Annual Report 2011

Success through partnership and strategy

CONTENTS

* *Parent company*

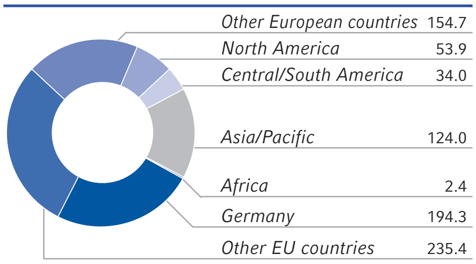
Key Group Figures

		2011	2010	2009	2008
Total sales revenue	EUR million	798.7	717.7	524.1	856.4
Sales revenue Germany	EUR million	194.3	156.0	137.6	207.1
Sales revenue other EU countries	EUR million	235.4	255.9	204.3	342.2
Sales revenue other European countries	EUR million	154.7	91.8	53.6	127.3
Sales revenue North America	EUR million	53.9	37.2	22.7	64.4
Sales revenue Central/South America	EUR million	34.0	41.3	22.5	27.5
Sales revenue Asia/Pacific	EUR million	124.0	132.5	78.5	84.9
Sales revenue Africa	EUR million	2.4	3.0	4.9	3.0
operative EBITDA [1) 2)]	EUR million	70.5	65.1	15.6	95.0
operative EBITDA [1) 2)]	as % of sales revenue	8.8	9.1	3.0	11.1
EBIT [1)]	EUR million	20.8	32.0	-22.6	68.8
EBIT [1)]	as % of sales revenue	2.6	4.5	-4.3	8.0
EBT	EUR million	6.4	14.4	-29.8	48.2
EBT	as % of sales revenue	0.8	2.0	-5.7	5.6
Net profit/loss (before non-controlling interests)	EUR million	-3.3	8.1	-22.1	33.8
Earnings per share [3)]	EUR	-0.30	0.43	-1.32	2.04
ROCE [4)] after taxes	as %	10.5	8.6	-2.3	15.9
HVA [5)]	as %	0.9	-1.0	-11.2	5.9
Free cash flow [6)]	EUR million	9.3	42.2	-0.7	5.1
Equity as of the reporting date	EUR million	161.7	170.0	157.2	183.9
Equity ratio	as %	29.0	29.8	30.3	33.4
Net liabilities to banks	EUR million	80.9	55.8	94.6	78.5
Gearing ratio [7)]		1.1	0.9	6.1	0.8
Investments/capitalized intangible assets [8)]	EUR million	18.2	14.3	15.1	14.6
Investments/capitalized property, plant and equipment [8)]	EUR million	15.6	8.7	13.4	18.3
Amortization of intangible assets [8)]	EUR million	13.3	10.6	7.1	5.3
Depreciation of property, plant and equipment [8)]	EUR million	15.7	14.3	15.4	14.0
Employees	annual average	5,110	4,981	5,158	5,281
thereof trainees	annual average	368	388	387	345
Order intake accumulated [9)]	EUR million	574.8	541.0	413.0	617.8
Order backlog as of the reporting date [9)]	EUR million	158.6	149.3	171.0	163.6

[1)] *Before taking into account employee participation*
[2)] *Before restructuring/non-recurring expenses*
[3)] *Net profit/loss after non-controlling interests, based on 15,688,000 shares*
[4)] *(Adjusted EBIT [1) 2)] x 70%)/capital employed (non-current assets + net working capital) (assumed tax rate of 30%)*
[5)] *ROCE after taxes less weighted average cost of capital employed*
[6)] *Cash flow from operating activities plus cash flow from investing activities*
[7)] *Net liabilities to banks/operative EBITDA (before employee participation expenses and before restructuring/non-recurring expenses)*
[8)] *Excluding leases*
[9)] *Order intake and order backlog only contain own machines without merchandise, spare parts and service*

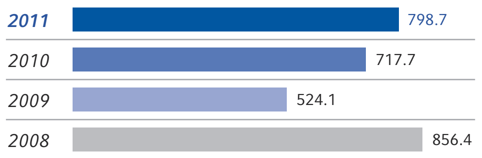
SALES REVENUE BY REGION 2011

EUR million



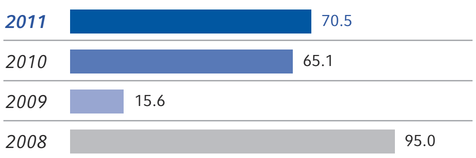
SALES REVENUE

EUR million



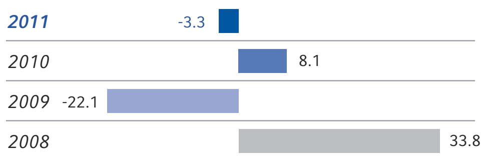
operative **EBITDA** [1] [2]

EUR million



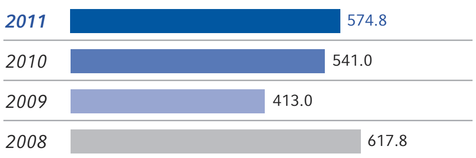
NET PROFIT/LOSS
(before non-controlling interests)

EUR million



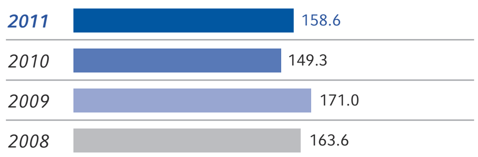
ORDER INTAKE [3]

EUR million

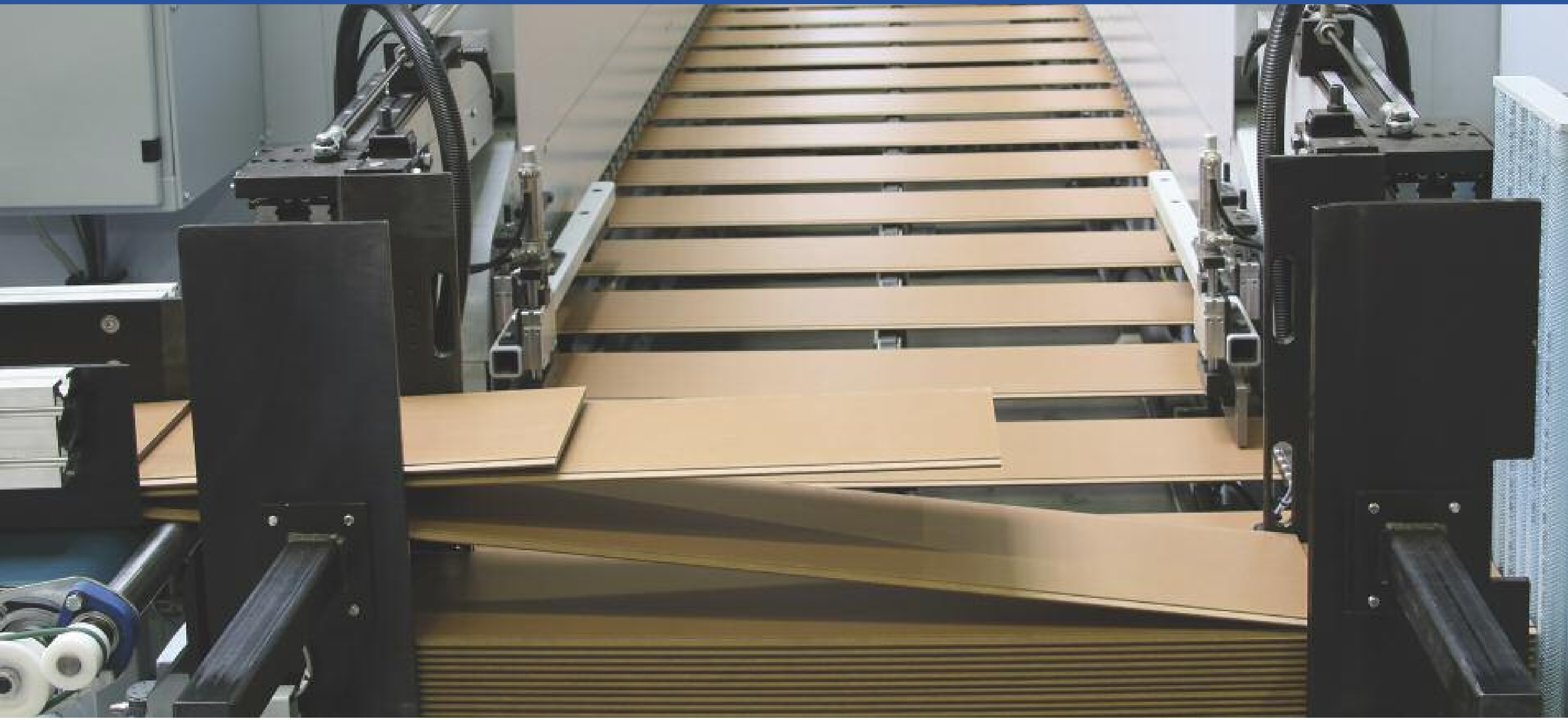


ORDER BACKLOG [3]

EUR million



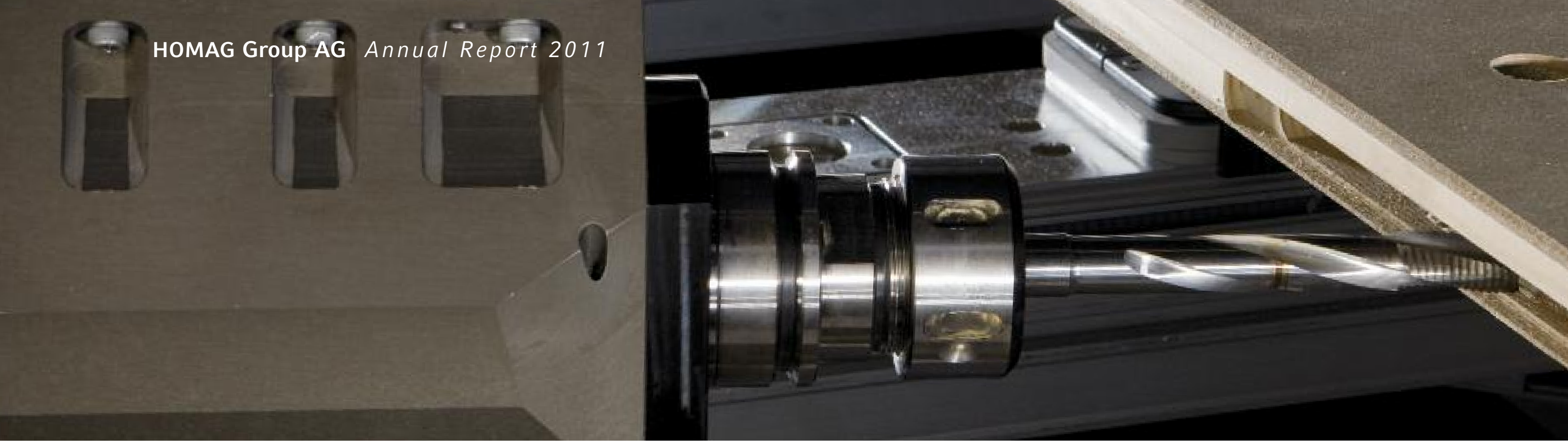
[1] *Before taking into account employee participation*
[2] *Before restructuring/non-recurring expenses*
[3] *Order intake and order backlog only contain own machines without merchandise, spare parts and services*



Innovation-driven Performance

With high innovative power and a clear strategy, the HOMAG Group has developed into a leading manufacturer of wood processing machines. Our high-tech machines and production lines manufacture the modern worlds we live and work in every day. Our customers produce home and office furniture, kitchens, parquet and laminate flooring, windows, doors, stairs or even complete wooden houses. With an estimated global market share of 28 percent and some 5,100 employees, we are the clear number one in our industry.

Our offer spans the spectrum from the stand-alone machine for the small cabinet shop to complex, linked-in production lines for industrial mass production. Add to this a comprehensive service offering that is perfectly tailored to our high-performance machines and production lines. We sell these products in over 100 countries and are represented in all key and growing regions with local production facilities as well as sales and service companies. Backed by our outstanding innovative power, our high-performance machines and the trend toward urbanization evident in emerging economies, we see great potential for further growth.



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FINANCIAL STATEMENTS (AG)*

FURTHER INFORMATION

* *Parent Company*

Dr. Markus Flik
BORN 1960

CEO, Corporate Development, Affiliates since July 1, 2011
Joined the Company in April 2011

Achim Gauß
BORN 1961

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

Herbert Högemann
BORN 1954

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

Ladies and Gentlemen,
Dear Shareholders,

> We look back on a fiscal year that has seen the HOMAG Group grow further, despite some challenges. We noted strong demand for our products, particularly in the first six months of 2011. In the second half of the year we perceived – as one of the mechanical engineering companies that feels any shift in the economic cycle at an early stage – initial indications of uncertainty in the eurozone. One indicator was a tendency to shelve some investment decisions, such that the order intake in the second half of the year was slightly below the prior-year level. Thanks to last-minute successes of our employees across all departments, however, we were able to grow further in 2011, both in terms of sales revenue and order intake.

Our project business developed successfully in 2011. Here, we were already able to exceed the EUR 100 million mark in order intake with own products in the first five months – and thus significantly earlier than in 2010. With our customer, Mekran, we were able to realize a large-scale project that is running according to plan. Its sales revenue volume totals some EUR 58 million, of which a large portion is allocable to the fiscal year 2011.

From a purely operational perspective, 2011 was quite a good year in terms of earnings. After the earnings indicators for the first six months of the year had slipped below our expectations, we took quick and comprehensive action. This is reflected in the operative EBITDA of EUR 70.5 million, which is about 8 percent up on the prior year.

The fact that we still closed the year with a net loss is due to the restructuring measures that we took to secure the HOMAG Group's long-term success. These decisions concerned the expansion of the restructuring at FRIZ and TORWEGGE as well as the restructuring at BÜTFERING, which is progressing as planned. These measures resulted in extraordinary expenses of about EUR 19 million in 2011. With these efforts we intend to reduce our production locations in Germany from eleven to eight. We have not taken this painful yet unavoidable step lightly. We are confident that this move will make the Group more competitive and that we have thus laid the foundation for a successful future.

Jürgen Köppel
BORN 1963

Head of Sales, Service, Marketing
Joined the Company in 2004

Hans-Dieter Schumacher
BORN 1963

CFO, Head of IT, Personnel
since April 1, 2011
Joined the Company in January 2011

The composition of the management board also changed in 2011. The two new members, Dr. Markus Flik and Hans-Dieter Schumacher, quickly settled into their new positions thanks to the support of their predecessors. We would like to thank the former members of the management board, Rolf Knoll and Andreas Hermann, for this support and for their valuable work for the HOMAG Group.

Having launched many initiatives in 2011, we see the current fiscal year as a year of transition in two respects: on the one hand, the latest forecasts from the economic think tanks meanwhile indicate that global economic growth will slow. On the other, in 2012 we want to implement the approved restructuring measures – the full positive effect of which is expected to be felt in 2013 and the years that follow.

It should be noted that the forecasts for the Group are based on some unpredictable factors and are subject to the condition that there are no major disruptions in financial markets or the economic environment. Against this backdrop, we aim to keep order intake in 2012 at about the level of 2011. With respect to sales revenue we likewise want to roughly match the 2011 levels in 2012 – adjusted for the special effects of the large-scale project with Mekran – and anticipate sales revenue of about EUR 750 million. We project an operative EBITDA of about EUR 65 million.

After several factors hindered our ability to generate a net profit in 2011, we aim to generate a net profit again in 2012. Naturally, we would then commensurately share the profits with you again, our shareholders, and propose to you to pay out a dividend.

On the following pages, we begin by informing you about our strategy for the years ahead. We then give you the opportunity to see for yourselves the high performance of our innovative products. Committed and competent employees are decisive in achieving this. Some of them share their thoughts in this report. We conclude by presenting the financial figures of the HOMAG Group for the fiscal year 2011.

For the trust they have placed in us, we would like to express our gratitude to our shareholders and particularly our customers who have created the basis for the success of the HOMAG Group through their loyalty. We thank all employees for their outstanding commitment in the fiscal year 2011. We are aware that we have asked a lot of them, including with the restructuring measures. We would also like to express our thanks to our suppliers and other business partners for the constructive collaboration in the past fiscal year.

Schopfloch, March 2012
The management board

DR. MARKUS FLIK ACHIM GAUSS HERBERT HÖGEMANN

JÜRGEN KÖPPEL HANS-DIETER SCHUMACHER

From left to right: Hans-Dieter Schumacher, Herbert Högemann, Achim Gauß, Jürgen Köppel, Dr. Markus Flik

Chronicle 2011

FIRST QUARTER

Regional lead trade fair in China

The CIFF Interzum trade fair in Guangzhou, China, is increasingly gaining in importance for the HOMAG Group. At our trade fair stand, which had about 1,100 m² of exhibition space, we presented machines produced locally in Shanghai alongside imported machines manufactured in Germany for industrial production. We were thus able to demonstrate again our market leadership and strength as well as the HOMAG Group's competency to the many visitors at the leading industry's trade fair in the Asia/Pacific region.

laserTec for processing centers

*An innovation highlight in 2011 was the upgrade of CNC processing centers, which are now equipped with the patented **laser**Tec technique. We have essentially taken the optical quantum leap achieved in the joint quality of edges and transferred it to curved pieces. As a result, we can offer our customers capabilities for producing perfect edges – for just about any conceivable material. And our processing centers also benefit from all of the other advantages of **laser**Tec, apart from outstanding joint appearance. These include optimal process reliability, no need for glue-related cleaning work and a decrease in energy consumption of about 20 percent.*

SECOND QUARTER

New management board members set to work

Hans-Dieter Schumacher replaced Andreas Hermann as CFO on April 1, 2011. He had already been on the management board since January 15, 2011. Dr. Markus Flik joined the management board on April 1, 2011 and was appointed CEO on July 1, 2011. Having handed over his responsibilities on the management board, the former CEO Rolf Knoll continues to serve the HOMAG Group in an advisory capacity.

Annual general meeting approves dividend

A resolution was passed at the HOMAG Group's annual general meeting on May 25, 2011 to pay out a dividend for fiscal 2010 amounting to EUR 0.30.

Largest exhibitor at Ligna – the industry's leading trade fair

We set a new order intake record at the industry's leading trade fair Ligna, topping the previous record from 2007 by some 20 percent; in comparison to the last trade fair in 2009 order intake rose almost 50 percent. As the largest exhibiter at the fair, we welcomed visitors from a total of 90 countries to our two trade fair stands.

THIRD QUARTER

"Local for local" – new production plant in India

In July 2011, we established our new subsidiary HOMAG Machinery Bangalore in India. In November 2011, production activities started up in the 1,300 m² assembly hall and the first machines were delivered to customers in January 2012. We are initially dedicating operations there exclusively to entry-level machines that are modified to meet local needs and are sold on the Indian market. We have additionally begun to build up a local network of suppliers and are already sourcing the first parts there.

In-house trade fairs attract visitors from all over the world

Visitors from all over the world attended the in-house trade fairs held at several subsidiaries at the end of September. They used the opportunity to catch up on the latest developments in energy-saving technologies, surfacing technology – the trade fair theme – and on innovations across the entire spectrum of furniture and structural elements production. On more than 10,000 m², the HOMAG Group showcased its entire product spectrum from stand-alone machines to complete production lines. We also inaugurated a new demonstration center in Schopfloch. The HOMAG "Technikum" will offer more than 2,000 m² of dedicated space for demonstrating the HOMAG Group's machines and production lines and for training purposes.

FOURTH QUARTER

Expansion of restructuring measures

In October 2011, we decided to expand the restructuring measures that were already planned within the Group. Under these plans, the production and administration activities of the subsidiary FRIZ Kaschiertechnik GmbH, Weinsberg, are to be discontinued; while a development and service unit is to be kept. The Löhne site is to be closed down completely together with operations at the subsidiary TORWEGGE Holzbearbeitungsmaschinen GmbH and the service branch of WEEKE Bohrsysteme GmbH located there. These measures are expected to be completed by the end of 2012 and target a sustained improvement in the operative EBITDA of between EUR 6 million and EUR 8 million each year from 2013 onwards.

New projects in Poland and China

In December, we were engaged by the Swedish customer Swedwood – which primarily supplies the furniture retailer, IKEA – to deliver two new production lines in Poland and China. These orders also encompass our innovative ***reac****Tec technique for surface and edge finishing, a technology that raises the quality and efficiency bar for furniture production in the field of surfacing.*

Innovation-driven Performance

The HOMAG Group is the technology leader in its industry. A decisive factor underpinning this dynamic innovative power is our highly qualified and dedicated employees. Thanks to them, the continuous enhancement of the performance of our machines and production lines is assured. To the benefit of our customers as these can produce more and more efficiently and sustainably as a result.

Kerstin Zimmermann
MECHANICAL DESIGNER

New development in all facets

*"When we developed our new profile trimming unit FK31 power**Trim** I was able to contribute from day one to the creation of a completely new product. The close and productive cooperation with the development engineers was a particularly important part of the process. We are very proud of the results, as we were able to achieve a true leap in quality and performance in the field of batch size 1 production."*

Elmar Raissle
PROJECT MANAGER, FURNITURE PRODUCTION

Customer satisfaction based on tailored solutions

"The engineering challenge lies in the broad range of customer specifications. What customers want is state-of-the-art and tailored solutions, rather than one-size-fits-all products. As the project manager, I make sure that the production lines are designed to precisely meet customer specifications: from batch size 1 production systems to small series production or mass production. With the HOMAG Group's broad spectrum of innovative machines and production lines, we can pretty much fulfill any customer requirement, no matter how challenging. After all, the level of customer satisfaction is ultimately the measure of my success."

Jochen Paul
CONSULTANT

Optimizing processes on site

"In the HOMAG Group's business consulting team we are committed to continuously improving our customers' production and logistics processes. Because every customer is unique, we face very specific challenges in every single project. To concisely identify for customers the improvement potential in their production we have developed the 'Company ECG'. We use this to check the 'vitality' of production operations and processes and then determine, together with customers, a roadmap to efficient manufacturing."

Dirk Haist
SERVICE TECHNICIAN

Top performance at the customer

"It is essential that the optimum performance of machines is harnessed when they are assembled and put into operation. That is always the case – whether we are installing a stand-alone machine or linking several machines together to form a production line. It is essential that we quickly respond to the conditions prevailing at the customer's facilities and their individual needs. With this in mind, I draw on all of my knowledge from my long-standing experience and can also reach out to my remote service colleagues. Because I work so closely with customers, my input is also extremely valuable for development activities and further optimization efforts."

Verena Dengler
PROJECT PROCESSING, FLOORING TEAM

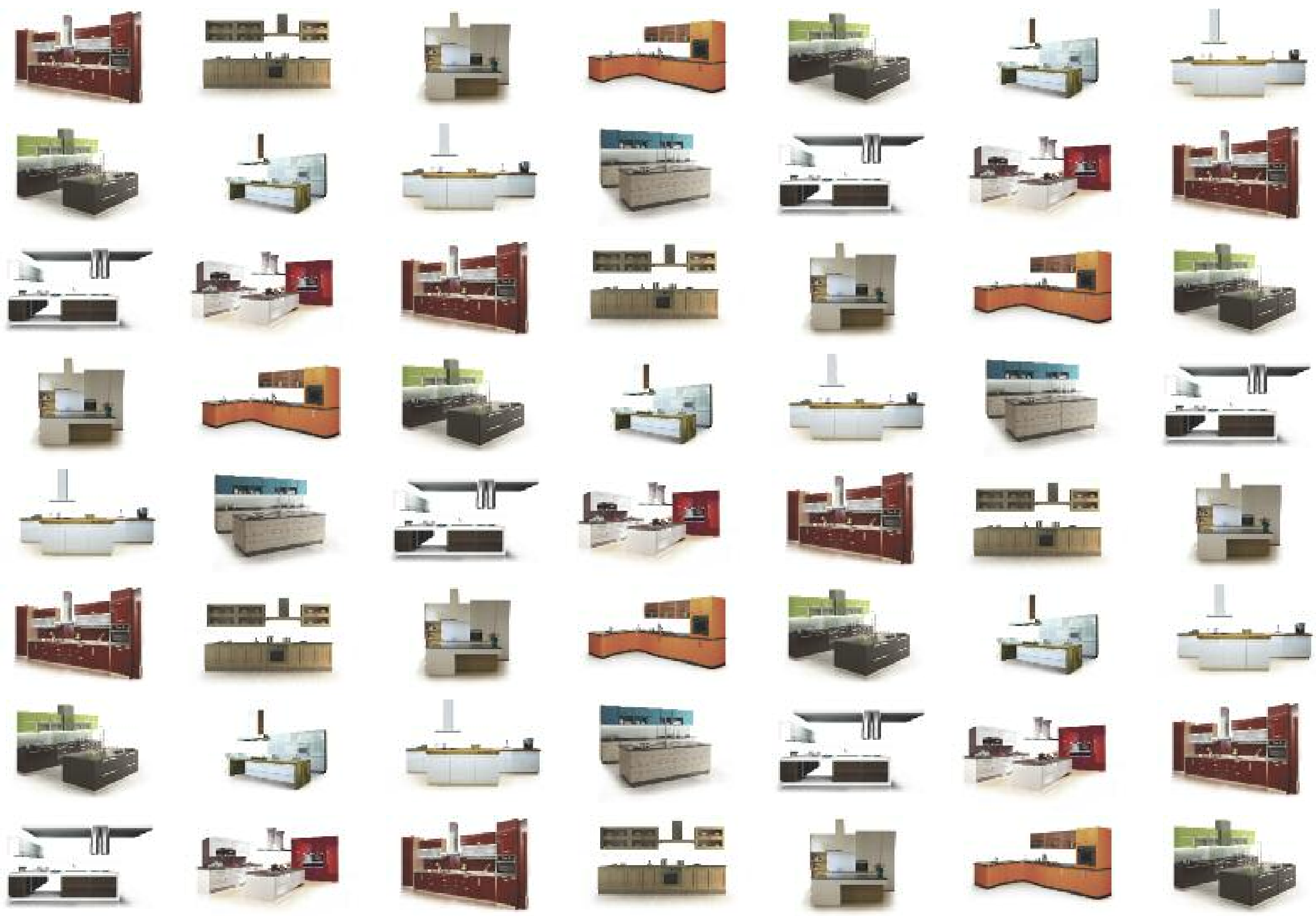
A new parquet production concept for North America

"The HOMAG Group is the world's number one when it comes to flooring production systems. The large North American parquet flooring market is marked by unique technical factors that necessitate corresponding modifications to the production line concepts. As part of my bachelor's thesis I was able to develop a new concept for the HOMAG Group's parquet flooring production in North America. It is very fulfilling to now see the concept move on to the implementation phase and to see the first success stories."

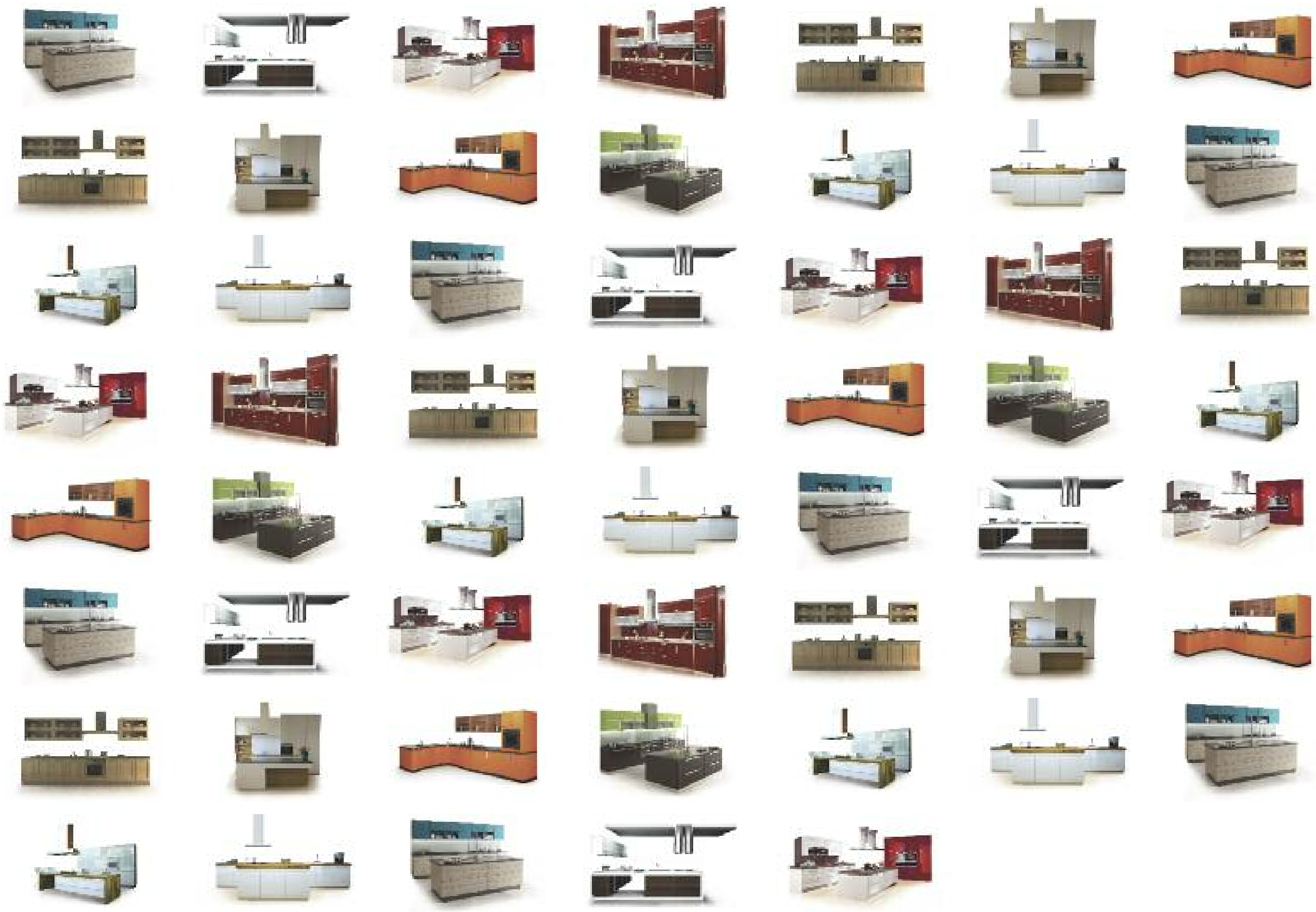
HIGHLY INTELLIGENT PROFILE TRIMMING UNIT

Our innovative profile trimming unit power**Trim** FK31 delivers the perfect finish for kitchen production. The unit features electronic tracing that adjusts to each workpiece, guaranteeing a uniform application of tracing force and, in turn, unparalleled quality – and all this at a clip of 30 cycles per minute!

110 customized kitchen fronts within an hour …



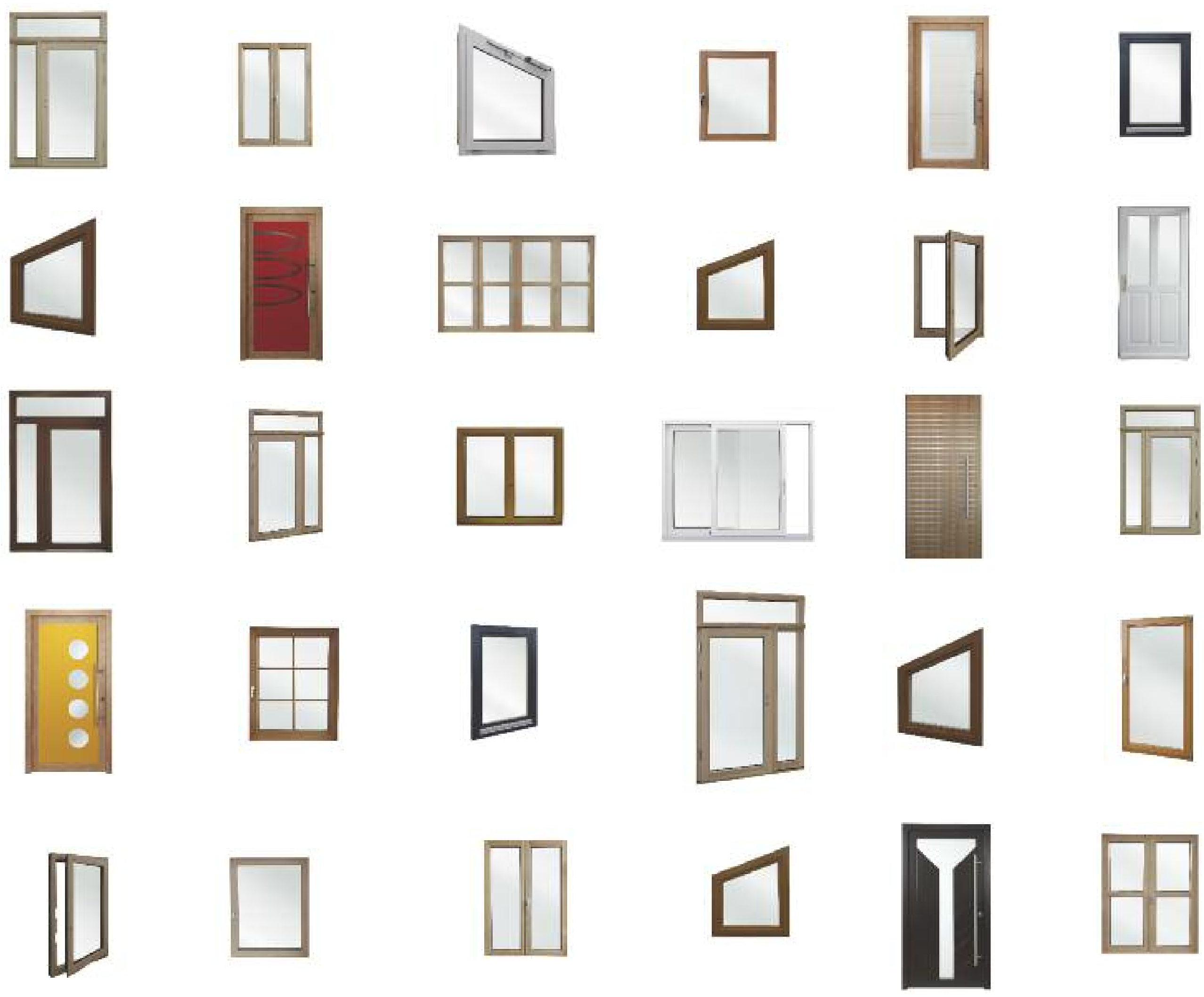
… with our production line.



THE MULTITALENTED PROCESSING CENTER

Equipped with as many as 432 different tools, our new CNC machine for window and door processing is a genuine all-rounder. This high degree of flexibility means that it can cater for just about any customer specification: antique windows, arch sections, doors or conservatory elements are not a problem. Our multitalented machine dispatches all jobs with utmost precision and speed.

50 different windows and doors in one day …



… with our production cell.

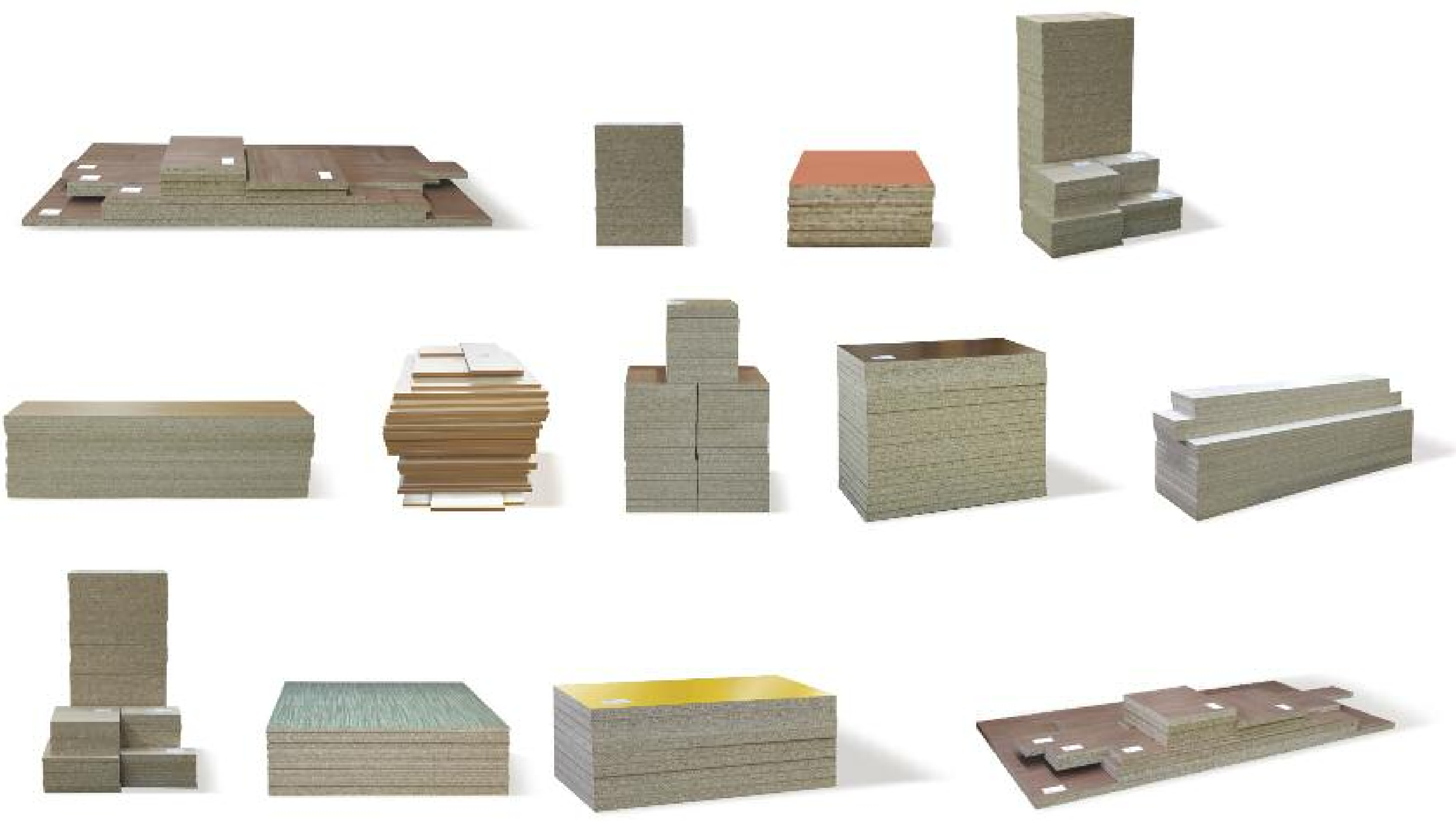
THE PERFECT DUO

Optimally adjusted to each other, our saw-storage combination works in perfect harmony. Thanks to smart control technology, the automated horizontal storage system supplies the powerful rip and crosscut saw with the right panels every time. This ensures an optimal order-driven flow of materials.

400 cut-to-order pieces per hour …

… with our saw-storage combination.

