HOMAG GROUP

Annual Report 2010

HOMAG Group – Success through partnership and strategy

CONTENTS

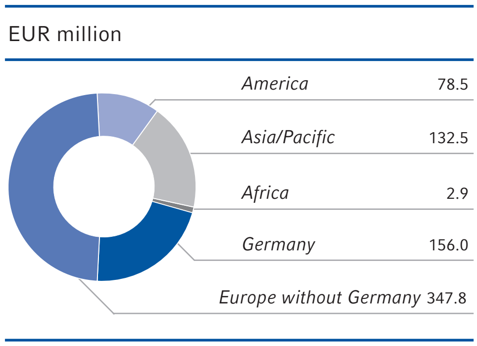
* *Parent Company*

Key Group Figures

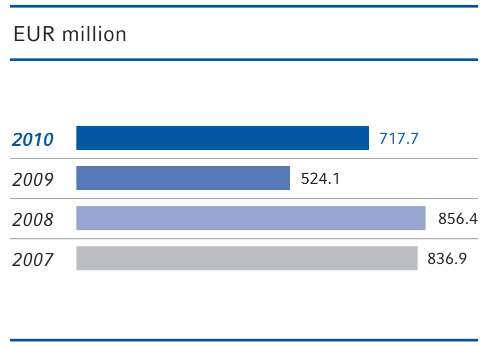
		2010	2009	Variance %
Total sales revenue	EUR million	717.7	524.1	36.9
Sales revenue Germany	EUR million	156.0	137.6	13.4
Sales revenue outside Germany	EUR million	561.7	386.5	45.3
thereof Europe	EUR million	347.8	257.9	34.9
North America	EUR million	37.2	22.7	63.9
South America	EUR million	41.3	22.5	83.6
Asia/Pacific	EUR million	132.5	78.5	68.8
Foreign share	as %	78.3	73.7	6.2
EBITDA [1]	EUR million	60.8	3.1	1,861.3
EBITDA adjusted [2] before employee participation	EUR million	65.1	15.6	317.3
EBITDA adjusted [2] after employee participation	EUR million	58.3	17.6	231.3
EBITDA [1]	as % of sales revenue	8.5	0.6	1,316.7
EBITDA [1]	as % of total operating performance	8.3	0.6	1,283.3
EBIT [1]	EUR million	32.0	-22.6	241.6
EBIT adjusted [2] before employee participation	EUR million	36.4	-10.2	456.9
EBIT adjusted [2] after employee participation	EUR million	29.5	-8.2	459.8
EBIT [1]	as % of sales revenue	4.5	-4.3	204.7
EBIT [1]	as % of total operating performance	4.4	-4.4	200.0
Net profit/loss (before non-controlling interests)	EUR million	8.1	-22.1	136.7
Earnings per share [3]	EUR	0.43	-1.32	132.6
ROCE [4] after taxes	as %	8.6	-2.3	473.9
ROCE [5] before taxes	as %	12.3	-3.2	484.4
Equity as of the reporting date	EUR million	170.0	157.2	8.1
Own funds as of the reporting date [6]	EUR million	212.3	198.0	7.2
Own funds ratio	as %	37.2	38.1	-2.4
Capital expenditures on property, plant and equipment [7]	EUR million	8.7	13.4	-35.1
Depreciation of property, plant and equipment [7]	EUR million	14.3	15.4	-7.1
Employees	annual average	4,981	5,158	-3.4
thereof trainees	annual average	388	387	0.3
Personnel expenses adjusted [2]	EUR million	253.3	214.4	18.1
Order intake accumulated [8]	EUR million	541.0	413.0	31.0
Order backlog as of the reporting date [8]	EUR million	149.3	171.0	-12.7

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

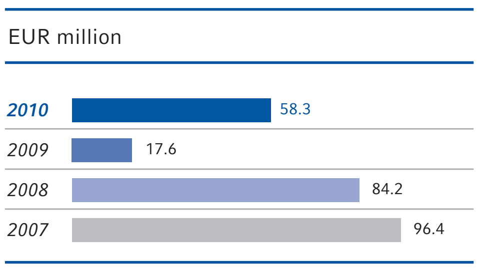
SALES REVENUE BY REGION 2010



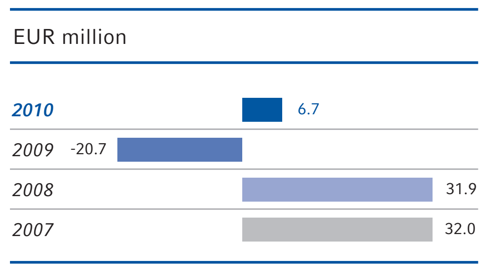
SALES REVENUE



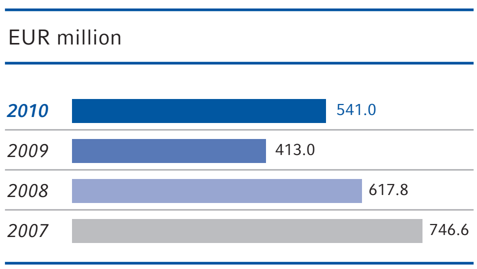
EBITDA adjusted [1] after employee participation



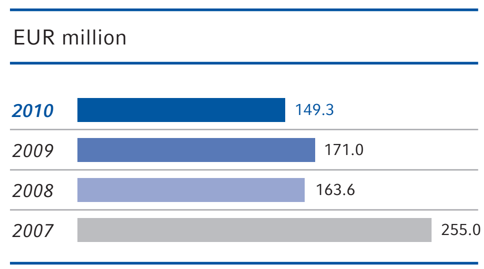
NET PROFIT/LOSS
(after non-controlling interests)



ORDER INTAKE [2]



ORDER BACKLOG [2]

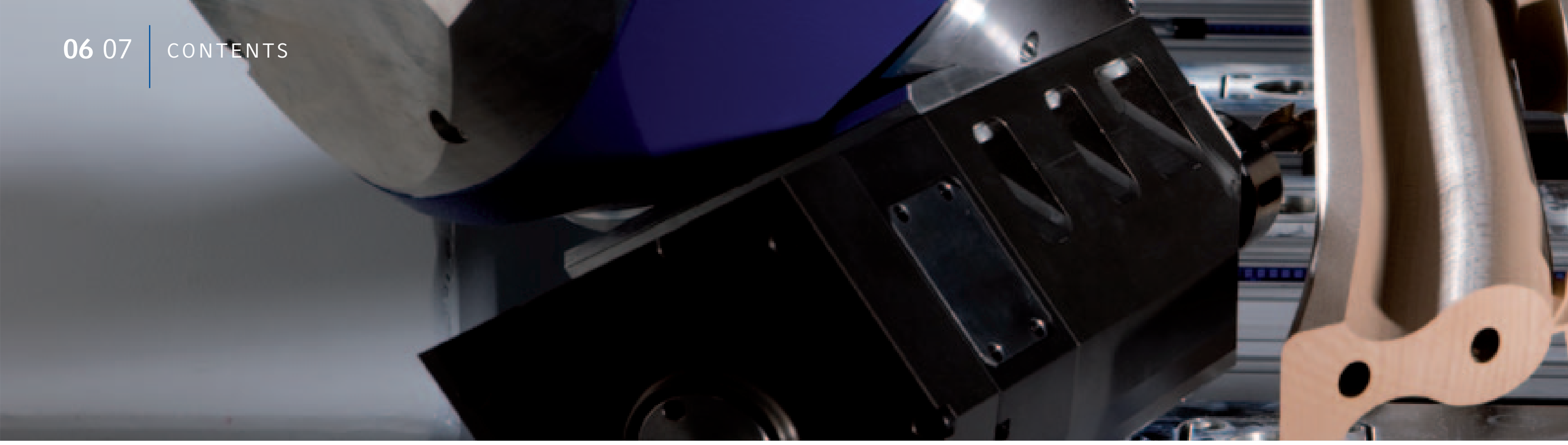


[1] *Before taking into account restructuring/non-recurring expenses in 2010, 2009 and 2008 and IPO expenses in 2007*
[2] *Order intake and order backlog only contain own machines without merchandise, spare parts and service; order backlog since December 31, 2008 incl. BENZ*

Success through Partnership and Strategy

With about 5,000 employees, HOMAG Group AG manufactures plant and machinery for the woodworking industry and for cabinet makers for the production of furniture, doors, windows, stairs, flooring and even timber frame houses. With an estimated 28 percent share of the global market, we are the clear industry leader; and with our numerous production, sales and service companies, we have a global presence.

Backed by our powerful network of companies, we can support our industry and cabinet shop customers virtually along the entire process chains. We offer a complete and perfectly aligned portfolio of services and machines, from stand-alone machines to complete production lines.



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

Andreas Hermann
BORN 1968

CFO, Head of IT, Personnel until March 31, 2011
Joined the Company in 2000

Ladies and Gentlemen,
Dear shareholders,

> Let us start with the most important news: HOMAG Group AG has made it through the crisis and has returned to sustainable profitability. There were initial signs of an upward trend in the second half of 2009 with increasing order intake and a turnaround in our results in the fourth quarter. This positive development not only continued but actually intensified considerably in fiscal 2010. Although the mechanical engineering industry and our segment in particular were hard hit by the economic crisis, they also recovered quickly from it. Particularly pleasing is the fact that the HOMAG Group has outperformed both our industry segment and the mechanical engineering industry as a whole, as order intake bounced back earlier than at many competitors. We were thus able to gain additional shares in relevant markets overall in competition with established manufacturers, and we are emerging from the crisis with renewed strength.

The bottom line is that 2010 was a successful fiscal year – perfectly timed to coincide with HOMAG's 50th anniversary celebrations last year. The healthy development of business exceeded our expectations, forcing us to correct our sales revenue forecasts upwards several times. At the beginning of 2010 we were still projecting an increase in sales revenue of some 15 percent to more than EUR 600 million. In the end, we managed to raise sales revenue almost 37 percent to EUR 718 million. Order intake improved by a solid 31 percent.

Apart from the high quality of our innovative products, we attribute the HOMAG Group's above-trend development to two factors: On the one hand we have a very broad portfolio of products with which we can serve industry and cabinet shop customers across virtually all market segments. Regardless of which product segment is generating the greatest demand and irrespective of whether it is smaller and medium-sized businesses or large industrial customers who are keenest to invest at any given time, as the market leader, we always benefit. For instance, the project business saw an excellent development in 2010 as the investment backlog caused by the crisis began to ease. Backed by our powerful network of companies, we were able to convince customers of our ability as a system developer to provide holistic solutions from a single source.

Herbert Högemann
BORN 1954

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

Jürgen Köppel
BORN 1963

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

Hans-Dieter Schumacher
BORN 1963

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

A second critical factor for our success in the past fiscal year is our global footprint with production, sales and service companies in all key markets around the world. Maintaining a local presence has been an element of our strategy for decades, which means that we can rely on a tried and tested organization and experienced employees in local markets. This allows us to benefit from positive developments in any region. Fiscal 2010, for instance, saw a shift in the market, with emerging economies gaining significantly in importance. The BRIC countries in particular, i.e., Brazil, Russia, India and China, developed very favorably and demand in China and Brazil is already surpassing the pre-crisis level. Owing to the long-standing presence of HOMAG Group in these fast-growing markets, we have already established an excellent market position there. We were thus able to increase the proportion of order intake from BRIC countries from 14 percent in 2009 to a current level of about 23 percent. To further expand our strong market position in Asia, an investment plan was issued in October 2010 encompassing the investment of about EUR 8 million in our production capacity in China and India.

The good development of business in 2010 is also the main reason for the return to a positive earnings situation. However, another factor behind this development is our significantly reduced cost base, which we achieved with the restructuring and cost cutting program that we had already introduced at the end of 2008. The sustainability of these measures is evident, among other things, in the fact that we closed each of the four quarters of 2010 with a net profit. We thus hit, or in some cases even exceeded, all projected earnings targets, despite considerable special burdens.

Based on the good earnings and the successful management of net working capital, we were able to cut our net liabilities to banks in the course of 2010 significantly by almost EUR 40 million. Despite the relatively steep increase in sales revenue, our net liabilities to banks are at their lowest level in 20 years.

Another positive effect of our extremely fast recovery is that we did not reduce our personnel as much as originally planned on account of the above-budget volume of business. During the economic crisis, we nevertheless decreased our personnel capacity, including temporary workers, by almost 20 percent, a process that we concluded for the most part in the first quarter of 2010. In 2010 we began hiring again to fill positions of strategic importance and in growth markets abroad in particular. With just over 5,000 employees, we are very well prepared to tackle the tasks that lie ahead.

We naturally want to share the rewards of the excellent development of your company, which surpassed our expectations, with you, our shareholders. The management board and supervisory board will therefore propose a dividend distribution of EUR 0.30 to the annual general meeting. After deciding not to pay a dividend in fiscal 2009 owing to the difficult economic situation at the time, we are now paying out a large portion of net profit for the year. Going forward, we want to return to our regular dividend policy.

Despite the many success stories of the past fiscal year, the significant revenue increase and the sustainable return to profitability, we are well aware that we are still somewhat short of our pre-crisis sales revenue and earnings levels. We therefore have to now turn our efforts to maneuvering the HOMAG Group back to those record figures in the medium term.

We want to take a further step in this direction in 2011, by following up on the high growth rates reached in the excellent fiscal year 2010 with further growth and at least a mid-single-digit percentage increase in sales revenue. We have maintained this target set in the interim report for the third quarter of 2010 to raise sales revenue above EUR 700 million, despite having already reached EUR 718 million in 2010.

We also expect a modest increase in order intake, primarily on the basis of a healthy development in the western European markets and again in South East Asia and China as well as South America. We are particularly optimistic as regards stand-alone machines and we anticipate a solid order situation. In 2011, we expect additional positive impetus from the industry's largest trade fair in the world, Ligna, which is held every two years in Hanover, as we will be able to present a large number of innovations to our customers.

In 2011, we want to raise our results faster than sales revenue and thus improve our profitability further. Compared to 2010, we anticipate lower extraordinary expenses, an improved interest result (assuming the base interest rate remains stable) and a lower tax rate for the Group. Our expected growth for 2011 and the overall forecast are subject to the condition that we do not encounter turbulence on financial markets, severe global economic ramifications from the earthquake disaster in Japan, or a deterioration of the political situation in North Africa and related economic setbacks.

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

In the following pages of our annual report, we would like to give you an insight into our global activities. We would like to introduce you to our employees and customers on site, in their markets, and give you an impression of our sales and distribution activities and our global production.

We would like to thank all employees for enabling the success achieved by the HOMAG Group in fiscal 2010 with their unwavering motivation and exceptional dedication. And we would like to thank our shareholders for the trust placed in us and our customers, suppliers and business partners for the constructive cooperation in the past fiscal year.

Schopfloch, March 2011
The management board

ROLF KNOLL

ACHIM GAUSS

ANDREAS HERMANN

HERBERT HÖGEMANN

JÜRGEN KÖPPEL

HANS-DIETER SCHUMACHER

Chronicle 2010

FIRST QUARTER

50 YEARS OF HOMAG!

Gerhard Schuler and Eugen Hornberger founded HOMAG on January 1, 1960. Our success story now spans 50 years and has seen us grow into one of the world's leading players in the wood processing business. To celebrate, we held an official ceremony and had a party for all of our employees. In addition, we marked the occasion by offering our customers numerous special edition machines at attractive terms.

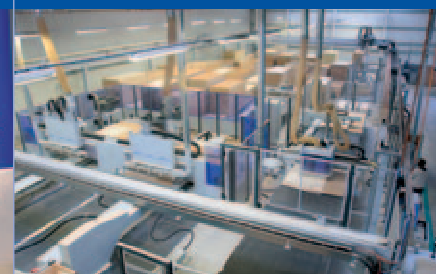
NEW SYNDICATED LOAN AGREEMENT

We concluded a new syndicated loan agreement with our syndicate of banks in February 2010. The new agreement runs until February 2013. With a total credit line of EUR 198 million, the loan facility exceeds the previous agreement by 10%, which is a testament to our good credit standing.

STRONG DEMAND AT MAJOR TRADE FAIR

At the major industry trade fair Holz-Handwerk in Nuremberg, which was held in March 2010, we were able to break our order intake record set back in 2006 by more than 50%. The keen interest of visitors from Germany and abroad in our products ensured a good start to 2010.

SECOND QUARTER



ANNUAL GENERAL MEETING ELECTS NEW SUPERVISORY BOARD

On May 28, 2010, HOMAG Group AG's annual general meeting elected as scheduled the six shareholder representatives to the supervisory board. Dr. Horst Heidsieck, Hans Fahr, Gerhard Federer, Dr. Dieter Japs and Thomas Keller were newly elected to the board, while Torsten Grede was reelected and remains its chairman.

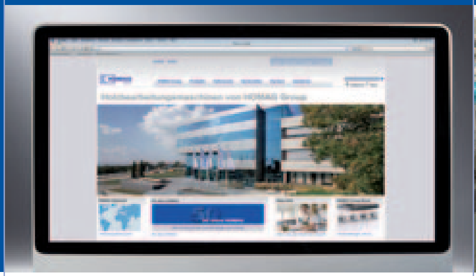
SUCCESS IN THE PROJECT BUSINESS

Our business with large-scale production lines developed very successfully in the first half of 2010. Compared to the first six months of 2009, we were able to increase the sales revenue earned with complex cells and production lines by more than 50%. In fact, we had already left the EUR 100 million mark behind us by the end of June 2010.

