Annual Report 2009

Success through
partnership and strategy

CONTENTS

* *Parent Company*

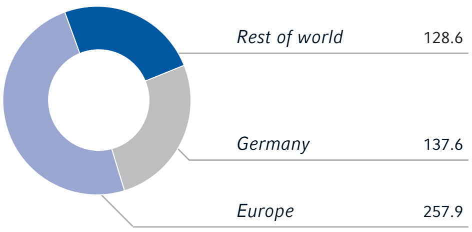
Key Group Figures

		2009	2008	Variance %
Total sales revenue	EUR million	524.1	856.4	-38.8
Sales revenue Germany	EUR million	137.6	207.1	-33.6
Sales revenue outside Germany	EUR million	386.5	649.3	-40.5
thereof Europe	EUR million	257.9	469.5	-45.1
North America	EUR million	22.7	64.4	-64.8
Asia / Pacific	EUR million	78.5	84.9	-7.5
Foreign share	as %	73.7	75.8	-2.8
EBITDA [1]	EUR million	3.1	91.0	-96.6
EBITDA adjusted [2] before employee participation	EUR million	15.6	95.0	-83.6
EBITDA adjusted [2] after employee participation	EUR million	17.6	84.2	-79.1
EBITDA [1]	as % of sales revenue	0.6	11.1	-94.6
EBITDA [1]	as % of total operating performance	0.6	10.9	-94.5
EBIT [1]	EUR million	-22.6	68.8	-132.8
EBIT adjusted [2] before employee participation	EUR million	-10.2	72.8	-114.0
EBIT adjusted [2] after employee participation	EUR million	-8.2	62.0	-113.2
EBIT [1]	as % of sales revenue	-4.3	8.5	-150.6
EBIT [1]	as % of total operating performance	-4.4	8.4	-152.4
Net profit / loss (before minority interests)	EUR million	-22.1	33.8	-165.4
Earnings per share [3]	EUR	-1.32	2.04	-164.7
ROCE after taxes	as %	-2.3 [4]	15.9 [5]	-114.5
ROCE [6] before taxes	as %	-3.2	23.0	-113.9
Equity as of end of reporting period	EUR million	157.2	183.9	-14.5
Own funds as of end of reporting period [7]	EUR million	198.0	224.7	-11.9
Own funds ratio	as %	38.1	40.8	-6.6
Capital expenditures on property, plant and equipment	EUR million	20.4	22.0	-7.3
Depreciation on property, plant and equipment	EUR million	18.3	16.6	10.2
Employees [8]	annual average	5,158	5,281	-2.3
thereof trainees	annual average	387	345	12.2
Personnel expenses adjusted [2]	EUR million	214.4	261.5	-18.0
Order intake accumulated [9]	EUR million	413.0	617.8	-33.1
Order backlog as of end of reporting period [9]	EUR million	171.0	163.6	4.5

[1] *Before taking into account employee participation*
[2] *Before restructuring / non-recurring expenses*
[3] *Net profit / loss after minority interests, based on 15,688,000 shares*
[4] *(EBIT adjusted [2] x 70%) / capital employed (non-current assets + net working capital) (tax rate 30%)*
[5] *(EBIT adjusted [2] x 69%) / capital employed (non-current assets + net working capital) (tax rate 31%)*
[6] *EBIT adjusted [2] / capital employed (non-current assets + net working capital)*
[7] *Equity plus profit participation rights and obligation from employee participation*
[8] *As of January 1, 2009, including employees of BENZ (2009: 225 employees)*
[9] *Order intake and order backlog only contain own machines without merchandise, spare parts and service*

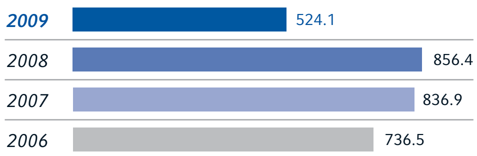
SALES REVENUE BY REGION 2009

EUR million



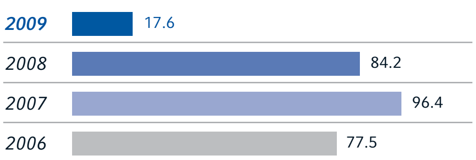
SALES REVENUE

EUR million



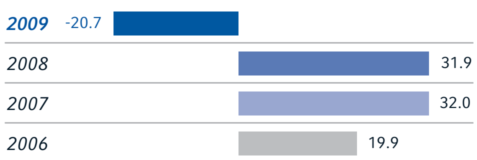
EBITDA adjusted [1] after employee participation

EUR million



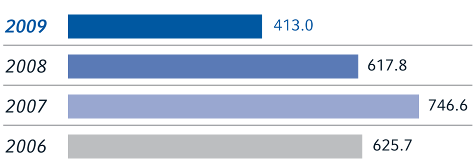
NET PROFIT (after minority interests)

EUR million



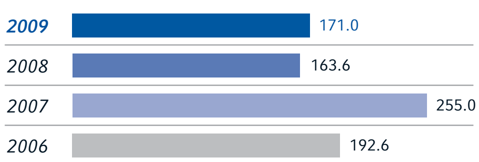
ORDER INTAKE [2]

EUR million



ORDER BACKLOG [2]

EUR million



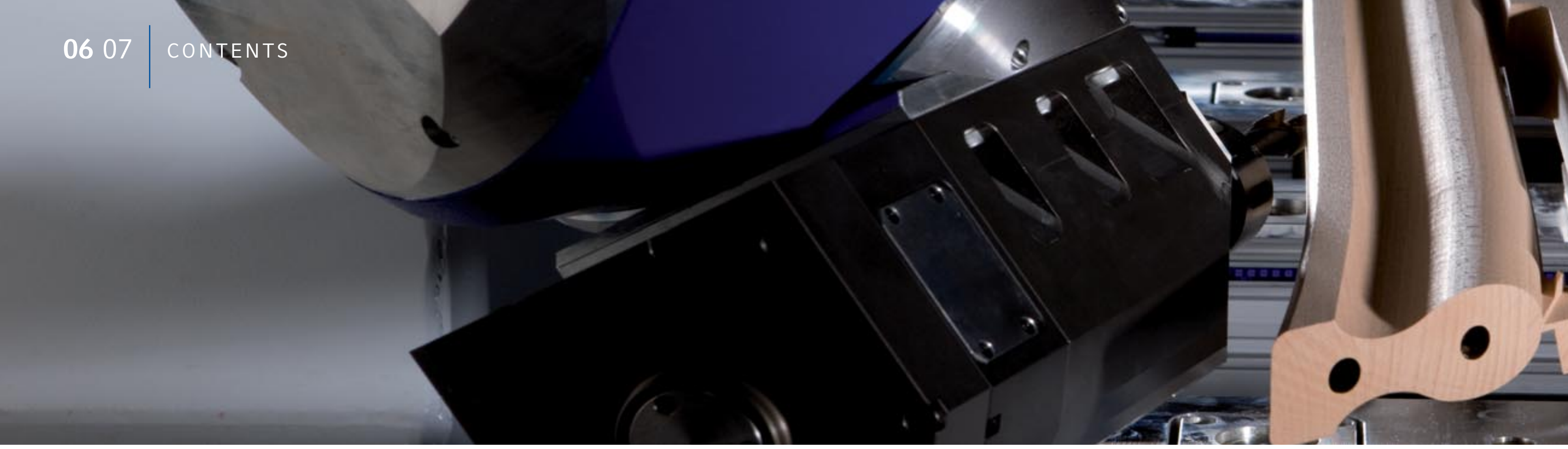
[1] *Before taking into account restructuring / non-recurring expenses in 2009 and 2008 and IPO expenses in 2007*

[2] *Order intake and order backlog only contain own machines without merchandise, spare parts and service; order backlog since December 31, 2008 incl. BENZ*

Success through Partnership and Strategy

> HOMAG Group AG’s management lays claim to being the world’s leading manufacturer of machines and equipment for the woodworking industry. As a global player, we are present in more than 60 countries and hold an estimated 27 percent share of the market.

In the fields of furniture manufacturing, structural elements and timber frame house construction, we offer our customers perfectly aligned solutions, from the stand-alone machine through to complete production lines. A wide range of supporting services focusing on manufacturing plants and machinery and specially tailored control software make our range unique.



Contents

* *Parent company*

Rolf Knoll (CEO)
BORN 1949

Head of Group Operations
Joined the Company in 1999

Achim Gauß
BORN 1961

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

Jürgen Köppel
BORN 1963

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

Ladies and Gentlemen,
Dear shareholders,

> 2009 was a very challenging fiscal year for us. What began as a crisis in the real estate, banking and financial sectors in the second half of 2008 developed in the course of 2009 into the most severe economic crisis since the Second World War. Its severity is revealed by the fact that world trade, which otherwise grows at a constant rate, collapsed by more than 11 percent in 2009, while the gross domestic product of industrialized countries fell by more than 3 percent (5 percent in Germany); German exports fell by around 15 percent. German mechanical engineering, already subject to strong cycles and export-based, was severely affected by the crisis, with order intake dropping by 38 percent, or as much as 44 percent in our segment.

These were the unfavorable conditions that made their mark on fiscal 2009, and therefore also HOMAG Group's last fiscal year. Following the boom of recent years, we experienced a massive collapse in the volume of orders, particular in the fourth quarter of 2008 and early 2009. Business has almost ground to a halt in certain regions of the world. Our business with large-scale systems projects was most severely affected, as customers' confidence was severely shaken or they had problems with financing. This led to a considerable drop in sales revenue and order intake in comparison to previous years, and a negative result. We were able to limit the consequences by taking decisive action.

Rather than biding our time and hoping for a swift recovery, we quickly responded to the first signs of a crisis in 2008 by initiating sweeping measures. The aim of these measures has always been to prepare HOMAG Group as thoroughly as possible for a reduction in production volumes. To this end, we reduced our costs, adjusted capacities and improved flexibility. Layoffs were unfortunately unavoidable, and were made as socially compatible as

Andreas Hermann
BORN 1968

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

Herbert Högemann
BORN 1954

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

possible. In addition to reducing numbers of temporary workers and limited-term contracts, redundancies for operational reasons also proved necessary, but these were kept to a minimum by subsidized reduced working hours and temporary layoffs. By consistently applying the measures agreed upon, and with shows of solidarity such as the voluntary waiving of salary and bonuses, we were able to reduce expenses by EUR 100 million compared to 2008 in the fields of personnel, temporary workers and other operating expenses.

In addition to these unavoidable cost savings, we intensified our market activities with aggressive product management and marketing, and fostered demand using innovative products and service packages. This made the industry's leading trade fair Ligna in May a success, as evidenced by the favorable follow-up business it generated.

The combination of reduced costs on the one hand and slowly recovering demand on the other has enabled us to improve the quarterly figures for order intake, sales revenue and earnings in the course of 2009. We were able to reverse the negative trend and begin recording positive operating figures in the fourth quarter of 2009. Compared to the last quarter of 2008, we were able to increase the volume of orders received between October and December 2009 by almost 70 percent, and the total number of orders received in 2009 is somewhat above the relevant market level. This development confirms that the measures implemented were appropriate and effective.

However, the positive signs seen in the second half of 2009 cannot disguise the fact that we must report on a weak fiscal year, even if this was clearly a result of the economic crisis and not a failing on the part of HOMAG Group.

The negative result has led us to refrain from proposing a distribution of dividends to the annual general meeting. In light of the situation, we have already adjusted investment for 2009 and 2010 downward. The silent participation of our employees recorded a loss.

We are now confident that order intake has bottomed out, and we are facing the current fiscal year with cautious optimism. Despite the improvement in business, with increased order intake in the first two months of 2010, the ramifications of the economic crisis are still tangible, and there may still be setbacks. For example, although the overall utilization of capacity throughout the group has improved, it varies significantly between the individual group companies. We also recognize that we are operating well under the level from before the crisis, and that it will be some time before we achieve it again.

We anticipate double-figure percentage growth in order intake and sales revenue in fiscal 2010, and aim to achieve a neutral or even slightly positive result for the year, while individual quarterly results may end up negative. However, this is subject to there being no collapse in demand, particularly on the domestic market, which until now has remained stable.

We intend to maintain our conservative spending policy with regard to personnel, other operating expenses and capital expenditure. The headcount of individual group companies will be reduced slightly again in the course of 2010, and we will continue to make use of reduced working hours as dictated by capacity considerations.

We made savings in many areas in the crisis year of 2009, but not in the field of development. This is how we were once again able to present our customers with a range of market-oriented innovations in the current fiscal year.

We hope to capture new market segments in 2010 with the aid of these new products and even greater customer orientation. This will be supported by the continued expansion of our sales and service organization, as well as the implementation of our service strategy aimed at actively offering our customers our expanded portfolio. By improving our project management, we aim to make the processing of projects significantly more efficient in order to match internal procedures to the requirements of the market, thus considerably improving the benefit to and satisfaction of the customer. We ensure that our structures remain competitive using consistent analyses and by continuously improving processes using state-of-the-art IT tools.

From left to right: Achim Gauß, Andreas Hermann, Rolf Knoll, Jürgen Köppel, Herbert Högemann

In the following pages of our 2009 annual report, we show you some of our latest developments with which we are reinforcing our technological and innovative lead within the sector in 2009. Above all, however, we show you the people behind the new machines and services. After all, it is only thanks to our highly trained and motivated employees that we are able to maintain and build on our position as the market leader. We are aware of the fact that we have made a lot of demands of our workforce over the past fiscal year on account of the economic situation, and would therefore like to express our thanks for their sacrifices for the good of the HOMAG Group.

In 2010 we will be celebrating the success story of 50 years of HOMAG. However, it will also be a testing year of changes.

We would like to thank you, dear shareholders, for your faith in HOMAG Group AG, even in turbulent times on the stock market. And we would like to thank our customers, suppliers and other business partners for the quality of cooperation in the past fiscal year.

Schopfloch, March 2010
The Management Board

ROLF KNOLL

ACHIM GAUSS

ANDREAS HERMANN

HERBERT HÖGEMANN

JÜRGEN KÖPPEL

Chronicle 2009

JANUARY

CRM IN SALES

After around one year of trial operations involving over 100 employees in sales and marketing at HOMAG Holzbearbeitungs-systeme AG, a fully developed Customer Relationship Management (CRM) system was rolled out throughout HOMAG Group in 2009. In addition to improving internal efficiency, this will enable sales employees to better manage their own work, providing them as it does with a range of information at the push of a button. This provides easy access to trends in competitor activity, customer structure and medium-term customer requirements and needs. It also improves the quality of corporate governance, as it allows more accurate forecasting of product-specific order intake, allowing the better integration of sales planning.

APRIL

FURTHER SERVICES ADDED

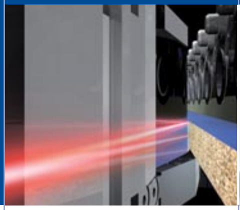
As part of the continuous expansion of our service portfolio, we introduce the ***lifeline*** *Navigator. This online software shows sales staff or dealerships options for improvement at the respective customer when the machine or customer number is entered. This could involve software upgrades, machine add-ons, system redesign, training or logistical consultation. This results in value added for the customer, who can make better use of their product's potential, while at the same time ensuring increased customer satisfaction and additional sales revenue for HOMAG Group.*

MAY

LIGNA IN HANOVER

Ligna, the industry's leading trade fair held in Hanover in May, was a great success for our group as a whole. Order intake was superb, and exceeded our expectations. At the same time, we were able to reduce our costs associated with the fair by around a third compared with 2007, without sacrificing the best possible consultation of our customers. With two trade fair stands and a total of 5,750 m² of exhibition space, we were once again the largest exhibitor at the fair in 2009. Interest in the new products presented in our InnovationCenter was particularly high, with more than 4,000 visitors. We considered the follow-up business to the trade fair to be positive, not least due to these innovations.

AUGUST



PATENT GRANTED FOR **laser**TEC

In August 2009, HOMAG Holzbearbeitungssysteme AG received notification from the German Patent and Trademark Office of the decision to grant a patent for ***laser****Tec, the revolutionary laser technology for joining edging to boards. We presented this innovative technique to the public at large at Ligna 2009, winning the fair's prize for innovation. The area to be joined is melted using a laser before being placed directly on the workpiece. This results in edging of unprecedented quality with an almost invisible join. The patent currently covers Germany, but has already been applied for at a European level.*

SEPTEMBER

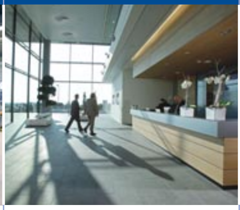
MANAGEMENT BOARD RESHUFFLE

The supervisory board made significant changes to the composition of the management board in July 2009 in the wake of the departure of the former CEO Dr. Joachim Brenk, who left the company of his own volition. Our new CEO since September 1, 2009 is long-standing member of the management board Rolf Knoll, who will remain in charge of group operations on the management board. Long-standing general manager of the successful HOMAG production company BRANDT Kantentechnik GmbH, Jürgen Köppel, took on the management board position for sales, service and marketing as of October 1, 2009. We were therefore able to fill both vacancies with experienced managers from within our own ranks, thus safeguarding continuity in the management of the HOMAG Group.

SUCCESSFUL IN-HOUSE TRADE FAIRS

The internal trade fairs held simultaneously at various group companies at the end of September met with success. The positive trend started in May at Ligna, the industry's leading trade fair, was maintained in terms of visitor numbers and order intake, which remained constant compared to the prior year. Particularly high order volumes came from Germany and Asia, China in particular. The great advantage of internal trade fairs over external ones is that we are able to present a number of large-scale systems in operation, in addition to providing thorough consultation. HOMAG's internal trade fair included an investors' day and international industry press conference.

OCTOBER



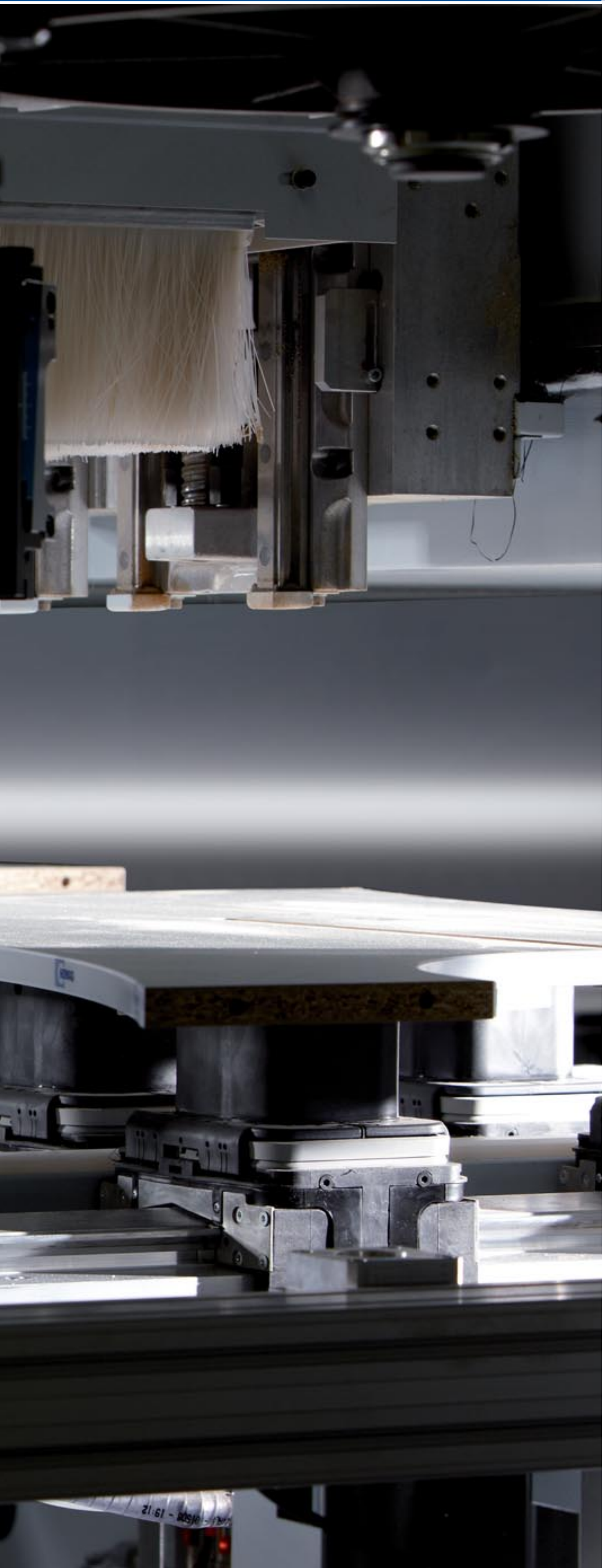
HOMAG CENTER OPENED IN SCHOPFLOCH

We officially opened the new HOMAG Center at our premises in Schopfloch on October 8, 2009. With floorspace totaling 3,300 m², of which 1,800 m² is office space, we offer our customers and employees a modern environment to promote success. The ground floor with its spacious foyer and reception is primarily used as a customer area with meeting rooms, presentation and discussion facilities and a large conference center. The first floor is used by the sales organization. The second floor houses the Research & Development department, and the administration functions and some of the management board members have taken up residence on the third floor.

NOVEMBER

ASSEMBLY PLANT IN THE US

WEEKE North America Inc. is an assembly plant established in the US that manufactures one of our standard machines in three different sizes, primarily for the US market. This step will give us the competitive edge in the lower market segment, as local assembly is more cost-effective, we save on transport and handling costs and it enables us to supply our customers faster and more flexibly. The HOMAG Group had not served this market segment previously. We believe that we have a good chance of capturing a significant share of the market for entry-level machines. The first machine was installed in November.



Innovation Leader with a Long Tradition

> The successful development traced by the HOMAG Group over the past decades is inextricably linked to our enormous innovative drive. Right from the beginning, when our company invented the world’s first edge banding machine back in 1962, our trademarks have been a highly driven pioneering spirit and cutting-edge technological developments.

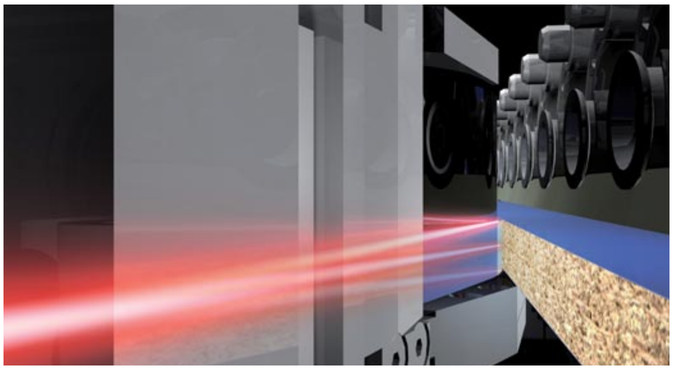
Our aim is to always be first to market with our new ideas. We are considered a driving force in our sector and view our role as that of technology leader. This rapid pace of innovation can only be achieved with the support of a highly qualified and motivated workforce. On average, our engineers register at least four new patents every month.

JOHANNES SCHMID

Head of Development
Gluing and Process Engineering

Revolution in Edge Processing

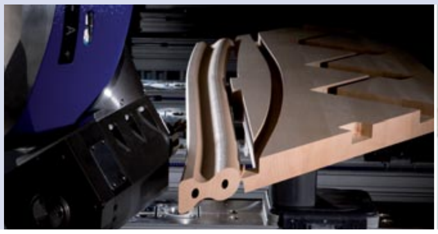
> "Even in the career of a development engineer, being involved in a real live revolution is something of a rare occurrence – but with **laser**Tec it has happened to me!" enthuses Johannes Schmid from the HOMAG Gluing Technology R&D Department. This newly developed technique has testified once again to the HOMAG Group's credentials as an innovative driving force. Offering customers nothing but benefits, **laser**Tec heralds a whole new era in the field of edge processing.

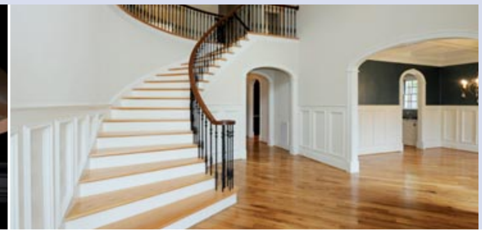


laserTec

*Using **laser**Tec, the panel and edge now form a homogenous unit without any visible join*

Using this technology, the edge and panel are joined not using the conventional method with glue, but with a laser beam. The benefits extend far beyond simply cutting out soiling at the workpiece and processing units, reducing reject quotas, cutting down on staffing requirements and substantially enhancing plant productivity. The most important bonus without doubt is the production of edges in an unbeatably high standard of quality with a flawless appearance.





New Construction Material for Maximum Stability

> Several of the HOMAG Group companies teamed up to become part of a joint project to develop a new construction material as an alternative to steel for basic machines. The new mineral material they came up with is called SORB TECH, and provides a low-vibration, stable machine construction and consequently maximum processing precision. “When demands become ever more stringent, sometimes it is no longer enough to simply improve existing technologies – it is time to think outside the box”, explains Martin Gringel, Head of Development, Stationary Technology.

SORB TECH

The mineral material SORB TECH absorbs practically all vibrations – even for highly complex processing operations.

And that is just what the development team did, looking for a way of guaranteeing maximum stability of the basic machine body and so ensuring outstanding surface quality despite the extreme machine dynamics made necessary by modern production. SORB TECH is a fibre-reinforced mineral mix which lends the machine a higher mass and consequently excellent damping behaviour, while at the same time helping reduce primary energy consumption in comparison to steel constructions.

CHRISTIAN STURM

Development Engineer
Mechanical Development Basic Machine
CNC Processing Centres

DIPL.-ING. MARTIN GRINGEL

Head of Development,
Stationary Technology

MICHAEL LAMPARTH

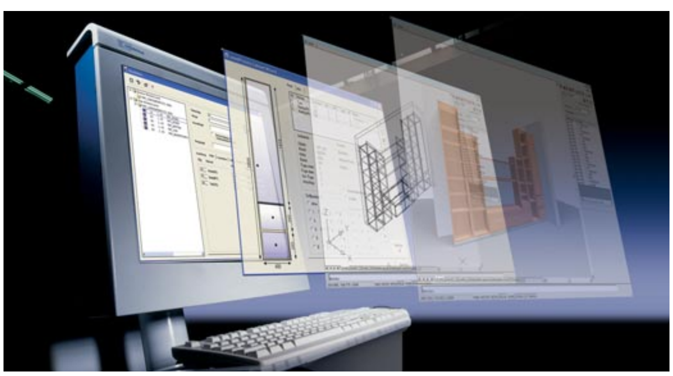
Software Development Engineering,
*Project Manager wood**WOP** 6.0*

DIPL.-ING. FRANZ SCHNEIDER

Head of Electronic Application

Extreme Programming Simplicity with woodWOP 6.0

> "For the user, daily work with a programming system has to be as simple as possible". This was the underlying approach taken by the Head of Electronics Application Franz Schneider and Software Development Engineer Michael Lamparth in developing the latest generation of the HOMAG Group workshop-oriented programming system wood**WOP**, which has already been successfully installed in over 20,000 applications.



wood**WOP**

Version 6.0 substantially simplifies day-to-day programming work

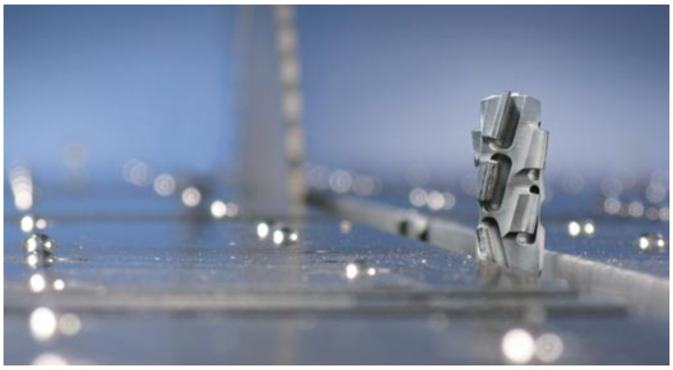
And the new program certainly lives up to the challenge of providing the ultimate user-friendly system. A three-dimensional workpiece view provides improved safety and clarity to the production engineering process, as all processing operations are represented graphically and through the use of self-explanatory symbols. The user interface can be adjusted to individual needs and the integrated help function provides vivid graphics to illustrate every parameter. Used in conjunction with the graphic CNC simulation wood**Motion**, wood**WOP** makes simple work of understanding and operating a CNC machine.

Perfect Combination of two Dividing Methods

> When it comes to innovation, for the HOMAG Group the customer is always at the focus. This principle applied to the new combined sawing/routing system from HOLZMA, which saves its customers not only time but with it also hard cash. "With this new development, we have succeeded in combining two different methods of panel dividing – a revolutionary idea", explains Jochen Fischer, Head of Plants & Systems at HOLZMA.

combiLine

The new angular plant combines sawing and routing for a highly profitable solution



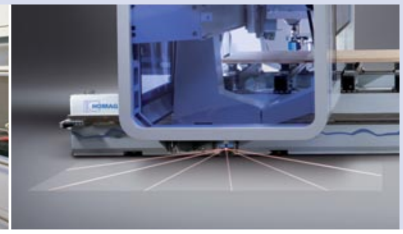
The perfect symbiosis of sawing and routing practically eliminates the need for any additional manual work steps required for recuts. The new angular plant provides fully automatic cutting coupled with extreme flexibility and high speed. The individual work steps flow seamlessly one into the other, eliminating waiting periods and so reducing time per part. The result: substantially reduced costs for every cut component.

JOCHEN FISCHER

Head of Plants & Systems

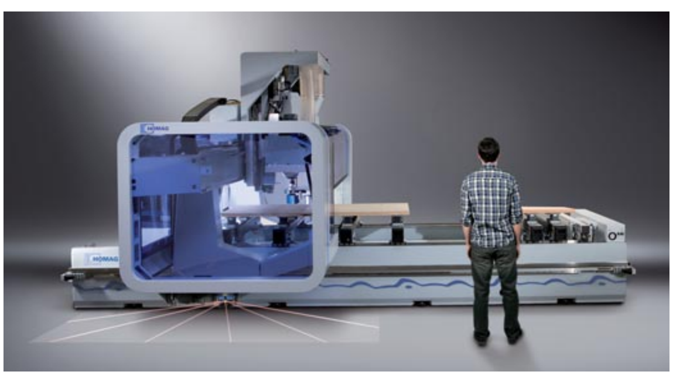
GEORG SCHROTH

Head of Control System Development, Stationary Technology



Intelligent Collision Warning Improves Operational Safety

> It sometimes happens that an innovation which simplifies daily work at the machine for the operator is more effective in terms of improving the reproduction process than, for instance, a further increase in processing speed. "What counts here is that as a developer, you learn to think in terms of the subsequent production process and sequences at the machine and its environment", explains Head of Control System Development, Stationary Technology, Georg Schroth.



LASER SCANNER

The new laser operates independently of dimensions and is active only when the machine is actually operational.

This is how really useful innovations are created, such as the new laser scanner which protects operators from collisions with the machine. The previously used tread mats which respond to contact when stepped on have a lot of drawbacks, due to their fixed width, their susceptibility to damage, for example during material delivery and removal, and also the fact that they are active even when the machine is not in use. The no-contact technique used by the new laser, in contrast, cannot be damaged and responds flexibility to different workpiece sizes.

Report of the Supervisory Board

> The supervisory board of HOMAG Group AG fulfilled its duties with due care as prescribed by law, the articles of incorporation and bylaws and the German Corporate Governance Code (the "Code") in fiscal 2009. The management board made regular, prompt and extensive reports to the supervisory board, both verbal and written, regarding the development of business and the situation of the company in the difficult year of 2009, significant transactions, risk management, other internal monitoring systems (internal audit, compliance) and business planning. The supervisory board used these reports to monitor and advise the management board. One significant issue in fiscal 2009 was the implementation of the restructuring concept in response to the financial and economic crisis. The supervisory board was always directly involved in this regard, and with all other decisions of fundamental importance for the company. Matters requiring approval were submitted for resolution in a timely manner.

Outside of regular supervisory board meetings, a number of meetings were held between the chairman of the supervisory board and the management board, ensuring a constant flow of information and exchange of ideas between the management board and the supervisory board.

PERSONNEL CHANGES

Changes in the Management Board

The following personnel changes were made to the management board in fiscal 2009: former CEO Dr. Joachim Brenk left the company of his own volition as of the end of September, and resigned from the management board. We would like to thank Dr. Brenk for his outstanding contribution to the company. As of October 1, 2009, the supervisory board appointed Jürgen Köppel (formerly general manager of the HOMAG production company BRANDT Kantentechnik GmbH) as the new management board member for sales, service and marketing. The new CEO since September 1, 2009 is long-standing member of the management board Rolf Knoll, who will remain in charge of group operations on the management board.

TORSTEN GREDE, *Chairman of the supervisory board*

New Deputy Chairman of the Supervisory Board

Personnel changes were also made to the supervisory board in fiscal 2009. At its meeting of December 17, the supervisory board elected existing member Reiner Neumeister as its new deputy chairperson, following the vacation of this office by Jochen Meyer. Mr. Meyer remains a member of the supervisory board.

SIGNIFICANT MATTERS ON THE AGENDA

The supervisory board convened six times in fiscal 2009. Its focus was on the restructuring concept necessitated by the financial and economic crisis, and its implementation. At the meetings, management board members reported to the supervisory board on the development of business, i.e. the development of market regions and sales and service companies, business units and production companies, as well as recent developments in the fields of manufacturing and finances.

Supervisory Board Meeting of March 30, 2009

At the *supervisory board meeting of March 30, 2009,* the consolidated and individual financial statements for 2008, including the management report and group management report, were approved and ratified following extensive discussion and examination, in the presence of the auditor of the financial statements. The meeting also discussed and ratified the supervisory board's report to the annual general meeting, the corporate governance report, the agenda for the annual general meeting and the decision to propose a dividend of EUR 0.30 per share to the annual general meeting. Other important issues were capital increases at various subsidiaries, and agreement to extending the management board appointments of Achim Gauß and Herbert Högemann by the period from January 1, 2010 to December 31, 2012.

Supervisory Board Meeting of May 6, 2009

At the *supervisory board meeting of May 6, 2009*, the management board presented an outline of the restructuring concept necessitated by the economic crisis. The supervisory board also approved the retroactive merger of WEEKE Bohrsysteme GmbH and MAW Montagetechnik GmbH as of January 1, 2009, as well as an increase in the share held in BÜTFERING Schleiftechnik GmbH.

Supervisory Board Meeting of June 26, 2009

The *supervisory board meeting of June 26, 2009* focused on a report from the industry's leading trade fair Ligna, the latest forecast for fiscal 2010 and the situation vis-à-vis the corporate strategy, including aspects relating to the expansion of international distribution operations and market leadership. The management board also reported to the supervisory board on the status of the implementation of the restructuring concept, particularly in terms of personnel, cost reductions and the plant engineering operations of HOMAG Engineering. There was also a presentation of the efficiency audit conducted by the supervisory board pursuant to section 5.6 of the Code. A detailed questionnaire was drawn up and discussed for this purpose.

Supervisory Board Meeting of July 28, 2009

Changes to the composition of the management board were discussed at the *supervisory board meeting of July 28, 2009*. The decisions were made to allow Dr. Joachim Brenk to retire early as CEO of his own volition, appoint Rolf Knoll as the new CEO as of September 1, 2009, and to appoint Jürgen Köppel as the new management board member for sales, service and marketing.

Supervisory Board Meeting of October 8, 2009

At the *supervisory board meeting of October 8, 2009,* the management board reported to the supervisory board on, among other things, the status of financing negotiations on the new syndicated loan agreement, active inventory management and the progress of the restructuring measures. The supervisory board also ratified a remuneration system for the management board based on responsibilities, performance and the situation of the company, taking into account the German Act on the Appropriateness of Management Board Remuneration which entered into force on August 5, 2009, and the recommendations of the Code on management remuneration. Moreover, the introduction of a voluntary deductible to the D&O insurance policy for the supervisory board as of January 1, 2010 was agreed to in accordance with section 3.8 of the Code. The results of the supervisory board's efficiency audit were also presented and discussed. The supervisory board came to a positive conclusion in its assessment of the efficiency of its work.

Supervisory Board Meeting of December 17, 2009

At the *supervisory board meeting of December 17, 2009,* Reiner Neumeister was made the new deputy chairperson of the supervisory board, after Jochen Meyer vacated the office. Mr. Meyer remains a member of the supervisory board. Changes to the rules of procedure of both the management board (incl. schedule of responsibilities) and the supervisory board were agreed to, taking particular account of the new provisions of AktG ["Aktiengesetz": German Stock Corporation Act] and the Code. The supervisory board also ratified the budget for 2010, the medium-term planning up to 2014, the financing concept for the premature settlement of the syndicated loan agreement and the declaration of compliance in accordance with Sec. 161 AktG.

WORK PERFORMED BY THE SUPERVISORY BOARD'S COMMITTEES

The supervisory board set up a total of four committees in fiscal 2009: the accounting committee (which functions as the audit committee in accordance with Sec. 107 (3) Sentence 2 and Sec. 171 (1) Sentence 3 AktG as well as section 5.3.2 of the Code), the personnel committee, the nomination committee and the mediation committee in accordance with 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 have decision-making authority transferred to them by the supervisory board where legally permissible. The chairpersons of the individual committees reported on the work of their committees at all full meetings of the supervisory board.

Accounting Committee

There was no reason to convene either the nomination committee or the mediation committee in fiscal 2009. The *accounting committee* convened six times, three of which were conference calls. The auditor of HOMAG Group AG attended two of the six meetings. One focus of the meetings was on fiscal 2008, including the content of the annual report and the individual and consolidated financial statements. All of the quarterly reports were also discussed (the interim report as of June 30, 2009 in the presence of the auditor), along with the latest economic developments in the context of the forecast for 2009. Other issues included capital increases at various sales subsidiaries, recent changes to the Code, the progress of negotiations on the conclusion of a new syndicated loan agreement, the budget for 2010, medium-term planning up to 2014 and the efficacy of internal monitoring systems (risk management, internal audit).