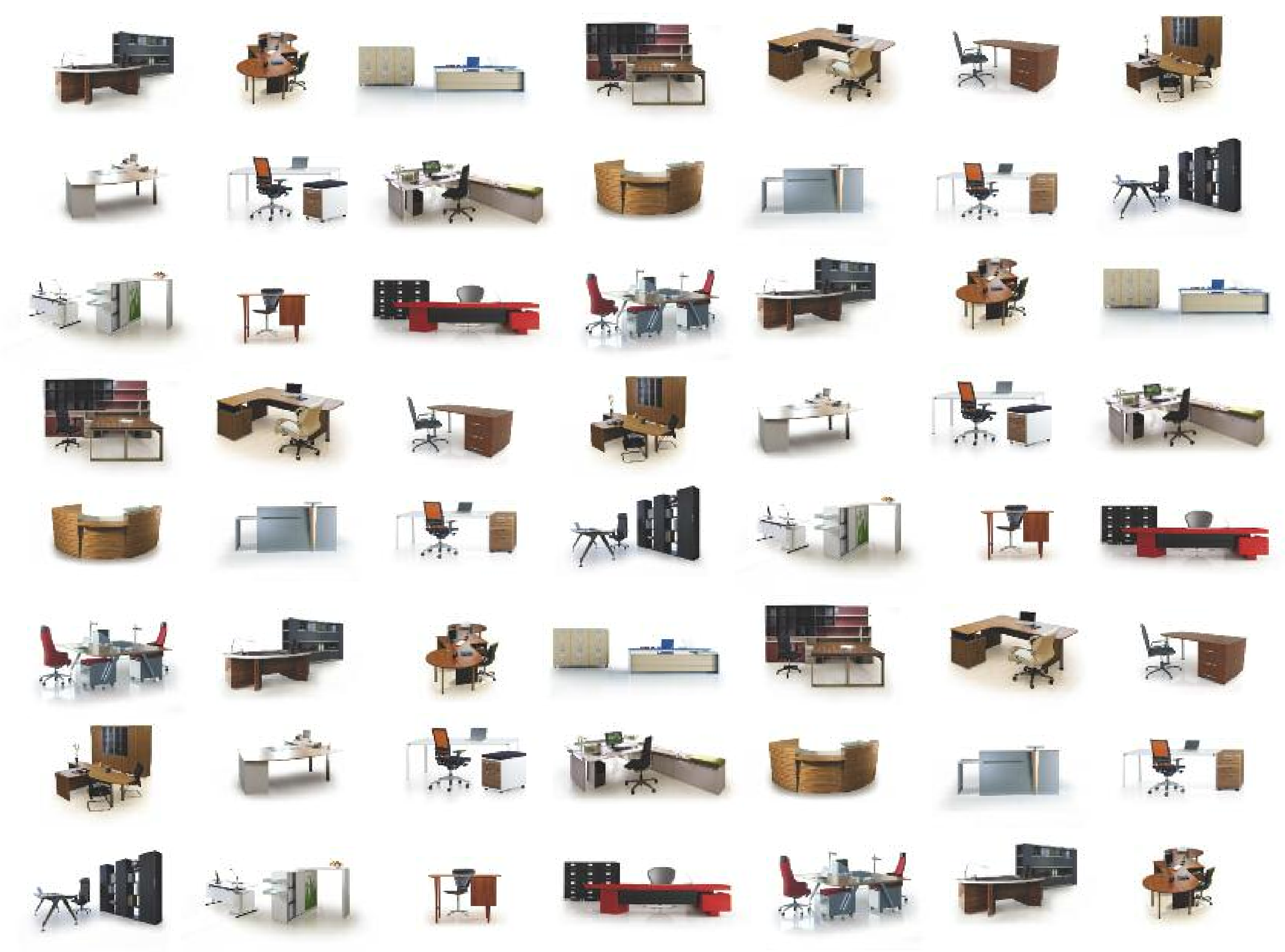

HOLZMA



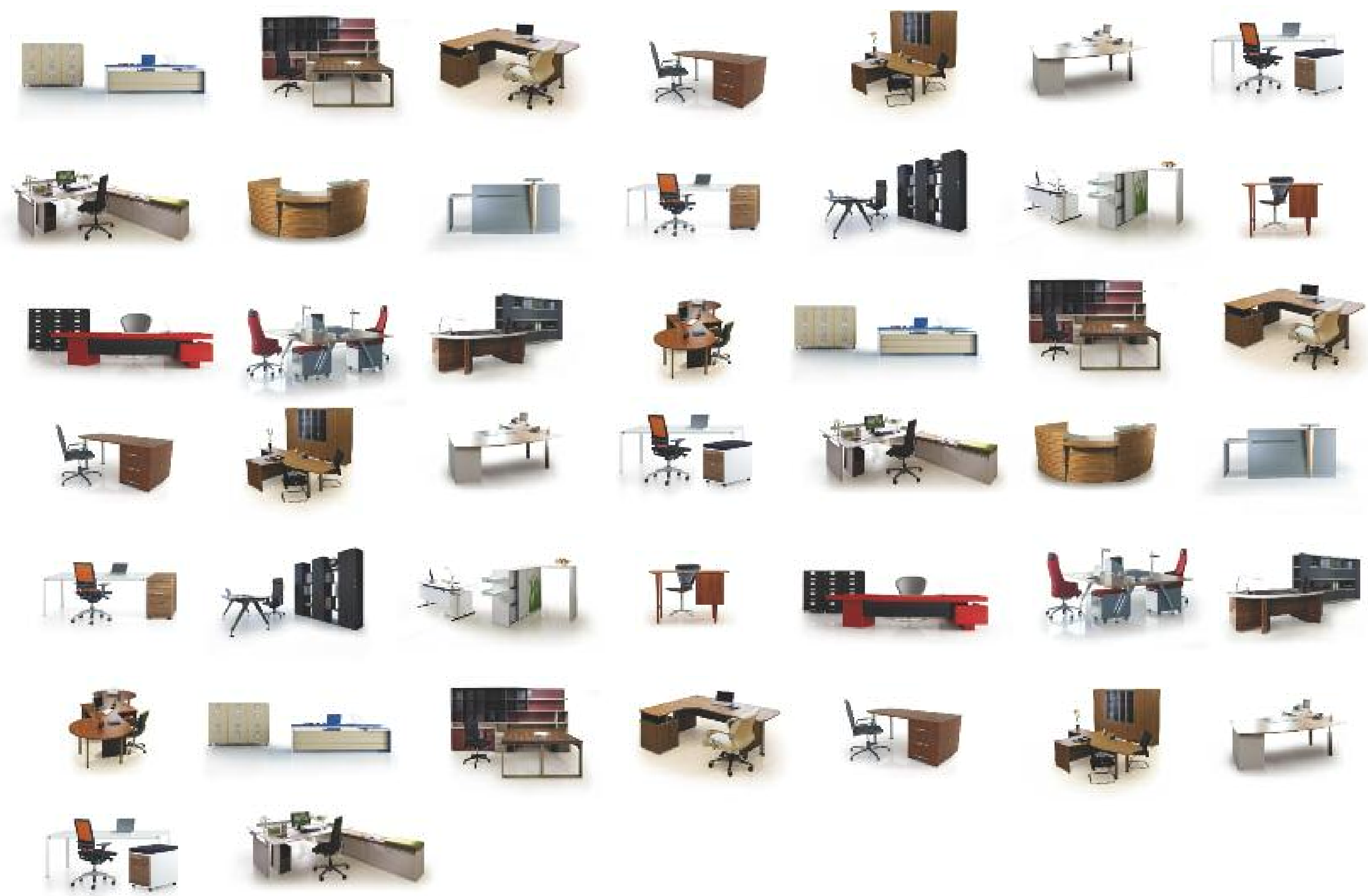
AN OPTICAL MASTERPIECE

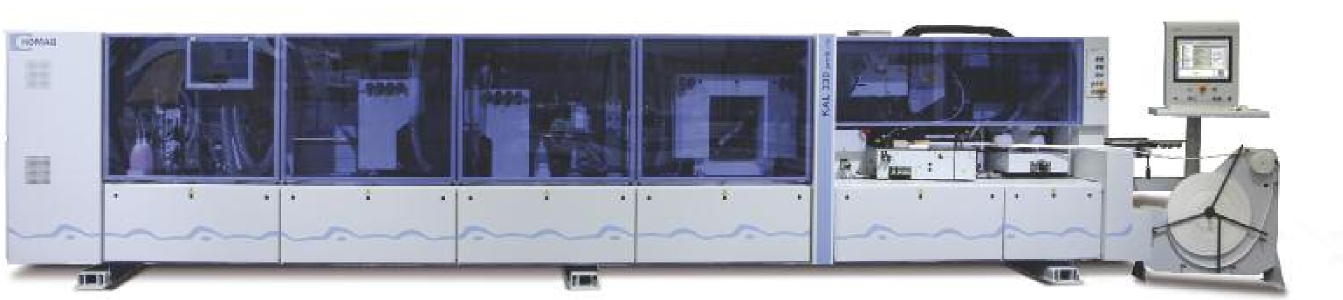
With our patented laser technology, our customers can manufacture furniture that is practically jointless. Our innovative **laser**Tec technique sets new standards and guarantees seamless transitions between panels and edges in any conceivable shape – an optical quantum leap!

All edges for 100 office workstations in four hours …



… with our production line.





A WORLD FIRST MADE TO ORDER

In cooperation with our customers, we have developed a new system for extracting sawdust in flooring production that increases the machine's operating life and cuts energy consumption by up to 30 percent. For us, customer proximity is a matter of course. Our experts can draw on their wealth of expertise to find the best solution every time – especially when faced with challenging tasks.

30 square meters of floorboards in 30 seconds ...

... with our flooring line.

INTERVIEW

"Profitable Growth is our Objective"

> **INTERVIEW WITH THE CEO OF HOMAG GROUP AG, DR. MARKUS FLIK, ON THE GROUP'S STRATEGY OVER THE NEXT FEW YEARS**

Editorial Team

Dr. Flik, there is a long tradition of clear strategic alignment at the HOMAG Group. What is known as the Dynamic Strategy, which contains the most important long-term targets, was drawn up several decades ago. Are these targets still valid today?

Dr. Markus Flik

The Dynamic Strategy has, of course, been refined and adjusted time and time again. The basic strategic direction it contains is, however, still valid. We uphold these cornerstones – mastering the process chain, global market leadership in all segments and structures based on partnership. Our task is to live the Dynamic Strategy and put it into practice.

Editorial Team

What are the concrete strategic goals of the HOMAG Group?

Dr. Markus Flik

We intend to further expand our global market position over the next few years with our competent and committed team and our powerful innovation capabilities. Furthermore, we aim to cut costs by capturing existing synergies within the Group on the one hand and boost productivity by optimizing internal processes on the other. In this way, we intend to improve our profitability and achieve profitable growth overall.

Editorial Team

Do you consider the market for wood processing machinery to be a growth market?

Dr. Markus Flik

Yes! Simply because demand for furniture and structural elements such as doors, windows and floors is increasing in emerging economies. At the same time, wage levels are on the increase there, and consequently the degree of automation in production. This combination of factors will continue to drive up demand for wood processing machinery in future – interrupted only by short-term cyclical fluctuations.

Editorial Team

The HOMAG Group is already the clear market leader in the industry – where do you identify further potential for the Group?

DR. MARKUS FLIK, *CEO*

Dr. Markus Flik

On the one hand, we want to grow in segments where we have not yet achieved market leadership and to take the lead there too. These segments include, for example, CNC technology and surface treatment, i.e. laminating and sanding machines. On the other, we intend to further capture the potential in today's and tomorrow's growth markets and win market share in China, India, Brazil, Russia and other regions. Our great advantage as market leader is that we have the necessary structures, experience and expertise in these regions.

Editorial Team

If you want to capture market share, you will have to be better than the competition. Where do you see the advantage or the strength of the HOMAG Group?

Dr. Markus Flik

One of the great advantages of the HOMAG Group is that it covers virtually all of the process chain. This advantage is already evident in the stand-alone machines business, but the full potential is harnessed in the project business with large-scale production lines. One further strength is, as already mentioned, our high level of innovative power. We see ourselves as technology leader in the industry and our approximately 770 developers, engineers and project staff ensure that we – and therefore also our customers – keep the technological edge. One further important advantage is our unique and efficient global sales and service organization with more than 1,600 employees.

Editorial Team

How is the HOMAG Group positioned specifically in the new markets?

Dr. Markus Flik

One consequence of the Dynamic Strategy is that the HOMAG Group took up the challenge of globalization at a very early stage. This means that we have already been present in today's growth markets for a long time with our own sales and service companies. In addition, we have production locations in China, India, Brazil and Poland. The objective is to further develop and expand these locations, which is what we are already doing in China and India.

Editorial Team

Despite the increasing significance of growth markets, industrialized countries nevertheless still play an important role. Do you see further growth potential in these countries, too?

Dr. Markus Flik

Industrialized countries tend to be marked by investment cycles; and companies tend to reinforce each other in this respect. This is an area in which we are able to trigger investments directly at our customers with our own innovations, as we demonstrated, for example, with our new **laser**Tec technology for zero-joint edge banding. We see quite an investment backlog in the United States because the market there is still at a very low level following the real estate crisis. We intend to take this opportunity.

INTERVIEW

Editorial Team *Where will HOMAG Group put the focal point of investments over the next few years?*

Dr. Markus Flik I don't want to mention any specific development projects at this point. One thing is certain, however, all new developments and refinements are designed first and foremost to increase the productivity of our customers further. Secondly, we will again and again offer technologies that give them a competitive edge over the competition – whether in terms of design options or furniture and structural elements that quite simply look and feel good.

Editorial Team *Do you see further potential in the service business?*

Dr. Markus Flik Yes, we definitely want to increase the share of services in sales revenue. To this end, we intend to further expand our local and remote service, our consulting and training offering, the spare parts business and our range of software. In the fields of software and consulting we have our own subsidiaries – SCHULER Consulting and HOMAG eSOLUTION. Especially in growth markets, there is great demand for consulting services. This is where we can score extra points with our know-how.

Editorial Team *Do acquisitions also play a role in your growth plans?*

Dr. Markus Flik At the moment, the focus is certainly on organic growth. But, speaking in general terms, today's HOMAG Group is also the result of acquisitions. In this respect, acquisitions are not ruled out were we to find a company operating in an attractive area of the process chain that we presently do not fully cover.

Editorial Team *At the beginning of the interview, you mentioned that you want to optimize processes within the Group. Will the planned and current restructuring measures make a contribution to this?*

Dr. Markus Flik With this painful step, that we did not take lightly, we intend to reduce the number of production locations in Germany from eleven to eight. We want to merge five production locations into two, as there are overlapping activities. The new structure enables a higher level of capacity utilization and more efficient processes. With these measures we, the HOMAG Group, want to become more proactive and lower our break-even point.

Editorial Team

Are more measures of this kind in planning?

Dr. Markus Flik

Once the restructuring is completed, the locations in Germany will have clearly defined areas of activity – each one a specialist in its respective area. The next step will be to optimize the way we work within the new structure. This means capturing the synergies between the locations even more effectively. We have to further reinforce this identification with the group concept, without reducing the entrepreneurial dynamics of the individual companies.

Editorial Team

What specifically are you doing to achieve this goal?

Dr. Markus Flik

We have further stepped up our ongoing project HGAP ("HOMAG Group Action Program"). This program brings together a multitude of measures in all operating companies that are being implemented locally but coordinated centrally by the specialist departments. In addition, we have created new jobs at group level. The objective is to improve cooperation between locations and departments. In this way, we intend to benefit from the size of the HOMAG Group and its global market leadership to implement cost advantages.

Editorial Team

Do you intend to improve the HOMAG Group's profitability in this way?

Dr. Markus Flik

This is one consequence of the measures outlined. The key to boosting profitability is productivity. We want to increase this factor on an ongoing basis by continually improving internal processes in all areas. In the medium term, our large-scale "ProFuture" IT project will make a contribution to this end. It is our ambition to lower our break-even point by such an extent that we would generate a positive operating result even at the bottom of a normal economic cycle.

Editorial Team

In conclusion, please summarize the most important objectives over the coming years.

Dr. Markus Flik

It remains our objective to attain or expand global market leadership in all segments in which we operate. Both in terms of market share and products. We want to return to the path for growth and in the medium term return to the past record sales revenue levels. To this end, we will continue to invest in growth regions and innovations. We intend to continually increase the profitability of our Group by boosting productivity and exploiting further synergies.

Report of the Supervisory Board

> In the past fiscal year 2011, the supervisory board of HOMAG Group AG fulfilled its control and advisory functions with due care as prescribed by law, the articles of incorporation and bylaws and the German Corporate Governance Code. The management board provided the supervisory board all of the key information it needed for this purpose regularly and in a timely manner in comprehensive written reports or oral reports. Based on these reports, the body discussed all material business transactions and issues. The supervisory board was directly and quickly involved in all decisions of fundamental importance to the Company. To the extent required under law or the articles of incorporation and bylaws, the supervisory board rendered its opinion on all reports issued and resolutions proposed by the management board. Matters requiring approval were submitted for resolution in a timely manner.

The chairman of the supervisory board was also regularly in close contact with the management board, apart from at board meetings. Particularly the chairman of the management board informed the chairman of the supervisory board without delay about all key events of relevance to an assessment of the Group's position and prospects.

PERSONNEL CHANGES

Changes in the Management Board

Hans-Dieter Schumacher, who had been on the management board of HOMAG Group AG since January 15, 2011, succeeded Andreas Hermann as CFO on April 1, 2011. The latter had requested the early termination of his service agreement for personal reasons. Dr. Markus Flik joined the management board on April 1, 2011 and assumed the position of CEO on July 1, 2011. The previous spokesman for the management board, Rolf Knoll, stepped down from the board on June 30, 2011 and retired. However, he will remain associated with the Company in an advisory capacity until December 31, 2012. The supervisory board thanks Mr. Knoll and Mr. Hermann for their longstanding trust-based work, their unwavering commitment and their outstanding work for the Company.

There were no personnel changes on the supervisory board in the fiscal year 2011.

TORSTEN GREDE, *Chairman of the supervisory board*

SIGNIFICANT MATTERS ON THE AGENDA

The supervisory board convened a total of four meetings in the fiscal year 2011. At all meetings, the management board informed the supervisory board in detail about the current business activities of the HOMAG Group. These discussions centered on the Company's overall situation as well as its financial development, including outlook, development of markets, sales and the development of production companies. In addition, reports were presented on current topics in the fields of development, production and materials management. The development of business segments as well as of the project business, the product portfolio and personnel matters were likewise discussed. Moreover, the supervisory board was also informed of the activities of the committees at the start of each meeting.

Supervisory Board Meeting on March 25, 2011

At the *supervisory board meeting of March 25, 2011*, the management board reported on the fiscal year 2010 and the auditors of the financial statements reported on their audit and findings. Following an extensive discussion and examination, the consolidated financial statements of the HOMAG Group AG for the fiscal year 2010 were approved and the annual financial statements of HOMAG Group AG for the fiscal year 2010 ratified. The resolution on the appropriation of profits was approved. The supervisory board additionally discussed and approved the corporate governance report and the supervisory board's report to the annual general meeting as well as the agenda for the annual general meeting. After in-depth deliberation, the supervisory board approved further restructuring measures for the subsidiary BÜTFERING Schleiftechnik GmbH, Beckum. The supervisory board also addressed the restructuring plans for the subsidiaries FRIZ Kaschiertechnik GmbH, Weinsberg and TORWEGGE Holzbearbeitungsmaschinen GmbH, Löhne.

Supervisory Board Meeting on July 5, 2011

One of the topics of the *supervisory board meeting of July 5, 2011* was the progress and results of as well as the response to the industry's leading trade fair Ligna and the innovations presented there. The management board briefed the supervisory board on the status of restructuring of the subsidiaries BÜTFERING, FRIZ and TORWEGGE. In addition, the supervisory board made enquiries about the large-scale project with the customer Mekran. The supervisory board also set the relevant opening price for the stock LTI bonus for the reference period 2011 to 2013. In addition, the amendment of the rules of procedure and the new allocation of duties plan for the management board were approved.

Supervisory Board Meeting on October 6, 2011

The main point on the agenda of the *meeting on October 6, 2011* was an in-depth briefing on the current status of the restructuring at BÜTFERING as well as the expansion of the restructuring at the subsidiaries FRIZ and TORWEGGE. The revised restructuring concepts for FRIZ and TORWEGGE were both approved. The supervisory board also passed a resolution to perform an efficiency audit by the supervisory board within the meaning of No. 5.6 of the German Corporate Governance Code. Effective immediately, Mr. Schumacher was appointed employee affairs director of HOMAG Group AG. The supervisory board also passed a resolution to prolong Mr. Jürgen Köppel's appointment on the management board for the period from October 1, 2012 through September 30, 2015. It likewise passed a resolution to amend the management board service agreement of Mr. Jürgen Köppel, effective October 1, 2012.

Supervisory Board Meeting on December 16, 2011

At the *supervisory board meeting on December 16, 2011*, the management board reported on the progress of the restructuring at the subsidiaries BÜTFERING, FRIZ and TORWEGGE. The supervisory board obtained reports on the status of the compliance organization and compliance with the code of conduct. In addition, medium-term planning for the period from 2013 through 2016 was presented. The supervisory board also approved the budget for 2012 as well as the declaration of compliance that has to be made annually pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act].

All members of the supervisory board attended at least half of the supervisory meetings.

WORK PERFORMED BY THE SUPERVISORY BOARD'S COMMITTEES

The supervisory board formed a total of four committees in the fiscal year 2011: the audit committee, the personnel committee, the nomination committee and the mediation committee pursuant to Sec. 27 (3) MitbestG ["Mitbestimmungsgesetz": German Codetermination Act]. These committees primarily prepare issues and resolutions for discussion by the supervisory board. In certain cases they also exercise the decision-making authority transferred to them by the supervisory board – where legally permissible – or by law. The chairpersons of the committees reported on the work of their committees at the meetings of the supervisory board.

Mediation Committee and Nomination Committee

The *mediation committee* and the *nomination committee* had no need to act and were therefore not convened in the fiscal year 2011.

Audit Committee

The *audit committee* was convened six times in 2011; three of those meetings were conference calls. At the first meeting, the consolidated and separate financial statements

including the Group's management report and the management report of HOMAG Group AG for 2010, the corporate governance report and the supervisory board's report to the annual general meeting together with the proposal for the appropriation of profits were discussed in the presence of the auditor of the annual financial statements. Other topics were the current development of business in the HOMAG Group, the agenda for the annual general meeting and the current status of the code of conduct and the findings of the internal audits. At its other meetings, the audit committee focused its attention on all of the interim reports, the large-scale project with the customer Mekran, the current earnings position, the forecast for 2011, the 2012 budget and the Group's planning for the period 2013 through 2016. The status of the internal audit was also discussed. The priorities for the audit of the separate and consolidated financial statements for 2011 were also set.

Personnel Committee

The *personnel committee* was convened five times in total, of which two were conference calls. The personnel committee dealt with personnel matters, especially the adjustment of the allocation of duties plan for the management board, the prolongation of the appointment to the management board and the amendment of Mr. Jürgen Köppel's management board service agreement as well as the amendment of the management board's rules of procedure.

All members of the supervisory board disclose to the supervisory board any conflicts of interest that might arise. In the past fiscal year, no conflicts of interest were announced.

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS 2011

In accordance with a resolution of the annual general meeting of May 25, 2011, the supervisory board awarded the audit engagement for the fiscal year 2011 to Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart. The following audit priorities were set: the accounting treatment of the large-scale project for the customer Mekran, deferred taxes and personnel provisions, particularly in connection with the planned restructuring.

The auditor audited the separate and consolidated financial statements for the fiscal year 2011 prepared by the management board together with the combined management report and the underlying accounting records, and rendered an unqualified audit opinion. In particular, the auditor confirmed that the management board had an appropriate risk monitoring system in accordance with Sec 91 (2) AktG that is suitable for detecting at an early stage developments that might jeopardize the ability of the Company to continue as a going concern.

The supervisory board conducted an extensive review of the separate and consolidated financial statements together with the combined management report and the management board's proposal for the appropriation of profit. The documents pertaining to the financial statements and the auditor's audit reports were made available to all members of the supervisory board in a timely manner and were discussed in detail and reviewed at the meeting of the audit committee of March 16, 2012 and at the supervisory board meeting of March 22, 2012. The auditor attended both meetings to report on the key findings of their audit and was available to answer follow-up queries and supply any supplementary information. The supervisory board monitored the independence of the auditor before and during the audit. The supervisory board was in agreement with the auditor's findings and did not raise any objections.

The supervisory board approved the separate and consolidated financial statements and the combined management report as of December 31, 2011 prepared by the management board, thus ratifying the annual financial statements of HOMAG Group AG. In addition, the supervisory board seconded the management board's recommendation to propose to the annual general meeting of May 24, 2012 to waive the dividend for the fiscal year 2011 on account of the reported loss.

The supervisory and management boards mourn the loss of our long-standing member of the supervisory board, Mr. Ralf Hengel, who sadly passed away in 2011. Mr. Ralf Hengel contributed between 2007 and 2010 valuable and dedicated work in the interest of the Company. We extend our condolences to his family.

The supervisory board expresses its thanks to the members of the management board, management, works council representatives and employees for all their hard work and unwavering dedication in the fiscal year 2011.

Schopfloch, March 2012
On behalf of the supervisory board

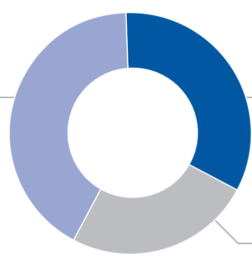
TORSTEN GREDE
Chairman of the supervisory board

From left to right: Reiner Neumeister, Thomas Keller, Dr. Dieter Japs, Dr. Horst Heidsieck, Gerhard Federer, Ernst Esslinger, Hans Fahr, Jochen Meyer, Reinhard Seiler, Torsten Grede, Hannelore Knowles, Carmen Hettich-Günther

The HOMAG Group AG Share

Shareholder Structure as of March 16, 2012 [1]

As %



[1] *Method of calculation according to Deutsche Börse AG*

DEVELOPMENT OF STOCK MARKETS

The German and European stock markets registered a weak year overall in 2011, suffering mostly double-digit-percentage losses. However, the development varied considerably from one quarter to the next. While the first two quarters and the fourth quarter saw bullish markets, stock prices virtually collapsed in the third quarter. Stock markets continued to labor, chiefly under the burden of the sovereign debt crisis in the eurozone, whereby in particular the growing probability of Greece defaulting on its public debt together with the sovereign debt problems in Portugal, Spain and Italy had a negative impact. Other burdening factors included the high level of public debt in the United States, the weakening economies in emerging markets – particularly in China –, the earthquake off the coast of Japan and political unrest in the Middle East and Africa.

On aggregate, DAX, MDAX and SDAX each lost between 12 percent and 15 percent in the fiscal year 2011, while the TecDAX declined by close to 20 percent. In Europe, the Stoxx 50 dropped slightly over 8 percent, while the Euro Stoxx 50 fell about 17 percent. By contrast, the Dow Jones Index rose by more than 5 percent.

THE HOMAG SHARE IN 2011

The HOMAG Group AG share is listed on the Prime Standard of the Frankfurt stock exchange. Our share reached its peak for the year of just over EUR 17 at the beginning of the year. The share rallied from the losses that followed, particularly in March and April, with its price stabilizing in the region of EUR 16 by July. At the end of July and the beginning of August, the share price decreased to below EUR 10. This drop was partly due to the weak market. The ad hoc announcement on August 1, 2011, in which we scaled back our earnings forecast for 2011 on account of the unplanned high level of personnel and restructuring expenses, also played a role. At year-end 2011, our share price stood at EUR 7.80.

On June 20, 2011, Deutsche Börse delisted the HOMAG share from the SDAX. This was for the most part motivated by the small free float in our shareholder structure following the pooling in March 2010 of shares of the Schuler family and the Klessmann Foundation, which meanwhile have a combined shareholding of more than 25 percent, as well as by our share’s low trading volume. Our talks to date with analysts and investors have revealed that the delisting from the SDAX is of little consequence to them, as they assess the Company itself, its market position and its KPIs, rather than its listing in an index.

DEVELOPMENT AT THE BEGINNING OF 2012

In the first two months of 2012, the German stock markets developed very favorably and were thus able to continue the upward trend seen in the fourth quarter of 2011. For instance, the TecDAX had increased by almost 13 percent by the end of February 2012; while the DAX, MDAX and SDAX had each climbed more than 16 percent. And the HOMAG share developed even better, rising significantly from the middle of January and reaching EUR 11.02 on February 29, 2012. Our share thus rose about 40 percent in the first two months of 2012.

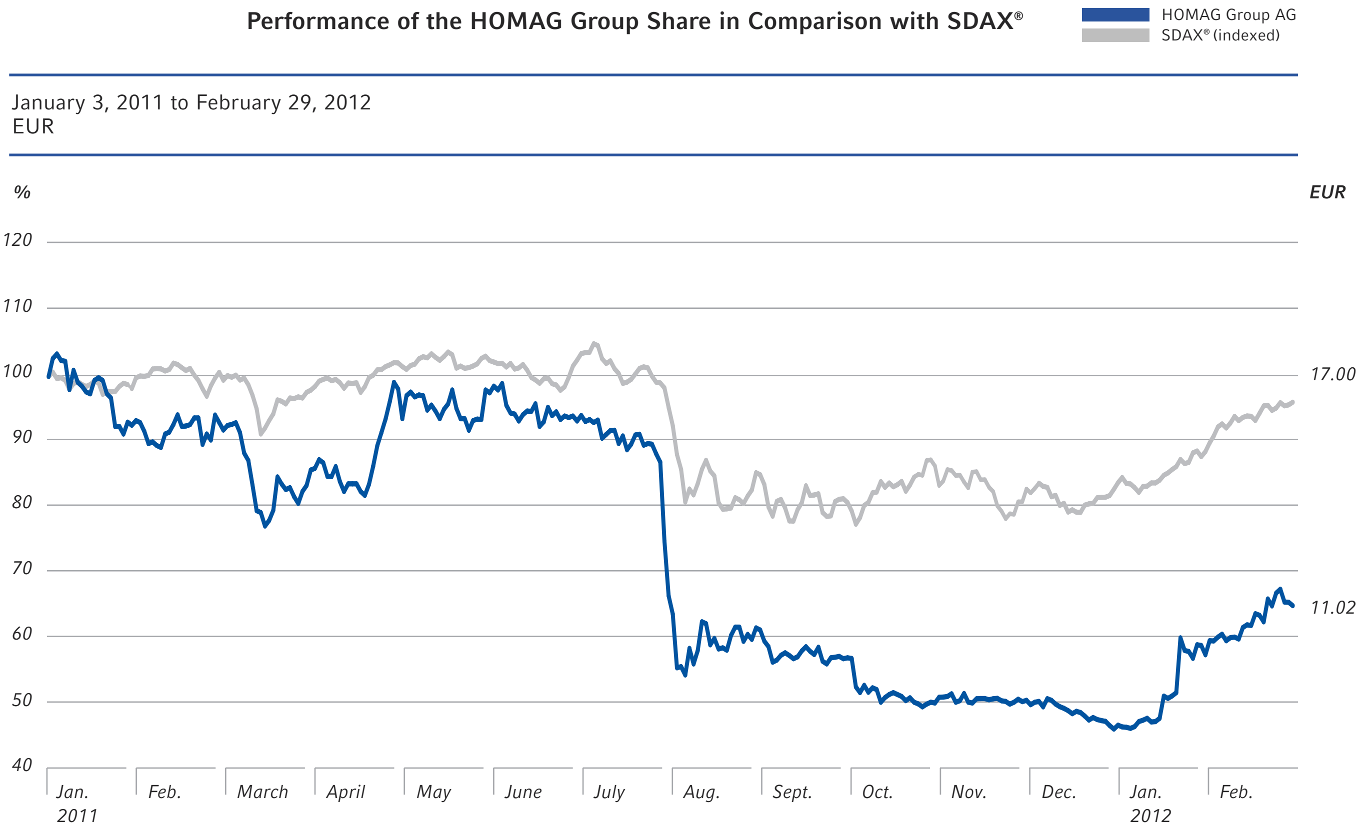
ANNUAL GENERAL MEETING AND DIVIDEND

Around 260 shareholders attended the ordinary annual general meeting of HOMAG Group AG in Freudenstadt on May 25, 2011, representing 73 percent of the capital stock. The shareholders present followed the proposal by the management and supervisory boards to distribute a dividend for the fiscal year 2010 of EUR 0.30. We thus distributed a large portion of the net profit for the year to our shareholders, giving them an above-average slice of our successful year 2010. The shareholders represented at the annual general meeting agreed to the proposed dividend and the other items of the agenda with a clear majority of over 98 percent in each case.

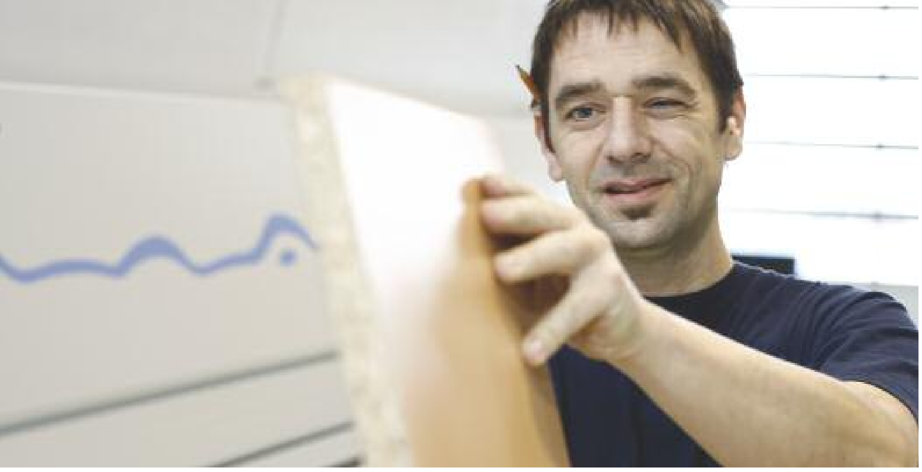
On account of the net loss incurred in the past fiscal year, both the management board and supervisory board will propose to the annual general meeting of May 24 , 2012 not to distribute a dividend for 2011. As soon as the company's economic situation allows, we will of course share the proceeds of success with our shareholders by distributing corresponding dividend.

Performance of the HOMAG Group Share in Comparison with SDAX®

January 3, 2011 to February 29, 2012
EUR



Source: XETRA closing quote, performance indexed (January 3, 2011 = 100)



COMMUNICATION WITH THE CAPITAL MARKET

In our communication with the capital market we attach great value to openness, fairness and transparency. Timely and comprehensive notification of all market participants about significant events are top priority for us. Our management board is responsible for investor relations, and our CEO and CFO in particular are actively involved in this task.

In 2011 we presented our Company at four roadshows: in Paris, Zurich, London and Frankfurt. We additionally held three conference calls for analysts to present our interim reports as well as an analysts conference in Frankfurt to present the annual report 2010. Several individual talks were held with investors. We held numerous phone calls and personal talks, and participated in several investor events. For instance, we presented our Company at the investors conference of Deutsche Beteiligungs AG and the German Equity Forum, both of which were held in Frankfurt; we were at the investors event hosted by the Baden-Württemberg Small Caps (BWSC) and the Stuttgart Stock Exchange and organized the fourth edition of our in-house investor and analysts day at our headquarters in Schopfloch.

Apart from keeping professional investors and analysts up to date, we always want to provide private investors and other interested parties with all important and timely information concerning the HOMAG Group. Therefore and in addition to our press briefing on the annual results, we published a total of eleven press releases and two ad hoc notifications as well as two investor newsletters dealing with all significant events in the fiscal year 2011. Our management board members answered questions posed by members of the press in several interviews. In addition, all relevant information and news are published and continually updated on our website.

Share Performance Indicators

ISIN CODE		DE0005297204
STOCK EXCHANGE SEGMENT		Prime Standard
XETRA CODE		HG1
IPO	July 13, 2007	
NUMBER OF SHARES	no-par value ordinary bearer shares	15,688,000
PRICE HIGH* 2011	January 5, 2011	EUR 17.59
PRICE LOW* 2011	December 30, 2011	EUR 7.80
PRICE* AS AT DECEMBER 30, 2011		EUR 7.80
EARNINGS PER SHARE		EUR -0.30
MARKET CAPITALIZATION (DECEMBER 30, 2011)		EUR 122.4 million

* *XETRA closing quote*

Combined management report of HOMAG Group AG and the Group

1. BUSINESS ENVIRONMENT AND CONDITIONS

1.1 Group Structure and Management System

Business Activities of HOMAG Group AG

The HOMAG Group is the world's leading manufacturer of plant and machinery for the woodworking industry and for cabinet makers. As a global player, we are present in all relevant markets around the world with an estimated market share of 28 percent, selling machines and rendering services in about 90 countries. In the furniture production, structural element production and wooden house construction systems segments we offer our customers an extensive range of precisely tailored solutions ranging from stand-alone machines to complete production lines. Our offering is unparalleled as regards the wide range of services focusing on our production plant and machinery together with the provision of appropriate software solutions.

Legal Structure

HOMAG Group AG is a holding company without any operating activities. Its main tasks as the parent company are to establish and monitor the implementation of the Group's strategy and financing and to technically lead the production and sales companies in Germany and abroad. It holds inter alia a 100 percent interest in HOMAG Holzbearbeitungssysteme GmbH, which is the Group's largest company. As of December 31, 2011, the Group comprised inter alia 11 German and 6 foreign production entities as well as 21 sales and service entities (see also the group structure on the inside flap at the back of this report).

The following changes were made to the group structure in fiscal 2011:

- In June 2011, we increased our share in BÜTFERING Schleiftechnik GmbH from more than 96 percent to just under 98 percent.
- On July 20, 2011, we established HOMAG Machinery Bangalore Private Limited in India. The new company began to assemble machines for the Indian market in November 2011.
- HOMAG Holzbearbeitungssysteme GmbH acquired the shares in HOMAG Vertriebs-Beteiligungs GmbH from TORWEGGE Holzbearbeitungsmaschinen GmbH in October 2011 and from BÜTFERING Schleiftechnik GmbH in December 2011.
- HOMAG Holzbearbeitungssysteme GmbH acquired the shares in HOMAG Machinery (Shanghai) Co., Ltd. from BÜTFERING Schleiftechnik GmbH in December 2011.

Segment Structure

HOMAG Group AG is organized in the segments Industry, Cabinet Shops, Sales & Service and Other.

The Industry segment comprises those group entities whose business activities center on the provision of system solutions for industrial companies. We offer our customers seamless solutions based on optimally aligned plant and machinery systems together with the corresponding information and control technology, and thus essentially cover the entire woodworking process chain with our own products.

The Cabinet Shops segment encompasses the group entities focused on machines with a high degree of standardization that cater for the special requirements of cabinet shops.

The Sales & Service segment comprises the HOMAG sales and service entities in Germany and abroad. With our global sales and service network we are present on all key markets, and we are therefore always close to our customers.

The Other segment primarily comprises the HOMAG Group AG, foreign production facilities in growth markets, the consulting and software companies SCHULER Consulting GmbH and HOMAG eSOLUTION GmbH as well as WEINMANN Holzbausystemtechnik GmbH, which is active in the field of wooden house construction systems.

Corporate Governance

The HOMAG Group is managed by the Group's management board, which has at least three members in accordance with the articles of incorporation and bylaws of HOMAG Group AG. At present, the management board has five members in total. Following personnel adjustments, the management board temporarily had six members during the fiscal year 2011. The Group's management board reports to the supervisory board on a regular basis. The supervisory board is equally balanced with six shareholder representatives and six employee representatives. In fiscal 2011, the management board and the supervisory board implemented all of the recommendations and many of the suggestions proposed by the German Corporate Governance Code. Exceptions from this as regards the recommendations concerning the compensation caps and change of control are detailed in the declaration of compliance, which however only apply to the service agreement of the CEO. The declaration of compliance pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporations Act] is published on page 66 of this report and on the HOMAG Group's website.

Corporate Management

We primarily manage the HOMAG Group by reference to earnings before interest, taxes, depreciation and amortization before employee participation expenses and before extraordinary expenses from restructuring measures (extraordinary expenses) (operative EBITDA); earnings before taxes after employee participation expenses and after extraordinary expenses (EBT); return on capital employed (ROCE = ratio of earnings before interest and taxes (EBIT) before profit participation expenses and before extraordinary expenses to capital employed); earnings per share (EPS); net liabilities to banks as well as the debt ratio (measured as the ratio of net liabilities to banks to operative EBITDA). These annual key performance indicators are budgeted and monitored using monthly reporting. An additional element of corporate management is the balanced scorecard. Together with the aforementioned KPIs, it collates data regarding the market positioning and internal processes as well as HR insights.

1.2 Economy and Market

Development of the Economy

In 2011, the development of the global economy was partly overshadowed by the events in the eurozone. Particularly the sovereign debt crisis faced by a number of countries in the eurozone put a strain on economic development. According to the IfW ["Institut für Weltwirtschaft": Institute for the World Economy], global gross domestic product grew 3.8 percent in 2011, which compares to the 5.1 percent in the global economy in 2010.

As in prior years, economic growth was primarily shouldered by emerging economies, although growth also weakened there noticeably during 2011. In 2011, the gross domestic product of emerging economies rose 6.7 percent on aggregate, with China registering the strongest growth at 9.5 percent. According to the IfW, India's gross domestic product climbed 6.7 percent, Brazil's 3.5 percent and Russia's 4.0 percent.

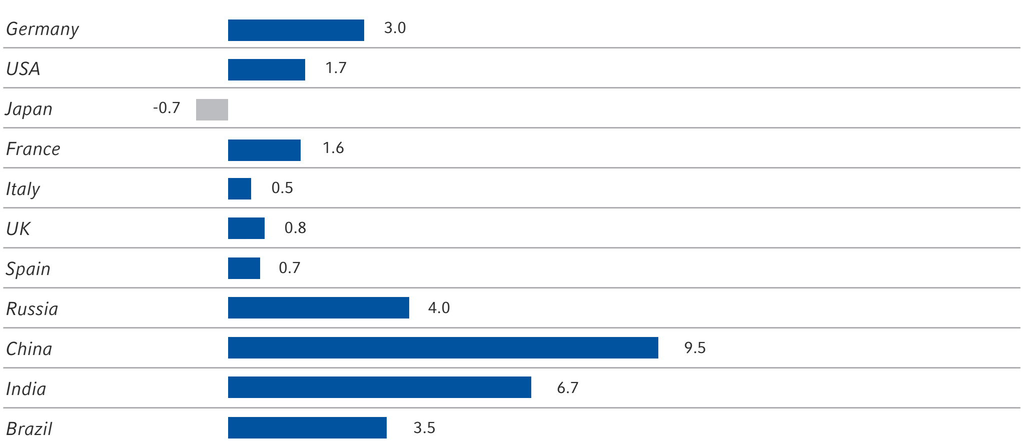
In industrial nations, the pace of growth weakened year on year and total economic output grew less slowly. Economic output in industrial countries grew by 1.5 percent in total. The United States grew 1.7 percent, while Japan's economy contracted 0.7 percent.

According to the IfW, gross domestic product rose 1.6 percent in the European Union and by 1.5 percent in the eurozone in 2011. Here, the economy was substantially influenced by the intensifying sovereign debt crisis, cooling considerably in the second half of 2011 after a strong start to the year. A number of governments in the eurozone have taken or intensified austerity measures. Despite the unpredictable factors underpinning the eurozone, the EU accession countries saw growth of 3.1 percent by contrast.

Germany was again the eurozone's engine of growth in 2011. According to the German Federal Statistical Office, gross domestic product rose again by 3.0 percent. Indeed, the economy kept up a healthy momentum into the fall, slowing only toward year end.

GDP (Real) 2011

Year-on-year percentage change



Source: DIW/IfW

Mechanical and Plant Engineering

According to the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], the German mechanical and plant engineering industry continued the positive development of 2010 into 2011, with the industry's sales revenue rising by just over 15 percent and order intake improved by 13 percent. Market developments were favorable in Germany and abroad, growing at a comparable level. The exports ratio came to about 75 percent in 2011.

The HOMAG Group focuses on the field of wood processing machines, a submarket of the mechanical engineering industry. This is characterized by a small number of large players that offer a relatively broad spectrum of products worldwide. In addition, there is a large number of smaller players that are frequently specialized in individual segments or manufacture special-purpose machines. The Italian corporations Biesse group and SCM group are the HOMAG Group's largest competitors with comparable product ranges. We estimate that the three corporate groups command a combined share of the global market of about 48 percent.

The segment of relevance to HOMAG includes plant and machinery for secondary wood processing. According to the competent trade association – without taking into account price adjustments – sales revenue in this subsegment rose 9 percent year on year. And at 14 percent, sales revenue growth in Germany was twice as high as growth abroad. Order intake rose by 6 percent, thanks to the good first half of the year in particular according to the competent trade association. In the fourth quarter of 2011, order intake declined by 14 percent.

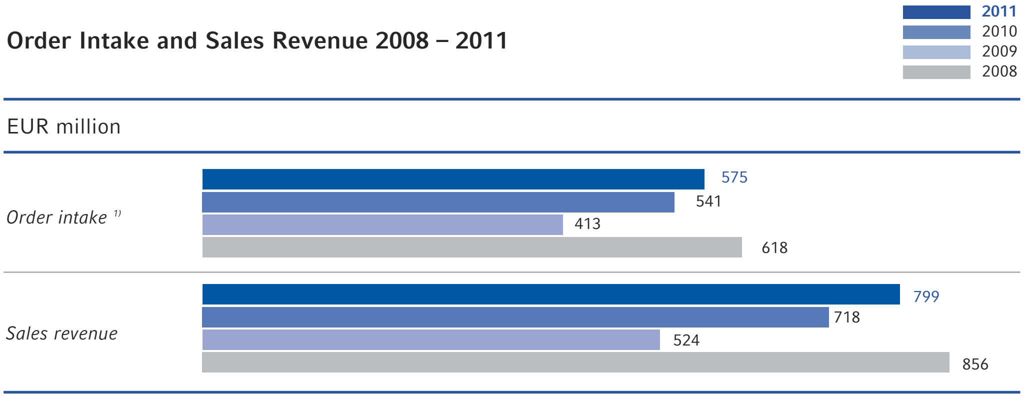
1.3 Business Development

Order Intake and Sales Revenue

Following the good fiscal year 2010, the growth of order intake continued in the first half of 2011. Compared to the first six months of 2010, we were thus able to substantially improve our order situation further. We were particularly successful in the project business, in which our order intake with own products had already exceeded the EUR 100 million mark by the end of May – and thus significantly earlier than in the prior year. Here, our customers invested in new production technologies in a bid to raise their competitiveness in the long term.

