rights to management board members is measured at the fair value of the share appreciation rights on the date they are issued. An appropriate measurement method must be determined to estimate the fair value for the issue of equity instruments; this depends on the conditions of issue. It is also necessary to determine appropriate input data used in this measurement method, including in particular the expected option life, the volatility and the dividend yield as well as related assumptions. The assumptions and methods applied are disclosed in note 5.6.

4.2.20 Cash Flow Statement

The cash flow statement in accordance with IAS 7 shows the development of cash inflows and outflows and is divided into cash flow from operating, investing and financing activities. Cash flows from operating activities were determined from the consolidated financial statements of the Homag Group using the indirect method. This involves eliminating all non-cash expenses – mainly depreciation or amortization and changes in provisions – as well as non-cash income from the net profit for the year and adding changes in operating assets and liabilities. Cash flow from investing and financing activities is determined using the direct method.

The cash and cash equivalents presented in the cash flow statement contain cash and cash equivalents shown in the balance sheet, i.e. cash in hand, checks and bank balances. Cash and cash equivalents comprise the following:

EUR k	2007	2006
Cash	82	128
Checks	2,756	2,048
Bank balances	44,775	15,330
	47,613	**17,506**

Cash and cash equivalents are not subject to any restrictions.

The classification of the cash flow statement in the prior year was adjusted in line with the changes made in the year under review with respect to the calculation base.

4.2.21 Discontinued Operations

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

In accordance with IFRS 5, non-current assets and disposal groups are disclosed separately in the balance sheet if they are available for immediate sale in their present condition and their sale is highly probable within the next twelve months. These assets are recognized at the lower of fair value less costs to sell and their carrying amount. The liabilities directly associated with these assets are disclosed separately under equity and liabilities.

The profit or loss from discontinued operations must be disclosed separately in the income statement.

5. Notes to individual income statement items

The income statement focuses on the presentation of the continuing operations remaining after the disposal of discontinued operations. The corresponding procedure was used for the discontinued operations, the result of which was disclosed as a line item of the income statement and explained in note 5.15.

5.1 Sales Revenue

Sales revenue contains the amounts charged to customers for goods and services – less any sales deductions and discounts.

Under long-term construction contracts, sales revenue of EUR 279.2 million (prior year: EUR 266.3 million) was recorded from customized construction contracts with third parties in the reporting year using the percentage of completion method.

Sales revenue by region	**2007**	**2006**
EUR k	173,495	149,147
Germany	353,096	305,475
Other EU countries	97,193	81,833
Other European countries [1]	95,166	95,854
North America	20,391	15,120
South America	91,746	82,515
Asia/Pacific	5,775	6,515
Africa	**836,862**	**736,459**

[1] Including Russia

The above information on segment revenue is classified according to the location of customers.

5.2 Own Work Capitalized

Own work capitalized is principally a result of the capitalization of development costs pursuant to IAS 38 “Intangible Assets”.

5.3 Other Operating Income

Other operating income comprises the following:

EUR k	2007	2006
Income from the reversal of provisions	184	331
Income from cost allocations to third parties	1,651	1,955
Exchange rate gains	3,495	2,374
Gains on disposal of non-current assets	532	382
Income from the reversal of specific bad debt allowances	2,302	1,990
Income from cost reimbursements	488	394
Income from private car usage	1,516	1,305
Income from the derecognition of liabilities	326	824
Canteen revenues	543	462
Income from receivables that have been written off	324	76
Commission received	653	288
Other income	6,895	2,427
	18,909	**12,808**

5.4 Cost of Materials

EUR k	2007	2006
Cost of raw materials, consumables and supplies and purchased goods	366,517	320,445
Cost of purchased services	27,735	20,038
	394,252	**340,483**

5.5 Personnel Expenses and Number of Employees

EUR k	2007	2006
Wages and salaries	211,344	187,031
Social security and other benefit costs	39,113	36,733
(thereof pension benefits)	(16,276)	(15,217)
	250,457	**223,764**

EUR k	2007	2006
Cost of employee participation	6,902	7,496
	6,902	**7,496**

The average number of employees for the year in the Homag Group was:

	Germany	**Outside Germany**	**Total 2007**	**Total 2006**
Manual workers	1,860	313	2,173	2,055
Salaried employees	1,709	721	2,430	2,222
Trainees	338	0	338	346
	3,907	**1,034**	**4,941**	**4,623**

5.6 Total Remuneration of the Supervisory Board and Management Board

Total remuneration of the supervisory board
The remuneration of the supervisory board members in fiscal 2007 amounted to EUR 692 k.

In the prior year, the remuneration of the supervisory board totaled EUR 170 k. This was exclusively a fixed remuneration. The variable component was taken into account in fiscal 2007. The variable component of the supervisory board remuneration is based on dividends distributed in the fiscal year. As in the prior year, both the fixed and variable remuneration in the year under review were due in the short term.

Total remuneration of the management board
The remuneration paid to the management board can be broken down as follows:

EUR k	**2007**	**2006**
Current remuneration	2,982	2,849
Share-based remuneration	717	0
	3,699	**2,849**

The remuneration of the management board members amounted to EUR 3,699 k in fiscal 2007. Of this amount, a payment of EUR 1,851 k will be made for 2007 after the annual general meeting 2008. A provision of EUR 717 k was recognized for the share-based payments which were measured at fair value. The corresponding amounts will be paid out after the annual general meetings for 2010 and 2011. The remuneration of the management board was determined on an expense basis in the year under review, as opposed to the method used in the prior year. The prior-year figures were adjusted to improve comparability.

Share-based Payments
The expenses of EUR 0.7 million (prior year: EUR 0 million) recognized in fiscal 2007 in connection with share-based payments relate exclusively to cash-settled share-based payment transactions within the meaning of IFRS 2.30 et seq.

This relates exclusively to the share appreciation rights granted to management board members in connection with long-term incentive programs (LTIs), which can only be settled in cash. Obtaining the cash settlement is subject to the condition precedent that cumulative positive value added (ROCE less WACC) is achieved in the years 2007, 2008 and 2009. This basic LTI bonus, which is determined on a straight-line basis, is capped (18% of value added). Another component of the LTI bonus is tied to the development of the Homag Group share during the reference period, which can either increase or decrease the basic LTI bonus. To this end, the increase in the value of the share between the first listing (relative opening price) and the end of the reference period (relative closing price) is determined. If the relative closing price rises compared to the relative opening price, the second part of the LTI bonus becomes effective, determined on a straight-line basis and capped in the event of a 70% increase in the quoted price. If the quoted price of the share drops, a mark-down is determined by analogy to the above. In this case a maximum drop in value of 70% represents the lower limit.

The share appreciation rights have contractual term of three years. The fair value of the share appreciation rights is determined as at the date of issue using a binominal model and taking into account the condition under which the instruments were granted. The expenses for the benefits received or the liability to settle these benefits are recognized over the vesting period. The liability is remeasured at each reporting date and on the grant date. Changes in fair value are recognized in profit or loss.

The following table presents the parameters underlying the measurement of share appreciation rights for fiscal year December 31, 2007:

Dividend yield (%)	4.35%
Expected volatility (%)	25.10%
Risk-free interest rate (%)	4.53%
Expiry of options	31.12.2009
Relative opening price (EUR)	27.80 €

As of December 31, 2007, the carrying amount of the liability, which is equivalent to its fair value in this case, amounts to EUR 0.7 million (prior year: EUR 0 million).

5.7 Amortization on Intangible Assets

EUR k	**2007**	**2006**
Amortization on intangible assets	4,395	3,914
	4,395	**3,914**

No impairment losses were recognized in the year under review or in the prior year.

5.8 Depreciation of Property, Plant and Equipment

EUR k	**2007**	**2006**
Depreciation of property, plant and equipment	16,788	15,885
	16,788	**15,885**

No impairment losses were recognized in the year under review or in the prior year.

5.9 Other Operating Expenses

Other operating expenses comprise the following:

EUR k	2007	2006
Sales commissions	17,765	11,954
Advertising and trade fair expenses	10,891	9,025
Office supplies, postage and telecommunication costs	5,284	5,257
Legal expenses and consulting fees, license fees and patent costs	9,756	6,830
Travel expenses and entertainment	18,272	15,614
Rental and lease expenses	9,993	9,511
Other taxes	748	840
Bad debt allowances	2,866	2,514
Bad debts	1,595	1,401
Transportation expenses	13,616	10,230
Maintenance	7,530	6,642
Insurance costs	1,414	1,420
Exchange rate losses	4,630	2,376
Losses on disposals of non-current assets	663	909
Donations, fees, dues and contributions	1,163	721
Sundry other expenses	27,536	19,529
- thereof IPO expenses	*3,249*	*0*
	133,722	**104,773**

5.10 Profit/Loss from Associates

The profit/loss from equity investments is attributable to Machinery Inc., Grand Rapids, USA (EUR 0.2 million; prior year: EUR 0.3 million) as well as Homag China Golden Field Ltd., Hong Kong, China (EUR 0.1 million; prior year: EUR 0.2 million).

5.11 no disclosure

5.12 no disclosure

5.13 Interest Income / Interest Expenses

EUR k	2007	2006
Interest income on loans granted and other receivables	778	694
Other interest and similar income	909	807
Total interest income of all financial receivables which were not recognized by the Company for the mark-to-market measurement	1,687	1,501
Interest income from derivative financial instruments	166	981
Interest income	**1,853**	**2,482**
Interest expenses from		
liabilities to banks	-8,454	-8,270
increasing the discount on profit participation rights	-223	-435
obligations from finance leases	-800	-838
Interest expenses from increasing the discount on transaction costs	-641	-1,030
Other interest and similar expenses	-2,659	-5,611
Total interest income of all financial liabilities which were not recognized by the Company for the mark-to-market measurement	-12,777	-16,184
Interest expenses from increasing the discount on provisions	-141	-129
Interest expenses from derivative financial instruments	-60	-307
Interest expenses	**-12,978**	**-16,620**
Net interest	**-11,125**	**-14,138**

5.14 Taxes on Income and Deferred Taxes

Tax Expense
Income tax expenses are classified by origin as follows:

EUR k	2007	2006
Current taxes	18,621	11,848
Deferred taxes		
from temporary differences	-1,363	20
from unused tax losses carried forward	8,769	3,248
	26,027	**15,116**

Based on the planning prepared at the end of the year, additional deferred tax assets of EUR 1,887 k were recognized on unused tax losses because the entities anticipate future taxable profits. This was offset by the reversal (EUR 907 k) of deferred tax assets recognized at entities in the prior year because the new planning did not forecast sufficient taxable profits.
The tax expense was reduced by EUR 791 k due to tax losses that had not been taken into account previously.

The tax expense based on the earnings before taxes of EUR 61.2 million (prior year: EUR 37.3 million) and on the applicable tax rate for the Homag Group entities in Germany of 38% (prior year: 38%) is reconciled to the current tax expense as follows:

EUR k	2007	2006
Theoretical tax expense	-23.259	-14.185
Effect of changes in tax rate	214	0
Differences due to the tax rate	920	765
Effects from sale of business operations	0	-2.723
Tax reductions (+)/Tax increases (-) due to tax-free income non-deductible expenses	-2.463	-2.208
Change in valuation allowance on deferred taxes	-1.308	835
Taxes on outside basis differences	748	0
Recognition of corporate income tax credits	0	3.259
Other differences	-879	-859
Income taxes (actual tax expense)	**-26.027**	**-15.116**

The current income tax includes taxes for the prior years in the amount of EUR 0.3 million (prior year: EUR 3.3 million). This primarily reflects the effects of tax field audits that have been concluded.

The deferred taxes recognized without effect on profit or loss amount to EUR 96 k (prior year: EUR 32 k).

Deferred Tax Assets and Liabilities

The total amount of deferred tax assets and liabilities from temporary measurement differences within the Group is essentially allocated to the following items:

	Deferred tax assets		Deferred tax liabilities	
EUR k	**Dec. 31, 2007**	**Dec. 31, 2006**	**Dec. 31, 2007**	**Dec. 31, 2006**
Intangible assets and property, plant and equipment	473	723	11,056	10,287
Inventories	13,788	14,605	1,171	344
Current receivables and other assets	2,223	751	10,097	7,921
Other assets	1,777	991	2,117	427
Non-current financial liabilities	4,298	4,072	695	18
Non-current liabilities and provisions	1,886	1,480	2,111	1,631
Sundry current liabilities and deferred income	3,768	1,650	2,439	7,445
Other current provisions	1,201	483	4,422	4,899
Other liabilities	1,518	1,016	4,108	1,483
	30,932	**25,771**	**38,216**	**34,455**
Deferred taxes from temporary measurement differences	30,932	25,771	38,216	34,455
Deferred taxes on unused tax losses	6,734	15,727		
Netting	-24,975	-21,161	-24,975	-21,161
	12,691	**20,337**	**13,241**	**13,294**

The decrease in the income tax rate for German entities in connection with the 2008 German business tax reform that was announced in August 2007 came into effect for the first time in the assessment period 2008. This resulted in the adjustment of the deferred tax assets of German entities as of December 31, 2007 because the deferred assets are recognized in the amount of the expected tax burden or relief in subsequent fiscal years on the basis of the tax rate in effect on the date of utilization.

Write-downs on the carrying amount of deferred tax assets are recorded if realization of the expected benefits from the deferred taxes is not sufficiently probable. The estimate made can be subject to change over time, which can then lead to a write-up in subsequent periods. The change in write-downs on the carrying amount of unused tax losses results in a tax expense of EUR -1.3 million (prior year: EUR 0.8 million).

Corporate income tax losses of EUR 26,081 k were taken into account as of December 31, 2007 (prior year: EUR 45,061 k) together with trade tax losses of EUR 6,227 k (prior year: EUR 26,300 k) and losses of foreign entities of EUR 6,199 k (prior year: EUR 3,707 k). Income tax losses of EUR 49,100 k (prior year: EUR 47,502 k), trade tax losses of EUR 48,772 k (prior year: EUR 45,613 k) and losses of foreign entities of EUR 8,974 k (prior year: EUR 8,913 k) were not taken into account.
The unused tax losses in Germany can be carried forward for an indefinite period. Of the total amount of unused tax losses abroad of EUR 8,974 k, a partial amount of EUR 5,317 k can be carried forward for an indefinite period. Tax losses of EUR 471 k expire within the next three years. An amount of EUR 974 k expires within the next five years. The remaining amount of EUR 2,212 k expires in a period of between 6 and 12 years.

Deferred taxes were not recognized on the profits of EUR 61,648 k retained by subsidiaries since it is planned to use these profits to secure and expand the volume of business at these entities.

5.15 Result from Discontinued Operations

The result from discontinued operations amounts EUR 0 million (prior year: EUR -6.8 million).

The table below presents the composition of the current share of the result from discontinued operations:

EUR k	2007	2006
Sales revenue		
Changes in inventories		
Total operating performance		
Other operating income		
Cost of materials		
Personnel expenses		
Amortization on intangible assets and depreciation of property, plant and equipment		
Other operating expenses		
Net operating profit/loss		
Financial result		
Earnings before taxes		
Income taxes		
Operating result from discontinued operations		
Recognized gains/losses on disposals	0	-6,796
Tax effect of gains/losses on disposals		
Loss on disposal	**0**	**-6,796**
Loss from discontinued operations	**0**	**-6,796**

The discontinued operations pertain to activities of the IMA group entities. The Group spun off these operations as of October 31, 2005. The IMA entities were sold for a notional sales price of EUR 1.00. A loss was recorded on the disposal since the assets transferred exceeded the corresponding liabilities as at the date of the disposal.

In 2006, the Homag Group concluded an additional agreement with the IMA entities (i.e. their owner) in order to completely release the Group from the secondary liability for the liabilities of the IMA entities. Additional expenses of EUR 6.8 million were incurred in fiscal 2006 as a result.

5.16 Profit/Loss Attributable to Minority Interests

The profit for 2007 attributable to minority interests amounts to EUR 3.2 million (prior year: EUR 2.3 million).

5.17 Earnings Per Share

The basic earnings per share is determined pursuant to IAS 33 by dividing the profit attributable to the shareholders of the Homag Group by the weighted average number outstanding shares. Earnings per share based on earnings after minority interests of EUR 32.0 million (prior year: EUR 19.9 million) are presented in the table below (there is no difference between diluted and basic earnings).

The following table contains the values underlying the calculation of basic earnings per share:

EUR k	2007	2006
Profit/loss from continued operations attributable to the equity holders of Homag Group AG	32,030	26,743
Profit from discontinued operations attributable to the equity holders	0	-6,796
Profit/loss attributable to the equity holders of Homag Group AG for the calculation of basic earnings	**32,030**	**19,947**
Earnings per share from continuing operations (EUR)	2.12	1.85
Earnings per share from discontinued operations (EUR)	0.00	-0.47
Basic earnings per share pursuant to IAS 33 (EUR)	**2.12**	**1.38**
Weighted average of shares (basis for the calculation of earnings per share)	**15,095,349**	**14,561,345**

There have been no transactions involving ordinary shares between the reporting date and the date on which the consolidated financial statements were prepared.

5.18 Dividends Paid and Proposed

In 2007, a dividend of EUR 5,824,538.00 was paid for fiscal 2006.

A proposal will be submitted to the annual general meeting on June 5, 2008 to appropriate the retained earnings of EUR 31,180,064.47 disclosed in the financial statements of Homag Group AG as of December 31, 2007 as follows:

- Distribution of a dividend of EUR 0.90 per participating no-par value share for the 15,688,000 no-par value shares, or EUR 14,119,200.00 in total
- Carry forward of EUR 17,060,864.47 to new account

EUR k	2007	2006
Dividend distribution	14,119	5,825
Retained earnings carried forward	17,061	9,596
	31,180	**15,421**
Dividend per dividend-entitled no par value share	**EUR 0.90**	**EUR 0.40**

There are no income tax consequences from the proposed dividend distribution.

6. Notes to the balance sheet

6.1 Intangible assets / Property, Plant and Equipment

Changes in the non-current assets of the Homag Group 2007

EUR k	Acquisition and production cost				
	As of Jan. 1, 2007	Currency differences	Additions	Disposals	Reclassifi-cations
Non current assets					
I. Intangible assets					
1. Industrial rights	30,311	14	3,121	1,896	216
-thereof leases	*2,237*	*0*	*0*	*0*	*0*
2. Goodwill	6,565	0	0	0	0
3. Internally generated intangible assets	1,864		6,561	138	0
4. Prepayments	792	0	2,557	24	-216
	39,532	**14**	**12,239**	**2,058**	**0**
II. Property, plant and equipment					
1. Land and land rights and buildings	142,961	39	3,222	2,620 [1)]	1,196
-thereof leases	*0*	*0*	*0*	*0*	*0*
2. Technical equipment and machines	67,449	2	7,133	5,253	1,227
-thereof leases	*13,635*	*1*	*2,339*	*2,961*	*708*
3. Other equipment, furniture and fixtures	57,602	-26	10,975	3,666	188
-thereof leases	*3,968*	*1*	*3,231*	*604*	*32*
4. Prepayments and assets under construction	2,771	14	1,406	0	-2,611
	270,783	**29**	**22,736**	**11,539**	**0**
	310,315	**43**	**34,975**	**13,597**	**0**

	Amortization and depreciation						Carrying amounts	
As of Dec. 31, 2007	As of Jan. 1, 2007	Currency differences	Additions	Disposals	Reclassifi-cations	As of Dec. 31, 2007	As of Dec. 31, 2007	As of Dec. 31, 2006
31,766	21,435 [2)]	3	3,670	1,831	0	23,277	8,489	8,876
2,237	*1,072* [2)]	*0*	*279*	*0*	*0*	*1,351*	*886*	*1,165*
6,565	573	0	0	0	0	573	5,992	5,992
8,287	123 [2)]	0	725	21	0	827	7,460	1,741
3,109	0	0	0	0	0	0	3,109	792
49,727	**22,131**	**3**	**4,395**	**1,852**	**0**	**24,677**	**25,050**	**17,401**
144,798	53,682	24	4,696	787 [1)]	0	57,615	87,183	89,279
0	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
70,558	38,741	2	5,364	2,746	0	41,361	29,197	28,708
13,722	*2,749*	*4*	*1,461*	*583*	*17*	*3,648*	*10,074*	*10,886*
65,073	39,570	-30	6,728	3,102	0	43,166	21,907	18,032
6,628	*3,203*	*3*	*1,071*	*434*	*10*	*3,853*	*2,775*	*765*
1,580	0	0	0	0	0	0	1,580	2,771
282,009	**131,993**	**-4**	**16,788**	**6,635**	**0**	**142,142**	**139,867**	**138,790**
331,736	**154,124**	**-1**	**21,183**	**8,487**	**0**	**166,819**	**164,917**	**156,191**

[1)] Disposals contain reclassifications to held-for-sale assets (acquisition cost EUR 2,611 k and EUR 780 k).
[2)] The final value of the accumulated depreciation was calculated wrongly in the prior-year statement of changes in non-current assets. This error was corrected in fiscal 2007 in the amount carried over.