Personnel Committee

The *personnel committee* convened a total of nine times, four of which were conference calls. The main issues discussed were the review and restructuring of management board remuneration, taking particular account of new legal provisions governing the appropriateness of management board remuneration, and personnel changes in the management board. The personnel committee dealt with the termination of employment agreement with Dr. Joachim Brenk, the appointment of Jürgen Köppel as new management board member for sales, service and marketing and the appointment of Rolf Knoll as CEO. The personnel committee also discussed the introduction of a voluntary deductible for the D&O insurance policy for the supervisory board in accordance with the recommendation of the German Corporate Governance Code.

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

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

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS 2009

The annual general meeting of May 27, 2009 adopted a resolution to appoint Ernst & Young AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, as the auditor for fiscal 2009. As a result, the supervisory board awarded the audit engagement to Ernst & Young AG, and set the acquisition of BENZ GmbH Werkzeugsysteme, the restructuring of HOMAG Group AG, onerous contracts, the volume of orders and impairment pursuant to IAS 36 as the audit focus. The financial statements of HOMAG Group AG, the management report, the consolidated financial statements and the group management report for fiscal 2009 as prepared by the management board were audited by the auditor with reference to the bookkeeping and certified with an unqualified audit opinion.

The auditor also reviewed whether the management board had established a monitoring system that is capable of identifying potential risks to the Company's ability to continue as a going concern in good time. In this regard, the auditor confirmed that the management board has implemented the measures required by Sec. 91 (2) AktG, and that said measures are sufficient to identify developments that could jeopardize the company's ability to continue as a going concern in good time. The supervisory board, which regularly reviews the efficacy of HOMAG Group AG's internal monitoring systems itself (risk management, internal audit, compliance), shares this opinion.

The financial statements and auditor's audit reports were promptly distributed to all members of the supervisory board. These documents were discussed and examined at length in the presence of the auditor at the meeting of the accounting committee on March 15, 2010 and at the meeting of the supervisory board on March 23, 2010. At both meetings, the auditor reported on the key findings of the audit, and was available to supply any supplementary information. The supervisory board monitored the independence of the auditor before and during the audit.

At the recommendation of the accounting committee and its own extensive review, the supervisory board has approved the findings of the auditor's audit of the financial statements. The supervisory board has no objections following the final result of the accounting committee's review and its own review. The supervisory board has approved the financial statements and management report as well as the consolidated financial statements and group management report as of December 31, 2009 prepared by the management board, which were thereby ratified. In addition, the supervisory board followed the management board's recommendation to propose to the annual general meeting of May 28, 2010 to waive the dividend for 2009 on account of the company's economic situation during that year.

The supervisory board expresses its thanks to the members of the management board, management, works council representatives and all employees for their personal contribution and constructive cooperation in a difficult economic environment and challenging fiscal 2009.

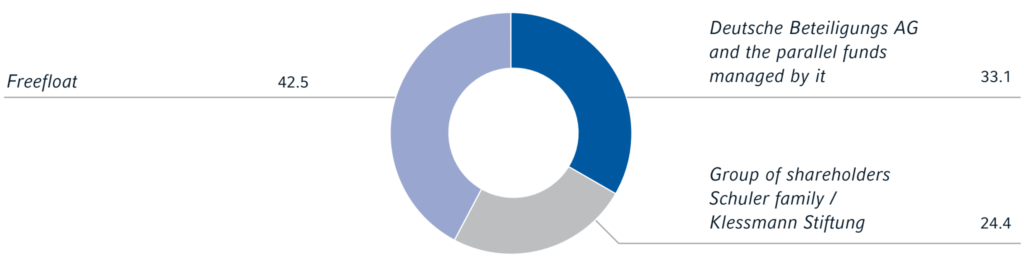
Schopfloch, March 2010
On behalf of the supervisory board

TORSTEN GREDE
Chairman of the Supervisory Board

The HOMAG Group AG Share

Shareholder Structure as of March 15, 2010 [1]

%



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

DEVELOPMENT OF STOCK MARKETS

After a poor year on the markets in 2008 following the financial and economic crisis, the negative trend on the international stock exchanges continued into early 2009. By March, all major share price indexes had fallen still further, mostly in the region of 25 to 30 percent. The markets were then able to recover significantly by the end of the year, due on the one hand to the active intervention of central banks and governments, and on the other to first signs of improvement in a number of economic indicators. Some companies also began reporting more favorable news in the second half of 2009. This more than offset losses incurred at the beginning of the year, with the result that stock markets have grown significantly when looking at the entire year.

The DOW Jones Index grew by just under 19 percent, while the Euro STOXX 50 and the DAX each gained around 24 percent. The German smaller stocks indices saw even stronger growth, albeit after previously suffering more severe losses. The MDAX gained 34 percent, the TecDax as much as 60 percent and the SDAX grew by over 26 percent.

DEVELOPMENT OF THE HOMAG SHARE

The shares of the HOMAG Group AG are listed on the Prime Standard of the Frankfurt Stock Exchange and quoted on the SDAX index of the German Stock Exchange. HOMAG's shares once again lost significant value in early 2009, initially in line with our SDAX index. However, our ad hoc report of February 17, 2009 resulted in additional losses, culminating in our low for the year of EUR 5.80 per share in March 2009. Our share was subsequently able to recover strongly, achieving a high for the year of EUR 11 in December and closing the year at EUR 10.65, just under 5 percent higher than at the start of the year.

DEVELOPMENT AT THE BEGINNING OF 2010

Stock markets declined slightly in the first two months of 2010, and the major indices lost some of the gains made in 2009. At the end of February, the DAX had lost around 6 percent of its value since the end of 2009, while the MDAX and TecDAX fared somewhat better and were only slightly under their values as of the end of December 2009. The SDAX even grew slightly. The HOMAG share performed better than the market average, making significant gains in early January in particular. By the end of February, our share was quoted at EUR 12.01, 13 percent higher than on December 30, 2009.

ANNUAL GENERAL MEETING AND DIVIDEND

Around 300 shareholders attended the ordinary annual general meeting of HOMAG Group AG in Freudenstadt on May 27, 2009, representing 74.7 percent of the capital stock. The attendant shareholders agreed to all items on the agenda with significant majorities of between 89 and 99 percent, including the proposal to distribute a dividend of EUR 0.30 per share after a dividend of EUR 0.90 per share in the preceding year. As a result, we distributed EUR 4.7 million in total to our shareholders.

By reducing the dividend for the successful fiscal year 2008, we have reacted to the deteriorating market conditions in order to guarantee that HOMAG Group AG has sufficient liquidity. On account of the negative result for the current fiscal year, both the management board and supervisory board proposed to the annual general meeting of May 28, 2010 that no dividend be distributed for 2009. As soon as the company's economic situation allows, we will of course share the proceeds of success with our shareholders by distributing an appropriate dividend.

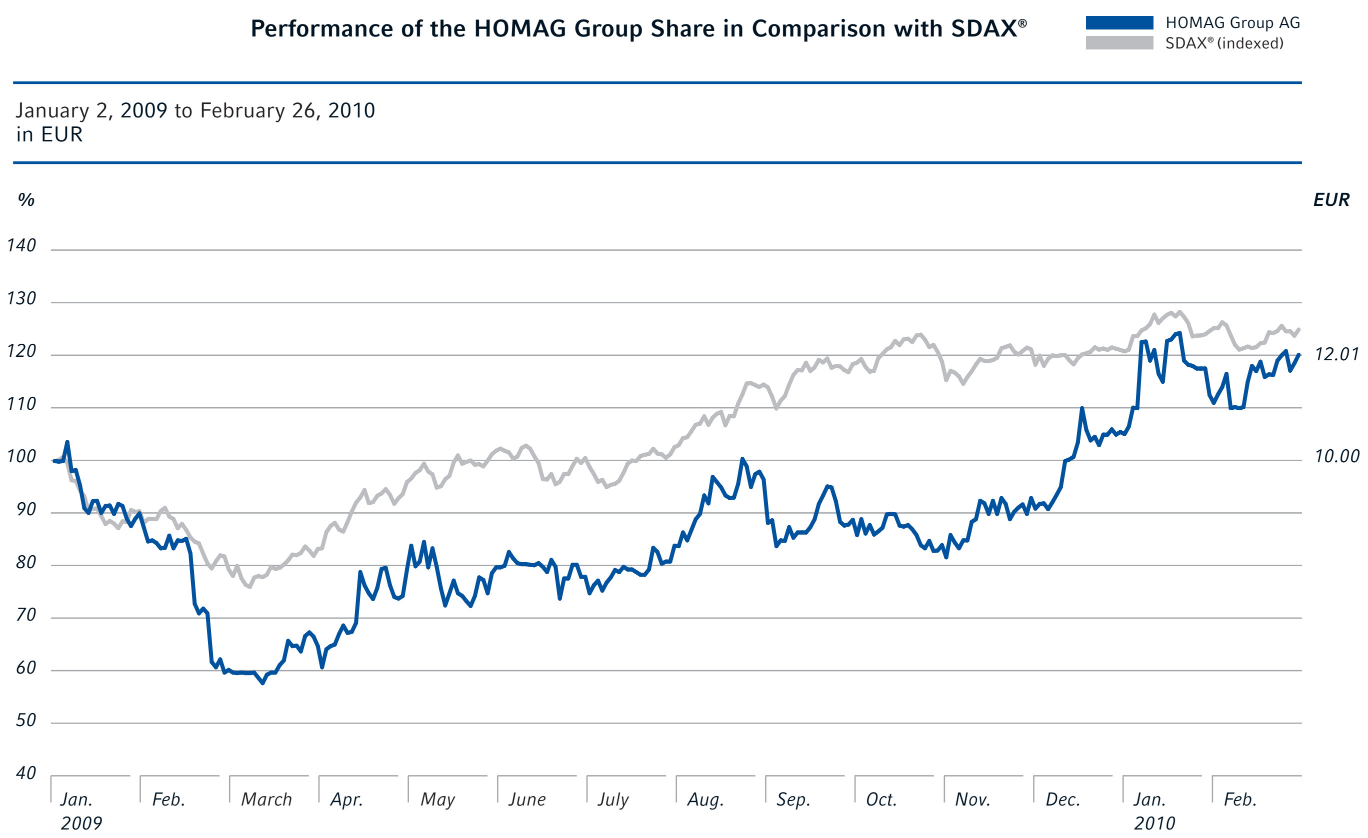
COMMUNICATION WITH THE CAPITAL MARKET

Our guiding principle when communicating with the capital market is to provide transparent, prompt, open and ongoing information on results, important events and objectives at HOMAG Group AG. This is why we attach great value to providing optimal support to analysts, institutional investors and private investors, and communicate with them regularly. We consider investor relations to be within the remit of the management board, which is why both the CFO and CEO take an active hand in financial communication.

In the past fiscal year we held two roadshows in Frankfurt and Zurich, and a conference for analysts in Frankfurt. We also organized conference calls to discuss our quarterly financial statements, as well as numerous face-to-face meetings and telephone calls with investors and

Performance of the HOMAG Group Share in Comparison with SDAX®

January 2, 2009 to February 26, 2010
in EUR



Source: XETRA, performance indexed (January 2, 2009 = 100)

analysts. We were represented at a total of five events for investors in Paris, Frankfurt, Munich and Stuttgart, and once again held an investors and analysts day as part of our in-house trade fair in Schopfloch.

We remain active members of the Baden Württemberg Small Caps (BWSC), a joint initiative of high-earnings corporations in the region. By bundling the activities of the member companies, we hope to raise awareness, for example by jointly participating in an investors day together with other member companies.

We see active public relations as an opportunity to keep private investors and the interested public informed of new developments. In this vein, we held a press briefing on the annual results in 2009, published a total of eleven press releases on all major events, and the CEO took questions in several interviews. We also made three ad hoc reports.

In addition, we support private investors by phone or via e-mail, and use our website as a plaltform that provides continually updated information. We also published three investor newsletters in 2009, in which we provide interested parties with information on current developments in between quarterly reporting.

Share Performance Indicators

ISIN CODE		DE0005297204
STOCK EXCHANGE SEGMENT		Prime Standard
INDEX		SDAX
IPO	July 13, 2007	
NUMBER OF SHARES	until July 11, 2007	14,561,345
(ACCORDING TO COMMERCIAL REGISTER ENTRY)	since July 12, 2007	15,688,000
	no-par value ordinary bearer shares	
PRICE HIGH* 2009	December 11, 2009	EUR 11.00
PRICE LOW* 2009	March 12, 2009	EUR 5.80
PRICE* AS AT DEC. 30, 2009		EUR 10.65
MARKET CAPITALIZATION (DEC. 30, 2009)		EUR 167.1 million

* *XETRA closing quote*

Group Management Report for 2009

1. BUSINESS AND GENERAL ECONOMIC CONDITIONS

1.1 Group Structure and Management System

Business Activities of HOMAG Group AG

We believe HOMAG Group AG is the world's leading manufacturer of plant and machinery for the woodworking and wood materials processing industry. As a global player, we are present in more than 60 countries and have an estimated share of the world market of more than 27 percent. In the furniture production, structural element production and timber frame house construction segments we offer our customers a range of precisely tailored solutions ranging from stand-alone machines to complete production lines. Our offering is unique as regards the wide range of services focusing on manufacturing plant and machinery together with the provision of appropriate software solutions.

Legal Company Structure

HOMAG Group AG is a holding company and does not have operating activities. Its main tasks as the parent and controlling company are to establish and supervise the Group's strategy, to manage investments and liquidity. It holds 100 percent of the shares in HOMAG Holzbearbeitungssysteme AG, which has operating activities and is one the of the largest companies in the HOMAG Group, apart from being the management company of a large number of subsidiaries in each of which it holds the majority interest. As of December 31, 2009, the Group had 11 German and 5 foreign production entities as well as 20 sales and service entities (see also the illustration of the group structure on the inside flap at the back of this report) among others.

The holding company's board member for investees is responsible for the subsidiaries, while the operations of the production companies are managed by local management. The German production companies hold equity investments in HOMAG Vertriebs-Beteiligungs GmbH according to their size, and thus exercise control over the foreign sales and service entities.

The following changes were made to the corporate structure in fiscal 2009:

- Effective January 1, 2009, we took over 51 percent of the shares in BENZ GmbH Werkzeugsysteme, Haslach, including BENZ Inc., Charlotte, USA. The antitrust authorities granted the permission required.
- In July 2009 we merged the two wholly owned subsidiaries WEEKE Bohrsysteme GmbH and MAW Montagetechnik GmbH. This means that the profit and loss transfer agreement between HOMAG and WEEKE was terminated with retroactive effect as of January 1, 2009.
- We increased our share in BÜTFERING Schleiftechnik GmbH from 51 to 80 percent in the course of 2009.

Company Structure

HOMAG Group is organized into the “Industry”, “Cabinet Shops”, “Sales & Service” and “Other” segments. 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 systems that comprise plant and machines together with the corresponding information and control technology, and thus essentially cover the entire woodworking process chain. Fiscal 2009 saw the inclusion of BENZ GmbH Werkzeugsysteme in the Industry segment for the first time.

The Cabinet Shops segment encompasses the group entities focused on products catering for the special requirements of smaller workshops. Apart from high quality and productivity, the market wants above all simple operation and flexible applications at a competitive price. WEEKE North America, Inc. was allocated to the Cabinet Shops segment in 2009.

The Sales & Service segment comprises the business activities of the HOMAG sales and service entities in Germany and abroad. With our global sales and service network we are present on all of the world’s key markets, and we are therefore always close to our customers. The Sales and Service segment includes BENZ Inc., USA as of the year under review.

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 Business Solutions AG and the timber frame house construction division.

It is also possible to analyze the HOMAG Group by breaking it down into the product groups Machines, Cells and Factory Installations. The Machines product group encompasses our modular line of standard machines for the entry-level and mid-range market segments. The Cells product group includes the machines linked to form production lines for flexible job production and automated mass production as well as complete machining centers. Finally, Factory Installations contains holistic, integrated system solutions featuring fully networked machine controls and professional control technology. This is rounded off by our comprehensive service offering across all product groups.

Management and Monitoring

HOMAG Group AG is managed by the Group management board comprising five members. The Group management board reports to the supervisory board on a regular basis, which consists of six shareholder representatives and six employee representatives in the interest of equality.

The management board and the supervisory board once again implemented the recommendations and suggestions of the German Corporate Governance Code in fiscal 2009, with the few exceptions listed in the declaration of compliance pursuant to Sec. 161 AktG [“Aktiengesetz”: German Stock Corporation Act]. This is published on HOMAG Group AG’s website.

Corporate Management

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

1.2 Economic and Market Conditions

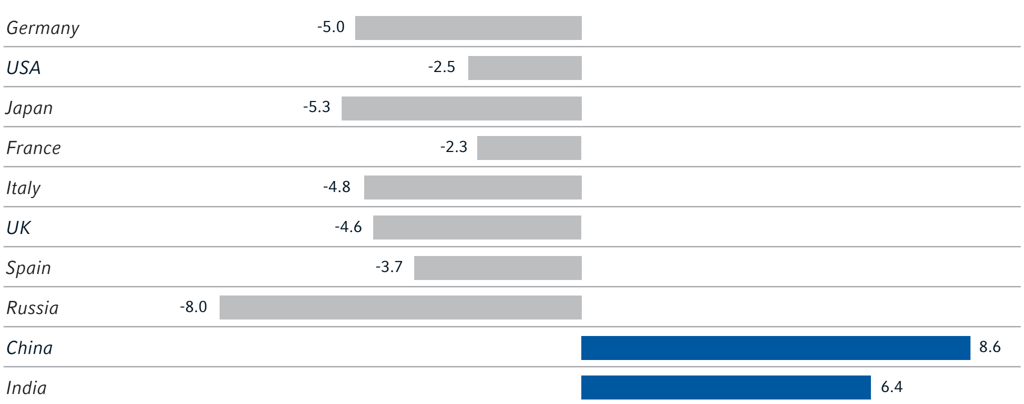
Development of the Economy

The global economy entered its most severe recession since the Second World War at the end of 2008 as a result of the international crisis on the financial markets. This unprecedented slump had ramifications that lasted into 2009. Although manufacturing output and trade have risen since spring 2009, boosted by economic recovery packages in the billions and reflationary monetary policies, the global economy has by no means recovered from the 2009 crisis, as shown by the relevant performance indicators. For example, according to the DIW ["Deutsches Institut für Wirtschaftsforschung": German Institute of Economic Research], global GDP fell 2.0 percent in 2009, while international trade shrank by 11.5 percent according to data published by the IfW ["Institut für Weltwirtschaft": World Economics Institute].

The slight recovery observed since spring 2009 tells a highly differentiated story. The emerging Asian economies recovered quickly, having reported average growth of six percent even in the year of the crisis. Above all China, with growth of 8.6 percent, and India, with 6.4 percent, were therefore supporting the world economy. The industrial economies, by contrast, did not stabilize until late 2009, which resulted in their output falling by 3.6 percent according to the ifo institute. The GDP of the USA fell 2.5 percent, and Japan's by 5.3 percent.

GDP (real) 2009

Year-on-year percentage change



Source: DIW / EU Commission

Europe was also severely affected by the recession, with first signs of recovery not manifesting until fall 2009. As a result, the EU economy declined by 4.1 percent (3.9 percent in the euro zone). GDP fell most severely in countries such as Italy, Ireland, Finland and

Slovenia, while France, Belgium and Greece for example fared relatively well. Many eastern European countries, and Russia in particular, were hit hard by the crisis.

According to government statistics, the German economy shrank 5.0 percent in 2009, although there were slight signs of improvement from around the middle of the year. The difficult situation faced by many companies is reflected in the 20 percent fall in investment in capital goods. Even exports, normally a driving force of the German economy, fell significantly by 14.5 percent in 2009.

Mechanical and Plant Engineering

Following five years of growth, 2009 was the worst year in decades for the German mechanical and plant engineering industry, according to the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation]. According to the federation, demand saw its sharpest fall since records began in 1958. This has led to a 38 percent drop in order intake, with production 25 percent down on the prior-year level. Although there was a slight rally at the end of 2009, the volume of orders is still 20 percent below the average for the period from 2004 to 2008.

The HOMAG Group focuses on the market for wood processing machines, a sub-market of the mechanical engineering industry. This market is characterized by a small number of providers offering an extensive range of system solutions worldwide and competing with much smaller players that are frequently specialized in individual segments or special-purpose machines. There is clear evidence that the market share of larger suppliers is growing as more and more customers tend to procure from multi-tier, single-source suppliers. The Italian groups Biesse Group and SCM Group are the HOMAG Group's largest competitors with comparable products. We estimate that the three groups have a combined market share of more than 50 percent.

The wood processing machines segment, one of the first to be affected by the economic crisis in October 2008, fared somewhat worse than the German mechanical engineering sector as a whole in 2009. Order intake fell 44 percent on 2008, with overseas orders dropping 51 percent and the domestic market remaining relatively stable with a decline of just 15 percent. A slight recovery was noticeable in the second half of the year, i.e. in the wake of the Ligna trade fair, and December 2009 even saw a considerable improvement over the same month in the prior year, which had admittedly been very poor.

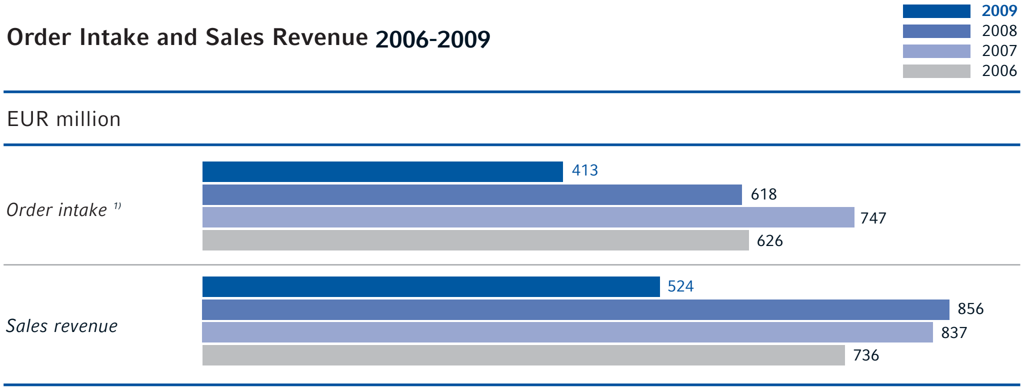
1.3 Business Development

Order Intake and Sales Revenue

The economic crisis and the dramatic decline of the market for wood processing machines in October 2008 in particular have had a significant impact on fiscal 2009 for the HOMAG Group. Following the boom phase of recent years, which saw record sales revenues and very high volumes of orders, demand fell or even completely dried up at times in many regions. Our business with large-scale systems projects was most severely affected, as clients were either reluctant to invest during the crisis or were unable to on account of strict lending conditions on the part of the banks. Series business was also strongly affected by high levels of inventories in particular.

We responded very early to this change in the market situation, and resolved to implement a range of measures to adjust capacity as early as 2008. Although this was insufficient to completely offset the decline in sales revenue, we began recording positive operative figures in the fourth quarter of 2009 once the measures had begun to bite. We are also encouraged by the fact that in addition to the results, order intake and sales revenue have also risen from quarter to quarter in the course of 2009. Although the capacity utilization of the individual group companies varies, the trend is clearly positive. Overall, our order intake developed better than our relevant market, enabling us to gain market share despite the crisis.

Order Intake and Sales Revenue 2006-2009



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

Our sales revenue for 2009 fell from the record EUR 856 million in fiscal 2008 to EUR 524 million on account of the economic crisis. However, while sales revenue declined throughout 2008, it improved from quarter to quarter in 2009, so that by the fourth quarter it was only around 24 percent below the comparable figure for the prior year. Total operating performance fell to EUR 519 million (prior year: EUR 872 million).

The positive trend is further highlighted by our order intake, which tends to follow a seasonal pattern with levels falling over the course of the year. This was not the case in 2009, with order intake increasing from EUR 75 million in the first quarter to more than EUR 101 million, then EUR 107 million and finally EUR 131 million in the fourth quarter. Although, at EUR 413 million for the whole of 2009, our order intake was significantly lower than the prior-year figure of EUR 618 million, the situation turned around in the fourth quarter, and we were able to increase order intake by 70 percent compared to the final quarter of 2008 to the aforementioned EUR 131 million (prior year: EUR 77 million). This was thanks both to economic stimulus packages in many markets and our successful presentation at Ligna, the industry’s leading trade fair, as well as our in-house trade fairs. Our order backlog increased accordingly in the course of 2009, resulting in a value of EUR 171 million as of 31 December 2009, above the prior-year value of EUR 164 million.

Development of Sales Markets

An examination of our sales markets throughout the world shows that in 2009 markets in Asia overtook those in America and eastern Europe inturns of order intake, only falling slightly short of the figures for the prior year. We made a strong recovery in Asia in the second half of the year, due to gains made in countries such as China and Australia. This was supported in Australia by the establishment and expansion of our own sales and service organization.

In the fourth quarter, eastern Europe saw a positive trend driven for example by Poland and the south-eastern European countries. The final quarter of 2009 also saw initial positive indicators in Russia, although problems with financing continued to play a not inconsiderable role, which is expected to remain the case for the entire eastern European region in 2010.

The problem of financing plants or even individual machines was relevant in 2009, not only in eastern Europe but almost everywhere in the world. Accompanied by a significant lack of confidence, many companies therefore opted to push back necessary expenditure.

Only the central European region, including Germany, Austria and Switzerland, has so far remained virtually unaffected by the global economic crisis, in both the industry and cabinet shops. Indeed, the region's order intake in 2009 was not far off the favorable level seen in 2008.

Western Europe also saw a collapse in order intake in 2009, although this also recovered in the fourth quarter. This rally in order intake was even seen in the UK and Spain. The relative stability of sales of our stand-alone machines boosted order intake in some countries. HOMAG Group was also able to implement some larger-scale projects.

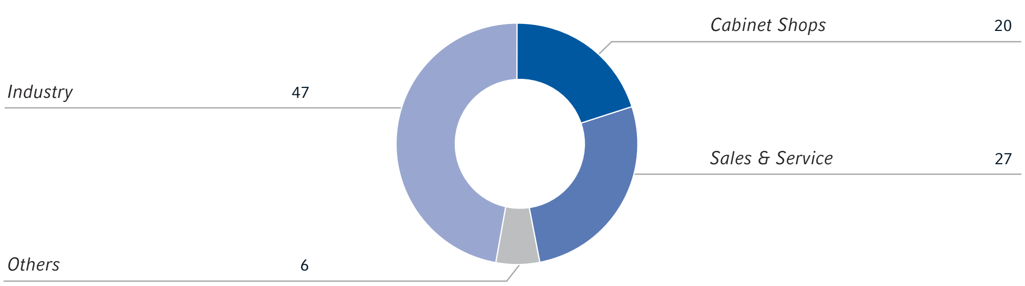
The situation in the Americas clearly bottomed out, with only slight increases toward the end of the year. This was mainly due to positive developments in Brazil and Canada, as well as the slight recovery from a low level in the US.

Segment Sales Revenue

The sales revenue of the individual segments fell significantly in line with the sharp drop in total sales revenue. For example, our largest segment, Industry, generated EUR 304 million of sales revenue, down from EUR 494 million in 2008. In the Cabinet Shops segment, sales revenue dropped to EUR 127 million (prior year: EUR 245 million), while sales revenue in the Sales & Service segment fell to EUR 179 million (prior year: EUR 334 million). Sales revenue in the Other segment fell from EUR 77 million to EUR 40 million, with timber-frame house construction as the largest sub-segment contracting to EUR 17 million (prior year: EUR 40 million).

Segment Sales Revenue 2009

%



Significant Events in Fiscal 2009

The most defining event influencing the entire fiscal year 2009 was without a doubt the global economic crisis and accompanying collapse of demand. We responded swiftly and comprehensively by drastically reducing capacities and costs, and improving our flexibility. The extreme situation unfortunately made layoffs unavoidable, which we made as socially compatible as possible.

Effective January 1, 2009, we assumed 51 percent of the shares in BENZ GmbH Werkzeugsysteme, Haslach. The other 49 percent is held by the former sole shareholder, Zimmer GmbH, Vermögensverwaltung, Rheinau. We appointed one integration officer each for the commercial and technical sides in the interest of ensuring the swift integration of BENZ into HOMAG Group. BENZ produces tools and assemblies for the wood, plastics and metal processing industries. We were very familiar with the successful company as one of our system suppliers even before acquiring the share.

Another important event that took place in 2009 was the industry's largest trade fair in the world, Ligna, held every two years in Hanover. We judge the fair to have been a success, as we were able to generate a high level of interest in our machines and plants as well as our expanded service portfolio, despite the difficult situation within the industry. Although the volume of orders generated fell short of the results of the last fair in 2007, they significantly exceeded our expectations. This was no doubt due to the innovative developments presented, which were well received by our customers. The revolutionary **laser**Tec procedure, codeveloped by HOMAG Group, which adds edging to boards using lasers, won us the prize for innovation at the symposium for new developments at Ligna. The positive effects from the Ligna fair continued into our in-house trade fairs at FRIZ, HOLZMA, HOMAG and WEINMANN, all held simultaneously at the end of September. HOMAG Holzbearbeitungssysteme AG was even able to slightly improve on the already good order intake from last year's in-house trade fair, before the economic crisis hit.

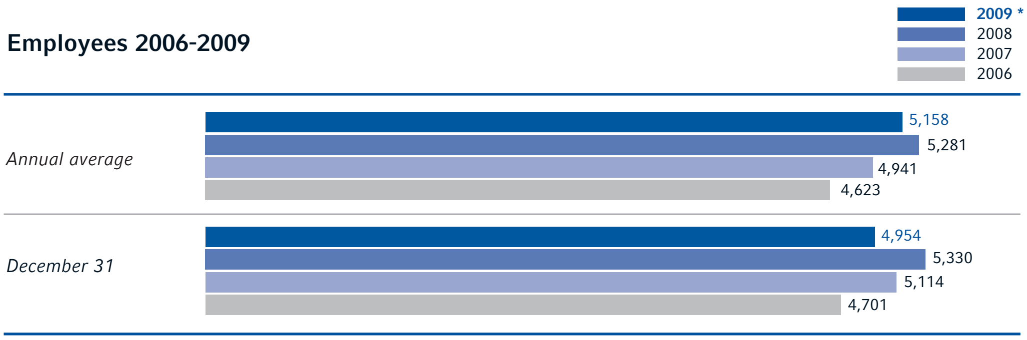
Following the ground-breaking ceremony in June 2008, we officially opened the new HOMAG Center at our premises in Schopfloch in October 2009, with floorspace totaling 3,300 m², of which 1,800 m² is office space. This includes our new state-of-the-art computing center, which will ensure the stability of the entire HOMAG Group's IT system for years to come. The building also houses the sales, research & development and administration departments, as well as some of the management board members. A spacious reception, modern meeting room and large conference center significantly improve opportunities for communication with customers. Thanks to keeping a tight rein on costs throughout the construction process, we have almost exactly kept within the budget drawn up one and a half years ago.

1.4 Employees

The great challenge facing HR in 2009 was to adjust personnel capacity to the dramatically reduced order volume as a consequence of the economic crisis. We began this process toward the end of 2008, made clear at an early stage that we would have to reduce capacity by around 1,400 jobs, and implemented the measures needed. Our headcount fell from a high of 5,404 employees as of the end of the third quarter of 2008 to 5,330 as of the end of 2008.

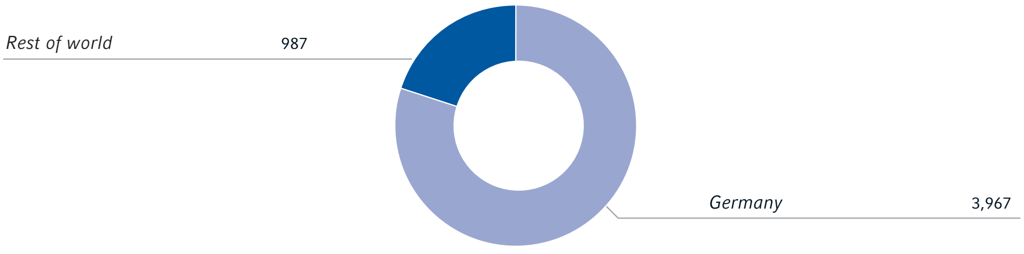
The development continued into 2009, with 4,743 people employed by HOMAG Group as of December 31, 2009 (excluding BENZ). Including the employees of BENZ GmbH Werkzeugsysteme, in which a majority was acquired in early 2009, gives a total of 4,954 employees as of year-end 2009, of which 3,967 were employed in Germany and 987 in other countries. It is worth noting that these headcount figures include around 100 subsidized temporary layoffs, as well as around 100 trainees and vocational college students throughout the group who joined in the third and fourth quarters of 2009. We also laid off more than 300 temporary workers, and further adjusted our personnel capacity by reducing overtime, and vacation and non-working shift accounts.

Employees 2006-2009



* *incl. BENZ*

Employees by Region as of December 31, 2009



Once all planned measures and certain other restructuring measures have been implemented over the course of 2010, the headcount will have been reduced by around 100 additional empoyees. Due to improvements in the utilization of capacity, it now seems that personnel capacity will only have to be reduced by 1,300 jobs instead of the 1,400 originally feared. An average of 5,158 people were employed by the Group in 2009, including the addition of employees of BENZ GmbH Werkzeugsysteme, down from 5,281 employees in 2008. As the headcount declined steadily over the course of 2009, the difference when comparing the average headcount for the year for 2008 and 2009 is not as dramatic as when comparing the figures as of the end of the respective years.

The same applies to the individual segments. The average headcount in the Industry segment even increased from 2,722 employees in the prior year to 2,802 due to the addition of BENZ GmbH Werkzeugsysteme employees. The Cabinet Shops segment had an average of 1,090 employees in 2009 (prior year: 1,158), Sales & Service 710 (prior year: 732), and Other 556 (prior year: 669).

Training

Despite the economic crisis and associated downsizing of the workforce, we maintained our traditionally high level of training activities in order to once again give many young people the chance of solid vocational training. HOMAG Group employed a total of 437 trainees as of the end of the reporting period, 346 technical and 91 clerical.

In order to reach a large number of potential trainees, we once again held a training meet in 2009, at which the focus was on presenting the company and informing visitors about training opportunities at HOMAG and HOLZMA. Numerous workshops informed interested visitors about degree courses and vocational training, gave them tips for the approaching application period, offered them guided tours and gave them the opportunity to talk to mentors and trainees alike. HOMAG Group positions itself as an attractive training company by participating in a number of events in the course of the year such as “Girls Day”, “Mitmachen Ehrensache“ and “Auszubildende lernen bei Auszubildenden“.

As part of our marketing among institutes of higher education we once again took part in university careers fairs in 2009, including at Rosenheim University of Applied Sciences, Stuttgart University and the University of Karlsruhe. The aim is to recruit future trainees and qualified professionals, as well as to present a face of the company to the outside world. HOMAG group offers students internships, placements for those writing their BA dissertations and work experience semesters, including overseas, in order to give them the opportunity to apply in practice the theories they have learnt in their degree. Participating students are actively involved in day-to-day business and internal business processes.

A large number of interested visitors approached HOMAG Group’s stands at the many trade fairs and careers fairs at which we were represented in 2009. Our trainees, students on placement from universities of cooperative education and trainers were available to answer visitors’ questions.

We see the training of our employees as an important part of the active development of our workforce, in the interest of maintaining the high standards of quality that we set ourselves as market leader. We see training as a joint investment in learning. This is why we give our employees the opportunity to train in one of our many "Fit" programs. The extensive offering focuses on issues relevant to products. Most of the courses are provided by internal trainers.

Good health is an important prerequisite for employees to be able to perform well. We therefore regularly offer preventive measures such as back training, running, cookery courses and presentations on health issues. Annual health events offering a wide range of health checks and balanced nutrition also play their part in maintaining the performance and health of employees.

Employees as Fellow Entrepreneurs

Back in 1974, we introduced an employee participation scheme that we consider to be one of the factors in our success. This model, which makes employees fellow entrepreneurs, has received the broad acceptance of the workforce, and today, about 99 percent of entitled employees hold investments in HOMAG Holzbearbeitungssysteme AG. Employees therefore bear some of the entrepreneurial risk in that they share in any profit or any loss incurred by the company. After the success of recent years, with high dividends paid out, this means that employees must now bear EUR 3.0 million of the loss incurred in fiscal 2009. However, rather than paying this sum in the form of docked income, we have set up a special loss account to be balanced by anticipated profits in future years.

1.5 Sustainability

As a global company, we actively fulfill our responsibilities toward the environment. Our own environmental management system ensures both now and in the future that the conservation of resources remains an integral part of HOMAG Group's business activities. We are sparing in our use of materials, water and energy, and take ecological criteria into account. We train our employees accordingly.

Our in-house environmental management system ensures that our products and processes are environmentally sustainable in the long term. Company environmental protection focuses in particular on minimizing water and air pollution, avoiding or recycling and eliminating waste, and reducing consumption of resources and energy.

Our environmental goals, which we revise each year, are based on this policy. In order to limit consumption of fossil fuels, for example, we make use of intelligent heating control units and state-of-the-art building control technology, harness the heat generated by the machines and insulate our buildings well. Our measures to reduce the consumption of raw materials include the use of polymer concrete instead of steel, and the optimization of the sheet metal production process. We save energy by means of intelligent lighting concepts, reducing our use of compressed air and utilizing alternative energy sources. We reduce water and waste water consumption, for example, with waterless sanitary facilities, by using rainwater and applying state-of-the-art painting techniques. We improve our net waste generation by strictly separating waste, reducing paint wastage and minimizing waste packaging.

1.6 Research and Development

In order to maintain and build on our position as market leader and technological pioneer, HOMAG Group's R&D must be in a state of constant development, and prove its worth every day. New developments and innovations for the market are a must. We want to serve the existing market with our innovations and creative solutions, but we also want to promote new markets, product ideas and production concepts. We want to play an active role in developing new innovations rather than reacting to the market.