As of the third quarter of 2011, the fairly significant uncertainty, particularly in some eurozone countries, resulted in a tendency to shelve investment projects. As one of the companies in the mechanical engineering sector that feels any shift in the economic cycle at an early stage, we noticed initial indications of this lack of confidence early on, despite the positive impetus from Ligna, the industry's leading trade fair. This was reflected in our order intake, which was down slightly year on year between July and November.

Order Intake and Sales Revenue 2008 – 2011



[1] *Order intake only contains own machines without merchandise, spare parts and service*

In total, we raised order intake in the Group by about 6 percent, to EUR 575 million in the fiscal year 2011 (prior year: EUR 541 million). This confirms the forecast seasonality of order intake common in the industry, which is marked by declining figures as the year progresses. Order backlog increased 6 percent to EUR 159 million as of December 31, 2011 (prior year: EUR 149 million).

In the reporting year, we were able to increase our consolidated sales revenue in all four quarters by just over 11 percent in total to EUR 799 million (prior year: EUR 718 million). It should be noted here that this includes the special effect resulting from our large-scale project for the customer Mekran with a total sales revenue volume of about EUR 58 million. Of this amount, EUR 49 million is attributable to the fiscal year 2011. The portion of merchandise resulting from the fact that the HOMAG Group acts as general contractor in this large-scale project came to about EUR 39 million in 2011. Adjusted for this effect, we would have generated an increase in sales revenue of just over 4 percent compared to the prior year. We have thus exceeded our sales revenue and order intake forecasts, which we had made at the beginning of 2011 and confirmed on several occasions in the course of the year.

Development of Sales Markets

The targeted expansion of our global sales and service organization has allowed us to benefit notably from positive developments in individual regions in 2011. Despite the weakening market development in Brazil and the economic measures adopted in China to cool down the economy, we generated a double-digit percentage increase in order intake in the BRIC markets overall (Brazil, Russia, India and China) again in the past fiscal year. A substantial contribution to this development was made by the Russian market, which was marked, among other things, by the large-scale project with our customer Mekran. The shift in order intake within our global sales markets toward BRIC markets has thus continued further. Their share exceeds 25 percent in the meantime.

The Russian market was not the only factor behind the extremely successful development of the eastern Europe region in 2011. A large number of smaller and mid-sized markets also showed a positive development, such that eastern Europe developed to our second strongest sales region.

Only central Europe (Germany, Austria and Switzerland) was able to surpass eastern Europe in terms of order intake in the reporting year. Indeed our order intake in central Europe saw an increase of almost 30 percent compared to the healthy prior-year value, thanks in large measure to Germany as the strongest single market.

Western Europe was unable to match the good results seen in 2010 owing to the uncertainty prevailing in Spain, Portugal and Italy in particular. Although individual markets in the region remained stable in 2011, they were marked by very tough competition.

In the Asia/Pacific region, some markets were able to exceed their prior-year figures. However, this was insufficient to compensate for the temporary weakening of the Chinese market as the year progressed, and order intake in Asia/Pacific remained below the high prior-year level.

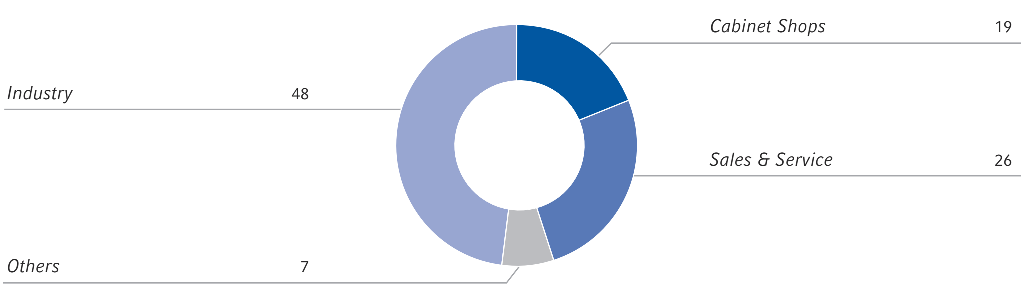
Again in 2011, the Americas region – with the key markets United States, Canada and Brazil – were still unable to match the level seen in the past. There were slight recovery tendencies in the United States compared to the prior year; by contrast Canada showed a slightly weaker development. Brazil was unable to fulfill our ambitious expectations, but closed the year with a stronger last quarter.

Segment Sales Revenue

In the fiscal year 2011, we were able to increase sales revenue across all segments. We generated the greatest growth in our largest segment, the Industry segment, in which sales revenue before inter-segment consolidation increased to EUR 490 million (prior year: EUR 432 million). The Cabinet Shops segment saw sales revenue rise to EUR 198 million (prior year: EUR 185 million), while the Sales & Service segment climbed to EUR 269 million (prior year: EUR 266 million). Sales revenue in the Other segment increased in 2011 to EUR 67 million (prior year: EUR 61 million).

Segment Sales Revenue 2011

As %



Significant Events in Fiscal 2011

One of the significant events in the fiscal year 2011 was the order obtained for a large-scale project in Russia. We are setting up a complete factory for the manufacture of premium home and office furniture for one of the leading furniture manufacturers in the country, our customer Mekran. The HOMAG Group is managing the project, which has a total order volume of about EUR 58 million.

Every two years, the industry's leading trade fair, Ligna, is held in Hanover. Apart from serving the industry as a mood barometer, it gives us some indication of how our innovations are being received by the market. We are very satisfied with the results of the trade fair as we saw a keen interest in our products and a healthy order intake as Ligna's largest exhibitor once again.

We further expanded our presence in growth markets in 2011 by investing in China and India. We enlarged our factory HOMAG Machinery Shanghai and upgraded it with new machines. The success of our strong presence in China was also manifested in a large-scale order we received in December for a production line using batch size 1 technology. In India, we established our new subsidiary HOMAG Machinery Bangalore, which assembles entry-level machines for the Indian market.

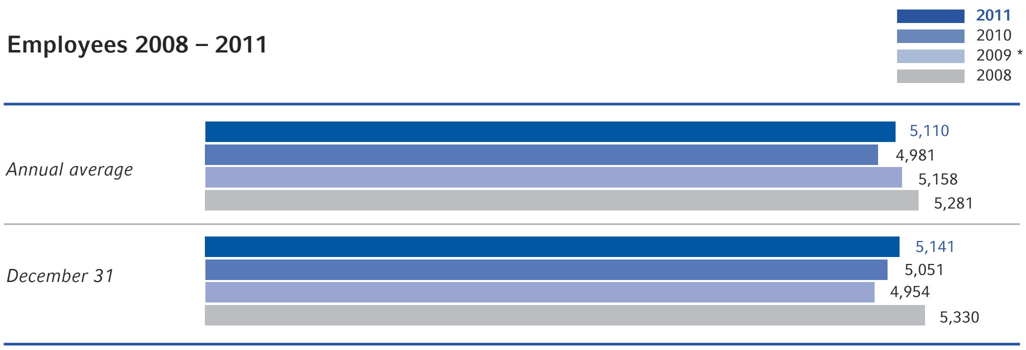
In 2011, we began to implement the restructuring measures at the subsidiaries FRIZ Kaschiertechnik GmbH, Weinsberg, TORWEGGE Holzbearbeitungsmaschinen GmbH, Löhne, and BÜTFERING Schleiftechnik GmbH, Beckum, which had been making losses for several years. In October 2011, we made the painful yet unfortunately unavoidable decision to extend these restructuring measures at two of these companies. As a result, the production and administration activities at FRIZ are to be discontinued, with the exception of a development and service unit. The Löhne site is to be closed down in its entirety, together with the operations of TORWEGGE and the service branch of WEEKE located there. These measures together with the restructuring of BÜTFERING – which is progressing as planned and aims to integrate the sanding machines business into WEEKE – are expected to be completed by the end of 2012 and target a sustained improvement in the operative EBITDA of between EUR 6 million and EUR 8 million each year from 2013 onwards.

In 2011, we restructured, extended and standardized throughout the group our HOMAG Group Action Program (HGAP). At year end, more than 500 actions were saved in a central database with an earnings improvement potential of about EUR 10 million that we will rigorously implement in the course of 2012.

1.4 Employees

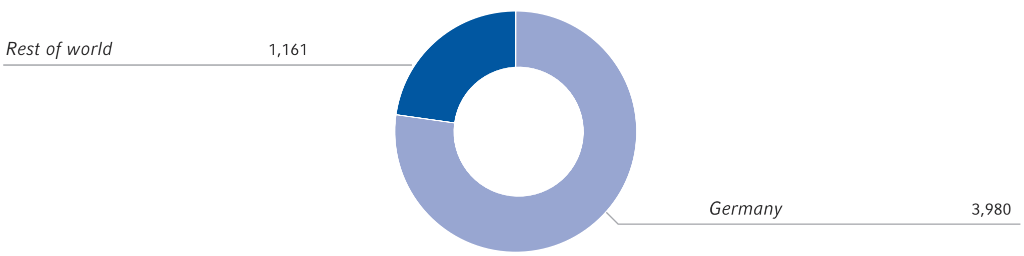
In the fiscal year 2011, we began hiring again to fill positions of strategic importance and created 90 new jobs in total. As of December 31, 2011, the headcount at the HOMAG Group came to 5,141 employees (prior year: 5,051 employees). Most of the new jobs were created at our four foreign production companies in China, Brazil, India and Poland and at the sales companies. The number of contract workers increased to 82 as of year end (31 December 2010: 55 contract workers). As of year end, there were 3,980 employees in Germany (prior year: 3,993 employees) and 1,161 employees abroad (prior year: 1,058 employees).

Employees 2008 – 2011



* Since 2009 incl. BENZ

Employees by Region as of December 31, 2011



On average over 2011, headcount came to 5,110 employees, after 4,981 employees in 2010.

In the Industry segment, average headcount in 2011 stood at 2,705 employees (prior year: 2,688 employees) and in the Sales & Service segment it stood at 729 employees (prior year: 695 employees). The headcount in the Cabinet Shops segment fell slightly to 1,016 employees (prior year: 1,025 employees). In the Other segment, headcount rose to 660 employees (prior year: 573 employees), mainly due to recruitment activities abroad.

The HOMAG Group as Employer

We have clearly defined principles governing our dealings with one another, our management style and our relationships to customers. These are not only guidelines but also a duty. Together, we fill these principles with life, as our conduct both internally and externally is an essential factor in our success.

The balance between work commitments and private life is the decisive basis for motivation and performance. For this reason, we offer various solutions within the HOMAG Group in order to meet the needs of employees and to facilitate the compatibility of family and career. In addition to flexible working time models and numerous part-time models, this includes supporting fathers taking parental leave.

Training

We offer young and motivated people attractive prospects for a successful career. For example, we have traditionally maintained a high ratio of trainees to total workforce. As of the reporting date, there were a total of 404 trainees (prior year: 424 trainees) in the group, thereof 333 (prior year: 343) in technical and 71 (prior year: 81) in clerical positions. This corresponds to a ratio of trainees to total workforce in Germany of just over 10 percent (prior year: just under 11 percent) as training takes place exclusively in Germany.

Training takes place at our production companies in a total of eleven technical and commercial professions. In addition, we cooperate closely with Baden-Württemberg Cooperative State University (DHBW) and provide training in eight different technical subjects as well as business management and information technology.

At this year's training meets the focus was on informing visitors about training at the subsidiaries HOMAG and HOLZMA. The workshops, factory tours and other informative events offered were very well received by interested school children. The HOMAG Group also positions itself as an attractive training company by participating in a number of events in the course of the year.

As part of our active university marketing measures, we started taking part in university careers fairs again in 2011. The aim is to engage in dialog with students and graduates in order to show them the possibilities for starting a career at the global leader for wood processing systems. The HOMAG Group offers placements to students writing their BA and Masters dissertations and work experience semesters, also overseas, in order to give them the opportunity to put into practice the theoretical knowledge they have gained in their degree course.

The "Fit for the Future" Advanced Training Program

Our employees are the guarantee of our success, which is why we consistently promote employee development. To this end, we provide a wide range of training possibilities to employees. Product-specific topics are the focus of the wide range on offer. The language, IT and specialist courses are also well received by employees.

Employees as Fellow Entrepreneurs

Back in 1974, we introduced an employee profit participation scheme that we consider to be one of the factors of our success. Indeed, about 94.5 percent of the entitled workforce holds investments in HOMAG Holzbearbeitungssysteme GmbH at present. Employees thus bear some of the entrepreneurial opportunities and risks in that they share in the profit generated by the Company, but likewise in any loss incurred. Under the participation scheme, we expect to distribute EUR 3.5 million group-wide to our employees for the past fiscal year 2011.

1.5 Sustainability

For the HOMAG Group, sustainability essentially also means securing the Company's future. For this reason, acting sustainably is an integral part of our corporate strategy because we are of the opinion that it is possible to reconcile economic success with ecological and social responsibility. As the market leader in our industry we are taking the opportunity to press forward with ecological and social issues – in the interest of our company, society and the environment.

Generally speaking, we try to avoid, or keep to a minimum, any impact on the environment and health. For us, the need to make sparing use of energy and raw materials is self-evident. This applies equally to our own sales and production locations as it does to the products manufactured there, so that our customers can minimize the impact of their production activities on the environment.

We meet global challenges with our high level of innovative power which is our motor for growth. In this respect, we always pay attention to boosting productivity while achieving savings in resources. In light of this, we pressed forward in the area of preservation of resources as regards our developments in fiscal 2011, which enabled us to increase the environmental-friendliness of our product portfolio.

The largest amount of energy needed in wood processing is used for extracting wood dust and chips, followed by expenditure for compressed air. For this purpose, we have developed eco**Plus** technology which, among other things, significantly reduces consumption of this kind in machines and production lines with process-related extraction concepts. In this respect, smart standby systems and state-of-the-art control technologies bring about a reduction in electricity consumption and more efficient working.

We also work closely with suppliers and research institutes to further improve the energy balance. In cooperation with the Fraunhofer Society for the Advancement of Applied Research, we are currently working on the establishment of a standardized technique to determine the energy efficiency of HOMAG Group machines.

The high qualification level of our employees is a decisive factor in guaranteeing the success of the HOMAG Group. For this reason, it is not only extremely important to secure the supply of qualified junior employees but to continue to improve the qualification level of the existing workforce with our extensive range of further training and to support employees on an individual basis.

The safety and health of our employees also plays an important role for us. In order to keep the risk of injury to an absolute minimum, targeted industrial safety training and instruction is performed on a regular basis. This increases employees' awareness of potential areas of danger. And it means that each and every employee shares responsibility for safety at their workplace in their day-to-day work.

We are promoting our social commitment with our initiative "HOMAG Cares" launched in 2008. This initiative provides support wherever in the world people need help. In fiscal 2011, for example, we donated the furniture produced at the Spanish trade fair FIMMA to the Spanish foundation "fundació el somni dels nens", which helps children suffering from severe illnesses and the prolonged hospitalization periods that result. We were also able to provide valuable help in Australia and Japan in fiscal 2011, two countries that had been hit by natural disasters. For instance, "HOMAG Cares" together with the sales companies organized emergency measures for those customers who had been impacted by their factories being completely destroyed. Thanks to express supplies of warehouse machines and used machines and immediate support from service technicians on site, the companies affected were able to resume production quickly, thus preserving jobs.

By acting in a responsible manner, we do our best to counter in an effective way the complex challenges such as climate change and globalization. The objective of all these measures is to fulfill our social and ecological responsibility.

1.6 Research and Development

The HOMAG Group's research and development (R&D) department develops innovative machines, production lines and service packages for the wood and wood materials processing industry. The strategic objective of the R&D departments of the HOMAG Group is to achieve or retain technological market leadership in every product segment. Our development targets follow a product development strategy with a long-term perspective that is reviewed on an annual basis.

Our products are intended to make it possible for our customers to create unique selling points. On the one hand, we are guided in this by customer needs. On the other, our goal is to develop the market, give new impetus and thus further expand our market position. In order to identify new technologies and trends at an early stage, the HOMAG Group participates in a number of research projects at state, federal and EU level. In this context, we cooperate with institutes, universities and industrial partners.

R&D costs within the HOMAG Group come to just over 6 percent of sales revenue (prior year: 7 percent). The dedicated work of 773 developers and project engineers ensures that we remain highly innovative. This is also reflected in the large number of patent applications, which exceeded 80 in 2011 (prior year: more than 60 patent applications). New patents were filed in virtually every area of technology with a view to securing our technological edge. With a portfolio of currently around 850 patents (prior year: about 830 patents) we set ourselves apart from our competitors. In order to safeguard our market position we assert our rights to this intellectual property towards third parties where necessary.

Concrete new products and enhancements were introduced in all machine segments in 2011. In the area of stand-alone machines, for example, we extended the functionality of our sizing machine to include alternative materials such as insulating panels. In the cabinet shop business, we have developed a new entry-level model series in the field of CNC technology that enables more flexible parts processing thanks to 5-axis technology and an extended processing unit and software functionality. A new saw-storage combination is now available for the lower market segment. The trend toward batch size one production is being followed by a new development in the area of high-speed drilling that guarantees a high level of efficiency by drilling on six sides of a workpiece simultaneously. Innovative laser technology for perfect edge processing is now also provided without compromise in the form of a modular system for CNC and through-feed machines.

Our new profile trimming unit for edge processing brings the promise of high speed feed, low distance between parts being fed-in, and utmost flexibility and perfect edge quality as well as 30 percent more performance than comparable systems on the market. In addition, we now provide a complete product line for 5-axis processing and an edge banding unit for CNC machining centers, interchangeable via the tool changer.

Our new developments also include a fully automated CNC production cell enabling complete processing of wooden window parts, doors, arches and conservatory elements. There are further two completely redesigned product lines for panel cutting featuring numerous technical innovations and new processing units for finishing and fine sanding.

To satisfy the ever more stringent demands on the visual quality and performance characteristics – such as thermal resistance – we have repositioned **reac**Tec on the market, a new and revolutionary surfacing technique in the field of lamination technology. This facilitates lower-cost and more environmentally friendly production while improving surface quality.

We have continued to expand our range of products for growth markets in which we produce locally in some cases. In addition to sanding machines, single-sided edge banding machines and CNC drilling and trimming machines for cabinet shops, new machines were developed to meet the increasing demand in the handling and flooring sector that have already been launched on the growth markets.

Our innovations were rounded off with new developments in the field of software. In this respect, we have developed products that can already be used at the point of sale and generate a constant flow of information in the batch size one segment and thus facilitate fully automatic program generation.

By year end, we saw extraordinarily satisfactory order intake relating to the most important innovations presented at the Ligna. This also includes order intake received shortly before the end of the year for two production lines using our **reac**Tec system, marking a breakthrough for this technology.

1.7 Changes in Company Boards

Two changes were made to the HOMAG Group AG's management board in the fiscal year 2011. Hans-Dieter Schumacher, who had been on the management board since January 15, 2011, succeeded Andreas Hermann as CFO on April 1, 2011. The latter had requested the early termination of his service agreement for personal reasons. Dr. Markus Flik joined the management board on April 1, 2011 and assumed the position of CEO on July 1, 2011. The previous spokesman for the management board, Rolf Knoll, stepped down from the board on June 30, 2011 and retired. However, he will remain associated with the Company in an advisory capacity until December 31, 2012.

There were no personnel changes on the supervisory board in the fiscal year 2011.

1.8 Disclosures Pursuant to Sec. 289 (4) and Sec. 315 (4) HGB [“Handelsgesetzbuch”: German Commercial Code]

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

Restrictions relating to the voting rights or transferability of shares (No. 2): The shareholders Gerhard Schuler, Freudenstadt, Mareike Hengel, Freudenstadt, Silke Schuler-Gunkel, Freiburg, Dr. Anja Schuler, Zurich and the Erich und Hanna Klessmann Stiftung, Gütersloh, announced the conclusion of a vote pooling agreement on March 8, 2010. This vote pooling agreement contains limitations on both voting rights and the transfer of shares. The management board is not aware of any further restrictions, especially arising from agreements between shareholders, concerning voting rights or the transfer of shares.

Direct or indirect capital investments exceeding 10 percent of the voting rights (No. 3): Deutsche Beteiligungs AG, Frankfurt am Main and the parallel funds managed by it hold a capital investment and voting right in the Company of greater than 10 percent. The same applies to Gerhard Schuler, Freudenstadt, who holds a capital investment and voting right in the Company of greater than 10 percent, and Mareike Hengel, Silke Schuler-Gunkel, Dr. Anja Schuler and the Erich and Hanna Klessmann Stiftung, who are allocated a voting right in the Company of greater than 10 percent on account of the aforementioned vote pooling agreement.

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): There are no employees with an interest in capital of HOMAG Group AG who cannot exercise their rights of control directly.

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 determines the number of members of the management board, appoints, changes and terminates employment contracts, as well as revokes 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 stricter 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 is authorized as follows:

a) *Authorization to issue 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 and/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 quoted 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 may not exceed 10 percent of the share capital.

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 granted on March 23, 2010, to purchase treasury shares up until April 30, 2015 with an imputed share in share capital of up to EUR 1,568,800.00. 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) via the stock exchange or b) through 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 the authorization takes effect or, if lower, as of the date on which this authorization is exercised. The price at which the Company's shares are sold to third parties may not fall short by more than 5 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 last five trading days prior to the agreement with the third party.

Subject to the approval of the supervisory board, the management board is also authorized to offer the treasury shares purchased under the authorization to third parties in the course of business combinations or for the purpose of acquiring entities, parts of entities or equity investments. 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 an agreement governing a syndicated loan of EUR 198,000,000.00. Under this syndicated loan agreement, all sums paid must be repaid prematurely together with all other sums owed under the syndicated loan agreement upon any change of control. A change of control is deemed to have taken place if 50 percent or more of the voting rights or 50 percent or more of the capital of HOMAG Group AG is acquired by one person or a group of people acting together, with voting rights allocated in accordance with Sec. 30 WpÜG ["Wertpapiererwerbs- und Übernahmegesetz": Securities Acquisition and Takeover Act].

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. However, compensation by the Company was agreed with Dr. Flik under a management board service agreement in the event of early termination of his management board duties due to a change of control. With regard to this agreement reference is made to the corresponding explanations in the remuneration report.

2. DECLARATION OF COMPLIANCE (INCLUDING CORPORATE GOVERNANCE REPORT)*

The actions of HOMAG Group AG's management and supervisory bodies are governed by the principles of good and responsible corporate governance. The management board reports on the management of the Company in this declaration in accordance with Sec. 289a (1) HGB. At the same time, the management board and supervisory board report on the corporate governance of the Company in accordance with No. 3.10 of the German Corporate Governance Code (GCGC).

2.1 Corporate Governance at HOMAG Group

We firmly believe that good corporate governance is a key component of the Company's sustainable success, because responsible, value-centric and transparent corporate governance strengthens trust-based relationships with shareholders and capital markets as well as employees, customers and suppliers. The management board and the supervisory board as well as the HOMAG Group's employees feel duty-bound to the German Corporate Governance Code, and its principles are therefore at the core of our activities. Based on the requirements of this code, the Declaration of Compliance on page 66 of this report was issued in accordance with Sec. 161 AktG and is available on the internet at www.homag-group.com.

An important element of corporate governance in the HOMAG Group is a clear segregation of duties and responsibilities between management board, supervisory board and the annual general meeting. In this context, the supervisory board accompanies and monitors the management board's management activities. We also set great store by open and transparent company policy and corporate communication as well as a responsible handling of risks.

Compliance

Compliance involves observing and monitoring the observance of laws and regulations as well as rules of procedure adopted voluntarily by the Company. Conforming with the laws and regulations of all of the countries where HOMAG Group is active is a top priority for us. Any activity that would break the law must be avoided. There are no exceptions to this rule, not even if that is customary for the industry or region. Every person working for the HOMAG Group is required to comply with the provisions of law without exception, and to practice integrity and fairness at work. We want to compete fairly with competitors and leverage our strengths to win our customers' esteem for our products and services. This is why our principles include unconditional observance of antitrust law, which safeguards and maintains free and equal competition. The confidence of our customers and suppliers and HOMAG Group's reputation as a forthright and upstanding company are of utmost importance to us. Inappropriate benefits or corruption by the employees of the HOMAG Group are not tolerated under any circumstances.

Code of Conduct

For years, "satisfied customers, satisfied employees and satisfied investors" have been the corner stones of the philosophy that has guided our Company. The conduct of leadership in our companies is based on the principles "cooperation" and "partnership". Based on these

* *The declaration on corporate governance did not fall under the scope of the statutory audit of the financial statements, with the exception of the remuneration report.*

principles and the corporate culture they embody, a code of conduct was issued for our foreign companies in 2010. This contains binding guidelines for the actions of the management board, middle management and all employees of HOMAG Group. Ethical business practice, fairness and responsible and legally compliant conduct are already both a duty and a matter of course for us. Nevertheless, the 13 principles in the code of conduct are intended to support us in our daily activities. It is therefore a summary of many years of practice rather than setting up any new or detailed rules. A corresponding code of conduct is likewise to be issued for the German companies before the end of 2012.

Composition of the Management Functions and Management Board

In 2010, the German Corporate Governance Code's recommendation on diversity was expanded and specified. The German Corporate Governance Code as last amended on May 26, 2010 requests that companies consider diversity when filling management positions in companies and specifically that women are given appropriate consideration. HOMAG Group AG's management board welcomes and supports this recommendation and is thus considering, among other things, whether appropriately qualified women are available for the positions concerned. The supervisory board also considers diversity when selecting the members of the management board and specifically aims to appropriately consider women in its choice. Notwithstanding this, our main priority is to act in the Company's interest, and we therefore prioritize the professional and personal suitability of each candidate.

Objectives Concerning the Supervisory Board's Composition

The supervisory board has set itself concrete objectives regarding its composition intended to take into consideration the purpose of the Company, its size, the composition of its workforce and its international operations. Specifically, the supervisory board has decided to set the following objectives regarding its future composition, additionally to the requirements prescribed in its rules of procedure:

- *International nature:* The supervisory board should have no less than two members who particularly reflect the international nature of the Company, for example by being foreign nationals or having relevant experience abroad.
- *Potential conflicts of interest:* The supervisory board should have no less than eight members who do not have an advisory function on and are not members of the corporate boards of customers, suppliers, lenders or other business partners of the Company.
- *Diversity:* The supervisory board should have no less than two women appointed to it.

The supervisory board, in its current composition, meets the objectives listed above.

The election committees will not consider persons for appointment to the responsible elected boards who would reach the age of 70 in the course of the regular term of office as supervisory board member of the Company (cf. Sec. 8 (2) of the articles of incorporation and bylaws of the Company).

2.2 Management and Control Structure

The Supervisory Board

The supervisory board monitors and advises the management board on the conduct of its business. The supervisory board discusses the development of business and planning, as well as the corporate strategy and its implementation, at regular intervals. The management board's rules of procedure stipulate that significant transactions such as budgetary planning, major acquisitions, divestitures and financing measures require the approval of 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. As mentioned above, the maximum age for supervisory board members as stipulated by the articles of incorporation and bylaws is 70. However, this only applies to the supervisory board members elected by the annual general meeting.

In order to permit independent advice to and supervision of the management board, no former members of the management board sit on the supervisory board. According to its rules of procedure, 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 rules of procedure also stipulate that 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. Pursuant to the rules of procedure of the supervisory board, a member of the supervisory board has to step down in the event of material conflicts of interest that are of a permanent nature. 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. Corresponding contracts were only in place in the period under review with the honorary chairman of the supervisory board, Mr. Gerhard Schuler. The consulting agreement was concluded between HOMAG Holzbearbeitungssysteme GmbH, a subsidiary of HOMAG Group AG, and Mr. Schuler in 1999. This agreement was cancelled in the reporting year, effective March 31, 2012. A follow-up agreement between HOMAG Group AG and Mr. Schuler is being negotiated at present.

The supervisory board has set up a total of four committees: the audit committee, the personnel committee, the nomination committee and the mediation committee. These committees primarily prepare issues and resolutions for discussion by the supervisory board. In certain cases they also exercise the decision-making authority transferred to them by the supervisory board – where legally permissible – or by law. The chairpersons of the committees reported on the work of their respective committees at the meetings of the supervisory board.

The Management Board

Pursuant to the articles of incorporation and bylaws of HOMAG Group AG the management board comprises at least three members. The management board of HOMAG Group AG currently comprises five members. Following personnel adjustments, the management board temporarily had six members in the fiscal year 2011. Under the rules of procedure for the management board issued by the HOMAG Group AG's supervisory board, the CEO leads the cooperation with the supervisory board and its members in all business matters. 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 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. Differences between the actual business development and previously formulated plans and targets are presented to the supervisory board for review in a timely manner and explained in detail. Some of the significant transactions and measures governed by the rules of procedure for the management board require the supervisory board's prior approval.

Annual General Meeting

The shareholders of HOMAG Group AG protect their rights and cast their votes at the annual general meeting. 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, as well as the authorization to increase or decrease capital, are resolved by the annual general meeting. The shareholders have the opportunity to exercise their voting right at the annual general meeting in person or by an authorized party of their choice, a proxy, a bank or by a proxy appointed by HOMAG Group AG who is bound to follow instructions. Each share entitles the holder to one vote. In the annual general meeting, every shareholder or proxy is entitled to address the meeting and, during the general debate, to ask questions and move motions on individual points of the agenda. Prior to the annual general meeting, all information and documents that need to be made available together with the agenda will be published in accordance with the provisions of AktG and posted on our website (www.homag-group.com/annual_general_meeting). The speech held by the CEO and the results of voting will be posted there after the annual general meeting.

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 (IFRSs).

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 proposed auditor if and whether there are any business, financial, personal or other relations between the audit firms and its governing bodies and audit team leaders 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 declaration of compliance made by the management board to the supervisory board pursuant to Sec. 161 AktG is incorrect.

Risk Management

Dealing responsibly with business risks is one of the principles of good corporate governance. The management board has extensive, group-wide and company-specific reporting and monitoring systems at its disposal that allow such risks to be identified, evaluated and managed. These systems are constantly being developed, adapted to changing conditions and evaluated by the auditor of the financial statements. The management board reports to the supervisory board on a regular basis regarding current risks and their development. The supervisory board itself also conducts a regular review of the effectiveness of HOMAG Group AG's internal monitoring systems (risk management, internal audit).

The risk report included in the management report contains details on risk management. This includes the report on the internal monitoring and risk management system for accounting purposes as required by BilMoG ["Bilanzrechtsmodernisierungs-gesetz": German Accounting Law Modernization Act].

Transparency

HOMAG Group AG informs capital market participants and the interested public promptly, regularly and simultaneously on the Group's economic situation and new developments. The annual report, six-monthly financial report and quarterly reports are published within the periods allowed by law. 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 AG share, such events are announced in ad hoc reports, unless the requirements of Sec. 15 (3) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] (exemption) have been met and the management board avails itself of this exemption.

2.3 Remuneration Report

The remuneration report considers the rulings of the German Commercial Code and the principles of the German Corporate Governance Code.

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. The members of the supervisory board also receive fixed remuneration of EUR 1,500 for each meeting.

In addition to their fixed remuneration, the members of the supervisory board receive for each full fiscal year a variable remuneration of EUR 500 for each 0.1 percent of the positive company performance indicator "HOMAG value added", but not more than EUR 20,000. With the introduction of the HOMAG value added KPI as a measurement basis for the variable supervisory board remuneration, the variable remuneration of the management board and the supervisory board are linked to the same sustainability-based KPI. The HOMAG value added KPI for a given fiscal year is calculated based on the consolidated financial statements of HOMAG Group AG.

Apart from the attendance fee for each supervisory board meeting, the chairperson of the supervisory board receives three times the fixed and variable remuneration 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 and bylaws receive a lump-sum fee of EUR 1,500 per committee meeting.

Supervisory board members who did not belong to the supervisory board for the whole fiscal year receive fixed and variable remuneration based on their length of service on the supervisory board. The fixed and variable remuneration as well as the attendance fee for supervisory board meetings and committee meetings is payable within one month of the annual general meeting exonerating the supervisory board for the relevant fiscal year.

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.

In compliance with the requirement in No. 3.8 of the German Corporate Governance Code, the D&O insurance policy taken out by the Company for the members of the supervisory board includes a deductible.

The table below shows a breakdown of the remuneration of the supervisory board for the fiscal year 2011:

EUR k	Fixed remuneration	Attendance fees [2]	Remuneration for committee work [2]	Performance-based remuneration [2]	**Total remuneration**
Torsten Grede, chairman	30	18	15	14	77
Reiner Neumeister, deputy chairman [1]	15	9	16	7	47
Ernst Esslinger [1]	10	6	0	5	21
Hans Fahr	10	6	8	4	28
Gerhard Federer	10	6	18	5	39
Dr. Horst Heidsieck	10	6	8	4	28
Carmen Hettich-Günther [1]	10	6	9	5	30
Dr. Dieter Japs	10	6	0	5	21
Thomas Keller	10	5	9	4	28
Hannelore Knowles [1]	10	6	7	5	28
Jochen Meyer [1]	10	6	7	5	28
Reinhard Seiler [1]	10	6	0	5	21
TOTAL	**145**	**86**	**97**	**68**	**396**

[1] Employee representative
[2] Deviations due to rounding differences

Beyond this, supervisory board members did not receive any other remuneration or benefits in the reporting year for any services they provided personally, in particular consultancy and mediation services, with the following exception.

The honorary chairman of the supervisory board, Mr. Gerhard Schuler, receives remuneration of EUR 10,000 in line with the remuneration of the members of the supervisory board, plus variable components amounting to EUR 4,700 and the reimbursement of all out-of-pocket expenses and the related VAT payable. In addition, Gerhard Schuler, received remuneration of about EUR 61,000 in the reporting year as compensation for the consulting services he provided to HOMAG Holzbearbeitungssysteme GmbH.

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

Remuneration of the Management Board

The remuneration of the individual members of the management board of HOMAG Group AG is proposed by the personnel committee and decided by the supervisory board. In the competition for highly qualified leaders, the remuneration model is designed as an incentive for the management board, while meeting high standards by taking personal performance and the success of the Company into account.

The total remuneration of the management board is appropriate in relation to the responsibilities and tasks of each management board member as well as the situation of the Company. The customary remuneration is not exceeded without special reason. For publicly traded companies, the structure of remuneration must also take into consideration the long-term development of the Company. All components of remuneration must be appropriate, both individually and as a whole, and not encourage the taking of inappropriate risks.

The remuneration of the members of HOMAG Group AG's management board 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 and the development of the share price. 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. In the reporting year, loans and advances were not granted to the members of the management board, nor have any declarations of liability been made in their favor. All service agreements with the members of the management board comply with the German Corporate Governance Code. Exceptions from this as regards the recommendations concerning the compensation caps and change of control are detailed on page 66 of this report, which however only apply to the service agreement of the CEO.

In the event of a termination of a management board appointment by mutual agreement, a dismissal by the supervisory board of a management board member, or if a management board member steps down from the board at the instigation of the Company, the management board member concerned receives as settlement of remuneration including fringe benefits a compensation payment of two years' compensation, but no more than the amount of remuneration for the residual term of the agreement. Dr. Flik's management board service agreement contains clauses that could have potentially resulted in higher compensation under certain circumstances in the fiscal year 2011. That means that to this extent and under certain circumstances Dr. Flik's management board service agreement does not comply in full with 4.2.3 (4) of the German Corporate Governance Code. The same applies *mutatis mutandis* in the event of early termination of Dr. Flik's duties on the management board due to a change of control. In such an event, Dr. Flik has, subject to certain preconditions, a special right to terminate his agreement; if Dr. Flik effectively exercises this right, he would be entitled to compensation of 125% of the compensation described above. Taking into account all potential variants, this agreement does not entirely comply with 4.2.3 (5) GCGC in the fiscal year 2011. No management board members are entitled to a settlement within the meaning described above if the Company has a right to terminate the contract for good cause as defined in Sec. 626 BGB ["Bürgerliches Gesetzbuch": German Civil Code].

Non-performance-based fixed remuneration

The non-performance-based fixed remuneration of the members of the management board consists of an annual fixed salary and fringe 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 fringe benefits consist of the value of the use of a company car that must be recognized for tax purposes and the payment of an insurance premium. The insurance premiums concern a group D&O insurance policy for accident loss and an insurance policy against financial loss. As of January 1, 2010, the D&O insurance policy was modified such that a deductible in accordance with the requirements of No. 3.8 of the German Corporate Governance Code has been agreed for members of the management board as well as for members of the supervisory board. In addition, the employer's share of the statutory health insurance contributions is assumed, and for the statutory pension insurance the amount is assumed that the management board member would have to pay if the member were subject to compulsory insurance. Expenses incurred by the management board member while exercising his or her duties under the management board service agreement are reimbursed as prescribed in the Company's rules of procedure.

Variable remuneration component

Effective January 1, 2010, changes were made to the variable remuneration portion to take account of the new provisions of the stock corporations law governing the appropriateness of management board remuneration.

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

The STI is based on the HOMAG value added (HVA), calculated on the basis of HOMAG Group AG's consolidated financial statements, as an indicator of the increase in value of HOMAG Group AG. Claims to the STI are subject to the condition that a positive HVA is generated. From a HVA of more than 0 percent up to the predetermined HVA target value of 4 percent, the STI amount increases on a straight-line basis. The STI is capped at 150 percent of the actual fixed annual remuneration paid out in the fiscal year in question and is reached with a HVA of 4 percent.

The STI bonus is paid within 30 days following the annual general meeting of the Company for the relevant fiscal year at the latest.

The LTI bonus is a long-term incentive system based on the development of HOMAG Group's share price (share-based price LTI bonus) and the development of positive HVA

(HVA LTI bonus). The LTI schemes are set annually and have a term of three years in each case. Before introducing the LTI scheme in each respective year, the supervisory board reviews the parameters for the LTI scheme used to date together with the HVA target value, the cap and the parameters used to calculate the capital costs.

To obtain the HVA component of the LTI bonus, the cumulative HVA over three successive fiscal years (reference period) must be positive. From a HVA of more than 0 percent up to the predetermined HVA target value of 12 percent, the LTI amount increases on a straight-line basis. The cap is set at 43.3 percent of the actual cumulative fixed annual salary paid out during the reference period.

To obtain the share-based component of the LTI, the development of the HOMAG Group AG share price must be positive between the start of the reference period (relevant opening share price) and the end of the reference period (relevant closing share price). The relevant opening share price and relevant closing share price are both determined and set by the supervisory board. Assuming that the share price increases during the reference period from 0 percent to 70 percent, the share-based component of the LTI increases on a straight-line basis. The cap is set at 23.3 percent of the actual cumulative fixed annual salary paid out during the reference period.

If the HVA component of the LTI has developed negatively, the share-based component is reduced by a mark-down. The share-based component can be reduced by the mark-down to EUR 0, but not below.

Differing caps (130 percent for the HVA component and 70 percent for the share-based component) apply to the first LTI following the changes to the variable remuneration, with a reference period beginning on January 1, 2010 and ending on December 31, 2012.

The LTI bonus is paid no later than 30 days following the annual general meeting of the Company for the third fiscal year.

The remuneration of the management board members for the fiscal 2011 breaks down as follows:

	Fixed salary		Short-term incentives (STI and Bonuses)		Long-term incentives (LTI)		Benefits in kind		**Total remuneration**	
EUR k	**2011**	2010	**2011** [1]	2010	**2011**	2010	**2011**	2010	**2011**	2010
Dr. Markus Flik	382	0	250	0	35	0	7	0	674	0
Achim Gauß	311	274	106	38	29	77	7	7	453	396
Herbert Högemann	260	236	88	25	24	65	9	8	381	334
Jürgen Köppel	240	218	81	15	23	59	6	6	350	298
Hans-Dieter Schumacher	279	0	95	0	27	0	8	0	409	0
Andreas Hermann	71	247	24	37	0	0	2	7	97	291
Rolf Knoll	209	323	106	38	0	77	4	8	319	446
TOTAL	**1,752**	**1,298**	**750**	**153**	**138**	**278**	**43**	**36**	**2,683**	**1,765**

[1] *To be paid out after the 2012 annual general meeting for 2011.*

Moreover, in the fiscal year 2011 Rolf Knoll received a compensation payment of EUR 175 k for the remaining term of his service agreement in the amount of the fixed remuneration when he handed over his duties as a member of HOMAG Group AG's management board.

The value of the liability pertaining to the remuneration acting as a long-term incentive came to EUR 187 k as of December 31, 2011 (prior year: EUR 278 k) and breaks down as follows:

	First reference period		Second reference period		Total	Total
EUR k	**2011**	2010	**2011**	2010	**2011**	2010
Dr. Markus Flik	0	0	35	0	35	0
Achim Gauß	12	77	29	0	41	77
Herbert Högemann	10	65	24	0	34	65
Jürgen Köppel	9	59	23	0	32	59
Hans-Dieter Schumacher	0	0	27	0	27	0
Andreas Hermann	0	0	0	0	0	0
Rolf Knoll	18	77	0	0	18	77
TOTAL	**49**	**278**	**138**	**0**	**187**	**278**

An accrued liability of EUR 49 k was recorded for two thirds of the fair value of the long-term incentives for the first reference period from 2010 through 2012; an accrued liability of EUR 138 k was recorded for one third of the fair value for the second reference period from 2011 through 2013. This is not the actual value but the fair value calculated using financial modeling methods. The payment for the first reference period will be made after the annual general meeting for 2012, which will be held in 2013; the payment for the second reference period will be made after the annual general meeting for 2013, which will be held in 2014.

Shareholdings of Board Members

As of December 31, 2011, the members of the management board held a total of 38,436 shares (prior year: 57,963), which is equivalent to 0.25 (prior year: 0.37) percent of HOMAG Group AG's capital stock. The year-on-year change in the shareholding relates to the fact that Rolf Knoll stepped down from the management board. As of December 31, 2011, the members of the supervisory board held a total of 400 shares (prior year: 100), which is equivalent to 0.00 (prior year: 0.00) percent of HOMAG Group AG's capital stock. As no member of the management or supervisory board held more than 1 percent of the share capital as of December 31, 2011, an individual breakdown is not required.

At present, there are no stock option programs or similar value-based incentive systems in place that would have to be addressed in this report pursuant to No. 7.1.3 of the German Corporate Governance Code.

Members of the management board and supervisory board, and all related parties, are legally required by Sec. 15a WpHG to disclose the acquisition or sale of shares in HOMAG Group AG of the value of the transactions equals or exceeds a total of EUR 5,000 within a calendar year. No transactions were notified to us in the reporting period from January 1 to December 31, 2011.