Changes in the non-current assets of the of the Homag Group 2006

EUR k	Acquisition and production cost As of Jan. 1, 2006	Currency differences	Additions	Disposals	Reclassifi-cations
Non current assets					
I. Intangible assets					
1. Industrial rights	27,424	-10	3,223	851	525
-thereof leases	*2,237*	*0*	*0*	*0*	*0*
2. Goodwill	6,565	0	0	0	0
3. Internally generated intangible assets	0	0	1,864	0	0
4. Prepayments	641	0	676	0	-525
	34,630	**-10**	**5,763**	**851**	**0**
II. Property, plant and equipment					
1. Land and land rights and buildings	131,849	-590	11,521	176	357
-thereof leases	*0*	*0*	*0*	*0*	*0*
2. Technical equipment and machines	61,604	-278	10,373	5,420	1,170
-thereof leases	*11,026*	*0*	*5,364*	*2,755*	*0*
3. Other equipment, furniture and fixtures	56,168	-187	6,514	4,267	-626
-thereof leases	*3,923*	*-3*	*48*	*0*	*0*
4. Prepayments and assets under construction	1,295	0	2,604	227	-901
	250,916	**-1,055**	**31,012**	**10,090**	**0**
	285,546	**-1,065**	**36,775**	**10,942**	**0**

	Amortization and depreciation						Carrying amounts	
As of Dec. 31, 2006	As of Jan. 1, 2006	Currency differences	Additions	Disposals	Reclassifi-cations	As of Dec. 31, 2006	As of Dec. 31, 2006	As of Dec. 31, 2005
30,311	18,343	-7	3,791	692	0	21,435 [1]	8,876	9,081
2,237	*792*	*0*	*280*	*0*	*0*	*1,072* [1]	*1,165*	*1,445*
6,565	573	0	0	0	0	573	5,992	5,992
1,864	0	0	123	0	0	123 [1]	1,741	0
792	0	0	0	0	0	0	792	641
39,532	**18,916**	**-7**	**3,914**	**692**	**0**	**22,131**	**17,401**	**15,714**
142,961	49,678	-79	4,204	142	21	53,682	89,279	82,171
0	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
67,449	35,558	-98	5,372	2,544	453	38,741	28,708	26,046
13,635	*1,783*	*0*	*1,399*	*433*	*0*	*2,749*	*10,886*	*9,243*
57,602	37,781	-112	6,309	3,934	-474	39,570	18,032	18,386
3,968	*1,955*	*-1*	*1,249*	*0*	*0*	*3,203*	*765*	*1,968*
2,771	0	0	0	0	0	0	2,771	1,295
270,783	**123,017**	**-289**	**15,885**	**6,620**	**0**	**131,993**	**138,790**	**127,898**
310,315	**141,933**	**-296**	**19,799**	**7,312**	**0**	**154,124**	**156,191**	**143,612**

[1] The financial value of the accumulated depreciation was calculated wrongly in the prior-year statement of changes in non-current assets. This error was corrected in fiscal 2007 in the amount carried over.

6.2 Intangible Assets

The development of the individual items of intangible assets is presented in the statement of changes in non-current assets.

Goodwill

The disclosed goodwill of EUR 6.0 million (prior year: EUR 6.0 million) is allocable to groups of cash generating units (CGUs) as follows:

Group of CGUs/EUR k	Dec. 31, 2007	Dec. 31, 2006
Industry	1,902	1,902
Sales and service	3,812	3,812
Other	278	278
	5,992	**5,992**

Following the restructuring of the internal group management, the organization of group activities into groups of CGUs was adjusted in the year under review to the segment reporting structure pursuant to IFRS 8, which was used for the first time. The prior-year disclosures were adjusted to the new segment structure.

Goodwill was allocated to individual groups of CGUs based on the income expected to be generated at each entity that was acquired.

The impairment tests performed as of December 31, 2007 did not reveal any need to recognize impairment losses on goodwill.

The WACC pre-tax discount rates underlying the impairment tests performed in fiscal 2007 are presented in the following table:

Detailed planning period	for 2008-2012
Group of CGUs	
Industry	9.21%
Sales and service	8.26%
Other	8.90%

The equity costs were determined uniformly for all CGUs based on a peer group selected specifically for the Homag Group. The borrowing costs were determined using a risk-free base rate plus a maturity dependent mark-up for credit risk adjusted to the Homag Group AG's credit rating. The capital structure within the individual CGUs approximates the capital structure of the Homag Group.

Internally Generated Software and Other Product Development Costs
The capitalized development costs comprise new machine projects in the field of control technology performed at several of the Group's production companies. After the preconditions necessary for determining the cost of development work were implemented in the course of 2006, the cost was determined in accordance with IAS 38.

Research and development costs included in expenses totaled EUR 20.8 million (prior year: EUR 22.2 million).

6.3 Property, Plant and Equipment

The classification of the items of property, plant and equipment condensed in the balance sheet and their development in the reporting year are presented in the statement of changes in non-current assets. The focus of capital expenditure is detailed in the management report. Grants and subsidies of EUR 0 million (prior year: EUR 0.1 million) were deducted from the cost of property, plant and equipment in the fiscal year. The grants and subsidies in the prior year primarily concern investment grants in former East Germany.

In the year under review, no significant impairment losses within the meaning of IAS 36 were recognized on property, plant and equipment. Property, plant and equipment is capitalized as follows in connection with lease agreements with the entities of the Homag Group as lessees:

EUR k	Carrying amount Dec. 31, 2007	Carrying amount Dec. 31, 2006
Intangible assets	886	1,165
Technical equipment and machines	10,074	10,886
Other equipment, furniture and fixtures	2,775	766
	13,735	**12,817**

The agreements have remaining terms of between one and five years. The underlying interest rates of the agreements vary depending on the date on which the agreements were concluded between 3.8% and 12.6% p.a. The payments due in the future from finance lease arrangements, the corresponding interest components and the present value of future lease payments, which are accounted for under other liabilities accordingly, are shown in the table below:

EUR k	due within one year	due in between 1 and 5 years	due after 5 years	Dec. 31, 2007 total	Dec. 31, 2006 total
Minimum lease payments	5,493	6,254	28	11,775	12,497
Discount amounts	578	339	1	918	1,115
Present values	**4,915**	**5,915**	**27**	**10,857**	**11,382**

Some agreements include purchase options.

Obligations from Rent and Lease Agreements (Operating Leases)

EUR k	Dec. 31, 2007	Dec. 31, 2006
due in less than 1 year	5,233	6,591
due in between 1 and 5 years	6,323	7,947
due in more than 5 years	3,826	4,071
	15,382	**18,609**

The main lease agreements (operating leases) primarily relate to the vehicle fleet and IT. Fixed lease payments have been agreed, i.e. the installments paid do not vary over the term of the leases owing to developments on the capital market. The minimum lease payments are based on the economic life. Purchase options and contingent rents have not been agreed. The lease agreements do not contain any restrictions on distributing dividends, raising borrowed capital or entering into new lease agreements.

Government Grants

The government grants and subsidies deducted from the cost of subsidized assets developed as follows:

	Acquisition and production cost			
EUR k	As of Jan. 1, 2007	Additions	Disposals	As of Dec. 31, 2007
Non-current assets				
I. Intangible assets				
1. Industrial rights	64	0	9	55
	64	**0**	**9**	**55**
II. Property, plant and equipment				
1. Land, land rights and buildings	1,127	0	0	1,127
2. Technical equipment and machines	744	11	254	501
3. Other equipment, furniture and fixtures	511	0	171	340
	2,382	**11**	**425**	**1,968**
	2,446	**11**	**434**	**2,023**

Acquisition and production cost				Net carrying amounts	
As of Jan. 1, 2007	Additions	Disposals	As of Dec. 31, 2007	As of Dec. 31, 2007	As of Dec. 31, 2006
45	8	9	44	11	19
45	**8**	**9**	**44**	**11**	**19**
190	42	0	232	895	937
468	63	211	320	181	276
379	58	171	266	74	132
1,037	**163**	**382**	**818**	**1,150**	**1,345**
1,082	**171**	**391**	**862**	**1,161**	**1,364**

6.4 Investments in Associates

The following table provides an overview of the financial information of associates consolidated at equity.

EUR k	2007	2006
Total net assets	16,900	23,197
Total liabilities	10,940	16,747
Equity	**5,960**	**6,450**
Total sales revenue	40,932	40,276
Profit for the period	320	525

6.5 Inventories

EUR k	Dec. 31, 2007	Dec. 31, 2006
Raw materials, consumables and supplies	57,956	45,553
Work in process	18,176	13,918
Finished goods, merchandise	49,539	38,237
Prepayments	2,453	3,062
	128,124	**100,770**

Valuation allowances of EUR 2.7 million (prior year: EUR 2.1 million) were recognized on inventories through profit or loss.

6.6 Receivables and Other Assets

	Dec. 31, 2007			Dec. 31, 2006		
		due in			due in	
EUR k	Total	less than 1 year	> 1 year	Total	less than 1 year	> 1 year
Trade receivables	138,938	138,938	0	119,573	119,573	0
Receivables from construction contracts	28,579	28,579	0	19,518	19,518	0
Receivables from associates	10,889	10,889	0	8,076	8,076	0
Other financial assets	16,466	12,556	3,910	24,170	20,799	3,371
Other assets	8,298	8,097	201	7,005	6,695	310
Income tax receivables	4,193	1,140	3,053	3,259	0	3,259
	207,363	**200,199**	**7,164**	**181,601**	**174,661**	**6,940**

Corporate income tax receivables concern the corporate income tax credits recognized.

Trade receivables totaling EUR 11.6 million (prior year: EUR 12.2 million) were sold under factoring agreements.

Bad debt allowances recognized on trade receivables have developed as follows:

EUR k	2007	2006
As of Jan. 1	**6,319**	**7,818**
Exchange rate effects	-10	0
Charge for the year	-1,498	-2,023
Unused amounts written off	-2,302	-1,990
Increase in impairments recognized in profit or loss	2,866	2,514
As of Dec. 31	**5,375**	**6,319**

Bad debt allowances are recognized on trade receivables based on estimates of the credit ratings of individual debtors. Any changes in the credit ratings between the granting of the payment terms and the balance sheet date are taken into account. The bad debt allowances are utilized when management is of the opinion that the receipt of payment can no longer be expected or if insolvency procedures have been opened on debtor's assets. If the bad debt incurred exceeds the bad debt allowance provided for, the excess amount is recognized immediately in profit or loss. If management is of the opinion that the credit rating of debtors in arrears has improved or if payment is received, any bad debt allowance recognized in the past is reversed accordingly.

The following table presents the expense from the write-off of trade receivables in full and the income from payments received from bad debts that had been written off:

EUR k	2007	2006
Bad debt expenses	1,595	1,401
Income from the receipt of payments on receivables that have been written off	324	76

All changes in bad debt allowances, expenses from writing off bad debts and income from receivables that had been written off are recognized in other operating income or other operating expenses.

The maturity profile of trade receivables is presented in the following table:

EUR k	Dec. 31, 2007	Dec. 31, 2006
Neither past due nor impaired	59,596	48,340
Receivables past due but not impaired		
less than 90 days	49,120	40,342
90 to 179 days past due	12,030	16,528
180 to 365 days past due	9,106	5,951
1 year or more past due	2,026	1,558
Total receivables past due but not impaired	72,282	64,379
Impaired receivables	12,435	13,173
Trade receivables, gross	**144,313**	**125,892**
Less impairments	5,375	6,319
Net amount/carrying amount of trade receivables	**138,938**	**119,573**

Trade receivables are generally non-interest bearing and are on 14 to 180 days' terms. Most trade receivables are secured by retention of title of the goods delivered.

In the year under review, machines pledged as collateral by defaulting parties were valued at EUR 50 k (prior year: EUR 0 k). It was possible to resell the machines without any loss in value.

6.7 Long-term Construction Costs

In the receivables from long-term construction contracts, the sales revenue recognizable in accordance with the percentage of completion is offset against the prepayments received for each contract. As of the balance sheet date, contract costs incurred for long-term construction contracts and profits disclosed of EUR 44.4 million (prior year: EUR 32.4 million) were offset against prepayments received of EUR 18.4 million (prior year: EUR 14.2 million). This resulted in receivables of EUR 28.6 million (prior year: EUR 19.5 million) and liabilities of EUR 2.6 million (prior year: EUR 1.3 million).

6.8 Other Financial Assets

Other financial assets break down as follows:

EUR k	Dec. 31, 2007 Total	Dec. 31, 2007 due in less than 1 year	Dec. 31, 2007 due in > 1 year	Dec. 31, 2006 Total	Dec. 31, 2006 due in less than 1 year	Dec. 31, 2006 due in > 1 year
Other primary financial assets						
Loans extended	307	307	0	8,705	8,705	0
Receivables from suppliers	386	386	0	205	205	0
Receivables from factoring agreements	657	657	0	4,782	4,782	0
Sundry	14,381	10,477	3,904	10,169	6,808	3,361
Derivative financial assets	735	729	6	309	299	10
	16,466	**12,556**	**3,910**	**24,170**	**20,799**	**3,371**

The derivative financial assets concern receivables from derivative currency and interest transactions totaling EUR 0.7 million (prior year: EUR 0.3 million). The prior-year disclosure of loans and receivables granted include receivables of EUR 6.8 million from the operation that was discontinued in 2005.

Impairment losses of EUR 0 million (prior year: EUR 7.4 million) are included under other financial assets. These related exclusively to the loans granted and thus qualify as other primary financial assets.

Other financial assets do not include any items that are past due and not impaired.

6.9 Other Assets and Prepaid Expenses

Other assets and prepaid expenses break down as follows:

EUR k	Dec. 31, 2007 Total	Dec. 31, 2007 due in less than 1 year	Dec. 31, 2007 due in > 1 year	Dec. 31, 2006 Total	Dec. 31, 2006 due in less than 1 year	Dec. 31, 2006 due in > 1 year
Excise duties claims	6,071	6,071	0	5,088	4,826	262
Prepaid expenses	2,227	2,026	201	1,917	1,869	48
	8,298	**8,097**	**201**	**7,005**	**6,695**	**310**

6.10 Income Tax Receivables

The income tax receivables primarily concern corporate income tax credits that will flow to the Group in the years 2008 though 2017.

	Dec. 31, 2007		Dec. 31, 2006	
EUR k	**Total**	**of which > 1 year**	**Total**	**of which > 1 year**
Income tax claims	4,193	3,053	3,259	3,259

6.11 Cash and Cash Equivalents

Bank deposits payable on demand are reported in the item as well as checks and cash.

In connection with the investment of liquid funds and the portfolio of derivative financial assets, the Group is exposed to losses from credit risks should the obligations from financial instruments not be met.

The Homag Group manages the resulting risk position by diversifying its portfolio and selecting its contractual parties carefully. No cash and cash equivalents or derivative financial assets were past due or impaired due to credit defaults.

6.12 Assets Held for Sale

Developed land in Herford is disclosed under this position as of the balance sheet date. Ownership was transferred to the buyer at the start of February 2008. Consequently, the carrying amount, which had previously been disclosed under non-current assets, was reclassified to assets held for sale. No impairment losses were recognized. The land is allocated to the “Other” segment.

6.13 Equity

The change in equity including income and expense recognized directly in equity is presented in the statement of changes in group equity.

6.13.1 Issued Capital
As of December 31, 2006, the share capital amounted to EUR 14,561,345.00.

By resolution of the annual general meeting on June 22, 2007, the management board of Homag Group AG was authorized, subject to the approval of the supervisory board, to raise the share capital of Homag Group AG in the period until June 30, 2008, once or several times, up to a total of EUR 1,456,134.00 by issuing no-par value bearer shares in exchange for contributions in cash or in kind, in order to place shares in the course of the planned IPO. In the course of the IPO that was finally performed on July 13, 2007, the capital was increased by issue of 1,126,655 new shares.

As a result, the share capital as of December 31, 2007 amounts to EUR 15,688,000.00. It has been fully paid in and is split into 15,688,000 no-par value bearer shares with an imputed value of EUR 1 each.

A total of 6,299,461 shares were placed in the course of the IPO, including a greenshoe option. Of those, 1,126,655 shares stem from a capital increase, 4,870,923 shares from the selling shareholders and 301,883 shares from the greenshoe option granted by the selling shareholders. At a placement price of EUR 31.00, the issue volume reached approximately EUR 195 million – some EUR 35 million (gross) of which flowed to the Company.

6.13.2 Capital Reserve
In the course of the IPO on July 13, 2007, premiums totaling EUR 33,799,650.00 were transferred to the capital reserve. The IPO cost attributable to the new shares, which were borne by the Company (EUR 823,451.00) were offset against the Company capital reserve. As a result, the capital reserve amounts to EUR 32,976,199.00 as of December 31, 2007.

6.13.3 Revenue Reserves
The revenue reserves of EUR 69.5 million (prior year: EUR 56.0 million) contain the profits generated in the past by the companies included in the consolidated financial statements, to the extent that they were not distributed. Goodwill resulting from business combinations before January 1, 2005 was also offset against the revenue reserves. The credit differences from business combinations that arose in the course of the preparation of the IFRS opening balance sheet, which had been disclosed as a separate item in equity in accordance with HGB until December 31, 2004, are also disclosed here as well as currency differences reclassified as of January 1, 2005.

Differences resulting from the purchase of minority interests are also reported under revenue reserves.

The revenue reserves column of other comprehensive income contains the differences from the currency translation without effect on income of financial statements of foreign subsidiaries from January 1, 2005 as well as actuarial gains and losses from the valuation of pensions and other post employment benefits less tax effects.

6.13.4 Net Profit of the Group for the Year
The net profit of the Group for the year includes profit for the period.

6.13.5 Minority Interests

Minority interests contain the parts of equity attributable to the minority shareholders. Consolidation software was introduced in the year under review. Compared to the method used in the prior year, this resulted in corrections in the determination of minority interests. Minority interests are determined using imputed shareholdings; indirect shareholdings are not taken into account. The net profit for 2006 remains unaffected as the profit attributable to minority interests was adjusted by 1% in relation to the net profit for the year in the course of the changes made. Total equity in 2006 is also unaffected. Changes concern the 2.7% increase in minority interests in relation to total equity, coupled with a decrease in revenue reserves.

6.14 Financial Liabilities

	Dec. 31, 2007			**Dec. 31, 2006**		
		due in			**due in**	
EUR k	**Total**	**less than 1 year**	**> 1 year**	**Total**	**less than 1 year**	**> 1 year**
Liabilities to banks	109,029	27,834	81,195	130,304	91,549	38,755
Lease obligations	10,857	4,916	5,941	11,382	1,508	9,874
Profit participation capital	31,673	0	31,673	31,450	0	31,450
Other loans	165	165	0	416	416	0
	151,724	**32,915**	**118,809**	**173,552**	**93,473**	**80,079**

In 2004, Homag Holzbearbeitungssysteme AG issued profit participation rights totaling EUR 25 million (tranche 1: EUR 10 million; tranche 2: EUR 15 million). Both profit participation rights have a term of seven years and bear interest at 7.9% and 7.5% respectively plus a component based on company performance. In 2005, Holzma Plattenaufteiltechnik GmbH issued profit participation rights of EUR 5 million with a term of 7 years which bear interest at a rate of 6.9% plus a variable component based on company performance. Loss absorption is ruled out for all profit participation rights. Profit participation rights are measured using the effective interest method, i.e. the estimated future cash flows were discounted using the effective interest rate. Costs arising in connection with the issue of profit participation rights are expensed as incurred over the term of the profit participation rights.

Liabilities to banks break down as follows:

	Dec. 31, 2007				Dec. 31, 2006			
	Currency	Carrying amount EUR k	No. of years until maturity	Effective interest rate %	Currency	Carrying amount EUR k	No. of years until maturity	Effective interest rate %
Syndicated loan	EUR	15,000	5.0	5.136	EUR	18,000	6.0	5.136
Several loans	EUR	21,870	bis 18	3.03-6.42	EUR	23,077	up to 19	3.03-6.55
Loans	PLN	1,000	4.0	4.91	PLN	1,250	5.0	5
Loans	GBP	770	4.0	7.0	GBP	1,040	5.0	7.0
Loans	DKK	724	11.0	5.479	DKK	774	12.0	5.479
Syndicated loan	EUR	50,000	2.5	5.05	EUR	37,500	0.5	4.97
Syndicated loan	EUR	0	0.0	0.0	EUR	14,000	0.5	6
Overdraft facility-syndicated loan	EUR	10,052	2.5	6.75-7	EUR	15,669	0.5	6.75-7
Euro loan (syndicated loan)	EUR	4,800	2.5	5.12-5.53	EUR	9,899	0.5	4.9-5.1
Overdraft facility/ Euro loan	various	4,813	--	6.1-7.5	various	9,095	--	6.75-7.5
		109,029				**130,304**		

Variable interest arrangements have been made for the syndicated loans and overdraft facilities.

6.15 no disclosure

6.16 Pensions and Other Post Employment Benefits

With respect to company pension plans a distinction is made between defined benefit and defined contribution plans.

In the case of the defined contribution plans, the entities have no obligations other than payment of contributions to insurance firms or other special purpose funds. In the Homag Group, the German companies incur expenses for defined contribution plans in the form of contributions to the statutory pension insurance.

On a small scale there, there are also agreements with employees about the company financing of post employment benefits in the form of direct insurance. In fiscal 2007, expenses for defined contribution plans in the Homag Group totaled EUR 16.3 million (prior year: EUR 15.2 million).

With defined benefit plans, the Company's obligation consists of fulfilling the commitments made to current and former employees.

The defined benefit obligation was calculated using actuarial methods for which estimates are unavoidable. Besides assumptions about life expectancy (for German pension obligations pursuant to the 2005 G mortality tables by Heubeck), the premises listed below have been applied.

In the case of funded pension schemes, plan assets are deducted from the pension obligations, which are calculated based on the projected unit credit method. If the plan assets exceed the benefit obligations, IAS 19 requires that an asset item be disclosed under other assets. If the assets do not cover the obligation, the net obligation is recognized as a liability under pension provisions.

Actuarial gains and losses may result from increases or decreases in either the present value of a defined benefit obligation or the fair value of any related plan assets. Such increases or decreases may be due to changes in calculation parameters, changes in estimates regarding the risk pattern of the pension obligations and variances between the actual and the estimated income from the plan assets. Actuarial gains and losses are recognized outside profit or loss in the period in which they occur under other income and expense recognized directly in equity

The pension provisions concern obligations from future and current post-employment benefits to current and former employees of the Homag Group as well as their surviving dependants. Only the German companies have such obligations. Some foreign Group companies have obligations to make one-off payments at the end of employment.

Both types of obligation are defined benefit obligations. The commitments are measured above all on the basis of the length of service of the employees. The main parameters for the defined benefit obligation are presented in the table below:

	Dec. 31, 2007	**Dec. 31, 2006**
Discount rate	4.5% - 5.5%	4.1% - 4.5%
Rate of salary increase	2.0% - 7.5%	2.0% - 7.5%
Expected return on plan assets	4.0%	4.0%
Rate of pension increase	2.00%	1.75%

The expense from pensions and other post-employment benefits as well as the actuarial gains and losses recognized directly in equity break down as follows:

EUR k	**2007**	**2006**
Current service cost	171	174
Interest cost	193	179
Expected return on plan assets	-67	-68
Benefit expense	297	285
Net actuarial gain (-)/loss (+)	-255	-105
Actual return on plan assets	**74**	**73**

The current service cost is disclosed under personnel expenses, the interest expense is reported in the corresponding item in the income statement and the expected return on plan assets under other operating income.

The carrying amount of the pension and similar benefit obligations can be reconciled to the present value of the benefit obligations as follows:

EUR k	2007	2006
Defined benefit obligation	4,246	4,435
Fair value of plan assets	-1,826	-1,857
Residual obligation as of December 31	**2,420**	**2,578**

The Homag Group expects to contribute EUR 4 k to its defined benefit pension plans in the fiscal year 2008.