HOMAG Group's research, development and design costs make up around 8 percent of sales revenue. The dedicated work of around 750 developers and project engineers ensures that we remain highly innovative. This is also reflected in the large number of patent applications. In 2009, 45 patents were applied for, and 36 granted. We place great value on our employees' training, motivation and creativity. We safeguard this asset as a guarantee for future success with internal and external seminars, as well as the employee participation scheme.

In the field of R&D, we also rely on the efficacy of our materials management, as well as a range of systems suppliers and development partners. We are involved in a number of cooperative research projects at a national and EU level in the interest of identifying new technologies and trends at an early stage, and retaining know-how. We cooperate in this context with institutes, educational establishments and industrial partners.

As a group, we strive to continuously improve our development tools, structures and processes. The focus of these efforts is on mechatronic development, achieving the best possible product and procurement synergies, developing platforms and competence teams. The tools, structures and processes used enable us to implement customer-specific and highly-automated individual machines and projects.

We made considerable progress in this area in 2009. The measures introduced enable us to maintain a high standard of quality despite a high proportion of made-to-order machines. In the years to come, we will continue to improve our development processes in the interest of improving efficacy and efficiency. Corresponding analyses and preliminary studies were introduced in 2009 with the ProFuture project.

From a market perspective, we serve four market segments: the service sector, the emerging markets sector, the Practive sector and the industrial sector. These market segments are allocated organizationally to the business units services, stand-alone machines and project business.

In the project business, we sell systemic solutions all along the industry-dependent process chains. Sales are supported by HOMAG Group Engineering, part of R&D. Modern project management tools, competent project teams in the fields of furniture, flooring, components, drilling, hardware mounting and assembly technology combined with proximity to the development teams guarantee ideal made-to-order solutions drawn up with a high level of expertise throughout the world. HOMAG Group is the only provider of IT and communications technology alongside technical and manufacturing products for its system solutions in the world, from software and planning to single-source management of the entire value added chain.

The ERP systems we deliver were not developed in-house, but are based on SAP or Microsoft Navision modules with additional, industry-specific modules developed by us. Manufacturing control technology and therefore manufacturing and cell control units are offered and handled directly by IT engineering. The shortcuts and minimized interfaces thus realized create the foundation for success.

We made improvements to HOMAG Group Engineering for this task in 2009 in terms of structure, organization and personnel. Product management was restructured under the slogan “products for the market and not for the niche”, and was combined with process management. Product management's main task is to make targeted use of limited development resources, and to ensure throughout the Group that the stand-alone machines exactly meet market requirements, and that prices and performance have been coordinated all along the process chains.

We presented a range of new products and innovations at Ligna, the world’s largest trade fair for wood processing machines. Particularly noteworthy innovations included laser joining, which allows boards and edging to be joined without the use of glue, and the new mineral-based construction material SORB TECH, which improves the stability of the machine bed while also significantly reducing primary energy consumption. These are accompanied by products in the field of energy and resource efficiency, the new wood**WOP** 6.0 software with three-dimensional workpiece rendering, and other innovations for one-off manufacturing, warehouse technology, dividing technology with combined saw and mill, and laminating technology. In addition, new service products such as **lifeline** Navigator, the eParts digital ordering portal and the HOMAG Group Academy training platform were presented.

The focus of our research and development activities is always on the benefit to the customer. We seek new ideas and products to provide our customers with the best service and help them become even more successful.

1.7 Changes in Company Boards

The former CEO and management board member for sales, service and marketing, Dr. Joachim Brenk, left the company of his own volition at the end of September 2009 in order to take up a new challenge. The new management board member responsible for sales, service and marketing since October 1, 2009 is Jürgen Köppel, who has served as general manager of the successful HOMAG production company BRANDT Kantentechnik GmbH since 2004. Longstanding management board member Rolf Knoll took on the position of CEO as of September 1, 2009.

At its meeting of December 17, 2009, the supervisory board elected existing member Reiner Neumeister as its new deputy chairperson. He replaces Jochen Meyer, who remains a member of the supervisory board.

1.8 Disclosure Pursuant to Sec. 315 (4) HGB

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, Dr. Anja Schuler, Zurich and the Erich und Hanna Klessmann Stiftung, Gutersloh, have announced the conclusion of a vote pooling agreement on March 8, 2010. This vote pooling agreement contains limitations on both voting rights and the transferability of shares. The management board is not aware of any further restrictions, especially arising from agreements between shareholders, concerning voting rights.

Direct or indirect capital investments exceeding 10 percent (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 ["Aktiengesetz": German Stock Corporation Act], the supervisory board may appoint members of the management board for a maximum term of five years. Reappointment or extension of the term of office is allowed, for a term of up to five years each time. In accordance with Sec. 84 (1) Sentence 3 AktG, reappointment or the extension of terms of office may be carried out no earlier than one year before expiry of the current term of office and requires a new resolution by the supervisory board. In accordance with Sec. 84 (1) Sentence 4 AktG, an appointment term of less than five years may be extended without the need for a new resolution by the supervisory board provided that the total term of office does not exceed five years.

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

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

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

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

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

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

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

The supervisory board is authorized to amend the current version of the articles of incorporation and bylaws after the capital increase from authorized capital is entered or once the period of authorization expires.

b) *Authorization to purchase treasury shares:* Pursuant to Sec. 71 (1) No. 8 AktG, the company is authorized, with the approval of the supervisory board, to purchase treasury shares up until October 31, 2010 with an imputed share in share capital of EUR 1,568,800. The company may not use the authorization to trade with treasury shares. The company can exercise the authorization wholly or in part, once or several times. The management board can choose to purchase the treasury shares either a) from the stock exchange or b) from a public offer made to all shareholders.

Subject to the approval of the supervisory board, the management board is authorized to redeem the treasury shares purchased pursuant to this authorization without requiring any further resolutions by the annual general meeting. Moreover, subject to the approval of the supervisory board, they can be sold in a way other than on the stock exchange, provided that the treasury shares are purchased in exchange for contributions in cash and at a price that does not fall materially short of the quoted price of the same category of the company's shares at the time of the sale. The total imputed share in share capital attributable to the number of treasury shares sold under this authorization together with the imputed share in share capital attributable to new shares issued, while precluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG directly or by analogy, since the resolution granting this authorization was passed, may not exceed a total of 10 percent of the share capital as of the date on which 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 five percent (excluding incidental purchase costs) of the average closing rate the company's shares in XETRA trading (or a functionally comparable successor system taking the place of the XETRA system) on the Frankfurt am Main stock exchange during the five trading days prior to the agreement with the third party.

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.

2. DECLARATION OF COMPLIANCE (INCL. 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 ("the Code").

2.1 Corporate Governance at HOMAG Group AG

Corporate governance stands for transparent and responsible management and control geared to increasing value in the long term. The management board and supervisory board as well as the HOMAG Group AG's employees feel duty-bound to these principles, which are therefore at the core of our activities. As a result, we implement almost all recommendations of the Code, and have further reduced what few exceptions there were in the past (please refer to the declaration of compliance). We also apply many of its suggestions.

An important element of corporate governance in the HOMAG Group is a clear segregation of duties and responsibilities between management board, supervisory board and the annual general meeting. In this context, the supervisory board accompanies and monitors the management board's management activities. Key elements of corporate governance in our company include active and open corporate communication as well as dealing responsibly with risks.

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

2.2 Management and Control Structure

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. 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, only one former member of the management board sits 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 shareholder's 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 AG, a subsidiary of HOMAG Group AG, and Mr. Schuler in 1999.

The supervisory board set up a total of four committees: the accounting committee (which functions as the audit committee in accordance with Sec. 107 (3) Sentence 2 and Sec. 171 (1) Sentence 3 AktG as well as section 5.3.2 of the Code), 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 have decision-making authority transferred to them by the supervisory board where legally permissible. The chairpersons of the individual committees reported on the work of their committees at all full meetings of the supervisory board.

The Management Board

The management board of HOMAG Group AG currently consists of five members and has a CEO. The supervisory board of HOMAG Group AG has issued a code of procedure for the management board. The management board conducts the business of the company with joint responsibility of all its members. It is bound to act in the interest of the company and to increase the long-term value of the company. The management board develops the company's strategy, consults with the supervisory board on this and ensures that it is implemented. The management board ensures that the law and corporate guidelines are observed and encourages group companies to comply as well. In addition to that, the management board is responsible for ensuring that appropriate risk management and risk steering is in place in the company. The management board keeps the supervisory board informed regularly, promptly and comprehensively about all questions of relevance to the company. Before the beginning of the next fiscal year, it presents a business plan to the supervisory board. 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. The management board discusses the Group's strategic orientation with the supervisory board. During the fiscal year, measures requiring the approval of the supervisory board must be submitted to the supervisory board without delay.

Annual General Meeting

The shareholders of HOMAG Group AG protect their rights in the annual general meeting. This is where they exercise their voting rights. Among other things, the annual general meeting adopts resolutions on profit appropriation, the exoneration of the management board and of the supervisory board and the election of the auditor. Amendments to the articles of incorporation and bylaws and measures to increase or decrease capital, as well as the authorization to increase or decrease capital, are resolved exclusively by the annual general meeting and implemented by the management board. The shareholders have the opportunity to exercise their voting right at the annual general meeting in person or by a proxy of their choice or by a proxy appointed by HOMAG Group AG who is bound to follow instructions.

Financial Reporting and Annual Audit

The financial statements of HOMAG Group AG are prepared in accordance with the German Commercial Code (HGB), the consolidated financial statements according to International Financial Reporting Standards (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 auditor they have in mind if and whether there are any business, financial, personal or other relations between the audit firm 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 statement 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 efficacy 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 ["Bilanzrechtsmodernisierungsgesetz": German Accounting Law Modernization Act].

Transparency

HOMAG Group AG informs agents on the capital markets 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. If unexpected events arise at HOMAG Group AG between the regular reporting dates that could potentially have a significant influence on the market price of the HOMAG Group share, such events are announced in ad hoc reports, provided the requirements of Sec. 15 (3) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] have not been met and the management board avails itself of its provisions.

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

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

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

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

The management board and supervisory board will propose to the 2010 annual general meeting that the provisions of the articles of incorporation and bylaws and the level of supervisory board remuneration be amended.

The directors and officers liability insurance (D&O insurance policy) taken out by the company for members of the supervisory board only provided for a deductible for US claims for all persons covered by the insurance for the period until the end of 2009. 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 supervisory board.

The table below shows a breakdown of the remuneration of the supervisory board for the fiscal year 2009:

EUR k	Fixed remuneration	Remuneration for committee work	Performance-based remuneration	**Total remuneration**
Torsten Grede, chairman	30	18	0	48
Reiner Neumeister, deputy chairman [1), 2)]	10	15	0	25
Jochen Meyer [1), 3)]	15	9	0	24
Dr. Jochen Berninghaus	10	0	0	10
Klaus M. Bukenberger	10	9	0	19
Ernst Esslinger [1)]	10	0	0	10
Wilhelm Freiherr von Haller	10	6	0	16
Ralf Hengel	10	0	0	10
Carmen Hettich-Günther [1)]	10	6	0	16
Hannelore Knowles [1)]	10	9	0	19
Reinhard Löffler	10	21	0	31
Reinhard Seiler [1)]	10	0	0	10
Gerhard Schuler, honorary chairman	10	0	0	10
TOTAL	**155**	**93**	**0**	**248**

1) *Employee representative*
2) *Deputy chairman from December 17, 2009*
3) *Deputy chairman until December 2, 2009*

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 consulting and mediation services, with the following exception. The honorary chairman of the supervisory board, Mr. Gerhard Schuler, received remuneration of about EUR 61,000 in the year under review as compensation for the consulting services he provided to HOMAG Holzbearbeitungs-systeme AG.

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.

Remuneration of the Management Board

The remuneration of the individual members of the management board of HOMAG Group AG is proposed by a personnel committee. Based on the proposal made by its personnel committee, the supervisory board proper has determined the remuneration system for the management board including the main contractual elements and will review it regularly. In the competition for highly qualified leaders, the remuneration model is designed as an incentive for the management board, while meeting strict requirements by taking personal performance and the success of the company into account.

In accordance with VorstAG ["Gesetz zur Angemessenheit der Vorstandsvergütung": German Act on the Appropriateness of Management Board Remuneration], which entered into force on August 5, 2009, the total remuneration received by the individual management board members must be appropriate to each member's responsibilities and performance, as well as the situation of the company, and may not exceed customary remuneration 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.

New service contracts were concluded for the members of the management board, with effect as of January 1, 2010.

The remuneration is made up of a fixed salary and a variable performance-based component. The variable component consists of a short-term and a long-term incentive system and is based on indicator-based targets. It is also capped. There are no stock option plans.

Prior to August 2008, new and extended management board contracts did not include a general cap on severance payments to a maximum of two annual salaries in the event of early termination of service on the management board. The first new and extended contracts to include such a cap on severance payments were concluded in October 2009. As of January 1, 2010, all management board contracts comply with the recommendations of No. 4.2.3 (4) of the Code.

The members of the management board are not remunerated for board functions at subsidiaries.

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

Fixed remuneration

The non-performance-based fixed remuneration of the members of the management board consists of an annual fixed salary and incidental benefits. The annual salary is fixed for the term of the service agreements of the management board members and is paid out in twelve equal monthly installments. The incidental benefits consist of the value of the use of a company car that can be recognized for tax purposes and the payment of an insurance premium. The insurance premiums concern a group insurance policy for accident loss and an insurance policy against financial loss (D&O insurance policy). For the period until the end of 2009, the D&O insurance policy only provided for a deductible for US claims for all persons covered by the insurance. 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.

The majority of management board contracts provide for an increase in fixed remuneration as of January 1, 2010, subject to the condition precedent (condition of occurrence) that HOMAG Group AG generates a predetermined consolidated pre-tax profit (EBT) for the preceding four quarters. The supervisory board ascertains whether this condition has been met on a quarterly basis.

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

Variable remuneration component

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

The STI is based on the value added (VA), calculated on the basis of HOMAG Group AG's consolidated financial statements, as an indicator of the annual increase in value of HOMAG Group AG. The STI is calculated on a straight-line basis from a positive VA greater than 0.00 percent up to a fixed indicator (prior to December 31, 2009: 5.5 percent VA, as of January 1, 2010: 4.0 percent VA) and is paid out in this amount. The STI is capped at this indicator.

The STI bonus is paid out following the ordinary annual general meeting 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 price LTI bonus) and the development of positive VA (VA LTI bonus).

To obtain the LTI bonus, the accumulated VA over three successive fiscal years (reference period) must be positive. This basic LTI bonus, which is also determined on a straight-line basis, is capped (prior to December 31, 2009: 18 percent VA, as of January 1, 2010: 12 percent VA).

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

In a first step, 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. The relevant opening price and relevant closing price are both determined by the supervisory board.

If the share price increases by up to 70 percent – relevant closing price starting from the relevant opening price – the second part of the LTI bonus, calculated on a straight-line basis, becomes due for payment.

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

"Initial rolling LTI bonuses" were agreed to in all management board service contracts as of January 1, 2010, as a transitional arrangement between the LTI bonuses for 2009 and 2010. This is calculated on a straight-line basis from a positive VA greater than 0.00 percent up to a fixed indicator (12.0 percent) and is paid out in this amount. The initial rolling LTI bonus is capped at this indicator.

LTI bonuses are paid out following the ordinary annual general meeting of the third fiscal year at the latest.

The remuneration of the management board members pursuant to IAS 24 for the fiscal 2009 breaks down as follows:

EUR k	Fixed salary 2009	Fixed salary 2008	Short-term incentives (STI) 2009 [1]	Short-term incentives (STI) 2008	Long-term incentives (LTI) [2] Change in provision 2009	Long-term incentives (LTI) [2] Change in provision 2008	Long-term incentives (LTI) [2] Provision 2009	Benefits in kind 2009	Benefits in kind 2008	Total remuneration 2009	Total remuneration 2008
Dr. Joachim Brenk	223	310	0	225	-35	-128	0	6	7	194	414
Achim Gauß	226	235	0	202	-31	-115	0	8	8	203	330
Andreas Hermann	201	209	0	180	-28	-102	0	7	5	180	292
Herbert Högemann	202	210	0	180	-28	-103	0	8	7	182	294
Rolf Knoll	241	234	0	203	-31	-116	0	7	8	217	329
Jürgen Köppel	48	0	0	0	0	0	0	2	0	50	0
TOTAL	**1,141**	**1,198**	**0**	**990**	**-153**	**-564**	**0**	**38**	**35**	**1,026**	**1,659**

[1] *No payment made for 2009 following 2010 annual general meeting.*
[2] *Figures given for provisions in prior years are not actual values, but rather fair values.*

Shareholdings of Board Members

As of December 31, 2009, the members of the management board held a total of 56,963 shares (December 31, 2008: 81,936), which is equivalent to 0.36 (December 31, 2008: 0.52) percent of HOMAG Group AG's capital stock. As no member of the management board held more than one percent of the capital stock in the reporting period, an individual break-down is not required.

Based on notifications made by members of the supervisory board to the company, the shareholdings of the members of the supervisory board are as follows:

Member of the supervisory board	Shareholding as of Dec. 31, 2009	Shareholding as of Dec. 31, 2008	Percentage share as of Dec. 31, 2009	Percentage share as of Dec. 31, 2008
Ernst Esslinger	100	100	0.0	0.0
Ralf Hengel and related parties	486,631	386,631	3.1	2.5
TOTAL	**486,731**	**386,731**	**3.1**	**2.5**

As of December 31, 2009, Mr. Gerhard Schuler, honorary chairman of the supervisory board, held 1,608,308 shares in HOMAG Group AG (December 31, 2008: 1,326,481). This corresponds to a share in capital stock as of December 31, 2009 of 10.25 percent (December 31, 2008: 8.46 percent).

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 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 if the value of the transactions equal or exceed a total of EUR 5,000 within the space of a calendar year. The following transactions were reported to us for the period from January 1, 2009 to December 31, 2009:

Trade date	Stock market	Person reporting	Function	Type	No. of shares	Price in EUR	Total volume in EUR
Feb. 11, 2009	Over the counter	Mareike Hengel	Spouse of supervisory board member	Purchase	50,000	8.4000	420,000.00
March 5, 2009	Over the counter	Mareike Hengel	Spouse of supervisory board member	Purchase	34,000	6.0000	204,000.00
June 24, 2009	XETRA	Mareike Hengel	Spouse of supervisory board member	Purchase	4,410	7.5542	33,314.02
Jul. 23, 2009	Frankfurt	Mareike Hengel	Spouse of supervisory board member	Purchase	11,590	7.9080	91,653.72

The transactions reported between January 1, 2009 to December 31, 2009 pursuant to Sec. 15a WpHG of the honorary chairman of the supervisory board, Mr. Gerhard Schuler, are presented in the table below:

Trading date	Stock exchange	Type	No. of shares	Price in EUR	Total volume EUR
March 6, 2009	Over the counter	Purchase	50,000	6.0041	300,205.00
March 17, 2009	Over the counter	Purchase	19,100	5.9525	113,692.75
Jul. 21, 2009	Over the counter	Purchase	20,000	7.8000	156,000.00
Jul. 22, 2009	Over the counter	Purchase	15,000	7.8000	117,000.00
Oct. 26, 2009	Over the counter	Purchase	30,750	8.3462	256,645.65
Oct. 27, 2009	Over the counter	Purchase	12,765	8.3453	106,527.75
Oct. 28, 2009	Over the counter	Purchase	14,187	8.2806	117,476.87
Oct. 29, 2009	Over the counter	Purchase	2,960	8.3132	24,607.07
Oct. 30, 2009	Over the counter	Purchase	4,338	8.4974	36,861.72
Dec. 3, 2009	Over the counter	Purchase	24,375	9.4551	230,468.06
Dec. 4, 2009	Over the counter	Purchase	17,174	9.5109	163,340.20
Dec. 7, 2009	Over the counter	Purchase	4,169	9.6919	40,405.53
Dec. 8, 2009	Over the counter	Purchase	8,755	10.0425	87,922.09
Dec. 10, 2009	Over the counter	Purchase	7,554	9.9927	75,484.86
Dec. 11, 2009	Over the counter	Purchase	6,000	10.6348	63,808.80
Dec. 16, 2009	Over the counter	Purchase	5,200	10.8885	56,620.20
Dec. 17, 2009	Over the counter	Purchase	16,000	10.4331	166,929.60
Dec. 18, 2009	Over the counter	Purchase	5,463	10.4113	56,876.93
Dec. 21, 2009	Over the counter	Purchase	1,089	10.5000	11,434.50
Dec. 22, 2009	Over the counter	Purchase	733	10.5000	7,696.50
Dec. 23, 2009	Over the counter	Purchase	1,215	10.5000	12,757.50
Dec. 29, 2009	Over the counter	Purchase	15,000	10.5000	157,500.00

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

DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SEC. 161 AKTG

The management board and supervisory board of HOMAG Group AG declare in accordance with Sec. 161 AktG:

The management board and supervisory board declare that, from their declaration of compliance dated January 14, 2009, until August 4, 2009 Homag Group AG has complied with the recommendations of the German Corporate Governance Code in the version dated June 6, 2008, and since August 5, 2009 with the version of the Code dated June 18, 2009 – with the following exceptions – and will continue to comply with them in the future:

- *No. 3.8 (deductible for D&O insurance)*
  For the period until the end of 2009, the existing D&O insurance only provided for a deductible for US claims for all persons covered by the insurance. 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 has been agreed for members of the management board as well as for members of the supervisory board.
- *No. 4.2.3 (4) (cap on severance payments in employment agreements with management board members)*
  Before August 2008, no caps were agreed on severance payments when concluding or prolonging management board contracts. Since then caps have been agreed on severance payments when concluding or prolonging management board contracts.

Schopfloch, January 2010

For the supervisory board of Homag Group AG

TORSTEN GREDE
Chairman of the supervisory board

For the management board
of Homag Group AG

ROLF KNOLL
Chairman of the management board

3. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

3.1 Results of Operations

Following the drop in order intake in the fourth quarter of 2008, the main task was to make significant savings on the cost side. To this end, we swiftly implemented measures in 2008 aimed at adjusting our capacities. Our implementation of these measures, which had a defining impact on 2009, went according to plan and met with success. In this way we managed to save more than EUR 100 million for personnel, temporary workers and other operating expenses (including costs in proportion to revenue). This was offset by extraordinary expenses for these one-off / restructuring expenses totaling EUR 12.4 million (incl. provisions for the planned restructuring measures). We were also aided by our cost-cutting program "Project 2008", which ran until 2008 independently of the crisis, and with which we were able to significantly improve our leeway with regard to variable costs, particularly in the field of personnel. We were then soon able to take advantage of this flexibility once the economic crisis hit. In addition, the results of operations are boosted by the reversal of provisions, and the reduced use of accruals.

The development of our results over the course of 2009 reflects the successful implementation of our cost-cutting measures, some of which required a certain amount of time to take effect. This is why our results improved from quarter to quarter in the course of 2009, and positive EBIT excluding one-off / restructuring expenses was generated in the second half of the year as announced. We managed to turn things around in the final quarter of the year and returned to the black, as shown by the net income for the period attributable to equity holders totaling EUR 3.9 million before extraordinary expenses and EUR 1.0 million after extraordinary expenses.

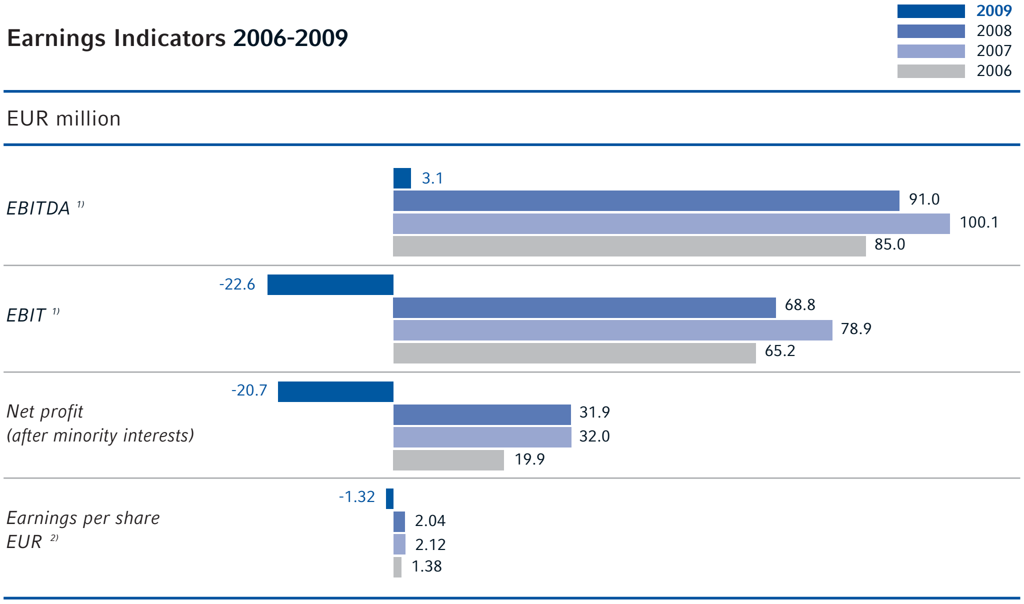
On account of the reduced headcount stemming from our personnel adjustment measures, personnel expenses fell sharply to EUR 225.2 million (prior year: EUR 264.5 million), or EUR 214.4 million before extraordinary expenses (prior year: EUR 261.5 million). However, the ratio of personnel expenses to total operating performance still rose to 43.4 percent (prior year: 30.3 percent) after extraordinary expenses or 41.3 percent (prior year: 30.0 percent) before extraordinary expenses due to a stark decline in total operating performance. Cost of materials fell to EUR 221.5 million (prior year: EUR 395.5 million), while the ratio of cost of materials to total operating performance fell to 42.6 percent (prior year: 45.4 percent), largely due to the reduction of the number of contract workers, a fall in intercompany profits and more procurement synergies.

Although we quickly and successfully countered the economic crisis and falling order intake as soon as they became apparent, we were unable to fully offset lost sales revenues in 2009. Our earnings fell accordingly in comparison to 2008. For the following performance indicators, it is important to bear in mind the extraordinary expenses for our restructuring measures, which came to EUR 4.0 million in 2008 and EUR 12.4 million in 2009, as well as the costs for Ligna, the industry's leading trade fair, which came to EUR 3 million in 2009 and were not incurred in 2008 because the fair is only held every two years. The employee profit participation gave rise to income of EUR 2.0 million in the past fiscal year due to the negative operating result, following an expense of EUR 10.8 million in 2008.

Earnings Indicators

EBITDA for 2009 before extraordinary expenses and after the result from the employee participation came to EUR 17.6 million (prior year: EUR 84.2 million). After extraordinary expenses and before the result from the employee participation, EBITDA stands at EUR 3.1 million (prior year: EUR 91.0 million). The net operating profit (EBIT) amounts to EUR -8.2 million (prior year: EUR 62.0 million) before extraordinary expenses and after the result from the employee participation, and EUR -22.6 million (prior year: EUR 68.8 million) after extraordinary expenses and excluding the result from the employee participation. The financial result improved slightly to EUR -9.2 million (prior year: EUR -9.8 million), resulting in EBT after the result from the employee participation and before extraordinary expenses of EUR -17.3 million (prior year: EUR 52.2 million) or EUR -29.8 million after extraordinary expenses (prior year: EUR 48.2 million).

Earnings Indicators 2006-2009



[1] *Before employee profit participation and after extraordinary expenses*
[2] *Net profit for the year after minority interests in relation to the number of shares, 15,688,000 in 2008 and 2009, 15,095,349 (weighted average) in 2007 and 14,561,345 in 2006*

The negative group result for 2009 generated high levels of utilizable loss carry forwards for the years to come, giving rise to tax income of EUR 7.7 million in combination with deferred tax assets (prior year: EUR -14.4 million).

This results in a net loss for fiscal 2009 of EUR -22.1 million before minority interests (prior year: EUR 33.8 million), and EUR -20.7 million after minority interests (prior year: EUR 31.9 million). The net loss per share amounts to EUR -1.32 (prior year: EUR 2.04).

We report the return on capital employed (ROCE) on the basis of adjusted EBIT, i.e. before the employee participation and adjusted for one-off / restructuring expenses. ROCE is negative on account of the negative EBIT, and amounts to -3.2 percent before taxes for 2009 (prior year: 23.0 percent), and -2.3 percent after taxes (prior year: 15.9 percent). This calculation was based on a tax rate of 30 percent (prior year: 31 percent).

Segment Results

The earnings of the individual segments mirrored the general deterioration of earnings in 2009. Adjusted for the one-off / restructuring expenses and before the employee participation, EBITDA amounts to EUR 17.1 million in the Industry segment (prior year: EUR 54.9 million), to EUR -3.3 million in the Cabinet Shops segment (prior year: EUR 28.9 million), to EUR -0.5 million in the Sales & Service segment (prior year: EUR 3.9 million) and EUR -1.2 million in the Other segment (prior year: EUR 7.1 million).

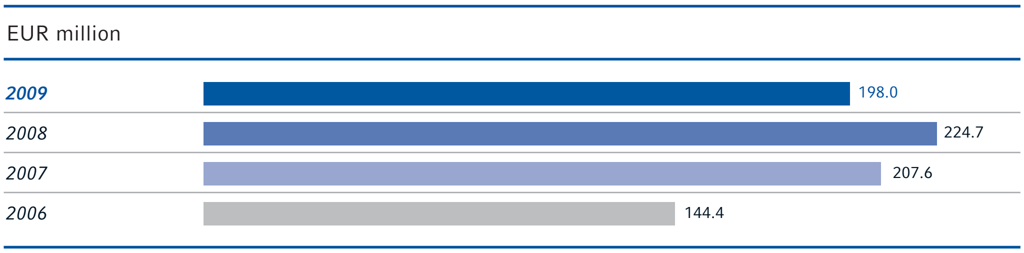
3.2 Net Assets and Financial Position

Net Assets

BENZ GmbH was included in the consolidated group for the first time in the past fiscal year. This also had an effect on our net assets, which fell to a lesser extent than total operating performance as of December 31, 2009 to EUR 519.5 million (prior year: EUR 551.2 million). Non-current assets were boosted by the first-time consolidation of BENZ due to the addition of capitalized goodwill in excess of EUR 10 million and BENZ' property, plant and equipment. Furthermore, deferred taxes rose EUR 7.3 million due to the aforementioned capitalization of loss carryforwards. We made significant reductions to inventories and trade receivables in response to the lower order volume, but also thanks to our successful net working capital management and receivables management activities. At EUR 29.8 million, cash and cash equivalents were down EUR 8.8 million on the prior-year value due to the timing of the end of the reporting period.

On the liabilities side, there was a clear shift between non-current and current liabilities in the course of 2009 as the term to maturity of our previous syndicated loan agreement fell under one year. Our trade payables rose from EUR 55.6 million to EUR 63.7 million. This is due to the fact that we were able to extend our terms of payment with some suppliers. Equity base declined due to the losses incurred, and on account of the distribution of a EUR 4.7 million dividend to our shareholders. With an equity ratio of 30 percent as of December 31, 2009 (prior year: 33 percent), HOMAG Group continues to enjoy a solid equity base. Taking profit participation rights and the obligations from employee participation into account, the equity ratio amounts to 38 percent (prior year: 41 percent).

Own Funds as of the Balance Sheet Date [1] 2006-2009



[1] *Equity plus profit participation rights and obligation from empoyee participation*

In comparison to end-of-year 2008, our net bank liabilities increased from EUR 79 million to EUR 95 million as of December 31, 2009, despite an approx. EUR 18 million drop in the fourth quarter of 2009 compared to the third quarter of 2009. The EUR 20 million increase in net bank liabilities is attributable to the acquisition of BENZ, the profit distribution to our shareholders and the payment of the employee profit participation for 2008. This means that we were able to reduce net bank liabilities by means of our successful working capital management, taking into account the aforementioned points and despite the losses incurred in 2009.

Financial Position

As our previous syndicated loan agreement, which we used to secure a major portion of our liquidity, expires in July 2010, we entered into negotiations with the syndicate of banks in the second half of 2009. These were successful, with the result that we concluded a new syndicated loan agreement with a volume of EUR 198 million in February 2010. This matures in February 2013, and secures our liquidity subject to compliance with certain covenants in the next three years. The volume of the loan is ten percent more than the previous agreement, and shows the high credit standing that we enjoy with the banks.

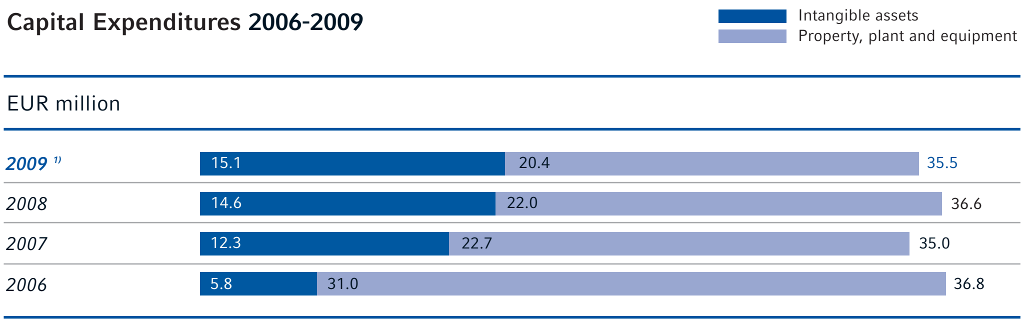
In comparison to 2008, cash flow from operating activities remained largely constant at EUR 35.5 million (prior year: EUR 37.4 million), despite the difficult situation with regard to earnings. The EUR 78 million reduction in pre-tax profits was primarily offset by a decrease in inventories, reduced trade receivables and a significant reduction in the amount of income taxes paid. Cash flow from investment activities fell to EUR -36.2 million (prior year: EUR -32.3 million) on account of the acquisition of BENZ GmbH Werkzeugsysteme, which resulted in free cash flow falling to EUR -0.7 million (prior year: EUR 5.1 million). Cash flow from financing activities rose to EUR -9.1 million (prior year: EUR -13.7 million). Cash and cash equivalents amount to EUR 29.8 million as of December 31, 2009 (prior year: EUR 38.6 million).

3.3 Capital Expenditures, Amortization and Depreciation

Despite focusing our investment on the new HOMAG Center opened in October 2009, our capital expenditures on intangible assets and property, plant and equipment fell only slightly from EUR 36.6 million in the prior year to EUR 35.5 million in 2009. Own work capitalized increased to a carrying amount of EUR 18.1 million (prior year: EUR 12.1 million). Overall capital expenditures on property, plant and equipment dropped from EUR 22.0 million in the prior year to EUR 20.4 million. The first-time consolidation of BENZ increased the total value of our property, plant and equipment including intangible assets to EUR 199.6 million as of December 31, 2009. Adjusted for BENZ, this figure increased only slightly from EUR 175.8 million in the prior year to EUR 181.2 million.

On account of high levels of expenditure in previous years, an increase in own work capitalized and the addition of BENZ GmbH Werkzeugsysteme raised amortization and depreciation to EUR 25.8 million (prior year: EUR 22.2 million).

Capital Expenditures 2006-2009



[1] Adjusted for the capitalized goodwill of BENZ GmbH, which was acquired in 2009

4. SUBSEQUENT EVENTS

After the end of the reporting period, we concluded a new syndicated loan agreement with a volume of EUR 198 million in February 2010. This matures in February 2013, and secures our liquidity subject to compliance with certain covenants in the next three years.

In February 2010 we increased our share in BÜTFERING Schleiftechnik GmbH from 80 to just under 92 percent by means of a capital injection, while at the same time diluting the shares of the minority shareholders.

Company co-founder Gerhard Schuler, other members of the Schuler family and the Erich und Hanna Klessmann Stiftung informed us in early March 2010 that they have pooled their shareholdings. All parties have held shares in HOMAG Group AG for many years, and together account for around 24 percent of the company’s shares.

5. RISK 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 AG is naturally exposed to a number of risks. Risks can arise from both the company's own business activities and from external factors. HOMAG Group AG’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 company policy.

Risk Management System

HOMAG Group AG’s risk management system is essentially supported by the management accounting system. It includes project controlling, cost object controlling and detailed segment reporting. A balanced scorecard is the central element of the system. 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 reported, and, in the event of unexpected developments, the management board and supervisory board are notified immediately.

We refined our risk management system in fiscal 2009, particularly in the field of IT security. We also improved our reporting and net working capital management by means of appropriate measures, increased our currency hedging activities and added to the number of forecasts prepared over the course of the year in response to the challenging situation.

At present there are no recognizable risks to the continued existence of HOMAG Group AG as a going concern.

As part of our internal audit, all significant group entities are audited in a cycle of three to five years. We audited a production and sales company in fiscal 2009. The audit did not lead to any material findings or raise any objections. Three or four companies are scheduled to be audited in the current year.

Economic Risks

One of the main risks to the HOMAG Group is the development of the global economy, as the willingness of our customers to spend falls significantly in difficult economic times. This was the case in 2009. Although we are able to compensate for crises in individual regions through our global presence, a global crisis will of course have a negative effect even on our order volumes. Even if leading economic research institutes believe that we are through the worst of the current crisis, the economic risks remain. The markets of importance to us, i.e. Germany, Austria and Switzerland, still developed fairly favorably in the crisis year of 2009, which gives rise to the risk that there may yet be a decline.

We combat 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

HOMAG Group is not dependent on a single customer or a small group of customers, since no single customer directly generates more than 5 percent of total sales revenue. One risk on the customer side, which is particularly high in the current state of crisis within the industry due to the possibility of insolvencies, relates to the risk of bad debts. We minimize this risk by obtaining advance payments based on the stage of completion of projects and by taking out insurance on a case-by-case basis. Overall, this approach has rewarded us with a low ratio 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 intensive relationships to customers who provide us early feedback regarding our developments. We rule out R&D budget overruns and unexpected increases in the start-up cost of new products as much as possible 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 small workshops to complex production lines for industrial mass production, we have a wide range of 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 a going concern.

In general, the market entry barriers in our industry are very high. As a result, we estimate that there is a very low risk of new competitors endangering our technological lead.