For up-to-date information on directors' dealings reports, please refer to our website at www.homag-group.com.

DECLARATION OF COMPLIANCE 2012

Declaration by the management board and supervisory board of Homag Group AG pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporations Act].

The management board and supervisory board declare that, since their last declaration of compliance of January 2011, Homag Group AG has complied with the recommendations of the German Corporate Governance Code in the version dated May 26, 2010 and will continue to comply with them in the future.

There are the following exceptions to the above: the provisions of the management board service agreement concluded with Dr. Flik governing a potential early termination of his management board duties without good cause do not, taking into account all potential variants of early termination, in their entirety comply with 4.2.3 (4) of the German Corporate Governance Code (GCGC). The same applies *mutatis mutandis* in the event of early termination due to a change of control. The provisions agreed for this purpose with Dr. Flik do not, taking into account all potential variants, in their entirety comply with 4.2.3 (5) GCGC.

The deviations arise from the fact that the supervisory board concluded a management board service agreement with Dr. Flik where the provisions form a closed system. In this way, the supervisory board intends to provide incentives in a targeted manner and to remunerate Dr. Flik's performance in an appropriate way. In the opinion of the supervisory board, this would not have been possible in the same way if Dr. Flik's management board service agreement had, taking into account all potential variants, complied in its entirety with the aforementioned provisions of the GCGC.

Schopfloch, January 2012

For the supervisory board
of Homag Group AG

TORSTEN GREDE
Chairman of the supervisory board

For the management board
of Homag Group AG

DR.-ING./U.CAL. MARKUS FLIK
Chairman of the management board (CEO)

3. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION OF THE HOMAG GROUP

3.1 Results of Operations

From a purely operational perspective, 2011 was a good year even in terms of earnings. After our earnings indicators for the first six months of the year slipped below our expectations, we initiated a number of immediate measures to improve our profitability that have already had some initial effects. These include a restrictive recruiting policy to reduce our personnel expenses and clear targets to reduce other operating expenses.

In the reporting year, our earnings were primarily marked by our *extraordinary expenses* of EUR 21.6 million (prior year: EUR 4.4 million). Of this amount, EUR 14.8 million was incurred in connection with the addition to the accrued liabilities for severance payments and for transfer companies as part of the aforementioned restructuring measures at our subsidiaries FRIZ, TORWEGGE and BÜTFERING. In addition, impairment losses of EUR 2.1 million were charged on property, plant and equipment and of EUR 2.0 million on intangible assets (mainly goodwill) in connection with the restructuring of TORWEGGE. In total, *extraordinary expenses for restructuring measures* came to EUR 18.9 million.

Owing to the exchange rate volatility intensified by the euro crisis, we had to endure *exchange rate losses* of EUR 0.9 million as of December 31, 2011 due to the cut-off date, which compares to exchange rate gains of EUR 1.6 million in the prior year.

Earnings were also burdened by the significant increase in *valuation allowances recognized on trade receivables* through profit or loss, which after netting against reversals of valuation allowances relating to trade receivables increased by EUR 5.0 million year on year in total. For the most part, we have written down receivables from customers in Italy, Portugal and Greece. In total, our specific valuation allowances came to EUR 13.8 million as of the end of the fiscal year 2011 (prior year: EUR 7.8 million).

Compared to 2010, additional costs of more EUR 3 million were also incurred in connection with the industry's leading trade fair, Ligna, which is only held every second year.

Owing to the increased volume of business, our *cost of materials* also increased to EUR 363.0 million (prior year: EUR 314.1 million). This figure includes merchandise of about EUR 36.0 million for the large-scale project with Mekran, resulting from the fact that the HOMAG Group acts as general contractor for this large-scale project. Due to this special effect, the *cost of materials ratio* (defined as cost of materials to total operating performance) increased to 44.7 percent (prior year: 43.0 percent). Adjusted for the share of merchandise in the Mekran project, the cost of materials ratio actually decreased to 42.3 percent.

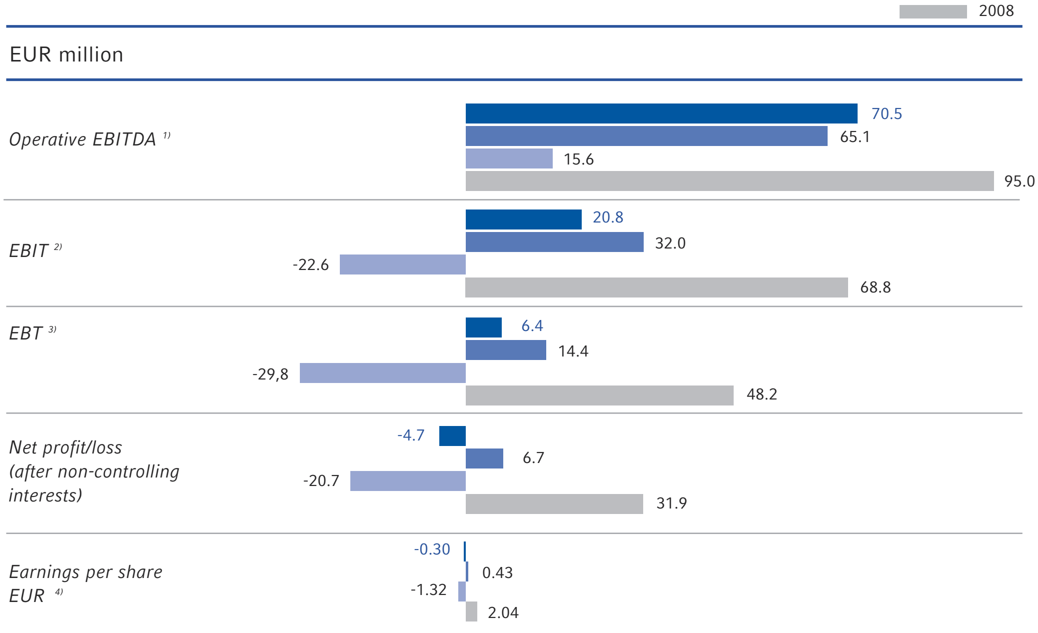
Personnel expenses increased to EUR 284.0 million in the fiscal year 2011 (prior year: EUR 256.8 million). This includes extraordinary expenses of EUR 14.3 million (prior year: EUR 3.5 million). This is essentially due to the addition to the accrued liabilities for severance payments owing to the expansion of restructuring measures. In addition the average annual headcount increased by 129 employees compared to 2010. Collectively bargained wage increases in Germany and abroad also had an impact. The *personnel expenses ratio* (defined as the ratio of personnel expenses to total operating performance) decreased despite the extraordinary expenses to 35.0 percent (prior year: 35.2 percent).

Our *tax expense ratio* (defined as the ratio of income taxes to EBT after employee participation expenses and after extraordinary expenses) increased significantly in 2011, reaching 151.7 percent at year end (prior year: 43.9 percent). This reflects in particular the interest limitation regulations and losses incurred at some subsidiaries for which no deferred tax assets could be recognized. The tax expense ratio was negatively affected in particular by the fact that the Group cannot use the extraordinary expenses for the restructuring measures at TORWEGGE and BÜTFERING to reduce its tax burden as profit and loss transfer agreements are not in place with these companies that would allow offsetting of these losses against the profits of other companies in a tax group for income tax purposes.

Earnings Indicators

The *operative EBITDA* for 2011 before employee participation expenses (EUR 5.1 million; prior year: EUR 6.9 million) and before extraordinary expenses (EUR 17.5 million; prior year: EUR 4.4 million) increased to EUR 70.5 million (prior year: EUR 65.1 million). Owing to the aforementioned special effects, *EBIT* before employee participation expenses and after extraordinary expenses, including impairment losses of EUR 4.1 million decreased to EUR 20.8 million (prior year: EUR 32.0 million).

Earnings Indicators 2008 – 2011



1) *Before employee profit participation and before extraordinary expenses*
2) *Before employee profit participation and after extraordinary expenses*
3) *After employee profit participation and after extraordinary expenses*
4) *Net profit/loss (after non-controlling interests) in relation to the number of shares (weighted average)*

Our *interest result* improved in 2011 by about EUR 2.0 million. This is due on the one hand to higher interest income that is mainly attributable to the increased volume of customer financing. On the other hand, the more favorable contractually agreed borrowing conditions and the repayment of the first tranche of the participation rights amounting to EUR 10 million from cash and cash equivalents in May 2011 lowered the interest expense. The *financial result* amounts to EUR -9.3 million (prior year: EUR -10.7 million). *EBT* after employee participation expenses and after extraordinary expenses amounts to EUR 6.4 million (prior year: EUR 14.4 million). Our aforementioned very high tax expense rate of 151.7 percent (prior year: 43.9 percent) led to an *income tax expense* of EUR 9.7 million (prior year: expense of EUR 6.3 million). This gives rise to a *net loss for the year* before non-controlling interests of EUR 3.3 million (prior year: net profit of EUR 8.1 million) and after non-controlling interests a net loss of EUR 4.7 million (prior year: net profit of EUR 6.7 million), resulting in *earnings per share* of EUR -0.30 (prior year: EUR 0.43).

We report the *return on capital employed (ROCE)* on the basis of adjusted EBIT, i.e., before employee profit participation and adjusted for extraordinary expenses. Due to the positive EBIT and the lower capital employed, ROCE in 2011 improved further to 15.0 percent before taxes (prior year: 12.3 percent) and after taxes (calculated based on a tax rate of 30 percent for both years) to 10.5 percent (prior year: 8.6 percent).

Segment Results

Operative EBITDA before employee participation expenses and before extraordinary expenses in the Industry segment before consolidation climbed significantly to EUR 52.9 million (prior year: EUR 43.5 million). Slight improvements were registered in the Cabinet Shops segment, which rose to EUR 13.8 million (prior year: EUR 12.6 million), and the Sales & Service segment, which increased to EUR 10.3 million (prior year: EUR 10.1 million). In the Other segment, operative EBITDA measured on the same basis decreased to EUR -7.5 million (prior year: EUR -0.3 million). This decrease is mainly due to the increase in other operating expenses at HOMAG Group AG. This mainly results from the loan waiver granted to TORWEGGE Holzbearbeitungsmaschinen GmbH amounting to EUR 4.4 million, which is eliminated in the course of consolidation and is therefore of no consequence from a Group perspective. Another reason for the lower operative EBITDA in the Other segment is the significant rise in personnel expenses at HOMAG Group AG. This is attributable to the fact that employees only joined HOMAG Group AG in the second half of 2010 and that the headcount rose in the course of 2011 from 17 to 23 (excluding management board members). In addition, there were also effects arising from the changes in the management board that took place in 2011.

EBT by segment (after employee participation expenses and after extraordinary expenses) breaks down into EUR 9.4 million (prior year: EUR 13.0 million) in the Industry segment, EUR 3.1 million (prior year: EUR 4.2 million) in the Cabinet Shop segment and EUR 7.6 million (prior year: EUR 6.7 million) in the Sales & Service segment. In both cases, the decreases in the Industry and Cabinet Shops segments are due to the significant increase in extraordinary expenses in connection with restructuring measures. The factors discussed in the variance analysis of operative EBITDA in the Other segment also led to a decrease in the segment loss to EUR 14.6 million (prior year: segment loss of EUR 8.6 million).

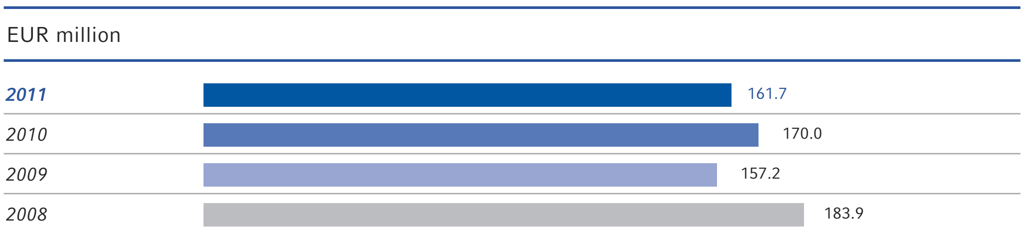
3.2 Net Assets and Financial Position

Net Assets

Despite the rise in total operating performance, our *total assets* fell in 2011 to EUR 558.4 million (prior year: EUR 570.1 million). On the *assets side*, this was mainly due to the drop in cash and cash equivalents. This was used to repay the first tranche of the profit participation rights totaling EUR 10 million in the second quarter of 2011 and the dividend for 2010 totaling EUR 4.7 million.

We significantly stocked up our *inventories* in the course of 2011 in order to avoid the threat of delivery bottlenecks. We were able to very significantly reduce stock levels again towards the end of the year. This means that as of December 31, 2011 we recorded inventories of EUR 130.0 million, which is virtually identical to the very low prior-year level (EUR 128.2 million) despite the very high stock levels at times in the course of the year. Inventories thus increased at a significantly slower rate than sales revenue.

Equity as of December 31, 2008 – 2011



Current and non-current trade receivables decreased significantly to EUR 87.0 million (prior year: EUR 99.0 million), also on account of the high level of impairment losses. In contrast, *receivables from long-term construction contracts* rose to EUR 34.2 million (prior year: 15.9 million) on account of the large-scale project with our customer, Mekran. This means that, on aggregate, our *receivables* rose by just under 5.6 percent to EUR 121.3 million (prior year: EUR 114.9 million). They thus rose at a significantly slower rate than sales revenue growth, also thanks to our successful receivables management.

On the *equity and liabilities side*, equity decreased owing to the dividend paid out for 2010 and the loss for the fiscal year 2011 to EUR 161.7 million (prior year: EUR 170.0 million). At 29.0 percent as of December 31, 2011, our *equity ratio* (ratio of equity to total assets) remains at virtually the prior-year level (29.8 percent) on account of the fall in total assets. Our *prepayments received* fell to EUR 27.7 million (prior year: EUR 39.7 million) as we received the first prepayments of EUR 8.8 million under the Mekran project before the end of 2010. This amount was recorded in full under this line item of the statement of financial position. In contrast, there was a significant increase in *other current liabilities and deferred income* to EUR 71.0 million (prior year: EUR 54.0 million). This is essentially due to the addition to the accrued liabilities for severance payments at the companies being restructured. *Trade payables* also increased to a total of EUR 78.4 million (prior year: EUR 67.0 million) on account of the rise in the volume of business.

Despite this positive effect, our *net liabilities to banks* rose as anticipated to EUR 80.9 million as of December 31, 2011 after the extremely low level at the end of 2010 (December 31, 2010: EUR 55.8 million). This increase is attributable to the repayment of the profit participation rights made in 2011 totaling EUR 25 million. In this context, the first tranche of EUR 10 million was repaid from cash and cash equivalents, the second tranche of EUR 15 million was repaid from the syndicated loan agreement. Without the repayments of these profit participation rights, we would have maintained the low level of net liabilities to banks achieved as of December 31, 2010.

Financial Position

Our *syndicated loan agreement* was concluded in February 2010 for the original amount of EUR 198 million and runs until February 2013. Due to the repayment of the first profit participation right with EUR 10 million from cash and cash equivalents, it consequently had a remaining volume of EUR 188 million as of the end of the reporting period. This figure includes EUR 5 million for the repayment of the last tranche of the three profit participation rights due in 2012. In this context, we currently do not see any risks to compliance with the covenants agreed in conjunction with the syndicated loan agreement, also with regard to fiscal 2012. The main financial convents consist of a stipulated minimum equity threshold and a maximum debt ratio. The individual financial covenants must be complied with as of the end of each quarter.

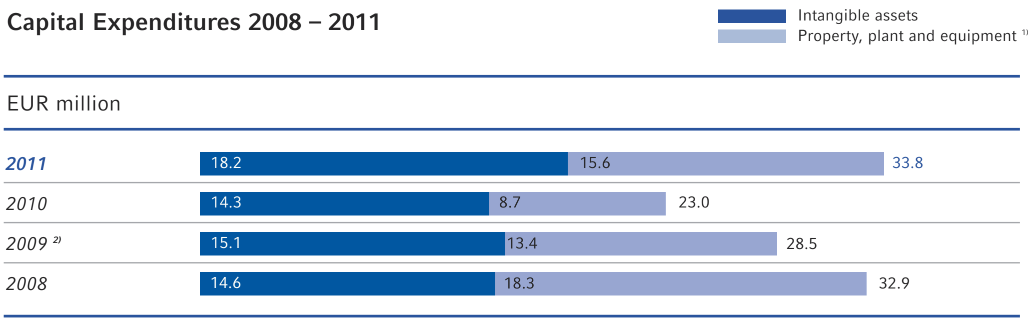
Operating cash flow (cash flow from operating activities) fell to EUR 40.8 in fiscal 2011 (prior year: EUR 62.7 million). The difference of EUR 21.9 million primarily results from the change in prepayments received which rose by EUR 14.9 million in the prior year, whereas this item fell by EUR 12.0 million in the reporting year. Furthermore, the operating cash flow is impacted by back payments arising from the group tax field audit and the unused tax losses which have expired, some of which could still be used by subsidiaries in the prior year. All in all, these factors give rise to burdens of EUR 32.5 million, which was only partially offset by the good operating performance in the reporting year. On account of the significant rise in capital expenditures on property, plant and equipment and intangible assets, *cash flow from investing activities* fell to EUR -31.6 million in fiscal 2011 (prior year EUR -20.5 million). All in all, this gives rise to *free cash flow* (operating cash flow added to cash flow from investing activities) of EUR 9.3 million (prior year: EUR 42.2 million). *Cash flow from financing activities* decreased to EUR -23.6 million (prior year: EUR -4.9 million) on account of the dividend payment and the repayment of the profit participation right from cash and cash equivalents. *Cash and cash equivalents* stood at EUR 56.5 million as of December 31, 2011 (prior year: EUR 70.3 million).

3.3 Capital Expenditures, Amortization and Depreciation

After the low level of capital expenditures in fiscal 2010, we increased our *investments in intangible assets and property, plant and equipment* again, as announced. This item came to EUR 33.8 million in 2011 (without leases) (prior year: EUR 23.0 million). The focus of investment was on expanding our production in China, our new assembly plant in India, the purchase of a property for a new building for the Swiss sales office and modernizing plant and machinery at our production facilities HOMAG, WEEKE, LIGMATECH and HOMAG Machinery São Paulo. In addition, the Group saw investments in the IT structure under our ProFuture project. Capital expenditures include *capitalized development work* of EUR 10.5 million (prior year: EUR 9.9 million). In 2011 once again, capital expenditures exceeded the pertinent amortization, depreciation and impairment, which means the carrying amount of the capitalized development work rose to EUR 25.6 million (prior year: EUR 22.2 million). As of December 31, 2011, the total value of our *property, plant and equipment and intangible assets* stood at EUR 197.7 million (prior year: EUR 196.7 million).

Our a*mortization, depreciation and impairment* increased to EUR 32.1 million in 2011 (prior year: EUR 28.8 million). This figure includes impairment losses on property, plant and equipment under the restructuring of TORWEGGE of EUR 2.1 million and intangible assets of EUR 2.0 million, which mainly relate to goodwill.

Capital Expenditures 2008 – 2011



[1] *Excluding investments under lease agreements*
[2] *Adjusted for the capitalized goodwill of BENZ GmbH, which was acquired in 2009*

4. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION OF HOMAG GROUP AG

Preliminary Remarks

The group management report was combined with the management report of HOMAG Group AG in 2011. The development of HOMAG Group AG presented in the following is based on its financial statements that were prepared in accordance with the provisions of the HGB and the AktG.

HOMAG Group AG is a holding company without operating activities of its own. Its main tasks as the parent company are to establish and monitor the implementation of the Group's strategy and financing and to technically lead the production and sales companies in Germany and abroad. It is additionally responsible for the areas of investor relations, group accounting, group treasury, tax, risk management, internal audits, affiliates and group controlling, group-wide HR services, marketing and IT as well as group-wide services. It further has regional responsibility for the sales companies.

4.1 Results of Operations

The *result from ordinary activities* increased within the HOMAG Group AG from EUR -0.7 million to EUR 1.3 million. *Other operating income* of EUR 1.2 million increased to EUR 5.5 million, which is essentially a result of the cross-charging of expenses which have been incurred centrally at HOMAG Group AG since 2011. These expenses include, for example, the costs incurred for the Ligna trade fair. Furthermore, cross-charging was performed for the specialist departments now allocated to Homag Group AG. Only half of these amounts was cross-charged in the prior year as the employees were not transferred until the second half of the year 2010. On account of the rise in dividend payments from subsidiaries, *income from equity investments* rose to EUR 4.4 million (prior year: EUR 1.4 million). As the results of operations continued to improve in 2011 at several subsidiaries with which there are profit and loss transfer agreements in place, income from the profit and loss transfer agreements increased at HOMAG Group AG to EUR 14.1 million (prior year: EUR 10.0 million). In this respect, particularly positive developments were seen at the two subsidiaries, HOMAG Holzbearbeitungssysteme GmbH and HOLZMA Plattenaufteiltechnik GmbH.

The rise in *personnel expenses* to EUR 4.9 million (prior year: EUR 2.7 million) is attributable among other things to the rise in headcount from 17 to 23 employees (not including management board members). Furthermore, they were not employed at HOMAG Group AG until the second half of 2010. Effects from the changes made to the management board in 2011 and significantly higher additions to provisions for variable remuneration components are also reflected in this line item. The increase in *other operating expenses* to EUR 11.9 million (prior year: EUR 6.6 million) essentially arises from the loan waiver granted to TORWEGGE Holzbearbeitungsmaschinen GmbH of EUR 4.4 million. In addition to this, there are the costs for advertising and trade fairs of around EUR 3.2 million. This rise in expenses stands in contrast to the borrowing costs, which have fallen to EUR 0.3 million (prior year: EUR 3.2 million) owing to the one-off payment of incidental costs of the syndicated loan agreement in 2010. *Impairments of investments* increased to EUR 2.1 million (prior year: EUR 0.1 million) following expansion of the restructuring at TORWEGGE Holzbearbeitungsmaschinen GmbH and the associated impairment losses.

The *interest result* improved from EUR -3.9 million to EUR -3.6 million. This is due to improved bank margin in fiscal 2011, which lowered the stand-by fees for the syndicated loan agreement. Interest expenses in 2011 include, in addition to the interest payable to banks of EUR 2.8 million, stand-by fees of EUR 0.4 million, expenses in connection with the marking to market of an interest cap of EUR 0.3 million and interest expenses from intercompany loans and cash pooling of EUR 0.7 million.

Income taxes come to EUR -0.5 million (prior year: income of EUR 1.2 million). The change arose from the fact that the tax losses pertaining to trade tax were exhausted in 2011. In addition, the trade tax allocation system up to that time in place with HOMAG Holzbearbeitungssysteme GmbH was terminated in the reporting year.

All in all, HOMAG Group AG reports *net income* for the year 2011 of EUR 0.4 million (prior year: EUR 0.4 million). The *retained earnings* from 2010 of EUR 25.9 million fell to EUR 21.2 million on account of the dividend payment of EUR 4.7 million.

4.2 Net Assets and Financial Position

We introduced a cash pooling system in some parts of the group in 2011. Under this system, the cash balances administered locally at selected individual companies are transferred to HOMAG Group AG on a daily basis, which has a significant impact on some items of the statement of financial position.

For example, on the assets side of the statement of financial position, *receivables from affiliates* decreased by EUR 8.3 million in the reporting year to EUR 18.2 million (prior year: EUR 26.5 million). This results, among other things, from the loan waiver granted to TORWEGGE Holzbearbeitungsmaschinen GmbH amounting to EUR 4.4 million, and a lower level of loans to affiliates on account of the first-time inclusion of these entities in the cash pooling system. The fall in *other assets* to EUR 2.4 million (prior year: EUR 5.0 million) is mainly a result of the fall in receivables from the tax office on account of tax reimbursements for prior years. Bank balances increased to EUR 30.2 million as of December 31, 2011 (prior year: EUR 0.0 million), which is likewise attributable to our cash pooling system.

On the *equity and liabilities* side, *liabilities to affiliates* correspondingly rose to EUR 44.5 million (prior year: EUR 18.1 million). It was essentially the cash pooling arrangement that caused *total assets* to grow to EUR 203.6 million (prior year: EUR 184.5 million). The fall in *equity* to EUR 72.6 million (prior year: EUR 76.9 million) is primarily attributable to the 2011 dividend payment of EUR 4.7 million. Due to the rise in total assets on account of the recently introduced cash pooling system, the equity ratio fell from 41.7 percent to 35.6 percent.

The fall in *tax provisions* to EUR 2.3 million (prior year: 5.5 million) is essentially due to tax backpayments following the tax field audit that was concluded in fiscal 2010. *Liabilities to banks* fell to EUR 80.0 million (prior year: EUR 81.2 million).

5. SUBSEQUENT EVENTS

After the end of the reporting period, the HOMAG Group's management reached an agreement in March 2012 with the works' councils of the subsidiaries BÜTFERING Schleiftechnik GmbH, Beckum, and TORWEGGE Holzbearbeitungsmaschinen GmbH, Löhne, as well as the group works' council on the terms for the planned restructuring. A reconciliation of interests and a redundancy plan had been agreed on for both companies.

According to this, BÜTFERING is to be linked as planned into WEEKE, where the majority of workers will continue to be employed. It was also possible here to sell the metal grinding machines business unit to LISSMAC Maschinenbau GmbH, Bad Wurzach, which will take over 17 employees from BÜTFERING. Under the agreement concluded, the remaining 18 employees will join a transfer company. To implement these restructuring measures we raised our share in BÜTFERING Schleiftechnik GmbH from just under 98 percent to 100 percent in March 2012.

Of the 90 workers originally employed at TORWEGGE, 73 were left on the date on which the agreement was concluded and were affected by the restructuring; all of these can likewise join the transfer company. This shows that we will be able to realize the planned reduction of about 180 positions in the HOMAG Group with significantly fewer layoffs than initially expected.

6. RISK AND OPPORTUNITIES REPORT (INCLUDING A DESCRIPTION AND EXPLANATION OF THE KEY ASPECTS OF THE INTERNAL MONITORING AND RISK MANAGEMENT SYSTEM WITH REGARD TO THE (GROUP) FINANCIAL REPORTING PROCESS PURSUANT TO SEC. 289 (5) AND SEC. 315 (2) NO. 5 HGB)

As a global company, the HOMAG Group is exposed to a number of risks. Risks can arise from both the Company's own business activities and from external factors. The HOMAG Group's risk policy is aimed at constantly and sustainably raising the value of the Company, achieving medium-term financial goals and safeguarding its viability in the long term. It therefore constitutes a key element of corporate policy.

Risk Management System

The HOMAG Group's risk management system is essentially supported by the management accounting system. It includes project controlling, cost object controlling and detailed segment reporting and has a balanced scorecard as an additional element. It is based on the establishment of objectives, which are monitored based on the monthly reporting by the individual business units. 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, the management board and supervisory board are notified immediately. The risk inventory encompasses all relevant companies.

We continued to refine our risk management system in fiscal 2011. As an example, we introduced a cash pooling system at just about all German subsidiaries in order to employ the subsidiaries' liquidity within the Group and manage it centrally. In the course of 2012, the plans are to extend the cash pooling system to all foreign companies within the eurozone. As part of our internal audit, all significant group entities are audited at intervals of three to five years. In 2011, we audited two production companies and two sales companies in Germany and abroad, including one ad hoc audit in response to an incident. The findings were taken up by the internal audit function and addressed shortly afterwards.

Economic Risks

One of the main risks to the HOMAG Group is the development of the global economy. The willingness of our customers to spend diminishes significantly in difficult economic times, as was confirmed in the crisis year 2009. Although we are able to compensate for crises in individual regions through our global presence, a global crisis will have a negative effect even on our order volumes. There are still economic risks, in particular on account of the uncertainty on the financial markets. We counter this overall economic risk by keeping our personnel capacities as flexible as possible and adjusting our production plan early to developments in order intake.

Customer Risks

The Group is not dependent on a single customer or a small group of customers, since usually no single customer directly generates more than 5 percent of total sales revenue. In the fiscal year 2011, our large-scale project with our customer Mekran reached a share of sales revenue of about 6.2 percent. However, this is an atypical engagement for the HOMAG Group encompassing the erection of a complete production plant. There is risk that customers may default on their debts. We minimize this risk by obtaining prepayments based on the stage of completion of projects, by applying our strict receivables management system and by taking out insurance on a case-by-case basis. Overall, this approach has rewarded us with a low proportion of bad debts compared to other companies in the industry.

Product and Development Risks

As the market leader in our industry, we in the HOMAG Group are intent on being and remaining the innovation and technology leader. This has resulted in an innovative product strategy that does, however, also entail a risk of misjudging future market developments and the risk of misguided technological developments. We counter this risk by means of close market observation and close relationships to customers who provide us early feedback in the event of new developments. We rule out R&D budget overruns and unexpected increases in the start-up cost of new products using systematic procedural cycles that are in place throughout the Company for the product development process and that consistently record the allocable cost of new developments.

From standard machines for workshops to complex production lines for industrial mass production, we have a wide range of different products. The broad scope of the product range means that weak sales revenue in one product segment would not lead to risks to the

Group's ability to continue as going concern. In general, the market entry barriers in our industry are very high. As a result, we estimate that there is a comparatively low risk of new competitors encroaching on our technological lead.

Procurement and Purchasing Risks

To ensure that the high quality of key raw materials as well as supplied parts and components meet our standards and to avoid supply bottlenecks, we very carefully select our suppliers and usually work with them closely over many years based on a trusting relationship. This close cooperation allows us to identify financial difficulties faced by suppliers at an early stage. We also execute further-reaching measures, such as supplier audits and visits to our main suppliers.

It is very difficult to predict how commodity prices will develop, as they continue to be heavily dependent on institutional investors. In 2011, we consequently passed on a portion of these increases by means of product price adjustments. We expect a downward trend in the price of some commodities, such as steel, in 2012. In the area of "rare earths", on the other hand, we expect prices to continue to rise from the current high levels. We counter the negative impact of commodity price increases to the extent possible by concluding master agreements with fixed prices and bundling demand within the HOMAG Group to capture the benefits of placing higher order volumes. In addition, the further expansion of our international purchasing function is also designed to safeguard the necessary quality and to keep supply risks to a minimum in the long term.

IT Risks

The main IT risks relate to data loss, damage or misuse. In order to counter these risks, we continued to improve and expand our IT security in 2011. The implementation of a public key infrastructure acts as the basis for a wide range of IT security measures to further safeguard computer-based communications. This includes for example the introduction of a two-factor authentication system that limits future access to systems based on a password combined with a hardware component. Furthermore, the first notebooks were provided with hard disk encryption in 2011. One additional measure to increase IT security implemented in 2011 was the updating of the firewall to fend off malware and spam.

Quality Risks

Quality is prioritized at the HOMAG Group. Notwithstanding this, the complexity of our machines means that it is not possible to completely rule out quality risks. In order to mitigate the risk of product liability and warranty claims we use a comprehensive total quality management system and a high degree of standardization. We ensure the uniform high quality of our products by continually refining our quality assurance systems. The majority of our production sites are certified pursuant to DIN EN ISO 9000, which testifies to the high standard of our quality assurance system.

Currency Risks

Currency risks can arise from our international activities, which can indirectly impact the Group's sales revenue and results of operations. To mitigate the risks from the large exchange rate volatility in some cases and keep our foreign currency items at a low level, we try where possible to invoice transactions outside the eurozone in euro. We use hedging instruments for the portion of sales revenue that we generate in foreign currencies. We also work with price indexing clauses in individual cases.

Liquidity and Financing Risks

We secured our liquidity until February 2013 by entering into a syndicated loan agreement in February 2010 that is contingent on us complying with certain covenants. This includes the tranche to repay the participation rights. In this context, we currently do not see any risks to compliance with the covenants agreed under this agreement. For example, we were able to partly repay two of the three profit participation rights from cash and cash equivalents in 2011.

To protect ourselves against interest rate changes, we have hedged a portion of our loans using interest rate hedges (caps) that set a maximum interest rate.

Consequently, there are no currently discernable financial risks that could jeopardize the continuation of the Group as a going concern.

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

Legal Risks

One risk in our business activities relates to the assertion of warranty claims or the related bad debts.

There are currently no identifiable risks arising from bad debt or warranty claims being asserted.

Tax Risks

The consolidated financial statements of the Homag Group include significant amounts of tax assets recognized on unused tax losses. The availability of these tax loss carry forwards for use depends on the actual occurrence of the planned future development of earnings on the one hand. On the other hand, in the event of a change in shareholder composition of more than 25 percent or similar occurrence, it is possible that portions of these unused tax losses may be forfeited.

Temporary Risks

Risks to the HOMAG Group arise from the current restructuring taking place at FRIZ, TORWEGGE and BÜTFERING. Should the restructuring measures not proceed as planned, these entities would probably continue to record losses. This means that we would not be able to achieve the sustainable improvement in operative EBITDA of between EUR 6 million and EUR 8 million in comparison to fiscal 2011 resulting from the restructuring. So far, these restructuring measures have been running to plan and we are working on the assumption that they can be concluded by the end of 2012.

One project worth particular mention on account of its volume of EUR 58.4 million is the Mekran project, which had been realized to a great extent but had not yet been concluded as of the end of the reporting period on December 31, 2011. While a large portion of the payments from the letter of credit have already been credited, there are, by the very nature of the project, residual risks that remain until final acceptance, i.e., completion of the entire facility. This residual risk exposure is, however, limited by contract and can be essentially passed on to suppliers.

Opportunities Report

Alongside the aforementioned risks, there are also a number of opportunities for the HOMAG Group. In principle, it is the responsibility of the respective management of our subsidiaries to identify, analyze and implement operative opportunities.

We see group-wide opportunities and the resulting potential for HOMAG Group from progressing globalization and the increasing importance of emerging economies. We are already present on these emerging markets, we are currently expanding our capacities in China and India and are also further developing our sales and service organization in the growth regions. The increasing urbanization in these growing economies will cause a further rise in demand for living space, furniture and structural elements and consequently for wood processing machinery and equipment over the next few years.

In addition, we generally see the market for wood processing machinery to be a growth market. In our industry, increasing demand for individuality and consequently for varied product versions in production can be observed worldwide. With our state-of-the-art batch size one lines, we have the machinery necessary to meet these increasing demands.

Opportunities for the HOMAG Group also arise from the current restructuring. If everything goes as planned, the streamlining of structures and reduction in the level of complexity will further boost efficiency within the Group. For this reason, we anticipate a sustainable annual improvement in operative EBITDA as of 2013 of between EUR 6 million and EUR 8 million in comparison to fiscal 2011.

We currently see further opportunities in the emerging recovery in the economic situation in the United States. Following the property crisis, this major market is showing pent-up demand for wood processing machinery and equipment from which we intend to benefit in future on account of our good position in the market.

Summary

At present there are no recognizable risks to the continued existence of the Group as a going concern. The largest risks result from economic uncertainty. We have adapted to this situation as best we can with extensive measures. From today's perspective, we do not see any risks in the years to come beyond the risks listed in this risk report. All in all, there are opportunities for growth in our industry that we intend to exploit on the basis of our high level of innovative power, our committed and competent employees, our unique range of products and services and our global presence.

Description of the Main Features of the Internal Monitoring and Risk Management System with Regard to the (Group) Financial Reporting Process (Sec. 289 (5) and Sec. 315 (2) No. 5 HGB)

The HOMAG Group's internal monitoring system with regard to the (group) financial reporting process includes all principles, procedures and measures aimed at ensuring the effectiveness and efficiency of financial reporting, ensuring the compliance of financial reporting and ensuring compliance with the relevant provisions of law. This includes the internal audit system insofar as this concerns itself with financial reporting.

As part of the internal monitoring system, the risk management system with regard to the (group) financial reporting process involves monitoring and overseeing financial reporting, in particular with regard to items in the commercial financial statements that record the Company's hedging of risks. The Group has the following structures and processes:

- The management board bears overall responsibility for the internal monitoring and risk management system with regard to the group financial reporting process. All consolidated entities and strategic business units are part of a strictly defined management and reporting structure. The supervisory board, and the audit committee in particular, also regularly assess the HOMAG Group's internal monitoring systems (risk management, internal audit) in terms of their effectiveness. The audit committee therefore regularly examines internal monitoring and risk management.

- Certain principles and organizational resolutions and the main processes of the (group) internal monitoring and risk management system with regard to financial reporting are set out in guidelines that apply throughout the group (e.g., risk management handbook) and are adapted to recent external and internal developments on a regular basis. These include guidelines on procedures and timelines for the annual and interim financial statements, the group accounting handbook in accordance with the International Financial Reporting Standards (IFRSs) to be applied uniformly throughout the group, the standardized recording of disclosures in the notes using group-wide consolidation software and a standardized group chart of accounts. All employees involved in the preparation of financial statements receive regular training.

With regard to the (group) financial reporting process, we consider those aspects of the internal monitoring and risk management system that have a material influence on group accounting and the overall picture conveyed by the group financial statements and group management report to be significant. These can be described as follows:

- Identification by group accounting of major areas of risk and aspects to be monitored that are particularly relevant to the (group) financial reporting process by group accounting, above all unusual and complex business transactions and non-standard processes;
- Monitoring instruments for (group) financial reporting process and the results thereof at the level of the management board, the strategic business units and consolidated companies;
- Preventative monitoring measures in the finance and accounting of the Group and the individual consolidated companies, as well as in operating business processes which generate the key figures for the preparation of the consolidated financial statements and group management report, which has been combined with the management report of the Company. Other significant aspects include the segregation of functions, the dual control principle and the authorization procedures determined in relevant areas. The use of a group accounting handbook and computerized, standardized group reporting and consolidation software also contributes, as well as the downstream preparation of the consolidated financial statements.
- Measures to ensure the proper computerized processing of (group) financial reporting content and data;
- Measures to monitor the (group) financial reporting internal monitoring and risk management system, particularly internal audit.

The early warning system for the detection of risks was assessed by the auditor of the financial statements in the course of their audit of the parent company. The supervisory board discusses and examines key issues with regard to (group) financial reporting, risk management, the auditor's audit engagement and its focus.

Description of the Main Features of the Internal Monitoring and Risk Management System with Regard to the (Group) Financial Reporting Process

The internal monitoring and risk management system with regard to the financial reporting process, the main features of which are described above, is aimed at ensuring that the Company's data is accounted for, prepared, appraised correctly and transferred in this form to external financial reporting.

The organizational, corporate, management and monitoring structure, and the allocation of sufficient personnel and material resources to financial reporting form the basis for the efficiency of the departments working on the financial reporting. Clear legal and internal guidelines ensure a uniform and compliant financial reporting process.

HOMAG Group's internal monitoring and risk management system ensures that the financial reporting of the Company and the consolidated companies is uniform and complies with legal provisions and internal guidelines. The standardized group risk management system in particular, which meets all legal requirements, is charged with the task of identifying and evaluating risks at an early stage, and communicating them appropriately. This ensures that recipients of the report receive relevant and reliable information without delay.

However, no internal monitoring and risk management system that is both appropriate and functional can provide absolute certainty in the identification and management of risks.

7. FORECAST REPORT

Development of the Economy and Industry

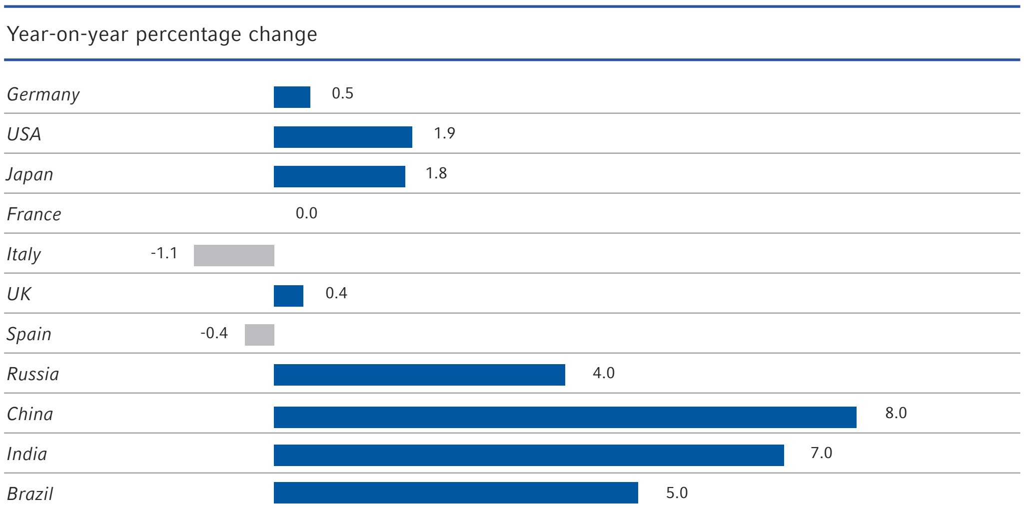
The IfW ["Institut für Weltwirtschaft": Institute for the World Economy] and the DIW ["Deutsches Institut für Wirtschaftsforschung": German Institute of Economic Research] share the opinion that the global economic growth will slow further in 2012. For example, the sovereign debt crisis in the eurozone, uncertainties in the financial sector and a more restrictive monetary and fiscal policy in emerging economies cast a shadow on business and consumer sentiment. Against this backdrop, the IfW expects global gross domestic product to grow by 3.4 percent. Production and exports are expected to remain subdued in the first half of the year in particular before momentum picks up again somewhat in the second half of the year.

Even if growth in the emerging economies slows a little, the forecast rise of 6.0 percent for 2012 is significantly more dynamic that industrialized countries. China is expected to see growth of 8.0 percent, India 7.0 percent, Brazil 5.0 percent and Russia 4.0 percent.

For the advanced economies, the IfW predicts economic output to rise by a mere 1.2 percent. According to this economic institute, the United States and Japan will see growth rates of just under 2 percent each, a much better economic development than in the European Union where growth is expected to stagnate. According to the forecasts, economic output will fall in the eurozone, in Italy, Spain, Greece and Portugal among other countries. The EU accession countries are seeing quite positive developments with growth of 1.8 percent.

Once again in 2012, the German economy will be marked by its great dependency on exports. Following the end of the export boom in autumn 2011, there has been a more positive underlying economic mood again since the beginning of the year. This is also reflected in increasingly positive annual forecasts by economists. These forecasts are also buoyed by continuing strong demand from emerging economies and the US economy which is gaining strength again. According to the forecasts, the German economy will regain strength in the course of 2012, despite the unpredictable factors underpinning the eurozone, and, as anticipated by the IfW, achieve growth in gross domestic product in the vicinity of 0.5 percent.