Of the pension obligations, a total of EUR 1,717 k (prior year: EUR 1,628 k) relates to obligations for which there are no plan assets.

The funding status is presented in the table below:

	Obligations for which there are plan assets		Obligations for which there are no plan assets	
EUR k	**2007**	**2006**	**2007**	**2006**
Defined benefit obligation	2,529	2,807	1,717	1,628
Fair value of plan assets	-1,826	-1,857	0	0
Residual obligation as of Dec. 31	**703**	**950**	**1,717**	**1,628**

Changes in the present value of the defined benefit obligations are as follows:

EUR k	2007	2006
Defined benefit obligations as of January 1	**4,435**	**4,687**
Interest expense	193	179
Current service cost	171	174
Benefits paid	-305	-505
Actuarial gains (-)/losses (+)	-248	-100
Defined benefit obligations as of December 31	**4,246**	**4,435**

Changes in fair value of the plan assets are as follows:

EUR k	2007	2006
Fair value of plan assets as of January 1	**1,857**	**1,888**
Expected return on plan assets	67	68
Employer contributions	5	5
Benefits paid	-110	-109
Actuarial gains (+)/losses (–)	7	5
Fair value of plan assets as of December 31	**1,826**	**1,857**

In most cases, the plan assets are insurance policies.

In the reporting year, cumulated actuarial gains and losses came to EUR 342 k (prior year: EUR 87 k).

In fiscal 2006, the Homag Group prepared consolidated financial statements pursuant to IFRS for the first time. Contributions in the current and two previous reporting periods are presented in the table below:

EUR k	2007	2006	2005
Defined benefit obligation	4,246	4,435	4,687
Fair value of plan assets	-1,826	-1,857	-1,888
Deficit (+)/Surplus(-)	2,420	2,578	2,799
Experience adjustments on plan liabilities	-2	0	22
Experience adjustments on plan assets	-7	-5	-4

6.17 Obligations from Employee Profit Participation

For general explanations on silent employee participation, we refer to our comments in Section 4.2.13.

The obligation to the employees was measured on the basis of an actuarial appraisal based on the following assumptions:

	Employee participation	
	Dec. 31, 2007	Dec. 31, 2006
Discount factor	5.50%	4.50%
Fluctuation	0.9 %-2.79%	0.06%-4.02%

6.18 Other Provisions

EUR k	Dec. 31, 2007			Dec. 31, 2006		
		due in			due in	
	Total	less than 1 year	> 1 year	Total	less than 1 year	> 1 year
Provisions for personnel matters	6,522	1,885	4,637	5,537	2,727	2,810
Provisions for production and sales	12,471	11,805	666	9,881	9,834	47
Sundry other provisions	1,447	1,396	51	92	92	0
Other provisions	**20,440**	**15,086**	**5,354**	**15,510**	**12,653**	**2,857**

The provisions relating to production and sales mainly contain provisions for potential losses from pending transactions and warranty risks.

The personnel provisions mainly contain obligation for phased retirement arrangements and long-service bonuses as well as variable salary payments.

Other provisions developed as follows:

EUR k	As of Jan. 1, 2007	Currency adjustment	Utilized	Reversed	Increased	As of Dec. 31, 2007
Provisions for personnel matters	5,537	-3	619	208	1,815	6,522
Provisions for production and sales	9,881	-1	6,062	739	9,392	12,471
Sundry other provisions	92	-3	35	9	1,401	1,447
Other provisions	**15,510**	**-7**	**6,716**	**955**	**12,608**	**20,440**

7. Other Explanations

7.1 Financial Instruments

Book values, carrying amounts and fair values by measurement category 2007

EUR k	Book value Dec. 31, 2007	Amortized cost
Assets		
Cash and cash equivalents	47,613	47,613
Trade receivables	138,938	138,938
Receivables from long-term construction contracts	28,579	
Other financial assets	862	
Other primary financial assets	15,731	15,731
Derivative financial assets		
Derivatives without hedging relationship	735	
Equity and liabilities		
Trade payables	77,764	77,764
Liabilities from long-term construction contracts	2,562	
Financial liabilities		
Liabilities to banks	109,029	109,029
Profit participation capital	31,673	31,673
Lease liabilities	10,857	
Sundry financial liabilities	165	165
Derivative financial liabilities		
Derivatives without hedging relationship	3,036	
thereof combined according to the measurement categories in accordance with IAS 39:		
Loans and receivables	202,282	202,282
Available-for-sale financial assets	862	
Financial assets held for trading	735	
Financial liabilities measured at amortized cost	218,466	218,466
Financial assets held for trading	3,036	

Carrying amount IAS 39 Acquisition cost	Fair value through profit or loss	Carrying amount according to IAS 11	Carrying amount according to IAS 17	Fair Value Dec. 31, 2007
				47,613
				138,938
		28,579		28,579
862				-
				15,731
	735			735
				77,764
		2,562		2,562
				108,590
				34,632
			11,016	11,016
				165
	3,036			3,036
				202,282
862				-
	735			735
				218,466
	3,036			3,036

Book values, carrying amounts and fair values by measurement category 2006

EUR k	Book value Dec. 31, 2006	Amortized cost
Assets		
Cash and cash equivalents	17,506	17,506
Trade receivables	119,573	119,573
Receivables from long-term construction contracts	19,518	
Other financial assets	811	
Other primary financial assets	23,861	23,861
Derivative financial assets		
Derivatives without hedging relationship	309	
Equity and liabilities		
Trade payables	54,809	54,809
Liabilities from long-term construction contracts	1,265	
Financial liabilities		
Liabilities to banks	130,304	130,304
Profit participation capital	31,450	31,450
Lease liabilities	11,382	
Sundry financial liabilities	416	416
Derivative financial liabilities		
Derivatives without hedging relationship	831	
thereof combined according to the measurement categories in accordance with IAS 39:		
Loans and receivables	160,940	160,940
Available-for-sale financial assets	811	
Financial assets held for trading	309	
Financial liabilities measured at amortized cost	216,563	213,563
Financial assets held for trading	831	

Carrying amount IAS 39 Acquisition cost	Carrying amount IAS 39 Fair value through profit or loss	Carrying amount according to IAS 11	Carrying amount according to IAS 17	Fair Value Dec. 31, 2006
				17,506
				119,573
		19,518		19,518
811				-
				23,861
	309			309
				54,809
		1,265		1,265
				131,014
				36,170
			11,521	11,521
				416
	831			831
				160,940
811				-
	309			309
				216,563
	831			831

Cash and cash equivalents, trade receivables and other primary assets fall due in the short term for the most part. Consequently, their carrying amounts as of the balance sheet date approximate their fair value.

Available-for-sale financial assets relate exclusively to equity instruments for which a quoted price on an active market is not available. Consequently, their fair value cannot be measured reliably.

The fair value of derivative financial instruments, which are essentially interest rate hedges and forward exchange contracts, is determined using standardized actuarial methods (mark-to-market method).

For trade payables, it is assumed that the fair values correspond to the carrying amounts of these financial instruments due to the short terms to maturity.

As regards financial liabilities, non-current liabilities due to banks are determined using a fixed interest rate, while the value of the finance lease liabilities and the liabilities from profit participation rights is determined based on the present value of the expected future cash flows. Discounting is based on the prevailing market interest rates with reference to the terms concerned; terms are classified into those falling due between one and five years and terms of more than five years. If there is objective evidence that the credit risk has changed since the liability was entered into, this is taken into account when determining the discount rate. As regards the current liabilities to banks, it is assumed that the carrying amounts of these financial instruments approximate their fair values owing to the short terms to maturity.

Net Gains or Net Losses

The following table presents the net gains or net losses from financial instruments recognized in the income statement:

EUR k	2007	2006
Financial assets and financial liabilities at fair value through profit or loss	-1,654	3
Available-for-sale financial assets	19	0
Loans and receivables	-768	-2,127
Financial liabilities at amortized cost	121	-4

The net gains and net losses from financial assets and financial liabilities at fair value through profit or loss include the results of changes in fair value and from interest income and expenses from these financial instruments.

The net gains from available-for-sale financial assets are gains on disposal.

The net gains and net losses from loans and receivables and mainly include results from impairment losses.

As regards financial liabilities stated at cost, the net gains and net losses are primarily attributable to currency differences.

The market values of derivative financial instruments are disclosed under other financial assets or other financial liabilities. In fiscal 2007, the sum of the positive market values of derivative financial instruments came to EUR 0.7 million (prior year: EUR 0.3 million), while the sum of the negative market values totaled EUR 3.0 million (prior year: EUR 0.8 million).

In the course of its business operations, the Homag Group is exposed to interest and currency risks. One aim of the risk management system is to hedge against adverse effects to the financial performance of the Group. Customary market instruments such as interest and forward exchange contracts are used for this purpose. Uniform group policies govern the handling of transactions as well as the strict functional segregation between trade, handling and monitoring. Due to its international outlook, the Homag Group is exposed to currency risks for various foreign currencies. Consequently, the hedging strategy focuses on a general hedge of foreign currency amounts at the time a claim or obligation denominated in foreign currency arises. For this purpose, derivative financial instruments are entered into with banks or cash inflows are offset against cash outflows. The hedged items can relate to transactions planned in the future, for which hedging instruments with short terms to maturity (< one year) are used to hedge against their respective exchange rate risks. Within the Homag Group, derivative financial instruments are only used to hedge against currency, interest and fair value risks from the operating business or reduce the resulting financing requirements. The Homag Group records the changes in fair value of all derivative financial instruments in the reporting period. The fair values of derivative financial instruments are disclosed under “other assets and prepaid expenses” and “other current liabilities and deferred income”.

7.2 Financial Risk Management Objectives and Policies

General Information on Financial Risks

The Group’s principal financial instruments, other than derivative financial instruments, comprise bank loans and overdrafts, profit participation capital, finance leases and trade payables. The main purpose of these financial instruments is to raise finance for the Group’s operations. The Group has various financial assets such as trade receivables and cash and loans granted, which arise directly from its operations.

The Group contracts derivative financial instruments, mostly forward exchange contracts, to minimize these risks. The use of derivative financial instruments is regulated by the group guidelines which have been approved by the management board. In addition, there are fundamental rules in place governing the investment of surplus liquidity. The Group does not contract or trade in financial instruments, including derivative financial instruments, for speculation purposes.

The main risks to the Group arising from the financial instruments comprise credit and liquidity risks as well as the interest risks and currency risks, referred to collectively as financial market risk. The management reviews and agrees policies for managing each of these risks which are summarized below.

Credit Risks
Credit risk describes the risk of financial loss resulting from counterparties failing to discharge their contractual payment obligations. Credit risk involves both the direct risk of default and the risk of a deterioration in creditworthiness, linked to the risk of a concentration of individual risks.

The Group trades only with creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The existing trade receivables are due from a large number of customers distributed across different regions. The majority of debtors are entities active in the wood processing industry (including the furniture industry and cabinet makers) as well as wholesale machine retailers, whereby title to the goods delivered is generally retained. Credit insurance is concluded on a case-by-case basis. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to risk of default is not significant.

The Group is not exposed to significant credit risk from any individual contractual party or group of contractual parties with similar characteristics. The credit risk attaching to liquid funds is low, since the contractual parties are banks with excellent credit ratings from international credit rating agencies. There are no liquid funds past due or impaired at present due to default.

The maximum credit risk due to default of the contractual party in the case of trade receivables, other financial assets of the Group, liquid funds and derivative financial instruments with positive market values corresponds to the carrying amount of these instruments. The carrying amount of these instruments as of the balance sheet date came to EUR 232,458 k. The Group has not issued any financial guarantees that could increase its credit risk exposure.

Liquidity Risk
Liquidity risks describes the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group continually monitors the risk of being faced with a shortage of funds. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of

bank overdrafts, loans and finance lease agreements. The Group controls its liquidity by maintaining sufficient cash and cash equivalents and lines of credits at banks in addition to cash inflows from operating activities. In addition, the main group entities have access to liquid funds via a syndicated loan agreement in place between Homag Group AG and a syndicate of banks. From the syndicated loan agreement and bilateral agreements entered into between the group entities, the Group had undrawn lines of credit (bank deposits are deducted from the amounts drawn in some cases) of EUR 165 million as of December 31, 2007 (prior year: EUR 92 million).

The table below summarizes the maturity profile of the Group's financial liabilities at year end. The disclosures are based on contractual payments without discounting.

EUR k	Book value Dec. 31, 2007	Estimated cash flows in the year/years 2008	2009	2010-2012	2013 et seq.
Trade payables	77,764	77,764	0	0	0
Liabilities from construction contracts	2,562	2,562	0	0	0
Financial liabilities					
Liabilities to banks	109,029	26,937	14,156	79,503	6,140
Profit participation capital	31,673	3,205	3,205	40,956	0
Lease liabilities	10,857	5,494	3,831	2,423	27
Derivative financial liabilities					
Derivatives without hedging relationship	3,036	859	817	1,167	65

EUR k	Book value Dec. 31, 2006	Estimated cash flows in the year/years 2007	2008	2009-2011	2012 et seq.
Trade payables	54,809	54,809	0	0	0
Liabilities from construction contracts	1,265	1,265	0	0	0
Financial liabilities					
Liabilities to banks	130,304	84,954	16,397	32,440	17,407
Profit participation capital	31,450	2,860	2,560	33,276	5,195
Lease liabilities	11,382	5,553	3,395	3,549	0
Derivative financial liabilities					
Derivatives without hedging relationship	831	365	100	300	100

Financial Market Risks

The Group's activities mainly comprise financial risks from exchange rate and interest rate fluctuations.

Currency Risk

Exposure to currency risks stems from the Group's global orientation and the resulting cash flows in different currencies subject to exchange rate fluctuations. These primarily relate to the USD to EUR exchange rate. Some 18% of the Group's sales revenue is generated in currencies other than the euro. Currency risks are hedged close to the market at the respective sales companies, rather than centrally. It is the Group's policy not to enter into forward contracts until a firm commitment is in place. Apart from the operating cost of group entities located outside the euro zone, the Group is not exposed to any significant risks on the cost side. Consequently, the financial assets affected by exchange rate fluctuations generally exceed the Group's financial liabilities denominated in foreign currencies.

The table below demonstrates the sensitivity to a reasonably possible change in the exchange rate between the euro and all other currencies of the Group's earnings before tax due to changes in the fair value of monetary assets and liabilities (primary and derivative). All other variables remain constant. Since no changes in the value of financial instruments denominated in foreign currencies are recognized directly in equity, exchange rate fluctuations do not affect equity directly.

	Effect on pre-tax result	
EUR k	**2007**	**2006**
Increase in value of EUR against other currencies +10%	720	193
Decrease in value of EUR against other currencies -10%	-673	-176

The sensitivity analysis only includes outstanding monetary items denominated in foreign currency, and adjusts the currency translation as at the end of the period to account for a 10% change in the exchange rate. The sensitivity analysis includes obligations from financial instruments or receivables and assets, mostly of foreign group entities denominated in a currency other than the functional currency, as well as derivative financial instruments.

The hypothetical effect on earnings breaks down into the following currency sensitivity components:

EUR k	2007	2006
10% increase in value of EUR against the Polish Zloty	-251	-342
10% increase in value of EUR against the pound sterling	66	91
10% increase in value of EUR against the Canadian dollar	73	140
10% increase in value of EUR against the Singapore dollar	459	210
10% increase in value of EUR against the Swiss franc	287	42
10% increase in value of EUR against the Brazilan real	140	28
10% increase in value of EUR against the Korean won	34	58
10% increase in value of EUR against the Indian rupee	-81	0
10% increase in value of EUR against the Australian dollar	0	-70
10% increase in value of EUR against other currencies	-7	36
Total	**720**	**193**

EUR k	2007	2006
10% decrease in value of EUR against the Polish Zloty	205	280
10% decrease in value of EUR against the pound sterling	-58	-78
10% decrease in value of EUR against the Canadian dollar	-57	-114
10% decrease in value of EUR against the Singapore dollar	-375	-172
10% decrease in value of EUR against the Swiss franc	-330	-34
10% decrease in value of EUR against the Brazilan real	-115	-23
10% decrease in value of EUR against the Korean won	-28	-47
10% decrease in value of EUR against the Indian rupee	66	0
10% decrease in value of EUR against the Australian dollar	0	56
10% decrease in value of EUR against other currencies	19	-44
Total	**-673**	**-176**

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's non-current financial liabilities with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. In addition, the risk of rising interest rates is hedged by contracting interest derivatives – primarily interest rate swaps. As of December 31, 2007, 50.1% of the financial liabilities entered into were subject to fixed rates of interest (prior year: 50.5%).

The table below shows the sensitivity of pre-tax consolidated profit or loss to a reasonably possible change in the interest rates (due to the effect on the variable interest loans and variable interest receivables). All other variables remain constant. Consolidated equity is not affected.

	Effect on earnings before taxes	
EUR k	**2007**	**2006**
Change in interest rate Euro +100 basis points	-1,823	-3,843
Change in interst rate Euro -100 basis points	1,457	1,093

The Group only has a very minor volume of financial instruments subject to variable interest rates and not denominated in euro.

Derivative Financial Instruments

The following table provides an overview of the derivative financial instruments contracted to hedge the risk of fluctuations in exchange rates and interest rates:

	2007		2006	
EUR k	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
Currency hedges with a term of less than one year	4,524	431	10,375	-15
Currency hedges with a term of between 1 and 5 years	3,000	-69	3,000	-91
Currency hedges with a term of more than 5 years	0	0	0	0
Total currency-related transactions	**7,524**	**362**	**13,375**	**-106**
Currency hedges with a term of less than one year	0	0	6,000	-31
Currency hedges with a term of between 1 and 5 years	8,623	49	13,771	-3
Currency hedges with a term of more than 5 years	24,000	-2,712	29,000	-381
Total interest-related transactions	**32,623**	**-2,663**	**48,771**	**-415**
Total derivatives	**40,147**	**-2,301**	**62,146**	**-521**

The currency hedges primarily concern the euro and the Swiss franc.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies and methods as of December 31, 2007 or December 31, 2006.

The capital structure is regularly monitored using various indicators, including gearing, the debt ratio, EBITDA, EBT, ROCE, earnings per shares and net bank borrowing. Apart from gearing (ratio of gross financial liabilities to equity within the meaning of capital management), the most important indicator in this context is the debt ratio. The debt ratio is the ratio of net borrowing to EBITDA. Net borrowing comprises financial liabilities, plus other interest-bearing liabilities recognized in the balance sheet, less profit participation rights and cash and cash equivalents.

The strategic objective is to achieve an equity ratio of 35%, an own funds ratio of 40%, and a net debt ratio no greater than 2 and gearing between 0.5 and 1.0.

The determination of the gearing for 2007 and 2006 is presented in the following table:

EUR k	**2007**	**2006**
Financial liabilities (without profit participation rights)	119,886	142,101
Other interest-bearing liabilities (without pension provisions)	165	2,461
Gross financial debt	**120,051**	**144,562**
Equity	166,135	103,998
Obligations from employee profit participation	9,814	8,966
Profit participation capital	31,673	31,450
Total equity within the capital management context	**207,622**	**144,414**
Gearing	0.6	1.0

7.3 Contingent Liabilities

The following assets were pledged as security for the Group's loans

EUR k	**Dec. 31, 2007**	**Dec. 31, 2006**
Group-owned land and buildings	57,495	55,429
Group-owned technical equipment and machines	2,537	685
Group-owned other equipment, furniture and fixtures	0	865
Inventories	11,605	70,193
Trade receivables	6,097	101,897
Cash and cash equivalents	945	203
	78,679	**229,272**

The syndicated loan agreement concluded in July 2007 is no longer secured by inventories and trade receivables.

In addition, obligations of the Group from finance lease agreements (cf. 6.3) are secured by rights of the lessors' on the leased assets. The leased assets have a carrying amount of EUR 13,735 k (prior year: EUR 12,817 k).

Additional obligations of the Group break down as follows:

EUR k	2007	2006
Notes payable	6,179	15,334
Liabilities from guarantees	540	3,420
Liabilities from warranty agreements/take-back obligations under lease agreements	3,984	7,196
Litigation risks	3,964	3,728
Other obligations	2,514	2,112
	17,181	**31,790**

As of December 31, 2006, there was a secondary liability of EUR 11.4 million from guarantees at credit insurers by entities in the IMA group. The Company was released from this secondary liability in March 2007.

Litigation Risks

The litigation risks of EUR 3.7 million presented in the prior year at a foreign sales company remain. Management is of the opinion that the claim is not substantiated and the Company will defend its position as best it can. When the lawsuit, for which no provisions have been set up, will end is still not known.

At another foreign sales company, a customer has also claimed a reverse transaction for a purchase agreement from the year 2003 and damages of around EUR 1 million. Here too, management takes the position that the claim is unfounded.

The Homag Group or its group entities were not involved in any other litigation or arbitration proceedings that could have a considerable influence on the economic situation of the entities or the Group in the past two years, nor are they involved in any such proceedings at present. The entities concerned have formed adequate provisions to account for any financial burdens from other litigation or arbitration proceedings, or there is sufficient security to cover these items and this has been taken into account in the Group.

7.4 Notes on Segment Reporting

Use was made of the option to early adopt IFRS 8 (Operating Segments) in the presentation of the Homag Group's segments. The internal group structure was modified and adjusted to the segment structure pursuant to IFRS 8.

As a result, the Homag Group is organized into the segments Industry, Cabinet Shops, Sales & Service and Other.

Intersegment transfers are performed at arm's length. Transactions between group segments are eliminated in the consolidation column.

The "Industry" segment comprises those entities whose core business activities center on the provision of system solutions for industrial companies. The segment offers holistic, optimally aligned systems comprising machines, handling, data links, information technology and logistics, while covering the main processes of the wood processing workflow.

The "Cabinet Shops" segment comprises those group entities that offer products tailored to the special requirements of smaller workshops. Apart from high quality and productivity, the success factors of this segment include simple operation and flexible applications at a competitive price.

The Sales & Services segment comprises the business activities of the Homag sales and service entities in Germany and abroad. Our global sales and service network affords customers worldwide competent support at all times, and allows them to benefit from fast on-site service.

The "Other" segment primarily comprises the holding activities of Homag Group AG, foreign production facilities in regions with potential in the future, the services division with the software and consulting portfolio of Schuler Business Solutions AG and the timber frame house construction division.