IT Risks

The main IT risks relate to data loss, damage or misuse. We considerably improved our IT security in 2009 in the interest of mitigating these risks. For example, the newly constructed HOMAG Center at the company's headquarters in Schopfloch contains the new computing center, which was set up in accordance with the latest security aspects. The previous computing center is being refurbished and will serve as a back-up center, which further improves data security. The increased outsourcing of data also plays a part. We have also introduced real-time data back-up and dedicated security zones with video monitoring, controlled access authorization and alarm functions. We have also extended the uneditable archiving of data, such as incoming and outgoing invoices. We conducted training for our employees, and designated IT security officers at all of our companies.

Quality Risks

Quality is prioritized throughout the HOMAG Group. The premium quality of our products also sets us apart from the competition. 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 while ensuring a uniform high product quality based on a high degree of standardization. The majority of our production sites are certified pursuant to DIN 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. In order to further mitigate these risks, we increased our hedging transaction activities while keeping items in foreign currencies to a minimum. We consider currency risks to be low overall since sales revenue is mainly generated in Europe and invoices are issued in euro, even in some cases for countries outside of the euro zone.

Liquidity and Financing Risks

We secured our liquidity until February 2013 by entering into a new syndicated loan agreement in February 2010 that is contingent on us complying with certain covenants. Consequently, there are no currently discernable financial risks that could jeopardize the continuation of the Group as a going concern.

Legal Risks

One risk of our business relates to the assertion of warranty claims. Two large-scale orders are subject to payment delays or payment risks. The negotiations of the two cases could lead to litigation risks before an arbitration court.

Tax Risks

The consolidated financial statements of Homag Group AG include significant amounts of capitalized tax loss carry forwards. The availability of these tax loss carry forwards for use depends on the actual occurrence of the planned future development of earnings. In the event of a change in shareholder composition of more than 25 percent or similar occurrence, there is a risk that portions of the loss carry forwards may be forfeited.

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)

HOMAG Group AG's internal monitoring system with regard to the (group) financial reporting process includes all principles, procedures and measures aimed at ensuring the efficacy 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, particular with regard to commercial items that record the company's hedging of risks. The Group maintains 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 HOMAG Group AG's internal monitoring systems (risk management, internal audit) in terms of their efficacy. 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 of major areas of risk and aspects to be monitored that are particularly relevant to the (group) financial reporting process by group accounting, in particular 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, as well as
- Preventative monitoring measures in the finance and accounting of the group and the individual consolidated companies as well as in operating corporate processes, which generate the key figures for the preparation of the consolidated financial statements and group management report. 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 risk management system was assessed by the auditors of the financial statements in the course of their audit;
- Discussion and examination by the supervisory board of 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 and appraised correctly, and transferred in this form to external financial reporting.

The organizational, corporate, supervisory 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 AG'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.

6. OUTLOOK

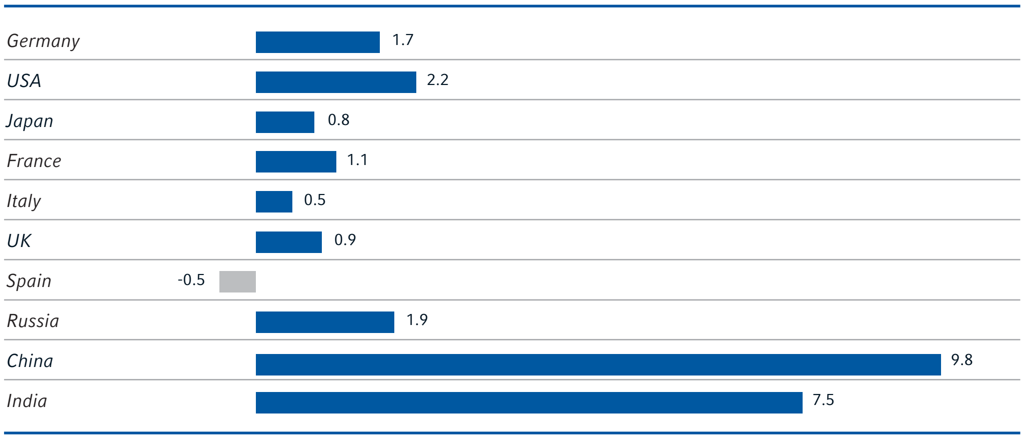
Development of the Economy and Industry

According to economists, the recovery of the global economy which began in 2009 will continue into 2010, although growth will remain sluggish and it will be a while before we reach the level from before the severe economic crisis. The ifo institute estimates that the world economy will grow by 3.1 percent in 2010, and world trade by 5.0 percent. Increasing their GDP by a mere 1.4 percent in 2010, industrialized countries will not benefit as much from the recovery as emerging economies, which will see overall growth of 5.1 percent. The DIW forecasts growth of 2.2 percent for the US and 0.8 percent for Japan, while China for example is expected to grow by 9.8 percent, and India by 7.5 percent.

The IfW anticipates growth of between 0.9 and 0.8 percent respectively for the European Union and euro zone in 2010, with countries such as Spain, Italy and Greece faring much worse. The outlook is varied for the eastern European accession countries. While Estonia, Latvia, Lithuania and Hungary are expected to see negative growth, the IfW forecasts renewed economic vigor in Poland and the Czech Republic, for example. After suffering one of the worst declines within the EU in 2009, Germany could prove to be the driving force behind the European economy in the current year, growing by between 1.5 and 2 percent according to the predictions of the economic research institutes. Both capital expenditures and exports are expected to see strong growth.

GDP (real) 2010 Forecast

Year-on-year percentage change



Source: DIW / EU Commission

The VDMA anticipates stagnating production volumes for German mechanical engineering in fiscal 2010. However, the association expects a slight upturn in the course of the year, with growth possible in the second half of the year. In the wood processing machines segment, the relevant industry association within the VDMA does not expect a general, long-term recovery in investment in 2010, and therefore no real reversal of the current trend. However, the already poor figures for 2009 mean that sales revenue is nevertheless expected to grow between 10 and 15 percent.

Forecast for HOMAG Group

Following the significant drop in sales revenue in fiscal 2009, we are cautiously optimistic about the current year, in which our largest individual company, HOMAG Holzbearbeitungssysteme AG, celebrates its fiftieth anniversary. We are confident that we have overcome the lowest point in our order volumes, and that our customers are increasingly willing to spend. This was already evident in the fourth quarter of 2009, in which our order intake was significantly higher than in the preceding quarters. This gave us an order backlog that was EUR 171 million and therefore higher than anticipated as we entered the new year, and was even higher than at the end of 2008 (EUR 164 million). However, the lingering effects of the economic crisis mean that there could still be setbacks in individual markets or segments.

Fiscal 2010 has also started with a positive trend in order intake, in contrast to the first two months of 2009. However, it is important to stress that we are still well short of the figures seen before the crisis, even if the numbers compare favorably with 2009. Because even if our industry as a whole is once again experiencing growth, the effects of the economic crisis can still be clearly felt. For example, although the overall utilization of capacity throughout the group has improved, it varies significantly between the individual group companies.

We anticipate double-digit percentage growth in order intake and sales revenue in fiscal 2010, and therefore aim to generate sales revenue with a volume of more than EUR 600 million, provided the domestic market, which has been strong so far, remains relatively stable. We expect order intake to follow its typical cycle in 2010, namely highest in the first and second quarters and tending to fall in the course of the year.

We are once again seeing an increase in orders for large-scale systems in particular, following a collapse in demand last year, as well as an increase in inquiries, albeit accompanied by considerable pressure on margins on account of the intensity of competition. As warehouses of standard machines have considerably emptied, we anticipate an increase in replacement orders in 2010. We also intend to further implement our service strategy and actively offer our expanded portfolio to customers.

We aim to improve our result in comparison to 2009, always provided that there is no slump in demand, particularly in the domestic market which until now has remained stable. We anticipate a neutral or even slightly positive result for the year 2010, although we expect the financial result to be worse on account of an increase in interest of between three and four million euro, and potential restructuring expenses of up to four million euro. Even if the overall result for the year will once again be neutral or even slightly positive from a current perspective, individual quarters may well see negative results.

Despite a more positive outlook for 2010, we will continue to implement the cost-cutting measures already introduced in order to be prepared for any setbacks. The headcount will therefore continue to fall over the course of the year in comparison to December 31, 2009. Once all agreed measures in this regard have been implemented, we anticipate a headcount of just over 4,800 employees at HOMAG Group, including employees of BENZ. We will once again have to maintain reduced working hours at certain locations in 2010 on account of the different utilization of capacity at individual group companies.

Capital expenditures will continue to fall in 2010, as we have not planned any major construction projects like those seen in previous years, such as the HOMAG Center in 2009. We expect net liabilities to banks to increase slightly on their low 2009 levels in 2010.

It remains difficult to say how our global sales markets will develop in 2010, as both the development of the economy in the individual regions and the credit approval practice of the banks are uncertain. Subject to these conditions, we expect the domestic, Austrian and Swiss markets to remain stable, and maintain the good levels seen in 2009. In the rest of western Europe, we expect the green shoots of recovery seen in the second half of 2009 to grow stronger. Even in the UK and Spain, which were extremely hard hit by the global financial and economic crisis, order intake is on the rise again, enabling us to report the first sales of state-of-the-art **laser**Tec systems to countries such as Spain.

In eastern Europe, future development is strongly reliant on the financing offered. Russia and its neighbors are particularly affected by the credit crunch, which will continue to have a significant impact on customer spending in 2010. However, major global customers of HOMAG Group are seizing the opportunity and working intensively on investing in the region, which will have a positive effect on our order intake when implemented in 2010 as planned. In south-eastern Europe, our stand-alone machines continue to play an important role alongside the project business.

Developments in Asia will vary in 2010. China will continue to exercise its dominant role, in terms of both systems and stand-alone machines. The presentation of innovative products from HOMAG Group's Chinese production plant at the important trade fairs in Shanghai and Guangzhou highlights the importance of this market. Australia will also continue to perform well, and the trade fair in Bangalore in March 2010 will create impetus for order intake in India. The situation in South-East Asia, Japan and Korea remains critical due to the underlying economic conditions.

The full consequences of the global financial and economic crisis are only now becoming apparent in much of Asia, which is why we do not anticipate any significant impetus for growth from this region in 2010.

The American market is also varied. In South America we benefited from the favorable development of the currency, as well as from Economic Recovery Package II passed by the German government to promote exports by reducing the risk involved and facilitating processing. This is why the Brazilian market, for example, continues to show a positive trend. The situation in Central America, on the other hand, is extremely critical. In North America, our order intake bottomed out in 2009, although the signs of recovery in the US are weaker than those in Canada. In Canada, both the stand-alone machines business and systems business show a positive trend, which is sure to be supported by a robust services business in 2010.

By implementing group initiatives aimed at streamlined structures, efficient processes, market-based innovations and even more orientation toward the customer, we aim to gain market share in 2010, and reinforce our earnings power. This will be supported by the reinforcement and expansion of the global sales and service organization. We will also continue to represent our company at numerous trade fairs, hold our own in-house trade fairs and introduce our customers to our innovative products, such as **laser**Tec and various anniversary models to mark 50 years of HOMAG Holzbearbeitungssysteme AG. The most important trade fairs for 2010, a year in which Ligna is not being held, include HolzHandwerk in Nuremberg in March, and Xylexpo in Milan in May.

Fiscal 2011

It is difficult to make predictions for fiscal 2011 due to the ongoing instability of the global economy. Although there are unmistakable positive signs, the extent to which these will last or whether there will be setbacks remains to be seen in the course of 2010. Assuming there is no further economic decline, and the positive trend seen at the beginning of 2010 continues, we anticipate further growth for HOMAG Group in 2011.

By swiftly implementing appropriate measures in response to the global financial and economic crisis, and by investing in the future in the form of innovation and the consistent expansion of the sales and service network, the chances are good that we will emerge from this crisis stronger and with additional market share. We are aiming for a percentage increase in sales revenue in 2011 in the high single digits, and a sustainably positive result. We believe that we will no longer need to use reduced working hours in 2011. For 2011 we once again expect positive impetus from the industry’s leading trade fair, Ligna, where we traditionally present customers with a number of innovative products.

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT FOR THE FICSAL YEAR 2009

EUR k	Note	2009	2008
SALES REVENUE	5.1	**524,075**	**856,448**
Increase or decrease in inventories of finished goods and work in process		-13,782	8,544
Own work capitalized	5.2	9,012	6,510
		-4,770	15,054
TOTAL OPERATING PEFORMANCE		**519,305**	**871,502**
Other operating income	5.3	23,870	18,791
		543,175	**890,293**
Cost of materials	5.4	221,454	395,494
Personnel expenses before employee participation	5.5	225,204	264,471
Amortization of intangible assets	5.7	7,410	5,569
Depreciation of property, plant and equipment	5.8	18,349	16,645
Other operating expenses	5.9	93,392	139,295
		565,809	**821,474**
OPERATING RESULT BEFORE EMPLOYEE PARTICIPATION		**-22,634**	**68,819**
Result from employee participation	5.5	2,039	-10,840
NET OPERATING PROFIT / LOSS		**-20,595**	**57,979**
Profit / loss from associates	5.10	-6	-216
Interest income	5.13	1,415	1,730
Interest expenses	5.13	10,595	11,283
EARNINGS BEFORE TAXES		**-29,781**	**48,210**
Income taxes	5.14	7,689	-14,400
NET PROFIT / LOSS FOR THE YEAR		**-22,092**	**33,810**
Profit / loss attributable to minority interests	5.16	-1,382	1,866
Profit / loss attributable to owners of Homag Group AG	5.17	-20,710	31,944
Earnings per share attributable to the owners of Homag Group AG in EUR (basic and deluted)		-1.32	2.04

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 2009

EUR k	2009	2008
GROUP NET PROFIT / LOSS FOR THE YEAR	**-22,092**	**33,810**
Currency effects	820	-265
Actuarial gains and losses	-254	177
Taxes on actuarial profits and losses	60	-60
OTHER COMPREHENSIVE INCOME	**626**	**-148**
TOTAL COMPREHENSIVE INCOME	**-21,466**	**33,662**
Profit / loss attributable to minority interests	-1,385	1,514
Profit / loss attributable to owners of Homag Group AG	-20,081	32,148

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2009

ASSETS

EUR k		Note	Dec. 31, 2009	Dec. 31, 2008
NON-CURRENT ASSETS				
I.	Intangible assets	6.1, 6.2	54,699	33,802
II.	Property, plant and equipment	6.1, 6.3	144,862	141,994
III.	Investments in associates	6.4	5,842	6,046
IV.	Other financial assets		771	834
V.	Receivables and other assets			
	Trade receivables	6.6	3,919	713
	Other financial assets	6.8	4,346	3,214
	Other assets and prepaid expenses	6.9	119	142
	Income tax receivables	6.10	2,853	3,250
VI.	Deferred taxes	5.14	19,710	12,404
			237,121	**202,399**
CURRENT ASSETS				
I.	Inventories	6.5	111,826	134,794
II.	Receivables and other assets			
	Trade receivables	6.6	91,170	121,186
	Receivables from long-term construction contracts	6.7	23,354	25,170
	Receivables due from associates	6.6	6,065	6,986
	Other financial assets	6.8	8,913	13,648
	Other assets and prepaid expenses	6.9	4,544	3,120
	Income tax receivables	6.10	6,668	5,450
III.	Cash and cash equivalents	6.11	29,823	38,588
			282,363	**348,942**
TOTAL ASSETS			**519,484**	**551,341**

EQUITY AND LIABILITIES

EUR k		Note	Dec. 31, 2009	Dec. 31, 2008
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	114,996	87,664
IV.	Group profit for the year	6.13.4	-20,710	31,944
	Equity attributable to equity holders		142,950	168,272
V.	Minority interests	6.13.5	14,295	15,674
			157,245	**183,946**
NON-CURRENT LIABILITIES AND PROVISIONS				
I.	Non-current financial liabilities	6.14	60,829	116,560
II.	Other non-current liabilities		10,840	2,569
III.	Pensions and other post employment benefits	6.16	2,658	2,243
IV.	Obligations from employee participation	6.17	11,035	10,597
V.	Other non-current provisions	6.18	5,037	5,016
VI.	Deferred taxes	5.14	12,292	15,455
			102,691	**152,440**
CURRENT LIABILITIES AND PROVISIONS				
I.	Current financial liabilities	6.14	104,431	39,580
II.	Trade payables		63,685	55,603
III.	Payments on account		24,821	26,616
IV.	Liabilities from long-term construction contracts	6.7	1,654	1,931
V.	Liabilities to associates		2,558	1,466
VI.	Other financial liabilities		377	556
VII.	Other current liabilities and deferred income		44,771	68,743
VIII.	Tax liabilities		3,446	5,565
IX.	Pensions and other post employment benefits	6.16	50	38
X.	Other current provisions	6.18	13,755	14,857
			259,548	**214,955**
TOTAL LIABILITIES			**362,239**	**367,395**
TOTAL EQUITY AND LIABILITIES			**519,484**	**551,341**

CONSOLIDATED CASH FLOW STATEMENT FOR FISCAL YEAR 2009

EUR k		Note 4.2.20	2009	2008
1.	CASH FLOW FROM OPERATING ACTIVITIES			
	Profit or loss before taxes		**-29,781**	**48,210**
	Income tax paid (-)		-4,448	-18,561
	Interest result	5.13	9,180	9,553
	Interest paid (-)		-10,374	-11,781
	Interest received (+)		1,362	1,730
	Write-downs (+) / write-ups (-) of non-current assets (netted)	5.7, 5.8	25,666	22,120
	Increase (+)/decrease (-) in provisions		1,207	-1,284
	Other non-cash expenses (+) / income (-)		0	-170
	Share of profits (-) and losses (+) of associates	5.10	6	202
	Gain (-) / loss (+) on disposals of non-current assets		558	559
	Increase (-) / decrease (+) in inventories, trade receivables and other assets		71,871	20,489
	Increase (+)/decrease (-) in trade payables and other liabilities		-29,769	-33,642
	CASH FLOW FROM OPERATING ACTIVITIES		**35,478**	**37,425**
2.	CASH FLOW FROM INVESTING ACTIVITIES			
	Cash received (+) from disposals of property, plant and equipment		5,084	784
	Cash paid (-) for investments in property, plant and equipment	6.1	-13,381	-18,517
	Cash received (+) from disposals of intangible assets		6	0
	Cash paid (-) for investements in intangible assets		-15,026	-14,596
	Cash paid (-) for the acquistion of consolidated companies		-12,851	0
	CASH FLOW FROM INVESTING ACTIVITIES		**-36,168**	**-32,329**

EUR k	Note 4.2.20	2009	2008
3. CASH FLOW FROM FINANCING ACTIVITIES			
Dividends	5.18	-4,706	-14,119
Cash paid (-) to minority interests		-1,700	-1,595
Cash received (+) from allocations to equity		250	0
Cash received (+) from the issue of (financial) liabilities		25,231	14,200
Cash repayment (-) of bonds and (financial) liabilities		-28,157	-12,144
CASH FLOW FROM FINANCING ACTIVITIES		**-9,082**	**-13,658**
4. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			
Change in cash and cash equivalents (subtotal 1 - 3)		-9,772	-8,562
Net foreign exchange rate related changes and changes in consolidated group in cash and cash equivalents		1,007	-463
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**38,588**	**47,613**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD *		**29,823**	**38,588**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF DECEMBER 31, 2009

			Revenue
EUR k	Issued capital	Capital reserve	Revenue reserves
JAN. 01, 2008	**15,688**	**32,976**	**69,820**
OTHER CHANGES			**-150**
Dividends paid			-14,119
Changes from minority interests			165
TRANSACTIONS WITH OWNERS			**-13,954**
RECLASSIFICATION TO REVENUE RESERVES			**32,030**
TOTAL COMPREHENSIVE INCOME			
DEC. 31, 2008	**15,688**	**32,976**	**87,746**
JAN. 01, 2009	**15,688**	**32,976**	**87,746**
OTHER CHANGES			**-416**
Capital increase			
Dividends paid			-4,706
Minority interests from aquisitions			
Changes from minority interests			-119
TRANSACTIONS WITH OWNERS			**-4,825**
RECLASSIFICATION TO REVENUE RESERVES			**31,944**
TOTAL COMPREHENSIVE INCOME			
DEC. 31, 2009	**15,688**	**32,976**	**114,449**

reserves					
Other comprehensive income	Translation reserve	Group profit	Equity before minority interests	Minority interests	Total
147	**-433**	**32,030**	**150,228**	**15,907**	**166,135**
			-150	**13**	**-137**
			-14,119	-1,595	**-15,714**
			165	-165	
			-13,954	**-1,760**	**-15,714**
		-32,030			
97	**107**	**31,944**	**32,148**	**1,514**	**33,662**
244	**-326**	**31,944**	**168,272**	**15,674**	**183,946**
244	**-326**	**31,944**	**168,272**	**15,674**	**183,946**
			-416		**-416**
				250	**250**
			-4,706	-1,700	**-6,406**
				2,052	**2,052**
			-119	-596	**-715**
			-4,825	**6**	**-4,819**
		-31,944			
-187	**816**	**-20,710**	**-20,081**	**-1,385**	**-21,466**
57	**490**	**-20,710**	**142,950**	**14,295**	**157,245**

Notes to the Consolidated Financial Statements for Fiscal 2009

1. GENERAL

1.1 Application of Accounting Requirements

The consolidated financial statements of Homag Group AG (Homag Group) as of December 31, 2009 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 International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU and applicable as of the balance sheet date. The supplementary provisions of Sec. 315a ["Handelsgesetzbuch": German Commercial Code] were also complied with.

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

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

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

All those standards (IFRS/IAS) and interpretations (IFRICs) subject to mandatory application for fiscal 2009 were observed.

1.2 Company Information

Company name and legal form:	Homag Group AG (parent company and ultimate parent of the Group)
Registered offices:	Schopfloch (Germany)
Address:	Homagstrasse 3-5, 72296 Schopfloch
Business purpose and core activities:	Manufacture and sale of machines for the wood processing industry. The Group's activities focus on the production and worldwide sale of woodworking and wood processing machines of all kinds as well as complete systems, i.e. woodworking lines. A sub-division (Schuler Business Solutions AG and its subsidiary) 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 15, 2010, the management board of Homag Group AG released the 2009 consolidated financial statements and the 2009 group management report for distribution to the supervisory board.

2. BASIS OF PREPARATION

2.1 Basis of Consolidation

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

Under the purchase method, all 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 valued at 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 remeasurement 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, receivables and liabilities are consolidated and any intercompany profits or losses from intragroup supplies or services eliminated. Deferred taxes are recognized as required on consolidation entries.

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

All consolidated subsidiaries acquired after January 1, 2005 were accounted for pursuant to IFRS 3. For all business combinations completed before January 1, 2005 the 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 IFRS opening balance sheet. All differences between the HGB closing balance sheet and the IFRS opening balance sheet were offset against the Group’s revenue reserves.

2.2 Acquisition of Minority Interests

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

2.3 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 EUR. Since subsidiaries perform their business within the economic environment of the country in which they are registered independently, 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 average, annual rates.

Any translation differences arising in the statement of financial position or income statement from exchange rate differences are also recognized directly in equity.

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

	Closing rate		Average rate	
EUR 1	**Dec. 31, 2009**	Dec. 31, 2008	**2009**	2008
US dollar	1.43030	1.39770	1.39463	1.47134
Pound sterling	0.89320	0.96000	0.89169	0.79635
Australian dollar	1.60100	2.02570	1.77586	1.74330
Canadian dollar	1.50310	1.71600	1.58706	1.56127
Danish krone	7.44190	7.45180	7.44693	7.45654
Japanese yen	132.59130	126.40000	130.40371	152.50954
Swiss franc	1.48860	1.48600	1.51022	1.58742
Chinese CNY	9.76600	9.60900	9.54026	10.24795

3. CONSOLIDATED GROUP

In addition to Homag Group AG, the consolidated financial statements include 16 (prior year: 16) entities with registered offices in Germany and 23 (prior year: 21) entities with registered offices abroad at which Homag Group AG exercises uniform control either directly or indirectly. The list of shareholdings of Homag Group AG is presented in 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

Effective January 1, 2009, 51% of the shares in BENZ GmbH Werkzeugsysteme, with registered offices in Haslach, were acquired. This company has been a system supplier to the Group for many years and manufactures tools and assemblies for the metal, wood and plastics processing industry. BENZ GmbH Werkzeugsysteme owns all of the shares in the company BENZ INCORPORATED, with registered offices in Charlotte, USA.

Final purchase price allocation was carried out in the fourth quarter of 2009.

The acquisition was accounted for using the acquisition method. On this basis, the cost of the acquisition is allocated to the identifiable assets and liabilities as well as any contingent liabilities at their fair values on the date of acquisition. The entities are fully consolidated from the date of acquisition. They affected the net profit for the year by EUR -504 k and generated sales revenue of EUR 20.4 million in the reporting period.

The acquisition cost amounted to EUR 12.1 million, paid in cash. Of this amount, EUR 146 k constitutes costs directly attributable to the acquisition. An additional variable purchase price will have to be paid in 2010 depending on the results of operations of BENZ GmbH Werkzeugsysteme. The valuation of this additional variable purchase price resulted in a value of EUR 0 at the end of the reporting period.

The fair values of the identifiable assets and liabilities of the acquired company, BENZ GmbH Werkzeugsysteme and its subsidiary BENZ INCORPORATED, as of the date of acquisition can be summarized as follows:

EUR k	Previous carrying value	Fair value on the date of acquisition
Intangible assets	466	2,966
Property, plant and equipment	5,697	5,564
Other assets	13,874	13,835
Total assets	**20,037**	**22,365**
Financial liabilities	1,275	1,275
Trade payables	1,913	1,913
Other liabilities	14,485	15,275
Total liabilities	**17,673**	**18,463**
Net assets (without goodwill from acquisition)	2,364	3,902
Share attributable to the Homag Group AG		1,856
Minority interest		2,046
Acquisition cost for 51%		**12,146**
Goodwill from acquisition		**10,290**

The goodwill recognized above is the result of expected synergies and other benefits from the merger of the activities of BENZ GmbH Werkzeugsysteme into the Homag Group. In particular, this is intended to bring about more rapid realization of ideas and developments through simplified procedures.

The cash outflow on account of the business combination breaks down as follows:

EUR k	
Total acquisition cost	**12,146**
thereof discharged by means of cash and cash equivalents	12,146
Cash flow from acquisition	
Cash and cash equivalents acquired	95
Cash paid	-12,146
Cash paid net of cash and cash equivalents acquired	**-12,051**

Weeke North America, Inc., a company formed in November 2008, was similarly included in the consolidated group for the first time. A shareholding of 81% is held via the fully consolidated group companies Homag Holzbearbeitungssysteme AG and Weeke Bohrsysteme GmbH. The first-time inclusion of this company in the interim consolidated financial statements did not give rise to 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 balance sheet date as the parent company using uniform accounting policies. In addition, the financial statements prepared in accordance with local GAAP are adjusted to the accounting policies of the Homag Group to the extent that they diverge from IFRSs.

4.1 Changes in Accounting Policies

The following IFRS standards and interpretations became operative in the fiscal year:

IAS 23	Borrowing Costs
IAS 1	Presentation of Financial Statements
Amendments to IFRS 1 and IAS 27	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to IFRS 2	Vesting Conditions and Cancellations
Amendments to IAS 32 and IAS 1	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS Improvements Standard (2008)	IFRS Improvements Standard (2008)
IFRIC 13	Customer Loyalty Programmes
IFRIC 14 IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 9 IAS 39	Reassessment of Embedded Derivatives, Financial Instruments

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

IAS 23 Borrowing Costs
The revised IAS 23 was issued in March 2007 and becomes effective for the first time in reporting periods beginning on or after January 1, 2009. The standard eliminates the accounting option previously available and instead requires entities to capitalize borrowing costs attributable to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The standard provides for prospective application of the new regulation. Since the Group did not have qualifying assets at the time of first-time application, application of this standard had no effect on the consolidated financial statements in the year under review.

IAS 1 Presentation of Financial Statements
The revised IAS 1 was issued in September 2007 and becomes effective for the first time in reporting periods beginning on or after January 1, 2009. The revised version of the standard involves significant changes in the presentation and disclosure of financial information in the financial statements. The statement of changes in equity can only disclose transactions with the owners in their capacity as owners. All non-owner changes in equity are required to be presented either as one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). In addition, the standard provides for entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements. This new standard affected the presentation of the consolidated statement of changes in equity. A statement of comprehensive income was introduced. The recognition and measurement of assets and liabilities in the consolidated financial statement was not affected, however.

Changes to IFRS 1 and IAS 27 – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
These amendments to IFRS 1 and IAS 27 were issued in May 2008 and become effective for fiscal years beginning on or after January 1, 2009. The amendments to IFRS 1 allow an entity to determine the cost of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS balance sheet using their previous GAAP carrying amounts or a deemed cost. The amendments to IAS 27 relate solely to the separate financial statements of a parent and require in particular that all dividends from a subsidiary, jointly controlled entity or associate be recognized in the income statement in the separate financial statements.
The transitional provisions generally provide for prospective application. Since the provisions regarding the first-time adoption of IFRSs and the provisions for separate financial statements are not relevant to the Group, these revised standards had no effect on the consolidated financial statements.

Amendments to IFRS 2 – Vesting Conditions and Cancelations

The revised IFRS 2 was issued in January 2008 and becomes effective for the first time for reporting periods beginning on or after January 1, 2009. The revised standard clarifies the definition of vesting conditions and governs the accounting treatment of a cancelation by the employees of share-based payment plans. The transitional provisions provide for retrospective application of the new regulation. This amendment did not have any effect on the Group's net assets, financial position and results of operations.

Amendments to IAS 32 and IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation

The amendments to IAS 32 and IAS 1 were issued in February 2008 and are effective for the first time for fiscal years beginning on or after January 1, 2009. Alternative accounting treatment is introduced under which puttable financial instruments are classified as equity if certain criteria are satisfied. Disclosures are also required regarding such financial instruments. This amendment did not have any effect on the Group's net assets, financial position and results of operations.

Improvements to IFRSs 2008

The amendments from the 2008 improvements project were published in May 2008 and are effective for the first time for fiscal years beginning on or after January 1, 2009 – with the exception of IFRS 5, which is effective as of July 1, 2009. As part of the 2008 improvements project, a range of both material amendments having an effect on recognition and measurement and purely editorial amendments were issued. The latter concern the revision of individual definitions and wordings, for example, in the interest of ensuring consistency with other IFRSs. The improvements of IFRS 2008 presented below do not affect the Group at present:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarification that all assets and liabilities of a subsidiary whose planned disposal would lead to a loss of control over this subsidiary are to be classified as held for sale if the entity retains a non-controlling interest in the former subsidiary.

IAS 1 Presentation of Financial Statements: clarification that financial instruments classified as held for trading do not have to be disclosed as current assets or liabilities in the balance sheet. Classification as "current" is based solely on the criteria set out in IAS 1.

IAS 10 Events after the Reporting Period: clarifies that dividends declared after the end of the reporting period but before the financial statements are authorized for issue are not recognized as a liability at the end of the reporting period because they do not meet the criteria of an obligation.

IAS 16 Property, Plant and Equipment: income from items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are disclosed under sales revenue.

IAS 19 Employee Benefits: in addition to the revision of numerous definitions, clarification that plan adjustments that result in a reduction in benefits related to future services must be treated as a curtailment. By contrast, amendments to plans that result in a reduction in benefits related to past services must be accounted for as past service cost.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance: the interest advantage must be calculated in the future for loans which are non- or low-interest bearing. The difference between the amount received and the discounted amount is accounted for as a government grant.

IAS 23 Borrowing Costs: the definition of borrowing costs is revised by incorporating IAS 39 concerning the effective interest rate.

IAS 27 Consolidated and Separate Financial Statements: it was clarified that subsidiaries should be accounted for in accordance with IAS 39 at fair value in the parent company's separate financial statements, even if the subsidiary is classified as held for sale.

IAS 28 Investments in Associates: because goodwill included in the carrying amount of an investment in an associate is not recognized separately, it is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as one asset, and an impairment loss is recorded if necessary. It has now been clarified that the reversal of impairment losses on an investment in an associate should be recognized as an increase in this investment and not allocated to goodwill contained therein. Another amendment concerns the disclosure requirements for such investments in associates that are accounted for at fair value in accordance with IAS 39. Only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans will apply to such investments in the future.

IAS 29 Financial Reporting in Hyperinflationary Economies: the standard clarifies that in the case of financial statements prepared on a historical cost basis, the assets and liabilities that must or can be measured at fair value need not be restricted to property, plant and equipment and investments.

IAS 31 Interests in Joint Ventures: the amendment concerns the disclosure requirements for such interests in joint ventures that are accounted for at fair value in accordance with IAS 39. In the future, these requirements are only subject to the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

IAS 34 Interim Financial Reporting: clarifies that basic and diluted earnings per share only have to be disclosed in the interim financial statements if the entity is subject to the requirements of IAS 33 Earnings per Share.

IAS 36 Impairment of Assets: harmonization of the disclosures required on determining value in use and fair value less costs to sell using the discounted cash flows method.

IAS 38 Intangible Assets: expenditure on goods and services used for advertising and promotional activities (including mail-order catalogs) are to be recognized as an expense in future when the Group either has the right to access the goods or has received the service. In addition, the unit of production method of amortization is permitted without restriction for intangible assets.

IAS 39 Financial Instruments: Recognition and Measurement: after initial recognition, derivatives may in future be designated as "at fair value through profit or loss" or be reclassified out of that category in the event of changes in circumstances because this does not qualify as a reclassification under IAS 39. In addition, the reference in IAS 39 to a "segment" was removed when determining whether an instrument satisfies the criteria to qualify as a hedge. It is also clarified that the effective interest method should be used to measure a debt instrument once it is no longer accounted for as a fair value hedge.

IAS 40 Investment Property: property being constructed or developed for future use as investment property should no longer be classified as property, plant and equipment, but rather as investment property and measured at cost or fair value. If the entity uses fair value and the fair value cannot be reliably determined, the property under construction is measured at cost until such time as fair value can be determined or construction is complete.

IAS 41 Agriculture: there is no longer a limitation as regards using a pre-tax discount rate when determining the fair value. The prohibition was also revoked as regards the estimation of the fair value of cash flow resulting from the additional biological transformations and other future activities of the company.

IFRIC 13 Customer Loyalty Programs

IFRIC 13 was issued in June 2007 and became effective for fiscal years beginning on or after July 1, 2008. According to this interpretation, award credits granted to customers must be accounted for as a separately identifiable component of the sales transactions in which they are granted. Consequently, the fair value of the consideration received must be allocated to the customer loyalty award credits and deferred. Revenue is recognized in the period in which the award credits granted are exercised or forfeited. Since the Group does not operate any customer loyalty programs at present, this interpretation had no effect on the consolidated financial statements.

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 14 was published in July 2007 and must be applied in fiscal years beginning on or after December 31, 2008, at the latest. This interpretation provides guidance for determining the maximum amount of a surplus from a defined benefit plan that can be recognized as an asset pursuant to IAS 19 Employee Benefits. This amendment did not affect the Group, as there are no surpluses from defined benefit plans and none are expected.

IFRIC 9 IAS 39 – Reassessment of Embedded Derivatives, Financial Instruments
This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The amendments described are to be applied retroactively for reporting periods ending on or after June 30, 2009. The regulations did not lead to any changes for the Group.

The following standards have been endorsed by the EU and issued. Application was not yet mandatory for the fiscal year 2009. The Group has not early adopted these standards and interpretations.

IAS 27	Consolidated and Separate Financial Statements
Amendments to IAS 32	Classification of Subscription Rights
Amendments to IAS 39	Eligible Hedged Items
IFRS 1	First-time Adoption of IFRS
IFRS 3	Business Combinations
IFRIC 12	Service Concession Arrangements
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

IAS 27 Consolidated and Separate Financial Statements

The amended IAS 27 was issued in January 2008 and becomes effective for the first time for fiscal years beginning on or after July 1, 2009. These amendments primarily relate to accounting for non-controlling interests (minority interests) that will in future participate in full in the Group's losses and to transactions that lead to loss of control of a subsidiary and the effects of which are recognized in profit or loss. By contrast, the effects of disposal of shares that do not lead to loss of control should be recorded directly in equity. The transitional provisions provide for prospective application. Therefore, there will be no changes concerning the assets and liabilities arising from such transactions prior to first-time adoption of the new standard. The amendment will affect future earnings and equity in the event of future acquisitions and sales with loss of control and transactions with the Group's minority interests.

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 subscription rights 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. This regulation does not affect the net assets, financial position and results of operations of the Group because the Group does not deal in such rights.

Amendments to IAS 39 – Eligible Hedged Items

The amendments to IAS 39 were issued in July 2008 and become effective retrospectively for the first time for fiscal years beginning on or after July 1, 2009. The amendment adresses how the principles governing the reporting of hedges contained in IAS 39 apply to the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The accounting treatment of hedging instruments in the Group is not affected by this change.

IFRS 1 First-time Adoption of IFRS

The revised IFRS 1 was issued in November 2008 and becomes effective for the first time in fiscal years beginning on or after July 1, 2009. Only editorial changes and restructuring had been made to the standard. The revision did not result in any changes to the accounting policies for first-time adopters of IFRS. The provisions of IFRS 1 are addressed to first-time adopters of IFRS and do not have any effect on the Group.

IFRS 3: Business Combinations

The revised IFRS 3 was issued in January 2008 and becomes effective for the first time in fiscal years beginning on or after July 1, 2009. The standard was subject to comprehensive revision as part of the IASB and FASB convergence project. The significant revisions relate in particular to the introduction of an option for the measurement of minority interests between the purchased goodwill method and the full goodwill method, in which the entire goodwill of the acquired entity must be recognized, including that part attributable to minority interests. Other important aspects include the revaluation through profit or loss of existing investments when control is initially obtained (business combination achieved in stages), mandatory accounting for contingent consideration at the date of acquisition and the recognition of transaction costs in profit or loss. The transitional provisions provide for prospective application of the new regulation. There were no changes concerning the assets and liabilities arising in the Group from business combinations effected prior to first-time adoption of the new standard. The changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results.
In particular, the application of the full goodwill method could increase goodwill.