GDP (real) 2012 Forecast



Source: DIW/IfW

The VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation] expects the German mechanical engineering industry to stagnate in 2012. After the weaker order intake towards the end of 2011, the industry association revised its original production forecast from 4 percent growth to zero growth. The reasons for this given by the industry association are the considerable uncertainties in Europe and a weakening of the economy in China. For the wood processing machines segment, the competent industry association anticipates growth of between 2 percent and 5 percent in 2012. In this respect, some specific companies in the production line segment are still benefiting from their continued high order backlog. All in all, it is anticipated that order intake will improve again in the second half of 2012.

Forecast for HOMAG Group

The further development of the global economy currently contains uncertainties. This is primarily due to developments in the eurozone which are very difficult to predict. In light of this, the forecasts for the Group are based on some unpredictable factors and are subject to the condition that there are no major disruptions to the financial markets or in the general economy.

On the whole, the development of the HOMAG Group over the next few years will also be impacted by the factors named in the Risk and Opportunities Report (page 75 et seq.).

Being a company that feels any shift in the economic cycle at an early stage, we already identified the signs of a weakening economy in the second half of 2011. For this reason, our objective is to attain an order intake in 2012 that is roughly at the same level as in 2011.

In the project business with large-scale production lines we expect a slight drop in the first half of 2012 in comparison with the good first six months of the prior year that were characterized to a certain extent by an easing of the investment backlog. The need for investment in modern, powerful cells and lines remains uninterrupted specifically in central and eastern Europe, and most of all in Russia and in Asia. In the field of stand-alone machines, we are working on the assumption that the positive trends seen in 2011 will continue. On account of our strong presence in all relevant markets, we are able to balance out regional fluctuations in demand. We continue to see positive trends in our service business, which is why we are continually expanding our service structures.

For 2012, we again anticipate that the growth markets will develop more dynamically than the industrialized nations.

As regards consolidated sales revenue, we aim to reach about EUR 750 million and thereby roughly match the level of 2011 – adjusted for the special effect of the large-scale project with Mekran. On this basis, we anticipate for 2012 in the Group an operative EBITDA (before employee participation expenses and before extraordinary expenses) of about EUR 65 million. As the majority of the extraordinary expenses for the restructuring of the subsidiaries FRIZ, TORWEGGE and BÜTFERING has already been accounted for in the annual financial statements for 2011, our extraordinary expenses will decrease substantially in 2012. We therefore reconfirm our original forecast for 2012 that we will generate a net profit for the Group for the year.

We expect that the Group's net liabilities to banks will increase in the current fiscal year. This is mainly attributable to the fact that although the majority of the restructuring measures had already had an impact on earnings in 2011, it will not come to a cash outflow until 2012.

At single-entity level, we expect HOMAG Group AG to increase its net result in 2012 compared to the prior year. This is attributable to two factors: on the one hand the HOMAG Holzbearbeitungssysteme GmbH expects improved earnings. On the other, initial positive effects are being felt from the restructuring of the subsidiary FRIZ Kaschiertechnik GmbH, which has a profit and loss transfer agreement in place with HOMAG Holzbearbeitungssysteme GmbH. For the fiscal year 2013, we anticipate a further increase in the net profit for the year, which should stem from the improved earnings at HOMAG Holzbearbeitungssysteme GmbH and HOLZMA Plattenaufteiltechnik GmbH.

The headcount in the Group will decrease overall in 2012 on account of the restructuring measures. We plan a slight increase in personnel at our foreign production companies.

The investment volume in the Group will increase slightly again compared to 2011. Focal points in this context will include the new construction of the sales office in Switzerland, extensive remodeling of the warehouse at HOMAG Holzbearbeitungssysteme GmbH and the further expansion of the Chinese production plant in Shanghai. In addition, investment will be made in our corporate software systems in connection with our ProFuture project.

Overall, we see 2012 as a year of transition in which we want to further optimize our structures with the restructuring measures that were resolved and are currently being implemented. With these measures we will lower our structural costs and, in turn, our break-even point, placing us in an even better position to tackle the challenges posed by the market. We anticipate positive impetus in 2012 from the major trade fairs HOLZ-HANDWERK in March in Nuremberg, CIFF Interzum in March in Guangzhou, China and Xylexpo in May in Milan at which we will present our innovative products to customers.

In relation to the individual segments of the HOMAG Group (Industry, Cabinet Shops, Sales & Service and Other), we expect a decrease in sales revenue in the Industry segment in 2012, as a large part of the sales revenue from the large-scale project with Mekran was included in the 2011 figures. By contrast, in the Cabinet Shops and Other segments we anticipate a slight increase in sales revenue and earnings in the fiscal year 2012. In the Sales & Service segment we expect the development of sales revenue and earnings in 2012 to compare to that seen 2011.

Fiscal 2013

Our forecast for 2013 is also only valid based on certain premises, as it is not possible to make any reliable statements at present on the development of the global economy in light of the sovereign debt crisis. Such premises include that there are no further disruptions in financial markets and that the growth projections for the global economy issued by the leading economic research institutes turn out to be accurate.

Subject to these conditions, we expect that the Group will see moderate year-on-year growth in order intake and sales revenue in 2013. From the restructuring measures at the three subsidiaries, we expect to see a sustained annual improvement in operative EBITDA in the Group compared to the fiscal year 2011 of between EUR 6 million and EUR 8 million from 2013 onwards. We also anticipate a rise in net profit for the Group compared to the fiscal year 2012.

On account of the global prospects for the wood-processing industry, we remain true in principle to our original forecast that, in the medium term, we will return to the level of sales revenue seen in the years 2007 and 2008 of approximately EUR 850 million, provided there are no adverse developments in the economy.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Consolidated Financial Statements for Fiscal Year 2011

CONSOLIDATED INCOME STATEMENT FOR FISCAL YEAR 2011

EUR k	Note	2011	2010
SALES REVENUE	5.1	**798,678**	**717,737**
Increase or decrease in inventories of finished goods and work in process		1,394	2,493
Own work capitalized	5.2	11,713	10,107
		13,107	12,600
TOTAL OPERATING PERFORMANCE		**811,785**	**730,337**
Other operating income	5.3	17,368	20,000
		829,153	**750,337**
Cost of materials	5.4	363,025	314,145
Personnel expenses before employee participation	5.5	284,047	256,784
Amortization of intangible assets	5.7	13,356	10,890
Depreciation of property, plant and equipment	5.8	18,751	17,905
Other operating expenses	5.9	129,145	118,635
		808,324	**718,359**
OPERATING RESULT BEFORE EMPLOYEE PARTICIPATION		**20,829**	**31,978**
Result from employee participation	5.5	-5,116	-6,857
NET OPERATING PROFIT/LOSS		**15,713**	**25,121**
Profit/loss from associates	5.10	625	1,225
Interest income	5.13	3,388	2,293
Interest expenses	5.13	13,360	14,227
EARNINGS BEFORE TAXES		**6,366**	**14,412**
Income taxes	5.14	-9,658	-6,321
NET PROFIT/LOSS FOR THE YEAR		**-3,292**	**8,091**
Profit/loss attributable to non-controlling interests	5.16	1,426	1,408
Profit/loss attributable to owners of Homag Group AG	5.17	-4,718	6,683
Earnings per share attributable to owners of Homag Group AG in EUR (basic and diluted)		-0.30	0.43

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR FISCAL YEAR 2011

EUR k	2011	2010
GROUP NET PROFIT/LOSS FOR THE YEAR	**-3,292**	**8,091**
Currency effects	561	5,648
Actuarial gains and losses	121	-435
Income tax on other comprehensive income	-30	141
OTHER COMPREHENSIVE INCOME	**652**	**5,354**
TOTAL COMPREHENSIVE INCOME	**-2,640**	**13,445**
Total comprehensive income attributable to non-controlling interests	1,616	1,843
Total comprehensive income attributable to owners of Homag Group AG	-4,256	11,602

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2011

ASSETS

EUR k		Note	Dec. 31, 2011	Dec. 31, 2010
NON-CURRENT ASSETS				
I.	Intangible assets	6.1, 6.2	62,491	58,071
II.	Property, plant and equipment	6.1, 6.3	135,217	138,647
III.	Investments in associates	6.4	7,875	7,519
IV.	Other financial assets		534	493
V.	Receivables and other assets			
	Trade receivables	6.6	1,664	4,155
	Other financial assets	6.8	1,813	3,155
	Other assets and prepaid expenses	6.9	99	133
	Income tax receivables	6.10	2,151	2,443
VI.	Deferred taxes	5.14	13,833	17,359
			225,677	**231,975**
CURRENT ASSETS				
I.	Inventories	6.5	129,961	128,233
II.	Receivables and other assets			
	Trade receivables	6.6	85,382	94,810
	Receivables from long-term construction contracts	6.7	34,233	15,941
	Receivables due from associates	6.6	9,809	8,797
	Other financial assets	6.8	9,540	10,309
	Other assets and prepaid expenses	6.9	4,420	3,636
	Income tax receivables	6.10	2,885	6,144
III.	Cash and cash equivalents	6.11	56,469	70,286
			332,699	**338,156**
TOTAL ASSETS			**558,376**	**570,131**

EQUITY AND LIABILITIES

EUR k		Note	Dec. 31, 2011	Dec. 31, 2010
EQUITY				
I.	Issued capital	6.13.1	15,688	15,688
II.	Capital reserves	6.13.2	32,976	32,976
III.	Revenue reserves	6.13.3	101,203	98,814
IV.	Net profit/loss for the year	6.13.4	-4,718	6,683
	Equity attributable to owners		145,149	154,161
V.	Non-controlling interests	6.13.5	16,505	15,853
			161,654	**170,014**
NON-CURRENT LIABILITIES AND PROVISIONS				
I.	Non-current financial liabilities	6.14	114,328	109,827
II.	Other non-current liabilities		11,101	11,546
III.	Pensions and other post employment benefits	6.16	3,284	3,260
IV.	Obligations from employee participation	6.17	11,885	12,392
V.	Other non-current provisions	6.18	4,562	5,357
VI.	Deferred taxes	5.14	11,602	10,834
			156,762	**153,216**
CURRENT LIABILITIES AND PROVISIONS				
I.	Current financial liabilities	6.14	38,257	57,769
II.	Trade payables		78,444	67,002
III.	Prepayments		27,685	39,690
IV.	Liabilities from long-term construction contracts	6.7	2,917	865
V.	Liabilities to associates		1,980	4,158
VI.	Other financial liabilities		103	299
VII.	Other current liabilities and deferred income		71,027	54,043
VIII.	Tax liabilities		2,767	5,826
IX.	Pensions and other post employment benefits	6.16	52	50
X.	Other current provisions	6.18	16,728	17,199
			239,960	**246,901**
TOTAL LIABILITIES			**396,722**	**400,117**
TOTAL EQUITY AND LIABILITIES			**558,376**	**570,131**

CONSOLIDATED CASH FLOW STATEMENT FOR FISCAL YEAR 2011

EUR k		Note 4.2.20	2011	2010
1.	CASH FLOW FROM OPERATING ACTIVITIES			
	Profit or loss before taxes		**6,366**	**14,412**
	Income tax paid (-)		-6,736	-1,099
	Interest result	5.13	9,972	11,934
	Interest paid (-)		-12,061	-12,967
	Interest received (+)		3,326	2,235
	Write-downs (+)/write-ups (-) of non-current assets (netted)	5.7, 5.8	32,107	28,795
	Increase (+)/decrease (-) in provisions		1,827	5,196
	Other non-cash expenses (+)/income (-)		-26	87
	Share of profit (-) or loss (+) of associates	5.10	-625	-1,225
	Gain (-)/loss (+) on disposal of non-current assets		26	56
	Increase (-)/decrease (+) in inventories, trade receivables and other assets		-7,973	-5,170
	Increase (+)/decrease (-) in trade payables and other liabilities		14,613	20,481
	CASH FLOW FROM OPERATING ACTIVITIES		**40,816**	**62,735**
2.	CASH FLOW FROM INVESTING ACTIVITIES			
	Cash received (+) from disposals of property, plant and equipment		2,213	2,150
	Cash paid (-) for investments in property, plant and equipment	6.1	-15,561	-8,725
	Cash received (+) from disposal of intangible assets		2	0
	Cash paid (-) for investments in intangible assets		-18,204	-14,257
	Cash received (+) from disposal of financial assets		0	302
	CASH FLOW FROM INVESTING ACTIVITIES		**-31,550**	**-20,530**

EUR k	Note 4.2.20	2011	2010
3. CASH FLOW FROM FINANCING ACTIVITIES			
Dividends	5.18	-4,706	0
Cash paid (-) to non-controlling interests		-934	-570
Cash received (+) from allocations to equity		0	274
Cash received (+) from the issue of (financial) liabilities		23,063	81,000
Cash repayment (-) of bonds and (financial) liabilities		-41,029	-85,636
CASH FLOW FROM FINANCING ACTIVITIES		**-23,606**	**-4,932**
4. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			
Change in cash and cash equivalents (subtotal 1 – 3)		-14,340	37,273
Effect of currency translation adjustments and change in scope of consolidation on cash and cash equivalents		523	3,190
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**70,286**	**29,823**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD [1]		**56,469**	**70,286**

[1] *Cash and cash equivalents at the end of the period corresponds to the statement of financial position item cash and cash equivalents.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR FISCAL YEAR 2011

EUR k	Issued capital	Capital reserve	Revenue reserves
			Revenue
JAN. 1, 2010	**15,688**	**32,976**	**114,449**
OTHER CHANGES			**-380**
Dividends paid			
Non-controlling interests from acquisitions			
Changes from non-controlling interests			-11
TRANSACTIONS WITH OWNERS			**-11**
RECLASSIFICATION TO REVENUE RESERVES			**-20,710**
Net result for the year			
Other income and expense			
TOTAL COMPREHENSIVE INCOME			
DEC. 31, 2010	**15,688**	**32,976**	**93,348**
JAN. 1, 2011	**15,688**	**32,976**	**93,348**
OTHER CHANGES			**-81**
Dividends paid			-4,706
Non-controlling interests from acquisitions			31
TRANSACTIONS WITH OWNERS			**-4,675**
RECLASSIFICATION TO REVENUE RESERVES			**6,683**
Net result for the year			
Other income and expense			
TOTAL COMPREHENSIVE INCOME			
DEC. 31, 2011	**15,688**	**32,976**	**95,275**

reserves					
Other comprehensive income	Translation reserve	Group profit	Equity before non-controlling interests	Non-controlling interests	Total
57	490	-20,710	142,950	14,295	157,245
			-380		-380
				-570	-570
				274	274
			-11	11	
			-11	-285	-296
		20,710			
		6,683	6,683	1,408	8,091
-281	5,200		4,919	435	5,354
-281	5,200	6,683	11,602	1,843	13,445
-224	5,690	6,683	154,161	15,853	170,014
-224	5,690	6,683	154,161	15,853	170,014
			-81	1	-80
			-4,706	-934	-5,640
			31	-31	0
			-4,675	-965	-5,640
		-6,683	0	0	0
		-4,718	-4,718	1,426	-3,292
90	372		462	190	652
90	372	-4,718	-4,256	1,616	-2,640
-134	6,062	-4,718	145,149	16,505	161,654

Notes to the Consolidated Financial Statements for Fiscal Year 2011

1. GENERAL

1.1 Application of Accounting Requirements

The consolidated financial statements of Homag Group AG (Homag Group) as of December 31, 2011 were prepared in accordance with the International Accounting Standards (IASs) and the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), the interpretations of the Standing Interpretations Committee (SIC) and of the IFRS Interpretations Committee as adopted by the EU and applicable as of the reporting date. The supplementary provisions of Sec. 315a HGB ["Handelsgesetzbuch": German Commercial Code] were also complied with.

The consolidated financial statements have been prepared in euro (group currency). Besides the income statement and statement of financial position, a statement of cash flows, a statement of changes in equity and a statement of comprehensive income have been presented separately.

The income statement has been prepared using the function of expenses method.

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

All those standards (IFRSs/IASs) and interpretations (IFRICs) subject to mandatory application for fiscal year 2011 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 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 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 March 16, 2012, the management board of Homag Group AG authorized the 2011 consolidated financial statements and the combined management report for 2011 for issue 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 significant 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 measured at the fair value on the date of purchase of all identifiable assets, liabilities and contingent liabilities. Any debit differences remaining after remeasurement 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 is any indication of impairment. We refer to note 4.2.1 for further explanations on goodwill.

If a credit difference results from first-time capital consolidation, a reassessment is performed. The revaluation of the assets and liabilities assumed including the contingent liabilities recognized is reviewed again in the course of 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 are 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 accounting treatment of capital consolidation under HGB 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 opening IFRS statement of financial position. All differences between the closing HGB balance sheet and the opening IFRS statement of financial position were offset against the Group’s revenue reserves.

2.2 Acquisition of Non-controlling Interests

The Homag Group treats the acquisition of non-controlling interests as equity transactions. Any difference between the acquisition cost of non-controlling interests and the proportionate value of the non-controlling interests as at the date of acquisition is recognized directly in equity under the Group's revenue reserves.

2.3 Foreign Currency Translation

The functional currency of Homag Group AG is the euro (EUR). The financial statements of the consolidated foreign entities are translated pursuant to IAS 21 from the functional currency to euro. Since subsidiaries conduct their business independently within the economic environment of the country in which they are registered, the functional currency is generally the local currency of each entity. 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 statement of financial position or income statement from exchange rate differences are recognized directly in equity.

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

	Closing rate		Average rate	
1 EUR	**Dec. 31, 2011**	Dec. 31, 2010	**2011**	2010
US dollar	1.29380	1.32820	1.39284	1.32789
Pound sterling	0.83720	0.86300	0.86821	0.85891
Australian dollar	1.27160	1.31210	1.34876	1.44615
Canadian dollar	1.31970	1.32770	1.37706	1.36843
Danish krone	7.43420	7.45550	7.45118	7.44781
Japanese yen	100.11680	108.59360	111.06358	116.57602
Swiss franc	1.21620	1.24420	1.23358	1.38330
Chinese CNY	8.14850	8.76970	9.01686	9.00050

3. CONSOLIDATED GROUP

In addition to Homag Group AG, the consolidated financial statements include 17 (prior year: 17) entities with registered offices in Germany and 24 (prior year: 23) 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 note 9.

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 note 9 for further explanations.

3.2 Changes in the Consolidated Group

In May 2011, the share in Bütfering Schleiftechnik GmbH, Beckum, was increased from 96.3 percent to 97.8 percent while at the same time diluting non-controlling interests.

In addition, Homag Machinery Bangalore Private Limited, which was founded on July 20, 2011, was consolidated for the first time in the third quarter. The first-time inclusion of this company in the interim consolidated financial statements does not have any material effect on the Homag Group's net assets, financial position and results of operations.

4. ACCOUNTING POLICIES

The financial statements of the subsidiaries included in the consolidated financial statements are prepared as of the same reporting date as the parent company using uniform accounting policies. For this purpose, 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 IFRS standards and interpretations became operative in the fiscal year 2011:

IAS 24	Related Party Disclosures
Amendments to IAS 32	Classification of Rights Issues
Improvements to IFRS 2010	*Improvements to IFRS 2010*
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The principal effects of these standards and interpretations are as follows:

IAS 24 Related Party Disclosures
The revised IAS 24 was issued in November 2009 and becomes effective for the first time in fiscal years beginning on or after January 1, 2011. The revised standard changes the definition of related parties and exempts government-related entities from the disclosure requirement for business transactions with the government and other government-related entities in the same state. The standard is to be applied retroactively. The extended definition does not result in additional disclosures requirements for the Group. The change will likewise not have any effect on the recognition and measurement of assets and liabilities in the consolidated financial statements and earnings in future fiscal years.

Amendment to IAS 32 - Classification of Rights Issues

The amendment to IAS 32 was issued in October 2009 and became effective for fiscal years beginning on or after February 1, 2010. This amendment contains an adjustment to the definition of a financial liability, meaning that certain rights issues can be classified as equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This regulation does not affect the Group's net assets, financial position and results of operations because the Group has not granted such rights.

Improvements to IFRSs 2010

The improvements to IFRSs 2010 were published in May 2010 and constitute an omnibus standard containing amendments to various IFRSs. The date that each standard becomes effective and any transitional rulings are set out individually. The following amendments were applicable for the first time in 2011:

IFRS 3 Business Combinations

- *Transitional provisions for contingent consideration from a business combination with an acquisition date preceding the date on which the amended IFRS comes into effect:* This amendment is effective for fiscal years beginning on or after July 1, 2010. The amendment clarifies that the changes to *IFRS 7 Financial Instruments: Disclosures*, *IAS 32 Financial Instruments: Presentation* and *IAS 39 Financial Instruments: Recognition* and *Measurement,* which revoke the exclusion of the contingent consideration from the scope of these standards, do not apply to contingent consideration resulting from business combinations with an acquisition date preceding the adoption of IFRS 3 (revised 2008). At Homag Group AG, this does not at present have any effects on the contingent consideration from business combinations.
- *Measurement of non-controlling interests:*
  This amendment is effective for fiscal years beginning on or after July 1, 2010. It limits the scope of the measurement option such that only the non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at fair value or the present ownership instruments' proportionate share in the recognized amounts of the acquiree's net identifiable assets. All other components of non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by other IFRSs, such as IFRS 2. The amendments can have effects on future business combinations of the Group.

- *Share-based payments voluntarily replaced or not replaced:*
  This amendment is effective for fiscal years beginning on or after July 1, 2010. The standard provides for the prospective application as of the date of adoption of IFRS 3 (2008). The changed standard states that entities are obliged to recognize share-based payments replaced in connection with business combinations. As a result, the consideration has to be separated from the expense incurred in the business combination. Post-combination expenses also include the replacement of share-based payment awards of the acquiree, provided that they expire in connection with business combinations. Under the amended standard, share-based payment transactions that the acquirer does not replace with its own share-based payment awards are accounted for as follows: Vested payment transactions constitute non-controlling interests and are measured at their market-based measure. Non-vested payment transactions are measured at their market-based measure as if they had been awarded at the acquisition date and are allocated between the non-controlling interests and post-combination cost. The amendment may have effects on future business combinations.

IAS 27 Consolidated and Separate Financial Statements
The amendment clarifies that the consequential amendments resulting from IAS 27 to *IAS 21 The Effects of Changes in Foreign Exchange Rates*, *IAS 28 Investments in Associates* and *IAS 31 Interests in Joint Ventures* are applicable prospectively for fiscal years beginning on or after July 1, 2009; earlier application is permitted provided that IAS 27 is early adopted. The amended standard is applicable retrospectively and effective for the first time for fiscal years beginning on or after July 1, 2010. The corresponding effects were accounted for, although they were of no consequence to the Group's net assets, financial position and result of operations.

Amendment to IFRIC 14 – Prepayments of a Minimum Funding Requirement
The amendment to IFRIC 14 was issued in November 2009 and became effective for fiscal years beginning on or after January 1, 2011. Application of IFRIC 14, which was published in July 2007, had some unintentional consequences for entities in some countries. These were related to the intention to limit the measurement of a defined benefit asset to its present value. The amendment is intended to allow entities to recognize an asset for prepayments of a minimum funding requirement. Since all of the defined benefit plans of the Group are currently running a deficit, this interpretation did not have any effect on the Group's net assets, financial position and results of operations.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC 19 was issued in November 2009 and became effective for fiscal years beginning on or after July 1, 2010. This interpretation clarifies that in the case of an equity instrument

being issued to a creditor by way of payment for a financial liability, the equity instrument is to be treated as consideration for the repayment of the liability. The equity instruments are measured either at their own fair value or at the fair value of the liability settled depending on which can be determined with the greatest degree of reliability. Any difference between the carrying amount of the financial liability settled and the fair value of the equity instrument issued is posted directly to profit or loss for the period. This amendment does not have any effect on the Group at present as it has not issued and does not plan to issue such equity instruments.

The following standards have been endorsed by the EU and issued. Application was not yet mandatory for the fiscal year 2011. The Group did not early adopt these standards.

Amendments to IFRS 7	Transfers of Financial Assets

Amendment to IFRS 7 Disclosures – Transfers of Financial Assets
The amendment to IFRS 7 was issued in October 2010 and became effective for fiscal years beginning on or after July 1, 2011. The amendment results in extensive new qualitative and quantitative disclosures on transfers of financial assets that are not derecognized and on the continuing involvement in the financial assets as of the reporting date. This amendment is expected to extend the disclosures on financial instruments. However, the amendment will not have any effect on the recognition and measurement of assets and liabilities in the consolidated financial statements and the results in future fiscal years.

The IASB and the IFRS Interpretations Committee have published the standards and interpretations listed below, the adoption of which was not yet mandatory for the fiscal year 2011. These standards have not yet been endorsed by the EU and have not been applied by the Group.

Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets
IAS 19	Employee Benefits (as revised in 2011)
IAS 27	Separate Financial Statements (as revised in 2011)
IAS 28	Investments in Associates and Joint Ventures (as revised in 2011)
Amendments to IAS 32	Offsetting of Financial Assets and Financial Liabilities
Amendments to IFRS 7	Disclosures: Offsetting of Financial Assets and Financial Liabilities
IFRS 9	Financial Instruments: Classification and Measurement
Amendments to IFRS 9 (2009), IFRS 9 (2010) and IFRS 7	Effective Date and Transition
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement

Amendment of IAS 1 – Presentation of Items of Other Comprehensive Income
The amendment to IAS 1 was issued in June 2011 and becomes effective for fiscal years beginning on or after July 1, 2012. The amendment to IAS 1 concerns the presentation of the items of other comprehensive income. Items that could be reclassified to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment merely affects presentation and has no impact on the Homag Group's net assets, financial position and results of operations.

Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets
The amendment to IAS 12 was issued in December 2010 and becomes effective for the first time for fiscal years beginning on or after January 1, 2012. Deferred tax assets and deferred tax liabilities for property carried at fair value are measured based on the assumption that the carrying amount of these assets is realized in full by sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model always be measured on a sale basis of the asset. The amendment has no effect on the Group's net assets, financial position and result of operations as none of its real estate is measured using the revaluation model.

IAS 19 Employee benefits (as revised in 2011)
The revised IAS 19 was issued in June 2011 and becomes effective for the first time in fiscal years beginning on or after January 1, 2013. The amendments range from fundamental changes such as the calculation of expected returns on plan assets and removing the corridor mechanism, which was used to evenly spread the volatility resulting from pension obligations over time, to simple clarifications and re-wording. The Homag Group does not apply the corridor method; all actuarial gains and losses are recognized in other comprehensive income in the period in which they occur. The other amendments introduced by the revised IAS 19 are accounted for in the financial statements for the period prescribed by law. The Group is currently assessing the impact of these amendments.

IAS 27 Separate Financial Statements (as revised in 2011)
The revised IAS 27 was issued in May 2011 and becomes effective for the first time in fiscal years beginning on or after January 1, 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
The revised IAS 28 was issued in May 2011 and becomes effective for the first time in fiscal years beginning on or after January 1, 2013. With the issue of IFRS 11 and IFRS 12 the scope of IAS 28 was extended such that the equity method is applicable not only to associates but also to joint ventures. The amendment has no effect on the Group's net assets, financial position and result of operations as it does not hold any interests in joint ventures.

Amendments to IAS 32 and IFRS 7 – Offsetting of Financial Assets and Financial Liabilities
The amendment to IAS 32 and IFRS 7 was published in December 2011 and must be applied for the first time in fiscal years beginning on or after January 1, 2013. The amendment is to eliminate existing inconsistencies by supplementing the application guidelines. However, the existing fundamental provisions on offsetting financial instruments will be retained. The amendment also defines additional disclosures. The amendment will not have any effects on the accounting policies used by the Group, although it will require additional disclosures.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 was issued in November 2009 and becomes effective for the first time in fiscal years beginning on or after 1 January 2013. The standard was developed by the IASB as the first part of the project relating to the comprehensive revision of the accounting for financial instruments and contains new regulations on the classification and measurement of financial assets. According to the new ruling, depending on their respective features and taking the business model or models into account, financial assets are either accounted for at amortized cost or recognized at fair value through profit or loss. Investments in equity instruments are always accounted for at fair value; fluctuations in the value of equity instruments can, however, be recorded in other comprehensive income. The latter is an option that can be exercised when a specific instrument is initially recognized. In this case, only certain dividend income from equity instruments is shown in the income statement. The second phase of the project was published in October 2010. The amendment is applicable for the first time for fiscal years beginning on or after January 1, 2015. As a rule, the standard is to be applied retroactively. The existing measurement and classification requirements for financial liabilities remain unchanged, with the following exceptions: Effects from changes in the entity's own credit risk for financial liabilities measured at fair value through profit or loss now have to be recognized in other comprehensive income and derivative liabilities linked to unquoted equity instruments may not be recognized at cost. The completion of this project is expected in 2012. The adoption of the first phase may have an effect on the classification and possibly on the measurement of the Group's financial assets. The second phase is not expected to have any effect on the Group's net assets, financial position and results of operations. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 was issued in May 2011 and becomes effective for the first time in fiscal years beginning on or after January 1, 2013. The new standard replaces the requirements previously in *IAS 27 Consolidated and Separate Financial Statements* that addressed the accounting for consolidated financial statements and *SIC Interpretation 12 Consolidation – Special Purpose Entities.* IFRS 10 establishes a single control model that applies to all entities including special purpose entities. Under this concept an investor is deemed to control an investee leading to full consolidation of the latter in the consolidated financial statements if the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Homag Group has received returns from entities that are not included in full consolidation, but has no power over these in any material respect. Consequently, the amendment has no effect on the Group’s net assets, financial position and results of operations.

IFRS 11 Joint Arrangements

IFRS 11 was issued in May 2011 and becomes effective for the first time in fiscal years beginning on or after January 1, 2013. The standard replaces IAS 31 *Interests in Joint Ventures* and *SIC Interpretation 13 Jointly-controlled Entities – Non-monetary Contributions by Venturers.* IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Reference is made to the explanations on IAS 28 as regards the effects of IFRS 11.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 was issued in May 2011 and becomes effective for the first time in fiscal years beginning on or after January 1, 2013. The standard includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. As the new standard defines additional disclosure requirements, the notes to the consolidated financial statements on these entities will be more detailed.

IFRS 13 Fair Value Measurement

IFRS 13 was issued in May 2011 and becomes effective for the first time in fiscal years beginning on or after January 1, 2013. This standard defines comprehensive quantitative and qualitative disclosures on fair value measurements and establishes guidance for determining fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group is currently assessing the impact that this standard will have on the net assets, financial position and results of operations.

4.2 Accounting Policies for Selected Items

4.2.1 Goodwill

Business combinations are accounted for using the acquisition 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 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 acquiree 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 business segment determined in accordance with IFRS 8.5 *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 carried out at least once annually unless there is an extraordinary reason to conduct an impairment test over the course of the year.

For production companies of the Homag Group, the legal entities are defined as CGUs; while for sales activities of the Group, the existing goodwill was allocated to groups of CGUs (Europe, America and Asia/Pacific).

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 2016. The cash flow for 2016 was projected for the period following the detailed planning period, assuming a change of 1 percent in working capital as well as the intangible assets and property, plant and equipment in line with the growth mark-up.

The main items of goodwill and the underlying assumptions for the impairment tests are listed in note 6.2.

4.2.2 Internally Generated Intangible Assets

The internally generated intangible assets almost exclusively concern development costs of new products. These are capitalized provided that clear allocation of costs – i.e., it is possible to determine production costs reliably – and all the other criteria of IAS 38 are met. 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; provided they are allocable to a qualifying asset, they are capitalized.

Depreciation is generally based on the following useful lives:

	Years
Property	15 to 30
Other equipment, technical equipment and machines	8 to 15
Furniture and fixtures	4 to 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 flows 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 profit and loss of the period in which the expenses to be compensated for are incurred.

4.2.6 Finance Leases and Operating Leases

Under finance leases, 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 or rent payments are expensed as incurred.

4.2.7 Financial 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 non-derivative 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 transaction costs, with the exception of financial assets recognized at fair value through profit and 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 and 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 impairment losses, interest determined using the effective interest 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 loss.

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

Apart from loans and receivables, the Homag Group has financial instruments held for trading in the form of derivatives without a hedging relationship and derivatives as part of an effective hedge. The Group had not recognized any financial assets or liabilities at fair value through profit or loss as of December 31, 2011 or December 31, 2010.

Recognition of changes in the fair value of derivative financial instruments, i.e., recognition in profit or loss or directly in equity, depends on whether these are designated and effective hedging instruments in accordance with IAS 39. If it is not a designated and effective hedging instrument pursuant to IAS 39, the changes in fair value of derivative financial instruments are recognized immediately in profit or loss. However, if there is an effective hedging relationship pursuant to IAS 39, the hedging relationship is accounted for as a hedge.

The Homag Group AG applies the provisions governing hedge accounting for hedging items in the statement of financial position and future cash flows. This reduces volatility in the income statement. Depending on the type of hedged item, a distinction is drawn between fair value hedge and cash flow hedge.

Cash flow hedges are used to hedge future cash flows from firm commitments related to the assets and liabilities recognized in the statement of financial position. For interest rate risk hedges related to firm commitments, Homag Group AG elects to recognize these as cash flow hedges rather than as fair value hedges. In a cash flow hedge, the effective part of the change in the value of the hedging instrument until the result of the hedged item is recognized is recorded directly in equity (hedge reserve); the ineffective part of the change in the value of the hedging instrument is recognized through profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of financial or non-financial assets or liabilities, the accumulated gains or losses associated with the hedge initially remain posted to equity but are subsequently reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

IAS 39 prescribes strict requirements for hedge accounting. These are satisfied by Homag Group AG as follows: At the inception of a hedge both the relationship between the hedging instrument and the hedged item as well as the objective and strategy for undertaking the hedge are documented. This includes a specific designation of the hedging instrument to the associated assets and liabilities or contractually agreed future transactions as well as an estimate of the effectiveness of the hedge instrument. Hedges are continually tested for effectiveness; if a hedge becomes ineffective, its treatment under hedge accounting is immediately discontinued.

Homag Group AG also has hedges that do not satisfy the strict requirements for hedge accounting under IAS 39, but which effectively contribute to hedging financial risks in compliance with the principles of risk management. Homag Group AG does not use hedge accounting as defined in IAS 39 to recognize the monetary assets and liabilities used to hedge currency risks since the gains and losses of the hedged items to be posted to profit or loss pursuant to IAS 21 are shown together with the gains and losses from the derivatives used as hedging instruments.

Within the Homag Group, these derivative financial instruments that do not qualify for hedge accounting are allocated as held for trading to the category marked-to-market financial assets/liabilities at fair value through profit or loss as of the reporting date. The market values are calculated using standardized financial modeling methods (mark-to-market method) or quoted market prices. Gains and losses from the change in the market values of these derivative financial instruments are immediately posted to profit or loss. The derivative financial instruments used by the Group that do not qualify for hedge accounting are primarily forward exchange contracts to hedge against 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 reporting 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

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 there are no qualifying assets.

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. If the total costs are expected to exceed total income, the expected losses are expensed immediately. 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 statement of financial position and the tax base of the assets and liabilities (liability method) as well as for unused tax losses, provided they are capable of being used in the next five years and have no history of loss. 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. 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 reporting date to determine the obligations but also future anticipated increases in 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 reporting date.

Actuarial gains and losses are recognized outside profit or loss in the period in which they occur under other comprehensive income for the year recognized directly in equity. Service cost is disclosed under personnel expenses and interest expenses under the corresponding item in the income statement.

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 typically 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 as recognized in the financial statements prepared according to commercial law. This profit participation is partly used to repay the loan granted, and the remaining amount is paid out to the participating employee. Attributable losses are deducted from future profit allocations. Employee benefits in connection with the silent participation program qualify as employee benefits within the meaning of IAS 19. If profit attributable to an employee is paid out directly, this is treated as a short-term employee benefit. If the profit attributable 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 biometric data based on actuarial principles.

Profit or loss from employee profit participation is disclosed separately on the face of the income statement. This includes any interest income generated in connection with this from the issue of loans as well as changes to the obligation owing to the unwinding of the discount.

4.2.14 Share-based Payments

Management board members are granted share appreciation rights that can only be 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 (cf. note 5.6 for details). This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date with changes in fair value recognized in the income statement.

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.

Non-current provisions due in more than one year are stated at their settlement amount discounted to the reporting 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.

4.2.17 Borrowing Costs

Borrowing costs are recognized as an expense when incurred. Pursuant to IAS 23, borrowing costs in connection with the construction of a qualifying asset are capitalized.

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 and rebates are taken into account. The specific recognition criteria described below 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 (i.e., after acceptance by the customer) – 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 when interest accrues.

4.2.19 Assumptions and Estimates

Estimates and assumptions have to be made in the consolidated financial statements that have an effect 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. As of December 31, 2011, the best estimate of the carrying amount of capitalized development costs was EUR 25,633 k (prior year: EUR 22,221 k).

Impairment of Goodwill

The Group tests goodwill for impairment at least once a year. 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 at December 31, 2011 was EUR 14,240 k (prior year: EUR 16,004 k). We refer to note 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. We refer to note 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 assets, mortality rates and future pension increases. As these plans are of a long-term nature, such estimates are highly uncertain. As of December 31, 2011, the provision for pensions and other post-employment benefits amounted to EUR 3,336 k (prior year: EUR 3,310 k). We refer to note 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 and expected retirement age of employees. The liabilities from employee profit participation as of December 31, 2011 amounted to EUR 11,885 k (prior year: EUR 12,392 k). We refer to note 6.17 for further information.

Accrued Liabilities and Provisions

When measuring accrued liabilities and provisions – particularly relating to litigation, tax risks or restructuring measures – assumptions and estimates play an important role in assessing the probability of utilization and the obligation amount. For ongoing cases, the Homag Group recognizes provisions if it is probable that an obligation will arise that will lead to a future outflow of resources embodying economic benefits and a reliable estimate can be made of the amount of the obligation. The status of legal disputes or restructuring measures is continually reassessed, also in consultation with external lawyers. An assessment can change in line with new findings, resulting in a need to adjust the amount of the provision or accrued liability in response to new developments.

Share-based Payments

Within the Homag Group, the cost of issuing 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 Consolidated 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 statement of financial position, i.e., cash in hand, checks and bank balances which can be disposed of within three months. Cash and cash equivalents comprise the following:

EUR k	**2011**	2010
Cash on hand	118	123
Checks	22	145
Bank balances	56,329	70,018
	56,469	**70,286**

Cash and cash equivalents are not subject to any significant restrictions on their disposal.

5. NOTES TO INDIVIDUAL INCOME STATEMENT ITEMS

5.1 Sales Revenue

The following table shows the breakdown of revenue by geographical region:

EUR k	**2011**	2010
Germany	**194,291**	**156,026**
Other EU countries	235,407	255,935
Rest of Europe	154,659	91,819
North America	53,889	37,184
Central/South America	33,977	41,272
Asia/Pacific	124,014	132,512
Africa	2,441	2,989
Other countries	**604,387**	**561,711**
TOTAL	**798,678**	**717,737**

The location of the customer is used to determine allocation to the regions.

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 305,335 k (prior year: EUR 254,482 k) was recorded from customized construction contracts in the reporting year using the percentage of completion method.

5.2 Own Work Capitalized

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

5.3 Other operating income

Other operating income comprises the following:

EUR k	**2011**	2010
Income from cost allocations to third parties	1,979	1,947
Exchange rate gains	4,511	7,095
Gains on disposal of non-current assets	675	424
Income from the reversal of specific bad debt allowances	1,474	1,792
Income from cost reimbursements	455	894
Income from private car usage	2,268	2,103
Income from the derecognition of liabilities	0	70
Canteen revenues	573	630
Income from receivables that have been written off	32	61
Commission received	349	201
Other income	5,052	4,783
	17,368	**20,000**

5.4 Cost of Materials

EUR k	**2011**	2010
Cost of raw materials, consumables and supplies and purchased goods	332,271	295,420
Cost of purchased services	30,754	18,725
	363,025	**314,145**

5.5 Personnel Expenses and Number of Employees

EUR k	2011	2010
Wages and salaries	241,575	214,521
Social security, pension and other benefit costs	42,472	42,263
- thereof pension benefits	*17,455*	*17,228*
	284,047	**256,784**

Personnel expenses include refunds from the Federal Employment Agency in Germany of EUR 591 k (prior period: EUR 3,384 k). These refunds are for government-subsidized shorter working hours as well as social security expenses for various German production companies.

In accordance with IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" these refunds are disclosed net of the associated costs.

EUR k	2011	2010
Result from employee participation	**-5,116**	-6,857

The result from employee participation mainly includes allocations to profit and loss pursuant to the German commercial code.

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

	Germany	Outside Germany	Total 2011	Total 2010
Wage earners	1,774	317	**2,091**	**2,024**
Salaried employees	1,802	849	**2,651**	**2,569**
Trainees	364	4	**368**	**388**
	3,940	**1,170**	**5,110**	**4,981**

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 2011 amounted to EUR 396 k (prior year: EUR 364 k). This contains performance-based remuneration of EUR 68 k (prior year: EUR 0 k). As in the prior year, all remuneration is current.

As honorary chairman of the supervisory board, Mr. Gerhard Schuler receives remuneration commensurate with the remuneration of the members of the supervisory board totaling EUR 15 k (prior year: EUR 10 k).

Total Remuneration of the Management Board

The remuneration within the meaning of IAS 24 paid to the management board can be broken down as follows:

EUR k	**2011**	2010
Current remuneration	2,545	1,487
Long-term incentives (LTI)	-91	278
	2,454	**1,765**

Since a positive value-added – the basic requirement – was satisfied for the short-term incentive (STI), a performance-based component of EUR 750 k will be paid out under this program for 2011 after the 2012 annual general meeting. The STI is capped at 150 percent of the actual fixed annual remuneration paid out in the fiscal year in question and is reached with a HVA of 4 percent.

An accrual of EUR 49 k was recorded for two thirds of the fair value of the long-term incentives for the first reference period from 2010 through 2012; an accrual of EUR 138 k was recorded for one third of the fair value for the second reference period from 2011 through 2013. This is not the actual value but the fair value calculated using financial modeling methods. The payment of the actual value for the first reference period will be made after the annual general meeting for 2012, which will be held in 2013; the payment for the second reference period will be made after the annual general meeting for 2013, which will be held in 2014.

The income of EUR 91 k (prior year: expense of EUR 278 k) recognized in the fiscal year 2011 in connection with share-based payments relates exclusively to cash-settled share-based payment transactions within the meaning of IFRS 2.30 et seq.

Obtaining the cash settlement is subject to the condition precedent that cumulative positive value added is generated in the reference period (return on capital employed minus weighted average cost of capital). The first reference period spans the fiscal years 2010, 2011 and 2012; while the second reference period spans the fiscal years 2011, 2012 and 2013. This LTI is determined on a straight-line basis and capped at 12 percent of the value added.