7.5 Fees and Services Provided by the Group Auditors

In accordance with German law, the group auditors are proposed by the supervisory board and elected by the annual general meeting. Once the group auditors have been elected, the supervisory board engages them, approves the conditions and scope of the audit of the financial statements as well as all audit fees, and monitors the independence of the group auditors. In 2006 and 2007, the annual general meeting elected Ernst & Young AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, which have been our group auditors for some years, as the group auditors for the fiscal years 2006 and 2007.

The table below presents all of the fees invoiced by our group auditor for the last two fiscal years in the following categories: (1) Statutory audit, i.e. fees in connection with the statutory audit performed by the auditor in accordance with the articles of incorporation and bylaws or regulatory requirements invoiced in the fiscal years in question; (2) other assurance and valuation work, i.e. fees for attestation and related services closely tied to the audit of the financial statements and not disclosed in the statutory audit item; (3) tax advisory services, i.e. fees for professional services to ensure compliance with tax provisions, tax advice and tax planning; and (4) other services, i.e. all other products and services not included under the items statutory audit, other assurance and valuation work or tax advisory services. All amounts are net of VAT.

EUR k	**2007**	**2006**
Statutory audit	708	440
Other assurance and valuation work	1,368	0
Tax advisory services	270	140
Other services	74	311
	2,420	**891**

Other assurance and valuation services mainly include those relating to the IPO. The fees for tax advisory services including service fees contain fees for advisory and support services for filing tax returns as well as advisory services in connection with the IPO. Other services in 2006 include fees for advisory services in connection with the conversion of the consolidated financial statements to IFRS.

7.6 Subsequent Events

There were no significant events between the balance sheet date and the date of publication.

7.7 Related Parties

In accordance with IAS 24, persons or entities which are in control of or controlled by the Homag Group must be disclosed, unless they are already included as consolidated entities in the consolidated financial statements of the Homag Group. Control exists if a shareholder owns more than one half of the voting rights in Homag Group AG or, by virtue of a provision of the articles of incorporation and bylaws or of an agreement, has the power to control the financial and operating policies of Homag Group's management.
The disclosure requirements under IAS 24 also extend to transactions with associated companies as well as transactions with persons who have significant influence on the Homag Group's financial and operating policies, including close family members and intermediate entities. Significant influence is deemed to be exerted on the financial and operating policies of the Homag Group by persons on the management board or the supervisory board of Homag Group AG, or another key management position.

In the fiscal year 2007, the Homag Group is affected by the disclosure requirements of IAS 24 solely with respect to business relationships with associates, members of the management board and the supervisory board as well as shareholders that hold more than 20% of the shares in the parent company Homag Group AG.

There are liabilities from employee profit participation of EUR 30 k (prior year: EUR 151 k) attributable to members of the supervisory board.

A consulting agreement was concluded in 1999 with the former chairman of the supervisory board and current honorary chairman of the supervisory board of Homag Holzbearbeitungssysteme AG. The corresponding annual remuneration amounts to EUR 61 k.

There were no contractual obligation with Deutschen Beteiligungs AG, either before or after the IPO, in the form of consulting agreements or similar.

The following table shows the deliveries of goods and services between entities in the consolidated group and related parties of the Homag Group:

	Group services and supplies for related parties		**Services and supplies received by the Group from related parties**	
EUR k	**2007**	**2006**	**2007**	**2006**
Associates	75,212 [1]	89,027 [1]	3,766	2,235

[1] Sales revenue plus other operating income

The above figures include amounts disclosed under other operating income or other operating expenses.

Transfer prices for intercompany sales are determined using a market-based approach in compliance with the arm's length principle. The related entities are sales and service companies that sell machines and spare parts to group entities. The services received by the Group from associates essentially relate to cross-charged assembly and trade fair costs which were incurred by the related entities.

7.8 Corporate Governance

The management board and supervisory board of Homag Group AG have issued a joint declaration of compliance pursuant to Art. 161 AktG ["Aktiengesetz": German Stock Corporation Act] as regards the recommendations of the "Government Commission German Corporate Governance Code" as amended June 14, 2007. It is published in the annual report as part of the corporate governance report and on the Homag Group AG's website.

8. Company Boards

8.1 Supervisory Board

Gerhard Schuler (chairman until March 19, 2007; honorary chairman since March 19, 2007), Freudenstadt, chairman of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch (chairman until March 19, 2007; honorary chairman from March 19, 2007)

Torsten Grede (chairman from March 19, 2007); member of the management board of Deutsche Beteiligungs AG, Frankfurt/Main, chairman of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch, (from March 19, 2007) and of AKsys GmbH, Worms, member of the supervisory board of MCE AG, Linz, member of the board of directors of Clyde Bergemann Power Group, Inc., Delaware, USA, and member of the advisory board of Grohmann Engineering GmbH, Prüm

Reinhard Löffler, Weil der Stadt, former member of the management board of Deutsche Beteiligungs AG, Frankfurt/Main, member of the supervisory board of Coveright Surfaces Beteiligungs GmbH, Düsseldorf, deputy chairman of the supervisory board of transtec AG, Tübingen

Dr. Jochen Berninghaus, Dortmund, lawyer, Wirtschaftsprüfer [German public auditor] and tax advisor, deputy chairman of the supervisory board of Geno-Volksbank-Essen e.G., Essen, member of the advisory board of Kludi GmbH & Co. KG, Menden, of A.W. Kisker GmbH & Co. KG, Bielefeld, and Heinrich Schlenkhoff GmbH, Essen and member of the board of trustees of the Erich und Hanna Klessmann Stiftung, Gütersloh

Klaus M. Bukenberger, Stuttgart, business consultant, chairman of the supervisory board of SICK AG, Waldkirch, member of the supervisory board of Pfleiderer AG, Neumarkt, chairman of the advisory board of Leitz Holding GmbH & Co. KG, Oberkochen, member of the advisory board of Carl Mahr Holding GmbH, Göttingen, Deutsche Bank AG, Stuttgart, and Rutronik GmbH, Ispringen.

Wilhelm Freiherr von Haller, Stuttgart, member of management of Deutsche Bank AG, Frankfurt am Main and member of the management committee for Germany of Deutsche Bank AG, member of the supervisory board of GEZE GmbH, Leonberg, member of the advisory board of Gühring OHG, Albstadt-Ebingen and of AESCULAP AG & Co. KG, Tuttlingen

Ingrid Hornberger-Hiller, Tübingen, lawyer (until March 19, 2007)

Ralf Hengel, Freudenstadt, Head of IT at schlott GmbH, Freudenstadt (since March 19, 2007)

Carmen Hettich-Günther [1)], Rottenburg, commercial employee and chairman of the works' council of Homag Holzbearbeitungssysteme AG, Schopfloch (since November 21, 2007), member of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch

[1)] Employee representative

Jochen Meyer [1], (deputy chairman since December 20, 2007) Herzebrock - Clarholz, chairman of the works' council of Weeke Bohrsysteme GmbH, Herzebrock - Clarholz

Reinhard Seiler [1], Detmold, main representative of IG – Metall trade union, member of the supervisory board of Dorma Holding GmbH & Co. KGaA, Ennepetal

Franz Hipp [1], (deputy chairman) Horb-Dettingen, technical employee of Homag Holz¬bear¬beitungs¬systeme AG, Schopfloch (until October 18, 2007)

Reiner Neumeister [1], Calw, main representative of IG - Metall, deputy chairman of the supervisory board of Bauknecht Hausgeräte GmbH, Stuttgart, and of Brueninghaus Hydromatik GmbH, Elchingen, member of the advisory board of Carl Haas GmbH, Schramberg and of Heckler & Koch GmbH, Oberndorf, as well as member of the executive board of AOK Baden-Württemberg, Stuttgart

Karl Frey [1], Schopfloch, technical employee of Homag Holzbearbeitungssysteme AG, Schopfloch (until March 31, 2007)

Ernst Esslinger [1], Alpirsbach, Head of R&D in the area of control technology at Homag Holzbearbeitungssysteme AG, Schopfloch (since May 14, 2007)

Hannelore Knowles [1], Calw - Holzbronn, chairwoman of Group works' council of Homag Group AG

[1] Employee representative

8.2 Management Board

Dr. Joachim Brenk (CEO), Loßburg, member of the management board of Homag Holzbearbeitungssysteme AG, board member for sales and marketing, Schopfloch

Achim Gauß, Dornstetten - Hallwangen, member of the management board of Homag Holzbearbeitungssysteme AG, board member for research and development, Schopfloch

Andreas Hermann, Dornstetten-Aach, member of the management board of Homag Holzbearbeitungssysteme AG, CFO, Schopfloch

Rolf Knoll, Dettingen an der Erms, member of the management board of Homag Holzbearbeitungssysteme AG, board member for equity investments, Schopfloch

Herbert Högemann, Freudenstadt-Dietersweiler, member of the management board of Homag Holzbearbeitungssysteme AG, board member for production, materials management and quality management, Schopfloch (since January 1, 2007, entered in the commercial register on February 27, 2007)

9. Equity investments

	Currency	Issued capital Dec. 31, 2007	Share of capital Dec. 31, 2007 %
Germany			
Direct shareholding			
Homag Holzbearbeitungssysteme AG, Schopfloch	EUR	30,000,000.00	100.00
Schuler Business Solutions AG, Pfalzgrafenweiler [1]	EUR	5,150,000.00	100.00
Torwegge Holzbearbeitungsmaschinen, GmbH, Löhne [2]	EUR	1,600,000.00	100.00
Holzma Plattenaufteiltechnik GmbH, Holzbronn [3]	EUR	5,600,000.00	100.00
Brandt Kantentechnik GmbH, Lemgo	EUR	4,000,000.00	70.00
MAW Montagetechnik GmbH, Herford	EUR	17,550,000.00	100.00
Wehrmann Maschinen Center GmbH, Barntrup [4]	EUR	2,500,000.00	43.82
Indirect shareholding:			
Homag Vertriebs-Beteiligungs GmbH, Schopfloch	EUR	7,200,000.00	100.00 [6]
Ligmatech Automationssysteme GmbH, Lichtenberg	EUR	6,650,000.00	95.23
Weeke Bohrsysteme GmbH, Herzebrock	EUR	9,300,000.00	100.00
Friz Kaschiertechnik GmbH, Weinsberg	EUR	2,400,000.00	100.00
Bargstedt Handlingsysteme GmbH, Hemmoor	EUR	5,133,000.00	100.00
Bütfering Schleiftechnik GmbH, Beckum	EUR	370,000.00	51.00
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	EUR	1,000,000.00	51.00
Homag GUS GmbH, Schopfloch	EUR	100,000.00	100.00 [6]
Homag Leasing GmbH, Schopfloch	EUR	100,000.00	100.00 [6]
Homag India GmbH, Schopfloch	EUR	400,000.00	100.00 [6]
Homag Vertrieb & Service GmbH, Schopfloch	EUR	300,000.00	100.00 [6]
Hüllhorst GmbH, Barntrup	EUR	255,645.94	100.00
Entwicklungs- und Innovationsgesellschaft Westfalen-Lippe mbH & Co. KG, Westfalen-Lippe	EUR	34,512.20 [5]	34.78

[1] 94.00% of which is held by Homag Holzbearbeitungssysteme AG and 6.00 % by Homag Group AG.
[2] 39.95% of which is held by Homag Holzbearbeitungssysteme AG and 60.05% by Homag Group AG.
[3] 54.46% of which is held indirectly.
[4] Insolvency proceedings not yet completed.
[5] Figures fiscal year January 1 to December 31, 2006.
[6] Precisely calculated investment quota: 95.39%

	Currency	Issued capital Dec. 31, 2007	Share of capital Dec. 31, 2007 %
Outside Germany			
Indirect shareholdings			
Homag Machinery Środa Sp. z o.o., Środa/Poland	PLN (EUR	4,345,000.00 1,198,240,56)	100.00 [7]
Holzma Plattenaufteiltechnik S.A. Unipersonal L'Ametlla del Valles/Spain	EUR	2,047,748.40	100.00
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo/Brazil	BRL (EUR	16,192,675.00 6,197,014.52)	100.00
Homag Machinery (Shanghai) Co. Ltd., Shanghai/China	CNY (EUR	70,715,635.00 6,564,416.38)	81.75 [8]
Homag Austria Gesellschaft mbH, Salzburg/Austria	EUR	370,000.00	100.00 [9]
Homag Italia S.p.A., Monza/Italy	EUR	1,100,000.00	100.00 [9]
Homag France S.A., Schiltigheim/France	EUR	1,500,000.00	100.00 [9]
Homag Asia (PTE) Ltd., Singapore/Singapore	SGD (EUR	100,000.00 46,931.39)	100.00 [9]
Homag Canada Inc., Mississauga, Ontario/Canada	CAD (EUR	4,367,800.00 3,019,877.62)	100.00 [9]
Homag Polska Sp. z o.o., Środa/Poland	PLN (EUR	1,050,000.00 289,563.31)	100.00 [9]
Homag Japan Co. Ltd., Osaka/Japan	JPY (EUR	156,000,000.00 943,076.85)	100.00 [9]
Homag Danmark A/S, Galten/Denmark	DKK (EUR	1,970,000.00 264,117.91)	100.00 [9]
Homag U.K. Ltd., Castle Donington/England	GBP (EUR	2,716,778.00 3,681,869.68)	100.00 [9]
Schuler Business Solutions S.L., Cullera/Spain	EUR	301,000.00	100.00
Homag Korea Co. Ltd., Seoul/Korea	KRW (EUR	320,970,000.00 232,693.19)	54.55 [10]
Holzma Tech GmbH, Assenovgrad/Bulgaria	BGN (EUR	370,000.00 188,260.67)	100.00
Stiles Machinery Inc., Grand Rapids/USA	USD (EUR	25,806.00 17,521.13)	22.00
Homag España Maquinaria S.A., Montmeló/Spain	EUR	1,211,300.00	100.00 [9]
Homag China Golden Field Ltd., Hongkong/China	HKD (EUR	27,000,000.00 2,350,315.38)	25.00
Homag South America Ltda., São Paulo/Brazil	BRL (EUR	2,014,531.00 770,970.69)	100.00 [9]

[7] Precisely calculated investment quota: 96.65%
[8] Precisely calculated investment quota: 74.15%
[9] Precisely calculated investment quota: 95.39%
[10] Precisely calculated investment quota: 52.03%

	Currency	Issued capital Dec. 31, 2007	Share of capital Dec. 31, 2007 %
Outside Germany			
Indirect shareholdings			
Homag Australia Pty. Ltd., Sydney/Australia	AUD (EUR	5,309,158.62 3,156,887.46)	100.00 [11)]
Homag (Schweiz) AG, Bachenbülach/Switzerland	CHF (EUR	200,000.00 120,575.63)	100.00 [11)]
Schuler Business Solutions S.A.R.L. Straßburg/France	EUR	50,000.00	100.00
Bütfering Qinhuangdao Machinery Manufacturing Co. Ltd., [12)] Qinhuangdao/China	CNY (EUR	2,395,681.75 222,387.21)	51.00
OOO “FAYZ-Homag GUS”, Taschkent/Uzbekistan	USD (EUR	174,000.00 118,138.30)	33.00
OOO “Homag Russland” Moskau/Russian Federation	RUB (EUR	357,215.00 9,894.87)	100.00 [11)]
Homag India Privat Ltd., Bangalore/India	INR (EUR	104,930,000.00 1,806,588.77)	100.00 [11)]
Ramu Machinery Private Limited, Bangalore/India	INR (EUR	11,500,000.00 197,996.48)	52.17
HA Malaysia Sdn. Bhd., Kuala Lumpur/Malaysia	MYR (EUR	250,000.00 51,385.35)	100.00 [11)]
HA (Thailand) Co. Ltd., Bangkok/Thailand	THB (EUR	2,000,000.00 45,636.05)	100.00 [11)]

[11)] Precisely calculated investment quota: 95.39%
[12)] Company currently being wound up

10. Other Notes

The exemption provision pursuant to Sec. 264 (3) HGB was exercised for Weeke Bohrsysteme GmbH, Herzebrock.

Declaration of the Legal Representatives (Group)

Declaration of the legal representatives

Declaration Pursuant to Sec. 297 (2) Sentence 4 HGB and Sec. 316 (1) Sentence 6 HGB ["Handelsgesetzbuch": German Commercial Code]

We confirm that, to the best of our knowledge, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group and the group management report gives a true and fair view of the business performance including the results of operations and the situation of the Group, and describes the main opportunities and risks and anticipated development of the Group in accordance with the applicable financial reporting framework.

Schopfloch, April 4, 2008

Homag Group AG
The Management Board

Dr. Joachim Brenk *Andreas Hermann*

Achim Gauß *Rolf Knoll* *Herbert Högemann*

Audit Opinion on the Consolidated Financial Statements

Audit opinion

We have issued the following opinion on the consolidated financial statements and the group management report:

> "We have audited the consolidated financial statements prepared by Homag Group AG, Schopfloch, comprising the income statement, the balance sheet, cash flow statement, statement of changes in equity, the statement of recognized income and expense and notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.
> We conducted our audit of the consolidated financial statements in accordance with Sec. 317 and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Stuttgart, April 4, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Müller-Marqués Berger	Vögele
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Management Report (AG)

Management Report for Fiscal Year 2007

1. Business and General Economic Conditions

HOMAG Group AG is the parent company of the HOMAG Group. As a holding company, the central task of HOMAG Group AG to set the strategic course of the HOMAG Group and to monitor implementation of the group strategy. Other key tasks of HOMAG Group AG include the management of equity investments as well as steering liquidity management activities. The purpose of the HOMAG Group is to develop, produce and sell machines and systems for wood processing. The HOMAG Group has been listed on the regulated market of the German Stock Exchange since July 13, 2007. In October 2007, the shares were listed on the SDAX of the German Stock Exchange.

1.1 Background

Development of the Economy
According to the calculations of the IfW [“Institut für Weltwirtschaft”: Institute for World Economy”] the world economy exhibited extremely robust growth of 4.8 percent in 2007. Growth was primarily driven by the emerging economies, especially China with GDP growth in excess of 11 percent, India up 9 percent and Russia with growth in excess of 8 percent. Significant growth was also recorded in the other countries of eastern Asia and in Latin America, averaging out at more than 5 percent. By contrast, the economies of industrial nations weakened somewhat with growth of 2.5 percent in 2007 compared to 2.9 percent in 2006. This is essentially due to significantly lower GDP growth in the US of 2.2 percent following the real estate and finance crisis that hit the US in summer 2007. The other industrial nations also began to feel the effect of the crisis. For instance, economic growth in Japan was about 2 percent.

A slowdown could also be seen in the European Union, although the economy performed well in 2007 overall with growth of 3 percent. GDP in the euro zone rose by 2.6 percent, with Spain, Ireland, Greece and the Netherlands, amongst others, generating strong growth, while the French and Italian economies developed below trend. Most eastern European countries reported solid growth. Indeed, the Polish, Czech, Romanian and Bulgarian economies each grew by about 6 percent, while Slovakia, Latvia and Lithuania each exceeded the 8 percent mark.

The German economy generated strong growth, with GDP rising 2.5 percent. Growth impetus primarily originated abroad – exports were up 7.8 percent buoyed by unabated demand for German goods and services. At a domestic level, growth was again shouldered by investment in capital goods. Companies’ capital expenditures on machines, plant and vehicles exceeded the prior-year level by 8.2 percent. However, consumption expenditure failed to make a contribution, with consumer spending actually decreasing marginally.

Mechanical and Plant Engineering
According to the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], 2007 was a record year for the German mechanical and plant engineering industry, with sales revenue rising some 13 percent coupled with high capacity utilization. At the same time, exports reached record heights, mainly due to the pent-up demand in eastern Europe and Russia as well as strong growth in EU countries. In addition, domestic business developed very favorably in 2007, up more than 17 percent.

A sub-industry of the mechanical engineering industry, the wood processing machines industry has a small number of players with global operations and an extensive portfolio of offerings. In addition, numerous smaller companies are active in the industry, usually specializing in one type of machine. The Italian companies Biesse Group and SCM Group are the HOMAG Group's largest competitors. The trend in the last few years reveals that the major players have been increasing their market share because customers increasingly value an international presence and prefer to procure complete large-scale systems from a single manufacturer. According to our estimates, the three companies mentioned above had obtained a combined market share of almost 50 percent in 2007.

The volume of the market relevant to the HOMAG Group was estimated at EUR 3.5 billion in 2007. Based on order intake, the world market expanded in 2007 by about 15 percent compared to the prior year. The competent industry association within the VDMA estimates the sales revenue growth generated by the wood processing machines industry at 23 percent in Germany and 8 percent abroad. Based on the same data, foreign growth was primarily attributable to the euro zone.

1.2 Development and Structure of the Group

1.2.1 Legal and Company Structure

HOMAG Group AG is the parent company of the HOMAG Group and acts as financial holding. HOMAG Group AG holds 100 percent of the shares in HOMAG Holzbearbeitungssysteme AG. The latter has active operations and acts as management company for numerous subsidiaries in which it holds the majority of the shares. The Group has ten domestic and four foreign production entities as well as 21 sales and service entities.

The operations of the production entities are managed by the respective local management. An equity investments officer in the holding company is also responsible for these subsidiaries. According to their size, the domestic production companies hold equity investments in HOMAG Vertriebs-Beteiligungs GmbH and thus exercise control over the foreign sales and service entities.

The following changes were made to the corporate structure in fiscal 2007:

- In December 2007, HOMAG GUS GmbH concluded a profit and loss transfer agreement with HOMAG Vertriebs-Beteiligungs GmbH.

- In 2007, 94 percent of the shares in SCHULER Business Solutions AG were transferred from HOMAG Group AG to HOMAG Holzbearbeitungssysteme AG. This transfer was motivated by the fact that SCHULER Business Solutions AG has very close ties to HOMAG Holzbearbeitungssysteme AG, especially in the area of research and development.

- The shareholding in MAW Montagetechnik GmbH was increased from 97 percent to 100 percent.

1.2.2 Company Structure

HOMAG Group AG is organized into “Industry”, “Cabinet Shops”, “Sales & Service” and “Other” segments. The “Industry” segment comprises those entities whose core business activities center on the provision of system solutions for industrial companies. The segment offers holistic, optimally aligned systems comprising machines, handling, data links, information technology and logistics, while covering the main processes of the wood processing workflow.

The “Cabinet Shops” segment comprises those group entities that offer products tailored to the special requirements of smaller workshops. Apart from high quality and productivity, the success factors of this segment include simple operation and flexible applications at a competitive price.