IFRIC 12 Service Concession Arrangements

IFRIC 12 was issued in November 2006 and becomes effective for fiscal years beginning on or after January 1, 2008. This interpretation was adopted by EU law in March 2009 and becomes operative in the EU for the first fiscal year after June 30, 2009. The interpretation governs the accounting treatment of obligations and related rights in service concession arrangements in the financial statements of operators. The entities included in the consolidated financial statements are not operators within the meaning of IFRIC 12. This interpretation will therefore not have any effect on the Group.

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and becomes effective for fiscal years beginning on or after January 1, 2009. This interpretation was adopted by EU law in July 2009 and becomes operative in the EU for the first fiscal year after December 31, 2009. This interpretation provides guidelines as to the timing and scope of revenue recognition in connection with the construction of real estate. IFRIC 15 will not have any effects on the consolidated financial statements, since IFRIC 15 is not applicable to the Group.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued in July 2008 and becomes effective for fiscal years beginning on or after October 1, 2008. This interpretation was adopted by EU law in June 2009 and becomes operative in the EU for the first fiscal year after June 30, 2009. IFRIC 16 provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss to be reclassified from equity to profit and loss upon disposal of a hedged foreign business operation. This interpretation is to be applied prospectively. IFRIC 16 will not have any effect on the Group, since it does not hold any such investments.

IFRIC 17 Distributions of Non-cash Assets to Owners
IFRIC 17 was issued in November 2008 and becomes effective for fiscal years beginning on or after July 1, 2009. This interpretation provides guidance on the recognition and measurement of obligations to distribute non-cash assets to owners. The interpretation addresses the issues of timing, measurement and disclosure of such obligations. Accordingly, such an obligation should be recognized at fair value when the entity can no longer avoid the obligation. The obligations and any changes in the fair value of the asset concerned should be recognized in equity. The effect on profit or loss, measured as the difference between the fair value and the carrying amount of the asset, is realized when said asset is transferred to the owner. This interpretation is to be applied prospectively. IFRIC 17 will not have any effects on the consolidated financial statements, since there are no distributions of non-cash assets expected in the Group.

IFRIC 18 Transfers of Assets from Customers
IFRIC 18 was issued in January 2009 and becomes effective for reporting periods beginning on or after July 1, 2009. This interpretation provides guidance on the accounting treatment of agreements in which an entity receives from its customers items of property, plant and equipment or cash and cash equivalents that must be used by the entity to connect those customers to a network and / or provide them with ongoing access to a supply of goods or services. The interpretation addresses in particular the recognition criteria of customer contributions, the timing and the amount of revenue recognition from such business transactions. This interpretation is to be applied prospectively. IFRIC 18 will not have an impact on the consolidated financial statement because the Group does not conduct such business transactions.

The IASB and the IFRIC have published the standards and interpretations listed below, the adoption of which was not yet mandatory for the fiscal year 2009. These standards and interpretations have not yet been endorsed by the EU and have not been applied by the Group.

IFRS 9	Financial Instruments: Classification and Measurement
IAS 24	Related Party Disclosures
IFRS Improvements Standard (2009)	*IFRS Improvements Standard (2009)*
Amendments to IFRS 1	Additional Exemptions for First-time Adopters of IFRS
Amendments to IFRS 2	Group Cash-settled Share-based Payment Transactions
Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 – Disclosures for first-time adopters
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

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 January 1, 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, financial assets – depending on their respective characteristics and taking the business model or models into account – are either accounted for at amortized cost or recognized at fair value. 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 added. In this case, only certain dividend income would be recognized for equity instruments with effect on income. The effects on the net assets, financial position and results of operations are still being examined at present.

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-controlled entities in the same state. The standard can be applied retroactively. The Group is currently examining the impact on net assets, financial position and results of operations.

Improvements to IFRSs (2009)

The collective standard on Improvements to IFRSs 2009 contains amendments to various IFRSs and was published in April 2009. The date that each standard becomes effective and any transitional rulings are set out individually. Unless stated to the contrary below, individual regulations are effective for fiscal years beginning on or after January 1, 2010. The Group has not yet applied the following amendments:

IFRS 2 Share-based Payment: clarification that transactions in which the entity acquires a business unit acquired in a combination of entities or businesses under common control or the contribution of a business on the formation of a joint venture do not fall under the scope of IFRS 2. The amendment is applicable for fiscal years beginning on or after July 1, 2009.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

IAS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with *IAS 39 Financial Instruments: Recognition and Measurement* are not automatically classified as current in the balance sheet.

IAS 7 Statement of Cash Flows: explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

IAS 17 Leases: The special guidelines for classifying leases for land and buildings were canceled. The general guidelines will apply in future.

IAS 18 Revenue: In response to the question as to whether an entity acts as principal or agent, the Board prepared new guidelines. This change contained in the annex to IAS 18 does not form part of the standard and is not subject to any time limit, meaning that it entered into force on the date of issue.

IAS 36 Impairment of Assets: clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

IAS 38 Intangible Assets: an intangible asset acquired in a business combination might be separable, but only together with a related intangible asset. In such cases, the acquirer recognizes the group of intangible assets as a single asset if the individual assets in the group have the same useful life. Furthermore, the methods named in the standard for calculating the fair value of intangible assets acquired in the course of business combinations are merely examples. Entities are free to apply other methods. These changes are applicable for the first time for fiscal years beginning on or after July 1, 2009.

IAS 39 Financial Instruments: Recognition and Measurement: a prepayment option is deemed closely related to the host contract if the issue price of the prepayment option is measured such that the creditor is reimbursed at the approximate net present value of the interest lost over the remaining term of the host agreement. The exception for agreements between buyer and seller agreeing to acquire or sell an entity in the future only applies for binding forwards and not for derivatives requiring further measures. The third new regulation states that profit or loss from the cash flow hedge of an expected transaction later recognized as a financial instrument, or reclassified from cash flow hedge to financial instruments during the period in which the expected hedge cash flow affects earnings.

IFRIC 9 Reassessment of Embedded Derivatives: IFRIC 9 does not apply to the reassessment on the date of business combination of embedded derivatives in contracts acquired in a business combination of entities or businesses under common control or the formation of joint ventures. These changes are applicable for the first time for fiscal years beginning on or after July 1, 2009.

IFRIC 16 Hedge of a Net Investment in a Foreign Operation: Hedging instruments may be held by any entity within the group, as long as the designation, documentation and effectiveness requirements of IAS 39 are satisfied. These changes are applicable for the first time for fiscal years beginning on or after July 1, 2009.

The Group assumes that – with the exception of the effects of provisions explicitly discussed below – the new provisions resulting from the improvements project will not have any material effect on the financial statements:

IAS 17 Leases: The Group is currently examining the impact of this regulation on leases of land and buildings.

IFRS 8 Operating Segments: in future, disclosure might be reduced.

The new regulations listed below are not relevant to the Group and will therefore not have an effect on the net assets, financial position or results of operations of the Group.

Amendment to IFRS 1 – Additional Exemptions for First-time Adopters

The amendment to IFRS 1 was issued in July 2009 and became effective for fiscal years beginning on or after January 1, 2010. IFRS 1 was amended to include additional exemptions from full retroactive application of this IFRS for the measurement of assets in the area of oil and gas as well as leases.

Amendment to IFRS 2 – Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 was issued in June 2009 and became effective for fiscal years beginning on or after January 1, 2010. This amendment to IFRS 2 changes the definition of share-based payments as well as the scope of IFRS 2 and provides additional guidelines for the accounting of group cash-settled share-based payments. The regulation requires an entity to account for transactions in which the entity receives or acquires goods or services, and the terms of the arrangement provide for consideration in the form of equity instruments or when the entity is under no obligation to settle the share-based payment transaction. In all other cases the agreement is recognized as a cash-settled share-based payment transaction. These principles apply regardless of any intercompany repayment agreements in place. In the course of the amendment, the provisions of *IFRIC 8 Scope of IFRS 2* and *IFRIC 11 Group and Treasury Share Transactions* were combined in IFRS 2 and discontinued as separate interpretations.

Amendment to IFRS 1 – Limited Exemption from Comparative IFRS 7 – Disclosures for first-time adopters
The amendment to IFRS 1 was issued in January 2010 and became effective for fiscal years beginning on or after July 1, 2010. The new regulation allows first-time adopters of IFRS to apply the transitional regulations for the amendment to *IFRS 7 Improving disclosures* which was published in March 2009.

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.

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.

4.2 Accounting Policies for Selected Items

4.2.1 Goodwill

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

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

Where goodwill forms part of a CGU (group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of under these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and any goodwill is recognized in the income statement.

In the course of the impairment test, the carrying amount of a CGU (group of CGUs) is compared to the recoverable amount. The recoverable amount of the CGU (group of CGUs) is the higher of the fair value less costs to sell and the value in use. The impairment test is carried out at least once annually unless there is an extraordinary reason to conduct an impairment test over the course of the year.

The following groups of CGUs have been defined for the Homag Group:

- Industry
- Cabinet Shops
- Sales and Service
- Other

The impairment tests are performed on the defined groups of CGUs in accordance with the provisions of IAS 36 using the discounted cash flow method based on the values in use, which correspond to the recoverable amount. Data from business planning was used for this purpose. The calculation of the present value of future cash flows is based on significant assumptions, particularly with respect to future sales prices, sales quantities and costs. The plan is based on the planning period up to fiscal 2014. The cash flow for 2014 was projected for the period following the planning period, assuming no further changes in working capital and annual replacement investment in the amount of amortization and depreciation.

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 solely 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. The cost comprises the costs directly or indirectly allocable to the development process. Pursuant to IAS 38, research costs are treated as current expenses.

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

4.2.3 Other Intangible Assets

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

4.2.4 Property, Plant and Equipment

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

Depreciation is generally based on the following useful lives:

	Years
Property	15 to 33
Other equipment, technical equipment and machines	8 to 12
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 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 primary financial instruments (e.g. trade receivables or payables) and derivative financial instruments (transactions to hedge against risks of changes in value).

Financial assets are recognized and derecognized on the settlement date. Financial assets are initially recognized at fair value plus transactions costs, with the exception of financial assets recognized at fair value through profit 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 interest determined using the effective interest rate method and gains and losses from the currency translation of monetary items. The latter are recognized in the income statement. If an investment is sold or an impairment determined, any cumulative gain or loss that had been recognized in the revaluation reserve for investments is taken to profit or loss for the period.

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

Apart from loans and receivables, the Homag Group mainly has financial instruments held for trading at present. The latter relate to derivative financial instruments that do not satisfy the requirements for hedge accounting. The Group had not recognized any financial assets or liabilities at fair value through profit and loss as of December 31, 2009 or December 31, 2008.

Within the Homag Group, all derivative financial instruments are allocated as held for trading to the category financial assets/liabilities at fair value through profit or loss and recognized at market values as of the balance sheet date. The market values are calculated using standardized actuarial methods (mark-to-market method) or quoted market prices.

Gains and losses from the change in the market values of derivative financial instruments are immediately posted to profit or loss. The derivative financial instruments used by the Group are primarily forward exchange contracts and interest rate swaps. These are used to hedge against interest and currency risks.

Impairment of Financial Assets

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

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

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

4.2.8 Inventories

Materials and supplies and merchandise are stated at the lower of cost or 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 and 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 contracts. Appropriate provisions are created for potential losses if necessary. If the profit on the construction contract cannot be determined reliably, revenue is only recognized to the extent of the contract costs incurred.

4.2.10 Receivables and Other Assets

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

4.2.11 Deferred Taxes

Deferred taxes are set up in accordance with IAS 12 on all temporary differences between the carrying amounts in the consolidated balance sheet and the tax base of the assets and liabilities (liability method) as well as for unused tax losses, provided they are capable of being used in the next five years on the bases of the current business plan 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 balance sheet 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 balance sheet date.

Actuarial gains and losses are recognized outside profit or loss in the period in which they occur under total income and expenses for the year recognized directly in equity. 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 generally financed through the granting of loans by the company, and the loans are solely repaid via the profit participation rights of participating employees.

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

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

The result 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 discounting.

4.2.14 Share-based Remuneration

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 balance sheet 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.

Long-term provisions due in more than one year are stated at their settlement amount discounted to the end of the reporting period, 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 for 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 set out 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, 2009, the best estimate of the carrying amount of capitalized development costs was EUR 18,142 k (prior year: EUR 12,117 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, 2009 was EUR 16,282 k (prior year: EUR 5,992 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. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. As of December 31, 2009, the provision for pensions and other post-employment benefit amounted to EUR 2,708 k (prior year: EUR 2,281 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, 2009 amounted to EUR 11,035 k (prior year: EUR 10,597 k). We refer to note 6.17 for further information.

Share-based Remuneration

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 Cash Flow Statement

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

The cash and cash equivalents presented in the cash flow statement contain cash and cash equivalents shown in the balance sheet, i.e. cash in hand, checks and bank balances which can be disposed of within three months. Cash and cash equivalents comprise the following:

EUR k	**2009**	2008
Cash on hand	160	155
Checks	129	1,862
Bank balances	29,534	36,571
	29,823	**38,588**

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

4.2.21

No Disclosure

5. NOTES ON INDIVIDUAL INCOME STATEMENT ITEMS

5.1 Sales Revenues

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

EUR k	2009	2008
Germany	**137,580**	**207,141**
Other EU countries	204,300	342,156
Rest of Europe	53,589	127,317
North America	22,709	64,375
South America	22,548	27,522
Asia / Pacific	78,537	84,919
Africa	4,812	3,018
Other countries	**386,495**	**649,307**
TOTAL	**524,075**	**856,448**

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 153.2 million (prior year: EUR 307.2 million) 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	2009	2008
Income from cost allocations to third parties	2,132	2,184
Exchange rate gains	8,391	8,530
Gains on disposal of non-current assets	197	125
Income from the reversal of specific bad debt allowances	2,709	2,268
Income from cost reimbursements	1,083	749
Income from private car usage	2,026	1,818
Income from the derecognition of liabilities	1,470	0
Canteen revenues	534	768
Income from receivables that have been written off	307	16
Commission received	245	184
Other income	4,776	2,149
	23,870	**18,791**

5.4 Cost of Materials

EUR k	2009	2008
Cost of raw materials, consumables and supplies and purchased goods	211,516	365,932
Cost of purchased services	9,938	29,562
	221,454	**395,494**

5.5 Personnel Expenses and Number of Employees

EUR k	2009	2008
Wages and salaries	186,294	222,618
Social security, pension and other benefit costs	38,910	41,853
- thereof pension benefits	*17,205*	*17,272*
	225,204	**264,471**

Personnel expenses include refunds from the Federal Employment Agency in Germany of EUR 9.5 k (prior period: EUR 0 k). These refunds are for government-subsidized reduced 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	2009	2008
Result from employee participation	**2,039**	**-10,840**

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

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

	Germany	Outside Germany	Total 2009	Total 2008
Wage earners	1,879	228	**2,107**	**2,269**
Salaried employees	1,877	787	**2,664**	**2,667**
Trainees	385	2	**387**	**345**
	4,141	**1,017**	**5,158**	**5,281**

5.6 Total Remuneration of the Supervisory Board and Management Board

Total Remuneration of the Supervisory Board

The remuneration of the members of the supervisory board amounted to EUR 248 k in fiscal 2009. It did not contain any variable components.

In the prior year, the remuneration of the members of the supervisory board amounted to EUR 401 k. This figure includes variable components totaling EUR 170 k. The variable components of the supervisory board remuneration are based on dividends distributed in the fiscal year. As in the prior year, all remuneration is current.

Total Remuneration of the Management Board

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

EUR k	2009	2008
Current remuneration	1,179	2,223
Share-based remuneration	-153	-564
	1,026	**1,659**

The remuneration of the management board members amounted to EUR 1,026 k in fiscal 2009. Since the basic requirement, a positive value added, was not met for the short-term incentive program (STI), no variable components were paid out for 2009. These are explained in more detail below. The provision of EUR 717 k recognized in 2007 for the share-based remuneration, which was calculated at fair value, was reduced by EUR 564 k in 2008 and by a further EUR 153 k to EUR 0 in 2009.

Share-based Remuneration

The income of EUR 0.2 million (prior year: EUR 0.6 million) recognized in fiscal 2009 in connection with share-based payments relates exclusively to cash-settled share-based payment transactions within the meaning of IFRS 2.30 et seq.

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

The share appreciation rights had a contractual term from 2007 through 2009. The fair value of the share appreciation rights was 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 were recognized over the vesting period. The liability was 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 fiscal year December 31, 2008:

	2008
Dividend yield (%)	9.80
Expected volatility (%)	49.50
Risk-free interest rate (%)	3.08
Expiry of options	Dec. 31, 2009
Relevant opening price (EUR)	27.80

There were no such parameters set for the fiscal year ended December 31, 2009 because the carrying amount of the liability, measured here at fair value, was reduced to EUR 0 as of the end of the reporting period (prior year: EUR 0.2 million) because the occurrence requirements had not been met before expiry of the rights.

The total remuneration of the management board pursuant to Sec. 314 (1) No. 6a HGB amounted to EUR 1,179 k in the fiscal year (prior year: EUR 2,223 k). Pursuant to HGB, a write-down of the LTI bonus in the management board's remuneration is not recognized in the current year. The total remuneration breaks down as follows:

	Fixed remuneration		Short-term incentives (STI)		Long-term incentives (LTI)		Benefits in kind		**Total remuneration**	
EUR k	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Dr. Joachim Brenk	223	310	0	225	0	0	6	7	229	542
Achim Gauß	226	235	0	202	0	0	8	8	234	445
Andreas Hermann	201	209	0	180	0	0	7	5	208	394
Herbert Högemann	202	210	0	180	0	0	8	7	210	397
Rolf Knoll	241	234	0	203	0	0	7	8	248	445
Jürgen Köppel	48	0	0	0	0	0	2	0	50	0
TOTAL	**1,141**	**1,198**	**0**	**990**	**0**	**0**	**38**	**35**	**1,179**	**2,223**

Remuneration of Former Board Members

Pension provisions of EUR 621 k (prior year: EUR 618 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 55 k in the past fiscal year (prior year: EUR 55 k).

5.7 Amortization and Impairment of Intangible Assets

EUR k	2009	2008
Scheduled amortization of intangible assets	**7,410**	**5,569**

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

5.8 Depreciation and Impairment of Property, Plant and Equipment

EUR k	2009	2008
Scheduled depreciation of property, plant and equipment	17,616	16,645
Extraordinary depreciation of property, plant and equipment	733	0
	18,349	**16,645**

5.9 Other Operating Expenses

Other operating expenses comprise the following:

EUR k	2009	2008
Sales commissions, special direct costs	10,991	19,217
Advertising and trade fair expenses	7,480	10,356
Office supplies, postage and telecommunication costs	4,513	5,161
Legal expenses and consulting fees, license fees and patent costs	6,463	7,157
Travel expenses and entertainment	14,604	20,421
Rental and lease expenses	9,142	9,652
Other taxes	1,004	869
Bad debt allowances for trade receivables	3,227	5,232
Bad debts	738	446
Transportation expenses	7,863	13,777
Maintenance	5,295	7,902
Insurance costs	1,611	1,629
Exchange rate losses	6,234	13,504
Losses on disposals of non-current assets	755	359
Donations, fees, dues and contributions	885	1,144
Expenses from money transactions	1,303	1,219
Cleaning costs	856	997
Sundry other expenses	10,428	20,253
	93,392	**139,295**

5.10 Profit / Loss from Associates

The profit/loss from equity investments is attributable to Stiles Machinery Inc., Grand Rapids, USA (EUR 28 k; prior year: EUR -444 k) as well as Homag China Golden Field Ltd., Hong Kong, China (EUR -34 k; prior year: EUR 228 k).

5.11 No Disclosure

5.12 No Disclosure

5.13 Interest Income / Interest Expenses

EUR k	2009	2008
Interest income on loans granted and other receivables	132	405
Other interest and similar income	1,262	1,286
Total interest income of all financial receivables which were not recognized by the company for the mark-to-market measurement	**1,394**	**1,691**
Interest income from derivative financial instruments	21	39
INTEREST INCOME	**1,415**	**1,730**
Interest expenses from		
liabilities to banks	-6,325	-8,726
changes in the discount on profit participation rights due to the passage of time	199	1,498
obligations from finance leases	-458	-566
Interest expenses from increasing the discount on transaction costs	-259	-220
Other interest and similar expenses	-3,561	-3,003
Total interest income of all financial liabilities which were not recognized by the company for the mark-to-market measurement	**-10,404**	**-11,017**
Interest expenses from increasing the discount on provisions	-191	-175
Interest expenses from derivative financial instruments	0	-91
INTEREST EXPENSES	**-10,595**	**-11,283**
NET INTEREST	**-9,180**	**-9,553**

5.14 Taxes on Income and Deferred Taxes

Tax Expense

Income tax expenses are classified by origin as follows:

EUR k	2009	2008
Current taxes	3,577	12,058
Deferred taxes		
from temporary measurement differences	1,463	4,675
from unused tax losses carried forward	-12,729	-2,333
	-7,689	**14,400**

The tax expense was not reduced for utilization of unused tax losses on which no tax assets had previously been recognized (prior year: EUR 436 k).

The tax expense based on the earnings before taxes of EUR -29.8 million (prior year: EUR 48.2 million) and on the applicable tax rate for the Homag Group entities in Germany of 27.375% (prior year: 27.375%) is reconciled to the current tax expense as follows:

EUR k	**2009**	2008
Theoretical tax expense / income	8,153	-13,197
Differences due to the tax rate	50	-427
Tax reductions (+) / tax increases (-) due to tax-free income or non-deductible expenses	-2,571	-1,552
Change in valuation allowance on deferred taxes	3,003	1,663
Other differences	-946	-887
INCOME TAXES (ACTUAL TAX EXPENSE / INCOME)	**7,689**	**-14,400**

In particular, other differences stem from tax expenses for prior years (EUR 1.6 million; prior year: EUR 0.2 million) which are mainly effects from the tax field audit. Tax expenses are offset by income from deferred tax assets of EUR 0.7 million (prior year: EUR 0.2 million), which are primarily turnaround effects from prior years or the result of adjustments to deferred taxes through initial recognition of the findings of the tax field audit in the tax accounts as of December 31, 2009.

The deferred taxes recognized without effect on profit or loss amount to EUR 76 k (prior year: EUR 136 k).

Deferred Tax Assets and Liabilities

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

	Deferred tax assets		Deferred tax liabilities	
EUR k	**Dec. 31, 2009**	Dec. 31, 2008	**Dec. 31, 2009**	Dec. 31, 2008
Intangible assets and property, plant and equipment	486	470	14,269	12,021
Inventories	5,868	4,791	781	2,853
Current receivables and other assets	2,781	5,386	631	1,306
Other assets	586	1,044	2,496	1,196
Non-current financial liabilities	1,701	2,531	663	391
Non-current liabilities and provisions	3,775	3,643	192	2
Sundry current liabilities and deferred income	4,826	10,420	246	1,692
Other current provisions	245	129	6,720	10,252
Other liabilities	4,473	3,424	11,223	12,345
	24,741	**31,838**	**37,221**	**42,058**
Deferred taxes from temporary measurement differences	24,741	31,838	37,221	42,058
Deferred taxes on unused tax losses	19,898	7,169	0	0
Netting	-24,929	-26,603	-24,929	-26,603
	19,710	**12,404**	**12,292**	**15,455**

Write-downs on the carrying amount of deferred tax assets are recorded if realization of the expected benefits from the deferred taxes is not sufficiently probable. The estimate made can be subject to change over time, which can then lead to a write-up in subsequent periods. The change in write-downs on the carrying amount of unused tax losses results in a tax expense / income of EUR 3.0 million (prior year: EUR 1.7 million).

As of December 31, 2009, the existing unused tax losses on which deferred tax assets were recognized were for corporate income tax (EUR 54.9 million; prior year: EUR 19.1 million), for trade tax (EUR 52.0 million; prior year: EUR 15.0 million) and on foreign unused tax losses (EUR 14.8 million; prior year: EUR 6.6 million). There were unused tax losses on which no tax assets were recognized because they could not be utilized for corporate income tax (EUR 32.6 million; prior year: EUR 41.4 million), for trade tax (EUR 31.2 million; prior year: EUR 39.7 million) and for foreign taxes (EUR 12.2 million; prior year: EUR 12.2 million).

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 27.0 million, a partial amount of EUR 24.9 million can be carried forward for an indefinite period. Tax losses of EUR 132 k expire within the next year. Tax losses of EUR 488 k expire within the next two years. An additional amount of EUR 475 k expires within the next three years. An amount of EUR 975 k expires after three years.

Deferred taxes of EUR 748 k, unchanged on the prior year, were recognized on retained profits at subsidiaries for outside basis differences.

5.15 No Disclosure

5.16 Profit / Loss Attributable to Minority Interests

The loss for 2009 attributable to minority interests amounts to EUR 1.4 million (prior year: profit of EUR 1.9 million).

5.17 Earnings per Share

The basic earnings per share is determined pursuant to IAS 33 by dividing the profit attributable to the shareholders of Homag Group AG by the weighted average number of issued shares. Earnings per share based on earnings after minority interests of EUR -20.7 million (prior year: EUR 31.9 million) are presented in the table below (there is no difference between diluted and basic earnings).

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

	2009	2008
Profit / loss attributable to the equity holders of Homag Group AG for the calculation of basic earnings in EUR k	-20,710	31,944
Earnings per share in EUR	-1.32	2.04
BASIC EARNINGS PER SHARE PURSUANT TO IAS 33 IN EUR	**-1.32**	**2.04**
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 prepared.

5.18 Dividends Paid and Proposed

In 2009, a dividend of EUR 4,706,400.00 was paid for fiscal 2008.

A proposal will be submitted to the annual general meeting on May 28, 2010 to appropriate the retained earnings of EUR 25,493,258.09 disclosed in the financial statements of Homag Group AG as of December 31, 2009 as follows:

- Carry forward of EUR 25,493,258.09 to new account

EUR k	2009	2008
Dividend distribution	0	4,706
Retained earnings carried forward	25,493	35,789
	25,493	**40,495**

EUR k	2009	2008
DIVIDEND PER DIVIDEND-ENTITLED NO-PAR VALUE SHARE	**0.00 ***	**0.30**

* *Proposed*

6. NOTES TO THE BALANCE SHEET

6.1 Intangible Assets / Property, Plant and Equipment

Changes in the non-current assets of the Homag Group 2009

	Acquisition and production cost						
EUR k	As of Jan. 1, 2009	Currency differences	Changes consolidated group	Additions	Disposals	Reclassi-fications	As of Dec. 31, 2009
NON-CURRENT ASSETS							
I. Intangible assets							
1. Industrial assets	37,221	72	2,961	3,057	-632	1,682	44,361
- thereof leases	*2,237*	*0*	*0*	*0*	*0*	*0*	*2,237*
2. Goodwill	6,565	0	10,290	0	0	0	16,855
3. Internally generated intangible assets	14,516	0	0	8,760	0	0	23,276
4. Prepayments	4,847	0	6	3,257	-23	-1,634	6,453
	63,149	**72**	**13,257**	**15,074**	**-655**	**48**	**90,945**
II. Property, plant and equipment							
1. Land and land rights and buildings	147,893	755	4	11,636	-3.412	2,250	159,126
- thereof leases	*0*	*0*	*0*	*4,000*	*0*	*0*	*4,000*
2. Technical equipment and machines	73,850	152	3,787	3,798	-4.878	362	77,071
- thereof leases	*14,609*	*7*	*0*	*2,201*	*-1.553*	*-19*	*15,245*
3. Other equipment, furniture and fixtures	68,452	426	1,783	5,509	-3.670	110	72,610
- thereof leases	*7,174*	*28*	*0*	*831*	*-92*	*-84*	*7,857*
4. Prepayments and assets under construction	3,918	3	0	-556	-70	-2,770	525
	294,113	**1,336**	**5,574**	**20,387**	**-12.030**	**-48**	**309,332**
	357,262	**1,408**	**18,831**	**35,461**	**-12.685**	**0**	**400,277**

Amortization and depreciation							Carrying amounts	
As of Jan. 1, 2009	Currency differences	Additions	Disposals	Reclassi-fications	Write-ups	As of Dec. 31, 2009	**As of Dec. 31, 2009**	**As of Dec. 31, 2008**
26,375	40	4,672	-567	19	0	30,539	13,822	10,846
1,631	*0*	*280*	*0*	*0*	*0*	*1,911*	*326*	*606*
573	0	0	0	0	0	573	16,282	5,992
2,399	0	2,738	0	0	-3	5,134	18,142	12,117
0	0	0	0	0	0	0	6,453	4,847
29,347	**40**	**7,410**	**-567**	**19**	**-3**	**36,246**	**54,699**	**33,802**
61,165	216	5,551 [1]	-587	2	0	66,347	92,779	86,728
0	*0*	*56*	*0*	*0*	*0*	*56*	*3,944*	*0*
45,168	88	5,712	-3,194	350	0	48,124	28,947	28,682
4,790	*5*	*1,603*	*-281*	*37*	*0*	*6,154*	*9,091*	*9,819*
45,786	272	7,086	-2,684	-371	-90	49,999	22,611	22,666
4,915	*4*	*1,268*	*-92*	*-12*	*0*	*6,083*	*1,774*	*2,259*
0	0	0	0	0	0	0	525	3,918
152,119	**576**	**18,349**	**-6,465**	**-19**	**-90**	**164,470**	**144,862**	**141,994**
181,466	**616**	**25,759**	**-7,032**	**0**	**-93**	**200,716**	**199,561**	**175,796**

[1] *Including impairment losses of EUR 733 k.*

Changes in the non-current assets of the Homag Group 2008

EUR k			Acquisition and production cost					
			As of Jan. 1, 2008	Currency differences	Additions	Disposals	Reclassi-fications	As of Dec. 31, 2008
NON-CURRENT ASSETS								
I.	Intangible assets							
	1.	Industrial assets	31,766	-118	4,735	-762	1,600	37,221
		- thereof leases	*2,237*	*0*	*0*	*0*	*0*	*2,237*
	2.	Goodwill	6,565	0	0	0	0	6,565
	3.	Internally generated intangible assets	8,287	0	6,510	-281	0	14,516
	4.	Prepayments	3,109	0	3,352	0	-1,614	4,847
			49,727	**-118**	**14,597**	**-1,043**	**-14**	**63,149**
II.	Property, plant and equipment							
	1.	Land and land rights and buildings	144,798	-1,115	4,415	-721	516	147,893
		- thereof leases	*0*	*0*	*0*	*0*	*0*	*0*
	2.	Technical equipment and machines	70,558	55	6,092	-3,388	533	73,850
		- thereof leases	*13,722*	*-113*	*2,752*	*-1,677*	*-75*	*14,609*
	3.	Other equipment, furniture and fixtures	65,073	-605	7,883	-4,152	253	68,452
		- thereof leases	*6,628*	*-43*	*779*	*-231*	*41*	*7,174*
	4.	Prepayments and assets under construction	1,580	-7	3,658	-25	-1,288	3,918
			282,009	**-1,672**	**22,048**	**-8,286**	**14**	**294,113**
			331,736	**-1,790**	**36,645**	**-9,329**	**0**	**357,262**

Amortization and depreciation							Carrying amounts	
As of Jan. 1, 2008	Currency differences	Additions	Disposals	Reclassi-fications	Write-ups	As of Dec. 31, 2008	**As of Dec. 31, 2008**	**As of Dec. 31, 2007**
23,277	-69	3,717	-582	32	0	26,375	10,846	8,489
1,351	*0*	*280*	*0*	*0*	*0*	*1,631*	*606*	*886*
573	0	0	0	0	0	573	5,992	5,992
827	0	1,852	-280	0	0	2,399	12,117	7,460
0	0	0	0	0	0	0	4,847	3,109
24,677	**-69**	**5,569**	**-862**	**32**	**0**	**29,347**	**33,802**	**25,050**
57,615	-258	4,512	-716	9	3	61,165	86,728	87,183
0	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
41,361	42	5,393	-1,628	0	0	45,168	28,682	29,197
3,648	*-26*	*1,447*	*-187*	*-92*	*0*	*4,790*	*9,819*	*10,074*
43,166	-388	6,740	-3,594	-41	-97	45,786	22,666	21,907
3,853	*-16*	*1,190*	*-126*	*0*	*0*	*4,901* [1]	*2,273*	*2,775*
0	0	0	0	0	0	0	3,918	1,580
142,142	**-604**	**16,645**	**-5,938**	**-32**	**-94**	**152,119**	**141,994**	**139,867**
166,819	**-673**	**22,214**	**-6,800**	**0**	**-94**	**181,466**	**175,796**	**164,917**

[1] *In 2008, the disclosure of write-downs "thereof leasing" in other equipment, furniture and fixtures was incomplete. An adjustment was made to the amount carried forward in the 2009 statement of changes in non-current assets.*

6.2 Intangible Assets

Intangible assets broken down by region developed as follows:

EUR k	2009	2008
Germany	**49,988**	**29,482**
Other EU countries	1,438	1,403
Rest of Europe	1,465	1,447
North America	300	1
South America	343	284
Asia / Pacific	1,165	1,185
Other countries	**4,711**	**4,320**
TOTAL	**54,699**	**33,802**

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

Goodwill

The disclosed goodwill of EUR 16.3 million (prior year: EUR 6.0 million) is allocable to groups of cash generating units (CGUs) as follows:

EUR k	Dec. 31, 2009	Dec. 31, 2008
Industry	11,917	1,902
Sales and Service	4,087	3,812
Other	278	278
	16,282	**5,992**

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

The changes compared to the prior year in the Industry and Sales & Service business segments stem from the acquisition of BENZ GmbH Werkzeugsysteme and its subsidiary BENZ INCORPORATED.

The impairment tests performed as of December 31, 2009 did not reveal any need to recognize impairment losses on goodwill.

The WACC pre-tax discount rates underlying the impairment tests performed in fiscal 2009 are presented in the following table:

Planning period %	Years	**Dec. 31, 2009** 2010-2014	Dec. 31, 2008 2009-2013
Group of CGUs			
Industry		11.21	12.25
Sales and Service		11.69	11.06
Other		10.77	12.06

The method used to calculate the discount rates before tax was changed in the reporting period. In connection with this, the discount rates used in the prior year were adjusted. If these discounts had been used in 2008, there would still not have been any need to recognize impairment losses on goodwill.

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 unit to materially exceed its recoverable amount.

Internally Developed Software and Other Development Costs

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

Research and development costs included in expenses totaled EUR 15.0 million (prior year: EUR 19.9 million).

6.3 Property, Plant and Equipment

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

EUR k	2009	2008
Germany	**114,709**	**117,237**
Other EU countries	18,195	12,976
Rest of Europe	486	565
North America	2,113	1,793
South America	2,446	1,823
Asia / Pacific	6,913	7,600
Other countries	**30,153**	**24,757**
TOTAL	**144,862**	**141,994**

The classification of the items of property, plant and equipment condensed in the balance sheet and their development in the reporting year are presented in the statement of changes in non-current assets. The focus of capital expenditure is detailed in the management report. As in the prior year, grants and subsidies were not 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 of EUR 733 k were recognized on property, plant and equipment.

Property, plant and equipment are capitalized as follows in connection with lease agreements with the entities of the Homag Group as lessees:

EUR k	Carrying amount Dec. 31, 2009	Carrying amount Dec. 31, 2008
Intangible assets	326	606
Land and land rights and buildings	3,944	0
Technical equipment and machines	9,091	9,819
Other equipment, furniture and fixtures	1,774	2,273
	15,135	**12,698**

The underlying interest rates of the agreements vary depending on the date on which the agreements were concluded between 2.65% and 14.5% p.a. The payments due in the future from finance lease arrangements, the corresponding interest components and the present value of future lease payments, which are accounted for under other liabilities accordingly, are shown in the table below:

EUR k	Due in less than 1 year	Due in between 1 and 5 years	Due in more than 5 years	**Dec. 31, 2009 Total**	**Dec. 31, 2008 Total**
Minimum lease payments	4,949	4,100	3,170	**12,219**	**9,490**
Discount amounts	398	398	328	**1,124**	**629**
PRESENT VALUES	**4,551**	**3,702**	**2,842**	**11,095**	**8,861**

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, 2009**	Dec. 31, 2008
Due in less than 1 year	4,579	4,866
Due in between 1 and 5 years	7,343	5,444
Due in more than 5 years	5,697	1,982
	17,619	**12,292**

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

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

EUR k	**Dec. 31, 2009**	Dec. 31, 2008
Minimum lease payments	**5,445**	**5,737**

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, 2009	Disposals
NON-CURRENT ASSETS		
I. Intangible assets		
1. Industrial rights	33	-19
	33	**-19**
II. Property, plant and equipment		
1. Land and land rights and buildings	1,111	0
2. Technical equipment and machines	485	-79
3. Other equipment, furniture and fixtures	238	-100
	1,834	**-179**
	1,867	**-198**

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, 2009**	Dec. 31, 2008
Total assets	15,979	19,676
Total liabilities	10,856	13,836
EQUITY	**5,123**	**5,840**

EUR k	**2009**	2008
Total sales revenue	23,795	34,699
Profit / loss for the year	-6	-216

6.5 Inventories

EUR k	**Dec. 31, 2009**	Dec. 31, 2008
Raw materials, consumables and supplies	38,464	51,899
Work in process	19,589	15,023
Finished goods, merchandise	51,760	65,594
Prepayments	2,013	2,278
	111,826	**134,794**

	Amortization and depreciation				Carrying amounts	
As of Dec. 31, 2009	As of Jan. 1, 2009	Additions	Disposals	As of Dec. 31, 2009	**As of Dec. 31, 2009**	**As of Dec. 31, 2008**
14	29	2	-19	12	2	4
14	**29**	**2**	**-19**	**12**	**2**	**4**
1,111	273	42	0	315	796	838
406	369	51	-79	341	65	116
138	206	23	-100	129	9	32
1,655	**848**	**116**	**-179**	**785**	**870**	**986**
1,669	**877**	**118**	**-198**	**797**	**872**	**990**

Valuation allowances of EUR 1.6 million (prior year: EUR 1.6 million) were recognized on inventories through profit or loss. An amount of EUR 5.2 million (prior year: EUR 6.7 million) was pledged as collateral on loans in the reporting period.