AWARD-WINNING IR ACTIVITIES

In June 2010, we received an award for our investor relations activities. Competing against the 50 companies listed on the SDAX, we came third in the 14th edition of the CAPITAL Investor Relations Award (2010) conferred by the business magazine CAPITAL and the DVFA ["Deutsche Vereinigung für Finanzanalyse und Asset Management": the Society of Investment Professionals in Germany].

THIRD QUARTER



HOMAG eSOLUTION FOUNDED

Together with Herford-based imos AG, we established HOMAG eSOLUTION GmbH, which started its operations in January 2011. We set up the related contractual frame at the end of the third quarter. The new company specializes in software solutions for furniture manufacturing – especially for HOMAG Group's machines and production lines.

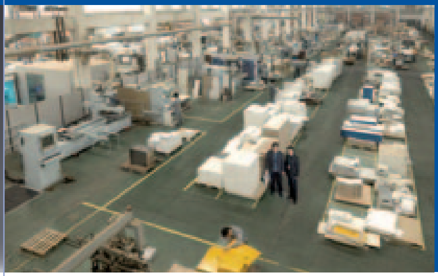
RECORD NUMBER OF VISITORS AT IN-HOUSE TRADE FAIRS

In the last week of September, four of our subsidiaries held their annual in-house trade fairs, and the response from visitors was extremely positive. HOMAG Holzbearbeitungssysteme GmbH alone welcomed 2,400 visitors, a new record. About 50% of the guests came from abroad.

NEW INTERNET PRESENCE

The HOMAG Group's new internet presence went online at the beginning of September 2010. Featuring a uniform design for all group companies and simple menu navigation, the website provides customers, investors and other interested parties extensive information on the HOMAG Group and our products.

FOURTH QUARTER



INVESTMENTS IN CHINA AND INDIA

As proposed by the management board, the supervisory board approved in October 2010 an investment budget of EUR 8 million earmarked to continue developing operations in the key strategic regions China and India. We already started implementing initial measures in the fourth quarter of 2010. The extremely positive development, particularly in China, continued unabated in the last months of 2010, a period in which we were able to win additional major orders for the HOMAG Group.

MANAGEMENT BOARD RESHUFFLE

At its meeting of December 16, 2010, the supervisory board appointed Dr. Markus Flik to the management board effective April 1, 2011. He will take over the chair of the board on July 1, 2011. After handing over his responsibilities on the management board, Rolf Knoll will continue to serve the HOMAG Group in an advisory capacity. Hans-Dieter Schumacher joined the management board on January 15, 2011 and will succeed Andreas Hermann as CFO as of April 1, 2011.

ADJUSTMENTS TO THE GROUP'S STRUCTURE

In December, the supervisory board also approved the proposal of the management board to link the smaller group companies FRIZ and TORWEGGE to larger companies within the HOMAG Group.

The World is Our Market

> For decades now, we have been rising to the challenges posed by globalization; we were one of the first companies in our industry to adopt a clear strategy aimed at tapping international markets and positioning our organization globally in the conviction that a strong local presence is the key to success in the global market. With this in mind, we started building a tight-knit global sales network back in the 1970s. And we have held this course steady ever since.

No matter where in the world an economy began to boom – we were there from the start, backed by a tried and tested organization and a well-rehearsed team, ready to benefit directly from growth. This is as true of Russia and eastern Europe as it is of South America, China and India.

Today, the HOMAG Group encompasses 21 sales and service companies, some 60 exclusive sales partners and 5 foreign production companies. And we now supply our machines and production lines to around 100 countries and generate on average about 80 percent of our sales revenue outside Germany.

Good Prospects in Brazil

Our product manager Lucia Morales has close ties to customers in South America, a region that holds great potential for the future. Take Kitchens in São Paulo for instance: the luxury furniture manufacturer uses fully automated, linked-in production lines from the HOMAG Group to manufacture products to order that are each individually tailored to their customers wishes.

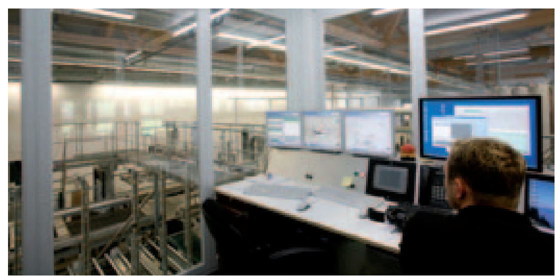
We were quick to realize the importance and immense potential of the South American market. Indeed, we have maintained manufacturing facilities in São Paulo since 1977. Today, we also have a powerful and experienced sales and service team in Brazil, a team that faces the challenges posed by a growing market with enthusiasm.

LUCIA MORALES / PRODUCT MANAGER
HOMAG South America Ltda.

customer KITCHENS


KITCHEN

Precise Plans in Switzerland



Switzerland is known for meticulous perfectionism, utmost precision and premium quality. And that is exactly what our Swiss customers have come to expect from our products. These are demands that we are happy to fulfill. Our customers also typically need a high degree of automation and absolute flexibility. Take RIWAG Türen AG in Arth am Zuger See, for instance.

RIWAG boss Aldo Rickenbach, the head of sales at our Swiss subsidiary Peter Niederer and the production line experts from HOMAG Engineering have joined forces to plan and build an extremely efficient production line. This has resulted in one of the most modern door production lines in the industry; a production line that satisfies the exacting standards demanded in Switzerland.

ALDO RICKENBACH / MANAGER
customer RIWAG

PETER NIEDERER / GENERAL MANAGER
HOMAG (Schweiz) AG

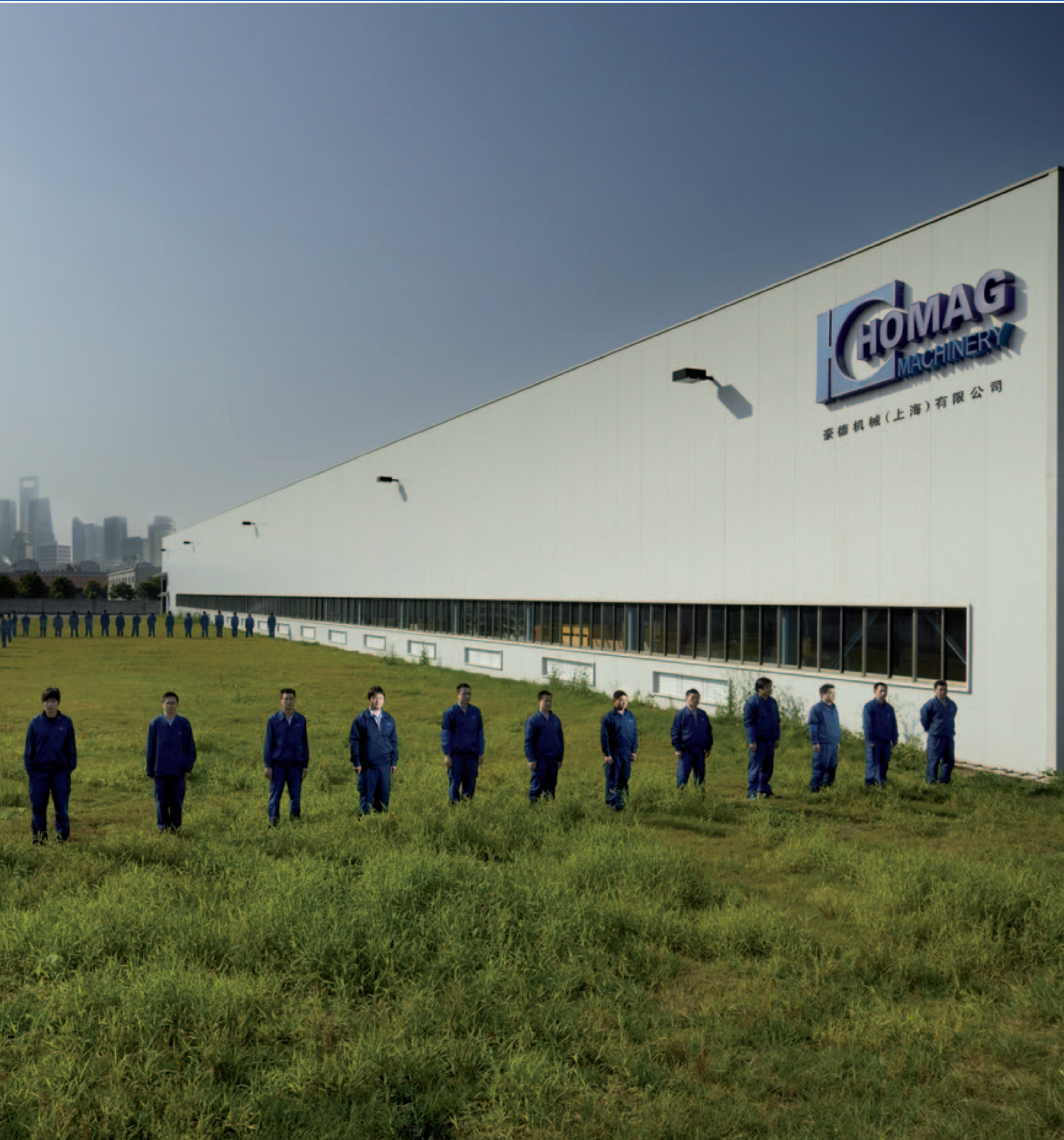
China is Booming – we're Growing with it

The Chinese market is growing at breakneck speed. To keep up, you have to be fast and versatile. And you have to have pertinent experience with the country's particularities. We satisfy all of these conditions because the Asian market was at the top of our list when we started setting up foreign production companies and we have witnessed the dynamic development in the region first hand.

That is why we are also successful in China – so successful that we are continually increasing our capacity. In 2011, we are expanding our production facilities in Shanghai by more than 50 percent, after which we will have some 23,000 m² of production space.

HOMAG Machinery (Shanghai) Co. Ltd.
is growing on this land

Shanghai, China


HOMAG
MACHINERY
豪德机械（上海）有限公司

New Housing for Russia

Russia needs more and, more importantly, better quality residential units. No problem for the HOMAG Group! We have been active in this region since the 1980s, have already supplied numerous machines and production lines for the production of furniture and construction elements; and we have the right products for the high-efficiency construction of timber-framed houses.

The local HOMAG Group team now has more than 50 employees. Including Tatiana Gusseva with whom MasterDom's general manager Igor Cheredinov is in good hands. She makes sure that he has the right combination of machines, that these are perfectly synchronized and that his in-house production runs smoothly. And thanks to these efforts, more than 340 wooden buildings are made here each year.

IGOR CHEREDINOV / GENERAL MANAGER
customer MasterDom

TATIANA GUSSEVA / PRODUCT MANAGER
HOMAG GUS GmbH

Developments in India Recognized Early

In the game from the start – that is the HOMAG Group tradition. On the one hand, this approach means that we also have the right portfolio of products for small- and medium-sized workshops, and that we remain the partner of choice as customers grow. On the other, it has also meant that we were present in promising markets very early on and have built up a very effective sales organization.

The Indian company Pentavision in Bangalore is a case in point. An ambitious company in a dynamic market. Today, the company produces furniture on five machines from the HOMAG Group's range. Our product manager Rajeev Kumar Hanumantharaya and Rajan Milithele, manager at Pentavision, have been working hand-in-hand for seven years now.

RAJEEV KUMAR HANUMANTHARAYA / PRODUCT MANAGER
HOMAG India Pvt. Ltd.

RAJAN MILITHELE / MANAGER
customer Pentavision


PENTAVISION
PENTAVISION


BARGSTEDT

Deep Roots in Canada

Canada and the HOMAG Group have always been a good match. This is the home of lumber and we have been successfully active in the Canadian market since 1989, with HOMAG Canada. From furniture production to industrial timber frame house construction – we are the number one!

The three general managers Yan Sinclair, Guy Robinson and Pierre Perreault of Logiflex also trust our products. Equipped with a high-performance panel storage system from BARGSTEDT, their furniture production facility is always perfectly organized.

YAN SINCLAIR / GUY ROBINSON / PIERRE PERREAULT

GENERAL MANAGERS
customer Logiflex

Report of the Supervisory Board

> The supervisory board of HOMAG Group AG fulfilled its duties with utmost care as prescribed by law, the articles of incorporation and bylaws and the German Corporate Governance Code in the past fiscal year 2010, and has supervised and advised the management board. To this end, the management board kept the supervisory board informed regularly, comprehensively and without delay of the development of business, significant transactions, the position of the group, business planning as well as of risk management and compliance issues in written and oral reports. The supervisory board was directly and quickly involved in all decisions of fundamental importance to the Company. To the extent required under law or the articles of incorporation and bylaws, the supervisory board rendered its opinion on all reports issued and resolutions proposed by the management board. Matters requiring approval were submitted for resolution in a timely manner.

The chairman of the supervisory board was also regularly in close contact with the management board between meetings, thus ensuring an uninterrupted flow of information and exchange of opinions.

PERSONNEL CHANGES

There were no personnel changes on the management board in fiscal 2010.

Changes in the Supervisory Board

The six shareholder representatives on the supervisory board were elected as scheduled at the annual general meeting of HOMAG Group AG held on May 28, 2010. Hans Fahr, Gerhard Federer, Dr. Horst Heidsieck, Dr. Dieter Japs and Thomas Keller were newly appointed to the board. Torsten Grede was reelected to the board; at the constituent meeting of the supervisory board following the annual general meeting, he was confirmed as its chairman. The supervisory board would like to thank the former members of the supervisory board Dr. Jochen Berninghaus, Klaus M. Bukenberger, Wilhelm Freiherr von Haller, Ralf Hengel and Reinhard Löffler for their valuable work and their contribution in the interest of the Company.

TORSTEN GREDE, *Chairman of the supervisory board*

SIGNIFICANT MATTERS ON THE AGENDA

The supervisory board was convened eight times in fiscal 2010. At the meetings, the management board informed the supervisory board in detail about the current development of business and explained, in particular, the market development and sales activities, the business development of individual subsidiaries, the further development of products and new technologies, production and sourcing activities as well as the Group's financial position. The focal points discussed in each field varied from meeting to meeting. These included the development and optimization of the product portfolio and global sourcing activities, adherence to planning, measures to adjust the group structure, investments in the fast-growing markets China and India as well as personnel issues. The supervisory board was informed of the activities of the committees at the start of each meeting.

Supervisory Board Meeting on March 23, 2010

At the *supervisory board meeting on March 23, 2010,* the consolidated and separate financial statements for 2009, including the management report and group management report, were approved and ratified following extensive discussion and examination, in the presence of the auditor. In addition, the supervisory board also dealt with the preparations for the annual general meeting, and it discussed and approved its report to the annual general meeting. The measures to increase capital at various subsidiaries were one topic on the agenda. Another topic discussed was the construction of a new building for the sales subsidiary in Switzerland, which was approved by circularization following the meeting.

Supervisory Board Meeting on April 12, 2010

Based on the recommendation of the nomination committee, the shareholder representatives on the supervisory board at their *meeting on April 12, 2010* decided on the candidates for the election of the shareholder representatives on the supervisory board to be proposed to the annual general meeting.

Supervisory Board Meeting on May 28, 2010

At the *constituent meeting* of the newly elected supervisory board following the annual general meeting *on May 28, 2010,* the chairman and the deputy chairman were elected. Torsten Grede was reelected as chairman and Reiner Neumeister as deputy chairman of the supervisory board. Consequently, they are both members of the mediation committee pursuant to Sec. 27 (3) MitbestG ["Mitbestimmungsgesetz": German Co-determination Act]. Dr. Horst Heidsieck and Jochen Meyer were likewise elected to the mediation committee.

Supervisory Board Meeting on July 13, 2010

At the *supervisory board meeting of July 13, 2010,* the reshuffled supervisory board elected the new members to the various committees. Before the elections, a resolution was unanimously passed to amend the rules of procedure of the supervisory board to change the number of members on the nomination committee from four to three. Torsten Grede was elected chairman and member of the nomination committee, together with Dr. Dieter Japs and Hans Fahr. By virtue of his position as chairman of the supervisory board, Torsten Grede continues to serve as chairman of the personnel committee. Hans Fahr, Dr. Horst Heidsieck, Reiner Neumeister, Jochen Meyer and Hannelore Knowles were also elected to the personnel committee. Carmen Hettich-Günther, Thomas Keller and Reiner Neumeister were elected to the audit committee, together with Gerhard Federer, who was also elected chairman.

Supervisory Board Meeting on August 9, 2010

The main topic on the agenda of the *meeting of August 9, 2010*, was the establishment of a new joint venture with imos AG, Herford. The supervisory board approved the establishment of HOMAG eSOLUTION GmbH as a provider of software solutions for furniture manufacturing – especially for HOMAG Group's machines and production lines. At the same meeting, the supervisory also approved a termination agreement with Andreas Hermann and discussed the underlying personnel concept and the search for a successor.

Supervisory Board Meeting on September 9, 2010

At the *supervisory board meeting on September 9, 2010* it was determined that the agreed conditions that would trigger an increase in the fixed remuneration of the management board members Andreas Hermann, Herbert Högemann, Achim Gauß and Rolf Knoll and the payment of a non-recurring bonus had been satisfied. At the same time, the board approved the increase in the annual salary of Jürgen Köppel and the payment of a non-recurring bonus to Jürgen Köppel.

Supervisory Board Meeting on October 14, 2010

The main topic on the agenda of the *supervisory board meeting on October 14, 2010* was the release of investments earmarked for the further expansion of the production company HOMAG Machinery Shanghai in China and for the establishment of a new production facility in India, HOMAG Machinery Bangalore. Both investment plans were thoroughly discussed and subsequently approved, and the corresponding budget was released. The management board subsequently presented to the supervisory board the planned adjustments to the Group's structure and the associated opportunities and risks. In addition, an amendment to the rules of procedure of the management board was approved, thus raising some thresholds for actions requiring the approval of the management board.