The Sales & Services segment comprises the business activities of the HOMAG sales and service entities in Germany and abroad. Our global sales and service network affords customers worldwide competent support at all times, and allows them to benefit from fast on-site service.

The “Other” segment primarily comprises the holding activities of HOMAG Group AG, foreign production facilities in regions with potential in the future, the services division with the software and consulting portfolio of SCHULER Business Solutions AG and the timber frame house construction division.

The HOMAG Group can also be divided into product groups. “Machines” encompasses our modular line of standard machines for the entry-level and mid-range market segments. “Cells” includes the machines linked to form production lines for flexible job production and automated mass production. This product group also includes complete machining centers. “Factory installations” contain holistic system solutions with complete integration of machine controls in a network and professional control technology. This is rounded offer by our comprehensive service offering across all product groups.

1.2.3 Main Features of the Remuneration System

1.2.3.1 Remuneration of Management Board

The remuneration of the management board of HOMAG Group AG is agreed and reviewed by the personnel committee of the supervisory board. In the competition for highly qualified leaders, the remuneration model is designed as an incentive for the management board and at the same time meets high standards by taking personal performance and the success of the Company into account.

The direct remuneration is made up of a fixed salary and a variable performance-based component. The variable component consists of a short-term and a long-term incentive system and is based on indicator-based targets. It is also capped. There are no stock option plans. The members of the management board are not remunerated for board functions at subsidiaries.

There is no company pension scheme for the members of the management board.

Fixed remuneration
The non-performance-based fixed remuneration of the members of the management board consists of an annual fixed salary and incidental benefits. The annual salary is fixed for the term of the service agreements of the management board members and is paid out in twelve equal monthly installments. The incidental benefits consist of the value of the use of a company car that can be recognized for tax purposes and the payment of an insurance premium. The insurance premium is a group D&O insurance policy for accident and financial loss.

Loans and advances have not been granted to the members of the management board in the reporting year, nor have any declarations of liability been made.

Variable remuneration component
The performance-based remuneration components consist of a short-term incentive (STI) and a long-term incentive (LTI).

The STI is based on the value added (VA) as an indicator of the increase in value of HOMAG Group AG. The STI is calculated on a straight-line basis from a positive VA greater than 0.00 percent up to a fixed indicator (5.5 percent VA) and is paid out in this amount. The STI is capped at this indicator.

As an incentive system with long-term effect, the LTI bonus is based on fixed targets for the price development of the HOMAG Group share. To obtain the LTI bonus, the accumulated VA over the fiscal years 2007, 2008 and 2009 (reference period) must also be positive. This basic LTI bonus, which is also determined on a straight-line basis, is capped at 18 percent VA.

Another component of the LTI bonus is tied to the development of the HOMAG Group share during the reference period and can either increase or decrease the basic LTI bonus.

In a first step, the increase in the value of the share between the first listing (relative opening price) and the end of the reference period (relative closing price); the supervisory board considers this in its evaluation of the value development of the share price.

If the share price increases by up to 70 percent – relative closing price starting from the relative opening price – the second part of the LTI bonus, a “mark-up amount” (also calculated on a straight-line basis) is due for payment.

If the price of the share drops, a so-called “mark-down” is calculated in the same way; in this case a maximum drop in value of 70 represents the lower limit. Mark-up and mark-down have been agreed by contract and are of the same amount.

The LTI bonus is paid out in two installments, 50 percent no later than the annual general meeting in the fiscal year 2009, the second after the annual general meeting in the fiscal year 2010.

1.2.3.2 Remuneration of the Supervisory Board

The remuneration paid to the supervisory board is governed by Art. 14 of the articles of incorporation and bylaws of HOMAG Group AG. It is based on the duties and responsibilities of the supervisory board members and the economic performance of the Group.

For each full fiscal year of membership, the members of the supervisory board received fixed remuneration of EUR 10,000. In addition, for each full fiscal year, they receive variable remuneration of EUR 500 for each percentage by which the dividend payment for the year in question exceeds 10 percent of the capital stock of the Company, but at most EUR 20,000. The chairman receives three times the fixed and variable compensation together, the deputy chairman one-and-a-half times that amount.

Supervisory board members who are also committee members in accordance with the articles of incorporation receive a lump-sum fee of EUR 1,000 per committee meeting. The chairman receives twice this amount.

Supervisory board members who did not belong to the supervisory board for the whole fiscal year, are remunerated based on their length of service on the supervisory board. Fixed and variable remuneration is payable with the dividend which serves as a calculation base for the variable remuneration.

The members of the supervisory board are also reimbursed for all out-of-pocket expenses as well as for the VAT payable on their remuneration and out-of-pocket expenses.

Directors and Officers Liability Insurance (D&O insurance) has been taken out by the Company for the supervisory board members.

1.2.4 Disclosure Pursuant to Sec. 289 (4) HGB

1.2.4.1 Composition of Issued Capital (No. 1):

Issued capital of EUR 15,688,000 comprises 15,688,000.00 no-par value bearer shares.

1.2.4.2 Restrictions Relating to the Voting Rights or Transferability of Shares (No. 2):

The management board is not aware of any restrictions, especially arising from agreements between shareholders, concerning voting rights. Regarding trading restrictions, we refer to the lock-up agreed in the course of the IPO. In accordance with the lock-up agreement, existing shareholders and members of management holding shares at the time of the IPO have an obligation to the syndicate of banks to refrain from directly or indirectly offering, selling, or marketing their shares in the Company, or announcing intention of this without prior agreement of Dresdner Kleinwort and JPMorgan for a period of six months (shareholders) or eighteen months (members of the management board) following the Company's IPO on the official market.

1.2.4.3 Direct or Indirect Capital Investments Exceeding 10 percent (No. 3):

We refer to the section "shareholder structure" regarding direct or indirect capital investments exceeding 10 percent. Deutsche Beteiligungs AG and the funds managed by it hold a capital investment and voting right in the Company of greater than 10 percent.

1.2.4.4 Shareholders with Special Rights (No. 4):

There are no shareholders in HOMAG Group AG with special rights granting control.

1.2.4.5 Type of Voting Right Control for Interest in Capital Held by Employees (No. 5):

No employees who cannot exercise their rights of control directly have an interest in capital of HOMAG Group AG.

1.2.4.6 Legal Provisions and Statutes on the Appointment and Dismissal of Members of the Board of Management and Amendments to the Articles of Incorporation and Bylaws (No. 6):

a) Appointment of management board members: Pursuant to Sec. 84 (1) Sentence 1 AktG, the supervisory board may appoint members of the management board for a maximum term of five years. Reappointment or extension of the term of office is allowed, for a term of up to five years each time. In accordance with Sec. 84 (1) Sentence 3 AktG, reappointment or the extension of terms of office may be carried out no earlier than one year before expiry of the current term of office and requires a new resolution by the supervisory board. In accordance with Sec. 84 (1) Sentence 4 AktG, an appointment term of less than five years may be extended without the need for a new resolution by the supervisory board provided that the total term of office does not exceed five years.

Art. 5 (1) of the articles of incorporation and bylaws states that the management board must comprise at least three members. In accordance with Art. 5 (2) of the articles of incorporation and bylaws, the supervisory board is responsible for determining the number of members of the management board, appointing, changing and terminating employment contracts, as well as for the revocation of appointments. It is also responsible for appointing the chairperson and the deputy chairperson of the management board.

b) Dismissal of management board members: The appointment of management board members or the chairperson can be revoked by the supervisory board in accordance with Sec. 84 (3) Sentence 1 AktG if there is good reason to do so. Pursuant to Sec. 84 (3) Sentence 2 AktG, good reason could include gross breach of duty, inability to carry out regular management duties or a breach of trust on the part of the annual general meeting, unless the reasons for this were clearly unfounded. Pursuant to Sec. 84 (3) Sentence 4 AktG, the revocation of the appointment of the management board is effective until legally shown to be otherwise.

c) Amendments to the articles of incorporation and bylaws: In accordance with Sec. 179 (1) AktG, the articles of incorporation and bylaws may only be amended by resolution of the annual general meeting. The supervisory board is authorized, however, to pass resolutions amending the current version of the articles of incorporation and bylaws in accordance with Art. 15 of the articles of incorporation and bylaws in conjunction with Sec. 179 (1) Sentence 2 AktG.

In accordance with Sec. 179 (2) Sentence 1 AktG, a resolution to amend the articles of incorporation and bylaws at the annual general meeting requires majority of at least three quarters of the share capital represented when the resolution is adopted. Pursuant to Sec. 179 (2) Sentence 2 AktG, the articles of incorporation and bylaws can prescribe a larger share capital majority to amend the purpose of the Company and other requirements. In accordance with this legal authorization, Art. 20 (1) of the articles of incorporation and bylaws prescribes that resolutions of the annual general meeting require a simple majority of the votes cast, unless legal regulations prescribe otherwise. In such cases where the law requires a majority of the share capital represented when passing a resolution, a simple majority of the share capital represented suffices, unless legal regulations prescribe otherwise.

1.2.4.7 Authority of the Management Board, in Particular Regarding the Possibility to Issue or Redeem Shares (No. 7):

HOMAG Group AG is managed by the management board, and represented by it both in and out of court. The members of the management board are bound to conduct the Company's business in accordance with the law, the articles of incorporation and bylaws, the rules of procedure for the management board including the allocation of duties plan and the provisions requiring the approval of the supervisory board pursuant to Sec. 111 (4) Sentence 2 AktG.

As regards the issue of shares and purchase of treasury shares, the management board has passed the following resolutions:

a) Authorization to issues shares: Pursuant to Art. 4 (3) of the articles of incorporation and bylaws, the management board is authorized with the approval of the supervisory board to raise the share capital in the period until May 31, 2012, once or several times, by a total of up to EUR 5,824,536.00 by issuing new no-par value bearer shares in exchange for cash or contributions in kind (authorized capital II). The management board is entitled to decide on the conditions of share issue with the approval of the supervisory board. In addition, the management board is authorized, subject to the approval of the supervisory board, to preclude existing shareholders' subscription rights under the following circumstances:

- for fractional amounts

- for capital increases in return for contributions in kind for the purpose of acquiring a company, part of a company or an equity investment in a company

- in the case of capital increases in return for cash contributions, if the issue price of the new shares is not significantly lower within the meaning of Sec. 203 (1) and (2) and Sec. 186 (3) Sentence 4 AktG than the listed price of identical shares already listed when the issue price is finalized by the management board, and the new shares with precluded subscription rights do not exceed an amount of 10 percent of capital stock on the date of authorization. Shares disposed of during the term of authorized capital precluding the subscription rights of the shareholders pursuant to Sec. 71 (1) No. 8 Sentence 5 and Sec. 186 (3) Sentence 5 AktG, as well as those with conversion or exercise rights or obligations issued after this authorization was granted pursuant to Sec. 221 (4) and Sec. 186 (3) Sentence 4 AktG are not allowed to exceed 10 percent of the share capital.

  By resolution of the annual general meeting on June 22, 2007, the management board of HOMAG Group AG was authorized, subject to the approval of the supervisory board, to raise the share capital of HOMAG Group AG in the period until June 30, 2008 once or several times up to a total of EUR 1,456,134.00 by issuing no par registered shares in exchange for cash and/or contribution in kind, in order to place shares in the course of the IPO. In the course of the IPO of July 13, 2007, 1,126,655 new shares were issued. The management board is authorized to issue new shares to increase capital by the remaining difference of EUR 329,479.00 in the period until June 30, 2008.

The supervisory board is authorized to amend the articles of incorporation and bylaws to take into account capital increase from authorized capital, or upon expiry of the authorization time limit.

b) Authorization to purchase treasury shares: Pursuant to Sec. 71 (1) No. 8 AktG, the Company is authorized, with the approval of the supervisory board, to purchase treasury shares up until November 30, 2008 with an imputed share in share capital of EUR 1,456,134.00. The Company may not use the authorization to trade with treasury shares. The Company can exercise the authorization wholly or in part, once or several times. The management board can choose to purchase the treasury shares either a) from the stock exchange or b) from a public offer made to all shareholders.

Subject to the approval of the supervisory board, the management board is authorized to redeem the treasury shares purchased pursuant to this authorization without requiring any further resolutions by the annual general meeting. Moreover, subject to the approval of the supervisory board, they can be sold in a way other than on the stock exchange, provided that the treasury shares are purchased in exchange for contributions in cash and at a price that does not fall materially short of the quoted price of the same category of the Company's shares at the time of the sale. The total imputed share in share capital attributable to the number of treasury shares sold under this authorization together with the imputed share in share capital attributable to new shares issued, while precluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG directly or by analogy, since the resolution granting this authorization was passed, may not exceed a total of 10 percent of the share capital as of the date on which this authorization is exercised.

Subject to the approval of the supervisory board, the management board is also authorized to offer the treasury shares purchased under the aforementioned authorization to third parties in the course of business combinations or for the purpose of acquiring entities, parts of entities or equity investments. The price at which the Company's shares are sold to third parties may not fall short by more than five percent (excluding incidental purchase costs) of the average closing rate the Company's shares in XETRA trading (or a functionally comparable successor system taking the place of the XETRA system) on the Frankfurt am Main stock exchange during the five trading days prior to the agreement with the third party. Shareholders' subscription rights are thus precluded.

1.2.4.8 Material Agreements of the Company Subject to the Condition of a Change of Control as a Result of a Takeover Bid (No. 8):

HOMAG Group AG is party to a syndicated loan agreement governing a syndicated loan of EUR 180,000,000.00. Under this syndicated loan agreement, the banks are entitled to cancel for due cause some or all of the syndicated loans granted and demand their immediate redemption. Due cause includes in particular cases in which a third party (a person a group of people acting together) purchase at least 50 percent of the voting rights and/or at least 50 percent of the share capital of HOMAG Group AG. For this purpose, voting rights are allocated pursuant to Sec. 30 WpÜG ["Wertpapiererwerbs- und Übernahmegesetz": Securities Acquisition and Takeover Act]. Third parties include all persons, with the exception of the shareholders of HOMAG Group AG as of February 15, 2007.

1.2.4.9 Compensation Agreements of the Company with the Members of the Management Board and Employees in the Event of a Takeover Bid (No. 9):

The Company has not entered into compensation agreements with the members of the management board or employees in the event of a takeover bid.

1.2.5 Corporate Management

HOMAG Group AG is primarily managed based on the key performance indicators EBITDA, EBT, ROCE, earnings per share (EPS) and net bank borrowing. Planned annual key performance indicators are monitored using monthly reporting. An additional significant element of corporate management is the balanced scorecard. It is the keystone of our risk management and, together with the key performance indicators, provides data regarding our market leadership and internal processes as well as personnel information.

2. Results of Operations, Net Assets and Financial Position

2.1 Results of Operations

The results of operations of HOMAG Group AG were impacted in the year under review by expenses associated with the IPO totaling EUR 4.5 million. There were no effects from the sale of the IMA Group in the past fiscal year; in the prior year, this sale had a negative effect of EUR 6.8 million on results of operations.

Income of EUR 28.7 million (prior year: 25.4 million) was recorded from the profit and loss transfer agreement in place with HOMAG Holzbearbeitungssysteme AG. This positive development on the prior year coupled with the fact that no write-downs had to be carried out on equity investments of HOMAG Group AG (prior year: EUR 2.0 million), led to a net income for the year of EUR 21.6 million (prior year: EUR 12.7 million) in fiscal 2007.

Taking account of the profit carryforward from the prior year, the retained earnings as of the balance sheet date come to EUR 31.2 million (prior year: EUR 15.4 million).

2.2 Net Assets and Financial Position

Net assets rose from EUR 122.2 million to EUR 153.7 million. The increase in net assets was mainly the result of a rise in receivables from affiliated companies in relation to the profit and loss transfer agreement in place with HOMAG Holzbearbeitungssysteme AG. Other assets, on the other hand, were considerably reduced as a result of settling the liabilities in relation to the sale of IMA Klessmann. The loan of around EUR 7 million granted to IMA Klessmann was repaid in March 2007.

Equity now comes to EUR 82.1 million (prior year: EUR 31.4 million) as a result of the IPO and a capital injection of EUR 30 million as well as good earnings. This brought about an improvement in the equity ratio which now stands at 53 percent (prior year: 26 percent) of net assets.

In 2007, HOMAG Group AG carried out a distribution of 40 cents per share, totaling EUR 5.8 million.

HOMAG AG has agreed short-, medium- and long-term credit facilities with a syndicate of banks in order to secure the liquidity of the HOMAG Group. Subsidiaries and their subsidiaries can draw on these lines of credit.

Follow-up financing until 2010 was concluded with a syndicate of banks in July 2007. The Company was able to perform significantly better in terms of collateral and conditions owing to the positive development of the Group.

Both the Company and the Group as a whole have sufficient liquidity and a financial buffer appropriate for the volume of business. There are no financial risks at present that could jeopardize the continuation of the Company as a going concern. HOMAG Group AG was able to reduce total net liabilities to banks further in the reporting year, bringing the current total to EUR 47.6 million compared to EUR 58.5 million in the prior year.

In 2007, HOMAG Group AG sold 94 percent of its shares in SCHULER Business Solutions AG to HOMAG Holzbearbeitungssysteme AG at a price of EUR 2.5 million. This documents the close ties of SCHULER Business Solutions AG to the R&D department of HOMAG Holzbearbeitungssysteme AG.

3. Subsequent Events

After the close of the fiscal year 2007, there were no events of any significance for the net assets, financial position and results of operations of HOMAG Group AG, or any other important events which could affect the development of the Company.

4. Risk Report

Due to its international business operations, the HOMAG Group AG is naturally exposed to a number of risks. The objective of the monitoring system is to identify and measure possible risks arising from entrepreneurial activities, allowing a timely and targeted response. From today's viewpoint there are no identifiable risks to the continued existence of the HOMAG Group AG as a going concern.

Risk Management
We have implemented a group-wide risk management system that is essentially based on the management accounting system and is continually enhanced. In 2007, we prepared a risk management manual for

HOMAG Group AG, with a balanced scorecard as its central element. The new manual is to be successively implemented throughout the entire Group. We also extended and honed our risk management system to our needs by introducing project controlling, a sales profitability analysis and detailed segment reporting.

HOMAG Group AG's risk management system is primarily based on the definition of targets derived from the multiple-year planning. Developments in individual areas are monitored using the monthly reporting system. In the course of multiple-year planning, financial data and non-financial data – what is referred to as scorecard indicators – are defined, and their compliance is monitored by management accounting. The scope of the analysis includes data relating to market penetration, innovation power or employee satisfaction. The risks to the Group or its subsidiaries subject to mandatory monitoring or reporting are regularly monitored and, in the event of unexpected developments, notified to the management board and supervisory board immediately.

Both of the comprehensive due diligence reports prepared at the end of 2006 and in spring of 2007 in the course of the change in ownership and for the IPO up to the middle of the year – the results of which are included in the registration statement – did not reveal any risks to the continued existence of the Group as a going concern.

Economic Risks
The significant risks to the development of HOMAG Group AG, as a company active on the capital goods market, stem from the economic development of the markets relevant to the Group. Experience has shown that weak economic conditions deter companies from investing, and thus affect the Group's sales performance. However, our worldwide presence allows us to limit our dependence on individual markets. In addition, we adjust our production planning and capacities to reflect changes in order intake at any early stage. Please refer to the forecast report for information about the crisis in the US.

Customer Risks
Although an increasing share of sales revenue in the Group is generated from large customers, we do not see at present a risk to the continued existence of the Company as a going concern as regards dependence on a single customer, since no single customer generates more than 5 percent of total sales revenue. There is a fundamental risk of bad debt. We counter this risk by obtaining advance payments based on the stage of completion of projects and by taking out insurance on a case-by-case basis. Our low bad debt ratio in the past indicates that our measures are effective.

Product and Development Risks
As a company laying claim to technological and market leadership, we endeavor to recognize new developments taking place in our sector at an early juncture. This is related, however, to potential risks from negative developments and technical risks from the introduction of new technology. We aim to counter these risks with strong links to our customers, which enables us to promptly identify new developments in the sector as well as to receive early feedback on new developments. Moreover, procedural work-flows are in place for the product development process, meaning that the expenses related to new developments can be recorded consistently and market opportunities evaluated at an early stage.

Our extraordinarily wide range of products, from equipment and machines for smaller workshops to large industrial equipment, puts us in a position to tailor our services to every customer segment. The Group's ability to continue as a going concern would therefore not be affected by weak sales revenue in one product segment.

We consider the risk posed by new competitors to our position as technology leader to be negligible owing to very high entry barriers in our industry.

Quality Risks
Quality risks cannot be completely eliminated where complex equipment and machines are concerned. These are addressed by means of a comprehensive total quality management system to minimize risks from product liability and warranty claims. The DIN ISO 9000 certification held by the majority of our plants bears witness to the high standard of our quality control system. A high level of standardization within the individual plant components ensures products of a consistently high standard.

Currency Risks
Currency risks are inherent in the international nature of our business activities. Negative effects from exchange differences can indirectly impact on the sales revenue and earnings position of the Group. We take measures including the use of derivative financial instruments on a small scale to limit the consequences of these effects. The Company considers currency risks to be low overall on account of the fact that the majority of sales revenue is generated in Europe and invoices are issued in euro, even for countries outside of the euro zone.

Liquidity and Financing Risks
At present, the financing volume currently available is deemed sufficient to secure the future financing and liquidity requirements of the HOMAG Group. In the course of external financing in 2007, we concluded a new syndicated loan agreement with the existing syndicate of banks in order to secure liquidity in the medium term as planned. Consequently, there are currently no discernable financial risks that could jeopardize the continuation of the Company as a going concern.

5. Forecast

Development of the Economy and Industry
As of the end of 2007, the global economic climate had declined as a consequence of the mortgage and financial crisis in the USA. For this reason, the IfW in Kiel and the International Monetary Fund expect that the global economy will lose momentum in 2008. Record highs worldwide for oil prices and persistently high prices for other raw materials curtail growth. Moreover, the strong euro burdened the export business in the euro zone. The global GDP is expected to enjoy growth of around 4 percent in 2008. The fact that growth remains positive is attributable to the steady economic impetus outside the industrial nations; China is expected to see growth in excess of 10 percent, while India and Russia are forecast to generate growth of around 8 percent and over 6 percent respectively. In Latin America and the other countries of eastern Asia besides China, the GDP is predicted to rise by more than 4 percent. The IfW forecasts growth of just 1.9 percent in the industrial nations, however, with increases in the USA and Japan of 1.6 and 1.4 percent respectively.