6.6 Receivables and Other Assets

	Dec. 31, 2009			Dec. 31, 2008		
		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
Trade receivables	95,089	91,170	3,919	121,899	121,186	713
Receivables from long-term construction contracts	23,354	23,354	0	25,170	25,170	0
Receivables from associates	6,065	6,065	0	6,986	6,986	0
Other financial assets	13,259	8,913	4,346	16,862	13,648	3,214
Other assets and prepaid expenses	4,663	4,544	119	3,262	3,120	142
Income tax receivables	9,521	6,668	2,853	8,700	5,450	3,250
	151,951	**140,714**	**11,237**	**182,879**	**175,560**	**7,319**

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

Trade receivables totaling EUR 6.6 million (prior year: EUR 12.1 million) were sold under factoring agreements.

Bad debt allowances recognized on trade receivables from third parties and associates have developed as follows:

EUR k	2009	2008
AS OF JANUARY 1	**8,632**	**5,809**
Changes in the consolidated group	12	0
Exchange rate effects	100	419
Charge for the year	-1,779	-560
Unused amounts written off	-2,709	-2,268
Increase in impairments recognized in profit or loss	3,227	5,232
AS OF DECEMBER 31	**7,483**	**8,632**

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

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

EUR k	2009	2008
Bad debt expenses	738	446
Income from the receipt of payments on receivables that have been written off	307	16

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, 2009	Dec. 31, 2008
Neither past due nor impaired	70,188	93,538
Receivables past due but not impaired		
less than 90 days	31,090	31,787
90 to 179 days	4,604	8,445
180 to 365 days	4,757	5,164
1 year or more	5,404	2,741
Total receivables past due but not impaired	45,855	48,137
Impaired receivables	15,948	21,012
TRADE RECEIVABLES, GROSS	**131,991**	**162,687**
Less impairments	7,483	8,632
NET AMOUNT / CARRYING AMOUNT OF TRADE RECEIVABLES	**124,508**	**154,055**

There was no indication as of the balance sheet 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.

Two large-scale orders are subject to payment delays. Negotiations are currently being held about other technical improvements in order to obtain the outstanding payments.

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 balance sheet date, contract costs incurred for long-term construction contracts and profits disclosed of EUR 40.8 million (prior year: EUR 48.6 million) were offset against prepayments received of EUR 19.1 million (prior year: EUR 25.3 million). This resulted in receivables of EUR 23.4 million (prior year: EUR 25.2 million) and liabilities of EUR 1.7 million (prior year: EUR 1.9 million).

6.8 Other Financial Assets

Other financial assets break down as follows:

	Dec. 31, 2009			Dec. 31, 2008		
		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
Other primary financial assets						
Loans extended	380	34	346	0	0	0
Receivables from factoring agreements	721	721	0	1,376	1,376	0 *
Sundry	11,929	7,929	4,000	14,966	11,752	3,214
Derivative financial assets	228	228	0	520	520	0
	13,259	**8,913**	**4,346**	**16,862**	**13,648**	**3,214**

The derivative financial assets concern receivables from derivative currency and interest transactions totaling EUR 0.2 million (prior year: EUR 0.5 million).

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

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 which 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:

	Dec. 31, 2009				Dec. 31, 2008			
EUR k	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivatives non-hedged	228	0	228	0	520	0	520	0

Financial liabilities at fair value through profit or loss:

	Dec. 31, 2009				Dec. 31, 2008			
EUR k	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivatives non-hedged	377	0	377	0	556	0	556	0

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

* *Disclosure in the prior year was incomplete, and has therefore been adjusted for the purpose of this report.*

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

EUR k	2009	2008
Derivatives non-hedged	249	533

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

EUR k	2009	2008
Derivatives non-hedged	-377	-606

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, 2009			Dec. 31, 2008		
		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
Excise duties claims	2,795	2,795	0	1,181	1,181	0
Prepaid expenses	1,855	1,749	106	2,081	1,939	142
Other receivables from associates	13	0	13	0	0	0
	4,663	**4,544**	**119**	**3,262**	**3,120**	**142**

6.10 Income Tax Receivables

	Dec. 31, 2009		Dec. 31, 2008	
EUR k	Total	Thereof more than 1 year	Total	Thereof more than 1 year
Income tax claims	**9,521**	**2,853**	**8,700**	**3,250**

The income tax receivables primarily concern corporate income tax credits that will flow to the Group in the years 2010 through 2017 as well a 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 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.

6.12 No Disclosure

6.13 Equity

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

6.13.1 Issued Capital

As of December 31, 2009, the issued capital amounted to EUR 15,688,000.00 (prior year: EUR 15,688,000.00). It has been fully paid in and is split into 15,688,000 no-par value bearer shares with an imputed value of EUR 1 each.

6.13.2 Capital Reserves

As of December 31, 2009, the capital reserve amounted to EUR 32,976,199.00 (prior year: EUR 32,976,199.00).

6.13.3 Revenue Reserves

The revenue reserves of EUR 115.0 million (prior year: EUR 87.7 million) contain the profits generated in the past by the companies included in the consolidated financial statements, to the extent that they were not distributed. Goodwill resulting from business combinations before January 1, 2005 was also offset against the revenue reserves. The credit differences from business combinations that arose in the course of the preparation of the IFRS opening balance sheet, which had been disclosed as a separate item in equity in accordance with HGB until December 31, 2004, are also disclosed here as well as currency differences reclassified as of January 1, 2005.

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

The differences from the currency translation without effect on income of financial statements of foreign subsidiaries from January 1, 2005 as well as actuarial gains and losses from the valuation of pensions and other post employment benefits less tax effects are reported within the revenue reserves under changes posted directly to equity.

6.13.4 Group Profit for the Year

This item contains the profit or loss of the period.

6.13.5 Minority Interests

Minority interests contain the parts of equity attributable to the minority shareholders. Minority interests are determined using imputed shareholdings; indirect shareholdings are taken into account.

6.14 Financial Liabilities

EUR k	Dec. 31, 2009 Total	Dec. 31, 2009 Thereof due in less than 1 year	Dec. 31, 2009 Thereof due in more than 1 year	Dec. 31, 2008 Total	Dec. 31, 2008 Thereof due in less than 1 year	Dec. 31, 2008 Thereof due in more than 1 year
Liabilities to banks	124,440	99,880	24,560	117,104	35,601	81,503
Lease liabilities	11,095	4,551	6,544	8,861	3,979	4,882
Profit participation rights	29,725	0	29,725	30,175	0	30,175
	165,260	**104,431**	**60,829**	**156,140**	**39,580**	**116,560**

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

Liabilities to banks break down as follows:

	Dec. 31, 2009 Currency	Dec. 31, 2009 Carrying amount EUR k	Dec. 31, 2009 No. of months until maturity	Dec. 31, 2009 Effective interest rate %	Dec. 31, 2008 Currency	Dec. 31, 2008 Carrying amount EUR k	Dec. 31, 2008 No. of months until maturity	Dec. 31, 2008 Effective interest rate %
Syndicated loan	EUR	8,400	35	5.14	EUR	12,000	47	5.14
Several loans	EUR	22,369	up to 117	1.63-6.42	EUR	26,617	up to 129	4.29-6.42
Loan	PLN	497	24	4.91	PLN	748	36	4.91
Loan	GBP	280	20	2.27	GBP	417	32	7.00
Loan	DKK	613	96	5.48	DKK	669	108	5.48
Syndicated loan	EUR	49,856	7	2.32	EUR	49,644	19	3.34
Overdraft facility / syndicated loan	EUR	11,099	7	3.39-5.5	EUR	3,999	19	6.00-7.34
Euro loan (syndicated loan)	EUR	12,200	7	2.14-2.70	EUR	4,600	19	3.85-4.17
Overdraft facility / Euro loan	diverse	19,126	-	2.00-11.25	diverse	18,410	-	1.50-12.50
		124,440				**117,104**		

Variable interest arrangements have been made for the syndicated loans and overdraft facilities. 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, 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 2009, expenses for defined contribution plans in the Homag Group totaled EUR 17.0 million (prior year: EUR 17.1 million).

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

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

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

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

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

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

%	**Dec. 31, 2009**	Dec. 31, 2008
Discount rate	5.4	5.9
Expected return on plan assets	4.0	4.0
Rate of pension increase	2.0	2.0

The expense for pensions and similar obligations is comprised as follows:

EUR k	2009	2008
Current service cost	166	181
Interest cost	219	215
Expected return on plan assets	-65	-67
Benefit expense	**320**	**329**

The table below shows the actuarial gains and losses recognized through profit and loss:

EUR k	2009	2008
Net actuarial gains (-) / losses (+)	**254**	**-155**

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

EUR k	2009	2008
Actual return on plan assets	**74**	**74**

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

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

EUR k	2009	2008
Defined benefit obligation	4,453	4,057
Fair value of plan assets	-1,745	-1,776
RESIDUAL OBLIGATION AS OF DECEMBER 31	**2,708**	**2,281**

The Homag Group expects contributions to defined benefit plans in 2010 to be similar to the level of the reporting period.

Of the pension obligations, a total of EUR 1,890 k (prior year: EUR 1,704 k) relates to obligations for which there are no plan assets.

The state of financing is presented in the table below:

EUR k	Obligations for which there are plan assets 2009	Obligations for which there are plan assets 2008	Obligations for which there are no plan assets 2009	Obligations for which there are no plan assets 2008
Defined benefit obligation	2,563	2,353	1,890	1,704
Fair value of plan assets	-1,745	-1,776	0	0
RESIDUAL OBLIGATION AS OF DECEMBER 31	**818**	**577**	**1,890**	**1,704**

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

EUR k	2009	2008
DEFINED BENEFIT OBLIGATION AS OF JANUARY 1	**4,057**	**4,246**
Interest expense	219	215
Current service cost	166	181
Benefits paid	-265	-437
Actuarial gains (-) / losses (+)	276	-148
DEFINED BENEFIT OBLIGATION AS OF DECEMBER 31	**4,453**	**4,057**

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

EUR k	2009	2008
FAIR VALUE OF PLAN ASSETS AS OF JANUARY 1	**1,776**	**1,826**
Expected return on plan assets	65	67
Employer contributions	-8	0
Benefits paid	-110	-124
Actuarial gains (+) / losses (-)	22	7
FAIR VALUE OF PLAN ASSETS AS OF DECEMBER 31	**1,745**	**1,776**

In most cases, the plan assets are insurance policies.

In the reporting year, cumulated actuarial gains (+) and losses (-) came to EUR 243 k (prior year: EUR 497 k).

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

EUR k	2009	2008	2007	2006	2005
Defined benefit obligation	4,453	4,057	4,246	4,435	4,687
Fair value of plan assets	-1,745	-1,776	-1,826	-1,857	-1,888
Deficit (+) / surplus (-)	2,708	2,281	2,420	2,578	2,799
Experience adjustments on plan liabilities (gains (-) / losses (+))	-135	-35	-2	0	22
Experience adjustments on plan assets (gains (+) / losses (-))	10	7	7	5	4

6.17 Obligations from Employee Profit Participation

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

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

%	Dec. 31, 2009	Dec. 31, 2008
Discount factor	5.40	5.90

6.18 Other Provisions

EUR k	Dec. 31, 2009 Total	Dec. 31, 2009 Thereof due in less than 1 year	Dec. 31, 2009 Thereof due in more than 1 year	Dec. 31, 2008 Total	Dec. 31, 2008 Thereof due in less than 1 year	Dec. 31, 2008 Thereof due in more than 1 year
Provisions for personnel matters	6,396	1,391	5,005	5,839	1,326	4,513
Provisions for production and sales	7,596	7,564	32	11,675	11,172	503
Sundry other provisions	4,800	4,800	0	2,359	2,359	0
OTHER PROVISIONS	**18,792**	**13,755**	**5,037**	**19,873**	**14,857**	**5,016**

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

The personnel provisions mainly contain obligation for phased retirement arrangements, long-service bonuses, restructuring expenses as well as (in the prior year) variable salary payments.

Other provisions developed as follows:

EUR k	As of Jan. 1, 2009	Translation difference	Changes consolidated group	Utilized	Reversed	Increased	Re-classified	As of Dec. 31, 2009
Provisions for personnel matters	5,839	25	297	-1,164	-861	2,249	11	6,396
Provisions for production and sales	11,675	5	118	-5,944	-2,023	3,765	0	7,596
Sundry other provisions	2,359	40	2	-614	-507	3,531	-11	4,800
OTHER PROVISIONS	**19,873**	**70**	**417**	**-7,722**	**-3,391**	**9,545**	**0**	**18,792**

7. OTHER NOTES

7.1 Financial Instruments

Book values, carrying amounts and fair values by measurement category

EUR k	Book value Dec. 31, 2009	Carrying amount Amortized cost
ASSETS		
Cash and cash equivalents	29,823	29,823
Trade receivables	101,154	101,154
Receivables from long-term construction contracts	23,354	
Other financial assets	771	
Other primary financial assets	13,031	13,031
Derivative financial assets		
Derivatives without hedging relationship	228	
EQUITY AND LIABILITIES		
Trade payables	66,243	66,243
Liabilities from long-term construction contracts	1,654	
Financial liabilities		
Liabilities to banks	124,440	124,440
Profit participation rights	29,725	29,725
Lease liabilities	11,095	
Sundry financial liabilities	0	0
Derivative financial liabilities		
Derivatives without hedging relationship	377	
THEREOF COMBINED ACCORDING TO THE MEASUREMENT CATEGORIES IN ACCORDANCE WITH IAS 39		
Loans and receivables	144,008	144,008
Held-for-sale financial assets	771	
Financial assets held for trading	228	
Financial liabilities measured at amortized cost	220,408	220,408
Financial liabilities held for trading	377	

in balance sheet 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, 2009
				29,823
				101,154
		23,354		23,354
771				-
				13,031
	228			228
				66,243
		1,654		1,654
				122,141
				29,875
			11,095	11,067
				0
	377			377
				144,008
771				-
	228			228
				218,259
	377			377

EUR k	Book value Dec. 31, 2008	Carrying amount Amortized cost
ASSETS		
Cash and cash equivalents	38,588	38,588
Trade receivables	128,885	128,885
Receivables from long-term construction contracts	25,170	
Other financial assets	834	
Other primary financial assets	16,342	16,342
Derivative financial assets		
Derivatives without hedging relationship	520	
EQUITY AND LIABILITIES		
Trade payables	57,069	57,069
Liabilities from long-term construction contracts	1,931	
Financial liabilities		
Liabilities to banks	117,104	117,104
Profit participation rights	30,175	30,175
Lease liabilities	8,861	
Sundry financial liabilities	0	0
Derivative financial liabilities		
Derivatives without hedging relationship	556	
THEREOF COMBINED ACCORDING TO THE MEASUREMENT CATEGORIES IN ACCORDANCE WITH IAS 39		
Loans and receivables	183,815	183,815
Held-for-sale financial assets	834	
Financial assets held for trading	520	
Financial liabilities measured at amortized cost	204,348	204,348
Financial liabilities held for trading	556	

in balance sheet 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, 2008
				38,588
				128,885
		25,170		25,170
834				-
				16,342
	520			520
				57,069
		1,931		1,931
				118,957
				33,737
			8,861	8,585
				0
	556			556
				183,815
834				-
	520			520
				209,763
	556			556

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

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

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

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

As regards financial liabilities, non-current liabilities due to banks are determined using a fixed interest rate, while the value of the finance lease liabilities and the liabilities from profit participation rights is determined based on the present value of the expected future cash flows. Discounting is based on the prevailing market interest rates with reference to the terms concerned; terms are classified into those falling due between one and five years and terms of more than five years. If there is objective evidence that the credit risk has changed since the liability was entered into, this is taken into account when determining the discount rate. As regards the current liabilities to banks, it is assumed that the carrying 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	**2009**	2008
Financial assets and financial liabilities at fair value through profit and loss	-128	-73
Loans and receivables	-949	-3,796
Financial liabilities at amortized cost	2,306	-716

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 2009, the sum of the positive market values of derivative financial instruments came to EUR 0.2 million (prior year: EUR 0.5 million), while the sum of the negative market values totaled EUR 0.4 million (prior year: EUR 0.6 million).

In the course of its business operations, the Homag Group is exposed to interest and currency risks. One aim of the risk management system is to hedge against adverse effects to the financial performance of the Group. Customary market instruments such as interest and forward exchange contracts are used for this purpose. Uniform group policies govern the handling of transactions as well as the strict functional segregation between trade, handling and monitoring. Due to its international outlook, the Homag Group is exposed to currency risks for various foreign currencies. Consequently, the hedging strategy focuses on a general hedge of foreign currency amounts at the time a claim or obligation denominated in foreign currency arises. For this purpose, derivative financial instruments are entered into with banks or cash inflows are offset against cash outflows. The hedged items can relate to 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 through profit and loss. 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 finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and loans granted, which arise directly from its operations.

The Group contracts derivative financial instruments, mostly forward exchange contracts, to minimize these risks. The use of derivative financial instruments is regulated by the group guidelines which have been approved by the management board. In addition, there are fundamental rules in place governing the investment of 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 agrees policies and strategies for managing each of these risks which are summarized below.

Credit Risks

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

The Group trades only with creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The existing trade receivables are due from a large number of customers distributed across different regions. The majority of debtors are entities active in the wood processing industry (including the furniture industry and carpenters and joiners) as well as wholesale machine retailers, whereby the title is generally retained on the goods delivered. Credit insurance is concluded on a case-by-case basis. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to 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 balance sheet. As of the end of the reporting period December 31, 2009, the maximum risk of default is equivalent to the financial assets described in 7.1 totaling EUR 168.4 million (prior year: EUR 210.3 million). 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 114 million as of December 31, 2009 (prior year: EUR 158 million).

Since the syndicated loan agreement expires in July 2010, negotiations were started with the syndicate of banks in the second half of 2009. A new syndicated loan agreement with a volume of EUR 198 million was concluded in February 2010, with a term until February 2013.

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, 2009**	Estimated cash flows in the year / years 2010	2011	2012-2014	2015 et seq.
Trade payables	66,243	66,243	0	0	0
Liabilities from long-term construction contracts	1,654	1,654	0	0	0
Financial liabilities					
Liabilities to banks	124,440	49,282	12,260	64,806	8,951
Profit participation rights	29,725	2,540	26,920	5,456	0
Lease liabilities	11,095	8,905	2,087	492	0
Derivative financial liabilities					
Derivatives without hedging relationship	377	377	0	0	0

EUR k	Carrying amount Dec. 31, 2008	Estimated cash flows in the year / years 2009	2010	2011-2013	2014 et seq.
Trade payables	57,069	57,069	0	0	0
Liabilities from long-term construction contracts	1,931	1,931	0	0	0
Financial liabilities					
Liabilities to banks	117,104	47,266	64,317	23,738	11,399
Profit participation rights	30,175	2,860	2,260	31,956	0
Lease liabilities	8,861	4,451	4,474	543	14
Derivative financial liabilities					
Derivatives without hedging relationship	556	330	226	0	0

The disclosed financial derivative instruments in the above table 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, 2009**	Estimated cash flow in the year / years 2010	2011	2012-2014	2015 et seq.
Inflows		7,333	0	0	0
Outflows		-7,710	0	0	0
Net	377	-377	0	0	0

EUR k	Carrying amount Dec. 31, 2008	Estimated cash flow in the year / years 2009	2010	2011-2013	2014 et seq.
Inflows		2,100	0	0	0
Outflows		-2,430	-226	0	0
Net	556	-330	-226	0	0

Financial Market Risks

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

Currency Risk

Exposure to currency risks stems from the Group's global orientation and the resulting cash flows in different currencies subject to exchange rate fluctuations. These primarily relate to the USD to EUR exchange rate.

Some 16% (prior year: 17%) 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 issued in euro, even in some cases 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 (primary and derivative). All other variables remain constant. Since no changes in the value of financial instruments denominated in foreign currencies are recognized directly in equity, exchange rate fluctuations do not affect equity directly.

	Effect on pre-tax result	
EUR k	**2009**	2008
Increase in value of EUR against other currencies +10%	236	779
Decrease in value of EUR against other currencies -10%	-193	-694

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

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

EUR k	Effect on pre-tax result **2009**
10% increase in value of EUR against the Polish złoty	-90
10% increase in value of EUR against the pound sterling	14
10% increase in value of EUR against the Singapore dollar	359
10% increase in value of EUR against the Swiss franc	96
10% increase in value of EUR against the Brazilian real	-178
10% increase in value of EUR against the Chinese yuan	-14
10% increase in value of EUR against the Danish krone	24
10% increase in value of EUR against the Japanese yen	25
TOTAL	**236**

EUR k	Effect on pre-tax result **2009**
10% decrease in value of EUR against the Polish złoty	74
10% decrease in value of EUR against the pound sterling	-11
10% decrease in value of EUR against the Singapore dollar	-294
10% decrease in value of EUR against the Swiss franc	-79
10% decrease in value of EUR against the Brazilian real	146
10% decrease in value of EUR against the Chinese yuan	11
10% decrease in value of EUR against the Danish krone	-20
10% decrease in value of EUR against the Japanese yen	-20
TOTAL	**-193**

EUR k	Effect on pre-tax result 2008
10% increase in value of EUR against the Polish złoty	-434
10% increase in value of EUR against the pound sterling	594
10% increase in value of EUR against the Singapore dollar	415
10% increase in value of EUR against the Swiss franc	272
10% increase in value of EUR against the Brazilian real	110
10% increase in value of EUR against the Chinese yuan	-178
TOTAL	**779**

EUR k	Effect on pre-tax result 2008
10% decrease in value of EUR against the Polish złoty	355
10% decrease in value of EUR against the pound sterling	-540
10% decrease in value of EUR against the Singapore dollar	-340
10% decrease in value of EUR against the Swiss franc	-225
10% decrease in value of EUR against the Brazilian real	-90
10% decrease in value of EUR against the Chinese yuan	146
TOTAL	**-694**

Interest Rate Risk The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's non-current financial liabilities with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. In addition, the risk of rising interest rates is hedged by contracting interest derivatives – primarily interest rate swaps. As of December 31, 2009, 48.5% of the financial liabilities entered into were subject to fixed rates of interest (prior year: 50.1%).

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.

	2009		2008	
Change in interest rate in base points	+150	-150	+150	-150
Effect on Group earnings before tax in EUR k	-1,199	1,200	-827	1,131

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

The effects presented are calculated based on the syndicated loan agreement which is set to expire.

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:

	2009		2008	
EUR k	Nominal value	Fair value	Nominal value	Fair value
Currency hedges with a term of less than 1 year	10,433	46	2,561	379
Currency hedges with a term of between 1 and 5 years	1,100	-5	33	141
Currency hedges with a term of more than 5 years	0	0	0	0
TOTAL CURRENCY-RELATED TRANSACTIONS	**11,533**	**41**	**2,594**	**520**
Interest hedges with a term of less than 1 year	11,113	-190	0	0
Interest hedges with a term of between 1 and 5 years	0	0	8,263	-415
Interest hedges with a term of more than 5 years	0	0	3,000	-141
TOTAL INTEREST-RELATED TRANSACTIONS	**11,113**	**-190**	**11,263**	**-556**
TOTAL DERIVATIVES	**22,646**	**-149**	**13,857**	**-36**

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

Capital Management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies and methods as of December 31, 2009 and December 31, 2008.

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

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

7.3 Contingent Liabilities

The Group provided the following collateral:

EUR k	Dec. 31, 2009	Dec. 31, 2008
Group-owned land and buildings	67,842	70,526 *
Group-owned technical equipment and machines	2,128	2,426
Group-owned other equipment, furniture and fixtures	691	814
Inventories	5,216	6,693
Trade receivables	3,825	6,534
Cash and cash equivalents	253	0
	79,955	**86,993**

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 lease assets are recognized at a carrying amount of EUR 15.1 million (prior year: EUR 12.7 million).

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

EUR k	2009	2008
Notes payable	3,494	3,282
Liabilities from guarantees	1,093	1,734
Liabilities from warranty agreements / take-back obligations under lease agreements	5,134	3,499
Litigation risks	150	3,556
Guarantees to fulfill contractual obligations	31,018	43,788 *
Other obligations	7,770	4,369
	48,659	**60,228**

Litigation Risks

A German production company set up a provision of EUR 250 k for litigation risks. Management expects a settlement to be reached.

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.

* *Disclosure in the prior year was incomplete, and has therefore been adjusted for the purpose of this report.*

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 transitions column.

The Industry segment comprises those entities whose core business activities center on the provision of system solutions for industrial companies. The segment offers holistic, optimally aligned systems comprising machines, handling, data links, information technology and logistics, while covering the main processes of the wood processing workflow. Fiscal 2009 saw the inclusion of BENZ GmbH Werkzeugsysteme in the Industry segment for the first time.

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. Weeke North America, Inc. was allocated to the Cabinet Shops segment in 2009.

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 Sales and Service segment includes BENZ INCORPORATED, USA as of the year under review.

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 Business Solutions AG and the timber frame house construction division.

	Industry		Cabinet Shops	
EUR k	**2009**	2008	**2009**	2008
Third-party sales	221,280	311,623	73,946	123,297
Sales with group companies from other segments	64,821	151,393	46,479	103,277
Sales with investments recognized at equity	17,805	30,712	7,021	18,716
Total sales revenue	**303,906**	**493,728**	**127,446**	**245,290**
Cost of materials	-137,005	-241,534	-67,718	-137,600
Personnel expenses	-129,519	-150,305	-49,142	-57,695
EBITDA [1]	**17,129**	**54,875**	**-3,329**	**28,884**
Restructuring / non-recurring expenses	-6,321	-2,198	-3,787	-730
EBITDA [2]	**10,808**	**52,677**	**-7,116**	**28,154**
Depreciation of property, plant and equipment and amortization of intangible assets	-15,807	-13,482	-6,050 [3]	-5,097
Result from employee participation	1,240	-7,475	878	-2,385
Share in result of associates	28	-457	0	0
Interest result	-4,758	-4,674	-1,259	-1,565
SEGMENT RESULT [4]	**-8,489**	**26,589**	**-13,547**	**19,107**
ASSETS				
Investments in associates	3,957	4,026	0	7
Capital expenditure [5]	21,078	24,184	4,461	6,609
SEGMENT ASSETS	**341,101**	**387,377**	**123,290**	**144,953**
SEGMENT LIABILITIES	**204,382**	**253,520**	**56,745**	**74,444**
EMPLOYEES [6]	**2,802**	**2,722**	**1,090**	**1,158**

Sales & Services		Other		Total segments		Consolidation		Group	
2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
176,843	331,140	18,887	31,956	490,956	798,016	0	0	490,956	798,016
1,842	2,633	13,161	35,669	126,303	292,972	-126,303	-292,972	0	0
277	21	8,016	8,983	33,119	58,432	0	0	33,119	58,432
178,962	**333,794**	**40,064**	**76,608**	**650,378**	**1,149,420**	**-126,303**	**-292,972**	**524,075**	**856,448**
-130,449	-272,477	-16,135	-36,577	-351,307	-688,188	129,853	292,693	-221,454	-395,494
-30,894	-34,405	-15,649	-22,066	-225,204	-264,471	0	0	-225,204	-264,471
-503	**3,903**	**-1,204**	**7,122**	**12,093**	**94,784**	**3,465**	**249**	**15,558**	**95,033**
-1,365	-430	-960	-642	-12,433	-4,000	0	0	-12,433	-4,000
-1,868	**3,473**	**-2,164**	**6,480**	**-340**	**90,784**	**3,465**	**249**	**3,125**	**91,033**
-2,105	-1,764	-1,797	-1,871	-25,759	-22,214	0	0	-25,759	-22,214
-121	-343	42	-637	2,039	-10,840	0	0	2,039	-10,840
-34	241	0	0	-6	-216	0	0	-6	-216
-447	-74	-2,717	-3,240	-9,181	-9,553	1	0	-9,180	-9,553
-4,575	**1,533**	**-6,636**	**732**	**-33,247**	**47,961**	**3,466**	**249**	**-29,781**	**48,210**
1,885	2,013	0	0	5,842	6,046	0	0	5,842	6,046
8,652	2,378	1,270	3,474	35,461	36,645	0	0	35,461	36,645
157,803	**179,837**	**209,575**	**240,584**	**831,769**	**952,751**	**-312,285**	**-401,410**	**519,484**	**551,341**
109,131	**126,595**	**110,851**	**100,784**	**481,109**	**555,343**	**-118,870**	**-187,948**	**362,239**	**367,395**
710	**732**	**556**	**669**	**5,158**	**5,281**	**0**	**0**	**5,158**	**5,281**

[1] *EBITDA before employee participation and restructuring / non-recurring expenses*
[2] *EBITDA before employee participation*
[3] *Including impairment of EUR 733 k*
[4] *The segment result is equivalent to EBT*
[5] *The capital expenditures relate to additions to the property, plant and equipment and intangible assets*
[6] *Annual average*

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 2008 and 2009, the annual general meeting elected Ernst & Young AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, which have been our group auditors for many years, as the group auditors for the fiscal years 2008 and 2009.

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	**2009**	2008
Statutory audit	828	936
Other assurance services	143	238
Tax advisory services	368	242
Other services	273	196
	1,612	**1,612**

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

7.6 Subsequent Events

In February 2010, a syndicated loan agreement was concluded as a follow-up to the syndicated loan agreement which expires in July 2010. It has a volume of EUR 198 million and runs until February 2013. The total volume of the loan in this agreement is thus 10% higher than the in the previous agreement.

In February 2010 we increased our share in Bütfering Schleiftechnik GmbH from 80% to just under 92% by means of a capital injection, while at the same time diluting the shares of the minority shareholders.

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 entities. 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 2009, the Homag Group is affected by the disclosure requirements of IAS 24 solely with respect to business relationships with associates, members of the management board and the supervisory board as well as shareholders that hold more than 20% of the shares in the parent company Homag Group AG.

There are liabilities from employee profit participation of EUR 61 k (prior year: EUR 59 k) attributable to members of the supervisory board.

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

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

	Group services and supplies for related parties		Services and supplies received by the Group from related parties	
EUR k	**2009**	2008	**2009**	2008
Associates	**33,205**	**58,541**	**1,097**	**2,277**

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 material expenses 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 of 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 2010. 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

Torsten Grede (chairman), Frankfurt am Main, member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main, chairman of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch, member of the supervisory board of MCE AG, Linz, Austria, member of the board of directors of Clyde Bergemann Power Group, Inc., Delaware, USA, and member of the advisory board of Grohmann Engineering GmbH, Prüm

Reiner Neumeister, (deputy chairman from December 17, 2009) Wildberg*, main representative of IG-Metall trade union, deputy chairman of the supervisory board of Bauknecht Hausgeräte GmbH, Stuttgart, and Brueninghaus Hydromatik GmbH, Elchingen, member of the board of directors of AOK Baden-Württemberg, Stuttgart

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

Klaus M. Bukenberger, Schenkenzell, business consultant, chairman of the supervisory board of SICK AG, Waldkirch, chairman of the advisory board of Carl Mahr GmbH & Co. KG, Göttingen, and of Leitz Holding GmbH & Co. KG, Oberkochen (until January 31, 2009), member of the advisory board of Rutronik GmbH, Ispringen, and Deutsche Bank AG, Stuttgart, member of the economic advisory board of Hauck & Aufhäuser KGaA, Frankfurt (since January 2010), and advisory director of Investcorp Group, London, UK.

Ernst Esslinger, Alpirsbach,* head of R&D in the area of IT Engineering at Homag Holzbearbeitungssysteme AG, Schopfloch

Wilhelm Freiherr von Haller, Stuttgart, chairman of the management board of Sal. Oppenheim jr. & Cie. Verwaltungs-AG, Cologne (since December 2009), member of management of business customers in Germany and member of the Management Committee Germany of Deutsche Bank AG, Frankfurt am Main (until November 2009), chairman of the management board of BHF-BANK AG, Frankfurt am Main (since January 2010), member of

* *Employee representative*

the supervisory board of Deutsche Bank Privat- und Geschäftskunden AG and chairman of the advisory board of DB Consult Gesellschaft mbH, Frankfurt am Main (until November 2009), member of the advisory board of GEZE GmbH, Leonberg, member of the advisory board of Gühring oHG, Albstadt-Ebingen, and of Aesculap AG & Co. KG, Tuttlingen, deputy chairman of the administrative board of Landeskreditbank Baden-Württemberg – Förderbank, Stuttgart, member of the board of trustees of Stiftung Familienunternehmen, Munich, as well as chairman of the board of the foundation of Kunststiftung Erich Hauser, Rottweil, and member of the board of the foundation of Deutsche Krebsstiftung, Frankfurt am Main

Ralf Hengel, Freudenstadt, head of IT at schlott GmbH, Freudenstadt

Carmen Hettich-Günther, Rottenburg,* commercial employee and chairwoman of the works' council of Homag Holzbearbeitungssysteme AG, Schopfloch, deputy chairwoman of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch

Hannelore Knowles, Calw,* chairwoman of Group works' council of Homag Group AG, Schopfloch

Reinhard Löffler, Weil der Stadt, deputy chairman of the supervisory board of transtec AG, Tübingen (until July 9, 2009)

Jochen Meyer (deputy chairman until December 2, 2009), Herzebrock-Clarholz,* chairman of the works' council of Weeke Bohrsysteme GmbH, Herzebrock-Clarholz

Reinhard Seiler, Lemgo,* main representative of IG-Metall trade union, member of the supervisory board of Dorma Holding GmbH & Co. KGaA, Ennepetal

Gerhard Schuler (honorary chairman), Freudenstadt, honorary chairman of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch and of Schuler Business Solutions AG, Pfalzgrafenweiler

Accounting committee (equivalent to audit committee)
Reinhard Löffler (chairman), Wilhelm Freiherr von Haller, Carmen Hettich-Günther, Reiner Neumeister

Personnel committee
Torsten Grede (chairman), Klaus M. Bukenberger, Hannelore Knowles, Reinhard Löffler, Reiner Neumeister, Jochen Meyer

Mediation committee (pursuant to Sec. 27 (3) MitbestG ["Mitbestimmungsgesetz": German Co-determination Act]
Torsten Grede (chairman), Reinhard Löffler, Reiner Neumeister, Jochen Meyer

** Employee representative*

Nomination committee
Torsten Grede (chairman), Dr. Jochen Berninghaus, Ralf Hengel, Reinhard Löffler

8.2 Management Board

Rolf Knoll (chairman since September 1, 2009), Dettingen an der Erms, board member for group operations – production companies, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch (until February 18, 2010), chairman of the management board of the professional association for wood-processing machinery of VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], Frankfurt am Main.