Supervisory Board Meeting on December 16, 2010

At its *meeting on December 16, 2010*, the supervisory board passed a resolution to implement the measures to restructure the Group. To continue expanding the market position and the global market leadership in a sustainable manner, the smaller entities FRIZ Kaschiertechnik GmbH, Weinsberg, and TORWEGGE Holzbearbeitungssysteme GmbH, Löhne, will be linked to larger entities within the Group. The supervisory board also granted its approval of the budget for 2011 and the medium-term planning up to 2015. In connection with the approval of the declaration of compliance 2011 pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporations Act], the targets for the composition of the supervisory board pursuant to the German Corporate Governance Code no. 5.4.1 were set.

At the same meeting, it was also decided to leave unchanged the parameters for the long-term incentive (LTI) program 2011 to 2013 of the management board members and set the relevant opening price for the share-based LTI bonus for 2010 to 2012. Another topic on the meeting's agenda concerned the personnel concept. Hans-Dieter Schumacher was appointed to the management board effective January 15, 2011, while Dr. Markus Flik was appointed to the management board effective April 1, 2011. Hans-Dieter Schumacher will succeed Andreas Hermann as CFO as of April 1, 2011, while Markus Flik will take the chair as of July 1, 2011, succeeding the current CEO Rolf Knoll.

WORK PERFORMED BY THE SUPERVISORY BOARD'S COMMITTEES

In fiscal 2010, the supervisory board set up a total of four committees: the audit committee, the personnel committee, the nomination committee and the mediation committee in accordance with Sec. 27 (3) MitbestG. These committees primarily prepare issues and resolutions for discussion by the supervisory board. In certain cases the committees also have decision-making authority transferred to them by the supervisory board where legally permissible. The chairpersons of the committees reported on the work of their committees at the meetings of the supervisory board.

Mediation Committee

There was no reason to convene the *mediation committee* in fiscal 2010.

Nomination Committee

The *nomination committee* was convened twice to prepare the election at the 2010 annual general meeting of the six shareholder representatives on the supervisory board.

Audit Committee

The *audit committee* was convened six times, three of which were conference calls. The auditor of HOMAG Group AG attended two of the six meetings. One of the main topics on the agenda of the meetings was the consolidated and separate financial statements for 2009 including the content of the annual report and the development of business in 2010. All of the quarterly reports were also discussed (the interim report as of June 30, 2010 in the presence of the auditor), along with the latest economic developments in the context of the forecast for 2010. Other issues included determining the focal points of the audit of the separate and consolidated financial statements for 2010, the capital increases at various sales subsidiaries, the satisfactory results of the tax field audit, the elements of risk management and the results of the 2010 risk inventory take. The audit committee also discussed the amendments to the German Corporate Governance Code and the declaration of compliance 2011 as well as the budget for 2011 and the medium-term planning through 2015.

Personnel Committee

The *personnel committee* was convened a total of seven times, one of which was a conference call. The main topics on the agenda were setting the parameters for the variable remuneration of the management board for the LTI bonus for the new reference period 2011 through 2013 and the personnel changes on the management board. The personnel committee dealt with the termination agreement with Andreas Hermann, the appointment of a new CFO and a successor for Rolf Knoll.

With the exception of Wilhelm Freiherr von Haller, the members of the supervisory board attended more than half of the supervisory board meetings. Wilhelm Freiherr von Haller was unable to attend more than half of the supervisory board meetings until he left the supervisory board on May 28, 2010. However, Wilhelm Freiherr von Haller participated in all decisions by voting in absentia in writing.

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.

SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS 2010

Under a resolution of the annual general meeting of May 28, 2010, the supervisory board appointed Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, as the auditor for fiscal 2010. Unused tax losses and the impairment testing of receivables were set as focal points of the audit.

The auditor audited the separate and consolidated financial statements for fiscal 2010 prepared by the management board together with the respective management reports and the underlying accounting records, and rendered an unqualified audit opinion. The auditor also confirmed that the management board had an appropriate risk monitoring system in accordance with Sec 91 (2) AktG that is suitable for detecting at an early stage developments that might jeopardize the ability of the Company to continue as a going concern.

The supervisory board has conducted an extensive review of the separate and consolidated financial statements together with the respective management reports and the appropriation of profit proposed by the management board. The documents pertaining to the financial statements and the auditor’s audit reports were made available to all members of the supervisory board in a timely manner and were discussed in detail and reviewed at the meeting of the audit committee of March 18, 2011 and at the supervisory board meeting of March 25, 2011. The auditor attended both meetings to report on the key findings of the audit and was available to supply any supplementary information. The supervisory board monitored

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

the independence of the auditor before and during the audit. The supervisory board was in agreement with the auditor's findings and did not raise any objections.

The supervisory board has approved the separate financial statements and the management report as well as the consolidated financial statements and group management report as of December 31, 2010 prepared by the management board, thus ratifying the annual financial statements of HOMAG Group AG. The supervisory board agreed with the profit appropriation proposed by the management board. Accordingly, a dividend of EUR 0.30 and thus a large proportion of the profit for fiscal 2010 will be paid out again.

The supervisory board expresses its thanks to the members of the management board, management, works council representatives and to all employees for their unwavering dedication and for their constructive, trust-based and successful cooperation in fiscal 2010.

Schopfloch, March 2011
On behalf of the supervisory board

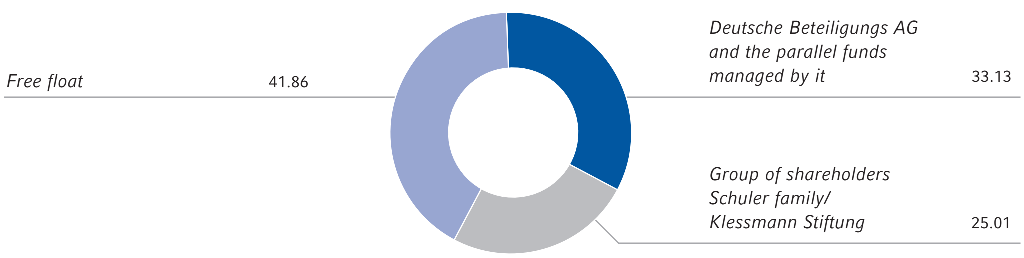
TORSTEN GREDE
Chairman of the supervisory board



The HOMAG Group AG Share

Shareholder Structure as of March 15, 2011 [1]

As %



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

DEVELOPMENT OF STOCK MARKETS

As early as the second quarter of 2009, the stock markets were able to recover from the weak phase in the wake of the financial and economic crisis. This positive development has essentially continued in 2010, even if the uncertainties that persist in the financial markets adversely affected the various stock exchange indexes time and again. The main burdening factors were the debt crisis in the euro area and the related draconian savings measures adopted by many European governments. This meant, for instance, that the European composite index EURO STOXX endured some percentage point losses in the course of 2010.

By contrast, the sustained expansionary policy pursued by central banks, the healthy economic figures in some instances and the convincing quarterly financial results of many companies had a positive impact. On aggregate, the stock exchange indices rose in 2010. The Dow Jones index improved a solid 11 percent and the DAX rose 16 percent. And the Germany small and mid-caps indices developed even better: The MDAX climbed 35 percent and the SDAX 46 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 Group AG's share price developed very positively in 2010. The development was still relatively modest in the first six months of the year, which initially saw a recovery from the annual low of EUR 11 in January, although these share price gains were short-lived. From the middle of the year onwards, and particularly at the beginning of the fourth quarter of 2010, the price rose in leaps and bounds, touching a peak of EUR 18.20 for the year in December and closing the year at EUR 16.60. The HOMAG share thus improved by 56 percent in 2010, thus even outperforming our benchmark index, the SDAX.

DEVELOPMENT AT THE BEGINNING OF 2011

Despite persisting uncertainty in the financial markets regarding the crises affecting some eurozone countries and more pronounced fluctuations in some instances, stock markets developed reasonably well in the first two months of 2011. This is surely also a result of the repeated positive reports issued by companies indicating a healthy development of business. The DAX rose by some 5 percent by the end of February – MDAX and SDAX showed a somewhat weaker development, but also improved slightly nevertheless. The HOMAG share was able to improve slightly at the beginning of the year, although by the start of February it lost some of the ground gained, before returning to an upward trend toward the end of the month. On 28 February 2011, our share stood at EUR 16.00 and was thus slightly below the value as of the end of 2010.

ANNUAL GENERAL MEETING AND DIVIDEND

HOMAG Group AG held its annual general meeting in Freudenstadt on 28 May 2010. Some 290 shareholders attended, representing 81.4 percent of the capital stock. The annual general meeting followed the proposal of the management board and supervisory board to carry forward the total retained profit to new account in response to the difficult economic situation in 2009. As scheduled, the annual general meeting elected its six shareholder representatives on the supervisory board. Hans Fahr, Gerhard Federer, Dr. Horst Heidsieck, Dr. Dieter Japs and Thomas Keller are new on the board, while Torsten Grede was reelected and remains its chairman.

As already mentioned, we were unable to pay out a dividend for fiscal 2009 due to the difficult business situation that resulted from the crisis. That is why we would like give our shareholders an above-average slice of our successful year 2010 and pay out a large portion of the net profit for the year as dividends. On May 25, 2011, the management board and supervisory board will propose a dividend distribution of EUR 0.30 to the annual general meeting. After this unprecedented high distribution rate, we intend to return to our regular dividend policy.

SHAREHOLDER STRUCTURE

The Schuler family and the Erich und Hanna Klessmann Stiftung, both long-standing HOMAG shareholders, notified us in March 2010 that they had pooled their shareholdings. Together, they now hold over 25.01 percent of the shares in the Company. Deutsche Beteiligungs AG and the parallel funds it manages still have a shareholding of 33.13 percent in HOMAG Group AG. We therefore have two strong shareholder groups that will ensure stability and continuity. However, the pooling of shares means that the free float as defined by the German Stock Exchange has decreased substantially, even though the pooling partners were already shareholders of HOMAG Group AG prior to pooling their shares.

COMMUNICATION WITH THE CAPITAL MARKET

The primary objective of our investor relations work is to communicate to the capital market in an open, fair and transparent way. With this in mind, we inform all market participants promptly and in detail about all important events at HOMAG Group AG. We believe that supporting analysts, institutional investors and private investors is within the remit of the management board, which is why the CFO and the CEO in particular are active in financial communication activities.

Our investor relations work was honored with an award in 2010. Competing against the other companies listed on the SDAX, we came third in the Capital Investor Relations Award. The award was conferred by the business magazine “Capital” and the DVFA [“Deutsche Vereinigung für Finanzanalyse und Asset Management”: the Society of Investment Professionals in Germany] which for the fourteenth time have evaluated the investor relations activities of the most important companies in Germany and Europe. The survey included just under 400 analysts and fund managers who provided 14,000 individual judgments on 198 companies.

In the past fiscal year we were again very active in our capital market communication and we held two roadshows in London and Zürich, and one roadshow in Paris and Düsseldorf/Cologne. We were also available to discuss issues and answer analysts' questions at three conference calls on our quarterly reports, at the conference for analysts in Frankfurt on the annual financial statements for 2009 and in numerous one-to-one talks. We also held phone calls and personal talks with some investors, and we participated in several investor events. These included the capital market conference held by Bankhaus Lampe in Baden-Baden, the German Equity Forum in Frankfurt, our participation in Capital Market Day organized by Deutsche Beteiligungs AG in Frankfurt and our third Investor and Analyst Day as part of our in-house trade fair in Schopfloch.

Performance of the HOMAG Group Share in Comparison with SDAX®

HOMAG Group AG
SDAX® (indexed)

January 4, 2010 to February 28, 2011
in EUR

Source: XETRA closing quote, performance indexed (January 4, 2010 = 100)

Apart from providing professional analysts and investors with the best possible information, we also consider it very important to maintain close contact to private investors and other interested parties. We therefore set great store by proactive public relations and in 2010 we published a total of 15 press releases aside from the press briefing on the annual results. We also issued two ad hoc reports on the changes to the management board. Furthermore, the CEO and CFO were available for several interviews by members of the press concerning the current development of the Company, and we published three investor newsletters summarizing the key events for all interested parties.

All relevant information and news concerning the HOMAG Group is available around the clock from our website, which we redesigned in 2010 to make it more user-friendly.

Share Performance Indicators

ISIN CODE		DE0005297204
STOCK EXCHANGE SEGMENT		Prime Standard
INDEX		SDAX
XETRA CODE		HG1
IPO	July 13, 2007	
NUMBER OF SHARES	no-par value ordinary bearer shares	15,688,000
OPENING PRICE*	January 4, 2010	EUR 11.01
PRICE HIGH* 2010	December 14, 2010	EUR 18.20
PRICE LOW* 2010	January 5, February 4, February 8, 2010	EUR 11.00
PRICE* AS AT DECEMBER 30, 2010		EUR 16.60
EARNINGS PER SHARE		EUR 0.43
MARKET CAPITALIZATION (DECEMBER 30, 2010)		EUR 260.4 million

** XETRA closing quote*

Group Management Report for Fiscal Year 2010

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 industry and for fine cabinet makers. As a global player, we are present in more than 60 countries and have an estimated share of the world market of more than 28 percent. In furniture production, structural element production and timber frame house construction segments we offer our customers an extensive range of precisely tailored solutions ranging from stand-alone machines to complete production lines. Our offering is unparalleled as regards the wide range of services focusing on plant and machinery together with the provision of appropriate software solutions.

Legal and 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 and to lead the subsidiaries and the Group's sales organization. It is additionally responsible for investor relations, group accounting and corporate marketing, and it has regional responsibility for the sales companies. It holds a 100 percent investment in HOMAG Holzbearbeitungssysteme GmbH, which has operating activities and is one of the largest companies in the HOMAG Group. As of December 31, 2010, the Group included 11 German and 5 foreign production entities as well as 21 sales and service entities (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 management of foreign sales and service entities.

The following changes were made to the corporate structure in fiscal 2010:

- In February and July 2010, the share in BÜTFERING Schleiftechnik GmbH was raised by means of two capital increases from 80 percent to over 96 percent while at the same time diluting non-controlling interests.
- On October 6, 2010, we changed the legal form of HOMAG Holzbearbeitungssysteme AG. Its registered name is now HOMAG Holzbearbeitungssysteme GmbH. At the same time, we reshuffled the company's management, thus reducing the management concentration at HOMAG Group AG.
- Together with Herford-based imos AG, we established HOMAG eSOLUTION GmbH in December 2010; we hold a 51 percent investment in the company. The new company specializes in software solutions for furniture manufacturing, especially for HOMAG Group's machines and production lines.
- After restructuring, SCHULER Business Solutions AG has been registered under the name SCHULER Consulting GmbH since December 2010.

- In the fourth quarter of 2010, HOLZMA Plattenaufteiltechnik GmbH entered into a profit and loss transfer agreement with HOMAG Holzbearbeitungssysteme GmbH, which is effective retrospectively as of January 1, 2010.

Company Structure

HOMAG Group AG is organized into the segments Industry, Cabinet Shops, Sales & Service and Other. The Industry segment comprises those group entities whose business activities center on the provision of system solutions for industrial companies. We offer our customers seamless solutions based on optimally aligned systems that comprise plant and machinery together with the corresponding information and control technology, and thus essentially cover the entire woodworking process chains with our own products.

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 simple operation and flexible applications at a competitive price.

The Sales & Service segment comprises the business activities of the HOMAG sales and service entities in Germany and abroad. 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 Other segment primarily comprises the holding activities of HOMAG Group AG, foreign production facilities in regions with potential for the future, the services division with the software and consulting portfolio of SCHULER Consulting GmbH and HOMAG eSOLUTION GmbH 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. Following personnel adjustments, the management board temporarily has six members. Pursuant to the articles of incorporation and bylaws of HOMAG Group AG the management board comprises at least three members. The Group management board reports to the supervisory board on a regular basis. The supervisory board is equally balanced with six shareholder representatives and six employee representatives.

In fiscal 2010, the management board and the supervisory board implemented all of the recommendations and many of the suggestions proposed by the German Corporate Governance Code. The declaration of compliance pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporations Act] is published in this report on page 67 and on HOMAG Group AG's website.

We primarily manage HOMAG Group AG based on the key performance indicators gearing, gearing ratio, EBITDA, EBT, ROCE, earnings per share (EPS) and net liabilities to banks. These annual key performance indicators are budgeted and 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.