The EU GDP is forecast to rise by slightly over 2 percent. Countries within the euro zone are expected to enjoy growth of 2 percent, while the outlook for the new eastern European member states is especially positive, with increases expected to average 6 percent there. According to government estimates, the German economy will lose momentum in 2008, with growth of 1.7 percent. The DIW ["Deutsche Institut für Wirtschaftsforschung": German Institute of Economic Research] takes a more positive view, forecasting a 2.1 percent increase in the GDP in light of conditions which are considered positive overall. Private consumer demand is anticipated to act as a catalyst for this positive economic development in Germany.

The VDMA forecasts growth of approximately 5 percent in the current year. The Federation views the high levels of orders on hand and order intake at the start of 2008 as positive, but warns of risks, which could include recession in the USA.

The industry association within the VDMA responsible for wood processing machines expects growth in sales revenue to reach 11 percent on this market overall in 2008. This also includes areas not served by the HOMAG Group, however, such as machines for use in surface treatment or sawing. Furthermore, this forecast was issued in September 2007 and had already been described as "very optimistic" at the beginning of 2008. The management of the HOMAG Group expects growth of between 5 and 6 percent in 2008 for those market segments relevant to its business activities.

Forecast for HOMAG Group AG

The HOMAG Group started 2008 with an order backlog of EUR 255 million, up 32 percent on December 31, 2006 (EUR 193 million). In January and February of 2008, there continued to be a positive intake of orders, which exceeded targets; we are very satisfied with how this fiscal year has started. Early indications are that the first half of 2008 could even surpass the record figures of the prior-year period in terms of sales revenue and earnings.

We also anticipate that business will continue to develop positively in 2008 as a whole. We aim to exceed the market growth rate for our sector and expect sales revenue to increase by more than 6 percent. Particularly in the field of timber frame house construction and in the project business, we expect significant growth.

The repercussions of the US mortgage and financial crisis have so far been limited to business in the USA and have not been felt elsewhere for the HOMAG Group. The "factory installations" product group continues to develop steadily in the USA, despite a reduction in demand for stand-alone machines. It is possible that the drop in demand in the USA can be countered within the Americas, thanks to high demand in Canada and South America. Regardless of the mortgage and financial crisis in the USA, we anticipate growth in 2008; this is especially true of the eastern European and Asian markets.

We aim to further improve Group earnings in 2008 and anticipate substantial growth, particularly in earnings after tax and earnings per share, considerably above planned sales revenue growth. The positive forecast for earnings indicators is mainly due to the fact that the IPO costs incurred in the past were of a non-recurring nature, the interest result has improved and, in particular, the tax burden has decreased following the German business tax reform.

In the final year of the extremely successful profit-enhancement program “Project 2008” we aim to leverage additional income from procurement activities. Moreover, we are already doubling our efforts on the successor program “HOMAG GAP” (HOMAG Group Action Program), which has a five-year planning horizon and with which we aim to take early action to counter the effects that are expected from the collectively negotiated wage agreements in the metal industry and the related rise in personnel costs.

Due to the expected expansion of business we anticipate a further increase in the number of qualified employees in 2008 in order to implement our projects. However, the rise will be below the increase in sales revenue.

We expect capital expenditures to increase in 2008 compared to the level of 2007 due to additional construction measures. We have already started with the expansion of production area at WEINMANN Holzbausystemtechnik GmbH in St. Johann-Lonsingen and at BARGSTEDT Handlingsysteme GmbH in Hemmoor near Hamburg. In addition, there are plans to expand the administration building of HOMAG Holzbearbeitungssysteme AG in Schopfloch.

In the area of equity management, we will continue to examine the possibility of making additional acquisitions in the field of surfacing technology, while further expanding the worldwide sales network.

Fiscal Year 2009

We look to 2009 with confidence and we want to maintain the successful course of business. Owing to the favorable order intake in the first quarter of 2008, our books are already full until fall 2008. Backed by the good order intake expected in the second half of 2008, a good start to 2009 already seems likely. In addition, the world’s largest trade fair for the industry LIGNA will again be held in Hanover in spring of next year. As in the past, business is again expected to be fueled by our innovative product developments and enhancements, most of which are being implemented immediately, particularly in the field of standard machines.

The 2009 forecast is subject to uncertainty as regards the future impact of the US real estate and finance crisis as well as the development of the global economy. Despite the existence of such risks, the HOMAG Group today has a greater degree of maneuvering space and flexibility than ever before, and any downturn in the business cycle would have a limited impact on earnings. Overall, we see enormous potential for growth in our segments over the coming years, and we intend to take full advantage of our opportunities as the world’s market leader. Our aim is to grow faster than our market, while maintaining our profitable growth strategy.

Annual Financial Statements (AG)

Income Statement for Fiscal Year 2007

EUR	Note	2007	2006
Sales revenue	22	268,000.00	285,000.00
Other operating income	23	3,972,101.92	437,665.84
Personnel expenses	24		
Wages and salaries		3,164,795.84	285,860.17
Social security, pension and other benefit costs		67,374.78	43,479.73
Amortization of intangible assets and and property, plant and equipment	25	161,393.00	161,395.51
Other operating expenses	26	6,946,432.94	1,440,719.76
		-6,099,894.64	**-1,208,789.33**
Income from equity investments	27	3,535,000.00	1,120,000.00
Income from profit and loss transfer agreement	27	28,658,896.26	25,376,445.39
Other interest and similar income	28	548,816.55	369,432.86
Write-downs on financial assets	25	0.00	2,000,000.00
Interest and similar expenses	28	4,495,329.54	4,791,318.56
Result from ordinary activities		**22,147,488.63**	**18,865,770.36**
Extraordinary income		0.00	604,000.00
Extraordinary expenses		0.00	7,400,000.00
Income taxes	30	-559,307.74	624,909.85
Other taxes	31	-4,172.01	-3,982.44
Net income for the year		**21,584,008.88**	**12,690,697.77**
Profit carryforward from prior year		9,596,055.59	2,729,895.82
Retained earnings		**31,180,064.47**	**15,420,593.59**

Balance Sheet as of December 31, 2007

ASSETS

EUR		Note	Dec. 31, 2007	Dec. 31, 2006
A.	**Fixed assets**			
I.	Property, plant and equipment			
	Land, land rights and buildings	2		1,992,506.00
II.	Financial assets			
	1. Shares in affiliated companies	3	105,848,091.51	106,764,036.66
	2. Equity investments	3	1.00	1.00
			105,848,092.51	106,764,037.66
			105,848,092.51	**108,756,543.66**
B.	**Current assets**			
I.	Receivables and other assets			
	1. Receivables from affiliated companies	5	39,626,599.15	2,027,479.37
	2. Other assets	5	5,650,594.62	11,373,845.40
			45,277,193.77	13,401,324.77
II.	Bank balances		2,409,094.17	0.00
			47,686,287.94	**13,401,324.77**
C.	**Prepaid expenses**		**179,403.91**	**0.00**
	Total assets		**153,713,784.36**	**122,157,868.43**

EQUITY AND LIABILITIES

EUR		Note	Dec. 31, 2007	Dec. 31, 2006
A.	**Equity**			
I.	Issued capital	7	15,688,000.00	14,561,345.00
II.	Capital reserve	8	33,799,650.00	0.00
III.	Revenue reserves			
	Other revenue reserves	9	1,456,134.50	1,456,134.50
IV.	Retained earnings	11	31,180,064.47	15,420,593.59
			82,123,848.97	**31,438,073.09**
B.	**Provisions**			
	1. Pension provisions	15	531,593.00	523,343.00
	2. Tax provisions	16	3,626,802.12	3,061,400.00
	3. Other provisions	17	3,244,600.00	658,000.00
			7,402,995.12	**4,242,743.00**
C.	**Liabilities**			
	1. Liabilities to banks	18	50,000,000.00	58,485,908.74
	2. Trade liabilities	18	277,106.32	206,989.68
	3. Liabilities to affiliated companies	18	10,674,481.59	27,408,227.88
	4. Other liabilities	18	3,200,352.36	375,926.04
			64,151,940.27	**86,477,052.34**
D.	**Deferred income**		**35,000.00**	**0.00**
	Total equity and liabilites		**153,713,784.36**	**122,157,868.43**

Notes to the Financial Statements (AG)

Notes to the Financial Statements for Fiscal Year 2007

General

These financial statements have been prepared in accordance with Secs. 242 et seq. and Secs. 264 et seq. HGB ["Handelsgesetzbuch": German Commercial Code] as well as in accordance with the relevant provisions of the AktG ["Aktiengesetz": German Stock Corporation Act]. The Company qualifies as a large corporation pursuant to Sec. 267 (3) HGB.

The income statement has been prepared using the cost-summary method.

In order to improve the clarity of the financial statements, we have summarized individual balance sheet items and have disclosed them separately in the notes to the financial statements. For the same reason, we have also indicated in the notes where individual items are related to "thereof" items.

Accounting and Valuation Methods

The following accounting and valuation methods, which have remained unchanged in comparison to the prior year, have been used to prepare the financial statements.

The balance sheet classification complies with Sec. 266 (2) and (3) HGB.

Property, plant and equipment are capitalized at acquisition including incidental costs and, if they have a limited life, are reduced by systematic depreciation. Systematic depreciation is determined on the basis of

Statement of Changes in Fixed Assets

	Acquisition and production costs			
EUR	Jan. 1, 2007	Additions	Disposals	Dec. 31, 2007
I. Property, plant and equipment				
Land, land rights and buildings	2,611,179.40	0.00	2,611,179.40	0.00
II. Financial assets				
1. Shares in affiliated companies	129,740,038.66	1,510,001.00	7,796,040.19	123,453,999.47
2. Equity investments	4,274,310.74	0.00	0.00	4,274,310.74
	134,014,349.40	1,510,001.00	7,796,040.19	127,728,310.21
	136,625,528.80	**1,510,001.00**	**10,407,219.59**	**127,728,310.21**

[1] Reclassified to current assets

the estimated useful life of the assets concerned. Both the straight-line method and, where permissible, the declining-balance method were used.

With regard to **financial assets**, equity investments are recorded at the lower of cost or net realizable value.

Receivables and other assets are always stated at their nominal value.

Provisions for pensions are recorded at amounts allowed by tax law. The values were determined on the basis of actuarial principles in accordance with Sec. 6a EStG ["Einkommensteuergesetz": German Income Tax Act]. They are based on an interest rate of 6 percent and the 2005 G mortality tables.

Tax provisions and **other provisions** are created to cover all recognizable risks and contingent liabilities. They are recorded at the amounts required according to prudent business judgment.

Liabilities are stated at the amount repayable.

Notes to the Balance Sheet

Fixed Assets

The development of the individual fixed asset items, including amortization, depreciation and write-downs for the fiscal year, is shown in the statement of changes in fixed assets.

Accumulated amortization, depreciation and write-downs				Net book values	
Jan. 1, 2007	Additions	Disposals	Dec. 31, 2007	Dec. 31, 2007	Dec. 31, 2006
618,673.40	161,393.00	780,066.40 [1)]	0.00	0.00	1,992,506.00
22,976,002.00	0.00	5,370,094.04	17,605,907.96	105,848,091.51	106,764,036.66
4,274,309.74	0.00	0.00	4,274,309.74	1.00	1.00
27,250,311.74	0.00	5,370,094.04	21,880,217.70	105,848,092.51	106,764,037.66
27,868,985.14	**161,393.00**	**6,150,160.44**	**21,880,217.70**	**105,848,092.51**	**108,756,543.66**

1 no disclosure

2 Property, Plant and Equipment

This item concerns land, land rights and buildings. Homag Group AG took over the building previously occupied by MAW Montagetechnik GmbH, Herford, in fiscal 2003. This building was disposed of as of February 1, 2008. As a result, the building was reclassified to other assets as of December 31, 2007.

3 Financial Assets

The composition of shareholdings of Homag Group AG is presented in the following list of shareholdings:

Information on Shareholdings	Currency	Issued capital Dec. 31, 2007	Share of capital (direct) Dec. 31, 2007 %	Equity EUR k Dec. 31, 2007	Profit/ loss EUR k 2007
Germany					
Direct shareholdings					
Homag Holzbearbeitungssysteme AG, Schopfloch	EUR	30,000,000.00	100.00	82,125	PLTA
Schuler Business Solutions AG, Pfalzgrafenweiler	EUR	5,150,000.00	100.00 [5]	2,802	-134
Torwegge Holzbearbeitungsmaschinen GmbH [2], Löhne	EUR	1,600,000.00	100.00	513	374
Holzma Plattenaufteiltechnik GmbH, Holzbronn	EUR	5,600,000.00	100.00 [1]	27,973	4,070
Brandt Kantentechnik GmbH, Lemgo	EUR	4,000,000.00	70.00	19,696	4,055
MAW Montagetechnik GmbH, Herford	EUR	17,550,000.00	100.00	-726	57
Wehrmann Maschinen Center GmbH [3], Barntrup	EUR	2,500,000.00	43.82	1,087	-2,567 [4]
Indirect shareholdings					
Homag Vertriebs-Beteiligungs GmbH, Schopfloch	EUR	7,200,000.00	100.00	23,743	2,131
Ligmatech Automationssysteme GmbH, Lichtenberg	EUR	6,650,000.00	95.23	7,279	1,563
Weeke Bohrsysteme GmbH, Herzebrock	EUR	9,300,000.00	100.00	30,216	PLTA
Friz Kaschiertechnik GmbH, Weinsberg	EUR	2,400,000.00	100.00	-479	-2,448
Bargstedt Handlingsysteme GmbH, Hemmoor	EUR	5,133,000.00	100.00	7,175	2,133
Bütfering Schleiftechnik GmbH, Beckum	EUR	370,000.00	51.00	1,413	71

[1] Thereof 54.46% indirectly.
[2] Thereof 39.95% held by Homag Holzbearbeitungssysteme AG and 60.05% by Homag Group AG
[3] The insolvency proceedings have not yet been completed
[4] Fiscal year from April 1, 2002 to March 31, 2003
[5] Thereof 94.00% are held by Homag Holzbearbeitungssysteme AG and 6.00% by Homag Group AG
PLTA Domination and profit and loss transfer agreement with Homag Group AG or Homag Holzbearbeitungssysteme AG or Homag Vertriebsbeteiligungs GmbH

Information on Shareholdings	Currency	Issued capital Dec. 31, 2007	Share of capital (direct) Dec. 31, 2007 %	Equity EUR k Dec. 31, 2007	Profit/ loss EUR k 2007
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	EUR	1,000,000.00	51.00	4,812	1,989
Homag GUS GmbH, Schopfloch	EUR	100,000.00	100.00	900	PLTA
Homag Leasing GmbH, Schopfloch	EUR	100,000.00	100.00	129	6
Homag India GmbH, Schopfloch	EUR	400,000.00	100.00	21	-104 [2]
Homag Vertrieb & Service GmbH, Schopfloch	EUR	300,000.00	100.00	-74	22
Hüllhorst GmbH, Barntrup	EUR	255,645.94	100.00	256	0 [2]
Entwicklungs- und Innovationsgesellschaft Westfalen-Lippe mbH & Co. KG, Westfalen-Lippe	EUR	34,512.20 [1]	34.78	11	5 [2]

[1] Kommanditkapital
[2] Figures for the fiscal year from January, 1 to Dec. 31, 2006
PLTA Domination and profit and loss transfer agreement with Homag Group AG or Homag Holzbearbeitungssysteme AG or Homag Vertriebsbeteiligungs GmbH

Information on Shareholdings	Currency	Issued capital Dec. 31, 2007	Share of capital (direct) Dec. 31, 2007 %	Equity EUR k Dec. 31, 2007	Profit/ loss EUR k 2007
International					
Indirect shareholdings:					
Homag Machinery Środa Sp. z o.o., Środa, Poland	PLN (EUR	4,345,000.00 1,198,240,56	 100.00	6,354 1,752	-1,286 -355)
Holzma Plattenaufteiltechnik S.A. Unipersonal L'Ametlla del Valles, Spain	EUR	2,047,748.40	100.00	2,234	546
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo, Brazil	 BRL (EUR	 16,192,675.00 6,197,014.52	 100.00	 8,558 3,275	 534 204)
Homag Machinery (Shanghai) Co. Ltd., Shanghai, China	CNY (EUR	70,715,635.00 6,564,416.38	 81.25	127,061 11,795	17,160 1,593)
Homag Austria Gesellschaft mbH, Salzburg, Austria	EUR	370,000.00	100.00	782	299
Homag Italia S.p.A., Monza, Italy	EUR	1,100,000.00	100.00	2,753	62
Homag France S.A., Schiltigheim, France	EUR	1,500,000.00	100.00	7,276	1,164
Homag Asia (PTE) Ltd., Singapore, Singapore	SGD (EUR	100,000.00 46,931.39	 100.00	-1,974 -926	-1,136 -533)
Homag Canada Inc., Mississauga, Ontario, Canada	CAD (EUR	4,367,800.00 3,019,877.62	 100.00	13,823 9,557	1,844 1,275)
Homag Polska Sp. z o.o., Środa, Poland	PLN (EUR	1,050,000.00 289,563.31	 100.00	11,972 3,302	3,528 973)
Homag Japan Co. Ltd., Osaka, Japan	JPY (EUR	156,000,000.00 943,076.85	 100.00	325,446 1,967	37,031 224)
Homag Danmark A/S, Galten, Denmark	DKK (EUR	1,970,000.00 264,117.91	100.00	18,062 2,422	7,193 964)
Homag U.K. Ltd., Castle Donington, England	GBP (EUR	2,716,778.00 3,681,869.68	100.00	2,261 3,064	289 392)
Schuler Business Solutions S.L., Cullera, Spain	EUR	301,000.00	100.00	203	97
Homag Korea Co. Ltd., Seoul, Korea	KRW (EUR	320,970,000.00 232,693.19	 54.55	571,700 414	-173,958 -126)

Information on Shareholdings	Currency	Issued capital Dec. 31, 2007	Share of capital (direct) Dec. 31, 2007 %	Equity EUR k Dec. 31, 2007	Profit/ loss EUR k 2007
Holzma Tech GmbH, Assenovgrad, Bulgaria	BGN (EUR	370,000.00 188,260.67	 100.00	868 442	86 44)
Stiles Machinery Inc., Grand Rapids, USA	USD (EUR	25,806.00 17,521.13	 22.00	29,329 19,913	2,119 [2] 1,439)
Homag España Maquinaria S.A., Montmeló, Spanien	EUR	1,211,300.00	100.00	2,553	69
Homag China Golden Field Ltd., Hongkong, China	HKD (EUR	27,000,000.00 2,350,315.38	 25.00	75,967 6,613	8,469 [2] 737)
Homag South America Ltda., São Paulo, Brazil	BRL (EUR	2,014,531.00 770,970.69	 100.00	1,063 407	857 328)
Homag Australia Pty. Ltd., Sydney, Australia	AUD (EUR	5,309,158.62 3,156,887.46	 100.00	3,643 2,166	140 83)
Homag (Schweiz) AG, Bachenbülach, Switzerland	CHF (EUR	200,000.00 120,575.63	 100.00	4,731 2,852	1,244 750)
Schuler Business Solutions S.A.R.L., Straßburg, France	EUR	50,000.00	100.00	-126	-44
Bütfering Qinhuangdao Machinery [1] Manufacturing Co. Ltd., Qinhuangdao, China	CNY (EUR	2,395,681.75 222,387.21	 100.00	3,261 303	-165 [3] -15)
OOO “FAYZ-Homag GUS” Taschkent, Uzbekistan	USD (EUR	174,000.00 118,138.30	 33.00	not available	not available
OOO “Homag Russland” Moskau, Russian Federation	RUB (EUR	357,215.00 9,894.87	 99.00	20,269 561	11,147 309)
Homag India Private Ltd., Bangalore, India	INR (EUR	104,930,000.00 1,806,588.77	 99.90	79,865 1,375	-7,720 -133)
RAMU Machinery Private Limited, Bangalore, India	INR (EUR	11,500,000 197,996.48	 52.17	2,249 39	-4,141 -71)
HA Malaysia SDN. Bhd, Kuala Lumpur, Malaysia	MYR (EUR	250,000.00 51,385.35	 100.00	-465 -96	-715 -147)
HA (Thailand) Co. Ltd., Bangkok, Thailand	THB (EUR	2,000,000.00 45,636.05	 100.00	-4,967 -113	-6,952 -159)

[1] Company is being liquidated
[2] Figures for the fiscal year from Jan. 1 to Dec. 31, 2006
[3] Figures for the fiscal year from Jan. 1 to Dec. 31, 2004

4 no disclosure

5 Receivables and Other Assets

EUR k	Dec. 31, 2007	Dec. 31, 2006
Receivables from affiliated companies	39,627	2,027
- thereof due in more than one year	(1,401)	(1,403)
Other assets	5,650	11,374
- thereof from shareholders	(0)	(1,644)
- thereof due in more than one year	(1,142)	(1,299)
	45,277	**13,401**

6 no disclosure

7 Issued Capital

As of the balance sheet date, the issued capital of Homag Group AG, Schopfloch, came to EUR 15,688 k (prior year: EUR 14,561 k). It is divided into 15,688,000 no par value shares with an imputed value of EUR 1.00 each. In the course of the IPO, the issued capital was raised by the issue of 1,126,655 no par value shares.

8 Capital Reserve

The new shares were issued at a price of EUR 31.00 per share in the course of the IPO. The nominal value of the new shares was exceeded by EUR 33,800 k which was transferred to the capital reserve.

9 Revenue Reserves

As of the balance sheet date, the revenue reserves of Homag Group AG, Schopfloch, came to EUR 1,456 k (prior year: EUR 1,456 k).

10 no disclosure

11 Retained Earnings

EUR k		
Carryforward January 1, 2007	15,421	
Profit distribution	-5,825	
		9,596
Net income for the year 2007		21,584
December 31, 2007		**31,180**

12 no disclosure

13 no disclosure

14 no disclosure

15 Provisions for Pensions

Provisions for pensions pertain to three individual contractual pledges to former members of the management board of IMA AG which was merged into Homag Group in 1999. The carrying amount in the balance sheet corresponds to the actuarial estimate.

16 Tax Provisions

Tax provisions relate to current income taxes.