Dr. Joachim Brenk (chairman until August 30, 2009), Lübeck, board member for sales, service and marketing until September 30, 2009, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch until September 30, 2009

Achim Gauß, Dornstetten, board member for research and development, chairman of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch, member of the supervisory board of Schuler Business Solutions AG, Pfalzgrafenweiler and member of the supervisory board of Coveright Surfaces Beteiligungs GmbH, Düsseldorf

Andreas Hermann, Freudenstadt, board member for commercial activities, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch

Herbert Högemann, Freudenstadt, board member for production and procurement, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch

Jürgen Köppel, Beckum, member of the management board for sales, service and marketing from October 1, 2009

9. LIST OF SHAREHOLDINGS

	Status	Currency	Issued capital Dec. 31, 2009	Share in capital in % Dec. 31, 2009	Equity in thousand Dec. 31, 2009	Profit / loss in thousand 2009
GERMANY						
Direct shareholdings:						
Homag Holzbearbeitungssysteme AG, Schopfloch	(fc)	EUR	30,000,000.00	100.00	82,113	PLTA
Schuler Business Solutions AG, Pfalzgrafenweiler	(fc)	EUR	5,150,000.00	100.00 [1]	1,619	-910
Torwegge Holzbearbeitungsmaschinen GmbH, Löhne	(fc)	EUR	1,600,000.00	100.00 [2]	-1,929	-1,612
Holzma Plattenaufteiltechnik GmbH, Holzbronn	(fc)	EUR	5,600,000.00	100.00 [3]	23,077	312
Brandt Kantentechnik GmbH, Lemgo	(fc)	EUR	4,000,000.00	70.00	17,474	-1,922
Weeke Bohrsysteme GmbH [4], Herzebrock	(fc)	EUR	17,550,000.00	100.00	27,694	-5,567
BENZ GmbH Werkzeugsysteme, Haslach	(fc)	EUR	25,000.00	51.00	1,906	-733
Wehrmann Maschinen Center GmbH [5], Barntrup	(nc)	EUR	2,500,000.00	43.82	1,087 [6]	-2,567 [6]
Indirect shareholdings:						
Homag Vertriebs-Beteiligungs GmbH, Schopfloch	(fc)	EUR	7,200,000.00	100.00 [7]	23,463	-1,101
Ligmatech Automationssysteme GmbH, Lichtenberg	(fc)	EUR	6,650,000.00	100.00	4,660	-1,994
Friz Kaschiertechnik GmbH, Weinsberg	(fc)	EUR	2,400,000.00	100.00	921	PLTA
Bargstedt Handlingsysteme GmbH, Hemmoor	(fc)	EUR	5,133,000.00	100.00	4,952	-2,940
Bütfering Schleiftechnik GmbH, Beckum	(fc)	EUR	370,000.00	80.00	-643	-2,774
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	(fc)	EUR	1,000,000.00	51.00	4,616	111
Homag GUS GmbH, Schopfloch	(fc)	EUR	100,000.00	100.00 [7]	2,100	PLTA
Homag Finance GmbH, Schopfloch	(fc)	EUR	100,000.00	100.00 [7]	125	-36
Homag India GmbH, Schopfloch	(nc)	EUR	400,000.00	100.00 [7]	4	-9 [8]
Homag Vertrieb & Service GmbH, Schopfloch	(fc)	EUR	300,000.00	100.00 [7]	506	-241
Hüllhorst GmbH, Barntrup	(nc)	EUR	255,645.94	100.00	255	2

1) *Thereof 94.00% held by Homag Holzbearbeitungssysteme AG and 6.00% by Homag Group AG*
2) *Thereof 39.95% held by Homag Holzbearbeitungssysteme AG and 60.05% by Homag Group AG*
3) *Thereof 54.46% held by Homag Holzbearbeitungssysteme AG and 45.54% by Homag Group AG*
4) *Formerly MAW Montagetechnik GmbH, Herford*
5) *Insolvency proceedings not yet completed*
6) *Fiscal year from April 1, 2002 to March 31, 2003*
7) *Precise overall shareholding: 96.11%*
8) *Figures from fiscal year January 1 to December 31, 2008*
PLTA *Control and profit and loss transfer agreement with Homag Group AG or Homag Holzbearbeitungssysteme AG or Homag Vertriebs-Beteiligungs GmbH*
(fc) *Fully consolidated*
(nc) *Not consolidated*

	Status	Currency	Issued capital Dec. 31, 2009	Share in capital in % Dec. 31, 2009	Equity in thousand Dec. 31, 2009	Profit / loss in thousand 2009
INTERNATIONAL						
Indirect shareholdings:						
Homag Machinery Środa Sp. z o.o., Środa / Poland	(fc)	PLN (EUR	6,001,000.00 1,452,323.33	100.00 [9]	6,022 1,457	-1,426 -329)
Holzma Plattenaufteiltechnik S.A. Unipersonal, L'Ametlla del Valles / Spain	(fc)	EUR	2,047,748.40	100.00	2,918	37
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo / Brazil	(fc)	BRL (EUR	6,812,180.00 2,725,526.13	100.00	10,528 4,212	1,252 449)
Homag Machinery (Shanghai) Co. Ltd., Shanghai / China	(fc)	CNY (EUR	70,715,635.00 7,241,002.97	81.25 [10]	112,879 11,558	-202 -21)
Homag Austria Gesellschaft mbH, Oberhofen am Irrsee / Austria	(fc)	EUR	370,000.00	100.00 [11]	772	-141
Homag Italia S.p.A., Milan / Italy	(fc)	EUR	1,100,000.00	100.00 [11]	2,497	-330
Homag France S.A., Schiltigheim / France	(fc)	EUR	1,500,000.00	100.00 [11]	7,980	884
Homag Asia (PTE) Ltd., Singapore / Singapore	(fc)	SGD (EUR	100,000.00 49.706.73	100.00 [11]	-1,669 -830	-4,260 -2,104)
Homag Canada Inc., Mississauga, Ontario / Canada	(fc)	CAD (EUR	4,367,800.00 2,905,861.22	100.00 [11]	12,154 8,086	388 244)
Homag Polska Sp. z o.o., Środa / Poland	(fc)	PLN (EUR	1,050,000.00 254,114.23	100.00 [11]	10,403 2,518	474 109)
Homag Japan Co. Ltd., Osaka / Japan	(fc)	JPY (EUR	156,000,000.00 1,176,547.78	100.00 [11]	281,403 2,122	-22,948 -176)
Homag Danmark A / S, Galten / Denmark	(fc)	DKK (EUR	1,970,000.00 264,717.34	100.00 [11]	16,061 2,158	467 63)
Homag U.K. Ltd., Castle Donington / England	(fc)	GBP (EUR	2,716,778.00 3,041,623.38	100.00 [11]	-1 -1	-1,018 -1,142)
Schuler Business Solutions S.L., Cullera / Spain	(fc)	EUR	301,000.00	100.00	286	41
Homag Korea Co. Ltd., Seoul / Korea	(fc)	KRW (EUR	320,970,000.00 191,611.43	54.55 [12]	281,542 168	123,535 70)
Holzma Tech GmbH, Assenovgrad / Bulgaria	(nc)	BGN (EUR	370,000.00 189,171.23	100.00	1,016 519	66 34)
Stiles Machinery Inc., Grand Rapids / USA	(e)	USD (EUR	25,806.00 18,042.37	22.00	23,931 16,731	-1,284 [13] -921)
Weeke North America Inc., Grand Rapids / USA	(fc)	USD (EUR	20,000.00 13,983.08	81.00	-137 -96	-157 -113)
Homag España Maquinaria S.A., Montmeló / Spain	(fc)	EUR	1,211,300.00	100.00 [11]	1,174	-1,351

[9] Precise overall shareholding: 92.81%
[10] Precise overall shareholding: 78.13%
[11] Precise overall shareholding: 96.11%
[12] Precise overall shareholding: 52.43%
[13] Figures from fiscal year January 1 to December 31, 2008
(e) Consolidated at equity
(fc) Fully consolidated
(nc) Not consolidated

	Status	Currency	Issued capital Dec. 31, 2009	Share in capital in % Dec. 31, 2009	Equity in thousand Dec. 31, 2009	Profit / loss in thousand 2009
INTERNATIONAL						
Indirect shareholdings:						
Homag China Golden Field Ltd., Hongkong / China	(e)	HKD (EUR	27,000,000.00 2,434,318.48	25.00 [14]	86,954 7,840	5,885 [15] 544)
Homag South America Ltda., São Paulo / Brazil	(fc)	BRL (EUR	5,925,031.00 2,370,581.34	100.00 [16]	3,720 1,488	1,493 536)
Homag Australia Pty. Ltd., Sydney / Australia	(fc)	AUD (EUR	6,209,158.62 3,878,300.20	100.00 [16]	673 420	-714 -402)
Homag (Schweiz) AG, Bachenbülach / Switzerland	(fc)	CHF (EUR	200,000.00 134,354.43	100.00 [16]	6,282 4,220	1,303 863)
Bütfering Qinhuangdao Machinery Manufacturing Co. Ltd. [17], Qinhuangdao / China	(nc)	CNY (EUR	2,395,681.75 245,308.39	100.00 [18]	3,261 334	-165 [19] -17)
OOO "FAYZ- Homag GUS", Taschkent / Uzbekistan	(nc)	USD (EUR	174,000.00 121,652.80	33.00 [20]	not available	not available)
OOO "Homag Russland" Moscow / Russian Federation	(fc)	RUB (EUR	357,215.00 8,239.72	99.00 [21]	19,140 441	-7,431 -168)
Homag India Private Ltd., Bangalore / India	(fc)	INR (EUR	171,425,010.00 2,564,054.77	99.90 [22]	15,466 231	-63,585 -935)
RAMU Machinery Private Limited, Bangalore / India	(nc)	INR (EUR	11,500,000.00 172,008.91	52.17 [23]	2,249 34	-4,141 [24] -61)
HA Malaysia Sdn. Bhd., Kuala Lumpur / Malaysia	(fc) [26]	MYR (EUR	250,000.00 50,938.28	100.00 [16]	-1,377 -281	-151 -31)
HA (Thailand) Co. Ltd., Bangkok / Thailand	(fc) [26]	THB (EUR	2,000,000.00 41,866.93	100.00 [16]	224 5	12,059 250)
BENZ INCORPORATED, Charlotte / USA	(fc)	USD (EUR	100.00 69.92	100.00 [25]	-417 -291	-32 -23)

14) Precise overall shareholding: 24.03%
15) Figures from fiscal year January 1 to December 31, 2008
16) Precise overall shareholding: 96.11%
17) Company is being liquidated
18) Precise overall shareholding: 80.00%
19) Figures from fiscal year January 1 to December 31, 2004
20) Precise overall shareholding: 31.72%
21) Precise overall shareholding: 95.15%
22) Precise overall shareholding: 96.01%
23) Precise overall shareholding: 50.09%
24) Figures from fiscal year January 1 to December 31, 2007
25) Precise overall shareholding: 51.00%
26) Branch office of Homag Asia (PTE) Ltd.
(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 and Homag Holzbearbeitungssysteme AG. Friz Kaschiertechnik GmbH is also exempted from the duty to prepare a management report and notes to the financial statements.

Declaration of the Legal Representatives (Group)

Declaration of the Legal Representatives

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

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

Schopfloch, March 15, 2010
Homag Group AG

The Management Board

ROLF KNOLL ACHIM GAUSS

ANDREAS HERMANN HERBERT HÖGEMANN JÜRGEN KÖPPEL

Audit Opinion on the Consolidated Financial Statements (Group)

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

Audit Opinion

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

"We have audited the consolidated financial statements prepared by Homag Group AG, Schopfloch, comprising the income statement, the statement of comprehensive income, the statement of financial position, the cash flow statement, the statement of changes in equity, the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 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 the 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 relating to future development."

Stuttgart, 15 March 2010

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

BLESCH
Wirtschaftsprüfer
[German Public Auditor]

VÖGELE
Wirtschaftsprüferin
[German Public Auditor]


HOMAG

Management Report for Fiscal Year 2009 (AG)

1. BUSINESS AND GENERAL ECONOMIC CONDITIONS

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

1.1 General Conditions

Development of the Economy

The global economy entered its most severe recession since the Second World War at the end of 2008 as a result of the international crisis on the financial markets. This unprecedented slump had ramifications that lasted into 2009. Although manufacturing output and trade have risen since spring 2009, boosted by economic recovery packages in the billions and reflationary monetary policies, the global economy has by no means recovered from the 2009 crisis, as shown by the relevant performance indicators. For example, according to the DIW ["Deutsches Institut für Wirtschaftsforschung": German Institute of Economic Research], global GDP fell 2.0 percent in 2009, while international trade shrank by 11.5 percent according to data published by the IfW ["Institut für Weltwirtschaft": World Economics Institute].

The slight recovery observed since spring 2009 tells a highly differentiated story. The emerging Asian economies recovered quickly, having reported average growth of six percent even in the year of the crisis. Above all China, with growth of 8.6 percent, and India, with 6.4 percent, were therefore supporting the world economy. The industrial economies, by contrast, did not stabilize until late 2009, which resulted in their output falling by 3.6 percent according to the ifo institute. The GDP of the USA fell 2.5 percent, and Japan's by 5.3 percent.

Europe was also severely affected by the recession, with first signs of recovery not manifesting until fall 2009. As a result, the EU economy declined by 4.1 percent (3.9 percent in the euro zone). GDP fell most severely in countries such as Italy, Ireland, Finland and Slovenia, while France, Belgium and Greece for example fared relatively well. Many eastern European countries, and Russia in particular, were hit hard by the crisis.

According to government statistics, the German economy shrank 5.0 percent in 2009, although there were slight signs of improvement from around the middle of the year. The difficult situation faced by many companies is reflected in the 20 percent fall in investment in capital goods. Even exports, normally a driving force of the German economy, fell significantly by 14.5 percent in 2009.

Mechanical and Plant Engineering

Following five years of growth, 2009 was the worst year in decades for the German mechanical and plant engineering industry, according to the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation]. According to the federation, demand saw its sharpest fall since records began in 1958. This has led to a 38 percent drop in order intake, with production 25 percent down on the prior-year level. Although there was a slight rally at the end of 2009, the volume of orders is still 20 percent below the average for the period from 2004 to 2008.

The HOMAG Group focuses on the market for wood processing machines, a sub-market of the mechanical engineering industry. This market is characterized by a small number of providers offering an extensive range of system solutions worldwide and competing with much smaller players that are frequently specialized in individual segments or special-purpose machines. There is clear evidence that the market share of larger suppliers is growing as more and more customers tend to procure from multi-tier, single-source suppliers. The Italian groups Biesse Group and SCM Group are the HOMAG Group's largest competitors with comparable products. We estimate that the three groups have a combined market share of more than 50 percent.

The wood processing machines segment, one of the first to be affected by the economic crisis in October 2008, fared somewhat worse than the German mechanical engineering sector as a whole in 2009. Order intake fell 44 percent on 2008, with overseas orders dropping 51 percent and the domestic market remaining relatively stable with a decline of just 15 percent. A slight recovery was noticeable in the second half of the year, i.e. in the wake of the Ligna trade fair, and December 2009 even saw a considerable improvement over the same month in the prior year, which had admittedly been very poor.

1.2 Development and Structure of the Group

Legal Company Structure

HOMAG Group AG is a holding company and does not have operating activities. Its main tasks as the parent and controlling company are to establish and supervise the Group's strategy, to manage investments and liquidity. It holds 100 percent of the shares in HOMAG Holzbearbeitungssysteme AG, which has operating activities and is one the of the largest companies in the HOMAG Group, apart from being the management company of a large number of subsidiaries in each of which it holds the majority interest. As of December 31, 2009, the Group had 11 German and 5 foreign production entities as well as 20 sales and service entities among others (see also the illustration of the group structure on the inside flap at the back of this report).

The holding company's board member for investees is responsible for the subsidiaries, while the operations of the production companies are managed by local management. The German production companies hold equity investments in HOMAG Vertriebs-Beteiligungs GmbH according to their size, and thus exercise control over the foreign sales and service entities.

The following changes were made to the corporate structure in fiscal 2009:

- Effective January 1, 2009, we took over 51 percent of the shares in BENZ GmbH Werkzeugsysteme, Haslach, including BENZ Inc., Charlotte, USA. The antitrust authorities granted the permission required.
- In July 2009 we merged the two wholly owned subsidiaries WEEKE Bohrsysteme GmbH and MAW Montagetechnik GmbH. This means that the profit and loss transfer agreement between HOMAG and WEEKE was terminated with retroactive effect as of January 1, 2009.
- We increased our share in BÜTFERING Schleiftechnik GmbH from 51 to 80 percent in the course of 2009.

Company Structure

HOMAG Group is organized into the "Industry", "Cabinet Shops", "Sales & Service" and "Other" segments. 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 systems that comprise plant and machines together with the corresponding information and control technology, and thus essentially cover the entire woodworking process chain. Fiscal 2009 saw the inclusion of BENZ GmbH Werkzeugsysteme in the Industry segment for the first time.

The Cabinet Shops segment encompasses the group entities focused on products catering for the special requirements of smaller workshops. Apart from high quality and productivity, the market wants above all simple operation and flexible applications at a competitive price. WEEKE North America, Inc. was allocated to the Cabinet Shops segment in 2009.

The Sales & Service segment comprises the business activities of the HOMAG sales and service entities in Germany and abroad. With our global sales and service network we are present on all of the world's key markets, and we are therefore always close to our customers. The Sales and Service segment includes BENZ Inc., USA as of the year under review.

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 Business Solutions AG and the timber frame house construction division.

It is also possible to analyze the HOMAG Group by breaking it down into the product groups Machines, Cells and Factory Installations. The Machines product group encompasses our modular line of standard machines for the entry-level and mid-range market segments. The Cells product group includes the machines linked to form production lines for flexible job production and automated mass production as well as complete machining centers. Finally, Factory Installations contains holistic, integrated system solutions featuring fully networked machine controls and professional control technology. This is rounded off by our comprehensive service offering across all product groups.

Main Features of the Remuneration System

Remuneration of the Management Board

The remuneration of the individual members of the management board of HOMAG Group AG is proposed by a personnel committee. Based on the proposal made by its personnel committee, the supervisory board proper has determined the remuneration system for the management board including the main contractual elements and will review it regularly. In the competition for highly qualified leaders, the remuneration model is designed as an incentive for the management board, while meeting strict requirements by taking personal performance and the success of the company into account.

In accordance with VorstAG ["Gesetz zur Angemessenheit der Vorstandsvergütung": German Act on the Appropriateness of Management Board Remuneration], which entered into force on August 5, 2009, the total remuneration received by the individual management board members must be appropriate to each member's responsibilities and performance, as well as the situation of the company, and may not exceed customary remuneration 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.

New service contracts were concluded for the members of the management board, with effect as of January 1, 2010.

The remuneration is made up of a fixed salary and a variable performance-based component. The variable component consists of a short-term and a long-term incentive system and is based on indicator-based targets. It is also capped. There are no stock option plans.

Prior to August 2008, new and extended management board contracts did not include a general cap on severance payments to a maximum of two annual salaries in the event of early termination of service on the management board. The first new and extended contracts to include such a cap on severance payments were concluded in October 2009. As of January 1, 2010, all management board contracts comply with the recommendations of No. 4.2.3 (4) of the Code.

The members of the management board are not remunerated for board functions at subsidiaries.

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

Fixed remuneration

The non-performance-based fixed remuneration of the members of the management board consists of an annual fixed salary and incidental benefits. The annual salary is fixed for the term of the service agreements of the management board members and is paid out in twelve equal monthly installments. The incidental benefits consist of the value of the use of a company car that can be recognized for tax purposes and the payment of an insurance premium. The insurance premiums concern a group insurance policy for accident loss and an insurance policy against financial loss (D&O insurance policy). For the period until the end of 2009, the D&O insurance policy only provided for a deductible for US claims for all persons covered by the insurance. 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.

The majority of management board contracts provide for an increase in fixed remuneration as of January 1, 2010, subject to the condition precedent (condition of occurrence) that HOMAG Group AG generates a predetermined consolidated pre-tax profit (EBT) for the preceding four quarters. The supervisory board ascertains whether this condition has been met on a quarterly basis.

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

Variable remuneration component

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

The STI is based on the value added (VA), calculated on the basis of HOMAG Group AG's consolidated financial statements, as an indicator of the annual increase in value of HOMAG Group AG. The STI is calculated on a straight-line basis from a positive VA greater than 0.00 percent up to a fixed indicator (prior to December 31, 2009: 5.5 percent VA, as of January 1, 2010: 4.0 percent VA) and is paid out in this amount. The STI is capped at this indicator.

The STI bonus is paid out following the ordinary annual general meeting 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 price LTI bonus) and the development of positive VA (VA LTI bonus).

To obtain the LTI bonus, the accumulated VA over three successive fiscal years (reference period) must be positive. This basic LTI bonus, which is also determined on a straight-line basis, is capped (prior to December 31, 2009: 18 percent VA, as of January 1, 2010: 12 percent VA).

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

In a first step, 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. The relevant opening price and relevant closing price are both determined by the supervisory board.

If the share price increases by up to 70 percent – relevant closing price starting from the relevant opening price – the second part of the LTI bonus, calculated on a straight-line basis, becomes due for payment.

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

"Initial rolling LTI bonuses" were agreed to in all management board service contracts as of January 1, 2010, as a transitional arrangement between the LTI bonuses for 2009 and 2010. This is calculated on a straight-line basis from a positive VA greater than 0.00 percent up to a fixed indicator (12.0 percent) and is paid out in this amount. The initial rolling LTI bonus is capped at this indicator.

LTI bonuses are paid out following the ordinary annual general meeting of the third fiscal year at the latest.

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

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

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

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

The management board and supervisory board will propose to the 2010 annual general meeting that the provisions of the articles of incorporation and bylaws and the level of supervisory board remuneration be amended.

The directors and officers liability insurance (D&O insurance policy) taken out by the company for members of the supervisory board only provided for a deductible for US claims for all persons covered by the insurance for the period until the end of 2009. 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 supervisory board.

2. DISCLOSURES PURSUANT TO SEC. 289 (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, Gutersloh, have announced the conclusion of a vote pooling agreement on March 8, 2010. This vote pooling agreement contains limitations on both voting rights and the transferability of shares. The management board is not aware of any further restrictions, especially arising from agreements between shareholders, concerning voting rights.

Direct or indirect capital investments exceeding 10 percent (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 ["Aktiengesetz": German Stock Corporation Act], the supervisory board may appoint members of the management board for a maximum term of five years. Reappointment or extension of the term of office is allowed, for a term of up to five years each time. In accordance with Sec. 84 (1) Sentence 3 AktG, reappointment or the extension of terms of office may be carried out no earlier than one year before expiry of the current term of office and requires a new resolution by the supervisory board. In accordance with Sec. 84 (1) Sentence 4 AktG, an appointment term of less than five years may be extended without the need for a new resolution by the supervisory board provided that the total term of office does not exceed five years.

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

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

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

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

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

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

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

The supervisory board is authorized to amend the current version of the articles of incorporation and bylaws after the capital increase from authorized capital is entered or once the period of authorization expires.

b) *Authorization to purchase treasury shares:* Pursuant to Sec. 71 (1) No. 8 AktG, the company is authorized, with the approval of the supervisory board, to purchase treasury shares up until October 31, 2010 with an imputed share in share capital of EUR 1,568,800. The company may not use the authorization to trade with treasury shares. The company can exercise the authorization wholly or in part, once or several times. The management board can choose to purchase the treasury shares either a) from the stock exchange or b) from a public offer made to all shareholders.

Subject to the approval of the supervisory board, the management board is authorized to redeem the treasury shares purchased pursuant to this authorization without requiring any further resolutions by the annual general meeting. Moreover, subject to the approval of the supervisory board, they can be sold in a way other than on the stock exchange, provided that the treasury shares are purchased in exchange for contributions in cash and at a price that does not fall materially short of the quoted price of the same category of the company’s shares at the time of the sale. The total imputed share in share capital attributable to the number of treasury shares sold under this authorization together with the imputed share in share capital attributable to new shares issued, while precluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG directly or by analogy, since the resolution granting this authorization was passed, may not exceed a total of 10 percent of the share capital as of the date on which 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 five percent (excluding incidental purchase costs) of the average closing rate the company’s shares in XETRA trading (or a functionally comparable successor system taking the place of the XETRA system) on the Frankfurt am Main stock exchange during the five trading days prior to the agreement with the third party.

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.

3. CHANGES IN COMPANY BOARDS

The former CEO and management board member for sales, service and marketing, Dr. Joachim Brenk, left the company of his own volition at the end of September 2009 in order to take up a new challenge. The new management board member responsible for sales, service and marketing since October 1, 2009 is Jürgen Köppel, who has served as general manager of the successful HOMAG production company BRANDT Kantentechnik GmbH since 2004. Longstanding management board member Rolf Knoll took on the position of CEO as of September 1, 2009.

At its meeting of December 17, 2009, the supervisory board elected existing member Reiner Neumeister as its new deputy chairperson. He replaces Jochen Meyer, who remains a member of the supervisory board.

4. CORPORATE MANAGEMENT

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

5. DECLARATION OF COMPLIANCE*

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.

** The corporate governance declaration did not fall under the scope of the statutory audit of the financial statements.*

5.1 Corporate Governance at HOMAG Group AG

Corporate governance stands for transparent and responsible management and control geared to increasing value in the long term. The management board and supervisory board as well as the HOMAG Group AG's employees feel duty-bound to these principles, which are therefore at the core of our activities. As a result, we implement almost all recommendations of the Code, and have further reduced what few exceptions there were in the past. We also apply many of its suggestions.

An important element of corporate governance in the HOMAG Group is a clear segregation of duties and responsibilities between management board, supervisory board and the annual general meeting. In this context, the supervisory board accompanies and monitors the management board's management activities. Key elements of corporate governance in our company include active and open corporate communication as well as dealing responsibly with risks.

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 2010. An up-to-date version is made permanently available to shareholders on Homag Group AG's homepage at www.homag-group.com.

5.2 Management and Control Structure

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. 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, only one former member of the management board sits 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 shareholder's 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 AG, a subsidiary of HOMAG Group AG, and Mr. Schuler in 1999.

The supervisory board set up a total of four committees: the accounting committee (which functions as the audit committee in accordance with Sec. 107 (3) Sentence 2 and Sec. 171 (1) Sentence 3 AktG as well as section 5.3.2 of the Code), 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 have decision-making authority transferred to them by the supervisory board where legally permissible. The chairpersons of the individual committees reported on the work of their committees at all full meetings of the supervisory board.

The Management Board

The management board of HOMAG Group AG currently consists of five members and has a CEO. The supervisory board of HOMAG Group AG has issued a code of procedure for the management board. The management board conducts the business of the company with joint responsibility of all its members. It is bound to act in the interest of the company and to increase the long-term value of the company. The management board develops the company's strategy, consults with the supervisory board on this and ensures that it is implemented. The management board ensures that the law and corporate guidelines are observed and encourages group companies to comply as well. In addition to that, the management board is responsible for ensuring that appropriate risk management and risk steering is in place in the company. The management board keeps the supervisory board informed regularly, promptly and comprehensively about all questions of relevance to the company. Before the beginning of the next fiscal year, it presents a business plan to the supervisory board. 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. The management board discusses the Group's strategic orientation with the supervisory board. During the fiscal year, measures requiring the approval of the supervisory board must be submitted to the supervisory board without delay.

Annual General Meeting

The shareholders of HOMAG Group AG protect their rights in the annual general meeting. This is where they exercise their voting rights. Among other things, the annual general meeting adopts resolutions on profit appropriation, the exoneration of the management board and of the supervisory board and the election of the auditor. Amendments to the articles of incorporation and bylaws and measures to increase or decrease capital, as well as the authorization to increase or decrease capital, are resolved exclusively by the annual general meeting and implemented by the management board. The shareholders have the opportunity to exercise their voting right at the annual general meeting in person or by a proxy of their choice or by a proxy appointed by HOMAG Group AG who is bound to follow instructions.

Financial Reporting and Annual Audit

The financial statements of HOMAG Group AG are prepared in accordance with the German Commercial Code (HGB), the consolidated financial statements according to International Financial Reporting Standards (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 auditor they have in mind if and whether there are any business, financial, personal or other relations between the audit firm 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 statement 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 efficacy 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 ["Bilanzrechtsmodernisierungsgesetz": German Accounting Law Modernization Act].

Transparency

HOMAG Group AG informs agents on the capital markets 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. 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, provided the requirements of Sec. 15 (3) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] have not been met and the management board avails itself of its provisions.

6. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

6.1 Results of Operations

The results of operations of HOMAG Group AG, are mainly influenced by the results HOMAG Holzbearbeitungssysteme AG, which are assumed by HOMAG Group AG as a result of the profit and loss transfer agreement in place between the two. Due to the difficult economic conditions for HOMAG Holzbearbeitungssysteme AG in 2009, a loss of EUR -7.6 million had to be borne (prior year: profit of EUR 26.3 million). One further negative effect on HOMAG Group's results of operations stems from expenses associated with consultation on restructuring and subsidies to group companies, which raised other operating expenses for the year under review to EUR 4.1 million (prior year: EUR 2.7 million). In addition, impairment of EUR 0.4 million was charged to the equity investments in the companies TORWEGGE and SBS AG on account of the negative development of these companies.

Offsetting effects stemmed from personnel expenses on account of the significant reduction in management board remuneration resulting from the absence of variable remuneration components in the year under review. This reduced personnel expenses to EUR 1.2 million (prior year: EUR 2.3 million). One further positive effect stemmed from interest expenses in connection with the significant reduction of financing costs in 2009, which improved the interest result from EUR -2.7 million in the prior year to EUR -1.7 million in the year under review. This resulted in a net loss for fiscal 2009 of EUR -10.3 million (prior year: net profit of EUR 23.4 million). Taking account of the profit carryforward from the prior year and the distribution of dividends (EUR 4.7 million), the retained earnings as of the balance sheet date came to EUR 25.5 million (prior year: EUR 40.5 million).

6.2 Net Assets and Financial Position

At EUR 161.6 million, net assets were more or less stable in a year-on-year comparison (prior year: EUR 159.7 million). While non-current assets increased by around EUR 46 million, current assets fell by around EUR 44 million. This is mainly connected to the fact that on the one hand, receivables from HOMAG Holzbearbeitungssysteme AG relating to profit and loss transfers in prior years were settled, and on the other, shares in affiliates within fixed assets rose EUR 33.8 million on account of a contribution to the capital reserve, while a 51% share in BENZ GmbH was also acquired in the year under review adding EUR 12.1 million to financial assets.

Due to the poor results, equity now stands at EUR 76.4 million (prior year: EUR 91.4 million). This reduces the equity ratio to 47% of total assets (prior year: 57%). In 2009, HOMAG Group carried out a distribution of 30 cents per share, bringing the total dividend to EUR 4.7 million (prior year: EUR 14.1 million). In addition, on the liabilities side, bank liabilities rose from EUR 51.2 million to EUR 56.9 million, and liabilities to affiliates rose by EUR 6.3 million, mainly due to the assumption of the loss incurred by HOMAG Holzbearbeitungssysteme AG in the year under review.

7. SUBSEQUENT EVENTS

After the end of the reporting period, we concluded a new syndicated loan agreement with a volume of EUR 198 million in February 2010. This matures in February 2013, and secures our liquidity subject to compliance with certain covenants in the next three years.

In February 2010 we increased our share in BÜTFERING Schleiftechnik GmbH from 80 to just under 92 percent by means of a capital injection, while at the same time diluting the shares of the minority shareholders.

Company co-founder Gerhard Schuler, other members of the Schuler family and the Erich und Hanna Klessmann Stiftung informed us in early March 2010 that they have pooled their shareholdings. All parties have held shares in HOMAG Group AG for many years, and together account for around 24 percent of the company's shares.

8. RISK 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 corporate group with operations around the globe, HOMAG Group is naturally exposed to a large number of risks. Risks can arise from both the company's own business activities and from external factors. 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 company policy.

Risk Management System

HOMAG Group AG's risk management system is essentially supported by the management accounting system. It includes project controlling, cost object controlling and detailed segment reporting. A balanced scorecard is the central element of the system. 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 reported, and, in the event of unexpected developments, the management board and supervisory board are notified immediately.

We refined our risk management system in fiscal 2009, particularly in the field of IT security. We also improved our reporting and net working capital management by means of appropriate measures, increased our currency hedging activities and added to the number of forecasts prepared over the course of the year in response to the challenging situation.

At present there are no recognizable risks to the continued existence of HOMAG Group AG as a going concern.

As part of our internal audit, all significant group entities are audited in a cycle of three to five years. We audited a production and sales company in fiscal 2009. The audit did not lead to any material findings or raise any objections. Three or four companies are scheduled to be audited in the current year.

Economic Risks

One of the main risks to the HOMAG Group is the development of the global economy, as the willingness of our customers to spend falls significantly in difficult economic times. This was the case in 2009. Although we are able to compensate for crises in individual regions through our global presence, a global crisis will of course have a negative effect even on our order volumes. Even if leading economic research institutes believe that we are through the worst of the current crisis, the economic risks remain. The markets of importance to us, i.e. Germany, Austria and Switzerland, still developed fairly favorably in the crisis year of 2009, which gives rise to the risk that there may yet be a decline.

We combat 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

HOMAG Group is not dependent on a single customer or a small group of customers, since no single customer directly generates more than 5 percent of total sales revenue. One risk on the customer side, which is particularly high in the current state of crisis within the industry due to the possibility of insolvencies, relates to the risk of bad debts. We minimize this risk by obtaining advance payments based on the stage of completion of projects and by taking out insurance on a case-by-case basis. Overall, this approach has rewarded us with a low ratio 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 intensive relationships to customers who provide us early feedback regarding our developments. We rule out R&D budget overruns and unexpected increases in the start-up cost of new products as much as possible 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 small workshops to complex production lines for industrial mass production, we have a wide range of 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 a going concern.

In general, the market entry barriers in our industry are very high. As a result, we estimate that there is a very low risk of new competitors endangering our technological lead.

IT Risks

The main IT risks relate to data loss, damage or misuse. We considerably improved our IT security in 2009 in the interest of mitigating these risks. For example, the newly constructed HOMAG Center at the company's headquarters in Schopfloch contains the new computing center, which was set up in accordance with the latest security aspects. The previous computing center is being refurbished and will serve as a back-up center, which further improves data security. The increased outsourcing of data also plays a part. We have also introduced real-time data back-up and dedicated security zones with video monitoring, controlled access authorization and alarm functions. We have also extended the uneditable archiving of data, such as incoming and outgoing invoices. We conducted training for our employees, and designated IT security officers at all of our companies.

Quality Risks

Quality is prioritized throughout the HOMAG Group. The premium quality of our products also sets us apart from the competition. 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 while ensuring a uniform high product quality based on a high degree of standardization. The majority of our production sites are certified pursuant to DIN ISO 9000, which testifies to the high standard of our quality assurance system.

Currency Risks

Currency risks can arise from the international activities of group companies, which can indirectly impact the Group's sales revenue and results of operations. In order to further mitigate these risks, group companies increased their hedging transaction activities while keeping items in foreign currencies to a minimum. We consider currency risks to be low overall since sales revenue is mainly generated in Europe and invoices are issued in euro, even in some cases for countries outside of the euro zone.

Liquidity and Financing Risks

We secured our liquidity until February 2013 by entering into a new syndicated loan agreement in February 2010 that is contingent on us complying with certain covenants. Consequently, there are no currently discernable financial risks that could jeopardize the continuation of the Group as a going concern.

Legal Risks

One risk of the Group's business relates to the assertion of warranty claims. Two large-scale orders are subject to payment delays or payment risks at group companies. The negotiations of the two cases could lead to litigation risks before an arbitration court.

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)

HOMAG Group AG's internal monitoring system with regard to the (group) financial reporting process includes all principles, procedures and measures aimed at ensuring the efficacy 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, particular with regard to commercial items that record the company's hedging of risks. The Group maintains 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 HOMAG Group AG's internal monitoring systems (risk management, internal audit) in terms of their efficacy. 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 of major areas of risk and aspects to be monitored that are particularly relevant to the (group) financial reporting process by group accounting, in particular 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, as well as
- Preventative monitoring measures in the finance and accounting of the group and the individual consolidated companies as well as in operating corporate processes, which generate the key figures for the preparation of the consolidated financial statements and group management report. 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 risk management system was assessed by the auditors of the financial statements in the course of their audit;
- Discussion and examination by the supervisory board of 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 and appraised correctly, and transferred in this form to external financial reporting.

The organizational, corporate, supervisory 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 AG'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.

9. OUTLOOK

Development of the Economy and Industry

According to economists, the recovery of the global economy which began in 2009 will continue into 2010, although growth will remain sluggish and it will be a while before we reach the level from before the severe economic crisis. The ifo institute estimates that the world economy will grow by 3.1 percent in 2010, and world trade by 5.0 percent. Increasing their GDP by a mere 1.4 percent in 2010, industrialized countries will not benefit as much from the recovery as emerging economies, which will see overall growth of 5.1 percent. The DIW forecasts growth of 2.2 percent for the US and 0.8 percent for Japan, while China for example is expected to grow by 9.8 percent, and India by 7.5 percent.

The IfW anticipates growth of between 0.9 and 0.8 percent respectively for the European Union and euro zone in 2010, with countries such as Spain, Italy and Greece faring much worse. The outlook is varied for the eastern European accession countries. While Estonia, Latvia, Lithuania and Hungary are expected to see negative growth, the IfW forecasts renewed economic vigor in Poland and the Czech Republic, for example. After suffering one of the worst declines within the EU in 2009, Germany could prove to be the driving force behind the European economy in the current year, growing by between 1.5 and 2 percent according to the predictions of the economic research institutes. Both capital expenditures and exports are expected to see strong growth.

The VDMA anticipates stagnating production volumes for German mechanical engineering in fiscal 2010. However, the association expects a slight upturn in the course of the year, with growth possible in the second half of the year. In the wood processing machines segment, the relevant industry association within the VDMA does not expect a general, long-term recovery in investment in 2010, and therefore no real reversal of the current trend. However, the already poor figures for 2009 mean that sales revenue is nevertheless expected to grow between 10 and 15 percent.

Forecast for HOMAG Group

Following the significant drop in sales revenue in fiscal 2009, we are cautiously optimistic about the current year, in which our largest individual company, HOMAG Holzbearbeitungssysteme AG, celebrates its fiftieth anniversary. We are confident that we have overcome the lowest point in our order volumes, and that our customers are increasingly willing to spend. This was already evident in the fourth quarter of 2009, in which the order intake of the Group was significantly higher than in the preceding quarters. This gave the Group an order backlog that was EUR 171 million and therefore higher than anticipated as we entered the new year, and was even higher than at the end of 2008 (EUR 164 million). However, the lingering effects of the economic crisis mean that there could still be setbacks in individual markets or segments.

Fiscal 2010 has also started with a positive trend in order intake, in contrast to the first two months of 2009. However, it is important to stress that we are still well short of the figures seen before the crisis, even if the numbers compare favorably with 2009. Because even if our industry as a whole is once again experiencing growth, the effects of the economic crisis can still be clearly felt. For example, although the overall utilization of capacity throughout the group has improved, it varies significantly between the individual group companies.

We anticipate double-digit percentage growth in group order intake and sales revenue in fiscal 2010, and therefore aim to generate group sales revenue with a volume of more than EUR 600 million, provided the domestic market, which has been strong so far, remains relatively stable. We expect order intake to follow its typical cycle in 2010, namely highest in the first and second quarters and tending to fall in the course of the year.

We are once again seeing an increase in orders for large-scale systems in particular, following a collapse in demand last year, as well as an increase in inquiries, albeit accompanied by considerable pressure on margins on account of the intensity of competition. As warehouses of standard machines have considerably emptied, we anticipate an increase in replacement orders in 2010. We also intend to further implement the Group's service strategy and actively offer our expanded portfolio to customers.

We aim to improve our group result in comparison to 2009, always provided that there is no slump in demand, particularly in the domestic market, which until now has remained stable. We anticipate a neutral or even slightly positive group result for the year 2010, although we expect the financial result to be worse on account of an increase in interest of between three and four million euro, and potential restructuring expenses of up to four million euro. Even if the overall group result for the year will once again be neutral or even slightly positive from a current perspective, individual quarters may well see negative results.

We also anticipate another year of positive results for HOMAG Group AG in 2010, as the result to be transferred from HOMAG Holzbearbeitungssysteme AG will once again be positive.

Despite a more positive outlook for 2010, we will continue to implement the cost-cutting measures already introduced in order to be prepared for any setbacks. The headcount at the group will therefore continue to fall over the course of the year in comparison to December 31, 2009. Once all agreed measures in this regard have been implemented, we anticipate a headcount of just over 4,800 employees at HOMAG Group, including employees of BENZ.

We will once again have to maintain reduced working hours at certain locations in 2010 on account of the different utilization of capacity at individual group companies.

Group capital expenditure will continue to fall in 2010, as we have not planned any major construction projects in contrast to previous years, such as the HOMAG Center in 2009. We expect the group's net liabilities to banks to increase slightly on their low 2009 levels in 2010.