Corporate Management

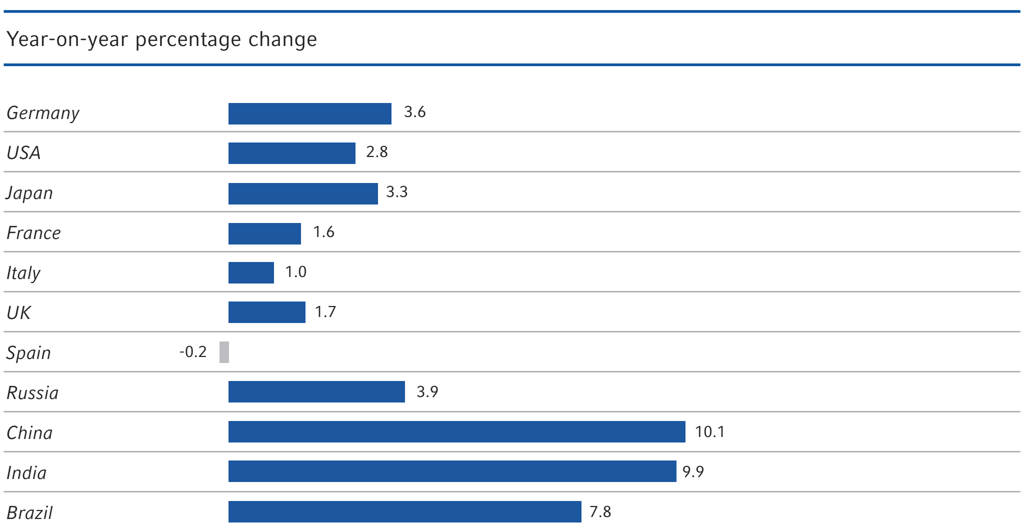
1.2 Economic and Market Conditions

Development of the Economy

Following the severe recession in 2009, which was triggered by the global financial crisis, the global economy recovered rapidly in 2010. This positive development was buoyed by the numerous monetary and fiscal policy measures introduced to stabilize the financial markets and stimulate the economy. These caused a vigorous rise in global gross domestic product (GDP), which reached 4.8 percent according to the IfW [“Institut für Weltwirtschaft”: Institute for the World Economy], even if some momentum was lost as the year progressed. According to the IfW, the volume of global trade grew 11.5 percent.

Economic development was again varied in 2010. In the large emerging economies, for instance, economic output has picked up substantially since mid-2009, even exceeding the pre-crisis level again. On aggregate, emerging nations saw GDP growth of 8.1 percent, in 2010 according to the IfW; the economic performance in Asia in general, and China and India in particular was extremely strong, both of which grew about 10 percent. According to the DIW [“Deutsches Institut für Wirtschaftsforschung”: German Institute of Economic Research], Brazil grew 7.8 percent and Russia 3.9 percent.

GDP (real) 2010



Source: DIW/IfW

Although industrial nations are also benefiting from the strong development in emerging countries, their growth is significantly lower and production here remains below the pre-crisis level. Moreover, the pace of economic recovery has slowed steadily in the course of the year. According to the IfW, this translates into a GDP growth of 2.4 percent in industrial countries, with the United States reaching 2.8 percent and Japan 3.3 percent.

Partly as a result of the debt crises in individual member states, the European Union lagged behind the development of other industrial countries, as is evidenced by economic growth of 1.8 percent. More specifically, the eurozone grew by 1.8 percent, while the economic output of the accession countries edged up 1.5 percent. Many economies, including Poland, Sweden, Slovakia, Finland and Belgium, exhibited a positive development. Others, such as Greece, Spain, Ireland, Romania and Bulgaria, reported weak to negative growth.

In 2010, Germany emerged as Europe's engine of growth, with its economy reaching the highest growth rate since reunification. Following the dramatic decline in production experienced in 2009, gross domestic product grew again by 3.6 percent according to government statistics. Specifically, exports recovered noticeably, especially at the beginning of the year, almost offsetting the losses endured in the prior year. According to the DIW, export growth stands at a solid 15 percent. Domestic demand also picked up during the year, increasingly gaining in importance as an economic driver. Up about 10 percent, investment in capital goods has risen substantially, although it still lags about 15 percent behind pre-crisis levels.

Mechanical and Plant Engineering

According to the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], the German mechanical and plant engineering industry has recovered from the severe setbacks in 2009, improving sales revenues in 2010 by about 8 percent. However, the industry thus remains about 20 percent under the peak reached before the crisis in 2008. Order intake developed exceedingly well in 2010 according to the VDMA, up 36 percent, although export growth, at 39 percent, outpaced domestic growth of 29 percent. As a result, exports increased again on the prior year from 73.6 percent of total sales to 74.8 percent in 2010.

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 a large number of smaller and small players that are frequently specialized in individual segments or special-purpose machines. There is clear evidence that the market share of large suppliers is growing as more and more customers tend to procure from multi-tier, single-source suppliers. The Italian corporations Biesse Group and SCM Group are the HOMAG Group's largest competitors with comparable products. We estimate that the three corporate groups have a combined market share of about 47 percent.

Following the collapse in demand of historic proportions that it endured at the end of 2008 and in 2009, the wood processing machines segment is likewise on the path to recovery, recording a 12 percent increase in sales revenue in 2010. Despite this growth, the wood working machines segment has only reached 65 percent of the revenue level reported in 2008. Up 74 percent, order intake rose very substantially in 2010. However, it must be noted that this image is distorted somewhat by the above-trend increase in order intake generated by the saw and timber industry, a field in which the HOMAG Group is not active.

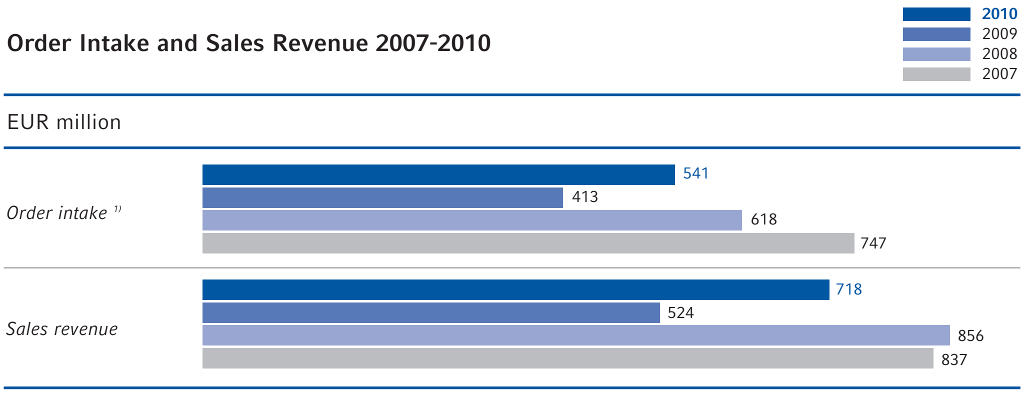
1.3 Business Development

Order Intake and Sales Revenue

Following the severe economic crisis that had a heavy impact on our industry and the HOMAG Group in the fourth quarter of 2008, a clear upward trend emerged again as early as the second half of 2009. This trend continued and in some cases improved further in 2010, resulting in successful fiscal year for HOMAG Group AG – perfectly timed to coincide with the Company's 50th anniversary. Owing to the positive development, we have had to correct our sales revenue forecast upwards several times during the year and have clearly exceeded our own expectations and the more than EUR 600 million still targeted at the beginning of 2010. With sales revenue significantly above EUR 700 million in the past fiscal year, we have already hit the current sales revenue target for 2011. We were also able to raise order intake considerably compared to the prior year.

Overall, our industry recovered very well in 2010 from the crisis year 2009. Compared to the overall mechanical engineering industry and our segment in particular, we have benefited more than most from this development, with strong sales revenue growth driven by the early improvement in our order situation. This has allowed us to raise our market share further. In part, this is attributable to our broad product range with which we can serve customers of all sizes in just about every industry segment and with which we are capable of offering industrial customers fully linked large-scale manufacturing systems and production lines from a single source. This project business developed very favorably in 2010. Particularly in the first half of 2010, the willingness worldwide to invest was extremely pronounced as the investment backlog caused by the crisis eased somewhat and companies started investing again in modern production concepts and new technologies.

Order Intake and Sales Revenue 2007-2010



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

Another decisive component for our market success in 2010 is our global positioning with a sales organization that is active worldwide. This has allowed us to directly benefit from the positive development of the economy in every region. For instance, the order situation in what is referred to as the BRIC countries (Brazil, Russia, India and China) has exhibited an excellent development. We have been present on these growth markets for many years, and we have established a robust market position, particularly in Brazil and China. This is one of the main factors that have allowed us to raise the proportion of our order intake generated in the BRIC countries to about 23 percent in 2010 compared to 14 percent in 2009.

Despite all of the success stories in the past fiscal year and the significant increase in sales revenue, order intake and results compared to 2009, we are still somewhat short of our pre-crisis peak figures. We are well aware of this and we are determined to do everything within our power to reach these record figures again in the next few years.

Partially as a result of the renewed increase in deliveries in the closing quarter, we increased our sales revenue for 2010 by 37 percent to EUR 718 million (prior year: EUR 524 million). Total operating performance improved to EUR 730 million (prior year: EUR 519 million). Following the atypical year 2009, in which order intake started very poorly but improved from quarter to quarter, we returned in 2010 to the industry's usual seasonal pattern marked by declining figures as the year progresses. This effect together with the high volume of deliveries at the end of the year meant that our order backlog as of December 31, 2010 decreased to EUR 149 million at year end from EUR 171 million in the prior year. On aggregate, we were able to increase our order intake 31 percent to EUR 541 million (prior year: EUR 413 million).

Development of Sales Markets

Within our global sales markets, the shift in the distribution of order intake toward emerging economies continued in 2010. Particularly the Asian market has developed very favorably in the past fiscal year, and is already significantly above the pre-crisis level, such that it is now our third largest sales region. China plays a key role in this context, although India and South East Asia are driving this robust growth.

In 2010, western Europe has developed into our strongest sales region, driven by the significant market recovery, both for stand-alone machines and large-scale production lines. Within western Europe we were particularly successful in France, Belgium, the UK and Italy. The central European region, consisting of Germany, Austria and Switzerland, fared quite well in the crisis year 2009 and was able to improve on this good level again in 2010. In Germany, the largest individual market of the HOMAG Group, we registered increased demand in all machine areas. Switzerland was also quite significantly above the prior-year value, Austria was able to reach the prior-year value again.

The eastern European region recovered well from the crisis in the reporting year, as reflected in particular by the healthy first half of 2010. The Polish market performed well, but so did Russia, where the positive trend of the fourth quarter 2009 continued as forecast. However, financial issues continue to weigh heavily on the eastern European region as a whole.

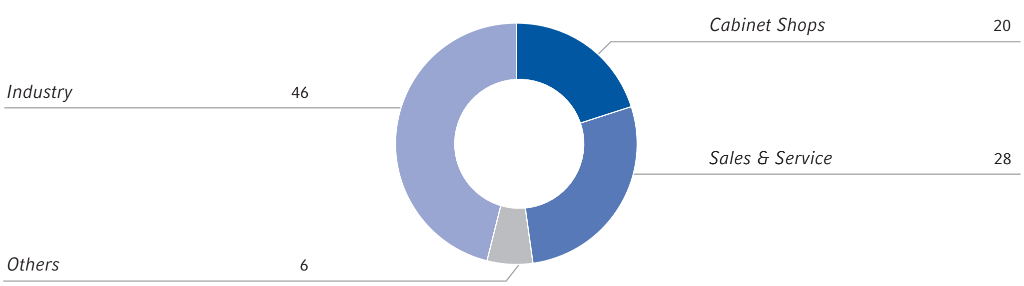
In America, 2010 saw positive trends in Canada and the United States, even if the United States in particular is still lagging far behind its pre-crisis level. America’s development was primarily driven by the strong Brazilian market. Plant and machinery imported from our European production facilities and entry-level machines produced locally at HOMAG Machinery in São Paulo are equally successful here.

Segment Sales Revenue

Owing to the significant increase in business volume overall, sales revenue has increased substantially across all segments in 2010. In the Industry segment, our largest, sales revenue improved in the past fiscal year to EUR 432 million before consolidation (prior year: EUR 304 million). The Cabinet Shops segment saw sales revenue rise to EUR 185 million (prior year: EUR 127 million), while the Sales & Service segment climbed to EUR 266 million (prior year: EUR 179 million). In the Other segment we earned EUR 61 million in 2010 (prior year: EUR 40 million), with the timber frame house subsegment rising to become the largest position with sales revenue of EUR 20 million (prior year: EUR 17 million).

Segment Sales Revenue 2010

As %



Significant Events in Fiscal 2010

A momentous and proud event in fiscal 2010 was the 50th anniversary of HOMAG Holzbearbeitungssysteme GmbH – our largest subsidiary and the origin of our corporate group. Founded in 1960 by Gerhard Schuler and Eugen Hornberger, HOMAG has grown into the world's leading company in the wood processing industry. We celebrated this success story in 2010 with an official ceremony and a party for our employees.

Of the many trade fairs at which we presented our products in the past fiscal year, the Holz-Handwerk trade fair in Nuremberg held in March is particularly worth mentioning here. Here we were able to break our order intake record set back in 2006 by 50 percent, which gave us an early indication of the positive industry development. The Xylexpo trade fair held in Milan back in May was also successful, and the response at the in-house trade fairs held by four subsidiaries at the end of September was likewise extremely positive. Indeed, HOMAG welcomed 2,400 guests to Schopfloch alone, setting a new visitor record.

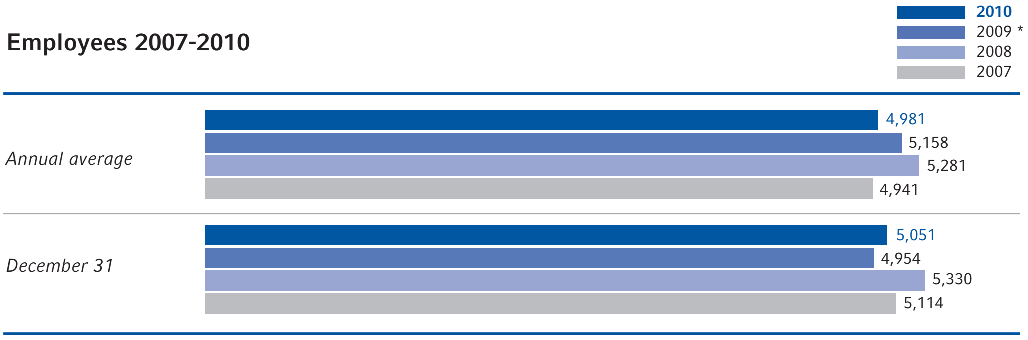
Also of significance in 2010 were the changes to our management bodies already performed or decided. On May 28, 2010, the annual general meeting elected as scheduled the six shareholder representatives to the supervisory board; Hans Fahr, Gerhard Federer, Dr. Horst Heidsieck, Dr. Dieter Japs and Thomas Keller were newly elected to the board, while Torsten Grede was reelected and remains its chairman. In addition, the following changes on the management board were decided in 2010: Hans-Dieter Schumacher, who has been on the management board since January 15, 2011, will succeed Andreas Hermann as CFO on April 1, 2011. In August 2010, Andreas Hermann had already asked the supervisory board to terminate his service agreement early for personal reasons. On April 1, 2011, the supervisory board also appointed Dr. Markus Flik onto the management board; he will become its chairman on July 1, 2011. The CEO to date, Rolf Knoll, will retire as planned when his contract ends, although he will continue to serve the HOMAG Group in an advisory capacity.

A number of other decisions with implications for the future were also taken in 2010. As proposed by the management board, the supervisory board approved an investment budget of EUR 8 million earmarked to continue developing operations in the key strategic regions China and India. Together with imos AG, we also already founded HOMAG eSOLUTION GmbH back in 2010. The company started its operations at the start of 2011. The new company focuses on providing software solutions for furniture production, in particular for our plant and machinery. With the supervisory board's approval, we have also decided on a concept aimed to secure the viability of the further expansion of the market position held by the companies FRIZ and TORWEGGE. These will be linked to larger companies within the HOMAG Group, as their products play a key role in our overarching strategy to cover the process chains of our customers as seamlessly as possible. Extraordinary expenses of about EUR 2 million were incurred in connection with these measures in the fourth quarter of 2010.

1.4 Employees

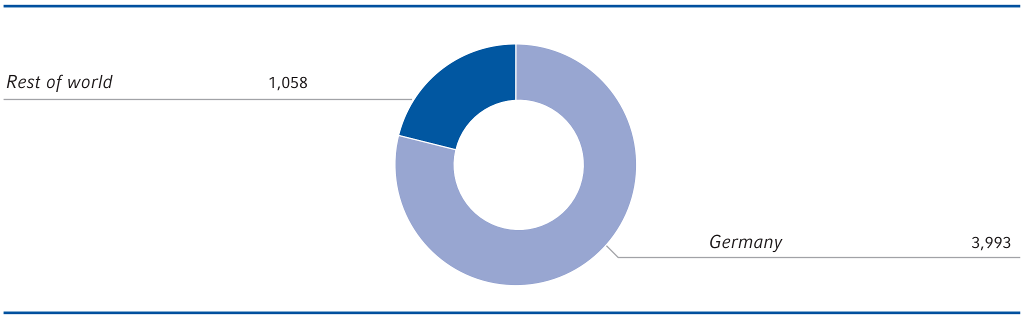
In the fourth quarter of 2008, we began to adjust our personnel capacity to the depressed order situation that resulted from the economic crisis and reduced our headcount accordingly. We were able to complete this process for the most part in the first quarter of 2010 and lowered our capacity – including the new employees from the BENZ acquisition and temporary workers – by just under 20 percent compared to the personnel peak as of the end of the third quarter of 2008. With 4,956 employees as of the end of the first quarter of 2010, we were somewhat above original planning in which we had assumed a permanent personnel base of about 4,800. This is attributable to the HOMAG Group's exceedingly quick recovery and the recovery of the volume of business.