Another component of the LTI bonus is tied to the development of the HOMAG Group share during the reference period. To this end, the increase in the value of the share between the beginning of the reference period (relevant opening price) and the end of the reference period (relevant closing price) is determined. If the relevant closing rate exceeds the relevant opening rate by up to 70 percent, the second part of the LTI falls due for payment. If the HVA component of the LTI has developed negatively, the share-based component is reduced by a mark-down. However, the share-based LTI can be reduced by the mark-down to a maximum of EUR 0.

The share appreciation rights have a contractual term from 2010 through 2012 for the first reference period and from 2011 through 2013 for the second reference period. 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 debt to settle these benefits are recognized over the vesting period. The liability is remeasured at each reporting date and on the grant date, with changes in fair value recognized in the income statement.

The following table presents the parameters underlying the measurement of share appreciation rights for the fiscal year ended December 31, 2011:

First reference period 2010 through 2012	**2011**	2010
Dividend yield (%)	1.06	2.40
Expected volatility (%)	50.00	43.60
Risk-free interest rate (%)	1.42	1.56
Expiry of options	Dec. 31, 2012	Dec. 31, 2012
Relevant opening price (EUR)	12.13	12.13

Second reference period 2011 through 2013	**2011**
Dividend yield (%)	2.00
Expected volatility (%)	50.00
Risk-free interest rate (%)	1.31
Expiry of options	Dec. 31, 2013
Relevant opening price (EUR)	15.46

In the fiscal year, total remuneration of the management board totaled EUR 2,683 k (prior year: EUR 1,765 k) and broke down as follows:

	Fixed remuneration		Performance-related-remuneration (STI and bonuses)		Long-term incentives (LTI)		Benefits in kind		**Total remuneration**	
EUR k	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Dr. Markus Flik	382	0	250	0	35	0	7	0	674	0
Achim Gauß	311	274	106	38	29	77	7	7	453	396
Herbert Högemann	260	236	88	25	24	65	9	8	381	334
Jürgen Köppel	240	218	81	15	23	59	6	6	350	298
Hans-Dieter Schumacher	279	0	95	0	27	0	8	0	409	0
Andreas Hermann	71	247	24	37	0	0	2	7	97	291
Rolf Knoll	209	323	106	38	0	77	4	8	319	446
TOTAL	**1,752**	**1,298**	**750**	**153**	**138**	**278**	**43**	**36**	**2,683**	**1,765**

Moreover, in the fiscal year 2011 Rolf Knoll received a compensation payment of EUR 175 k for the remaining term of his service agreement in the amount of the fixed remuneration when he handed over his duties as a member of HOMAG Group AG’s management board.

The liability pertaining to remuneration acting as a long-term incentive came to EUR 187 k as of December 31, 2011, which corresponds to its fair value (prior year: EUR 278 k), and breaks down as follows:

	First reference period		Second reference period		Total	Total
EUR k	**2011**	2010	**2011**	2010	**2011**	2010
Dr. Markus Flik	0	0	35	0	35	0
Achim Gauß	12	77	29	0	41	77
Herbert Högemann	10	65	24	0	34	65
Jürgen Köppel	9	59	23	0	32	59
Hans-Dieter Schumacher	0	0	27	0	27	0
Andreas Hermann	0	0	0	0	0	0
Rolf Knoll	18	77	0	0	18	77
TOTAL	**49**	**278**	**138**	**0**	**187**	**278**

Remuneration of Former Board Members

Pension provisions of EUR 606 k (prior year: EUR 635 k) were set up for former members of the management board of IMA AG, which was merged into Homag Group AG in 1999. The pension payments made amounted to EUR 58 k in the past fiscal year (prior year: EUR 57 k).

5.7 Amortization and Impairment of Intangible Assets

EUR k	**2011**	2010
Scheduled amortization of intangible assets	11,347	10,410
Impairment charges on intangible assets	2,009	480
	13,356	**10,890**

5.8 Depreciation and Impairment of Property, Plant and Equipment

EUR k	**2011**	2010
Scheduled depreciation of property, plant and equipment	16,636	17,876
Impairment charges on property, plant and equipment	2,115	29
	18,751	**17,905**

5.9 Other Operating Expenses

Other operating expenses comprise the following:

EUR k	**2011**	2010
Sales commissions, special direct selling costs	11,051	13,288
Advertising and trade fair expenses	8,407	7,478
Office supplies, postage and telecommunication costs	4,743	4,827
Legal expenses and consulting fees, license fees and patent costs	8,754	6,675
Travel expenses and entertainment	16,649	15,153
Rental and lease expenses	9,290	9,165
Other taxes	1,516	1,129
Bad debt allowances	8,599	3,914
Bad debts	1,041	296
Transportation expenses	13,279	10,915
Maintenance	7,446	7,446
Insurance costs	1,420	1,480
Exchange rate losses	5,405	5,485
Losses on disposals of non-current assets	701	480
Donations, fees, dues and contributions	912	886
Expenses from money transactions	2,122	2,117
Cleaning costs	957	976
Incidental personnel expenses	3,889	3,701
Sundry other expenses	22,964	23,224
	129,145	**118,635**

5.10 Profit/Loss from Associates

The profit/loss from investments accounted for at equity is attributable to Stiles Machinery Inc., Grand Rapids, USA (EUR 31 k; prior year: EUR 557 k) as well as Homag China Golden Field Ltd., Hong Kong, China (EUR 594 k; prior year: EUR 668 k).

5.11 No Disclosure

5.12 No Disclosure

5.13 Interest Income/Interest Expenses

EUR k	2011	2010
Interest income on loans granted and other receivables	255	91
Other interest and similar income	3,133	2,134
Total interest income of all financial receivables which were not recognized by the Company for the mark-to-market measurement	**3,388**	**2,225**
Interest income from derivative financial instruments	0	68
INTEREST INCOME	**3,388**	**2,293**
Interest expenses from		
liabilities to banks	-8,372	-8,583
changes in the discount on profit participation rights due to the passage of time	-113	-138
obligations from finance leases	-291	-363
Interest expenses from increasing the discount on transaction costs	-1,179	-970
Other interest and similar expenses	-2,853	-3,852
Total interest expenses of all financial liabilities which were not recognized by the Company for the mark-to-market measurement	**-12,808**	**-13,906**
Interest expenses from increasing the discount on provisions	-265	-129
Interest expenses from derivative financial instruments	-287	-192
INTEREST EXPENSES	**-13,360**	**-14,227**
NET INTEREST	**-9,972**	**-11,934**

5.14 Taxes on Income and Deferred Taxes

Tax Expense

Income tax expenses are classified by origin as follows:

EUR k	2011	2010
Current taxes	5,363	5,428
Deferred taxes		
from temporary measurement differences	-1,099	-972
from unused tax losses carried forward	5,394	1,865
	9,658	**6,321**

The tax expense was reduced by EUR 179 k for utilization of unused tax losses on which no tax assets had previously been recognized (prior year: EUR 441 k).

The tax expense based on the earnings before taxes of EUR 6,366 k (prior year: EUR 14,412 k) and on the applicable consolidated tax rate for the Homag Group entities in Germany of 28.075 percent (prior year: a theoretical tax rate of 27.375 percent) is reconciled to the current tax expense as follows:

EUR k	2011	2010
Theoretical tax expense (-)/income (+)	-1,787	-3,945
Differences due to the tax rate	331	3
Tax reductions (+)/tax increases (-) due to tax-free income or non-deductible expenses	-5,509	-3,042
Change in write-downs on deferred taxes recognized on unused tax losses	-4,884	-164
Other differences	2,191	827
INCOME TAXES (ACTUAL TAX EXPENSE (-)/INCOME (+))	**-9,658**	**-6,321**

Owing to the increase in the trade tax levy rate by the municipalities of relevance to the group tax rate, the group tax rate rose from 27.375 percent to 28.075 percent.

Other differences primarily result from the tax income for prior years amounting to EUR 2,754 k (prior year: EUR -466 k).

Deferred taxes were not recognized on the profits of EUR 51,026 k retained by subsidiaries since it is planned to use these profits to secure and expand the volume of business at these entities.

The deferred taxes recognized without effect on profit or loss amount to EUR 50 k (prior year: EUR 80 k). These deferred taxes recognized without effect on profit or loss are reported in the statement of comprehensive income and relate exclusively to deferred taxes recognized on actuarial gains and losses.

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, 2011	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2010
Intangible assets and property, plant and equipment	802	835	13,864	14,211
Inventories	3,223	3,964	1,640	3,086
Current receivables and other assets	4,444	2,738	429	903
Other assets	337	148	629	926
Non-current financial liabilities	1,993	2,241	476	836
Non-current liabilities and provisions	3,888	4,743	10	22
Sundry current liabilities and deferred income	9,051	6,968	2,721	319
Other current provisions	520	71	7,540	5,596
Other liabilities	4,660	3,787	12,017	11,104
	28,918	**25,495**	**39,326**	**37,003**
Deferred taxes from temporary measurement differences	28,918	25,495	39,326	37,003
Deferred taxes on unused tax losses	12,639	18,033	0	0
Netting	-27,724	-26,169	-27,724	-26,169
	13,833	**17,359**	**11,602**	**10,834**

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 had a EUR 4,884 k impact on the tax expense (prior year: EUR 164 k).

As of December 31, 2011, the existing unused tax losses on which deferred tax assets were recognized were for corporate income tax in the amount of EUR 34,107 k (prior year: EUR 46,556 k), for trade tax in the amount of EUR 29,913 k (prior year: EUR 43,334 k) and on foreign unused tax losses in the amount of EUR 11,886 k (prior year: EUR 17,516 k). There were unused tax losses on which no tax assets were recognized because they could not be utilized for corporate income tax in the amount of EUR 52,136 k (prior year: EUR 36,043 k), for trade tax in the amount of EUR 49,030 k (prior year: EUR 32,839 k) and for foreign taxes in the amount of EUR 14,168 k (prior year: EUR 8,024 k).

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 26,054 k, a partial amount of EUR 21,905 k can be carried forward for an indefinite period. Tax losses of EUR 171 k expire within the next year. Tax losses of EUR 110 k expire within the next two years. An additional amount of EUR 303 k expires within the next three years. An amount of EUR 3,565 k expires after three years.

5.15 No Disclosure

5.16 Profit/Loss Attributable to Non-controlling Interests

Profit for 2011 attributable to non-controlling interests amounts to EUR 1,426 k (prior year: EUR 1,408 k).

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 Homag Group AG by the weighted average number of shares outstanding. Result after non-controlling interests came to EUR -4,718 k (prior year: EUR 6,683 k) and led to earnings per share of EUR -0.30 (prior year: EUR 0.43). There is no difference between diluted and basic earnings.

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

	2011	2010
Profit/loss attributable to the owners of Homag Group AG for the calculation of basic earnings in EUR k	-4,718	6,683
Earnings per share in EUR	-0.30	0.43
BASIC EARNINGS PER SHARE PURSUANT TO IAS 33 IN EUR	**-0.30**	**0.43**
Weighted average of shares (basis for the calculation of earnings per share)	15,688,000	15,688,000

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

5.18 Dividends Paid and Proposed

In 2011, a dividend of EUR 4,706,400.00 was paid for fiscal 2010.

A proposal will be submitted to the annual general meeting on May 24, 2012 to appropriate the retained earnings of EUR 21,637,461.27 disclosed in the financial statements of Homag Group AG as of December 31, 2011 as follows:

- Carry forward of EUR 21,637,461.21 to new account

EUR k	2011	2010
Dividend distribution	0	4.706
Retained earnings carried forward	21,637	21,212
	21,637	**25,918**

EUR	2011	2010
DIVIDEND PER PARTICIPATING NO-PAR VALUE SHARE	**0.00 ***	**0.30**

* *Proposed*

6. NOTES TO THE STATEMENT OF FINANCIAL POSITION

6.1 Intangible Assets/Property, Plant and Equipment

Changes in the non-current assets of the Homag Group 2011

			Acquisition and production cost				
EUR k		As of Jan. 1, 2011	Currency differences	Additions	Disposals	Reclassi-fications	As of Dec. 31, 2011
NON-CURRENT ASSETS							
I.	Intangible assets						
	1. Industrial assets	46,740	-44	2,932	-929	3,194	51,893
	- thereof leases	*2,237*	*0*	*0*	*0*	*0*	*2,237*
	2. Goodwill	16,855	0	0	0	0	16,855
	3. Internally generated intangible assets	32,803	0	10,497	-445	0	42,855
	4. Prepayments	7,184	0	4,636	-59	-3,194	8,567
		103,582	**-44**	**18,065**	**-1,433**	**0**	**120,170**
II.	Property, plant and equipment						
	1. Land, land rights and buildings	161,729	-27	1,240	-14	52	162,980
	- thereof leases	*4,000*	*0*	*0*	*0*	*0*	*4,000*
	2. Technical equipment and machines	78,331	159	3,211	-6,169	334	75,866
	- thereof leases	*13,914*	*-27*	*0*	*-1,780*	*0*	*12,107*
	3. Other equipment, furniture and fixtures	75,888	-73	6,892	-4,834	182	78,055
	- thereof leases	*8,105*	*-19*	*1,474*	*-1,522*	*0*	*8,038*
	4. Prepayments and assets under construction	738	168	5,606	0	-568	5,944
		316,686	**227**	**16,949**	**-11,017**	**0**	**322,845**
		420,268	**183**	**35,014**	**-12,450**	**0**	**443,015**

Amortization and depreciation						Carrying amounts	
As of Jan.1, 2011	Currency differences	Additions	Disposals	Reclassi-fications	As of Dec. 31, 2011	**As of Dec. 31, 2011**	**As of Dec. 31, 2010**
34,078	-163	4,738 [1]	-811	0	37,842	14,051	12,662
2,190	*0*	*47*	*0*	*0*	*2,237*	*0*	*47*
851	0	1,764 [2]	0	0	2,615	14,240	16,004
10,582	0	6,854 [3]	-214	0	17,222	25,633	22,221
0	0	0	0	0	0	8,567	7,184
45,511	**-163**	**13,356**	**-1,025**	**0**	**57,679**	**62,491**	**58,071**
71,516	-27	6,879 [4]	-5	0	78,363	84,617	90,213
167	*0*	*111*	*0*	*0*	*278*	*3,722*	*3,833*
52,309	148	5,068	-4,711	0	52,814	23,052	26,022
7,591	*-14*	*1,581*	*-748*	*0*	*8,410*	*3,697*	*6,323*
54,214	-17	6,804 [5]	-4,550	0	56,451	21,604	21,674
5,589	*-8*	*1,347*	*-1,500*	*0*	*5,428*	*2,610*	*2,516*
0	0	0	0	0	0	5,944	738
178,039	**104**	**18,751**	**-9,266**	**0**	**187,628**	**135,217**	**138,647**
223,550	**-59**	**32,107**	**-10,291**	**0**	**245,307**	**197,708**	**196,718**

[1] Including impairment losses of EUR 200 k
[2] Impairment loss
[3] Including impairment losses of EUR 45 k
[4] Including impairment losses of EUR 2,082 k
[5] Including impairment losses of EUR 33 k

Changes in the non-current assets of the Homag Group 2010

		Acquisition and production cost					
EUR k		As of Jan. 1, 2010	Currency differences	Additions	Disposals	Reclassifications	As of Dec. 31, 2010
NON-CURRENT ASSETS							
I.	Intangible assets						
	1. Industrial assets	44,361	119	2,210	-1,245	1.295	46,740
	- thereof leases	*2,237*	*0*	*0*	*0*	*0*	*2,237*
	2. Goodwill	16,855	0	0	0	0	16,855
	3. Internally generated intangible assets	23,276	0	9,912	-385	0	32,803
	4. Prepayments	6,453	0	2,053	-27	-1.295	7,184
		90,945	**119**	**14,175**	**-1,657**	**0**	**103,582**
II.	Property, plant and equipment						
	1. Land, land rights and buildings	159,126	1,417	1,343	-242	85	161,729
	- thereof leases	*4,000*	*0*	*0*	*0*	*0*	*4,000*
	2. Technical equipment and machines	77,071	616	4,359	-3,798	83	78,331
	- thereof leases	*15,245*	*41*	*1,484*	*-2,410*	*-446*	*13,914*
	3. Other equipment, furniture and fixtures	72,610	913	6,028	-3,695	32	75,888
	- thereof leases	*7,857*	*7*	*2,177*	*-1,884*	*-52*	*8,105*
	4. Prepayments and assets under construction	525	3	410	0	-200	738
		309,332	**2,949**	**12,140**	**-7,735**	**0**	**316,686**
		400,277	**3,068**	**26,315**	**-9,392**	**0**	**420,268**

Amortization and depreciation						Carrying amounts	
As of Jan.1, 2010	Currency differences	Additions	Disposals	Reclassi-fications	As of Dec. 31, 2010	**As of Dec. 31, 2010**	**As of Dec. 31, 2009**
30,539	54	4,718	-1,233	0	34,078	12,662	13,822
1,911	*0*	*279*	*0*	*0*	*2,190*	*47*	*326*
573	0	278 [1]	0	0	851	16,004	16,282
5,134	-67	5,894 [2]	-379	0	10,582	22,221	18,142
0	0	0	0	0	0	7,184	6,453
36,246	**-13**	**10,890**	**-1,612**	**0**	**45,511**	**58,071**	**54,699**
66,347	351	4,932	-114	0	71,516	90,213	92,779
56	*0*	*111*	*0*	*0*	*167*	*3,833*	*3,944*
48,124	384	5,850 [3]	-2,049	0	52,309	26,022	28,947
6,154	*8*	*2,143*	*-545*	*-169*	*7,591*	*6,323*	*9,091*
49,999	590	7,123	-3,498	0	54,214	21,674	22,611
6,083	*4*	*1,339*	*-1,826*	*-11*	*5,589*	*2,516*	*1,774*
0	0	0	0	0	0	738	525
164,470	**1,325**	**17,905**	**-5,661**	**0**	**178,039**	**138,647**	**144,862**
200,716	**1,312**	**28,795**	**-7,273**	**0**	**223,550**	**196,718**	**199,561**

[1] *Impairment loss*
[2] *Including impairment losses of EUR 202 k*
[3] *Including impairment losses of EUR 29 k*

6.2 Intangible Assets

Intangible assets broken down by region developed as follows:

EUR k	2011	2010
Germany	**57,965**	**53,525**
Other EU countries	1,260	1,302
Rest of Europe	1,465	1,464
North America	303	297
Central/South America	313	330
Asia/Pacific	1,185	1,153
Other countries	**4,526**	**4,546**
TOTAL	**62,491**	**58,071**

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

In the reporting year, impairment losses of EUR 2,009 k (prior year: EUR 480 k) were charged on intangible assets; of this amount, EUR 1,764 k was attributable to impairment of goodwill. All of the impairment losses recognized relate to the restructuring measures.

Goodwill

The disclosed goodwill of EUR 14,240 k (prior year: EUR 16,004 k) is allocable to groups of cash generating units (CGUs) as follows:

EUR k	Dec. 31, 2011	Dec. 31, 2010
CGUs/groups of CGUs		
Homag Holzbearbeitungssysteme GmbH	10,290	10,290
HOLZMA Plattenaufteiltechnik GmbH	23	23
Bargstedt Handlingsysteme GmbH	115	115
Torwegge Holzbearbeitungsmaschinen GmbH	0	1,764
Sales Europe	2,634	2,634
Sales America	266	266
Sales Asia/Pacific	912	912
TOTAL	**14,240**	**16,004**

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

As part of the restructuring measures that were approved by the management and supervisory board in October 2011, the Torwegge CGU is to be discontinued by the end of 2012. Since no further economic benefits are therefore expected from Torwegge CGU’s goodwill, it was written off in full in the reporting year.

The WACC pre-tax discount rates underlying the impairment tests performed as of the reporting date December 31, 2011 are presented in the following table:

Planning period %	Years	**Dec. 31, 2011** 2012 – 2016	Dec. 31, 2010 2011 – 2015
CGUs/groups of CGUs			
Homag Holzbearbeitungssysteme GmbH		10.21	10.31
HOLZMA Plattenaufteiltechnik GmbH		10.20	10.22
Bargstedt Handlingsysteme GmbH		10.19	10.32
Torwegge Holzbearbeitungsmaschinen GmbH		-	10.51
Sales Europe		10.22	10.25
Sales America		10.88	10.13
Sales Asia/Pacific		10.46	10.75

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 maturity-related base rate plus a mark-up for interest risk adjusted to the peer group's credit rating.

With regard to the assessment of value-in-use of CGUs, management believes that no reasonably possible change in any of the underlying key assumptions would cause the carrying value of the remaining CGUs to materially exceed its recoverable amount.

Internally Developed Software and Other Development Costs

The capitalized development costs comprise new machine projects and 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.

Expensed research and development costs totaled EUR 20,564 k (prior year: EUR 19,777 k).

6.3 Property, Plant and Equipment

Property, plant and equipment break down by region as follows:

EUR k	**2011**	2010
Germany	**101,281**	**108,945**
Other EU countries	15,903	16,985
Rest of Europe	1,625	555
North America	2,173	2,265
Central/South America	2,549	2,632
Asia/Pacific	11,686	7,265
Other countries	**33,936**	**29,702**
TOTAL	**135,217**	**138,647**

The classification of the items of property, plant and equipment condensed in the statement of financial position 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. As in the prior year, no grants or subsidies were deducted from the cost of property, plant and equipment in the past fiscal year.

In the reporting period, impairment losses within the meaning of IAS 36 amounting to EUR 2,115 k (prior year: EUR 29 k) were charged on property, plant and equipment.

Assets are capitalized as follows in connection with finance lease agreements with the entities of the Homag Group as lessees:

EUR k	**Carrying amount Dec. 31, 2011**	Carrying amount Dec. 31, 2010
Intangible assets	0	47
Land, land rights and buildings	3,722	3,833
Technical equipment and machines	3,697	6,323
Other equipment, furniture and fixtures	2,610	2,516
	10,029	**12,719**

The underlying interest rates of the agreements vary depending on the date on which the agreements were concluded between 2.65 percent and 7.51 percent 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 financial liabilities accordingly, are shown in the table below:

EUR k	Due in less than 1 year	Due in between 1 and 5 years	Due in more than 5 years	**Dec. 31, 2011 Total**	**Dec. 31, 2010 Total**
Minimum lease payments	3,562	6,126	1,625	**11,313**	**12,902**
Discount amounts	394	519	180	**1,093**	**1,295**
PRESENT VALUES	**3,168**	**5,607**	**1,445**	10,220	**11,607**

Some agreements include purchase options.

Obligations from Rent and Lease Agreements (Operating Leases)

The terms to maturity of minimum lease payments under non-cancelable operating leases and rent agreements are as follows:

EUR k	**Dec. 31, 2011**	Dec. 31, 2010
Due in less than 1 year	4,542	4,717
Due in between 1 and 5 years	6,588	7,301
Due in more than 5 years	3,781	4,951
	14,911	**16,969**

The main lease agreements (operating leases) primarily relate to land and buildings, the vehicle fleet and IT. Fixed lease payments have been agreed, such that 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.

The following amounts from operating lease obligations were recognized in profit or loss in the fiscal year:

EUR k	**Dec. 31, 2011**	Dec. 31, 2010
Minimum lease payments	**9,290**	**9,165**

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

EUR k	Acquisition and production cost As of Jan. 1, 2011	Disposals
NON-CURRENT ASSETS		
I. Intangible assets		
1. Industrial rights	12	-12
	12	**-12**
II. Property, plant and equipment		
1. Land, land rights and buildings	1,111	0
2. Technical equipment and machines	283	-8
3. Other equipment, furniture and fixtures	55	-51
	1,449	**-59**
	1,461	**-71**

6.4 Investments in Associates and Other Investments

The following table provides an overview of the financial information of associates consolidated using the equity method (share attributable to the Group):

EUR k	**Dec. 31, 2011**	Dec. 31, 2010
Total assets	20,973	19,743
Total liabilities	14,157	13,138
EQUITY	**6,816**	**6,605**

EUR k	**2011**	2010
Total sales revenue	39,066	37,456
Profit/loss for the year	625	1,225

	Amortization and depreciation				Carrying amount	
As of Dec. 31, 2011	As of Jan. 1, 2011	Additions	Disposals	As of Dec. 31, 2011	**As of Dec. 31, 2011**	**As of Dec. 31, 2010**
0	12	0	-12	0	0	0
0	**12**	**0**	**-12**	**0**	**0**	**0**
1,111	357	40	0	397	714	754
275	253	30	-8	275	0	30
4	55	1	-52	4	0	0
1,390	**665**	**71**	**-60**	**676**	**714**	**784**
1,390	**677**	**71**	**-72**	**676**	**714**	**784**

6.5 Inventories

EUR k	**Dec. 31, 2011**	Dec. 31, 2010
Raw materials, consumables and supplies	49,999	46,490
Work in process	17,421	15,769
Finished goods, merchandise	59,717	58,195
Prepayments	2,824	7,779
	129,961	**128,233**

Valuation allowances of EUR 7,678 k (prior year: EUR 5,514 k) were recognized on inventories through profit or loss in 2011. Inventories carried at fair value less costs to sell, i.e., on which impairment losses have been charged, amount to EUR 44,935 k (prior year:

EUR 41,725 k). An amount of EUR 82,999 k (prior year: EUR 69,259 k) was pledged as collateral on loans in the reporting period.

6.6 Receivables and Other Assets

	Dec. 31, 2011			Dec. 31, 2010		
		Due in			Due in	
EUR k	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Trade receivables	87,046	85,382	1,664	98,965	94,810	4,155
Receivables from long-term construction contracts	34,233	34,233	0	15,941	15,941	0
Receivables from associates	9,809	9,809	0	8,797	8,797	0
Other financial assets	11,353	9,540	1,813	13,464	10,309	3,155
Other assets and prepaid expenses	4,519	4,420	99	3,769	3,636	133
Income tax receivables	5,036	2,885	2,151	8,587	6,144	2,443
	151,996	**146,269**	**5,727**	**149,523**	**139,637**	**9,886**

Corporate income tax receivables mainly concern the corporate income tax credits recognized as well as current income tax refund claims.

Trade receivables totaling EUR 6,860 k (prior year: EUR 6,342 k) were sold under factoring agreements.

Impairment losses recognized on trade receivables from third parties and associates have developed as follows:

EUR k	2011	2010
AS OF JANUARY 1	**7,823**	**7,483**
Exchange rate effects	-38	151
Charge for the year	-1,107	-1,933
Unused amounts written off	-1,474	-1,792
Increase in impairments recognized in profit or loss	8,599	3,914
AS OF DECEMBER 31	**13,803**	**7,823**

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 reporting 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 amount 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 impairment loss 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 trade receivables that had been written off:

EUR k	2011	2010
Bad debt expenses	-1,041	-296
Income from the receipt of payments on trade receivables that have been written off	32	61

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 from third parties and associates as well as receivables from long-term construction contracts is presented in the following table:

EUR k	Dec. 31, 2011	Dec. 31, 2010
Neither past due nor impaired	74,724	70,595
Receivables past due but not impaired		
less than 90 days	44,023	31,861
90 to 179 days	3,664	4,582
180 to 365 days	3,998	3,137
1 year or more	6,660	8,120
Total receivables past due but not impaired	**58,345**	**47,700**
Impaired receivables	11,822	13,231
TRADE RECEIVABLES, GROSS	**144,891**	**131,526**
Impairment losses	-13,803	-7,823
NET AMOUNT/CARRYING AMOUNT OF TRADE RECEIVABLES	**131,088**	**123,703**

There was no indication as of the reporting date that any impairment losses needed to be recognized on the trade receivables recorded as not impaired.

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.

6.7 Long-term Construction Contracts

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 reporting date, contract costs incurred for long-term construction contracts and profits disclosed of EUR 80,751 k (prior year: EUR 27,372 k) were offset against prepayments received of EUR 49,435 k (prior year: EUR 12,296 k). This resulted in receivables of EUR 34,233 k (prior year: EUR 15,941 k) and liabilities of EUR 2,917 k (prior year: EUR 865 k).

6.8 Other Financial Assets

Other financial assets break down as follows:

EUR k	Dec. 31, 2011			Dec. 31, 2010		
		Thereof due in			Thereof due in	
	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Other non-derivative financial assets						
Loans extended	370	15	355	413	25	388
Receivables from factoring agreements	474	474	0	474	474	0
Sundry	10,446	9,011	1,435	12,230	9,773	2,457
Derivative financial assets	63	40	23	347	37	310
	11,353	**9,540**	**1,813**	**13,464**	**10,309**	**3,155**

The derivative financial assets concern receivables from derivative currency and interest transactions totaling EUR 63 k (prior year: EUR 347 k).

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

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Financial assets at fair value through profit or loss:

EUR k	Dec. 31, 2011				Dec. 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivatives without hedge relationship	40	0	40	0	37	0	37	0
Derivatives with hedge relationship	23	0	23	0	310	0	310	0
	63	**0**	**63**	**0**	**347**	**0**	**347**	**0**

Financial liabilities at fair value through profit or loss:

EUR k	Dec. 31, 2011				Dec. 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivatives without hedge relationship	103	0	103	0	299	0	299	0

Measurement of the financial instruments held as of December 31 at fair value gave rise to the following total gains and losses.

Total gains (+) and losses (-) from assets measured at fair value:

EUR k	**2011**	2010
Derivatives without hedge relationship	40	37
Derivatives with hedge relationship	-287	-186
	-247	**-149**

Total gains (+) and losses (-) from liabilities measured at fair value:

EUR k	**2011**	2010
Derivatives without hedge relationship	-103	-299

Gains and losses from measuring derivatives without a hedging relationship at fair value are presented either under other operating income/expenses or in the financial result.

6.9 Other Assets and Prepaid Expenses

Other assets and prepaid expenses break down as follows:

	Dec. 31, 2011			Dec. 31, 2010		
		Thereof due in			Thereof due in	
EUR k	**Total**	**less than 1 year**	**more than 1 year**	Total	less than 1 year	more than year
Excise duties claims	2,352	2,352	0	1,925	1,925	0
Prepaid expenses	2,167	2,068	99	1,844	1,711	133
	4,519	**4,420**	**99**	**3,769**	**3,636**	**133**

6.10 Income Tax Receivables

	Dec. 31, 2011			Dec. 31, 2010		
		Thereof due in			Thereof due in	
EUR k	**Total**	**less than 1 year**	**more than 1 year**	Total	less than 1 year	more than 1 year
Income tax receivables	5,036	2,885	2,151	8,587	6,144	2,443

The income tax receivables primarily concern corporate income tax credits that will flow to the Group in the years 2012 through 2017 as well as receivables from current income taxes.

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 if the obligations from financial instruments are not 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 No Disclosure

6.13 Equity

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

6.13.1 Issued Capital

As of December 31, 2011, the issued capital amounted to EUR 15,688 k (prior year: EUR 15,688 k). 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.

The management board is authorized to increase the share capital once or several times by up to a total of EUR 5,825 k through the issue of new voting no-par value bearer shares; the increase is subject to the approval of the supervisory board and applies until May 31, 2012.

6.13.2 Capital Reserves

As of December 31, 2011, the capital reserve amounted to EUR 32,976 k (prior year: EUR 32,976 k).

6.13.3 Revenue Reserves

The revenue reserves of EUR 101,203 k (prior year: EUR 98,814 k) 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 opening IFRS statement of financial position and the currency differences reclassified as of January 1, 2005 are also disclosed here.

Differences resulting from the purchase of non-controlling 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 pension and other post employment benefits less tax effects.

6.13.4 Group Profit/Loss for the Year

This item contains the profit or loss of the period.

6.13.5 Non-controlling Interests

Non-controlling interests contain the parts of equity attributable to the minority shareholders.

Non-controlling interests are determined using imputed shareholdings, taking indirect shareholdings into account.

6.14 Financial Liabilities

	Dec. 31, 2011			Dec. 31, 2010		
		Thereof due in			Thereof due in	
EUR k	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Liabilities to banks	137,389	30,113	107,276	126,126	29,400	96,726
Lease liabilities	10,220	3,168	7,052	11,607	3,458	8,149
Profit participation capital	4,976	4,976	0	29,863	24,911	4,952
	152,585	**38,257**	**114,328**	**167,596**	**57,769**	**109,827**

In 2004, Homag Holzbearbeitungssysteme GmbH issued profit participation rights totaling EUR 25,000 k (tranche 1: EUR 10,000 k; tranche 2: EUR 15,000 k). The participation rights had a term of seven years and thus expired in 2011. In 2005, Holzma Plattenaufteiltechnik GmbH issued profit participation rights of EUR 5,000 k with a term of seven years which bear interest at a rate of 6.9 percent p.a. plus a variable component based on company performance. As these expire in 2012, EUR 4,976 k of the participation rights is disclosed under current financial liabilities. There is no participation in losses. 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, 2011				Dec. 31, 2010			
	Currency	Carrying amount EUR k	No. of months until maturity	Effective interest rate %	Currency	Carrying amount EUR k	No. of months until maturity	Effective interest rate %
Syndicated loan of 2002	EUR	2,800	11	5.14	EUR	5,600	23	5.14
Several loans	EUR	15,434	up to 132	3.44 – 5.90	EUR	19,483	up to 144	3.4 – 6.42
Loan	DKK	498	81	6.13	DKK	551	84	5.48
Loan	-	-	-	-	GBP	116	8	2.32
Loan	-	-	-	-	PLN	250	12	4.91
Syndicated loan of 2010	EUR	93,679	14	3.39 – 4.22	EUR	77,753	26	3.51
Overdraft facility/ syndicated loan of 2010	EUR	3,595	14	4.56 – 6.0	EUR	3,980	26	4.68 – 5.50
Overdraft facility/ euro loan	various	21,383	-	1.5 – 14.05	various	18,393	-	1.60 – 11.25
		137,389				**126,126**		

Variable interest arrangements have been made for the syndicated loans and overdraft facilities. The Group's liquidity is secured until February 2013 under a syndicated loan agreement that is contingent on the observance of certain covenants. Collateral has been pledged for liabilities to banks. For further details, please refer to note 7.3.

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, mostly the German companies incur expenses for defined contribution plans in the form of contributions to the statutory pension insurance.

On a small scale, there are also agreements with employees about the company financing of post employment benefits in the form of direct insurance. In fiscal 2011, expenses for defined contribution plans in the Homag Group totaled EUR 17,318 k (prior year: EUR 17,079 k).

In the case of 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 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 directly in equity in the period in which they occur.

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. One foreign Group company has obligations to pay termination benefits.

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:

As %	**Dec. 31, 2011**	Dec. 31, 2010
Discount rate	5.3	5.0
Expected return on plan assets	4.0	4.0
Rate of pension increase	2.0	2.0

The expense for pensions and similar obligations comprises the following:

EUR k	**2011**	2010
Current service cost	132	149
Interest cost	239	211
Expected return on plan assets	-62	-64
Benefit expense	**309**	**296**

The table below shows the actuarial gains and losses without effect on profit or loss:

EUR k	2011	2010
Net actuarial gains (-)/losses (+) recognized	-121	435

The actual return on plan assets is presented in the table below:

EUR k	2011	2010
Actual return on plan assets	87	81

The current service cost is reported under personnel expenses, the interest expense in the corresponding item in the income statement and the expected return on plan assets under interest 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	2011	2010
Defined benefit obligation	4,937	4,934
Fair value of plan assets	-1,601	-1,624
RESIDUAL OBLIGATION AS OF DECEMBER 31	**3,336**	**3,310**

The Homag Group expects contributions to defined benefit plans in 2012 to be similar to the level of the reporting period.

Of the pension obligations, a total of EUR 2,844 k (prior year: EUR 2,737 k) relates to obligations for which there are no plan assets.

The funding status is presented in the table below:

	Funded obligations		Unfunded obligations	
EUR k	2011	2010	2011	2010
Defined benefit obligation	2,093	2,197	2,844	2,737
Fair value of plan assets	-1,601	-1,624	0	0
RESIDUAL OBLIGATION AS OF DECEMBER 31	**492**	**573**	**2,844**	**2,737**

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

EUR k	2011	2010
DEFINED BENEFIT OBLIGATION AS OF JANUARY 1	**4,934**	**4,453**
Interest expense	239	211
Current service cost	132	149
Benefits paid	-272	-331
Actuarial gains (-)/losses (+)	-96	452
DEFINED BENEFIT OBLIGATION AS OF DECEMBER 31	**4,937**	**4,934**

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

EUR k	2011	2010
FAIR VALUE OF PLAN ASSETS AS OF JANUARY 1	**1,624**	**1,745**
Expected return on plan assets	62	64
Current service cost	0	0
Benefits paid	-110	-202
Actuarial gains (+)/losses (-)	25	17
FAIR VALUE OF PLAN ASSETS AS OF DECEMBER 31	**1,601**	**1,624**

In most cases, the plan assets are insurance policies.

In the reporting year, cumulated actuarial gains (+) and losses (-) came to EUR -71 k (prior year: EUR -192 k).

The development of the obligation in the current and four previous reporting periods is presented in the table below:

EUR k	2011	2010	2009	2008	2007
Defined benefit obligation	4,937	4,934	4,453	4,057	4,246
Fair value of plan assets	-1,601	-1,624	-1,745	-1,776	-1,826
Deficit (+)/surplus (-)	3,336	3,310	2,708	2,281	2,420
Experience adjustments on plan liabilities (gains (-)/losses (+))	5	300	-135	-35	-2
Experience adjustments on plan assets (gains (+)/losses (-))	25	17	22	7	7

6.17 Obligations from Employee Profit Participation

For general explanations on silent employee participation, we refer to note 4.2.13.

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

As %	Dec. 31, 2011	Dec. 31, 2010
Discount factor	5.30	5.00

6.18 Other Provisions

	Dec. 31, 2011			Dec. 31, 2010		
		Thereof due in			Thereof due in	
EUR k	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Provisions for personnel matters	5,899	1,337	4,562	6,895	1,538	5,357
Provisions for production and sales	14,375	14,375	0	10,861	10,861	0
Sundry other provisions	1,016	1,016	0	4,800	4,800	0
OTHER PROVISIONS	**21,290**	**16,728**	**4,562**	**22,556**	**17,199**	**5,357**

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

The personnel provisions mainly contain obligations for phased retirement arrangements and long-service bonuses.

Other provisions developed as follows:

EUR k	As of Jan. 1, 2011	Translation difference	Utilized	Reversed	Increased	As of Dec. 31, 2011
Provisions for personnel matters	6,895	-19	-1,554	-401	978	5,899
Provisions for production and sales	10,861	-9	-7,068	-713	11,304	14,375
Sundry other provisions	4,800	-15	-4,156	-511	898	1,016
OTHER PROVISIONS	**22,556**	**-43**	**-12,778**	**-1,625**	**13,180**	**21,290**

The expenses resulting from the unwinding of discounted provisions came to EUR 127 k in the fiscal year (prior year: EUR 297 k).

7. OTHER EXPLANATIONS

7.1 Financial Instruments

Book values, carrying amounts and fair values by measurement category

EUR k	Book value Dec. 31, 2011	Carrying amount in Amortized cost
ASSETS		
Cash and cash equivalents	56,469	56,469
Trade receivables	96,855	96,855
Receivables from long-term construction contracts	34,233	
Other financial assets	534	
Other non-derivative financial assets	11,290	11,290
Derivative financial assets		
Derivatives without hedging relationship	40	
Derivatives with hedging relationship	23	
EQUITY AND LIABILITIES		
Trade payables	80,424	80,424
Liabilities from long-term construction contracts	2,917	
Financial liabilities		
Liabilities to banks	137,389	137,389
Profit participation capital	4,976	4,976
Lease liabilities	10,220	
Derivative financial liabilities		
Derivatives without hedging relationship	103	
THEREOF COMBINED ACCORDING TO THE MEASUREMENT CATEGORIES IN ACCORDANCE WITH IAS 39		
Loans and receivables	164,614	164,614
Held-for-sale financial assets	534	
Financial assets held for trading	40	
Financial liabilities measured at amortized cost	222,789	222,789
Financial liabilities held for trading	103	

statement of financial position IAS 39				
Acquisition cost	Fair value through profit and loss	Carrying amount according to IAS 11	Carrying amount according to IAS 17	Fair value Dec. 31, 2011
				56,469
				96,855
		34,233		34,233
534				-
				11,290
	40			40
	23			23
				80,424
		2,917		2,917
				137,303
				5,081
			10,220	10,285
	103			103
				164,614
534				-
	40			40
				222,808
	103			103

EUR k	Book value Dec. 31, 2010	Carrying amount in Amortized cost
ASSETS		
Cash and cash equivalents	70,286	70,286
Trade receivables	107,762	107,762
Receivables from long-term construction contracts	15,941	
Other financial assets	493	
Other non-derivative financial assets	13,117	13,117
Derivative financial assets		
Derivatives without hedging relationship	37	
Derivatives with hedging relationship	310	
EQUITY AND LIABILITIES		
Trade payables	71,160	71,160
Liabilities from long-term construction contracts	865	
Financial liabilities		
Liabilities to banks	126,126	126,126
Profit participation capital	29,863	29,863
Lease liabilities	11,607	
Derivative financial liabilities		
Derivatives without hedging relationship	299	
THEREOF COMBINED ACCORDING TO THE MEASUREMENT CATEGORIES IN ACCORDANCE WITH IAS 39		
Loans and receivables	191,165	191,165
Held-for-sale financial assets	493	
Financial assets held for trading	37	
Financial liabilities measured at amortized cost	227,149	227,149
Financial liabilities held for trading	299	

statement of financial position IAS 39				
Acquisition cost	Fair value through profit and loss	Carrying amount according to IAS 11	Carrying amount according to IAS 17	Fair value Dec. 31, 2010
				70,286
				107,762
		15,941		15,941
493				-
				13,117
	37			37
	310			310
				71,160
		865		865
				125,633
				30,543
			11,607	10,687
	299			299
				191,165
493				-
	37			37
				227,336
	299			299

Cash and cash equivalents, trade receivables and other non-derivative assets fall due in the short term for the most part. Consequently, their carrying amounts as of the end of the reporting period 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 mainly interest rate hedges and forward exchange contracts, is determined using standardized financial modeling 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 amount of these financial instruments approximates 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	**2011**	2010
Financial assets and financial liabilities at fair value through profit and loss	-351	-448
Loans and receivables	-7,734	-2,538
Financial liabilities at amortized cost	-1,294	1,914

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 and net losses from loans and receivables 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.

In fiscal 2011, the sum of the positive market values of derivative financial instruments came to EUR 63 k (prior year: EUR 347 k), while the sum of their negative market values came to EUR 104 k (prior year: EUR 299 k).

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 forecast transactions, 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 market values of derivative financial instruments are disclosed under other financial assets or other financial liabilities.

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 funds 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 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 excess 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 included under the area of financial market risk. The management reviews and agrees policies for managing each of these risks which are summarized below.