17 Other Provisions

Other provisions account for recognizable risks; provisions are set up for the following items:
- Bonuses
- Remuneration of the supervisory board
- Outstanding invoices
- Cost of preparing the financial statements, including the annual report
- Obligations from cost allocations

18 Liabilities

EUR k	Due in up to 1 year	Due in 1 to 5 years	Due in more than 5 years	Total Dec. 31, 2007	Total Dec. 31, 2006
1. Liabilties to banks	0	50,000	0	50,000	
(prior year)	(58,486)	(0)	(0)		(58,486)
2. Trade payables	277	0	0	277	
(prior year)	(207)	(0)	(0)		(207)
3. Liabilities to affiliated companies	10,674	0	0	10,674	
(prior year)	(27,408)	(0)	(0)		(27,408)
4. Other liabilities	3,200	0	0	3,200	
(prior year)	(376)	(0)	(0)		(376)
- thereof for taxes	708	0	0	708	
(prior year)	(69)	(0)	(0)		(69)

Liabilities to affiliated companies relate to the balance of the clearing account and short-term loans.

19 no disclosure

20 Contingent Liabilities

EUR k	Dec. 31,2007	Dec. 31,2006
From sureties	50,067	66,564
- thereof for liabilities from affiliated companies	(50,067)	(63,564)
From warranties	325	1,338
- thereof in favor of affiliated companies	(325)	(1,324)
	50,392	**67,902**

The guarantees mainly result from agreements for credit lines which result in secondary liability when used for loans extended to group companies.

There are also other financial obligations from leases; these are immaterial.

21 Derivative Financial Instruments

Homag Group AG had not entered into any derivative financial instruments as of December 31, 2007.

Notes to the Income Statement

22 Sales Revenue

At Homag Group AG, disclosure relates solely to cost allocations to the companies of the Group.

23 Other Operating Income

This item primarily comprises:
- Cost allocations
- Rental income
- Reversal of valuation allowances and provisions

24 Personnel Expenses

Homag Group AG did not have any employees in fiscal 2007. The disclosure comprises the remuneration and bonuses of the management board. Pension expenses totaled EUR 67 k (prior year: EUR 43 k) and relate to three beneficiaries.

25 Amortization, Depreciation and Write-downs

EUR k	2007	2006
Amortization, depreciation and write-downs of		
- Property, plant and equipment	161	161
- Financial assets	0	2,000
	161	**2,161**

26 Other Operating Expenses

This item primarily comprises:
- Costs incurred in connection with the IPO
- Legal and consulting fees
- Remuneration of the supervisory board
- Transaction costs for the syndicated loan
- Cost allocations

27 Investment Result

A profit transfer of EUR 28,659 k was made in fiscal 2007 pursuant to the profit and loss transfer agreement concluded with Homag Holzbearbeitungssysteme AG.
In addition, a dividend of EUR 1,260 k (prior year: EUR 1,120 k) was received from Brandt Kantentechnik GmbH, as well as a dividend of EUR 2,275 k (prior year: EUR 0 k) from Holzma Plattenaufteiltechnik GmbH.

28 Interest Result

Interest income of EUR 196 k (prior year: EUR 117 k) was received from affiliated companies, while interest expenses of EUR 1,714 k (prior year: EUR 2,290 k) were attributable to affiliated companies. Bank interest income amounted to EUR 85 k (prior year: EUR 1 k), while interest expenses for bank overdraft facilities and loans together came to EUR 2,782 k (prior year: EUR 2,501 k).

29 no disclosure

30 Income Taxes

The disclosure essentially related to corporate income tax, solidarity surcharge and trade tax. The trade tax allocation to a subsidiary, determined on a stand-alone basis, is also included in the disclosure.

31 Other Taxes

The item includes real estate tax and motor vehicle tax.

Other Notes

32 Members of the Supervisory Board

Gerhard Schuler (chairman until March 19, 2007; honorary chairman from March 19, 2007 onwards), Freudenstadt, chairman of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch (chairman until March 19, 2007; honorary chairman from March 19, 2007)

Torsten Grede (chairman from March 19, 2007); member of the management board of Deutsche Beteiligungs AG, Frankfurt/Main, chairman of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch, (from March 19, 2007 onwards) and of AKsys GmbH, Worms, member of the supervisory board of MCE AG, Linz, member of the board of directors of Clyde Bergemann Power Group, Inc., Delaware, USA, and member of the advisory board of Grohmann Engineering GmbH, Prüm

Franz Hipp [1], (deputy chairman) Horb-Dettingen, technical employee of Homag Holzbearbeitungssysteme AG, Schopfloch (until October 18, 2007)

Reiner Neumeister [1], Calw, main representative of IG-Metall, deputy chairman of the supervisory board of Bauknecht Hausgeräte GmbH, Stuttgart, and of Brueninghaus Hydromatik GmbH, Elchingen, member of the advisory board of Carl Haas GmbH, Schramberg and of Heckler & Koch GmbH, Oberndorf, as well as member of the executive board of AOK Baden-Württemberg, Stuttgart

Karl Frey [1], Schopfloch, technical employee of Homag Holzbearbeitungssysteme AG, Schopfloch (until March 31, 2007)

Hannelore Knowles [1], Calw-Holzbronn, chairwoman of Group works' council of Homag Group AG

Dr. Jochen Berninghaus, Dortmund, lawyer, Wirtschaftsprüfer [German public auditor] and tax advisor, deputy chairman of the supervisory board of Geno-Volksbank-Essen e.G., Essen, member of the advisory board of Kludi GmbH & Co. KG, Menden, of A.W. Kisker GmbH & Co. KG, Bielefeld, and Heinrich Schlenkhoff GmbH, Essen

Klaus M. Bukenberger, Stuttgart, business consultant, chairman of the supervisory board of SICK AG, Waldkirch, member of the supervisory board of Pfleiderer AG, Neumarkt, chairman of the advisory board of Leitz Holding GmbH & Co. KG, Oberkochen, member of the advisory board of Carl Mahr Holding GmbH, Göttingen, Deutsche Bank AG, Stuttgart, and Rutronik GmbH, Ispringen.

Wilhelm Freiherr von Haller, Stuttgart, member of management of Deutsche Bank AG, Frankfurt am Main and member of the management committee for Germany of Deutsche Bank AG, member of the supervisory board of GEZE GmbH, Leonberg, member of the advisory board of Gühring OHG, Albstadt-Ebingen and of AESCULAP AG & Co. KG, Tuttlingen

Ingrid Hornberger-Hiller, Tübingen, lawyer (until March 19, 2007)

Reinhard Löffler, Weil der Stadt, former member of the management board of Deutsche Beteiligungs AG, Frankfurt/Main, member of the supervisory board of Coveright Surfaces Beteiligungs GmbH, Düsseldorf, deputy chairman of the supervisory board of transtec AG, Tübingen

Jochen Meyer [1], (deputy chairman from December 20, 2007 onwards) Herzebrock-Clarholz, chairman of the works' council of Weeke Bohrsysteme GmbH, Herzebrock-Clarholz

Reinhard Seiler [1], Detmold, main representative of IG–Metall trade union, member of the supervisory board of Dorma Holding GmbH & Co. KGaA, Ennepetal

Ernst Esslinger [1], Alpirsbach, Head of R&D in the area of control technology at Homag Holzbearbeitungssysteme AG, Schopfloch (from May 14, 2007 onwards)

[1] employee representative.

Ralf Hengel, Freudenstadt, Head of IT at schlott GmbH, Freudenstadt (from March 19, 2007 onwards)

Carmen Hettich-Günther [1], Rottenburg, commercial employee and chairman of the works' council of Homag Holzbearbeitungssysteme AG, Schopfloch (from November 21, 2007 onwards), member of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch

[1] employee representative.

33 Members of the Board of Management

Dr. Joachim Brenk (CEO), Loßburg, board member for sales and marketing, CEO of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch

Achim Gauß, Dornstetten - Hallwangen, board member for research and development, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch

Andreas Hermann, Dornstetten-Aach, CFO, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch

Rolf Knoll, Dettingen an der Erms, board member for equity investments, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch

Herbert Högemann, Freudenstadt-Dietersweiler, board member for production, materials management and quality management, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch (from January 1, 2007 onwards, entered in the commercial register on February 27, 2007)

34 Total Remuneration of Management and Supervisory Board Members

In 2007, remuneration of the management board totaled EUR 3,699,336.22 (prior year: EUR 2,849 k). These break down as follows:

EUR	Fixed salary component	Performance-related payment	Long-term incentive	Total remuneration
Dr. Joachim Brenk	292,570.20	450,000.00	162,979.32	905,549.52
Achim Gauß	222,944.88	362,500.00	146,681.38	732,126.26
Andreas Hermann	197,912.40	375,000.00	130,383.45	703,295.85
Herbert Högemann	200,736.84	300,000.00	130,383.45	631,120.29
Rolf Knoll	218,062.92	362,500.00	146,681.38	727,244.30
	1,132,227.24	**1,850,000.00**	**717,108.98**	**3,699,336.22**

Of the total remuneration, EUR 401,037.62 is borne by Homag Holzbearbeitungssysteme AG and EUR 200,000.00 by the Group.

In 2007, remuneration of the supervisory board totaled EUR 691,750.00 (prior year: EUR 178 k). Of this amount, EUR 210 pertained to the prior year.

35 Authorized Capital

Pursuant to Art. 4 (3) of the articles of incorporation and bylaws, the management board is authorized with the approval of the supervisory board to raise the share capital in the period until May 31, 2012, once or several times, by a total of up to EUR 5,824,536.00 by issuing new no-par value bearer shares in exchange for cash or contributions in kind. The management board is entitled to decide on the conditions of share issue with the approval of the supervisory board. In addition, the management board is authorized, subject to the approval of the supervisory board, to preclude existing shareholders' subscription rights under the following circumstances:

a) for fractional amounts

b) for capital increases in return for contributions in kind for the purpose of acquiring a company, part of a company or an equity investment in a company

c) in the case of capital increases in return for cash contributions, if the issue price of the new shares is not significantly lower within the meaning of Sec. 203 (1) and (2) and Sec. 186 (3) Sentence 4 AktG than the listed price of identical shares already listed when the issue price is finalized by the management board, and the new shares with precluded subscription rights do not exceed an amount of 10 percent of share capital on the date of authorization. Shares disposed of during the term of authorized capital precluding the subscription rights of the shareholders pursuant to Sec. 71 (1) No. 8 Sentence 5 and Sec. 186 (3) Sentence 4 AktG, as well as those with conversion or exercise rights or obligations issued after this authorization was granted pursuant to Sec. 221 (4) and Sec. 186 (3) Sentence 4 AktG are not allowed to exceed 10 percent of the share capital.

   By resolution of the annual general meeting on June 22, 2007, the management board was authorized, subject to the approval of the supervisory board, to raise the share capital of Homag Group AG in the period until June 30, 2008, once or several times, up to a total of EUR 1,456,134.00 by issue of no-par value bearer shares in exchange for cash and/or contribution in kind, in order to place shares in the course of the IPO. In the course of the IPO of July 13, 2007, 1,126,655 new shares were issued. The management board is authorized to issue new shares to increase capital by the remaining difference of EUR 329,479.00 in the period until June 30, 2008.

36 Group Relationships

As parent company, Homag Group AG prepares consolidated financial statements. The consolidated financial statements are published in the electronic version of the Bundesanzeiger [German Federal Gazette].

37 Declaration of Compliance with the German Corporate Governance Code

Declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG was issued by the management board and the supervisory board for the first time on January 18, 2008. An up-to-date version is made permanently available to shareholders on Homag Group AG's homepage at www.homag-group.com.

38 Audit Fees

The table below shows the total fees billed to Homag Group AG by our auditor, Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, for the fiscal year 2007.

EUR k	2007
Statutory audit	146
Other assurance and valuation services	1,360
Tax advisory services	177
Other services	72
Total fees	**1,755**

Other assurance and valuation services mainly include those relating to the IPO and the review of interim financial statements.

39 Shareholdings of Board Members

As of December 31, 2007, board members had the following shareholdings:

EUR k	Number of shares	Share in capital	Subscription rights
Management board	**81,936**	**0.52%**	**0**
Supervisory board			
Ralf Hengel and related parties	386,631	2.46%	0
Erich und Hanna Klessmann Stiftung [1]	749,452	4.78%	0
Deutsche Beteiligungs AG and certain parallel fundsmanaged by it [2]	4,896,304	31.21%	0
Supervisory board, total	**6,032,387**	**38.45%**	**0**
All boards, total	**6,114,323**	**38.97%**	**0**

Honorary chairman of the supervisory board			
Gerhard Schuler	923,361	5.89%	0

[1] Dr. Jochen Berninghaus, member of the Company's supervisory board is also a member of the board of trustees of the Erich und Hanna Klessmann Stiftung.

[2] Torsten Grede, member of the Company's supervisory board, is also a member of the management board of Deutsche Beteiligungs AG, and member of management of certain parallel funds managed by it.

40 Notifications Subject to Mandatory Disclosure

The following notifications were issued in the fiscal year 2007 pursuant to Sec. 21 (1) in conjunction with Sec. 26 (1) Sentence 1 WpHG [“Wertpapierhandelsgesetz”: German Securities Trading Act]:

- On July 17, 2007, Gerhard Schuler, Germany, informed us of the following pursuant to Sec. 21 (1a) WpHG: ‘I hereby give notice, pursuant to Sec. 21 (1a) WpHG, that as of July 12, 2007 my voting interest in Homag Group AG totals 9.096% (1,426,984 voting rights).’

- On July 17, 2007, Silke Schuler-Gunkel, Germany, informed us of the following pursuant to Sec. 21 (1a) WpHG:
  ‘I hereby give notice, pursuant to Sec. 21 (1a) WpHG, that as of July 12, 2007 my voting interest in Homag Group AG totals 3.721% (583,755 voting rights).’

- On July 18, 2007, Silke Schuler-Gunkel, Germany, informed us of the following pursuant to Sec. 21 (1) WpHG:
  ‘I hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 my voting interest in Homag Group AG fell below the threshold of 3% and amounted to 2.319% on that date (363,852 voting rights).’

- On July 17, 2007, Mareike Hengel, Germany, informed us of the following pursuant to Sec. 21 (1a) WpHG: ‘I hereby give notice, pursuant to Sec. 21 (1a) WpHG, that as of July 12, 2007 my voting interest in Homag Group AG totals 3.721% (583,755 voting rights).’

- On July 18, 2007, Mareike Hengel, Germany, informed us of the following pursuant to Sec. 21 (1) WpHG: ‘I hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 my voting interest in Homag Group AG fell below the threshold of 3% and amounted to 2.319% on that date (363,852 voting rights).’

- In accordance with Sec. 21 (1) WpHG we received on July 19, 2007 the following notifications from Global Opportunities Capital, Amsterdam, The Netherlands:

  1. On July 17, 2007 the voting interest held by Global Opportunities (GO) Capital Asset Management B.V., Amsterdam, the Netherlands, in Homag Group AG, Schopfloch, Germany, exceeded the threshold of 3% and now amounts to 4.78%. This is equal to 750,000 shares.

  4.78% of the voting shares, equivalent to 750,000 shares, which are held by Global Opportunities Fund directly, are attributed to Global Opportunities (GO) Capital Asset Management B.V. in accordance with Sec. 22 (1) Sentence 1 No. 6 WpHG.

  2. On July 17, 2007 the voting interest held by the Global Opportunities Fund in Homag Group AG, Schopfloch, Germany exceeded the threshold of 3% and now amounts to 4.78%. This is equal to 750,000 shares.

3. On July 17, 2007 the voting interest held by Global Opportunities (GO) Capital Asset Management N.V., in Homag Group AG, Schopfloch, Germany exceeded the threshold of 3% and now amounts to 4.78%. This is equal to 750,000 shares.

4.78% of the voting shares, this is equal to 750,000 shares, which are hold by Global Opportunities Fund directly and are attributed to GO Capital Asset Management B.V. in accordance with Sec. 22 (1) Sentence 1 No. 6 and Sentence. 2 WpHG

- In accordance with Sec. 21 (1) WpHG we received on July 23, 2007 the following notifications from Adelphi Capital LLP, London, United Kingdom:
  On July 17, 2007 the voting interest held by Adelphi Capital LLP, London, United Kingdom in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, exceeded the threshold of 3% and amounts to 4.10% (643,000 voting rights) on this day.

  4.10% of the voting rights (643,000 voting rights) are attributed to Adelphi Capital LLP, London, United Kingdom in accordance with Sec. 22 (1) Sentence 1 No. 6 WpHG by Adelphi European Small Cap Fund, George Town, Grand Cayman, Cayman Islands which holds directly 3% or more of voting rights.

- In accordance with Sec. 21 (1) WpHG we received on July 23, 2007 the following notifications from Adelphi European Small Cap Fund, George Town, Grand Cayman, Cayman Islands:
  On July 17, 2007 the voting interest held by Adelphi European Small Cap Fund, George Town, Grand Cayman, Cayman Islands in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, exceeded the threshold of 3% and amounts to 4.10% (643,000 voting rights) on this day.

- On August 21, 2007, Erich und Hanna Klessmann Stiftung, Gütersloh, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:
  On July 12, 2007, Erich und Hanna Klessmann Stiftung held a 7.448% voting interest (equivalent to 1,168,402 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

  We hereby also give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 5% and amounted to 4.468% on that date (701,040 voting rights).

  Gerd Wieland, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG in his capacity as legal representative (executor of the will) of the deceased, Hanna Klessmann:

  On July 12, 2007, Gerd Wieland, as executor of the will of the late Hanna Klessmann, held a 3.724% voting interest (equivalent to 584,201 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

  Pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG, I am to be attributed a 3.724% voting share (equivalent to 584,201 voting rights) in Homag Group AG.

Voting rights are attributed to me from the following shareholders in Homag Group AG, which each have a voting interest of 3% or more:

Erich und Hanna Klessmann Stiftung

I hereby also give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 my voting interest in Homag Group AG fell below the threshold of 3% and amounted to 2.234% on that date (350,520 voting rights).

Pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG, I am to be attributed a 2.234% voting share (equivalent to 350,520 voting rights) in Homag Group AG.

- In accordance with Sec. 21 (1) of the WpHG we received on September 3, 2007 the following notification from Adelphi Capital LLP, London, United Kingdom:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on August 31 our voting interest in Homag Group AG exceeded the threshold of 5% and amounts to 5.57% (874,000 voting rights) on this day.

  5.57% of the voting rights (874,000 voting rights) are attributed to us in accordance with Sec. 22 (1) Sentence 1 No. 6 WpHG by Adelphi European Small Cap Fund which holds directly 5% or more of voting rights.

  In accordance with Sec. 21 (1) WpHG we have received on September 3, 2007 the following notification from Adelphi European Small Cap Fund, Grand Cayman, Cayman Islands:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on 31 August our voting interest in Homag Group AG exceeded the threshold of 5% and amounts to 5.57% (874,000 voting rights) on this day.

- Deutsche Beteiligungs AG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:
  On July 12, 2007, Deutsche Beteiligungs AG held a 55.52% voting interest (equivalent to 8,710,631 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

  Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 6.70% of voting rights (1,050,706 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
  - DBG Management GmbH & Co. KG
  - DBAG Fund V Konzern GmbH & Co. KG.

  As of July 12, 2007, pursuant to Sec. 22 (2) Sentence 1 No. 1 WpHG, a further a total of 27.58% of voting rights (4,327,046 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
  - DBG Advisors IV GmbH & Co. KG;
  - DBG Advisors V GmbH & Co. KG.

We hereby also give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50% and amounted to 30.54% on that date (4,790,846 voting rights).

As of July 17, 2007, pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 3.68% of voting rights (577,888 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or less:

Pursuant to Sec. 22 (2) Sentence 1 No. 1 WpHG, a further a total of 15.17% of voting rights (2,379,874 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
- DBG Advisors IV GmbH & Co. KG;
- DBG Advisors V GmbH & Co. KG.

- DBG Advisors V GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:
  On July 12, 2007, DBG Advisors V GmbH & Co. KG held a 55.52% voting interest (equivalent to 8,710,631 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

  Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 17.43% of voting rights (2,734,494 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
  - DBAG Fund V Konzern GmbH & Co. KG;
  - DBAG Fund V GmbH & Co. KG;
  - DBAG Fund V International GmbH & Co. KG.

  As of July 12, 2007, pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, a further 0.50% of voting rights (79,096 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or less:

  As of July 12, 2007, pursuant to Sec. 22 (2) Sentence 1 No. 1 WpHG, a total of 38.09% further voting rights (5,976,137 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
  - DBG Advisors IV GmbH & Co. KG;
  - Deutsche Beteiligungs AG.

  We hereby also give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50% and amounted to 30.54% on that date (4,790,846 voting rights).

  Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 5.37% of voting rights (842,224 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
  - DBAG Fund V International GmbH & Co. KG.

As of July 17, 2007, pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, a total of 4.50% of voting rights (705,235 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or less:

As of July 17, 2007, pursuant to Sec. 22 (2) Sentence 1 No. 1 WpHG, a total of 20.95% further voting rights (3,286,875 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
- DBG Advisors IV GmbH & Co. KG;
- Deutsche Beteiligungs AG.

- DBG Advisors IV GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:
  On July 12, 2007, DBG Advisors IV GmbH & Co. KG held a 55.52% voting interest (equivalent to 8,710,631 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

  Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 10.15% of voting rights (1,592,552 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
  - DBAG Fund IV GmbH & Co. KG;
  - DBAG Fund IV International GmbH & Co. KG.

  As of July 12, 2007, pursuant to Sec. 22 (2) Sentence 1 No. 1 WpHG, a total of 45.37% further voting rights (7,118,079 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
  - DBG Advisors V GmbH & Co. KG;
  - Deutsche Beteiligungs AG.

  We hereby also give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50% and amounted to 30.54% on that date (4,790,846 voting rights).

  Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 3.89% of voting rights (610,206 voting rights) are attributed to us via DBAG Fund IV GmbH & Co. KG.

  As of July 17, 2007, pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, a total of 1.69% of voting rights (265,697 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or less:

  As of July 17, 2007, pursuant to Sec. 22 (2) Sentence 1 No. 1 WpHG, a total of 24.96% further voting rights (3,914,943 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
  - DBG Advisors V GmbH & Co. KG;
  - Deutsche Beteiligungs AG.

- DBG Investment Team GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:
  On July 12, 2007, DBG Investment Team GmbH & Co. KG held a 55.52% voting interest (equivalent to 8,710,631 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

  Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 10.15% of voting rights (1,592,552 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
  - DBG Advisors IV GmbH & Co. KG;
  - DBAG Fund IV GmbH & Co. KG;
  - DBAG Fund IV International GmbH & Co. KG.