Employees 2007-2010



* Since 2009 incl. BENZ

Employees by Region as of December 31, 2010



As fiscal year 2010 progressed, we began hiring again at individual subsidiaries to fill positions of strategic importance in response to the favorable development of business. At the same time, we also executed the announced restructuring measures at selected locations. In the third and fourth quarters, more than 100 new trainees and students from universities of cooperative education joined the Company. As of December 31, 2010, the HOMAG Group thus had 5,051 employees (prior year: 4,954), of which 33 were on subsidized temporary layoffs. In addition, we had 55 temporary workers as of year end. An annual average of 4,981 workers were employed by the Group in 2010, compared to 5,158 employees in 2009. However, it should be noted that while the headcount decreased steadily in the course of 2009, it started to rise again in the course of 2010.

For the most part, we increased our workforce at our foreign production companies in China, Brazil and Poland; at our sales and service companies in Brazil and Singapore; and at HOMAG Holzbearbeitungssysteme GmbH and WEEKE Bohrsysteme GmbH in Germany. As a result, our headcount in Germany increased slightly as of year-end 2010 to 3,993 employees (prior year: 3,967 employees), while the headcount abroad rose to 1,058 employees (prior year: 987 employees). Owing to the good capacity utilization at many companies, we raised the limits on vacation and non-working shift accounts slightly again in 2010, thus improving the staffing flexibility that will be needed in the future.

Overall, we believe that the headcount as of year-end 2010 will be adequate for the current fiscal year as well. There will be a moderate increase in the number of workers employed at our subsidiaries in foreign growth markets.

The annual average of employees decreased in the segments Industry to 2,688 (prior year: 2.802), Cabinet Shops to 1,025 (prior year: 1,090) and Sales & Service to 695 (prior year: 710). By contrast, the annual average headcount in the Other segment increased to 573 (prior year: 556), particularly at HOMAG Machinery Shanghai.

Training

We have traditionally maintained a high ratio of trainees to total workforce. In the past fiscal year 2010, we therefore once again provided many young people opportunities to obtain solid vocational training. The Group employed a total of 424 trainees as of the end of the reporting period, 343 in technical and 81 in clerical positions.

At this year's training meets, visitors were again able to obtain information on training opportunities at HOMAG and HOLZMA as well as the companies offering training courses. Numerous interested school-leavers and their parents took the opportunity to participate in the workshops, factory tours and other informative events in order to gain some insight into our Company and the high priority we give to training.

HOMAG Group positioned itself as an attractive training company by also participating in a number of events in the course of the year such as “Girls Day”, “Mitmachen Ehrensache”, “Auszubildende lernen bei Auszubildenden”, “Schüler-Ingenieur-Akademie (SIA)” and by hosting the graduation ceremony of the Freudenstadt technical high school in the factory halls in Schopfloch. We also offer numerous taster traineeships each year to pupils so they can gain an impression of specific careers and of us as their potential training company. The training managers of the production companies in southern Germany met for the first time in 2010 to swap notes in the field training.

In an initiative to leverage new media in our search for the best trainees, we are additionally present on the internet platform youtube.com, where we post video clips introducing our training courses.

By means of proactive marketing at institutes of higher education, we also want to present ourselves as an attractive employer to college graduates. To this end, we once again took part in university careers fairs in 2010, including Rosenheim University of Applied Sciences, Stuttgart University and the University of Karlsruhe. This allowed us to show students the various possibilities for starting a career at our Company, the global leader for wood processing systems. The HOMAG Group also offers placements to students writing their BA and Masters dissertations and work experience semesters, including overseas in some cases, in order to give them the opportunity to put into practice the theoretical knowledge they have gained in their degree. They are actively involved in day-to-day business and internal business processes.

A large number of interested visitors stopped by the HOMAG Group's stands at the many trade fairs and careers fairs in which we participated again in 2010, including at the fairs in Freudenstadt, Herrenberg, Nagold and Wildberg. Our trainees, students on placement from universities of cooperative education and trainers were available to answer visitors' questions.

At the HOMAG Group, we see training as a joint investment in learning, and we consider it a priority in order to secure our employees' outstanding qualifications in the long term. Our many "Fit" programs give our employees a range of training opportunities. The extensive offering focuses on issues relevant to products. Most of the courses are provided by internal trainers. The advanced training program "Fit for the Future" celebrated its 10th anniversary in 2010.

Across all business operations, good health is essential to ensure employees' ability to perform at their best. We therefore regularly offer preventive measures such as back training, running, cookery courses focusing on healthy eating and presentations on health issues. Annual health events offering a wide range of health checks and balanced nutrition information also play their part in maintaining the performance and health of our employees.

Employees as Fellow Entrepreneurs

Back in 1974, we introduced an employee profit participation scheme in the Company that we consider to be one of the factors of our success. The model makes employees fellow entrepreneurs and has proven very popular with the workforce. Indeed, about 99 percent of the entitled workforce holds investments in HOMAG Holzbearbeitungssysteme GmbH at present. Employees thus bear some of the entrepreneurial risk in that they share in the profit generated by the Company, but likewise in any loss incurred. After many successful years in which large dividends were paid out, our employees actually bore a loss of EUR 3.0 million in fiscal 2009. However these losses have already been more than offset by the current dividend for 2010 of EUR 5.5 million.

1.5 Sustainability

Sustainability is an integral element of our corporate strategy and is thus firmly anchored in our business processes. Primary fields of action in this context are improved environment and climate protection as well as employee satisfaction and development. We believe that it is possible to reconcile a successful business operation with environmental and social responsibility. We use the opportunities afforded by our position as market leader in a bid to drive forward economic, social and environmental sustainability issues – in the interest of our Company, society and the environment.

The HOMAG Group assumes its responsibility to protect the environment and the climate. We therefore view the need to use resources sparingly as self-evident. This applies equally to our own production as it does to the products we manufacture, so that our customers can minimize the impact of their production activities on the environment. Consequently, energy and resource efficiency are topics of paramount importance in our corporate policy along the entire supply chain.

Our sustainability measures in 2010 focused on further improving the emissions footprint of our products and extensively optimizing production structures and methods with a view to further reducing the use of energy, supplies and raw materials. We benefit in this area from our immense innovation power, which is essentially our engine of growth and with which we effectively face the global challenges in the long term. We also continually harness this innovation power to find new solutions and thus steadily cut back on the raw materials and energy we use to manufacture our products.

For instance, the newly developed **eco**Plus technology of our subsidiary HOLZMA systematically cuts operating costs while reducing the impact on the environment. At the touch of a button, machines equipped with this technology can be rapidly switched from normal to energy-saving mode. This function is ideal for all companies that have irregular operating times but that need their production systems to be operational at a moment's notice. The use of power-saving motors rated with a class one energy efficiency allows a further reduction in energy and CO2, a substantially greater efficiency and lower thermal load. An energy monitor in an auxiliary gauge indicates the machine’s current energy consumption. In the future, **eco**Plus technology will be introduced at all group companies and will thus be available for an increasing number of machines and production lines of the HOMAG Group in the medium term.

We also work closely with suppliers and research institutes to further improve the energy balance of new and enhanced products. In 2011, for instance, we will contribute to the establishment of a standardized technique to determine the energy efficiency classes of machines in cooperation with the Fraunhofer Society for the Advancement of Applied Research.

In addition, we strive to reduce energy consumption at our production facilities in the long term by making environmentally compatible investments in modern technology. In 2010, we optimized the use of compressed air with intelligent management systems that only uses the minimum number of compressors required in each job, for instance. We were able to cut energy further by feeding the surplus heat from the combined heat and power plants into the heating system.

Satisfied employees are the basic precondition for the sustainable development of the Company. With this in mind, we use flexitime and continuous investment in an extensive and varied program of training courses to raise the motivation and upgrade the qualifications of employees. The high qualification level of our employees makes a decisive contribution to the success of the HOMAG Group.

The aim of all of these measures of the HOMAG Group is to act on its social and ecological responsibility both to employees, shareholders and customers as well as society and the environment.

1.6 Research and Development

The HOMAG Group's research and development (R&D) department develops innovative, modern and efficient machines, production lines, manufacturing facilities and service packages for the woodworking and wood processing industry. These solutions are developed locally at one of the 11 German production companies or centrally by a selected team of experts. A clear objective is to develop solutions for the broad market rather than for niche segments. On the one hand, we follow customer needs and on the other develop innovative products and ideas to tap new markets and sales channels.

In order to meet these requirements as a technology and global market leader, we continually observe, analyze and interpret the market. A team of product managers dedicated to finding solutions for customers analyzes the market requirements and, together with the development teams, implements these in the form of marketable solutions. Apart from attending international trade fairs, our development and product managers also exchange experiences with customers and thus create new impetus and find new solutions.

The HOMAG Group's research, development and design costs amount to a solid 6 percent of the Company's sales revenue. The dedicated work of around 760 developers and project engineers ensures that we remain highly innovative. This is also reflected in the large number of patent applications, which exceeded 60 in 2010. Alone in the area of adhesive activation using laser technology, over ten patents have been filed, and some of these have already been granted. Surface technology was another focal point in which patents were filed, such as for the new **reac**Tec technique for laminating technology and profile wrapping. New patents were filed in just about every technology area to secure our technological edge.

To counter illegitimate product copies and any loss of expertise, we not only rely on industrial rights, we also use identification technology such as holograms or RFID systems as well as design aspects of products, which are increasingly being developed in modular form on a platform basis. Our efforts to counter the loss of know-how, are flanked by measures to sensitize employees, including targeted training, physical access restrictions, IT security measures such as the use of encryption software or related clauses in employment agreements. We also act outside the Company by informing the public.

To benefit from the latest insights from the scientific and research community as regards protection against product piracy, we have participated in joint projects organized by the German Ministry for Education and Research (BMBF) together with research institutes, solution providers and fellow user companies. The HOMAG Group also participates in joint research projects at a German national and EU level in other fields such as new internet-based services, digital factory planning or energy and resource efficiency in order to ensure that our products and our internal processes and structures always have a high degree of innovation.

Our research and development activities hinge on the creativity and motivation of our employees. We stimulate this with creativity incentive programs, workshops, cross-functional cooperation, and with the permanent enhancement of our structures, processes and development tools. In 2010, we completely restructured the R&D function. The core of the restructuring is the mechatronic alignment of the development units for stand-alone machines. Under the new structure, the conventional separation between electronics/control development and job processing was eliminated. This structure has been replaced by an organization that is aligned to the product divisions. The various development departments and project processing are represented in each of these divisions. The main objectives of this move are to reduce the time to market (i.e., from development to market launch) of our innovations and premium products and to establish a direct link to job processing. In the course of this restructuring, the foundation was also laid for the expansion of the central basic development activities, such as basis software development work, together with mechatronic pre-development activities.

HOMAG eSOLUTION was established in December 2010, also as a result of the new structures. Since our customers have to increasingly manufacture smaller and smaller batch sizes with ever increasing variance, the value chain is changing. Job-specific machine data have to be generated automatically. Consequently, the process and data continuity have to be shifted from the machine further upstream to the start of the value chain. This is the task of HOMAG eSOLUTION.

Concrete new products and enhancements were introduced in all machine segments in 2010. In the area of stand-alone machines, for instance, we enhanced the laser technology for edge processing in throughfeed and CNC machines, revolutionized the field of laminating technology with **reac**Tec and increased the performance of processing units for batch-1 production by about 20 percent. Also available now, are a new generation of CNC processing centers for the fully automated production of windows as well as a new generation of profile trimming units that afford unparalleled performance while meeting exacting quality standards.

For growth markets in which we already have local production activities in some cases, we have developed new sanding machines, single-sided edge banding machines and CNC drilling and trimming centers. In the panel sizing saws segment, a redesign has allowed us to raise both the productivity and energy efficiency by 20 percent. This is complemented by innovative project solutions for saw/storage combinations. Our innovative developments are rounded off by innovative packaging systems for flat-pack furniture, various robotics applications in the areas of surface treatment, stacking and handling as well as the expansion of the product segment storage, sorting and buffer systems.

In 2010, we were also successful in the project business in which we were able to extend our market position as a competent and reliable system developer and technology leader. Apart from full-coverage sales and service, an important success factor in this area is our comprehensive and modular price/benefit system along the strategically defined process chains for furniture manufacturing, door/frame production, flooring, surface treatment, timber frame house, drilling, hardware and assembly technology, packaging technology as well as materials flow and logistics.

In the project business, we have also enhanced the structure and workflow organization with respect to project controlling, timely and strict use of simulations as proof of concept, feasibility testing of customer-specific solutions as well as end-to-end scheduling and detailed planning and tracking of construction site phases.

Both the stand-alone machine and the project business require an optimal portfolio of services to ensure utmost efficiency and a high degree of availability of products. With this in mind, we further improved our portfolio of services in 2010, and expanded it to include new products and processes, such as various software products and a new customer relationship management system for our service offering.

1.7 Changes in Company Boards

The scheduled election by the annual general meeting of HOMAG Group AG on May 28, 2010 of the six shareholder representatives to the supervisory board resulted in the following changes: Hans Fahr, Gerhard Federer, Dr. Horst Heidsieck, Dr. Dieter Japs and Thomas Keller were newly appointed to the supervisory board. Torsten Grede was reelected to the board; at the constituent meeting of the supervisory board following the annual general meeting, he was confirmed as its chairman. Dr. Jochen Berninghaus, Klaus M. Bukenberger, Wilhelm Freiherr von Haller, Ralf Hengel and Reinhard Löffler left the supervisory board.

There were no personnel changes on the management board in fiscal 2010. At the end of fiscal 2010, the supervisory board decided in its meeting of December 16 on personnel changes on the management board that will not have an impact until 2011 and are discussed in more detail in the section on subsequent events.

1.8 Disclosure Pursuant to Sec. 315 (4) HGB ["Handelsgesetzbuch": German Commercial Code]

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

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

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

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

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

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

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

   Art. 5 (1) of the articles of incorporation and bylaws states that the management board must comprise at least three members. In accordance with Art. 5 (2) of the articles of incorporation and bylaws, the supervisory board determines the number of members of the management board, appoints, changes and terminates employment contracts, as well as revokes appointments; it is also responsible for appointing the chairperson and the deputy chairperson of the management board.

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

c) *Amendments to the articles of incorporation and bylaws:* In accordance with Sec. 179 (1) AktG, the articles of incorporation and bylaws may only be amended by resolution of the annual general meeting. The supervisory board is authorized, however, to pass resolutions amending the current version of the articles of incorporation and bylaws in accordance with Art. 15 of the articles of incorporation and bylaws in conjunction with Sec. 179 (1) Sentence 2 AktG. In accordance with Sec. 179 (2) Sentence 1 AktG, a resolution to amend the articles of incorporation and bylaws at the annual general meeting requires a majority of at least three quarters of the share capital represented when the resolution is adopted. Pursuant to Sec. 179 (2) Sentence 2 AktG, the articles of incorporation and bylaws can prescribe a stricter share capital majority to amend the purpose of the Company and other requirements. In accordance with this legal authorization, Art. 20 (1) of the articles of incorporation and bylaws prescribes that resolutions of the annual general meeting require a simple majority of the votes cast, unless legal regulations prescribe otherwise. In such cases where the law requires a majority of the share capital represented when passing a resolution, a simple majority of the share capital represented suffices, unless legal regulations prescribe otherwise.

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

As regards the issue of shares and purchase of treasury shares, the management board is authorized as follows:

a) *Authorization to issue shares:* Pursuant to Art. 4 (3) of the articles of incorporation and bylaws, the management board is authorized, with the approval of the supervisory board, to raise the share capital in the period until May 31, 2012, once or several times, by a total of up to EUR 5,824,536.00 by issuing new no-par value bearer shares in exchange for cash and/or contributions in kind (authorized capital II). The management board is entitled to decide on the conditions of share issue with the approval of the supervisory board. In addition, the management board is authorized, subject to the approval of the supervisory board, to preclude existing shareholders' subscription rights under the following circumstances:
   - for fractional amounts
   - for capital increases in return for contributions in kind for the purpose of acquiring a company, part of a company or an equity investment in a company
   - in the case of capital increases in return for cash contributions, if the issue price of the new shares is not significantly lower than the quoted price of identical shares already listed when the issue price is finalized by the management board within the meaning of Sec. 203 (1) and (2) and Sec. 186 (3) Sentence 4 AktG, and the new shares with precluded subscription rights do not exceed an amount of 10 percent of share capital on the date of authorization. Shares disposed of during the term of authorized capital II precluding the subscription rights of the shareholders pursuant to Sec. 71 (1) No. 8 Sentence 5 and Sec. 186 (3) Sentence 4 AktG, as well as those with conversion or exercise rights or obligations issued after this authorization was granted pursuant to Sec. 221 (4) and Sec. 186 (3) Sentence 4 AktG may not exceed 10 percent of the share capital.

b) *Authorization to repurchase 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 April 30, 2015 with an imputed share in share capital of up to EUR 1,568,800.00. The Company may not use the authorization to trade with treasury shares. The Company can exercise the authorization wholly or in part, once or several times. The management board can choose to purchase the treasury shares either a) via the stock exchange or b) through a public offer made to all shareholders.

   Subject to the approval of the supervisory board, the management board is authorized to redeem the treasury shares purchased pursuant to this authorization with out 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 of the Company's shares in XETRA trading (or a functionally comparable successor system taking the place of the XETRA system) on the Frankfurt am Main stock exchange during the five trading days prior to the agreement with the third party.

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 (INCLUDING CORPORATE GOVERNANCE REPORT)*

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

2.1 Corporate Governance at HOMAG Group AG

We firmly believe that good corporate governance is a key component of the Company's sustainable success, because responsible, value-centric and transparent corporate governance strengthens trust-based relationships with shareholders and capital markets as well as employees, customers and suppliers. The management board and the supervisory board as well as the HOMAG Group AG's employees feel duty-bound to the German Corporate Governance Code, and its principles are therefore at the core of our activities. We comply with the recommendations of the German Corporate Governance Code without exceptions (see declaration of compliance pursuant to Sec 161 AktG on page 67) and also follow many of the suggestions.