Credit Risk

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 Group 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 the 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. As a result the Group's exposure to bad debts 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. There are no liquid funds past due or impaired at present due to default.

The maximum credit risk from financial assets (including derivatives with positive market value) is equivalent to the carrying amounts recognized in the statement of financial position. As of December 31, 2011, the maximum risk of default is equivalent to the financial assets described in note 7.1 totaling EUR 199,444 k (prior year: EUR 207,946 k). The Group has not issued any financial guarantees that could increase its credit risk exposure.

Liquidity Risk

Liquidity risk 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 97,128 k as of December 31, 2011 (prior year: EUR 94,044 k).

The table below summarizes the maturity profile of the Group's financial liabilities at year end based on contractual undiscounted payments.

EUR k	Carrying amount Dec. 31, 2011	Estimated cash flows in the year/years 2012	2013	2014 – 2016	2017 et seq.
Trade payables	80,424	80,424	0	0	0
Liabilities from long-term construction contracts	2,917	2,917	0	0	0
Financial liabilities					
Liabilities to banks	137,389	33,246	99,629	9,232	4,399
Profit participation capital	4,976	5,316	0	0	0
Lease liabilities	10,220	3,562	3,560	2,165	1,625
Derivative financial liabilities					
Derivatives without a hedging relationship	103	103	0	0	0

EUR k	Carrying amount Dec. 31, 2010	Estimated cash flows in the year/years 2011	2012	2013 – 2015	2016 et seq.
Trade payables	71,160	71,160	0	0	0
Liabilities from long-term construction contracts	865	865	0	0	0
Financial liabilities					
Liabilities to banks	126,126	34,530	10,184	89,778	7,639
Profit participation capital	29,863	26,640	5,316	0	0
Lease liabilities	11,607	7,373	2,826	2,070	0
Derivative financial liabilities					
Derivatives without a hedging relationship	299	299	0	0	0

The financial derivative instruments disclosed in the tables above are the net undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts.

EUR k	**Carrying amount Dec. 31, 2011**	Cash flows expected in the year/years 2012	2013	2014 – 2016	2017 et seq.
Inflows		3,597	0	0	0
Outflows		-3,701	0	0	0
Net	103	-103	0	0	0

EUR k	Carrying amount Dec. 31, 2010	Cash flows expected in the year/years 2011	2012	2013 – 2015	2016 et seq.
Inflows		2,565	0	0	0
Outflows		-2,864	0	0	0
Net	299	-299	0	0	0

Financial Market Risks

As regards financial market risks, the Group’s activities mainly expose it to 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 percent (prior year: 18 percent) of the Group’s sales revenue is generated in currencies other than the euro. Currency risks for sales revenue generated in volatile currencies 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.

Overall, the Group is exposed to manageable currency risks, since a large portion of sales revenue is generated in Europe and invoices are in some cases issued in euro, even for countries outside of the euro zone. The currency risk on the cost side is limited to current costs of the group companies outside of the euro zone.

The following table 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 (non-derivative 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 earnings before taxes	
EUR k	**2011**	2010
Appreciation of EUR against other currencies +10%	-1,802	219
Depreciation of EUR against other currencies -10%	1,457	-179

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 percent 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 of key currencies on earnings breaks down into the following currency sensitivity components:

EUR k	Effect on earnings before taxes **2011**
10% appreciation of EUR against the Polish złoty	-319
10% appreciation of EUR against the US dollar	-105
10% appreciation of EUR against the Australian dollar	-273
10% appreciation of EUR against the South Korean won	-109
10% appreciation of EUR against the Singapore dollar	233
10% appreciation of EUR against the Swiss franc	-65
10% appreciation of EUR against the Japanese Yen	-182
10% appreciation of EUR against the Danish krone	115
10% appreciation of EUR against the pound sterling	-64
10% appreciation of EUR against the Thai baht	-20
10% appreciation of EUR against the Taiwanese dollar	-198
10% appreciation of EUR against the Russian rubel	-149
10% appreciation of EUR against the Canadian dollar	-94
10% appreciation of EUR against the Brazilian real	-572
TOTAL	**-1,802**

EUR k	Effect on earnings before taxes 2011
10% depreciation of EUR against the Polish złoty	261
10% depreciation of EUR against the US dollar	86
10% depreciation of EUR against the Australian dollar	223
10% depreciation of EUR against the South Korean won	90
10% depreciation of EUR against the Singapore dollar	-190
10% depreciation of EUR against the Swiss franc	53
10% depreciation of EUR against the Japanese Yen	149
10% depreciation of EUR against the Danish krone	-94
10% depreciation of EUR against the pound sterling	52
10% depreciation of EUR against the Thai baht	16
10% depreciation of EUR against the Taiwanese dollar	162
10% depreciation of EUR against the Russian rubel	122
10% depreciation of EUR against the Canadian dollar	77
10% depreciation of EUR against the Brazilian real	468
TOTAL	**1,475**

EUR k	Effect on earnings before taxes 2010
10% appreciation of EUR against the Polish złoty	120
10% appreciation of EUR against the US dollar	6
10% appreciation of EUR against the Australian dollar	7
10% appreciation of EUR against the South Korean won	21
10% appreciation of EUR against the Singapore dollar	31
10% appreciation of EUR against the Swiss franc	93
10% appreciation of EUR against the Chinese yuan	-21
10% appreciation of EUR against the Danish krone	-38
TOTAL	**219**

EUR k	Effect on earnings before taxes 2010
10% depreciation of EUR against the Polish złoty	-98
10% depreciation of EUR against the US dollar	-5
10% depreciation of EUR against the Australian dollar	-5
10% depreciation of EUR against the South Korean won	-17
10% depreciation of EUR against the Singapore dollar	-26
10% depreciation of EUR against the Swiss franc	-76
10% depreciation of EUR against the Chinese yuan	17
10% depreciation of EUR against the Danish krone	31
TOTAL	**-179**

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 variable 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 (interest rate caps).

Following the conclusion of the syndicated loan in 2010, Homag Group AG contracted interest rate caps for existing loans of EUR 80 million. The changes in cash flows from the hedged transactions resulting from changes in the Euribor rate, are offset by changes in cash flows (compensation payments) from the interest rate caps once a specified interest rate level is reached. The aim of the hedging measures is to transform the variable-rate financial liabilities upon reaching a specified cap into a fixed-interest financial liability and thus to hedge the cash flow from the financial liabilities. Credit risks are not hedged.

The following table presents the contractual maturities of the payments of the aforementioned interest caps:

Start	End	Nominal volume EUR k	Reference interest rate
Sep. 30, 2010	Feb. 15, 2013	18,183	3-month Euribor
Sep. 30, 2010	Feb. 15, 2013	17,172	3-month Euribor
Sep. 30, 2010	Feb. 15, 2013	14,327	3-month Euribor
Sep. 30, 2010	Feb. 15, 2013	11,329	3-month Euribor
Sep. 30, 2010	Feb. 15, 2013	8,081	3-month Euribor
Sep. 30, 2010	Feb. 15, 2013	4,444	3-month Euribor
Sep. 30, 2010	Feb. 15, 2013	4,040	3-month Euribor
Sep. 30, 2010	Feb. 15, 2013	2,424	3-month Euribor
TOTAL		**80,000**	

The effectiveness of the hedge is prospectively and retrospectively tested using the critical terms match method. All hedges of this kind were effective as of the reporting date.

As of December 31, 2011, 24.4 percent of the financial liabilities entered into were subject to fixed rates of interest (prior year: 42.6 percent). The year-on-year decrease mainly stems from the replacement of the fixed-interest profit participation rights with variable-interest liabilities to banks.

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. Group equity is not affected directly.

	2011		2010	
Change in interest rate in base points	+100	-100	+100	-100
Effect on Group earnings before taxes (EUR k)	-1,597	1,767	-955	1,429

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:

	2011		2010	
EUR k	Nominal value	Fair value	Nominal value	Fair value
Currency hedges with a term of less than 1 year	5,055	-64	4,971	-262
Currency hedges with a term of between 1 and 5 years	0	0	0	0
Currency hedges with a term of more than 5 years	0	0	0	0
TOTAL CURRENCY-RELATED TRANSACTIONS	**5,055**	**-64**	**4,971**	**-262**
Interest hedges with a term of less than 1 year	0	0	0	0
Interest hedges with a term of between 1 and 5 years	80,000	23	80,000	310
Interest hedges with a term of more than 5 years	0	0	0	0
TOTAL INTEREST-RELATED TRANSACTIONS	**80,000**	**23**	**80,000**	**310**
TOTAL DERIVATIVES	**85,055**	**-41**	**84,971**	**48**

The currency hedges solely relate to EUR.

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, 2010 and December 31, 2011.

The capital structure is regularly monitored using various indicators. These encompass EBITDA, EBT, ROCE, earnings per share (EPS), net bank borrowing and the debt ratio. The debt ratio is the ratio of net liabilities to EBITDA. Net borrowing comprises financial liabilities, plus other interest-bearing liabilities recognized in the statement of financial position less cash and cash equivalents.

The strategic target is an equity ratio of 35 percent and a net debt ratio not exceeding 1.5.

7.3 Contingent Liabilities

The Group provided the following collateral:

EUR k	**Dec. 31, 2011**	Dec. 31, 2010
Group-owned land and buildings	62,762	70,056
Group-owned technical equipment and machines	12,845	12,297
Group-owned other equipment, furniture and fixtures	11,266	11,150
Inventories	82,999	69,259
Trade receivables	70,274	47,138
Receivables from long-term construction contracts	0	15,023
Cash and cash equivalents	143	38
	240,289	**224,961**

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 are recognized at a carrying amount of EUR 10,029 k (prior year: EUR 12,719 k).

Additional obligations and contingent liabilities of the Group break down as follows:

EUR k	2011	2010
Notes payable	2,427	4,394
Liabilities from guarantees	588	757
Liabilities from warranty agreements/ take-back obligations under lease agreements	2,875	4,808
Litigation risks	85	500
Guarantees to fulfill contractual obligations	22,224	24,745
Other obligations	6,458	5,517
	34,657	**40,721**

Litigation Risks

A German production company set up a provision of EUR 430 k for litigation risks pertaining to two customers. Management aims to settle out of court.

Homag Group AG 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 provisions and bad debt allowances at suitable amounts 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 Segment Reporting

The Group's segment reporting is in line with the provisions of IFRS 8.

As a result, the Homag Group is organized into the business 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 and covers 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 & Service 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 for the future, the services division with the software and consulting portfolio of SCHULER Consulting GmbH and the wooden house construction systems division. HM Bangalore Pvt. Ltd., which was established in India in 2011, was allocated to the segment Other in 2011.

EUR k	Industry 2011	Industry 2010	Cabinet Shops 2011	Cabinet Shops 2010
Third-party sales	339,932	275,449	94,855	89,770
Sales with group companies from other segments	109,655	113,256	86,198	80,375
Sales with investments recognized at equity	40,359	43,497	16,935	14,483
Total sales revenue	**489,946**	**432,202**	**197,988**	**184,628**
Cost of materials	-238,588	-199,174	-109,717	-104,097
Personnel expenses	-166,223	-151,499	-57,450	-50,725
EBITDA [1]	**52,888**	**43,544**	**13,845**	**12,630**
Non-recurring expenses [2]	-13,696	-1,986	-3,146	-683
Depreciation of property, plant and equipment and amortization of intangible assets	-22,990 [3]	-19,433 [4]	-5,225	-5,100
Result from employee participation	-3,649	-4,788	-1,153	-1,603
Share in result of associates	31	557	0	0
Interest result	-3,183	-4,896	-1,177	-1,066
SEGMENT RESULT [8]	**9,400**	**12,998**	**3,144**	**4,178**
ASSETS				
Investments in associates	4,978	4,827	0	0
Capital expenditure [9]	19,539	17,895	5,725	3,003
SEGMENT ASSETS	**359,857**	**373,836**	**121,083**	**127,673**
SEGMENT LIABILITIES	**227,649**	**238,899**	**54,046**	**57,296**
EMPLOYEES [10]	**2,705**	**2,688**	**1,016**	**1,025**

Sales & Service		Other		Total segments		Consolidation		Group	
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
266,593	262,798	18,123	12,832	719,503	640,849	0	0	719,503	640,849
2,038	2,549	27,423	29,090	225,314	225,270	-225,314	-225,270	0	0
448	229	21,433	18,679	79,175	76,888	0	0	79,175	76,888
269,079	**265,576**	**66,979**	**60,601**	**1,023,992**	**943,007**	**-225,314**	**-225,270**	**798,678**	**717,737**
-202,683	-203,931	-38,230	-31,367	-589,218	-538,569	226,193	224,424	-363,025	-314,145
-38,404	-33,849	-21,970	-20,711	-284,047	-256,784	0	0	-284,047	-256,784
10,343	**10,104**	**-7,471**	**-328**	**69,605**	**65,950**	**857**	**-801**	**70,462**	**65,149**
-499	-729	-184	-978	-17,525	-4,376	0	0	-17,525	-4,376
-2,138 [5]	-2,232 [6]	-1,754	-2,030 [7]	-32,107	-28,795	0	0	-32,107	-28,795
-358	-334	44	-132	-5,116	-6,857	0	0	-5,116	-6,857
594	668	0	0	625	1,225	0	0	625	1,225
-335	-801	-5,273	-5,171	-9,968	-11,934	-4	0	-9,972	-11,934
7,607	**6,676**	**-14,638**	**-8,639**	**5,513**	**15,213**	**853**	**-801**	**6,366**	**14,412**

2,897	2,692	0	0	7,875	7,519	0	0	7,875	7,519
2,408	1,000	6,093	1,084	33,765	22,982	0	0	33,765	22,982
162,162	**161,056**	**260,530**	**233,268**	**903,632**	**895,833**	**-345,256**	**-325,702**	**558,376**	**570,131**
101,545	**103,930**	**166,385**	**132,851**	**549,625**	**532,976**	**-152,903**	**-132,859**	**396,722**	**400,117**
729	**695**	**660**	**573**	**5,110**	**4,981**	**0**	**0**	**5,110**	**4,981**

1) Operative EBITDA before employee participation and restructuring/non-recurring expenses
2) Contained in personnel expenses and other operating income
3) Including impairment of EUR 4,116 k
4) Including impairment of EUR 202 k
5) Including impairment of EUR 8 k
6) Including impairment of EUR 29 k
7) Including impairment of EUR 278 k
8) The segment result is equivalent to EBT
9) Capital expenditure relates to additions to property, plant and equipment and intangible assets without investments under lease agreements.
10) Annual average

In real figures, sales revenue grew strongest in the Industry segment. Here a rise of EUR 57,744 k was recorded (up 13.4 percent). This can be chiefly attributed to the large-scale project with Mekran. The largest absolute increase was achieved by Homag Holzbearbeitungssysteme GmbH (up EUR 46,322 k or 15.1 percent).

The development of EBITDA before employee participation expenses and before restructuring expenses varied between segments. EBITDA in the Industry segment rose by EUR 9,344 k, by EUR 1,215 k in the Cabinet Shops segment and by EUR 239 k in the Sales & Service segment. By contrast, a decrease of EUR 7,143 k was registered in the Other segment. In the Industry segment, just about all of the companies were able to generate a substantial increase. Weeke Bohrsysteme GmbH generated growth of EUR 1,421 k, the largest increase in earnings in the Cabinet Shops segment. Homag South America Ltda. (down EUR 2,460 k or 250.5 percent) and Homag Asia Ltd. (down EUR 1,026 k or 148.3 percent) recorded the largest fall in earnings in the Sales & Service segment. The largest earnings increase in this segment was seen by the companies Homag Vertrieb & Service GmbH (up EUR 960 k or 1,046.9 percent), Homag Schweiz AG (up EUR 906 k; or 49.22 percent) and Homag Japan Co. Ltd. (up EUR 1,255 k or 344.9 percent). In the Other segment, the drop in earnings is mainly attributable to Homag Group AG (down EUR 6,578 k or 132.5 percent). A main reason for this decrease was the loan waiver that was granted to Torwegge Holzbearbeitungsmaschinen GmbH (EUR 4.4 million). The corresponding income is reported in the Industry segment. This is eliminated as part of the consolidation between the Other and Industry segments.

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 2010 and 2011, the annual general meeting elected Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, which have been our group auditors for some years, as the group auditors for the fiscal years 2010 and 2011.

The table below presents all of the fees invoiced by the 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 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 work or tax advisory services. All amounts are net of VAT.

EUR k	2011	2010
Statutory audit	694	714
Other assurance services	2	140
Tax advisory services	421	419
Other services	333	104
	1,450	**1,377**

The fees for tax advisory services including service fees contain fees for advisory and support services for filing tax returns.

7.6 Subsequent Events

After the end of the reporting period, the HOMAG Group's management reached an agreement in March 2012 with the works' councils of the subsidiaries BÜTFERING Schleiftechnik GmbH, Beckum, and TORWEGGE Holzbearbeitungsmaschinen GmbH, Löhne, as well as the group works' council on the terms for the planned restructuring. A reconciliation of interests and a redundancy plan had been agreed on for both companies.

According to this, BÜTFERING is to be linked as planned to WEEKE, where the majority of workers will continue to be employed. In addition, the metal grinding machines business unit was sold to LISSMAC Maschinenbau GmbH, Bad Wurzach, which will take over 17 employees from BÜTFERING. Under the agreement concluded, the remaining 18 employees will join a transfer company. To implement these restructuring measures, the share in BÜTFERING Schleiftechnik GmbH was raised from just under 98 percent to 100 percent in March 2012.

Of the 90 workers originally employed at TORWEGGE, 73 were left on the date on which the agreement was concluded and were affected by the restructuring; all of these can likewise join the transfer company.

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 associates 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 persons. Significant influence is deemed to be exerted on the financial and operating policies of the

Homag Group by persons holding a seat on the management board or the supervisory board of Homag Group AG, or another key management position.

In the fiscal year 2011, 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 percent of the shares in the parent company Homag Group AG.

The total remuneration of the employee representative on the supervisory board – comprising wages, salaries, benefits in kind and profit distributions in connection with employee profit participation schemes – amounted to EUR 342 k in the reporting year (prior year: EUR 300 k). Moreover, there are liabilities from employee profit participation of EUR 75 k (prior year: EUR 71 k) attributable to members of the supervisory board.

Homag Holzbearbeitungssysteme GmbH concluded a consulting agreement in 1999 with the former chairman of the supervisory board and current honorary chairman of the supervisory board. The corresponding annual remuneration amounts to EUR 61 k (prior year: EUR 61 k). This agreement was cancelled in the reporting year, effective March 31, 2012. A follow-up agreement between HOMAG Group AG and Mr. Schuler is being negotiated at present. As honorary chairman of the supervisory board, Mr. Gerhard Schuler receives remuneration commensurate with the remuneration of the members of the supervisory board totaling EUR 15 k (prior year: EUR 10 k).

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

	Services and supplies rendered by the Group for related parties		Services and supplies received by the Group from related parties	
EUR k	**2011**	2010	**2011**	2010
Associates	**79,266**	**77,578**	**3,127**	**1,879**

The services provided by the Group to related parties are included in sales revenue and other operating income. The services received by the Group from related parties are included in cost of materials and 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 manufactured by other 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

A declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG was issued by the management board and the supervisory board in January 2011. An up-to-date version is made permanently available to shareholders on Homag Group AG's homepage at www.homag-group.com.

8. COMPANY BOARDS

8.1 Supervisory Board

	Membership in statutory supervisory boards (1) and other comparable German and foreign control bodies of entities (2) that do not belong to the HOMAG Group (as of December 31, 2011)	
Torsten Grede, Frankfurt am Main Chairman of the supervisory board Member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main	(2)	- Clyde Bergemann Power Group, Inc., Delaware, USA
Reiner Neumeister, Wildberg* Deputy chairman of the supervisory board Main representative and managing director of IG Metall trade union, Freudenstadt	(1) (2)	- Bauknecht Hausgeräte GmbH, Stuttgart (deputy chairman) - AOK Baden-Württemberg, Stuttgart
Ernst Esslinger, Alpirsbach* Head of IT engineering at Homag Holzbearbeitungssysteme GmbH, Schopfloch		
Dipl.-Ing. Hans Fahr, Munich Business consultant	(1) (2)	- Sumida AG, Obernzell (chairman) - Bucyrus Europe GmbH, Lünen, until July 11, 2011 - Oechsler AG, Ansbach, since July 14, 2011 - König Metall GmbH, Gaggenau - Vollack Management Holding GmbH, Karlsruhe - BOA Luxembourg Investment s.a.r.l., Luxembourg, Luxembourg
Gerhard Federer, Neuried CEO of Schunk GmbH, Heuchelheim and of Schunk Verwaltungsgesellschaft mbH, Heuchelheim	(1) (2)	- SÜDVERS Holding GmbH & Co. KG, Au - Schunk Iberica S.A., Pinto, Spain - XYCARB Ceramics B.V., Helmond, Netherlands - Commerzbank AG, Regional Advisory Committee Central Germany, Frankfurt am Main - Hoffmann & Co. Elektrokohle AG, Bad Goissern, Austria - Schunk Wien Gesellschaft mbH, Vienna, Austria
Dr. Horst Heidsieck, Büdingen Managing partner of Value Consult Management- und Unternehmensberatungs-gesellschaft mbH, Büdingen and managing partner of DOMINO GmbH, Büdingen	(1) (2)	- Coperion GmbH, Stuttgart (chairman) - Mauser Holding GmbH, Brühl (chairman) - Agfa-Gevaert N.V., Mortsel, Belgium
Carmen Hettich-Günther, Rottenburg* Strategic sourcing employee and chair of the works' council of Homag Holzbearbeitungssysteme GmbH, Schopfloch		
Dr. Dieter Japs, Reichenberg Consulting engineer	(2)	- Leitz GmbH & Co. KG, Oberkochen
Thomas Keller, Freiburg Regional manager for Württemberg at Deutsche Bank AG, Stuttgart	(1) (2)	- GEZE GmbH, Leonberg, since April 1, 2011 - Deutsche Clubholding GmbH, Frankfurt am Main - Gühring oHG, Albstadt - Cronimet Holding GmbH, Karlsruhe, since July 1, 2011 - Baden-Württembergische Wertpapierbörse, Stuttgart - Vereinigung Baden-Württembergische Wertpapierbörse e.V., Stuttgart

* *Employee representative*

	Membership in statutory supervisory boards (1) and other comparable German and foreign control bodies of entities (2) that do not belong to the HOMAG Group (as of December 31, 2011)	
Hannelore Knowles, Calw* Chair of the Group's works' council of Homag Group AG, Schopfloch and chairperson of the works' council of HOLZMA Plattenaufteiltechnik GmbH, Calw-Holzbronn		
Jochen Meyer, Herzebrock-Clarholz* Deputy chairman of the group works' council of Homag Group AG, Schopfloch and chairman of the group works' council of Weeke Bohrsysteme GmbH, Herzebrock-Clarholz		
Reinhard Seiler, Lemgo* Main representative of IG Metall trade union, Detmold	(1)	- Dorma Holding GmbH & Co. KGaA, Ennepetal

Supervisory Board Committees

Audit committee	Gerhard Federer (chairman) Carmen Hettich-Günther* Reiner Neumeister* Thomas Keller
Personnel committee	Torsten Grede (chairman) Hannelore Knowles* Jochen Meyer* Reiner Neumeister* Hans Fahr Dr. Horst Heidsieck
Nomination committee	Torsten Grede (chairman) Hans Fahr Dr. Dieter Japs
Mediation committee pursuant to Sec. 27 (3) MitbestG ["Mitbestimmungsgesetz": German Co determination Act]	Torsten Grede (chairman) Jochen Meyer* Reiner Neumeister* Dr. Horst Heidsieck

* *Employee representative*

8.2 Management Board

		Membership in statutory supervisory boards (1) and other comparable domestic and foreign control bodies of entities (2) that do not belong to the HOMAG Group (as of December 31, 2011)
Dr.-Ing./U. Cal. Markus Flik Management board member since April 1, 2011 Chairman and board member for corporate development, affiliates from July 1, 2011 Gerlingen	(1) (2)	- Benteler International AG, Salzburg, Austria - Anand Automotive Systems Limited, New Delhi, India since April 1, 2011
Achim Gauß Board member for research and development Dornstetten	(1)	- Coveright Surfaces Beteiligungs GmbH, Düsseldorf
Andreas Hermann Board member for finance, IT, personnel until March 31, 2011 Freudenstadt		
Herbert Högemann Board member for production, procurement and quality assurance Freudenstadt		
Rolf Knoll CEO Board member for investments and production companies until June 30, 2011 Dettingen an der Erms	(2)	- Chairman of the management board of the professional association for wood processing machinery of the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], Frankfurt am Main
Jürgen Köppel Board member for sales, service and marketing Beckum		
Hans-Dieter Schumacher Board member since January 15, 2011 CFO and board member for IT and personnel from April 1, 2011 Tuttlingen	(2)	- Commerzbank AG, Regional Advisory Committee (south-west Germany), Frankfurt am Main

9. LIST OF SHAREHOLDINGS

	Status	Currency	Issued capital Dec. 31, 2011	Share in capital % Dec. 31, 2011	Equity (thousands) Dec. 31, 2011	Profit/loss (thousands) 2011
GERMANY						
Direct shareholdings:						
Homag Holzbearbeitungssysteme GmbH, Schopfloch	(fc)	EUR	30,000,000.00	100.00	82,284	EAV
SCHULER Consulting GmbH, Pfalzgrafenweiler	(fc)	EUR	5,150,000.00	100.00 [1]	273	2
Torwegge Holzbearbeitungsmaschinen GmbH, Löhne	(fc)	EUR	1,600,000.00	100.00 [2]	-3,397	-3,726
HOLZMA Plattenaufteiltechnik GmbH, Holzbronn	(fc)	EUR	5,600,000.00	100.00 [3]	20,130	EAV
Brandt Kantentechnik GmbH, Lemgo	(fc)	EUR	4,000,000.00	70.00	19,952	1,681
Weeke Bohrsysteme GmbH, Herzebrock	(fc)	EUR	17,550,000.00	100.00	29,716	2,799
BENZ GmbH Werkzeugsysteme, Haslach	(fc)	EUR	25,000.00	51.00	3,406	1.276
Homag eSolution GmbH, Schopfloch	(fc)	EUR	50,000.00	51.00	543	-17
Wehrmann Maschinen Center GmbH [4], Barntrup	(nc)	EUR	2,500,000.00	43.82	1,087 [5]	-2,567 [5]
Indirect shareholdings:						
Homag Vertriebs-Beteiligungs GmbH, Schopfloch	(fc)	EUR	7,200,000.00	100.00 [6]	29,130	3,562
Ligmatech Automationssysteme GmbH, Lichtenberg	(fc)	EUR	6,650,000.00	100.00	5,698	608
Friz Kaschiertechnik GmbH, Weinsberg	(fc)	EUR	2,400,000.00	100.00	921	EAV
Bargstedt Handlingsysteme GmbH, Hemmoor	(fc)	EUR	5,133,000.00	100.00	6,026	1,052
Bütfering Schleiftechnik GmbH, Beckum	(fc)	EUR	3,395,000.00	97.82	-2,289	-2,673
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	(fc)	EUR	1,000,000.00	51.00	4,193	-461
Homag GUS GmbH, Schopfloch	(fc)	EUR	100,000.00	100.00 [6]	2,100	EAV
Homag Finance GmbH, Schopfloch	(fc)	EUR	100,000.00	100.00 [6]	126	15
Homag India GmbH, Schopfloch	(nc)	EUR	400,000.00	100.00 [6]	3 [7]	-1 [7]
Homag Vertrieb & Service GmbH, Schopfloch	(fc)	EUR	300,000.00	100.00 [6]	1,116	737
Hüllhorst GmbH, Barntrup	(nc)	EUR	255,645.94	100.00	261	2
Futura GmbH, Schopfloch	(nc)	EUR	25,000.00	100.00	25	0

1) Thereof 94.00% held by Homag Holzbearbeitungssysteme GmbH and 6.00% by Homag Group AG
2) Thereof 39.95% held by Homag Holzbearbeitungssysteme GmbH and 60.05% by Homag Group AG
3) Thereof 54.46% held by Homag Holzbearbeitungssysteme GmbH and 45.54% by Homag Group AG
4) The insolvency proceedings have not been completed
5) Fiscal year from April 1, 2002 to March 31, 2003
6) Exactly calculated share in capital: 96.51%
7) Figures from fiscal year January 1 to December 31, 2010
PLTA Profit and loss transfer agreement with Homag Group AG or Homag Holzbearbeitungssysteme GmbH or Homag Vertriebs-Beteiligungs GmbH
(fc) Fully consolidated
(nc) Not consolidated

	Status	Currency	Issued capital Dec. 31, 2011	Share in capital % Dec. 31, 2011	Equity (thousands) Dec. 31, 2011	Profit/loss (thousands) 2011
INTERNATIONAL						
Direct shareholdings:						
Homag Machinery Bangalore Pvt Ltd.,		INR	35,030,000.00	100.00 [8]	28,906	6,124
Bangalore/India	(fc)	(EUR	507,807.74		419	93)
Indirect shareholdings:						
Homag Machinery Środa Sp. z o.o.,		PLN	6,001,000.00	100.00 [9]	10,303	2,965
Środa/Poland	(fc)	(EUR	1,346,935.11		2,313	719)
Holzma Plattenaufteiltechnik S.A., Unipersonal						
L´Ametlla del Valles/Spain	(fc)	EUR	2,047,748.40	100.00	3,298	577
Homag Machinery (São Paulo) Maquinas Especias		BRL	6,812,180.00	100.00	9,475	562
para Madeira Ltda. São Paulo/Brazil	(fc)	(EUR	2,819,844.36		3,922	241)
Homag Machinery (Shanghai) Co. Ltd.,		CNY	70,715,635.00	81.25 [10]	105,824	9,092
Shanghai/China	(fc)	(EUR	8,678,362.28		12.987	1,008)
Homag Austria Gesellschaft mbH,						
Oberhofen am Irrsee/Austria	(fc)	EUR	370,000.00	100.00 [11]	754	-131
Homag Italia S.p.A.,						
Giussano/Italy	(fc)	EUR	1,100,000.00	100.00 [11]	1,791	-479
Homag France S.A.,						
Schiltigheim/France	(fc)	EUR	1,500,000.00	100.00 [11]	8,798	1,839
Homag Asia (PTE) Ltd.,		SGD	100,000.00	100.00 [11]	2,675	224
Singapore/Singapore	(fc)	(EUR	59,477.79		1,591	128)
Homag Canada Inc.,		CAD	4,367,800.00	100.00 [11]	9,951	762
Mississauga, Ontario/Canada	(fc)	(EUR	3,309,691.60		7,540	553)
Homag Polska Sp. z o.o.,		PLN	1,050,000.00	100.00 [11]	11,636	1,516
Środa/Poland	(fc)	(EUR	235,674.37		2,612	367)
Homag Japan Co. Ltd.,		JPY	206,000,000.00	100.00 [11]	397,173	75,637
Osaka/Japan	(fc)	(EUR	2,057,596.73		3,967	681)
Homag Danmark A/S,		DKK	1,970,000.00	100.00 [11]	18,752	4,371
Galten/Denmark	(fc)	(EUR	264,991.53		2,522	587)
Homag U.K. Ltd.,		GBP	2,716,788.00	100,00 [11]	1,080	335
Castle Donington/UK	(fc)	(EUR	3,245,076.45		1,290	386)
Schuler Business Solutions S.L.,						
Cullera/Spain	(fc)	EUR	301,000.00	100.00	225	-13
Homag Korea Co. Ltd.,		KRW	320,970,000.00	54.55 [12]	926,106	342,762
Seoul/Korea	(fc)	(EUR	215,395.70		621	222)
Holzma Tech GmbH,		BGN	370,000.00	100.00	1,180	143
Assenovgrad/Bulgaria	(nc)	(EUR	189,142.21		603	73)
Stiles Machinery Inc.,		USD	25,806.00	22.00	23,734	525 [13]
Grand Rapids/USA	(e)	(EUR	19,945.90		18,344	377)
Weeke North America Inc.,		USD	20,000.00	81.00	-90	45
Grand Rapids/USA	(fc)	(EUR	15,458.34		-70	32)

[8] *Thereof 99.99% held by Homag Group AG and 0.01% by Homag Holzbearbeitungssysteme GmbH*
[9] *Exactly calculated share in capital: 92.81%*
[10] *Exactly calculated share in capital: 79.38%*
[11] *Exactly calculated share in capital: 96.51%*
[12] *Exactly calculated share in capital: 52.65%*
[13] *Figures from fiscal year January 1 to December 31, 2010*
(fc) *Fully consolidated*
(nc) *Not consolidated*
(e) *Consolidated at equity*

	Status	Currency	Issued capital Dec. 31, 2011	Share in capital % Dec. 31, 2011	Equity (thousands) Dec. 31, 2011	Profit/loss (thousands) 2011
Homag España Maquinaria S.A., Montmeló/Spain	(fc)	EUR	1,211,300.00	100.00 [14]	170	-1,171
Homag China Golden Field Ltd., Hongkong/China	(e)	HKD (EUR	27,000,000.00 2,686,219.69	25.00	110,983 11,042	28,325 [15] 2,610)
Homag South America Ltda., São Paulo/Brazil	(fc)	BRL (EUR	5,925,031.00 2,452,616.52	100.00 [14]	1,314 544	-3,192 -1,370)
Homag Australia Pty. Ltd., Sydney/Australia	(fc)	AUD (EUR	7,209,158.62 5,669,360.35	100.00 [14]	2,389 1,879	15 11)
Homag (Schweiz) AG, Bachenbülach/Switzerland	(fc)	CHF (EUR	200,000.00 164,446.64	100.00 [14]	7,274 5,981	2,404 1,949)
OOO "FAYZ- Homag GUS", Taschkent/Uzbekistan	(nc)	USD (EUR	174,000.00 134,487.56	33.00 [17]	-[20] -[20]	-[20] -[20])
OOO "Homag Russland", Moscow/Russian Federation	(fc)	RUB (EUR	357,215.00 8,557.52	99.00 [18]	23,765 569	49,768 1,215)
Homag India Private Ltd., Bangalore/India	(fc)	INR (EUR	228,055,010.00 3,305,969.17	99.90 [19]	-4,610 -67	-78,452 -1,194)
HA Malaysia SDN Bhd., Kuala Lumpur/Malaysia	(fc)	MYR (EUR	250,000.00 60,824.29	100.00 [14]	-1,341 -326	-115 -27)
HA (Thailand) Co. Ltd., Bangkok/Thailand	(fc)	THB (EUR	2,000,000.00 48,982.63	100.00 [14]	-11,139 -273	696 16)
BENZ INCORPORATED, Charlotte/USA	(fc)	USD (EUR	100.00 77.29	100.00 [16]	-39 -30	165 118)

[14] *Exactly calculated share in capital: 96.51%*
[15] *Figures from fiscal year January 1 to December 31, 2010*
[16] *Exactly calculated share in capital: 51.00%*
[17] *Exactly calculated share in capital: 31.85%*
[18] *Exactly calculated share in capital: 95.54%*
[19] *Exactly calculated share in capital: 96.41%*
[20] *Not available*
(fc) Fully consolidated
(nc) Not consolidated
(e) Consolidated at equity

10. OTHER NOTES

Pursuant to Sec. 264 (3) HGB, the following companies are exempted from the duty to publish their financial statements: Friz Kaschiertechnik GmbH, Weinsberg, HOLZMA Plattenaufteiltechnik GmbH, Calw, and Homag Holzbearbeitungssysteme GmbH, Schopfloch.

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 that the group management report, which has been combined with the management report of the Company, gives a true and fair view of the business performance including the results of operations and the situation of the Group and describes the significant opportunities and risks and the anticipated development of the Group in accordance with the applicable financial reporting framework.

Schopfloch, March 16, 2012
Homag Group AG

The Management Board

DR. MARKUS FLIK   ACHIM GAUSS   HERBERT HÖGEMANN

JÜRGEN KÖPPEL   HANS-DIETER SCHUMACHER

Audit Opinion on the Consolidated Financial Statements (Group)

TRANSLATION OF THE GERMAN AUDIT OPINION CONCERNING THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT PREPARED IN GERMAN

Audit Opinion

We have issued the following opinion on the consolidated financial statements and the group management report, which has been combined with the management report of the Company:

"We have audited the consolidated financial statements prepared by Homag Group AG, Schopfloch, comprising the income statement, the statement of comprehensive income, the statement of financial position, the cash flow statement, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report which has been combined with the management report of the Company for the fiscal year from January 1 to December 31, 2011. 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 the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB 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 and 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, March 16, 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

BLESCH
Wirtschaftsprüfer
[German Public Auditor]

VÖGELE
Wirtschaftsprüferin
[German Public Auditor]


HOMAG

Financial Statements for Fiscal Year 2011 (AG)

INCOME STATEMENT FOR FISCAL YEAR 2011

EUR	**2011**	2010
Other operating income	5,475,003.71	1,234,504.01
Personnel expenses		
- Wages and salaries	-4,557,584.28	-2,525,449.24
- Social security, pension and other benefit costs	-294,140.85	-162,467.89
Amortization of intangible assets and depreciation of property, plant and equipment	-158,743.12	-26,353.65
Other operating expenses	-11,940,693.20	-6,620,493.94
	-11,476,157.74	**-8,100,260.71**
Income from equity investments	4,400,000.00	1,365,000.00
Income from profit and loss transfer agreement	14,100,407.57	10,022,956.66
Other interest and similar income	691,496.60	695,634.43
Write-downs on financial assets	-2,118,999.00	-94,846.53
Interest and similar expense	-4,275,147.46	-4,590,102.54
RESULT FROM ORDINARY ACIVITIES	**1,321,599.97**	**-701,618.69**
Extraordinary expenses	-22,991.00	-22,991.00
EXTRAORDINARY RESULT	**-22,991.00**	**-22,991.00**
Income taxes	-533,778.55	1,152,578.69
Other taxes	-338,920.60	-3,275.64
NET INCOME FOR THE YEAR	**425,909.82**	**424,693.36**
Profit brought forward from prior year	21,211,551.45	25,493,258.09
RETAINED EARNINGS	**21,637,461.27**	**25,917,951.45**

BALANCE SHEET AS OF DECEMBER 31, 2011

ASSETS

EUR		Dec. 31, 2011	Dec. 31, 2010
A.	**FIXED ASSETS**		
I.	Intangible assets		
	1. Purchased industrial and similar rights	598,474.00	754,607.00
II.	Property, plant and equipment		
	1. Furniture and fixtures	11,702.00	1,205.00
III.	Financial assets		
	1. Shares in affiliates	152,028,465.83	152,060,936.16
	2. Equity investments	1.00	1.00
		152,028,466.83	152,060,937.16
		152,638,642.80	**152,816,749.16**
B.	**CURRENT ASSETS**		
I.	Receivables and other assets		
	1. Trade receivables	5,614.70	0.00
	2. Receivables from affiliates	18,221,497.02	26,496,607.99
	3. Receivables from indirect investees and investors	23,676.55	0.00
	4. Other assets	2,391,733.41	5,026,253.83
		20,642,521.68	31,522,861.82
II.	Bank balances	30,155,589.17	21,106.91
		50,798,110.85	**31,543,968.73**
C.	**PREPAID EXPENSES**	**176,805.39**	**116,312.27**
TOTAL ASSETS		**203,613,559.07**	**184,477,030.16**

EQUITY AND LIABILITIES

EUR		Dec. 31, 2011	Dec. 31, 2010
A.	**EQUITY**		
I.	Issued capital	15,688,000.00	15,688,000.00
II.	Capital reserves	33,799,650.00	33,799,650.00
III.	Revenue reserves		
	Other revenue reserves	1,456,134.50	1,456,134.50
IV.	Retained earnings	21,637,461.27	25,917,951.45
		72,581,245.77	**76,861,735.95**
B.	**PROVISIONS**		
	1. Pension provisions	544,399.00	535,735.00
	2. Tax provisions	2,282,088.96	5,470,084.70
	3. Other provisions	2,754,376.64	1,555,159.32
		5,580,864.60	**7,560,979.02**
C.	**LIABILITIES**		
	1. Liabilities to banks	80,000,000.00	81,224,010.68
	2. Trade payables	663,129.33	243,110.77
	3. Liabilities to affiliates	44,526,119.72	18,092,603.44
	4. Other liabilities	186,719.65	474,590.30
		125,375,968.70	**100,034,315.19**
D.	**DEFERRED INCOME**	**75,480.00**	**20,000.00**
TOTAL EQUITY AND LIABILITIES		**203,613,559.07**	**184,477,030.16**

Notes to the Financial Statements for Fiscal Year 2011 (AG)

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 nature of expense method.

In order to improve the clarity of the financial statements, we have summarized individual items in the balance sheet and in the income statement, 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 POLICIES

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.

Purchased *intangible assets* are capitalized at acquisition cost and, if they have a limited life, are reduced by systematic amortization in accordance with their useful lives using the straight-line method.

Property, plant and equipment are measured at cost and, if they have a limited life, are depreciated systematically in accordance with their useful lives using the straight-line method.

With regard to *financial assets,* equity investments are recorded at the lower of cost or net realizable value assuming that the impairment in value is permanent. The market value is reviewed based on the calculation of the individual subsidiaries' earnings value using current five-year planning. The figures used in the budget are based on numerous assumptions, so that the calculation of fair value is based on discretionary decisions and on projections of future business developments.

Receivables and other assets are always stated at their nominal value.

Pension provisions are determined using the projected unit credit method within the meaning of IAS 19 and based on the 2005 G mortality tables. Discounting was calculated using the mean market interest rate of 5.13 percent for a remaining term of 15 years in accordance with the RückAbzinsV ["Rückstellungsabzinsungsverordnung": German Ordinance on the Discounting of Provisions]. Expected pension increases were taken into account at 2.0 percent.

Exercising the option under Art. 67 (1) Sentence 1 EGHGB [“Einführungsgesetz zum Handelsgesetzbuch”: Introductory Law of the German Commercial Code], the allocation amount resulting from the change in the accounting for provisions pursuant to Sec. 249 (1) Sentence 1 and Sec. 253 (1) Sentence 2, (2) HGB due to BilMoG [“Bilanzrechtsmodernisierungsgesetz”: German Accounting Law Modernization Act] is spread evenly over a period of 5 years.

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. Long-term provisions are discounted.

Liabilities are stated at the settlement amount.

To determine *deferred taxes* arising due to timing or temporary differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax carrying amounts or due to tax loss carryforwards, the resulting tax burden and relief are valued using the company-specific tax rates at the time the differences reverse; these amounts are not discounted. Deferred tax assets and deferred tax liabilities are determined and subsequently offset against each other. The option to recognize deferred tax assets was not exercised.