  As of July 12, 2007, pursuant to Sec. 22 (2) Sentence 1 No. 1 WpHG, a total of 45.37% further voting rights (7,118,079 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
  - DBG Advisors V GmbH & Co. KG;
  - Deutsche Beteiligungs AG.

  We hereby also give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50% and amounted to 30.54% on that date (4,790,846 voting rights).

  Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 5.58% of voting rights (875,903 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
  - DBG Advisors IV GmbH & Co. KG;
  - DBAG Fund IV GmbH & Co. KG;
  - DBAG Fund IV International GmbH & Co. KG.

  As of July 17, 2007, pursuant to Sec. 22 (2) WpHG, a total of 24.96% further voting rights (3,914,943 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
  - DBG Advisors V GmbH & Co. KG;
  - Deutsche Beteiligungs AG.

- DBG Advisors V Verwaltungs GmbH, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:
  On July 12, 2007, DBG Advisors V Verwaltungs GmbH held a 55.52% voting interest (equivalent to 8,710,631 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 10.15% of voting rights (1,592,552 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
- DBG Investment Team GmbH & Co. KG
- DBG Advisors IV GmbH & Co. KG;
- DBAG Fund IV GmbH & Co. KG;
- DBAG Fund IV International GmbH & Co. KG.

As of July 12, 2007, pursuant to Sec. 22 (2) WpHG, a total of 45.37% further voting rights (7,118,079 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
- DBG Advisors V GmbH & Co. KG;
- Deutsche Beteiligungs AG.

We hereby also give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50% and amounted to 30.54% on that date (4,790,846 voting rights).

Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 5.58% of voting rights (875,903 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
- DBG Investment Team GmbH & Co. KG;
- DBG Advisors IV GmbH & Co. KG;
- DBAG Fund IV GmbH & Co. KG;
- DBAG Fund IV International GmbH & Co. KG.

As of July 17, 2007, pursuant to Sec. 22 (2) WpHG, a total of 24.96% further voting rights (3,914,943 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:
- DBG Advisors V GmbH & Co. KG;
- Deutsche Beteiligungs AG.

- DBAG Fund IV GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:
  On July 12, 2007, DBAG Fund IV GmbH & Co. KG held a 7.07% voting interest (equivalent to 1,109,466 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

  We hereby also give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 5% and amounted to 3.89% on that date (610,206 voting rights).

- DBAG Fund IV International GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:
  On July 12, 2007, DBAG Fund IV International GmbH & Co. KG held a 3.08% voting interest (equivalent to 483,086 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

  We hereby also give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 3% and amounted to 1.69% on that date (265,697 voting rights).

- DBAG Fund V Konzern GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:
  On July 12, 2007, DBAG Fund V Konzern GmbH & Co. KG held a 3.49% voting interest (equivalent to 546,899 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

  We hereby also give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 3% and amounted to 1.92% on that date (300,794 voting rights).

- DBAG Fund V GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:
  On July 12, 2007, DBAG Fund V GmbH & Co. KG held a 4.18% voting interest (equivalent to 656,279 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

  We hereby also give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 3% and amounted to 2.30% on that date (360,953 voting rights).

- DBAG Fund V International GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:
  On July 12, 2007, DBAG Fund V International GmbH & Co. KG held a 9.76% voting interest (equivalent to 1,531,316 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

- DBG Management GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:
  On July 12, 2007, DBG Management GmbH & Co. KG held a 3.21% voting interest (equivalent to 503,807 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

  Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, a further 3.21% of voting rights (503,807 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or less:

  We hereby also give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 3% and amounted to 1.77% on that date (277,094 voting rights).

Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, a further 1.77% of voting rights (277,094 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or less:

- In accordance with Sec. 21 (1) WpHG we have received on September 21, 2007 the following notification from Moore Capital Management, LLC, as Investment Manager to Moore Credit Fund (Master), LP, Nassau, Bahamas:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 the voting interest of Moore Credit Fund (Master), LP in Homag Group AG exceeded the threshold of 3%, and on this date amounted to 3.51% (this corresponds to 550,000 voting rights).

- In accordance with Sec. 21 (1) WpHG we received on September 21, 2007 the following notification from Moore Advisors, Ltd, New York, NY, USA:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 the voting interest of Moore Advisors, Ltd. in Homag Group AG exceeded the threshold of 3%, and on this date amounted to 3.51% (this corresponds to 550,000 voting rights).

  3.51% of these voting rights (this corresponds to 550,000 shares) are attributed to Moore Advisors, Ltd. in accordance with Sec. 22 (1) Sentence 1 No. 1 WpHG.

  The chain of controlled undertakings through which the voting rights are held is: Moore Credit Fund (Master), LP (Bahamas).

- In accordance with Sec. 21 (1) WpHG we received on September 21, 2007 the following notification from Moore Capital Advisors, L.L.C., New York, NY, USA:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 the voting interest of Moore Capital Advisors, L.L.C. in Homag Group AG exceeded the threshold of 3%, and on this date amounted to 3.51% (this corresponds to 550,000 voting rights).

  3.51% of these voting rights (this corresponds to 550,000 shares) are attributed to Moore Capital Advisors, L.L.C. in accordance with Sec. 22 (1) Sent. 1 No. 1 WpHG.

  The chain of controlled undertakings through which the voting rights are held is: Moore Credit Fund (Master), LP (Bahamas) and Moore Advisors, Ltd.

- In accordance with Sec. 21 (1) WpHG we received on September 21, 2007 the following notification from Moore Capital Management, LLC, New York, NY, USA:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 the voting interest of Moore Capital Management, LLC in Homag Group AG exceeded the threshold of 3%, and on this date amounted to 3.51% (this corresponds to 550,000 voting rights).

3.51% of these voting rights (this corresponds to 550,000 shares) are attributed to Moore Capital Management, LLC in accordance with Sec. 22 (1) Sentence 1 No. 1 and No. 6 WpHG.

Voting rights are attributed to us by Moore Credit Fund (Master), LP (Bahamas).

The chain of controlled undertakings through which the voting rights are held is: Moore Credit Fund (Master), LP (Bahamas), Moore Capital Advisors, L.L.C. and Moore Advisors, Ltd.

- In accordance with Sec. 21 (1) WpHG we received on September 21, 2007 the following notification from MECM, Ltd., London, United Kingdom:

  We hereby give notice, pursuant to Sec. 21 (1) of the WpHG, that on July 17, 2007 the voting interest of MECM, Ltd. in Homag Group AG exceeded the threshold of 3%, and on this date amounted to 3.51% (this corresponds to 550,000 voting rights).

  3.51% of these voting rights (this corresponds to 550,000 shares) are attributed to MECM, Ltd. in accordance with Sec. 22 (1) Sentence 1 No. 6 WpHG.

  Voting rights are attributed to us by Moore Credit Fund (Master), LP (Bahamas).

- In accordance with Sec. 21 (1) WpHG we received on September 21, 2007 the following notification from Moore Europe Capital Management, LLP, London, United Kingdom:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 the voting interest of Moore Europe Capital Management, LLP in Homag Group AG exceeded the threshold of 3%, and on this date amounted to 3.51% (this corresponds to 550,000 voting rights).

  3.51% of these voting rights (this corresponds to 550,000 shares) are attributed to Moore Europe Capital Management, LLP in accordance with Sec. 22 (1) Sentence 1 No. 6 WpHG.

Voting rights are attributed to us by Moore Credit Fund (Master), LP (Bahamas).

- In accordance with Sec. 21 (1) WpHG we received on November 21, 2007 the following notification from Moore Capital Advisors, L.L.C., New York, USA:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on November 20, 2007 the voting interest of Moore Capital Advisors, L.L.C. in Homag Group AG crossed below the 3% threshold, and on this date amounted to 2.99% (this corresponds to 469,497 voting rights).

  2.99% of these voting rights (this corresponds to 469,497 shares) are attributed to Moore Capital Advisors, L.L.C. in accordance with Sec. 22 (1) Sentence 1 No. 1 WpHG.

  The chain of controlled undertakings through which the voting rights are is held is: Moore Credit Fund (Master), LP (Bahamas) and Moore Advisors, Ltd.

- In accordance with Sec. 21 (1) WpHG we received on November 21, 2007 the following notification from MECM, Ltd., London, United Kingdom:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on November 20, 2007 the voting interest of MECM. Ltd. in Homag Group AG crossed below the 3% threshold, and on this date amounted to 2.99% (this corresponds to 469,497 voting rights).

  2.99% of these voting rights (this corresponds to 469,497 shares) are attributed to MECM, Ltd. in accordance with Sec. 22 (1) Sentence 1 No. 6 WpHG.

  Voting rights are attributed to us by Moore Credit Fund (Master), LP (Bahamas).

- In accordance with Sec. 21 (1) WpHG we received on November 21, 2007 the following notification from Moore Capital Management, LLC, New York, USA:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on November 20, 2007 the voting interest of Moore Capital Management, LLC in Homag Group AG crossed below the 3% threshold, and on this date amounted to 2.99% (this corresponds to 469,497 voting rights).

  2.99% of these voting rights (this corresponds to 469,497 shares) are attributed to Moore Capital Management, LLC in accordance with Sec. 22 (1) Sentence 1 No.1 and No. 6 WpHG.

  Voting rights are attributed to us by Moore Credit Fund (Master), LP (Bahamas).

  The chain controlled undertakings through which the voting rights are held is: Moore Credit Fund (Master), LP (Bahamas), Moore Capital Advisors, L.L.C. and Moore Advisors, Ltd.

- In accordance with Sec. 21 (1) WpHG we received on November 21, 2007 the following notification from Moore Advisors, Ltd., New York, USA:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on November 20, 2007 the voting interest of Moore Advisors, Ltd. in Homag Group AG crossed below the 3% threshold, and on this date amounted to 2.99% (this corresponds to 469,497 voting rights).

  2.99% of these voting rights (this corresponds to 469,497 shares) are attributed to Moore Advisors, Ltd. in accordance with Sec. 22 (1) Sentence 1 No. 1 WpHG.

  The chain of controlled undertakings through which the voting rights are held is: Moore Credit Fund (Master), LP (Bahamas).

- In accordance with Sec. 21 (1) WpHG we received on November 21, 2007 the following notification from Moore Credit Fund (Master), LP, Nassau, Bahamas:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on November 20, 2007 the voting interest of Moore Credit Fund (Master), LP in Homag Group AG crossed below the 3% threshold, and on this date amounted to 2.99% (this corresponds to 469,497 voting rights).

- In accordance with Sec. 21 (1) WpHG we received on November 21, 2007 the following notification from Moore Europe Capital Management LLP, London, United Kingdom:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on November 20, 2007 the voting interest of Moore Europe Capital Management, LLP in Homag Group AG crossed below the 3% threshold, and on this date amounted to 2.99% (this corresponds to 469,497 voting rights).

  2.99% of these voting rights (this corresponds to 469,497 shares) are attributed to Moore Europe Capital Management, LLP in accordance with Sec. 22 (1) Sentence 1 No. 6 WpHG.

  Voting rights are attributed to us by Moore Credit Fund (Master), LP (Bahamas).

- In accordance with Sec. 21 (1) of the WpHG we received on December 17, 2007 the following notification from FINANCIERE DE L´ECHIQUIER, Paris, France:

  On November 27, 2007, the voting interest of FINANCIERE DE L´ECHIQUIER, Paris, France in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, exceeded the threshold of 3% and amounted to 3,0619%, i.e. 480 349 voting rights of your Company.

Declaration of the Legal Representatives (AG)

Declaration of the legal representatives
Declaration Pursuant to Sec. 264 (2) Sentence 3 HGB and Sec. 289 (1) Sentence 5 HGB ["Handelsgesetzbuch": German Commercial Code]

We confirm that, to the best of our knowledge, the financial statements give a true and fair view of the net assets, financial position and results of operations of the Company and the management report gives a true and fair view of business performance including the results of operations and the situation of the Company, and describes the main opportunities and risks and anticipated development of the Company in accordance with the applicable financial reporting framework.

Schopfloch, March 20, 2008

Homag Group AG
The Management Board

Dr. Joachim Brenk *Andreas Hermann*

Achim Gauß *Rolf Knoll* *Herbert Högemann*

Audit Opinion on the Annual Financial Statements (AG)

Audit opinion

We have issued the following opinion on the financial statements and the management report:

> “We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the voluntary management report of Homag Group AG, Schopfloch, for the fiscal year from January 1 to December 31, 2007. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and the supplementary provisions of the articles of incorporation and bylaws are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.
>
> We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB [“Handelsgesetzbuch”: the German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and bylaws and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development."

Stuttgart, March 20, 2008

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Müller-Marqués Berger	Vögele
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Financial Calendar
Contact and Disclaimer

Financial calendar	
April 28, 2008	Press conference on the financial results in Stuttgart
April 28, 2008	Analysts conference in Frankfurt am Main
May 15, 2008	Three-month report 2008
June 5, 2008	Annual general meeting in Freudenstadt
August 14, 2008	Six-month report 2008
November 14, 2008	Nine-month report 2008

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Service

This annual report as well as other up-to-the-minute information about HOMAG Group AG can be dowloaded from the internet at: **www.homag-group.com**

Future-oriented statements

This annual report contains certain statements relating to the future. Future-oriented statements are all those statements that do not pertain to historical facts and events or expressions pertaining to the future such as “believes”, “estimates”, “assumes”, “forecasts”, “intend”, “may”, “will”, “should” or similar expressions. Such future-oriented statements are subject to risks and uncertainty since they relate to future events and are based on current assumptions of the Company, which may not occur in the future or may not occur in the anticipated form. The Company points out that such future-oriented statements do not guarantee the future; actual results including the financial position and the profitability of the HOMAG Group AG as well as the development of economic and regulatory framework conditions may deviate significantly (and prove unfavorable) from what is expressly or implicitly assumed or described in these statements. Even if the actual results of the HOMAG Group AG including the financial position and profitability as well as the economic and regulatory framework conditions should coincide with the future-oriented statements in this annual report, it cannot be guaranteed that the same will hold true in the future.

Other information

This annual report is published in German and in English. In case of doubt, the German version shall prevail. Minor differences may arise from use of amounts and percentages rounded to the nearest whole number.

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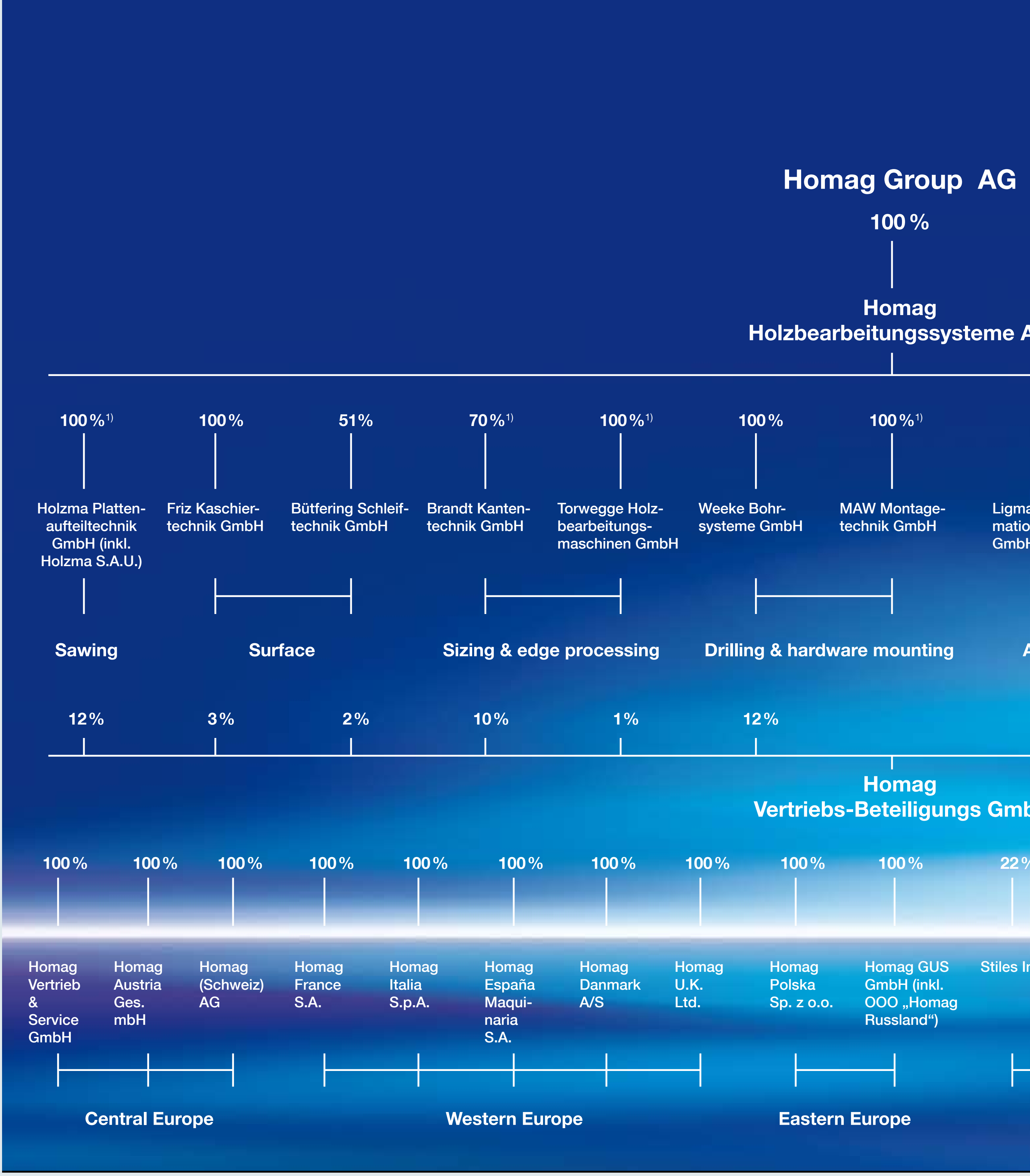
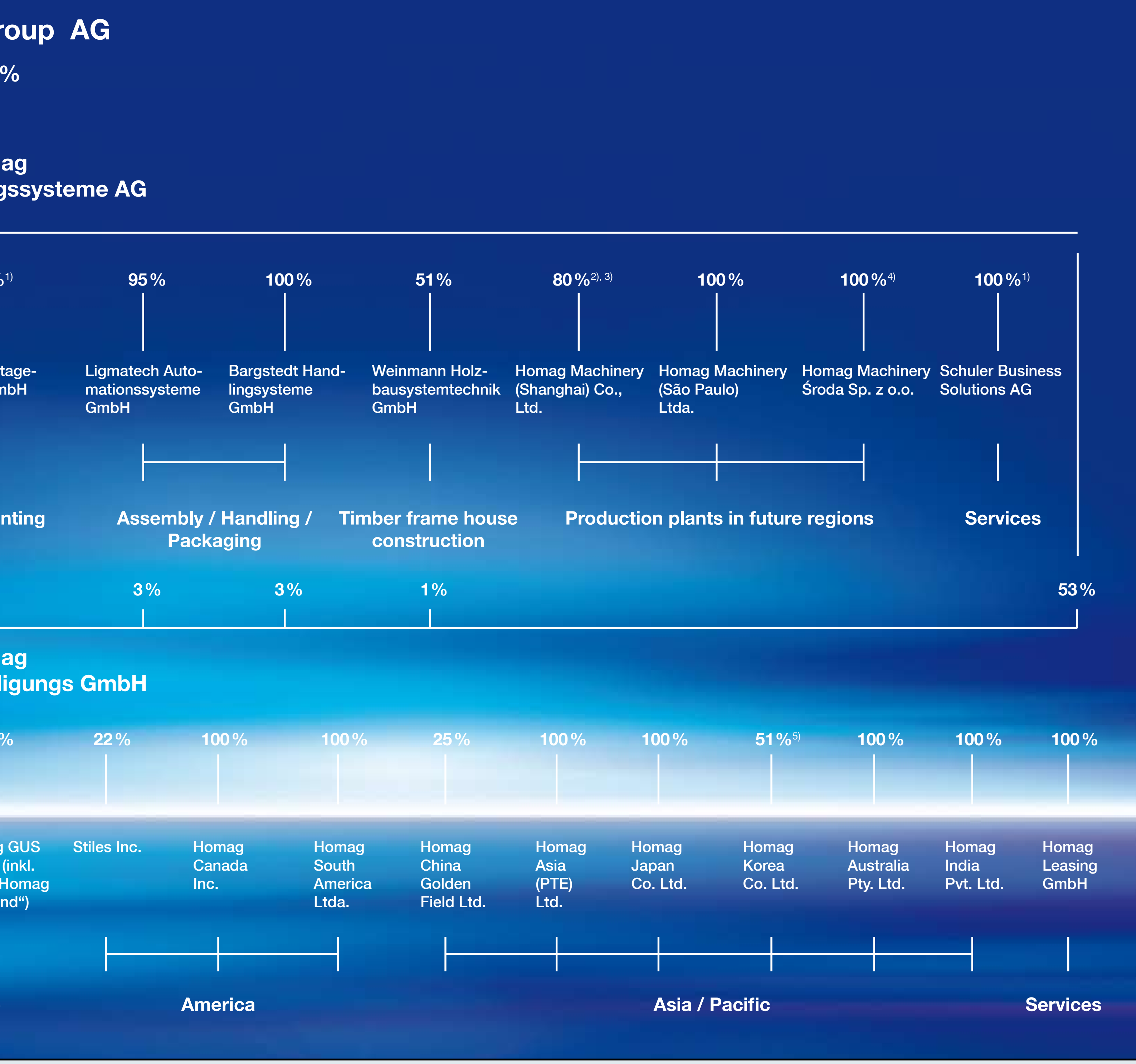


[1] Shares are partly or wholly held directly by Homag Group AG
[2] Participation in Homag Machinery (Shanghai) Co., Ltd. temporarily increased to 81.25%
[3] Shares are partly held by Homag Holzbearbeitungssysteme AG, Brandt Kantentechnik GmbH, Bütfering Schleiftechnik GmbH, Weeke Bohrsysteme GmbH and Holzma Plattenaufteiltechnik GmbH
[4] Shares are partly held by Homag Holzbearbeitungssysteme AG, Brandt Kantentechnik GmbH, Bargstedt Handlingsysteme GmbH and Weeke Bohrsysteme GmbH
[5] Equity investment in Homag Korea Co. Ltd. temporarily increased to 54.55%
* Simplified view



Group Structure*

www.homag-group.com