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

Compliance

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

Code of Conduct

For years, "satisfied customers, satisfied employees and satisfied investors" have been the corner stones of the philosophy that has guided our Company. The conduct of leadership in our companies is based on the principles "cooperation" and "partnership". Based on these principles and the corporate culture they embody, a code of conduct was issued for our

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

foreign companies in 2010. This contains binding guidelines for the actions of the management board, middle management and all employees of Homag Group. Ethical business practice, fairness and responsible and legally compliant conduct are already both a duty and a matter of course for us. Nevertheless, the 13 principles in the code of conduct are intended to support us in our daily activities. This code of conduct is therefore a summary of many years of practice rather than setting up any new or detailed rules. Once the negotiations with the group works' council have been concluded, the code of conduct is to also be deemed binding in Germany in 2011.

Composition of the Management Functions and Management Board

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

Objectives Concerning the Supervisory Board's Composition

When appointing members to the supervisory board, the supervisory board has set itself specific objectives and, in compliance with the German Corporate Governance Code, has passed the following resolutions:

"In light of the purpose of the company, its size, the composition of its workforce and its international operations, the supervisory board aims to achieve a composition that reflects the following factors:

- No less than two seats on the supervisory board for members who particularly reflect the international nature of the Company, for example by being foreign nationals or having relevant experience abroad
- No less than eight seats on the supervisory board for members who do not have an advisory function at and are not members of the corporate boards of customers, suppliers, lenders or other business partners of the Company
- No less than two seats on the supervisory board for women

The supervisory board intends to take these criteria into consideration in its nominations for the next scheduled appointments to the supervisory board in 2015 and for new appointments to the supervisory board prior to that. The same applies to petitions to the court in the event of statutory appointments.

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

2.2 Management and Control Structure

The Supervisory Board

The supervisory board monitors and advises the management board on the conduct of its business. The supervisory board discusses the development of business and planning, as well as the corporate strategy and its implementation, at regular intervals. The management board's rules of procedure stipulate that significant transactions such as budgetary planning, major acquisitions, divestitures and financing measures require the approval of the supervisory board.

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

In order to permit independent advice to and supervision of the management board, no former members of the management board sit on the supervisory board. According to its rules of procedure, the supervisory board members may not be on the board or act in an advisory capacity at any of the company's major competitors. The rules of procedure also stipulate that supervisory board members are required to inform the supervisory board of any conflicts of interest that might arise, in particular due to their acting in an advisory or board function at customers, suppliers, investors or other business associates. In its report to the 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 GmbH, a subsidiary of HOMAG Group AG, and Mr. Schuler in 1999.

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

The Management Board

The management board of HOMAG Group AG comprises five members. Following personnel adjustments, the management board temporarily has six members in fiscal 2011. Pursuant to the articles of incorporation and bylaws of HOMAG Group AG the management board comprises at least three members. Under the rules of procedure for the management board issued by the HOMAG Group AG's supervisory board, a CEO can be appointed if the supervisory board has not appointed a spokesperson of 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. Measures requiring the approval of the supervisory board must be presented to the supervisory board without delay.

Annual General Meeting

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

Financial Reporting and Annual Audit

The financial statements of HOMAG Group AG are prepared in accordance with the German Commercial Code (HGB), the consolidated financial statements according to International Financial Reporting Standards (IFRSs).

The auditor and group auditor are elected by the annual general meeting in accordance with the legal provisions. Before the election nomination for the audit is made, the supervisory board obtains a declaration from the auditor they have in mind if and whether there are any business, financial, personal or other relations between the audit firms and its governing bodies and audit team leaders on the one hand and HOMAG Group AG and its board members on the other which could give rise to doubts about independence. It was agreed with the auditor that the chairman of the supervisory board would be informed without delay of any grounds for disqualification or any factors affecting impartiality if they arise during the audit, unless they are remedied immediately. The supervisory board also agrees with the auditor that the auditor will immediately report all significant findings and events of relevance for the duties of the supervisory board that may arise during the audit and that the auditor will inform the supervisory board or mention this in the audit report if facts are found during the audit that indicate that the declaration of compliance made by the management board to the supervisory board pursuant to Sec. 161 AktG is incorrect.

Risk Management

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

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

Transparency

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

2.3 Remuneration Report

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

Remuneration of the Supervisory Board

The remuneration paid to the supervisory board is governed by Art. 14 of the articles of incorporation and bylaws of HOMAG Group AG. It is based on the duties and responsibilities of the supervisory board members and the economic performance of the Group. Accordingly new remuneration rules for supervisory board members were decided at the annual general meeting on May 28, 2010 taking into account the recommendations and suggestions in No. 5.4.6 of the German Corporate Governance Code and the corresponding changes to the articles of incorporation and bylaws of HOMAG Group AG. This amendment was filed in the commercial register on June 7, 2010.

Each full fiscal year of membership, the members of the supervisory board still receive fixed remuneration of EUR 10,000. Following the change to Art. 14 of the articles of incorporation and bylaws of HOMAG Group AG, the members of the supervisory board now also receive a fixed attendance fee of EUR 1,500 for each supervisory board meeting.

In addition to the fixed remuneration, the members of the supervisory board receive variable remuneration for each full fiscal year. With the amendment of Art. 14 of HOMAG Group AG's articles of incorporation and bylaws by the annual general meeting, the members of the supervisory board receive EUR 500 per 0.1 percent of the positive HOMAG value added KPI (key performance indicator), but no more than EUR 20,000. Following the introduction of the HOMAG value added KPI as a measurement basis for the variable supervisory board remuneration, which replaced the prior measurement basis (dividends), the variable remuneration of the management board and the supervisory board are linked to the same sustainability-based KPI. The HOMAG value added KPI for a given fiscal year is calculated based on the consolidated financial statements of HOMAG Group AG.

The chairperson of the supervisory board receives three times the sum of the fixed remuneration, the variable remuneration and the attendance fee for each supervisory board meeting, the deputy chairman one-and-a-half times that amount.

Committee membership is still remunerated separately. Following the amendment of Art. 14 of HOMAG Group AG's articles of incorporation and bylaws, the attendance fee has been raised from EUR 1,000 to EUR 1,500 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 receive fixed and variable remuneration based on their length of service on the supervisory board. The fixed and variable remuneration as well as the attendance fee for supervisory board meetings and committee meetings is payable within one month of the annual general meeting exonerating the supervisory board for the relevant fiscal year.

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

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

The table below shows a breakdown of the remuneration of the supervisory board for the fiscal year 2010:

EUR k	Fixed remuneration	Attendance fees	Remuneration for committee work	Performance-based remuneration	**Total remuneration**
Torsten Grede, chairman	30	23	25	0	78
Reiner Neumeister, deputy chairman [1]	15	11	19	0	45
Dr. Jochen Berninghaus [2]	4	0	2	0	6
Klaus M. Bukenberger [2]	4	0	0	0	4
Ernst Esslinger [1]	10	8	0	0	18
Hans Fahr [3]	6	6	7	0	19
Gerhard Federer [3]	6	7	12	0	25
Wilhelm Freiherr von Haller [2]	4	0	2	0	6
Dr. Horst Heidsieck [3]	6	7	11	0	24
Ralf Hengel [2]	4	0	2	0	6
Carmen Hettich-Günther [1]	10	8	8	0	26
Dr. Dieter Japs [3]	6	7	0	0	13
Thomas Keller [3]	6	6	6	0	18
Hannelore Knowles [1]	10	6	9	0	25
Reinhard Löffler [2]	4	0	6	0	10
Jochen Meyer [1]	10	6	9	0	25
Reinhard Seiler [1]	10	6	0	0	16
TOTAL	**145**	**101**	**118**	**0**	**364**

[1] *Employee representative*
[2] *Member of the supervisory board until May 28, 2010*
[3] *Member of the supervisory board from May 28, 2010*

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

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

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

Remuneration of the Management Board

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

The total remuneration of the management board is appropriate in relation to the responsibilities and tasks of each management board member as well as the situation of the Company. They do not exceed the 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.

The remuneration of the members of HOMAG Group AG's management board is made up of a fixed salary and a variable performance-based component. The variable component consists of a short-term and a long-term incentive system and is based on indicator-based targets and the development of the share price. It is also capped. There are no stock option plans. The members of the management board are not remunerated for board functions at subsidiaries. There is no company pension scheme for the members of the management board. In the reporting year, loans and advances were not granted to the members of the management board, nor have any declarations of liability been made in their favor. All service agreements with the members of the management board comply with the recommendations of the German Corporate Governance Code.

In the event that a service agreement with a member of the management board is terminated, the management board member concerned receives as settlement of remuneration including fringe benefits a compensation payment of two years' compensation on the date on which the contract is terminated, but no more than the amount of remuneration for the residual term of the agreement (fixed remuneration, short-term incentive and long-term incentive). The management board member is not entitled to a settlement within the meaning described above if the Company has a right to terminate the contract for good cause as defined in Sec. 626 BGB ["Bürgerliches Gesetzbuch": German Civil Code].

Fixed remuneration

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

The majority of management board service agreements provide for an increase in fixed remuneration as of January 1, 2010, subject to the condition precedent (mark-up amount) that the Group generates earnings before taxes (EBT) in the preceding four quarters in total.

If this condition precedent is satisfied, the annual salary for these agreements increases as of July 1, 2010.

Variable remuneration component

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

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

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

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

The LTI bonus is a long-term incentive system based on the development of HOMAG Group's share price (share-based price LTI bonus) and the development of positive HVA (HVA LTI bonus). The LTI schemes are set annually and have a term of three years in each case. Before introducing the LTI scheme in each respective year, the supervisory board reviews the parameters for the LTI used to date together with the HVA target value, the cap and the parameters used to calculate the capital costs. For the new LTI scheme, which has a reference period running from January 1, 2011 to December 31, 2013, the supervisory board decided to use the parameters used to date.

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

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

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

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

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

In connection with a contractually agreed increase of the fixed annual salary, the majority of the management board received a performance-based non-recurring bonus payment of 50 percent of the mark-up in the past fiscal year. Moreover, the supervisory board granted one member of the management board a special bonus.

The remuneration of the management board members pursuant to IAS 24 for the fiscal 2010 breaks down as follows:

EUR k		Rolf Knoll	Achim Gauß	Andreas Hermann	Herbert Högemann	Jürgen Köppel	Dr. Joachim Brenk	TOTAL
Fixed salary	**2010**	323	274	247	236	218	0	**1,298**
	2009	241	226	201	202	48	223	**1,141**
Short-term incentives								
Bonuses	**2010**	38	38	37	25	15	0	**153**
	2009	0	0	0	0	0	0	**0**
STI	**2010** [1]	0	0	0	0	0	0	**0**
	2009	0	0	0	0	0	0	**0**
Long-term incentives LTI [2]								
Change in provision	**2010**	77	77	0	65	59	0	**278**
Provision	**2010**	77	77	0	65	59	0	**278**
Change in provision	2009	-31	-31	-28	-28	0	-35	**-153**
Provision	2009	0	0	0	0	0	0	**0**
Benefits in kind	**2010**	8	7	7	8	6	0	**36**
	2009	7	8	7	8	2	6	**38**
Total remuneration	**2010**	446	396	291	334	298	0	**1,765**
	2009	217	203	180	182	50	194	**1,026**

[1] *No payment made for fiscal 2010 following the 2011 annual general meeting.*

[2] *A provision was recognized for the first third of the fair value of the long-term incentives (LTI) remuneration. This is not the actual value but the fair value calculated using actuarial methods. This will be paid out after the 2013 annual general meeting for 2012.*

Shareholdings of Board Members

As of December 31, 2010, the members of the management board held a total of 57,963 shares (prior year: 56,963 shares), which is equivalent to 0.37 percent (prior year: 0.36 percent) of HOMAG Group AG's share capital; as of December 31, 2010, the supervisory board held 100 shares (prior year: 486,731 shares), which is equivalent to 0.00 percent (prior year: 3.10 percent) of HOMAG Group AG's share capital. As no member of the management or supervisory board held more than 1 percent of the share capital as of December 31, 2010, an individual breakdown is not required.

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

Members of the management board and supervisory board, and all related parties, are legally required by Sec. 15a WpHG to disclose the acquisition or sale of shares in HOMAG Group AG of the value of the transactions equals or exceeds a total of EUR 5,000 within the space of a calendar year.

The following transaction was notified to us in the reporting period from January 1 to December 31, 2010:

Trade date	Stock market	Person reporting	Function	Type	No. of shares	Price EUR	Total volume EUR
Sep. 27, 2010	XETRA	Rolf Knoll	Member of management body	Purchase	1,000	13.0500	13,050.00

In the past, the honorary chairman of the supervisory board, Gerhard Schuler, voluntarily notified his transactions pursuant to Sec. 15a WpHG, but ceased to make notification during fiscal 2010. The transactions he notified voluntarily during this period are listed in the table below:

Trade date	Stock exchange	Type	No. of shares	Price EUR	Total volume EUR
Feb. 01, 2010	Over the counter	Purchase	2,750	10.9329	30,065.48
Feb. 05, 2010	Over the counter	Purchase	4,144	10.9021	45,178.30
Feb. 08, 2010	Over the counter	Purchase	4,156	10.9374	45,455.83
Feb. 09, 2010	Over the counter	Purchase	1,450	11.0000	15,950.00

In the reporting period 2010, Gerhard Schuler additionally corrected the two transaction notifications from 2009 listed below:

Trade date	Correction of prior notification	Stock exchange	Type	No. of shares	Price EUR	Total volume EUR
Dec. 07, 2009	May 26, 2010 Correction of no. of shares and total volume	Over the counter	Purchase	4,196	9.6919	40,667.21
Dec. 10, 2009	May 26, 2010 Correction of no. of shares and total volume	Over the counter	Purchase	7,754	9.9927	77,483.40

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

DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SEC. 161 AKTG

The management board and supervisory board declare that, since their last declaration of compliance of January 2010, Homag Group AG has complied with the recommendations of the German Corporate Governance Code in the version dated June 18, 2009 until July 1, 2010 as well as with the version of the Code dated May 26, 2010 since July 2, 2010 and will continue to comply with them in the future.

Schopfloch, January 2011

On behalf of the supervisory board
of HOMAG Group AG

TORSTEN GREDE
Chairman of the supervisory board

On behalf of the management board
of HOMAG Group AG

ROLF KNOLL
CEO

3. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

3.1 Results of Operations

With the restructuring and cost improvement program that we introduced at the end of 2008, we have reduced our cost basis considerably. We were able to reverse the negative trend and begin recording positive earnings after tax as early as the fourth quarter of 2009. The sustainability of our measures and of the turnaround was evident in 2010 in the fact that we generated a net profit again in all four quarters, and have thus returned the HOMAG Group to profitability. Apart from the lower cost basis, earnings naturally saw a positive impact from the positive development of business, with a good order situation and a corresponding high level of sales revenue.

We thus hit, or even exceeded, all projected earnings KPIs (key performance indicator), despite considerable special burdens and several factors with a negative effect on earnings. For instance, our interest expenses increased substantially owing to the new syndicated loan agreement. The ratio of tax expenses to EBT has increased reflecting the interest limitation regulations, losses incurred by some subsidiaries on which it was not possible to recognize deferred tax assets and an expected tax back payment in connection with a tax audit at a foreign subsidiary. We also incurred *extraordinary expenses* again of EUR 4.4 million (prior year: EUR 12.4 million) for restructuring measures, which thus remained within the range of EUR 4 million as we had previously announced. It is notable in this context that we implemented some of these measures earlier than scheduled in the fourth quarter of 2010, resulting in extraordinary expenses of about EUR 2 million. These expenses will decrease accordingly in 2011 and 2012. The high pressure on prices prevailing in 2010 also burdened the results. In the second half of 2010, however, we were able to make some initial progress in our efforts to reduce price concessions.

Compared to the prior year, our *personnel expenses* increased again to EUR 256.8 million (prior year: EUR 225.2 million) after extraordinary expenses and to EUR 253.3 million (prior year: EUR 214.4 million) before extraordinary expenses. Apart from the renewed increase in headcount and the contractually bargained wage increases, this was attributable to personnel expenses that we saved in 2009 through the significantly increased use of reduced working hours schemes. In 2010, we also raised the vacation and non-working shift accounts. Nevertheless, the ratio of personnel expenses to total operating performance declined to 35.2 percent in 2010 (prior year: 43.4 percent) after extraordinary expenses and to 34.7 percent (prior year: 41.3 percent) before extraordinary expenses due to a stark increase in total operating performance.