When *hedge accounting* is used in accordance with Sec. 254 HGB, the following accounting and valuation principles apply:

Economic hedging relationships are accounted for by designating hedges. When it is possible to apply either the “frozen value method”, under which offsetting changes in value attributable to the hedged risk are not accounted for, or the “fair value through net income method,” where offsetting changes in value attributable to the hedged risk of both the hedged item and the hedging instrument are accounted for, the frozen value method is applied. Offsetting positive and negative changes in value are not recognized in the income statement.

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.

Statement of Changes in Fixed Assets

		Acquisition and production		
EUR		Jan. 1, 2011	Additions	Disposals
I.	Intangible assets			
	1. Purchased industrial and similar rights	780,658.41	0.00	0.00
II.	Property, plant and equipment			
	1. Furniture and fixtures	1,507.24	13,107.12	0.00
III.	Financial assets			
	1. Share in affiliates	170,164,690.65	2,086,528.67	0.00
	2. Equity investments	4,274,310.74	0.00	0.00
		174,439,001.39	2,086,528.67	0.00
		175,221,167.04	**2,099,635.79**	**0.00**

cost	Accumulated amortization, depreciation and write-downs				Carrying amounts	
Dec. 31, 2011	Jan. 1, 2011	Additions	Disposals	Dec. 31, 2011	**Dec. 31, 2011**	**Dec. 31, 2010**
780,658.41	26,051.41	156,133.00	0.00	182,184.41	598,474.00	754,607.00
14,614.36	302.24	2,610.12	0.00	2,912.36	11,702.00	1,205.00
172,251,219.32	18,103,754.49	2,118,999.00	0.00	20,222,753.49	152,028,465.83	152,060,936.16
4,274,310.74	4,274,309.74	0.00	0.00	4,274,309.74	1.00	1.00
176,525,530.06	22,378,064.23	2,118,999.00	0.00	24,497,063.23	152,028,466.83	152,060,937.16
177,320,802.83	**22,404,417.88**	**2,277,742.12**	**0.00**	**24,682,160.00**	**152,638,642.83**	**152,816,749.16**

Financial Assets

The composition of shareholdings of Homag Group AG is presented in the following list of shareholdings:

List of shareholdings	Currency	Issued capital Dec. 31, 2011	Share in capital % Dec. 31, 2011	Equity (thousands) Dec. 31, 2011	Profit/loss after taxes (thousands) 2011
GERMANY					
Direct shareholdings:					
Homag Holzbearbeitungssysteme GmbH, Schopfloch	EUR	30,000,000.00	100.00	82,284	PLTA
SCHULER Consulting GmbH, Pfalzgrafenweiler	EUR	5,150,000.00	100.00 [1]	273	2
Torwegge Holzbearbeitungsmaschinen GmbH, Löhne	EUR	1,600,000.00	100.00 [2]	-3,397	-3,726
HOLZMA Plattenaufteiltechnik GmbH, Holzbronn	EUR	5,600,000.00	100.00 [3]	20,130	PLTA
Brandt Kantentechnik GmbH, Lemgo	EUR	4,000,000.00	70.00	19,952	1,681
Weeke Bohrsysteme GmbH, Herzebrock	EUR	17,550,000.00	100.00	29,716	2,799
BENZ GmbH Werkzeugsysteme, Haslach	EUR	25,000.00	51.00	3,406	1,276
Homag eSolution GmbH, Schopfloch	EUR	50,000.00	51.00	543	-17
Wehrmann Maschinen Center GmbH [4], Barntrup	EUR	2,500,000.00	43.82	1,087 [5]	-2,567 [5]
Indirect shareholdings:					
Homag Vertriebs-Beteiligungs GmbH, Schopfloch	EUR	7,200,000.00	100.00 [6]	29,130	3,562
Ligmatech Automationssysteme GmbH, Lichtenberg	EUR	6,650,000.00	100.00	5,698	608
Friz Kaschiertechnik GmbH, Weinsberg	EUR	2,400,000.00	100.00	921	PLTA
Bargstedt Handlingsysteme GmbH, Hemmoor	EUR	5,133,000.00	100.00	6,026	1,052
Bütfering Schleiftechnik GmbH, Beckum	EUR	3,395,000.00	97.82	-2,289	-2,673
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	EUR	1,000,000.00	51.00	4,193	-461
Homag GUS GmbH, Schopfloch	EUR	100,000.00	100.00 [6]	2,100	PLTA
Homag Finance GmbH, Schopfloch	EUR	100,000.00	100.00 [6]	126	15
Homag India GmbH, Schopfloch	EUR	400,000.00	100.00 [6]	3 [7]	-1 [7]
Homag Vertrieb & Service GmbH, Schopfloch	EUR	300,000.00	100.00 [6]	1,116	737
Hüllhorst GmbH, Barntrup	EUR	255,645.94	100.00	261	2
Futura GmbH, Schopfloch	EUR	25,000.00	100.00	25	0

[1] *Thereof 94.00% held by Homag Holzbearbeitungssysteme GmbH and 6.00% by Homag Group AG.*
[2] *Thereof 39.95% held by Homag Holzbearbeitungssysteme GmbH and 60.05% by Homag Group AG.*
[3] *Thereof 54.46% held by Homag Holzbearbeitungssysteme GmbH and 45.54% by Homag Group AG.*
[4] *The insolvency proceedings have not been completed*
[5] *Fiscal year from April 1, 2002 to March 31, 2003*
[6] *Exactly calculated share in capital: 96.51%*
[7] *Figures from fiscal year January 1 to December 31, 2010*
PLTA *Profit and loss transfer agreement with Homag Group AG, Homag Holzbearbeitungssysteme GmbH or Homag Vertriebs-Beteiligungs GmbH*

List of shareholdings	Currency	Issued capital Dec. 31, 2011	Share in capital % Dec. 31, 2011	Equity (thousands) Dec. 31, 2011	Profit/loss after taxes (thousands) 2011
INTERNATIONAL					
Direct shareholdings:					
Homag Machinery Bangalore Pvt. Ltd., Bangalore/India	INR (EUR	35,030,000.00 507,807.74	100.00 [1]	28,906 419	6,124 93)
Indirect shareholdings:					
Homag Machinery Środa Sp. z o.o., Środa/Poland	PLN (EUR	6,001,000.00 1,346,935.11	100.00 [2]	10,303 2,313	2,965 719)
Holzma Plattenaufteiltechnik S.A., Unipersonal L'Ametlla del Valles/Spain	EUR	2,047,748.40	100.00	3,298	577
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo/Brazil	BRL (EUR	6,812,180.00 2,819,844.36	100.00	9,475 3,922	562 241)
Homag Machinery (Shanghai) Co. Ltd., Shanghai/China	CNY (EUR	70,715,635.00 8,678,362.28	81.25 [3]	105,824 12,987	9,092 1,008)
Homag Austria Gesellschaft mbH, Oberhofen am Irrsee/Austria	EUR	370,000.00	100.00 [4]	754	-131
Homag Italia S.p.A., Giussano/Italy	EUR	1,100,000.00	100.00 [4]	1,791	-479
Homag France S.A., Schiltigheim/France	EUR	1,500,000.00	100.00 [4]	8,798	1,839
Homag Asia (PTE) Ltd., Singapore/Singapore	SGD (EUR	100,000.00 59,477.79	100.00 [4]	2,675 1,591	224 128)
Homag Canada Inc., Mississauga, Ontario/Canada	CAD (EUR	4,367,800.00 3,309,691.60	100.00 [4]	9,951 7,540	762 553)
Homag Polska Sp. z o.o., Środa/Poland	PLN (EUR	1,050,000.00 235,674.37	100.00 [4]	11,636 2,612	1,516 367)
Homag Japan Co. Ltd., Osaka/Japan	JPY (EUR	206,000,000.00 2,057,596.73	100.00 [4]	397,173 3,967	75,637 681)
Homag Danmark A/S, Galten/Denmark	DKK (EUR	1,970,000.00 264,991.53	100.00 [4]	18,752 2,522	4,371 587)
Homag U.K. Ltd., Castle Donington/UK	GBP (EUR	2,716,778.00 3,245,076.45	100.00 [5]	1,080 1,290	335 386)
Schuler Business Solutions S.L., Cullera/Spain	EUR	301,000.00	100.00	225	-13
Homag Korea Co. Ltd., Seoul/Korea	KRW (EUR	320,970,000.00 215,395.70	54.55 [5]	926,106 621	342,762 222)
Holzma Tech GmbH, Assenovgrad/Bulgaria	BGN (EUR	370,000.00 189,142.21	100.00	1,180 603	143 73)
Stiles Machinery Inc., Grand Rapids/USA	USD (EUR	25,806.00 19,945.90	22.00	23,734 18,344	525 [6] 377)
Weeke North America Inc., Grand Rapids/USA	USD (EUR	20,000.00 15,458.34	81.00	-90 -70	45 32)

[1] *Thereof 99.99% held by Homag Holzbearbeitungssysteme GmbH and 0.01% by Homag Group AG.*
[2] *Exactly calculated share in capital: 92.81%*
[3] *Exactly calculated share in capital: 79.38%*
[4] *Exactly calculated share in capital: 96.51%*
[5] *Exactly calculated share in capital: 52.65%*
[6] *Figures from fiscal year January 1 to December 31, 2010*

List of shareholdings	Currency	Issued capital Dec. 31, 2011	Share in capital % Dec. 31, 2011	Equity (thousands) Dec. 31, 2011	Profit/loss after taxes (thousands) 2011
INTERNATIONAL					
Indirect shareholdings:					
Homag España Maquinaria S.A., Montmeló/Spain	EUR	1,211,300.00	100.00 [1]	170	-1,171
Homag China Golden Field Ltd., Hongkong/China	HKD (EUR	27,000,000.00 2,686,219.69	25.00	110,983 11,042	28,325 [2] 2,610)
Homag South America Ltda., São Paulo/Brazil	BRL (EUR	5,925,031.00 2,452,616.52	100.00 [1]	1,314 544	-3,192 -1,370)
Homag Australia Pty. Ltd., Sydney/Australia	AUD (EUR	7,209,158.62 5,669,360.35	100.00 [1]	2,389 1,879	15 11)
Homag (Schweiz) AG, Bachenbülach/Switzerland	CHF (EUR	200,000.00 164,446.64	100.00 [1]	7,274 5,981	2,404 1,949)
OOO "FAYZ-Homag GUS", Taschkent/Uzbekistan	USD (EUR	174,000.00 134,487.56	33.00 [4]	- [7] - [7]	- [7] - [7])
OOO "Homag Russland", Moscow/Russian Federation	RUB (EUR	357,215.00 8,557.52	99.00 [5]	23,765 569	49,768 1,215)
Homag India Private Ltd., Bangalore/India	INR (EUR	228,055,010.00 3,305,969.17	99.90 [6]	-4,610 -67	-78,452 -1,194)
HA Malaysia SDN. Bhd., Kuala Lumpur/Malaysia	MYR (EUR	250,000,00 60,824.29	100.00 [1]	-1,341 -326	-115 -27)
HA (Thailand) Co. Ltd., Bangkok/Thailand	THB (EUR	2,000,000.00 48,982.63	100.00 [1]	-11,139 -273	696 16)
BENZ INCORPORATED, Charlotte/USA	USD (EUR	100.00 77.29	100.00 [3]	-39 -30	165 118)

[1] *Exactly calculated share in capital: 96.51%*
[2] *Figures from fiscal year January 1 to December 31, 2010*
[3] *Exactly calculated share in capital: 51.00%*
[4] *Exactly calculated share in capital: 31.85%*
[5] *Exactly calculated share in capital: 95.54%*
[6] *Exactly calculated share in capital: 96.41%*
[7] *Not available*

Receivables and Other Assets

EUR k	**Dec. 31, 2011**	Dec. 31, 2010
Trade receivables	6	0
- thereof due in more than one year	*0*	*0*
Receivables from affiliates	18,221	26,497
- thereof due in more than one year	*934*	*1,401*
Receivables from indirect investees and investors	24	0
- thereof due in more than one year	*0*	*0*
Other assets	2,392	5,026
- thereof due in more than one year	*927*	*1,281*
	20,643	**31,523**

Of the receivables from affiliates, EUR 604 k (prior year: EUR 720 k) relates to trade receivables, EUR 3,387 k (prior year: EUR 14,113 k) to loans (including cash pooling) and EUR 14,230 k (prior year: EUR 11,664 k) to other assets.

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 15,688 k). It is divided into 15,688,000 no par value shares with an imputed value of EUR 1.00 each.

Capital Reserves

The capital reserves of Homag Group AG, Schopfloch, remained unchanged at EUR 33,800 k as of the reporting date.

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).

Retained Earnings

EUR k		
Carried forward January 1, 2011	25,918	
Profit distribution	-4,707	
		21,211
Net income for 2011		426
DECEMBER 31, 2011		**21,637**

Pension Provisions

The pension provisions pertain to three individual contractual pledges to former members of the management board of IMA AG which was merged into Homag Group AG in 1999. The pension payments paid in the reporting year for these former board members come to EUR 58 k (prior year: EUR 57 k).

The deficit to be eliminated by recognizing provisions in future periods pursuant to Art. 67 (2) EGHGB amounts to EUR 69 k.

Other Provisions

Other provisions account for recognizable risks; provisions are set up for the following items:

- Remuneration of the supervisory board
- Outstanding invoices
- Cost of preparing the financial statements, including the annual report
- Bonuses
- Outstanding vacation
- Other personnel expenses
- Obligations from cost allocations

Liabilities

		Due in				
EUR k		less than 1 year	1 to 5 years	More than 5 years	**Total Dec 31, 2011**	**Total Dec 31, 2010**
1.	Liabilities to banks	0	80,000	0	80,000	
	(prior year)	(1,224)	(80,000)	(0)		(81,224)
2.	Trade payables	663	0	0	663	
	(prior year)	(243)	(0)	(0)		(243)
3.	Liabilities to affiliates	44,526	0	0	44,526	
	(prior year)	(18,093)	(0)	(0)		(18,093)
4.	Other liabilities	187	0	0	187	
	(prior year)	(474)	(0)	(0)		(474)
	- thereof for taxes	*99*	*0*	*0*	99	
	(prior year)	*(279)*	*(0)*	*(0)*		*(279)*

As regards the amounts accrued in connection with the syndicated loan agreement (EUR 80,000 k; prior year EUR 80,000 k) and the related collateral we refer to the disclosures made under contingent liabilities.

Of the liabilities to affiliates, EUR 28 k (prior year: EUR 149 k) relates to trade payables and EUR 44,498 k (prior year: EUR 17,944 k) to other liabilities (including cash pooling).

Contingent Liabilities

EUR k	**Dec. 31, 2011**	Dec. 31, 2010
From guarantees	46,224	51,766
- thereof for liabilities to affiliates	*45,740*	*51,112*
From warranties	4,987	0
- thereof in favor of affiliates	*3,397*	*0*
	51,211	**51,766**

The guarantees mainly pertain to guarantees obtained by subsidiaries from credit insurers resulting in secondary liability.

Under the syndicated loan agreement concluded in February 2010 between Homag Group AG, Schopfloch, Homag Holzbearbeitungssysteme GmbH, Schopfloch, and a syndicate of banks, Homag Group AG assigned the following collateral:

- Liens on the stock options held in
  - BENZ GmbH Werkzeugsysteme, Haslach
  - Brandt Kantentechnik GmbH, Lemgo
- Abstract acknowledgement of debt

The funds drawn under the syndicated loan agreement amount to EUR 80,000 k and are reported under liabilities to banks. In addition, affiliates had drawn a total of EUR 34,586 k under the syndicated loan agreement as of the reporting date.

The risk of claims relating to the above contingent liabilities is assessed as follows:

The risk of a claim relating to the above guarantees is deemed to be low because of the net assets, financial position and results of operations of the companies for which the guarantee has been given.

Other Financial Obligations

There are also other financial obligations from leases amounting to EUR 182 k. The lease agreements expire between 2012 and 2014.

Derivative Financial Instruments

Interest-related transactions pertain to interest caps with a nominal value of EUR 80,000 k.

The interest rate risk attaching to a bank liability of EUR 80 million was hedged; this loan is subject to a variable interest rate (3-month EURIBOR), expires on February 15, 2013 and was drawn in connection with tranche A of the syndicated loan agreement dated February 15, 2010 totaling EUR 198 million.

They were marked to market.

The interest rate hedge qualifies as a micro hedge.

The following *hedges* qualified for hedge accounting:

Hedged item/ hedging instrument	Risk/ type of hedge	Amount included (EUR k)	Hedged exposure	Fair value
Bank liability/interest rate cap	Interest risk/micro hedge	18,182	18,182	3
Bank liability/interest rate cap	Interest risk/micro hedge	17,172	17,172	1
Bank liability/interest rate cap	Interest risk/micro hedge	14,327	14,327	1
Bank liability/interest rate cap	Interest risk/micro hedge	11,329	11,329	1
Bank liability/interest rate cap	Interest risk/micro hedge	8,081	8,081	8
Bank liability/interest rate cap	Interest risk/micro hedge	4,445	4,445	0
Bank liability/interest rate cap	Interest risk/micro hedge	4,040	4,040	0
Bank liability/interest rate cap	Interest risk/micro hedge	2,424	2,424	9
TOTAL		**80,000**	**80,000**	**23**

Upon exceeding a specified interest level (cap), the changes in cash flows attributable to the hedged item and hedging instrument are expected to fully offset each other during the term of the hedge from September 30, 2010 to February 15, 2013 as key contractual elements of the hedging instrument and the hedged item match. The critical term match method is used to assess hedge effectiveness. The cap was not exceeded in the past fiscal year.

NOTES TO THE INCOME STATEMENT

Other Operating Income

Other operating income contains income relating to other periods amounting to EUR 55 k (prior year: EUR 119 k), which essentially comprises reimbursements of supervisory board remuneration of a subsidiary (EUR 38 k) as well as a credit balance pertaining to a fee allocation notice (EUR 13 k) for the fiscal year 2010.

Personnel Expenses

Pension expenses totaled EUR 12 k (prior year: EUR 21 k) and relate to three beneficiaries.

Other Operating Expenses

Other operating expenses contain expenses of EUR 26 k relating to other periods (prior year: EUR 0 k), which stemmed from the cross-charging of personnel expenses from a subsidiary.

Write-downs on Financial Assets

In the reporting year, a write-down of EUR 2,119 k had to be recognized on the investment Torwegge Holzbearbeitungsmaschinen GmbH, Löhne.

Interest Result

Interest income of EUR 613 k (prior year: EUR 622 k) was received from affiliates, while interest expenses of EUR 699 k (prior year: EUR 566 k) were attributable to affiliates. The interest expenses in connection with the reversal of the discount for pension provisions amount to EUR 33 k (prior year: EUR 37 k).

Extraordinary Expenses

The application of Art. 66 and Art. 67 (1) to (5) EGHGB (transitional BilMoG provisions) leads to the following extraordinary expenses:

Pursuant to Art. 67 (1) EGHGB, the difference between the previous GAAP and BilMoG accounting treatment was determined at the start of the reporting year. The difference has to be accrued by at least 1/15 (distribution amount) per year and by December 31, 2024 at the latest. The distribution amount is expensed over five years at EUR 23 k per annum under "Extraordinary expenses" pursuant to Art. 67 (7) EGHGB.

OTHER NOTES

Members of the Supervisory Board

	Membership in statutory supervisory boards (1) and other comparable domestic and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2011)
Torsten Grede, Frankfurt am Main Chairman of the supervisory board Member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main	(2) - Clyde Bergemann Power Group, Inc., Delaware, USA
Reiner Neumeister, Wildberg* Deputy chairman of the supervisory board Main representative and managing director of IG Metall trade union, Freudenstadt	(1) - Bauknecht Hausgeräte GmbH, Stuttgart (deputy chairman) (2) - AOK Baden-Württemberg, Stuttgart
Ernst Esslinger, Alpirsbach* Head of IT engineering at Homag Holzbearbeitungssysteme GmbH, Schopfloch	
Dipl.-Ing. Hans Fahr, Munich Business consultant	(1) - Sumida AG, Obernzell (chairman) - Bucyrus Europe GmbH, Lünen, until July 11, 2011 - Oechsler AG, Ansbach, from July 14, 2011 (2) - König Metall GmbH, Gaggenau - Vollack Management Holding GmbH, Karlsruhe - BOA Luxembourg Investment s.a.r.l., Luxembourg, Luxembourg
Gerhard Federer, Neuried CEO of Schunk GmbH, Heuchelheim and of Schunk Verwaltungsgesellschaft mbH, Heuchelheim	(1) - SÜDVERS Holding GmbH & Co. KG, Au (2) - Schunk Iberica S.A., Pinto, Spain - XYCARB Ceramics B.V., Helmond, Netherlands - Commerzbank AG, Regional Advisory Committee (central Germany), Frankfurt am Main - Hoffmann & Co. Elektrokohle AG, Bad Goissern, Austria - Schunk Wien Gesellschaft mbH, Vienna, Austria

* *Employee representative*

Dr. Horst Heidsieck, Büdingen Managing partner of Value Consult Management- und Unternehmensberatungs-gesellschaft mbH, Büdingen, and managing partner of DOMINO GmbH, Büdingen	(1) (2)	- Coperion GmbH, Stuttgart (chairman) - Mauser Holding GmbH, Brühl (chairman) - Agfa-Gevaert N.V., Mortsel, Belgium
Carmen Hettich-Günther, Rottenburg* Strategic sourcing employee and chair of the works' council of Homag Holzbearbei-tungssysteme GmbH, Schopfloch		
Dr. Dieter Japs, Reichenberg Consulting engineer	(2)	- Leitz GmbH & Co. KG, Oberkochen
Thomas Keller, Freiburg Regional manager for Württemberg at Deutsche Bank AG, Stuttgart	(1) (2)	- GEZE GmbH, Leonberg since April 1, 2011 - Deutsche Clubholding GmbH, Frankfurt am Main - Gühring oHG, Albstadt since January 1, 2011 - Cronimet Holding GmbH, Karlsruhe, since July 1, 2011 - Baden-Württembergische Wertpapierbörse, Stuttgart - Vereinigung Baden-Württembergische Wertpapierbörse e.V., Stuttgart
Hannelore Knowles, Calw* Chair of the Group's works' council of Homag Group AG, Schopfloch and chairperson of the works' council of HOLZMA Plattenaufteiltechnik GmbH, Calw-Holzbronn		
Jochen Meyer, Herzebrock-Clarholz* Deputy chairman of the group works' council of Homag Group AG, Schopfloch and chairman of the group works' council of Weeke Bohrsysteme GmbH, Herzebrock-Clarholz		
Reinhard Seiler, Lemgo* Main representative of IG Metall trade union, Detmold	(1)	- Dorma Holding GmbH & Co. KGaA, Ennepetal

* *Employee representative*

Supervisory Board Committees

Audit Committee	Gerhard Federer (chairman) Carmen Hettich-Günther* Reiner Neumeister* Thomas Keller
Personnel committee	Torsten Grede (chairman) Hannelore Knowles* Jochen Meyer* Reiner Neumeister* Hans Fahr Dr. Horst Heidsieck
Nomination committee	Torsten Grede (chairman) Hans Fahr Dr. Dieter Japs
Mediation committee pursuant to Sec. 27 (3) MitbestG ["Mitbestimmungsgesetz": German Co determination Act]	Torsten Grede (chairman) Jochen Meyer* Reiner Neumeister* Dr. Horst Heidsieck

Members of the Management Board

	Membership in statutory supervisory boards (1) and other comparable domestic and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2011)	
Dr.-Ing./U. Cal. Markus Flik Management board member since April 1, 2011 Chairman and board member for corporate development, affiliates from July 1, 2011, Gerlingen	(1) (2)	- Benteler International AG, Salzburg, Austria - Anand Automotive Systems Limited, New Delhi, India since April 1, 2011
Achim Gauß Board member for research and development, Dornstetten	(1)	- Coveright Surfaces Beteiligungs GmbH, Düsseldorf
Andreas Hermann Board member for finance, IT, personnel until March 31, 2011, Freudenstadt		
Herbert Högemann Board member for production, procurement and quality assurance, Freudenstadt		
Rolf Knoll CEO Board member for affiliates and production companies until June 30, 2011, Dettingen an der Erms	(2)	- Chairman of the management board of the professional association for wood processing machinery of the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], Frankfurt am Main
Jürgen Köppel Board member for sales, service and marketing, Beckum		
Hans-Dieter Schumacher Board member since January 15, 2011 CFO and board member for IT and personnel from April 1, 2011, Tuttlingen	(2)	- Commerzbank AG, Regional Advisory Committee (south-west Germany), Frankfurt am Main

** Employee representative*

Total Remuneration of Management and Supervisory Board Members

The remuneration of the management board members for the fiscal 2011 breaks down as follows:

	Fixed remuneration		Performance related remuneration (STI and bonuses)		Long-term incentives (LTI)		Benefits in kind		**Total remuneration**	
EUR k	**2011**	2010	**2011** [1]	2010	**2011**	2010	**2011**	2010	**2011**	2010
Dr. Markus Flik	382	0	250	0	35	0	7	0	674	0
Achim Gauß	311	274	106	38	29	77	7	7	453	396
Herbert Högemann	260	236	88	25	24	65	9	8	381	334
Jürgen Köppel	240	218	81	15	23	59	6	6	350	298
Hans-Dieter Schumacher	279	0	95	0	27	0	8	0	409	0
Andreas Hermann	71	247	24	37	0	0	2	7	97	291
Rolf Knoll	209	323	106	38	0	77	4	8	319	446
TOTAL	**1,752**	**1,298**	**750**	**153**	**138**	**278**	**43**	**36**	**2,683**	**1,765**

[1] *To be paid out after the 2012 annual general meeting for the fiscal year 2011.*

Moreover in the fiscal year 2011 Rolf Knoll received a compensation payment of EUR 175 k for the remaining term of his service agreement in the amount of the fixed remuneration when he handed over his duties as member of Homag Group AG's management board.

The provision pertaining to remuneration acting as a long-term incentive came to EUR 187 k as of December 31, 2011 (prior year: EUR 278 k) and breaks down as follows:

	First reference period		Second reference period		Total	Total
EUR k	**2011**	2010	**2011**	2010	**2011**	2010
Dr. Markus Flik	0	0	35	0	35	0
Achim Gauß	12	77	29	0	41	77
Herbert Högemann	10	65	24	0	34	65
Jürgen Köppel	9	59	23	0	32	59
Hans-Dieter Schumacher	0	0	27	0	27	0
Andreas Hermann	0	0	0	0	0	0
Rolf Knoll	18	77	0	0	18	77
TOTAL	**49**	**278**	**138**	**0**	**187**	**278**

A provision of EUR 49 k was recorded for two thirds of the fair value of the long-term incentives for the first reference period from 2010 through 2012; a provision of EUR 138 k was recorded for one third of the fair value for the second reference period from 2011 through 2013. This is not the actual value but the fair value calculated using financial modeling methods. The payment for the first reference period will be made after the annual general meeting for 2012, which will be held in 2013; the payment for the second reference period will be made after the annual general meeting for 2013, which will be held in 2014.

In the fiscal year, remuneration of the supervisory board totaled EUR 396 k (prior year: EUR 364 k).

The honorary chairman of the supervisory board, Gerhard Schuler, receives remuneration in line with the remuneration of the members of the supervisory board totaling EUR 15 k (prior year: EUR 10 k).

Headcount

Annual average headcount:

	Number
Salaried employees	21
Management board	5
TOTAL	**26**

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, provided the issue price of the new shares is not significantly lower than the quoted 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 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 may not exceed 10 percent of the share capital.

Group Relationships

As parent company, Homag Group AG prepares consolidated financial statements. The consolidated financial statements are published in the elektronischer Bundesanzeiger [Electronic German Federal Gazette].

Declaration of Compliance with the German Corporate Governance Code

A declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG was issued by the management board and the supervisory board in January 2012. An up-to-date version is made permanently available to shareholders on Homag Group AG's homepage at www.homag-group.com.

Audit Fees

The annual financial statements of Homag Group AG, the main German subsidiaries and the consolidated financial statements were audited by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart. The auditor's fee is not disclosed in accordance with Sec. 285 (1) No. 17 HGB. The total fees paid to Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart are disclosed in the consolidated financial statements of Homag Group AG.

Shareholdings of Board Members

As of December 31, 2011, the members of the management board held a total of 38,436 shares (prior year: 57,963), which is equivalent to 0.25 (prior year: 0.37) percent of Homag Group AG's share capital. The year-on-year change in the shareholding relates to the fact that Rolf Knoll retired from the management board. As of December 31, 2011, the members of the management board held a total of 400 shares (prior year: 100), which is equivalent to 0.00 (prior year: 0.00) percent of HOMAG Group AG's share capital. As no member of the management or supervisory board held more than 1 percent of the share capital as of December 31, 2011, an individual breakdown is not required.

Notifications Subject to Mandatory Disclosure

The following notifications were issued pursuant to Sec. 21 (1) in conjunction with Sec. 26 (1) Sentence 1 WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act]:

- Deutsche Beteiligungs AG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1) WpHG:

  We hereby 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 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 (1) WpHG:

We hereby 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 less than 3%.

As of July 17, 2007, pursuant to Sec. 22 (2) 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 (1) WpHG:

  We hereby 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 less than 3%.

  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 Investment Team GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1) WpHG:

  We hereby 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 (1) WpHG:

  We hereby 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 (1) WpHG:

  We hereby 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 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.

- On February 4, 2008, Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of January 30, 2008 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, exceeded the threshold of 5% and now amounts to 5.65% (886,095 voting rights).

- On March 31, 2008, BWInvest, Baden-Württembergische Investmentgesellschaft mbH, Stuttgart, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of March 27, 2008 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, for all of its separate trust assets exceeded the threshold of 5% and now amounts to 5.44% (852,958 voting rights). Of those, 5.04% (791,458 shares) is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.

- On December 14, 2010, Gerhard Schuler, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of December 9, 2010 his voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 25% of the voting rights and amounted to 25.000019% on that date (3,922,003 voting rights).

  14.67% of the voting rights (2,300,959 voting rights) are attributable to Gerhard Schuler pursuant to Sec. 22 (2) WpHG.

  Voting rights from the following shareholders whose share in voting rights in Homag Group AG amounts to 3% or more respectively are attributable to Gerhard Schuler:

  Mareike Hengel,
  Dr. Anja Schuler,
  Silke Schuler-Gunkel,
  Erich und Hanna Klessmann Stiftung.

- On December 14, 2010, Mareike Hengel, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of December 9, 2010 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 25% of the voting rights and amounted to 25.000019% on that date (3,922,003 voting rights).

  21.70% of the voting rights (3,404,834 voting rights) are attributable to Mareike Hengel pursuant to Sec. 22 (2) WpHG.

  Voting rights from the following shareholders whose share in voting rights in Homag Group AG amounts to 3% or more respectively are attributable to Mareike Hengel:

  Gerhard Schuler,
  Dr. Anja Schuler,
  Silke Schuler-Gunkel,
  Erich und Hanna Klessmann Stiftung.

- On December 14, 2010, Dr. Anja Schuler, Switzerland, informed us pursuant to Sec. 21 (1) WpHG that as of December 9, 2010 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 25% of the voting rights and amounted to 25.000019% on that date (3,922,003 voting rights).

  21.70% of the voting rights (3,404,834 voting rights) are attributable to Dr. Anja Schuler pursuant to Sec. 22 (2) WpHG.

  Voting rights from the following shareholders whose share in voting rights in Homag Group AG amounts to 3% or more respectively are attributable to Dr. Anja Schuler:

  Gerhard Schuler,
  Mareike Hengel,
  Silke Schuler-Gunkel,
  Erich und Hanna Klessmann Stiftung.

- On December 14, 2010, Silke Schuler-Gunkel, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of December 9, 2010 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 25% of the voting rights and amounted to 25.000019% on that date (3,922,003 voting rights).

  21.70% of the voting rights (3,404,834 voting rights) are attributable to Silke Schuler-Gunkel pursuant to Sec. 22 (2) WpHG.

  Voting rights from the following shareholders whose share in voting rights in Homag Group AG amounts to 3% or more respectively are attributable to Silke Schuler-Gunkel:

  Gerhard Schuler,
  Mareike Hengel,
  Dr. Anja Schuler,
  Erich und Hanna Klessmann Stiftung.

- On December 14, 2010, the Erich und Hanna Klessmann Stiftung, Gütersloh, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of December 9, 2010 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 25% of the voting rights and amounted to 25.000019% on that date (3,922,003 voting rights).

  20.22% of the voting rights (equivalent to 3,172,551 voting rights) are attributable to Erich und Hanna Klessmann Stiftung pursuant to Sec. 22 (2) WpHG.

  Voting rights from the following shareholders whose share in voting rights in Homag Group AG amounts to 3% or more respectively are attributable to Erich und Hanna Klessmann Stiftung:

  Gerhard Schuler,
  Mareike Hengel,
  Dr. Anja Schuler,
  Silke Schuler-Gunkel.

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 that the management report of the Company, which has been combined with the group 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 significant opportunities and risks and the anticipated development of the Company in accordance with the applicable financial reporting framework.

Schopfloch, March 16, 2012
Homag Group AG

The Management Board

DR. MARKUS FLIK
ACHIM GAUSS
HERBERT HÖGEMANN

JÜRGEN KÖPPEL
HANS-DIETER SCHUMACHER

Audit Opinion on the Annual Financial Statements (AG)

TRANSLATION OF THE GERMAN AUDIT OPINION CONCERNING THE AUDIT OF THE FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT PREPARED IN GERMAN

Audit Opinion

We have issued the following opinion on the financial statements and the management report of the Company, which has been combined with the group 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 management report, which has been combined with the group management report, of Homag Group AG, Schopfloch, for the fiscal year from January 1, to December 31, 2011. 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 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': 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 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 16, 2012

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

BLESCH	VÖGELE
Wirtschaftsprüfer	*Wirtschaftsprüferin*
[German Public Auditor]	*[German Public Auditor]*

Glossary

> TECHNOLOGY

Batch size 1 production

Production of products with tailored specifications in batch sizes of one.

CNC PROCESSING CENTER

Computer numerical controlled (CNC) machining centers that allow several processing steps to be executed on a workpiece, such as sawing, milling, drilling and/or edge banding.

eco**Plus TECHNOLOGY**

Smart standby systems help reduce electricity consumption of plant and machinery thus increasing the efficiency of workflows – comparable to start/stop systems used in cars. In total, HOMAG Group AG's eco**Plus** technology encompasses more than 100 measures geared to increasing the energy and resource efficiency of the HOMAG Group's products.

Horizontal storage

Smart storage of wooden panels in a wide variety of formats with automated throughfeed to the machine.

Laminating technology

Lamination of wooden materials with laminates in the production of structural elements and furniture production to add on beneficial materials properties, e.g., high-gloss surfaces.

laserTec

Production technique patented by the HOMAG Group in which the edge material to be joined is melted using a laser before being pressed directly on the workpiece.

Production cell

A delimited production unit with fully automated transport of workpieces to be processed.

Production lines

Linked-in plant and machinery using a standardized control system in the field of throughfeed technology.

Profile trimming unit

Processing unit for edge banding machines that produces curved corners of edges.

reacTec

New laminating technology developed by the HOMAG Group in cooperation with the adhesives manufacturer Henkel and the experts for surface processing Nordson. Allows the lamination of wooden materials with significantly improved technical properties such as heat resistance.

Saw-storage combination

Combination of saw and a system for the storage of all wooden panels needed for production featuring automated feed to the panel sizing saw.

Secondary wood processing

Segment of the woodworking machines industry in which the HOMAG Group operates. It concerns secondary processing of wood, as opposed to primary processing, which includes the manufacture of machines for saw mills for instance.

Sizing machines

Machines designed to precisely process panel-shaped workpieces ensuring accurate angles.

Zero joint

Results from production using **laser**Tec as this technique does not use adhesive glue on the edge material. As a result, the edge material can be applied to the narrow side of a wooden panel in such a way that makes it look seamless.

FINANCE

Authorized capital

Amount of capital that the annual general meeting of a stock corporation has authorized in advance for the purpose of executing capital increases in exchange for contributions either in cash and/or in kind by three-quarter majority resolution.

Balanced scorecard

Management tool used to align a company to strategic objectives. The focus is not only on financial KPIs but also on other metrics such as customers, internal processes and employees.

Change of control

Contractual clause in service and employment agreements of the members of the management board and middle management granting them the option in the event of a change of company ownership of leaving the company in exchange for a compensation payment set in advance (typically also involves a corresponding pension clause).

Code of conduct

The code of conduct contains binding guidelines for the actions of the management board, middle management and all employees of HOMAG Group.

Corporate Governance

Behavior rules for a responsible management and control of companies contained in the German Corporate Governance Code.

Directors and officers liability (D&O insurance)

Liability insurance that a company can obtain for its corporate bodies and management staff.

Earnings per share

Defined as the Group's earnings after non-controlling interests divided by the average number of shares outstanding.

EBIT

Earnings before interest and taxes – equivalent to earnings from operating activities.

EBT

Earnings before taxes – equivalent to earnings from ordinary activities.

Financial result

Includes for instance interest income and expenses, profit/loss from associates as well as effects from the financing activities.

Free cash flow

Determined as the operating cash flow (cash flow from operating activities) plus cash flow from investing activities and is a measure of the amount of liquid assets that a company has at its disposal.

Gearing ratio

The gearing ratio is a measure of financial stability and is defined as the ratio of net liabilities to banks to operative EBITDA.

HOMAG Group Action Program (HGAP)

The objective of the HGAP is to improve cross-location and cross-functional cooperation in the HOMAG Group and to translate these improvements into cost advantages. This program brings together a multitude of measures across all operating companies that are being implemented locally but coordinated centrally by the specialist departments.

HOMAG Value Added (HVA)

HVA is a percentage metric determined from the return on capital employed (ROCE) less the weighted average cost of capital (WACC). It is used as a calculation basis for determining the variable remuneration of the supervisory and management boards.

IFRS

International Financial Reporting Standards are accounting standards applicable internationally and intended to allow comparability of consolidated financial statements from country to country.

Long-term incentive (LTI)

Long-term variable remuneration component for members of the management and supervisory boards. It is performance-based and linked to various parameters.

Operating cash flow

Change in cash and cash equivalents due to operating activities.

Operative EBITDA

Metric used to assess the results of operations of the HOMAG Group. Earnings before interest, taxes, amortization and depreciation is adjusted for employee participation expenses and extraordinary expenses.

Percentage of completion method (PoC method)

Under the PoC method, the contribution to results (sales revenue and earnings) from large-scale projects is recognized based on the stage of production as of the cut-off date.

ProFuture

Major IT project of the HOMAG Group that is divided into several subprojects and encompasses the end-to-end reengineering of the complete order handling process in connection with the modernization of the related IT systems.

ROCE

Return on capital employed is defined as earnings before interest and taxes (EBIT) before employee participation expenses and before extraordinary expenses as a percentage of capital employed.

Short-term incentive (STI)

Short-term variable remuneration component for members of the management and supervisory boards. It is performance-based and linked to various parameters.

Syndicated loan agreement

Loan agreement entered into by the HOMAG Group with several banks in order to secure liquidity originally amounting to EUR 198 million and expiring in February 2013.

WACC

Weighted average cost of capital is calculated as the weighted average cost of equity and debt capital.

Financial Calendar

March 30, 2012	Press conference on the financial results in Stuttgart
March 30, 2012	Analysts conference in Frankfurt am Main
May 15, 2012	Three-months report 2012
May 24, 2012	Annual general meeting in Freudenstadt
August 14, 2012	Six-months report 2012
November 14, 2012	Nine-months report 2012

Subject to modification

Disclaimer

SERVICE

This annual report as well as other up-to-the-minute information about HOMAG Group AG can be downloaded 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 that 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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Group Structure*

Homag Group AG

100%

Homag Holzbearbeitungssysteme

100% 1)	100%	97.8%	70% 1)	100% 1)	51% 1)	100% 1)	100%
HOLZMA Plattenaufteil-technik GmbH (incl. Holzma S.A.U.)	Friz Kaschiertechnik GmbH	Bütfering Schleiftechnik GmbH	Brandt Kantentechnik GmbH	Torwegge Holzbear-beitungs-maschinen GmbH	BENZ GmbH Werkzeug-systeme (incl. BENZ, Inc.)	Weeke Bohrsysteme GmbH (incl. Weeke North America, Inc. 2))	Ligmatech Automations-systeme GmbH

Sawing | Surface | Sizing & Edge processing | Drilling & Hard-ware mounting | Assembly/Han

12% | 3% | 10% | 12% | 3%

Homag Vertriebs-Beteiligungs

100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	22%
Homag Vertrieb & Service GmbH	Homag Austria Ges. mbH	Homag (Schweiz) AG	Homag France S.A.	Homag Italia S.p.A.	Homag España Maquinaria S.A.	Homag Danmark A/S	Homag U.K. Ltd.	Homag Polska Sp. z o.o.	Homag GUS GmbH (incl. OOO "Homag Russland")	Stiles Machinery Inc.

Central Europe | Western Europe | Eastern Europe

* *Simplified view*
1) *Shares are partly or wholly held directly by Homag Group AG*
2) *Shares are partly held by Weeke Bohrsysteme GmbH, Homag Holzbearbeitungssysteme GmbH and Stiles Machinery Inc.*
3) *Shares are partly held by Homag Holzbearbeitungssysteme GmbH, Brandt Kantentechnik GmbH, Weeke Bohrsysteme GmbH and HOLZMA Plattenaufteiltechnik GmbH*
4) *Shares are partly held by Homag Holzbearbeitungssysteme GmbH, Brandt Kantentechnik GmbH, Bargstedt Handlingsysteme GmbH, Weinmann Holzbausystemtechnik GmbH and Weeke Bohrsysteme GmbH*

GmbH

100%	51%	81.3% [3]	100%	100% [4]	100% [1]	100% [1]	51% [1]
Bargstedt Handling-systeme GmbH	Weinmann Holzbausystem-technik GmbH	Homag Machinery (Shanghai) Co., Ltd.	HOMAG MACHINERY (São Paulo) Ltda.	HOMAG MACHINERY Środa Sp. z o.o.	Homag Machinery Bangalore Pvt. Ltd.	SCHULER Consulting GmbH	Homag eSolution GmbH

dling/Packaging | **Timber frame house contruction** | **Production plants in future regions** | **Services**

3% | 1% | 56%

GmbH

100%	100%	25%	100%	100%	54.6%	100%	100%	100%
Homag Canada Inc.	Homag South America Ltda.	Homag China Golden Field Ltd.	Homag Asia (PTE) Ltd.	Homag Japan Co. Ltd.	Homag Korea Co. Ltd.	Homag Australia Pty. Ltd.	Homag India Pvt. Ltd.	Homag Finance GmbH

America | **Asia/Pacific** | **Services**

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