It remains difficult to say how our global sales markets will develop in 2010, as both the development of the economy in the individual regions and the credit approval practice of the banks are uncertain. Subject to these conditions, we expect the domestic, Austrian and Swiss markets to remain stable, and maintain the good levels seen in 2009. In the rest of western Europe, we expect the green shoots of recovery seen in the second half of 2009 to grow stronger. Even in the UK and Spain, which were extremely hard hit by the global financial and economic crisis, order intake is on the rise again, enabling us to report the first sales of state-of-the-art **laser**Tec systems to countries such as Spain.

In eastern Europe, future development is strongly reliant on the financing offered. Russia and its neighbors are particularly affected by the credit crunch, which will continue to have a significant impact on customer spending in 2010. However, major global customers of HOMAG Group are seizing the opportunity and working intensively on investing in the region, which will have a positive effect on our order intake when implemented in 2010 as planned. In south-eastern Europe, our stand-alone machines continue to play an important role alongside the project business.

Developments in Asia will vary in 2010. China will continue to exercise its dominant role, in terms of both systems and stand-alone machines. The presentation of innovative products from HOMAG Group's Chinese production plant at the important trade fairs in Shanghai and Guangzhou highlights the importance of this market. Australia will also continue to perform well, and the trade fair in Bangalore in March 2010 will create impetus for order intake in India. The situation in South-East Asia, Japan and Korea remains critical due to the underlying economic conditions.

The full consequences of the global financial and economic crisis are only now becoming apparent in much of Asia, which is why we do not anticipate any significant impetus for growth from this region in 2010.

The American market is also varied. In South America we benefited from the favorable development of the currency, as well as from Economic Recovery Package II passed by the German government to promote exports by reducing the risk involved and facilitating processing. This is why the Brazilian market, for example, continues to show a positive trend. The situation in Central America, on the other hand, is extremely critical. In North America, our order intake bottomed out in 2009, although the signs of recovery in the US are weaker than those in Canada. In Canada, both the stand-alone machines business and systems business show a positive trend, which is sure to be supported by a robust services business in 2010.

By implementing group initiatives aimed at streamlined structures, efficient processes, market-based innovations and even more orientation toward the customer, we aim to gain market share in 2010, and reinforce our earnings power. This will be supported by the reinforcement and expansion of the global sales and service organization. We will also continue to represent our company at numerous trade fairs, hold our own in-house trade fairs and introduce our customers to our innovative products, such as **laser**Tec and various anniversary models to mark 50 years of HOMAG Holzbearbeitungssysteme AG. The most important trade fairs for 2010, a year in which Ligna is not being held, include HolzHandwerk in Nuremberg in March, and Xylexpo in Milan in May.

Fiscal 2011

It is difficult to make predictions for fiscal 2011 due to the ongoing instability of the global economy. Although there are unmistakable positive signs, the extent to which these will last or whether there will be setbacks remains to be seen in the course of 2010. Assuming there is no further economic decline, and the positive trend seen at the beginning of 2010 continues, we anticipate further growth for HOMAG Group in 2011.

By swiftly implementing appropriate measures in response to the global financial and economic crisis, and by investing in the future in the form of innovation and the consistent expansion of the sales and service network, the chances are good that we will emerge from this crisis stronger and with additional market share. We are aiming for a percentage increase in group sales revenue in 2011 in the high single digits, and a sustainably positive group result. We believe that we will no longer need to use reduced working hours at group companies in 2011. For 2011 we once again expect positive impetus from the industry's leading trade fair, Ligna, where we traditionally present customers with a number of innovative products.

Annual Financial Statements (AG)

INCOME STATEMENT FOR FISCAL YEAR 2009

EUR	Note	**2009**	2008
Other operating income	23	1,632,496.44	2,105,619.72
Personnel expenses	24		
- Wages and salaries		-1,124,870.51	-2,243,397.02
- Social security and other benefit costs		-96,639.91	-92,303.57
Other operating expenses	26	-4,058,663.78	-2,736,560.30
		-3,647,677.76	**-2,966,641.17**
Income from equity investments	27	4,235,000.00	3,955,000.00
Expenses (prior year: income) from profit and loss transfer agreement	27	-7,613,937.27	26,253,759.85
Other interest and similar income	28	366,981.48	781,921.27
Write-downs on financial assets	27	-403,000.00	0.00
Interest and similar expenses	28	-2,085,728.50	-3,523,934.39
RESULT FROM ORDINARY ACTIVITIES		**-9,148,362.05**	**24,500,105.56**
Income taxes	30	-1,021,400.81	-1,061,629.69
Other taxes	31	-126,041.48	-3,877.91
NET LOSS FOR THE YEAR (PRIOR YEAR: NET INCOME)		**-10,295,804.34**	**23,434,597.96**
Profit brought forward from prior year		35,789,062.43	17,060,864.47
NET RETAINED PROFIT		**25,493,258.09**	**40,495,462.43**

BALANCE SHEET AS OF DECEMBER 31, 2009

ASSETS

EUR	Note	Dec. 31, 2009	Dec. 31, 2008
A. FIXED ASSETS			
I. Financial assets			
1. Shares in affiliates	3	151,870,182.69	105,848,091.51
2. Equity investments	3	1.00	1.00
		151,870,183.69	105,848,092.51
		151,870,183.69	**105,848,092.51**
B. CURRENT ASSETS			
I. Receivables and other assets			
1. Trade receivables	5	2,042.29	0.00
2. Receivables from affiliated companies	5	5,488,431.21	51,604,014.71
3. Other assets	5	4,120,144.45	2,141,201.88
		9,610,617.95	53,745,216.59
		9,610,617.95	**53,745,216.59**
C. PREPAID EXPENSES		**114,166.15**	**146,785.03**
TOTAL ASSETS		**161,594,967.79**	**159,740,094.13**

EQUITY AND LIABILITIES

EUR		Note	Dec. 31, 2009	Dec. 31, 2008
A.	EQUITY			
I.	Subscribed capital	7	15,688,000.00	15,688,000.00
II.	Capital reserves	8	33,799,650.00	33,799,650.00
III.	Revenue reserves			
	Other revenue reserves	9	1,456,134.50	1,456,134.50
IV.	Net retained profit	11	25,493,258.09	40,495,462.43
			76,437,042.59	**91,439,246.93**
B.	PROVISIONS			
	1. Pension provisions	15	513,223.00	528,152.00
	2. Tax provisions	16	5,118,147.55	5,317,230.67
	3. Other provisions	17	828,137.60	2,531,276.24
			6,459,508.15	**8,376,658.91**
C.	LIABILITIES			
	1. Liabilities to banks	18	56,936,248.74	51,163,075.97
	2. Trade payables	18	171,369.83	245,780.72
	3. Liabilities to affiliated companies	18	14,297,190.11	8,041,886.43
	4. Other liabilities	18	7,268,608.37	443,445.17
			78,673,417.05	**59,894,188.29**
D.	DEFERRED INCOME		**25,000.00**	**30,000.00**
TOTAL EQUITY AND LIABILITIES			**161,594,967.79**	**159,740,094.13**

Notes to the Financial Statements for Fiscal Year 2009 (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 cost-summary method.

In order to improve the clarity of the financial statements, we have summarized individual balance sheet items and have disclosed them separately in the notes to the financial statements. For the same reason, we have also indicated in the notes where individual items are related to "thereof" items.

ACCOUNTING 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.

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 values 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.

Statement of Changes in Fixed Assets

		Acquisition and production		
EUR		Jan. 1, 2009	Additions	Disposals
I.	Financial assets			
	1. Shares in affiliated companies	123,453,999.47	46,425,091.18	0.00
	2. Equity investments	4,274,310.74	0.00	0.00
		127,728,310.21	**46,425,091.18**	**0.00**

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

Provisions for pensions are recorded at amounts allowed by tax law. The values were determined on the basis of actuarial principles in accordance with Sec. 6a EStG ["Einkommensteuergesetz": German Income Tax Act]. They are based on an interest rate of 6% and the 2005 G mortality tables.

Tax provisions and *other provisions* are created to cover all recognizable risks and contingent liabilities. They are recorded at the amounts required according to prudent business judgment.

Liabilities are stated at the amount repayable.

NOTES TO THE BALANCE SHEET

Fixed Assets

The development of the individual fixed asset items, including amortization, depreciation and write-downs for the fiscal year, is shown in the statement of changes in fixed assets.

1 No Disclosure

2 No Disclosure

cost	Accumulated amortization, depreciation and write-downs				Net book values	
Dec. 31, 2009	Jan. 1, 2009	Additions	Disposals	Dec. 31, 2009	**Dec. 31, 2009**	**Dec. 31, 2008**
169,879,090.65	17,605,907.96	403,000.00	0.00	18,008,907.96	151,870,182.69	105,848,091.51
4,274,310.74	4,274,309.74	0.00	0.00	4,274,309.74	1.00	1.00
174,153,401.39	**21,880,217.70**	**403,000.00**	**0.00**	**22,283,217.70**	**151,870,183.69**	**105,848,092.51**

3 Financial Assets

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

List of shareholdings	Currency	Subscribed capital Dec. 31, 2009	Share in capital % Dec. 31, 2009	Equity EUR k Dec. 31, 2009	Profit / loss EUR k 2009
GERMANY					
Direct shareholdings:					
Homag Holzbearbeitungssysteme AG, Schopfloch	EUR	30,000,000.00	100.00	82,113	PLTA
Schuler Business Solutions AG, Pfalzgrafenweiler	EUR	5,150,000.00	100.00 [1]	1,619	-910
Torwegge Holzbearbeitungsmaschinen GmbH, Löhne	EUR	1,600,000.00	100.00 [2]	-1,929	-1,612
Holzma Plattenaufteiltechnik GmbH, Holzbronn	EUR	5,600,000.00	100.00 [3]	23,077	312
Brandt Kantentechnik GmbH, Lemgo	EUR	4,000,000.00	70.00	17,474	-1,922
Weeke Bohrsysteme GmbH [4], Herzebrock	EUR	17,550,000.00	100.00	27,694	-5,567
BENZ GmbH Werkzeugsysteme, Haslach	EUR	25,000.00	51.00	1,906	-733
Wehrmann Maschinen Center GmbH [5], Barntrup	EUR	2,500,000.00	43.82	1,087 [6]	-2,567 [6]
Indirect shareholdings:					
Homag Vertriebs-Beteiligungs GmbH, Schopfloch	EUR	7,200,000.00	100.00 [7]	23,463	-1,101
Ligmatech Automationssysteme GmbH, Lichtenberg	EUR	6,650,000.00	100.00	4,660	-1,994
Friz Kaschiertechnik GmbH, Weinsberg	EUR	2,400,000.00	100.00	921	PLTA
Bargstedt Handlingsysteme GmbH, Hemmoor	EUR	5,133,000.00	100.00	4,952	-2,940
Bütfering Schleiftechnik GmbH, Beckum	EUR	370,000.00	80.00	-643	-2,774
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	EUR	1,000,000.00	51.00	4,616	111
Homag GUS GmbH, Schopfloch	EUR	100,000.00	100.00 [7]	2,100	PLTA
Homag Finance GmbH, Schopfloch	EUR	100,000.00	100.00 [7]	125	-36
Homag India GmbH, Schopfloch	EUR	400,000.00	100.00 [7]	4	-9 [8]
Homag Vertrieb & Service GmbH, Schopfloch	EUR	300,000.00	100.00 [7]	506	-241
Hüllhorst GmbH, Barntrup	EUR	255,645.94	100.00	255	2

[1] *Thereof 94.00% held by Homag Holzbearbeitungssysteme AG and 6.00% by Homag Group AG*
[2] *Thereof 39.95% held by Homag Holzbearbeitungssysteme AG and 60.05% by Homag Group AG*
[3] *Thereof 54.46% held by Homag Holzbearbeitungssysteme AG and 45.54% by Homag Group AG*
[4] *Formerly MAW Montagetechnik GmbH, Herford*
[5] *The insolvency proceedings have not yet been completed*
[6] *Fiscal year from April 1, 2002 to March 31, 2003*
[7] *Exactly calculated share in capital: 96.11%*
[8] *Figures from fiscal year January 1 to December 31, 2008*
PLTA *Control and profit and loss transfer agreement with Homag Group AG or Homag Holzbearbeitungssysteme AG or Homag Vertriebs-Beteiligungs GmbH*

List of shareholdings	Currency	Subscribed capital Dec. 31, 2009	Share in capital % Dec. 31, 2009	Equity EUR k Dec. 31, 2009	Profit / loss EUR k 2009
INTERNATIONAL					
Indirect shareholdings:					
Homag Machinery Środa Sp. z o.o., Środa / Poland	PLN (EUR	6,001,000.00 1,452,323.33	100.00 [9]	6,022 1,457	-1,426 -329)
Holzma Plattenaufteiltechnik S.A. Unipersonal L'Ametlla del Valles / Spain	EUR	2,047,748.40	100.00	2,918	37
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo / Brazil	BRL (EUR	6,812,180.00 2,725,526.13	100.00	10,528 4,212	1,252 449)
Homag Machinery (Shanghai) Co. Ltd., Shanghai / China	CNY (EUR	70,715,635.00 7,241,002.97	81.25 [10]	112,879 11,558	-202 -21)
Homag Austria Gesellschaft mbH, Oberhofen am Irrsee / Austria	EUR	370,000.00	100.00 [11]	772	-141
Homag Italia S.p.A., Mailand / Italy	EUR	1,100,000.00	100.00 [11]	2,497	-330
Homag France S.A., Schiltigheim / France	EUR	1,500,000.00	100.00 [11]	7,980	884
Homag Asia (PTE) Ltd., Singapore / Singapore	SGD (EUR	100,000.00 49,706.73	100.00 [11]	-1,669 -830	-4,260 -2,104)
Homag Canada Inc., Mississauga, Ontario / Canada	CAD (EUR	4,367,800.00 2,905,861.22	100.00 [11]	12,154 8,086	388 244)
Homag Polska Sp. z o.o., Środa / Poland	PLN (EUR	1,050,000.00 254,114.23	100.00 [11]	10,403 2,518	474 109)
Homag Japan Co. Ltd., Osaka / Japan	JPY (EUR	156,000,000.00 1,176,547.78	100.00 [11]	281,403 2,122	-22,948 -176)
Homag Danmark A / S, Galten / Denmark	DKK (EUR	1,970,000.00 264,717.34	100.00 [11]	16,061 2,158	467 63)
Homag U.K. Ltd., Castle Donington / UK	GBP (EUR	2,716,778.00 3,041,623.38	100.00 [11]	-1 -1	-1,018 -1,142)
Schuler Business Solutions S.L., Cullera / Spain	EUR	301,000.00	100.00	286	41
Homag Korea Co. Ltd., Seoul / Korea	KRW (EUR	320,970,000.00 191,611.43	54.55 [12]	281,542 168	123,535 70)
Holzma Tech GmbH, Assenovgrad / Bulgaria	BGN (EUR	370,000.00 189,171.23	100.00	1,016 519	66 34)

[9] *Exactly calculated share in capital: 92.81%*
[10] *Exactly calculated share in capital: 78.13%*
[11] *Exactly calculated share in capital: 96.11%*
[12] *Exactly calculated share in capital: 52.43%*

List of shareholdings	Currency	Subscribed capital Dec. 31, 2009	Share in capital % Dec. 31, 2009	Equity EUR k Dec. 31, 2009	Profit / loss EUR k 2009
INTERNATIONAL					
Indirect shareholdings:					
Stiles Machinery Inc.,	USD	25,806.00	22.00	23,931	-1,284 [13]
Grand Rapids / USA	(EUR	18,042.37		16,731	-921)
Weeke North America Inc.,	USD	20,000.00	81.00	-137	-157
Grand Rapids / USA	(EUR	13,983.08		-96	-113)
Homag España Maquinaria S.A., Montmeló / Spain	EUR	1,211,300.00	100.00 [14]	1,174	-1,351
Homag China Golden Field Ltd.,	HKD	27,000,000.00	25.00	86,954	5,885 [13]
Hongkong / China	(EUR	2,434,318.48		7,840	544)
Homag South America Ltda.,	BRL	5,925,031.00	100.00 [14]	3,720	1,493
São Paulo / Brazil	(EUR	2,370,581.34		1,488	536)
Homag Australia Pty. Ltd.,	AUD	6,209,158.62	100.00 [14]	673	-714
Sydney / Australia	(EUR	3,878,300.20		420	-402)
Homag (Schweiz) AG,	CHF	200,000.00	100.00 [14]	6,282	1,303
Bachenbülach / Switzerland	(EUR	134,354.43		4,220	863)
Bütfering Qinhuangdao Machinery	CNY	2,395,681.75	100.00 [16]	3,261	-165 [17]
Manufacturing Co. Ltd. [15], Qinhuangdao / China	(EUR	245,308.39		334	-17)
OOO "FAYZ-Homag GUS"	USD	174,000.00	33.00 [18]	not	not
Taschkent / Uzbekistan	(EUR	121,652.80		available	available)
OOO "Homag Russland"	RUB	357,215.00	99.00 [19]	19,140	-7,431
Moscow / Russian Federation	(EUR	8,239.72		441	-168)
Homag India Private Ltd.,	INR	171,425,010.00	99.90 [20]	15,466	-63,585
Bangalore / India	(EUR	2,564,054.77		231	-935)
RAMU Machinery Private Limited,	INR	11,500,000.00	52.17 [21]	2,249	-4,141 [22]
Bangalore / India	(EUR	172,008.91		34	-61)
HA Malaysia Sdn. Bhd,	MYR	250,000.00	100.00 [14]	-1,377	-151
Kuala Lumpur / Malaysia	(EUR	50,938.28		-281	-31)
HA (Thailand) Co. Ltd.,	THB	2,000,000.00	100.00 [14]	224	12,059
Bangkok / Thailand	(EUR	41,866.93		5	250)
BENZ INCORPORATED,	USD	100.00	100.00 [23]	-417	-32
Charlotte / USA	(EUR	69.92		-292	-23)

[13] *Figures from fiscal year January 1 to December 31, 2008*
[14] *Exactly calculated share in capital: 96.11%*
[15] *The Company is being liquidated*
[16] *Exactly calculated share in capital: 80,00%*
[17] *Figures from fiscal year January 1 to December 31, 2004*
[18] *Exactly calculated share in capital: 31.72%*
[19] *Exactly calculated share in capital: 95.15%*
[20] *Exactly calculated share in capital: 96.01%*
[21] *Exactly calculated share in capital: 50.09%*
[22] *Fiscals from fiscal year from January 1 to December 31, 2007*
[23] *Exactly calculated share in capital: 51.00%*

4 No Disclosure

5 Receivables and Other Assets

EUR k	Dec. 31, 2009	Dec. 31, 2008
Trade receivables	2	0
- thereof due in more than one year	*0*	*0*
Receivables from affiliated companies	5,488	51,604
- thereof due in more than one year	*1,401*	*1,401*
Other assets	4,120	2,141
- thereof due in more than one year	*1,211*	*1,353*
	9,610	**53,745**

6 No Disclosure

7 Issued Capital

As of the balance sheet date, the issued capital of Homag Group AG, Schopfloch, came to EUR 15,688 k (prior year: EUR 15,688 k). It is divided into 15,688,000 no par value shares with an imputed value of EUR 1.00 each.

8 Capital Reserves

The capital reserve of Homag Group AG, Schopfloch, remained unchanged at EUR 33,800 k as of the balance sheet date.

9 Revenue Reserves

As of the balance sheet date, the revenue reserves of Homag Group AG, Schopfloch, came to EUR 1,456 k (prior year: EUR 1,456 k).

10 No Disclosure

11 Retained Earnings / Losses

EUR k		
Carryforward 1 January, 2009	40,495	
Profit distributions	-4,706	
		35,789
Result 2009		-10,296
AS OF DECEMBER 31, 2009		**25,493**

12 No Disclosure

13 No Disclosure

14 No Disclosure

15 Provisions for Pensions

Provisions for pensions pertain to three individual contractual pledges to former members of the management board of IMA AG which was merged into Homag Group AG in 1999. The carrying amount in the balance sheet corresponds to the actuarial estimate.

16 Tax Provisions

Tax provisions mainly relate to income taxes for previous years, as well as taxes arising from the completed tax field audit (for the years 2002 - 2006).

17 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
- Outstanding vacation
- Obligations from cost allocations

18 Liabilities

		Due in				
EUR k		less than 1 year	1 to 5 years	more than 5 years	**Total Dec. 31, 2009**	**Total Dec. 31, 2008**
1.	Liabilities to banks	56,936	0	0	56,936	
	(prior year)	(1,163)	(50,000)	(0)		(51,163)
2.	Trade payables	171	0	0	171	
	(prior year)	(246)	(0)	(0)		(246)
3.	Liabilities to affiliated companies	14,297	0	0	14,297	
	(prior year)	(8,042)	(0)	(0)		(8,042)
4.	Other liabilities	7,269	0	0	7,269	
	(prior year)	(443)	(0)	(0)		(443)
	- thereof for taxes	*260*	*0*	*0*	*260*	
	(prior year)	*(438)*	*(0)*	*(0)*		*(438)*

EUR 50,000 k of liabilities to banks is secured by joint and several liability on the part of Homag Holzbearbeitungssysteme AG.

Liabilities to affiliated companies relate to the balance of the clearing account and short-term loans.

19 No Disclosure

20 Contingent Liabilities

EUR k	**Dec. 31, 2009**	Dec. 31, 2008
From guarantees	53,422	47,083
- thereof for liabilities of affiliated companies	*52,597*	*47,083*
From warranties	829	1,043
- thereof in favor of affiliated companies	*829*	*1,043*
	54,251	**48,126**

The guarantees mainly result from agreements for credit lines which result in secondary liability when used for loans extended to group companies.

There are also other financial obligations from leases; these are immaterial.

21 Derivative Financial Instruments

Homag Group AG had not entered into any derivative financial instruments as of December 31, 2009.

NOTES TO THE INCOME STATEMENT

22 No Disclosure

23 Other Operating Income

This item primarily comprises:

- Cost allocations
- Reversal of provisions
- Subsequent recognition
- Income from private use of motor vehicles

24 Personnel Expenses

Homag Group AG did not have any employees in fiscal 2009 except for the members of the management board. The remuneration of the management board is disclosed. Pension expenses totaled EUR 45 k (prior year: EUR 53 k) and relate to three beneficiaries.

25 No Disclosure

26 Other Operating Expenses

This item primarily comprises:

- Legal and consulting fees
- Remuneration of the supervisory board
- Costs relating to the annual report and the annual general meeting
- Cost allocations

27 Investment Result

A loss of EUR -7,614 k was assumed in fiscal 2009 pursuant to the profit and loss transfer agreement concluded with Homag Holzbearbeitungssysteme AG, Schopfloch (prior year: profit of EUR 26,254 k).

In addition, a dividend of EUR 1,505 k (prior year: EUR 1,680 k) was received from Brandt Kantentechnik GmbH, Lemgo, as well as a dividend of EUR 2,730 k (prior year: EUR 2,275 k) from Holzma Plattenaufteiltechnik GmbH, Calw-Holzbronn, both of which are affiliates.

In the year under review, write-downs were recognized amounting to EUR 60 k for the share in Schuler Business Solutions AG, Pfalzgrafenweiler and EUR 343 k for the share in Torwegge Holzbearbeitungsmaschinen GmbH, Löhne.

28 Interest Result

Interest income of EUR 286 k (prior year: EUR 705 k) was received from affiliated companies, while interest expenses of EUR 412 k (prior year: EUR 643 k) were attributable to affiliated companies. Interest income for cash in banks amounted to EUR 1 k (prior year: EUR 33 k), while interest expenses for bank overdraft facilities and loans together came to EUR 1,412 k (prior year: EUR 2,881 k).

29 No Disclosure

30 Income Taxes

This disclosure mainly concerns corporate income tax, the solidarity surcharge and trade tax for previous years in connection with the tax field audit.

31 Other Taxes

The item includes VAT for previous years and motor vehicle tax.

OTHER NOTES

32 Members of the Supervisory Board

Torsten Grede (chairman), Frankfurt am Main, member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main, chairman of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch, member of the supervisory board of MCE AG, Linz, Austria, member of the board of directors of Clyde Bergemann Power Group, Inc., Delaware, USA, and member of the advisory board of Grohmann Engineering GmbH, Prüm

Reiner Neumeister, (deputy chairman from December 17, 2009) Wildberg*, main representative of IG-Metall trade union, deputy chairman of the supervisory board of Bauknecht Hausgeräte GmbH, Stuttgart, and Brueninghaus Hydromatik GmbH, Elchingen, member of the board of directors of AOK Baden-Württemberg, Stuttgart

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

Klaus M. Bukenberger, Schenkenzell, business consultant, chairman of the supervisory board of SICK AG, Waldkirch, chairman of the advisory board of Carl Mahr GmbH & Co. KG, Göttingen, and of Leitz Holding GmbH & Co. KG, Oberkochen (until January 31, 2009), member of the advisory board of Rutronik GmbH, Ispringen, and Deutsche Bank AG, Stuttgart, member of the economic advisory board of Hauck & Aufhäuser KGaA, Frankfurt (since January 2010), and advisory director of Investcorp Group, London, UK

Ernst Esslinger, Alpirsbach,* head of IT Engineering at Homag Holzbearbeitungssysteme AG, Schopfloch

Wilhelm Freiherr von Haller, Stuttgart, chairman of the management board of Sal. Oppenheim jr. & Cie. Verwaltungs-AG, Cologne (since December 2009) member of management of business customers in Germany (until November 2009) and member of the Management Committee Germany of Deutsche Bank AG, Frankfurt am Main (until November 2009), chairman of the management board of BHF-BANK AG, Frankfurt am Main (since January 2010), member of the supervisory board of Deutsche Bank Privat- und Geschäftskunden AG and chairman of the advisory board of DB Consult Gesellschaft mbH, Frankfurt am Main (until November 2009), member of the management board of GEZE GmbH, Leonberg, member of the advisory board of Gühring oHG, Albstadt-Ebingen, and of Aesculap AG & Co. KG, Tuttlingen, deputy chairman of the administrative board of Landeskreditbank Baden-Württemberg – Förderbank, Stuttgart, member of the board of trustees of Stiftung Familienunternehmen, Munich, as well as chairman of the board of the foundation of Kunststiftung Erich Hauser, Rottweil, and member of the board of the foundation of Deutsche Krebsstiftung, Frankfurt am Main

Ralf Hengel, Freudenstadt, head of IT at schlott GmbH, Freudenstadt

Carmen Hettich-Günther, Rottenburg,* commercial employee and chairman of the works' council of Homag Holzbearbeitungssysteme AG, Schopfloch, deputy chairman of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch

Hannelore Knowles, Calw,* chairwoman of Group works' council of Homag Group AG, Schopfloch

Reinhard Löffler, Weil der Stadt, deputy chairman of the supervisory board of transtec AG, Tübingen (until July 9, 2009)

Jochen Meyer, (deputy chairman until December 2, 2009) Herzebrock-Clarholz*, chairman of the works' council of Weeke Bohrsysteme GmbH, Herzebrock-Clarholz

Reinhard Seiler, Lemgo,* main representative of IG-Metall trade union, member of the supervisory board of Dorma Holding GmbH & Co. KGaA, Ennepetal

Gerhard Schuler (honorary chairman), Freudenstadt, honorary chairman of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch and of Schuler Business Solutions AG, Pfalzgrafenweiler

* *Employee representative*

33 Members of the Management Board

Rolf Knoll (chairman since September 1, 2009), Dettingen an der Erms, board member for group operations – production companies, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch (until February 18, 2010), chairman of the management board of the professional association for wood-processing machinery of VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], Frankfurt am Main.

Dr. Joachim Brenk (chairman until August 30, 2009), Lübeck, board member for sales, service and marketing until September 30, 2009, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch until September 30, 2009

Achim Gauß, Dornstetten, board member for research and development, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch, member of the supervisory board of Schuler Business Solutions AG, Pfalzgrafenweiler and member of the supervisory board of Coveright Surfaces Beteiligungs GmbH, Düsseldorf

Andreas Hermann, Freudenstadt, board member for commercial activities, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch

Herbert Högemann, Freudenstadt, board member for production and procurement, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch

Jürgen Köppel, Beckum, member of the management board for sales, service and marketing from October 1, 2009

34 Total Remuneration of Management and Supervisory Board Members

In the fiscal year, remuneration of the management board totaled EUR 1,179 k (prior year: EUR 2,223 k). These break down as follows:

	Fixed salary		Short-term incentives (STI)		Long-term incentives (LTI)		Benefits in kind		**Total remuneration**	
EUR k	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Dr. Joachim Brenk	223	310	0	225	0	0	6	7	229	542
Achim Gauß	226	235	0	202	0	0	8	8	234	445
Andreas Hermann	201	209	0	180	0	0	7	5	208	394
Herbert Högemann	202	210	0	180	0	0	8	7	210	397
Rolf Knoll	241	234	0	203	0	0	7	8	248	445
Jürgen Köppel	48	0	0	0	0	0	2	0	50	0
TOTAL	**1,141**	**1,198**	**0**	**990**	**0**	**0**	**38**	**35**	**1,179**	**2,223**

In the fiscal year, remuneration of the supervisory board totaled EUR 248 k (prior year: EUR 400 k).

35 Authorized Capital

Pursuant to Art. 4 (3) of the articles of incorporation and bylaws, the management board is authorized with the approval of the supervisory board to raise the share capital in the period until May 31, 2012, once or several times, by a total of up to EUR 5,824,536.00 by issuing new no-par value bearer shares in exchange for cash and / 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 listed price of identical shares already listed when the issue price is finalized by the management board within the meaning of Sec. 203 (1) and (2) and Sec. 186 (3) Sentence 4 AktG, and the new shares with precluded subscription rights do not exceed an amount of 10 percent of share capital on the date of authorization. Shares disposed of during the term of authorized capital precluding the subscription rights of the shareholders pursuant to Sec. 71 (1) No. 8 Sentence 5 and Sec. 186 (3) Sentence 4 AktG, as well as those with conversion or exercise rights or obligations issued after this authorization was granted pursuant to Sec. 221 (4) and Sec. 186 (3) Sentence 4 AktG are not allowed to exceed 10 percent of the share capital.

36 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].

37 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 2010. An up-to-date version is made permanently available to shareholders on Homag Group AG's homepage at www.homag-group.com.

38 Audit Fees

The 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.

39 Shareholdings of Board Members

As of December 31, 2009, board members had the following shareholdings:

	Number of shares	Share in capital	Subscription rights
Management board	**56,936**	**0.4%**	**0**
Supervisory board			
Ernst Esslinger	100	0.0%	0
Ralf Hengel and related parties	486,631	3.1%	0
Supervisory board, total	**486,731**	**3.1%**	**0**
ALL BOARDS, TOTAL	**543,667**	**3.5%**	**0**

On December 31, 2009, Mr. Gerhard Schuler, honorary chairman of the supervisory board, held 1,608,308 (10.25%) shares in Homag Group AG.

40 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]:

- Erich und Hanna Klessmann Stiftung, Gütersloh, 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 4.468% on that date (701,040 voting rights).
- 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 now amounts to 30.54% (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 3% or less:

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 3% or less:

  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).

- 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 February 1, 2007, BWInvest, Baden-Württembergische Investmentgesellschaft mbH, Stuttgart, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of January 29, 2008 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, exceeded the threshold of 3% of our separate trust assets and now amounts to 532,958.00 shares of 3.39%. Of those, 3.09% (485,458.00 shares) is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.

- On June 18, 2009, Dr. Anja Schuler, Switzerland, informed us pursuant to Sec. 21 (1) WpHG that as of June 16, 2009 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 3% of the voting rights and amounted to 3.06% on that date (480002 voting rights).
- On June 25, 2009, Mareike Hengel, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of June 24, 2009 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 3% of the voting rights and amounted to 3.03% on that date (475041 voting rights).
- On July 9, 2009, Silke Schuler-Gunkel, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of July 7, 2009 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 3% of the voting rights and amounted to 3.04% on that date (477445 voting rights).
- On August 11, 2009, SIA Funds AG, Ziegelbrücke, Switzerland, informed us pursuant to Sec. 21 (1) WpHG that as of August 10, 2009 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 3% of the voting rights and amounted to 2.99% on that date (469,280 voting rights). 2.99% of the voting rights (equivalent to 469,280 voting rights) are attributable to the company pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.
- On December 17, 2009, Gerhard Schuler, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of December 16, 2009 his voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 10% of the voting rights and amounted to 10.0001% on that date (1568808 voting rights).

Notices published after the balance sheet date:

- On March 11, 2010, Erich und Hanna Klessmann Stiftung, Gütersloh, Germany, has notified us pursuant to article 21, Section 1 of the WpHG that via shares its voting rights in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, have exceeded the thresholds of 5%, 10%, 15% and 20% on March 8, 2010 and on that day amounted to 24.41% (this corresponds to 3830153 voting rights).

  Of this voting rights 19.64% (this corresponds to 3080701 voting rights) are to be attributed to Erich und Hanna Klessmann Stiftung pursuant to article 22, Section 2, WpHG.

  Voting rights of the following shareholders holding 3% each or more in Homag Group AG are to be attributed to Erich und Hanna Klessmann Stiftung:

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

- On March 11, 2010, Mr. Gerhard Schuler, Germany, has notified us pursuant to article 21, Section 1 of the WpHG that via shares his voting rights in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, have exceeded the thresholds of 15% and 20% on March 8, 2010 and on that day amounted to 24.41% (this corresponds to 3830153 voting rights)

  Of this voting rights 14.08% (this corresponds to 2209345 voting rights) are to be attributed to Mr. Gerhard Schuler pursuant to article 22, Section 2, WpHG.

  Voting rights of the following shareholders holding 3% each or more in Homag Group AG are to be attributed to Mr. Gerhard Schuler:

  Erich und Hanna Klessmann Stiftung,
  Mareike Hengel,
  Silke Schuler-Gunkel,
  Dr. Anja Schuler.
- On March 12, 2010, Mrs. Mareike Hengel, Germany, has notified us pursuant to article 21, Section 1 of the WpHG that via shares her voting rights in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, have exceeded the thresholds of 5%, 10%, 15% and 20% on March 8, 2010 and on that day amounted to 24.41% (this corresponds to 3830153 voting rights).

  Of this voting rights 21.31% (this corresponds to 3343522 voting rights) are to be attributed to Mrs. Mareike Hengel pursuant to article 22, Section 2, WpHG.

  Voting rights of the following shareholders holding 3% each or more in Homag Group AG are to be attributed to Mrs. Mareike Hengel:

  Erich und Hanna Klessmann Stiftung,
  Gerhard Schuler,
  Silke Schuler-Gunkel,
  Dr. Anja Schuler.
- On March 12, 2010, Mrs. Silke Schuler-Gunkel, Germany, has notified us pursuant to article 21, Section 1 of the WpHG that via shares her voting rights in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, have exceeded the thresholds of 5%, 10%, 15% and 20% on March 8, 2010 and on that day amounted to 24.41% (this corresponds to 3830153 voting rights).

  Of this voting rights 21.31% (this corresponds to 3343522 voting rights) are to be attributed to Mrs. Silke Schuler-Gunkel pursuant to article 22, Section 2, WpHG.

  Voting rights of the following shareholders holding 3% each or more in Homag Group AG are to be attributed to Mrs. Silke Schuler-Gunkel:

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

- On March 12, 2010, Mrs. Dr. Anja Schuler, Switzerland, has notified us pursuant to article 21, Section 1 of the WpHG that via shares her voting rights in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, have exceeded the thresholds of 5%, 10%, 15% and 20% on March 8, 2010 and on that day amounted to 24.41% (this corresponds to 3830153 voting rights).

  Of this voting rights 21.31% (this corresponds to 3343522 voting rights) are to be attributed to Mrs. Dr. Anja Schuler pursuant to article 22, Section 2, WpHG.

  Voting rights of the following shareholders holding 3% each or more in Homag Group AG are to be attributed to Mrs. Dr. Anja Schuler:

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

Declaration of the Legal Representatives (AG)

Declaration of the Legal Representatives

Declaration pursuant to Sec. 264 (2) Sentence 3 and Sec. 289 (1) Sentence 5 HGB ["Handelsgesetzbuch": German Commercial Code]

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

Schopfloch, March 15, 2010
Homag Group AG

The Management Board

ROLF KNOLL

ACHIM GAUSS

ANDREAS HERMANN

HERBERT HÖGEMANN

JÜRGEN KÖPPEL

Audit Opinion on the Annual Financial Statements (AG)

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

Audit Opinion

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

"We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Homag Group AG, Schopfloch, for the fiscal year from January 1, 2009 to December 31, 2009. 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 the articles of incorporation and bylaws and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks relating to future development."

Stuttgart, March, 15, 2010

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

BLESCH
Wirtschaftsprüfer
[German Public Auditor]

VÖGELE
Wirtschaftsprüferin
[German Public Auditor]

Financial Calendar

March 31, 2010	Press conference on the financial results in Stuttgart
March 31, 2010	Analysts conference in Frankfurt am Main
May 14, 2010	Three-month report 2010
May 28, 2010	Annual general meeting in Freudenstadt
August 13, 2010	Six-month report 2010
November 12, 2010	Nine-month report 2010

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*

* *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 AG and Stiles Machinery Inc.*
[3)] *Participation in Homag Machinery (Shanghai) Co., Ltd. temporarily increased to 81.25%*
[4)] *Shares are partly held by Homag Holzbearbeitungssysteme AG, Brandt Kantentechnik GmbH, Bütfering Schleiftechnik GmbH, Weeke Bohrsysteme GmbH and Holzma Plattenaufteiltechnik GmbH*
[5)] *Shares are partly held by Homag Holzbearbeitungssysteme AG, Brandt Kantentechnik GmbH, Bargstedt Handlingsysteme GmbH, Weinmann Holzbausystemtechnik GmbH and Weeke Bohrsysteme GmbH*
[6)] *Equity investment in Homag Korea Co. Ltd. temporarily increased to 54.55%*

AG

100%

Bargstedt Handling-systeme GmbH

51%

Weinmann Holzbausystem-technik GmbH

80% [3), 4)]

Homag Machinery (Shanghai) Co., Ltd.

100%

Homag Machinery (São Paulo) Ltda.

100% [5)]

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