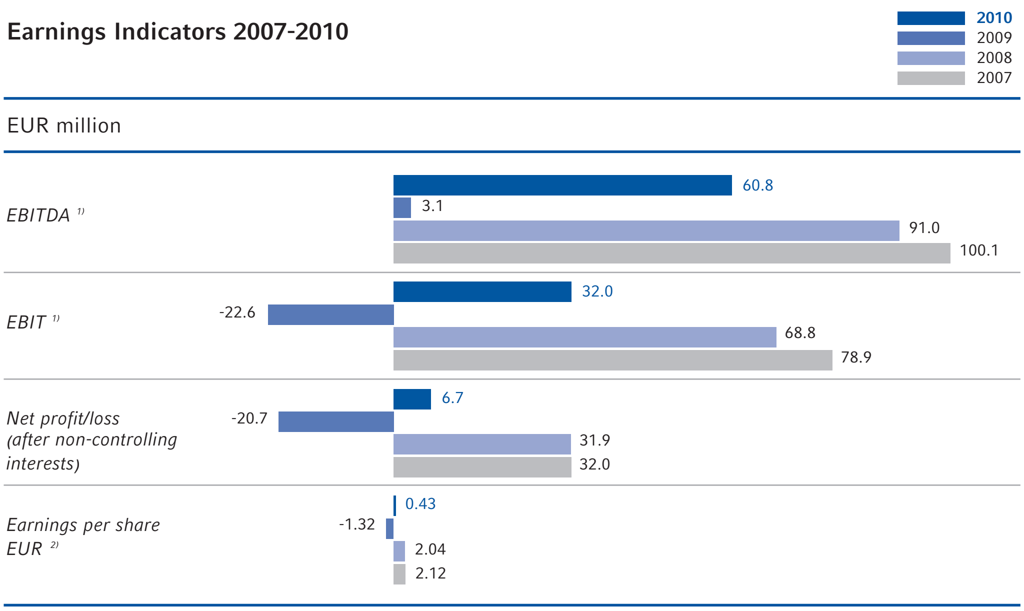
Mainly due to the higher business volume, *cost of materials* increased from EUR 221.5 million in the prior year to EUR 314.1 million in 2010. In this context, the ratio of cost of materials to total operating performance edged up to 43.0 percent (prior year: 42.6 percent), mainly as a result of the renewed increase in the number of temporary staff and the increase in intercompany profits. This is offset by the additional synergies that we have realized in procurement, which kept the increase in cost of materials at a moderate level.

Overall, our earnings situation improved substantially in 2009 across all areas, although we are aware that 2009 was a crisis year that we cannot take as a benchmark. For the following KPIs it should be noted that the extraordinary expenses in connection with the restructuring measures amounted to EUR 12.4 million in 2009 and EUR 4.4 million in 2010. In addition, *employee profit participation* including discounting effects resulted in income for the Company of EUR 2.0 million in 2009, compared to an expense of EUR 6.9 million in 2010.

Earnings Indicators

In 2010, this results in *EBITDA* before extraordinary expenses and before the result from employee profit participation of EUR 65.1 million (prior year: EUR 15.6 million), while it came to EUR 60.8 million (prior year: EUR 3.1 million) after extraordinary expenses and before the result from employee profit participation. *EBIT* before extraordinary expenses and before the result from employee profit participation has improved to EUR 36.4 million (prior year: EUR -10.2 million). We have thus significantly increased our EBIT in the second half of 2010 compared to the first six months and thus clearly exceeded the projected figure. EBIT after extraordinary expenses and before the result from employee profit participation came to EUR 32.0 million (prior year: EUR -22.6 million).

Earnings Indicators 2007-2010



[1)] *Before employee profit participation and after extraordinary expenses*
[2)] *Net profit/loss (after non-controlling interests) in relation to the number of shares, 15,688,000 in 2008, 2009 and 2010, 15,095,349 (weighted average) in 2007*

Due to the increase in *interest expenses* on account of the new syndicated loan agreement, the financial result deteriorated to EUR -10.7 million (prior year: EUR -9.2 million) resulting in EBT before extraordinary expenses and before the result from employee profit participation of EUR 25.6 million (prior year: EUR -19.4 million) and EBT after extraordinary expenses and after the result from employee profit participation of EUR 14.4 million (prior year: EUR -29.8 million). For reasons already discussed, the ratio of tax expenses to EBT was very high at 43.9 percent, resulting in a *tax expense* of EUR 6.3 million (prior year: tax income of EUR 7.7 million). This gives rise to *net profit for the year* before non-controlling interests of EUR 8.1 million (prior year: net loss of EUR 22.1 million) and after non-controlling interests to EUR 6.7 million (prior year: net loss of EUR 20.7 million), resulting in earnings per share of EUR 0.43 (prior year: EUR -1.32).

We report the *return on capital employed (ROCE)* on the basis of adjusted EBIT, i.e. before employee profit participation and adjusted for restructuring/non-recurring expenses. Due to the clearly positive EBIT and the lower capital employed, ROCE 2010 improved significantly to 12.3 percent before taxes (prior year: -3.2 percent) and after taxes (calculated based on a tax rate of 30 percent for both years) to 8.6 percent (prior year: -2.3 percent).

Segment Results

In accordance with the clearly improved results of operations in 2010, earnings have likewise improved across all segments. Adjusted for the restructuring/non-recurring expenses and before the employee profit participation EBITDA before the consolidation came to EUR 43.5 million in the Industry segment (prior year: EUR 17.1 million), to EUR 12.6 million in the Cabinet Shops segment (prior year: EUR -3.3 million), to EUR 10.1 million in the Sales & Service segment (prior year: EUR -0.5 million) and to EUR -0.3 million in the Other segment (prior year: EUR -1.2 million).

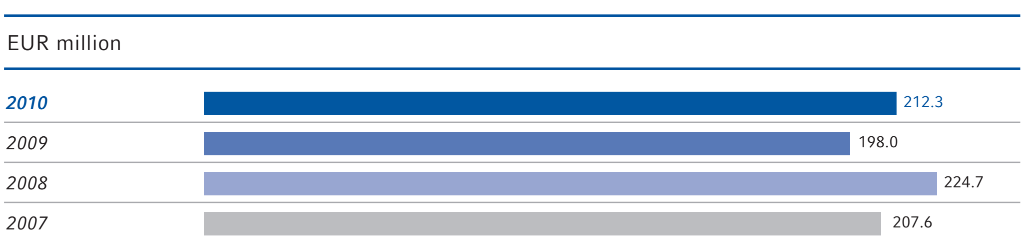
3.2 Net Assets and Financial Position

Net Assets

The increase in total assets to EUR 570.1 million in fiscal 2010 (prior year: EUR 519.5 million) did not match the significant increase in total operating income. The slight increase is partly due to a very successful receivables management and lower capital expenditure, such that the value of property, plant and equipment has also decreased somewhat. On the assets side of the statement of financial position, deferred tax assets and thus the value of non-current assets has decreased from EUR 237.1 million to EUR 232.0 million. Intangible assets have increased on the back of own work capitalized.

The higher volume of business has increased inventories, albeit at a lower pace. Due to the cut-off date, liquid funds increased significantly, although we kept our trade receivables relatively constant despite the higher volume. Current assets thus increased on aggregate from EUR 282.4 million to EUR 338.2 million.

Own Funds [1] as of December 31, 2007-2010



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

Compared to 2009, there was a significant redistribution of current and non-current liabilities in 2010 after concluding our new syndicated loan agreement. The equity and liabilities side of the statement of financial position reports an increase in trade payables to EUR 67.0 million (prior year: EUR 63.7 million), while payments on account increased from EUR 24.8 million in 2009 to EUR 39.7 million and other current liabilities rose from EUR 44.8 million to EUR 54.0 million. The good net profit for the year and the positive currency effects have caused our *equity* to increase to EUR 170.0 million (prior year: EUR 157.2 million). As in the prior year, the *equity ratio* as of December 31, 2010 still stands at 30 percent and our *own funds ratio*, including participating capital and obligations from employee profit participation, remains relatively stable at 37.2 percent (prior year: 38.1 percent).

Owing to the good earnings, the lower capital expenditure and due in particular to our successful net working capital management, we were able to significantly reduce our *net liabilities to banks* as of December 31, 2010 to EUR 55.8 million (prior year: EUR 94.6 million). Our net liabilities to banks are at the lowest level in more than 20 years, although the volume of business has increased substantially. This decrease in net liabilities and the excellent liquidity situation achieved as a result is reflected in a higher level of free cash flow.

Financial Position

In February 2010, we concluded a new *syndicated loan agreement* with a term of three years. At EUR 198 million, the volume of the loan is 10 percent more than under the previous agreement, and shows the high credit standing that we enjoy with the banks. The loan agreement affords a comfortable financial headroom. The loan amount includes a tranche for the repayment of the participation rights of EUR 30 million, of which EUR 25 million fall due in 2011. In this context, we currently do not see any risks to compliance with the covenants agreed in conjunction with the syndicated loan agreement.

Owing to the positive results of operations, our contractually fixed borrowing conditions improved in the third and fourth quarters of 2010. The lower interest rates obtained as a result only had an impact in a few months of 2010, but will be felt in full in 2011.

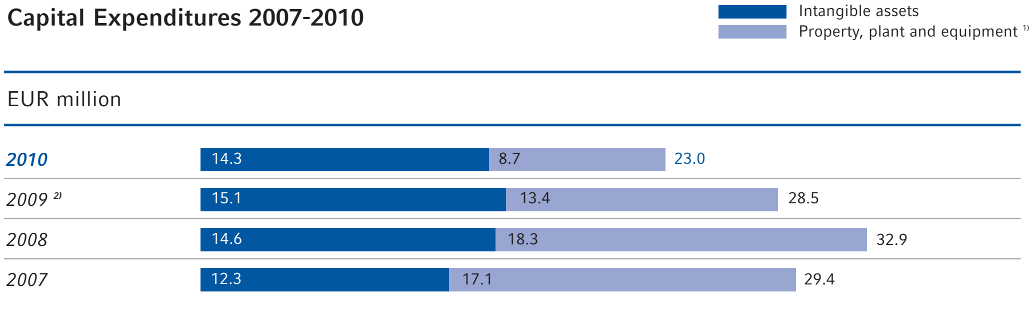
Compared to the good value of 2009, the *cash flow* from operating activities has improved further, rising in 2010 to EUR 62.7 million (prior year: EUR 32.5 million). In 2010, cash flow from investing activities, which was impacted in 2009 by the acquisition of BENZ GmbH Werkzeugsysteme, came to EUR -20.5 million (prior year: EUR -36.2 million). As a result free cash flow (cash flow from operating activities less cash flow from investing activities) increased to EUR 42.2 million (prior year: EUR -3.7 million). Cash flow from financing activities also improved significantly to EUR -4.9 million (prior year: EUR -6.1 million). Cash and cash equivalents increased in the course of the year by about EUR 40 million to EUR 70.3 million as of December 31, 2010 (prior year: EUR 29.8 million)

3.3 Capital Expenditures, Amortization and Depreciation

As announced, we significantly reduced our investment volume in 2010, as we tended to invest conservatively overall and did not execute any special measures comparable with the construction of the HOMAG Center in 2009. We have thus decreased our *investment in intangible assets and property, plant and equipment* to EUR 23.0 million (prior year: EUR 28.5 million). The carrying amount of own work capitalized increased to EUR 22.2 million (prior year: EUR 18.1 million) and investment in property, plant and equipment decreased to EUR 8.7 million (prior year: EUR 13.4 million). In the fourth quarter of 2010, our *investments in property, plant and equipment* increased slightly again, since we have already started with the initial measures to develop promising markets in Asia further. As of the December 31, 2010, the total value of our property, plant and equipment including intangible assets stood at EUR 196.7 million (prior year: EUR 199.6 million).

Our *amortization and depreciation* volume increased to EUR 28.8 million in 2010 (prior year: EUR 25.8 million), mainly as a result of an increase in amortization of intangible assets and the high volume of investment in prior years. The increase is primarily attributable to the higher level of own work capitalized.

Capital Expenditures 2007-2010



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

4. SUBSEQUENT EVENTS

At the end of fiscal 2010, the supervisory board decided at its meeting on December 16 on personnel changes on the management board that will not take effect until 2011. Namely, Hans-Dieter Schumacher was appointed onto the management board as of January 15, 2011 and will succeed Andreas Hermann as CFO on April 1, 2011. In August 2010, Andreas Hermann had already requested the early termination of his service agreement for personal reasons effective March 31, 2011. On April 1, 2011, the supervisory board also appointed Dr. Markus Flik onto the management board; he will become its chairman on July 1, 2011. The CEO to date, Rolf Knoll, will retire as planned when his contract ends, although he will continue to serve the HOMAG Group in an advisory capacity.

At the end of February 2011, HOMAG Group AG was engaged to set up a complete factory for the production of furniture in Krasnojarsk, Russia. This large-scale project with a total volume of about EUR 58 million is managed by an engineering team of the HOMAG Group's subsidiary HOMAG Holzbearbeitungssysteme GmbH. The proportion of the project volume allocable to the HOMAG Group comes to about EUR 8 million. The project encompasses the complete value chain added – from the tree trunk to the finished piece of furniture. The facilities are scheduled to go into operation before the end of 2011.

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

The HOMAG Group’s risk management system is essentially supported by the management accounting system. It includes project controlling, cost object controlling and detailed segment reporting. 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, in the event of unexpected developments, notified to the management board and supervisory board immediately. The risk inventory encompasses all relevant companies.

We enhanced and optimized numerous areas of our risk management system again in fiscal 2010. Among other measures, we increased data protection and security and developed a code of conduct for our foreign subsidiaries, which we issued in the fourth quarter of 2010 and which is binding for employees abroad as of year-end 2010. Once the negotiations with the group works’ council have concluded, the code of conduct is to become binding in Germany as well in 2011.

As part of our internal audit, all significant group entities are audited at intervals of three to five years. In 2010 we audited two production companies and two foreign subsidiaries and performed a follow-up audit at a foreign subsidiary. None of five audits resulted in material findings nor were objections raised.

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

Economic Risks

One of the main risks to the HOMAG Group is the development of the global economy. The willingness of our customers to spend falls significantly in difficult economic times, as was confirmed in the crisis year 2009. Although we are able to compensate for crises in individual regions through our global presence, a global crisis will of course have a negative effect even on our order volumes. Although we appear to have made it through the difficult economic crisis, these economic risks still remain overall, particularly in light of the uncertainty still prevailing in financial markets, the unpredictable global economic ramifications of the earthquake disaster in Japan and the unstable political situation in North Africa.

We counter this overall economic risk by keeping our personnel capacities as flexible as possible and adjusting our production plan early to developments in order intake.

Customer Risks

The 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. There is risk that customers may default on their 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 proportion of bad debts compared to other companies in the industry.

Product and Development Risks

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

From standard machines for 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 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 encroaching on our technological lead.

Procurement and Purchasing Risks

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

It is somewhat difficult to project the development of raw materials prices at present, as these continue to be heavily dependent on institutional investors. A further increase in raw materials prices could burden the results of operations of the HOMAG Group, since such increases cannot be passed on through product price adjustment, or at best with a time lapse. We counter the negative impact on raw materials increases to the extent possible by concluding master agreements with fixed prices and bundling demand within the HOMAG Group to capture the benefits of placing higher order volumes.

IT Risks

The main IT risks relate to data loss, damage or misuse. We upgraded our IT security to the latest standards in 2009 in the interest of mitigating these risks. Working in tandem with the new data center in our new building in Schopfloch, the old data center serves as a backup data center. We have also introduced data outsourcing, have expanded the real-time data back-ups in 2010, and set up have dedicated security zones with video monitoring, controlled access authorization and alarm functions. In 2010, we additionally replaced the existing data silos for data backups and archiving with the latest technology and split the AIX servers between our two data centers. We have modernized and upgraded our e-mail gateway further to protect ourselves against malware and spam. All companies also have IT security officers.

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 EN ISO 9000, which testifies to the high standard of our quality assurance system.

Currency Risks

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

Liquidity and Financing Risks

We secured our liquidity until February 2013 by entering into a new syndicated loan agreement in February 2010 that is contingent on us complying with certain covenants. This includes the tranche to repay the participation rights. In this context, we currently do not see any risks to compliance with the covenants agreed under this agreement. To protect ourselves against interest rate changes, we have hedged a considerable proportion of our loans using interest rate hedges (caps) that set a maximum interest rate.

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

Legal Risks

One risk in our business activities relates to the assertion of warranty claims or the related bad debts. In our risk report 2009, we reported on two large-scale orders which resulted in late payments and risk of default. In both cases, we were able to find a mutual agreement with the customers. In one case our claim was settled in full, while in the other case about half of the claim was settled and a payment plan was agreed for the residual amount over a term of four years. We consider the impairment losses recognized in this context to be sufficient.

Tax Risks

The consolidated financial statements of Homag Group AG include significant amounts of tax assets recognized on unused tax losses. The availability of these tax loss carry forwards for use depends on the actual occurrence of the planned future development of earnings on the one hand. On the other hand, in the event of a change in shareholder composition of more than 25 percent or similar occurrence, it is possible that portions of these unused tax losses may be forfeited. However, we do not believe that the pooling of shares of the Schuler family and the Erich und Hanna Klessmann Stiftung, which was notified in 2010, and the exceeded threshold of 25 percent of the shareholding in HOMAG Group AG, qualifies as such an event.

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 has the following structures and processes:

- The management board bears overall responsibility for the internal monitoring and risk management system with regard to the group financial reporting process. All consolidated entities and strategic business units are part of a strictly defined management and reporting structure. The supervisory board, and the audit committee in particular, also regularly assess HOMAG Group AG's internal monitoring systems (risk management, internal audit) in terms of their effectiveness. The audit committee therefore regularly examines internal monitoring and risk management.
- Certain principles and organizational resolutions and the main processes of the (group) internal monitoring and risk management system with regard to financial reporting are set out in guidelines that apply throughout the group (e.g. risk management handbook) and are adapted to recent external and internal developments on a regular basis. These include guidelines on procedures and timelines for the annual and interim financial statements, the group accounting handbook in accordance with the International Financial Reporting Standards (IFRSs) to be applied uniformly throughout the group, the standardized recording of disclosures in the notes using group-wide consolidation software and a standardized group chart of accounts. All employees involved in the preparation of financial statements receive regular training.

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

- Identification by group accounting of major areas of risk and aspects to be monitored that are particularly relevant to the (group) financial reporting process by group accounting, above all unusual and complex business transactions and non-standard processes;

- Monitoring instruments for (group) financial reporting process and the results thereof at the level of the management board, the strategic business units and consolidated companies, as well as
- Preventative monitoring measures in the finance and accounting of the group and the individual consolidated companies, as well as in operating business processes which generate the key figures for the preparation of the consolidated financial statements and group management report. 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. The supervisory board discusses and examines key issues with regard to (group) financial reporting, risk management, the auditor's audit engagement and its focus.

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

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

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

HOMAG Group 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.

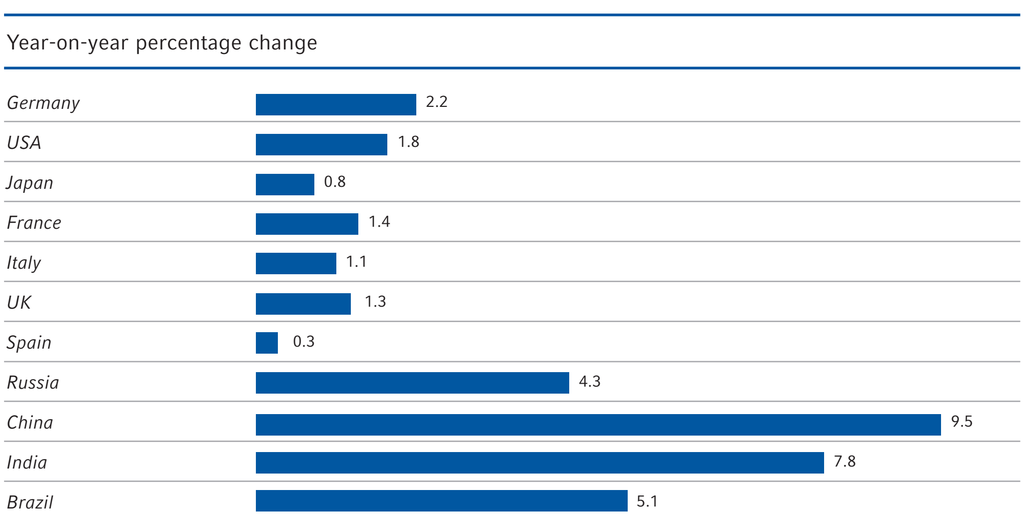
6. OUTLOOK

Development of the Economy and Industry

Despite the strong growth of 2010, the economic experts concur that the severe financial crisis has not been completely overcome and that the high level of sovereign debt in some countries and the hard-hit real estate and financial sectors continue to pose risks. As early as the second half of 2010, the growth in many regions slowed owing to these encumbrances, such that global economy has entered a phase of moderate expansion that will prevail in 2011. Indeed, the IfW projects global growth of 3.6 percent and the World Bank forecasts 3.3 percent. Emerging economies remain the engines of growth in this process, although they are losing momentum compared to 2010 and will reach a growth rate of 5.6 percent according to IfW predictions. China and India, among other countries, will develop above average.

Industrial counties will have to contend with a bridled economy and an anticipated increase in gross domestic product of about 2 percent. Growth of about 2 percent is forecast for the United States and of 1 percent for Japan. According to the IfW, the European Union's economy will grow by 1.4 percent, with accession countries outperforming other member countries at 2.4 percent. Austria, Finland, Slovakia, Slovenia and Sweden will also develop above trend according to the report. A weak development is forecast for Italy, Spain, Portugal, Greece and Ireland. The economic experts believe that the upswing in Germany will lose momentum in 2011. However, based on the DIW's forecast growth of 2.2 percent, for instance, the German economy is still expected to develop perceptibly better than the eurozone average. In this context, export growth is expected to weaken significantly and domestic demand to remain robust, with anticipated growth in investment demand for capital goods in Germany of 9 percent for instance.

GDP (real) 2011 Forecast



Source: DIW/IfW

The industry association VDMA looks to 2011 with optimism and anticipates a continuation of the upswing. German machinery production is expected to increases somewhere around 10 percent, driven in particular by the high order backlog as at year-end 2010. For the wood processing machines segment, the competent industry association within the VDMA anticipates a further recovery from the collapse in demand seen in 2009. For instance, sales revenue is expected to rise 7 percent in 2011.

Forecast for HOMAG Group AG

Perfectly timed to coincide with the HOMAG's 50th anniversary, fiscal 2010 was a success. We raised our sales revenue forecasts several times and developed significantly better than the overall mechanical engineering sector and our industry segment. Following another strong fourth quarter, we closed the year with a sales revenue increase of almost 37 percent to EUR 718 million compared to 2009. In 2010, we thus already hit the sales revenue target for 2011, which we set in the interim report for the third quarter of 2010, and exceeded our expectations. After this strong fiscal year 2010, we want to continue growing in 2011, and generate a mid-single-digit percentage increase in *sales revenue* at least. Our aim is to gradually approach the business volume that we had seen in the record years before the crisis. Our further growth and our 2011 forecast are subject to the condition, however, that there are no economic setbacks, the debt crisis in the eurozone does not worsen, the political situation in North Africa does not deteriorate and the earthquake disaster in Japan does not have global economic ramifications.

In the individual quarters of 2011, we anticipate a diverging development in sales revenue with large fluctuations and a marked seasonality. Following the high level of deliveries in the fourth quarter of 2010 and the lower order backlog at the end of the year, we anticipate a weaker first quarter of 2011 and sales revenue to merely remain at the prior-year level. By reducing the non-working shift accounts and isolated use of reduced working hours schemes, we will flexibly reduce capacity in the first quarter at some locations. According to our plans, the second quarter should then be significantly better as regards sales revenue.

We likewise aim to generate a slight increase in *order intake* in the current fiscal year compared to 2010. In order to reach this target and against the backdrop of the usual seasonal pattern with decreasing figures as the year progresses, we need a strong first quarter. The results of the first two months of 2011 indicate that we are on the right track. After the healthy prior year, the prospects for the project business with the large-scale production lines are still good. The positive trends in the standard machines segment continue to strengthen. Here we benefit from our broad product portfolio, such that we expect our business with stand-alone machines for small and medium-sized businesses to develop favorably in 2011. In the production line business, we mainly see growth opportunities in central Europe, Asia and South America. And our presence in all key market regions around the globe allows us, at the HOMAG Group, to compensate rather well for regional fluctuations.

As regards individual sales markets, we expect central Europe, with Germany, Austria and Switzerland, to approximate the good level of 2010 as 2011 progresses. In western Europe, we anticipate slight growth in many individual markets, although the growth rates will remain under those seen in 2010. We are particularly optimistic with regard to France, Belgium, the UK and Italy. In general, the Ligna trade fair and the innovations presented there, should have a positive impact on the European markets.

Again in 2011, we expect business in eastern Europe to grow again, although it is unlikely that we will reach the growth rates of 2010 in Poland owing to the expiry of EU subsidies. Instead, the smaller markets in south-eastern Europe should make a larger contribution to order intake on aggregate. However, a further improvement in the local financing problems will be key to the success of the eastern European market.

America shows a mixed picture in 2011. The United States bottomed out in 2009 and it is believed that the recovery will continue in the current year, albeit at a low level still. We expect the positive trends already evident in Canada to gain further momentum. We still view Central America critically, while in South America the good development in Brazil looks set to continue.

According to our estimates, the Asian market will defend the prominent position it reached in 2011 and even expand it further in the medium term. China will play a key role again in this context, where we expect healthy order intake both for imported plant and machinery and for stand-alone machines manufactured locally. In the project business we are benefiting here from customers' ever increasing quality awareness and the trend toward automation. We are optimistic as regards the markets in India, Malaysia, Thailand and Vietnam, such that order intake in this region has a broader base.

Overall, we aim to improve our *results of operations* slightly more than the increase in sales revenue in 2011; reach a return on EBITDA, also after extraordinary expenses but before the results from employee profit participation, of more than 9 percent; and, in particular, significantly increase our net profit for the year. This will be possible due to the substantially lower extraordinary expenses expected and an improved interest result (assuming an unchanged base interest rate) since we will be able to benefit here over the full year from our improved contractually fixed borrowing conditions. We also anticipate a lower group tax rate. Following the repayment of participation rights of EUR 25 million, we expect our *net liabilities to banks* to increase accordingly as of December 31, 2011. On a comparable basis, i.e., adjusted for the repayment of these PREPS tranches, we only want to slightly exceed the very low level reached as of December 31, 2010 by year-end 2011, despite a high level of planned investments. In the course of the year, the net liabilities to banks many fluctuate substantially however.

In relation to the individual *segments* in the HOMAG Group (Industry, Cabinet Shops, Sales & Service and Other), we expect a significant increase in both sales revenue and earnings in both the Industry and Other segments in 2011 compared to 2010, while we anticipate sales revenue and earnings in the Cabinet Shops and the Sales & Service segments to develop in 2011 similarly to fiscal 2010.

With the *workforce* as of year-end 2010 in the HOMAG Group, we believe we are generally well equipped for 2011. There will be a slight increase in the number of workers employed at our subsidiaries in foreign growth markets.

Our *investment volume* in 2011 will increase significantly again compared to the low level of investment in 2010, returning to our long-term average. Capital expenditure will focus on the investment project already initiated in China and India in order to strengthen our presence in these growth markets further. In addition, we are erecting a new sales building in Switzerland and plan to replace our production planning and management system, which will require follow-up investments in subsequent years.

In 2011, we also expect *positive impulses* from the world's largest and most important trade fair for our industry, Ligna, which is held in Hanover every two years. Here, we will again present to our customers numerous new and enhanced products. We are also optimistic about the Interzum trade fair in China and the FIMMA trade fair in Brazil in spring.

Again in 2011, we want to build up our global sales and service organization further. Our service business is another essential field that we are continually optimizing and expanding to differentiate ourselves from our competitors and to raise customer satisfaction further. Here, we anticipate some impetus as of 2011 from the newly established HOMAG eSOLUTION, which is specialized in software solutions for cabinet shops and the furniture industry.

Fiscal 2012

Although the economy has kick-started again in most regions after the global economic crisis, the financial markets continue to be dominated by a certain degree of uncertainty, particularly on account of the instability affecting some eurozone countries, the unpredictable global economic ramifications of the earthquake disaster in Japan and the unstable political situation in North Africa. As a company active in the capital goods industry, we can only make forecasts for 2012 with some reservations. If the cyclical upswing of the global economy continues as projected by the economic research institutes, we expect the HOMAG Group to grow further in 2012.

We are the market and technology leader in our industry, our products are sought-after worldwide and customers have confidence in the high quality of our products and service level. If the market continues to grow, we are certain to benefit and, as in the past, we aim to capture additional market share. Based on these premises, we think that reaching the EUR 800 million sales revenue mark again in 2012 is a realistic target. At the same time, we expect that our extensive investments in China and India will have a positive impact on the order intake generated in these growth markets. In addition, we expect that the Russian and US markets will continue to recover.

If sales revenue develops as planned, we anticipate a further improvement in earnings for 2012, since our restructuring measures should be completed by then and have a corresponding positive impact on earnings. In addition, we anticipate a further decrease in the interest rate expense (assuming a stable base interest rate) and a further decrease in the Group’s tax rate compared to 2011.

Consolidated Financial Statements for Fiscal Year 2010

> CONSOLIDATED INCOME STATEMENT FOR THE FISCAL YEAR 2010

EUR k	Note	2010	2009
SALES REVENUE	5.1	**717,737**	**524,075**
Increase or decrease in inventories of finished goods and work in process		2,493	-13,782
Own work capitalized	5.2	10,107	9,012
		12,600	-4,770
TOTAL OPERATING PERFORMANCE		**730,337**	**519,305**
Other operating income	5.3	20,000	23,870
		750,337	**543,175**
Cost of materials	5.4	314,145	221,454
Personnel expenses before employee participation	5.5	256,784	225,204
Amortization of intangible assets	5.7	10,890	7,410
Depreciation of property, plant and equipment	5.8	17,905	18,349
Other operating expenses	5.9	118,635	93,392
		718,359	**565,809**
OPERATING RESULT BEFORE EMPLOYEE PARTICIPATION		**31,978**	**-22,634**
Result from employee participation	5.5	-6,857	2,039
NET OPERATING PROFIT/LOSS		**25,121**	**-20,595**
Profit/loss from associates	5.10	1,225	-6
Interest income	5.13	2,293	1,415
Interest expenses	5.13	14,227	10,595
EARNINGS BEFORE TAXES		**14,412**	**-29,781**
Income taxes	5.14	-6,321	7,689
NET PROFIT/LOSS FOR THE YEAR		**8,091**	**-22,092**
Profit/loss attributable to non-controlling interests	5.16	1,408	-1,382
Profit/loss attributable to owners of Homag Group AG	5.17	6,683	-20,710
Earnings per share attributable to owners of Homag Group AG in EUR (basic and diluted)		0.43	-1.32

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 2010

EUR k	2010	2009
GROUP NET PROFIT/LOSS FOR THE YEAR	**8,091**	**-22,092**
Currency effects	5,648	820
Actuarial gains and losses	-435	-254
Income taxes on other comprehensive income	141	60
OTHER COMPREHENSIVE INCOME	**5,354**	**626**
TOTAL COMPREHENSIVE INCOME	**13,445**	**-21,466**
Total comprehensive income attributable to non-controlling interests	1,843	-1,385
Total comprehensive income attributable to owners of Homag Group AG	11,602	-20,081

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2010

ASSETS

EUR k		Note	Dec. 31, 2010	Dec. 31, 2009
NON-CURRENT ASSETS				
I.	Intangible assets	6.1, 6.2	58,071	54,699
II.	Property, plant and equipment	6.1, 6.3	138,647	144,862
III.	Investments in associates	6.4	7,519	5,842
IV.	Other financial assets		493	771
V.	Receivables and other assets			
	Trade receivables	6.6	4,155	3,919
	Other financial assets	6.8	3,155	4,346
	Other assets and prepaid expenses	6.9	133	119
	Income tax receivables	6.10	2,443	2,853
VI.	Deferred taxes	5.14	17,359	19,710
			231,975	**237,121**
CURRENT ASSETS				
I.	Inventories	6.5	128,233	111,826
II.	Receivables and other assets			
	Trade receivables	6.6	94,810	91,170
	Receivables from long-term construction contracts	6.7	15,941	23,354
	Receivables due from associates	6.6	8,797	6,065
	Other financial assets	6.8	10,309	8,913
	Other assets and prepaid expenses	6.9	3,636	4,544
	Income tax receivables	6.10	6,144	6,668
III.	Cash and cash equivalents	6.11	70,286	29,823
			338,156	**282,363**
TOTAL ASSETS			**570,131**	**519,484**

EQUITY AND LIABILITIES

EUR k		Note	Dec. 31, 2010	Dec. 31, 2009
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	98,814	114,996
IV.	Net profit/loss for the year	6.13.4	6,683	-20,710
	Equity attributable to owners		154,161	142,950
V.	Non-controlling interests	6.13.5	15,853	14,295
			170,014	**157,245**
NON-CURRENT LIABILITIES AND PROVISIONS				
I.	Non-current financial liabilities	6.14	109,827	60,829
II.	Other non-current liabilities		11,546	10,840
III.	Pensions and other post employment benefits	6.16	3,260	2,658
IV.	Obligations from employee participation	6.17	12,392	11,035
V.	Other non-current provisions	6.18	5,357	5,037
VI.	Deferred taxes	5.14	10,834	12,292
			153,216	**102,691**
CURRENT LIABILITIES AND PROVISIONS				
I.	Current financial liabilities	6.14	57,769	104,431
II.	Trade payables		67,002	63,685
III.	Payments on account		39,690	24,821
IV.	Liabilities from long-term construction contracts	6.7	865	1,654
V.	Liabilities to associates		4,158	2,558
VI.	Other financial liabilities		299	377
VII.	Other current liabilities and deferred income		54,043	44,771
VIII.	Tax liabilities		5,826	3,446
IX.	Pensions and other post employment benefits	6.16	50	50
X.	Other current provisions	6.18	17,199	13,755
			246,901	**259,548**
TOTAL LIABILITIES			**400,117**	**362,239**
TOTAL EQUITY AND LIABILITIES			**570,131**	**519,484**

CONSOLIDATED CASH FLOW STATEMENT FOR FISCAL YEAR 2010

EUR k		Note 4.2.20	2010	2009
1.	CASH FLOW FROM OPERATING ACTIVITIES			
	Profit or loss before taxes		**14,412**	**-29,781**
	Income tax paid (-)		-1,099	-4,448
	Interest result	5.13	11,934	9,180
	Interest paid (-)		-12,967	-10,374
	Interest received (+)		2,235	1,362
	Write-downs (+)/write-ups (-) of non-current assets (netted)	5.7, 5.8	28,795	25,666
	Increase (+)/decrease (-) in provisions		5,196	1,207
	Other non-cash expenses (+)/income (-)		87	0
	Share of profit (-) or loss (+) of associates	5.10	-1,225	6
	Gain (-)/loss (+) on disposal of non-current assets		56	558
	Increase (-)/decrease (+) in inventories, trade receivables and other assets		-5,170	71,871
	Increase (+)/decrease (-) in trade payables and other liabilities		20,481	-32,789[1]
	CASH FLOW FROM OPERATING ACTIVITIES		**62,735**	**32,458**
2.	CASH FLOW FROM INVESTING ACTIVITIES			
	Cash received (+) from disposals of property, plant and equipment		2,150	5,084
	Cash paid (-) for investments in property, plant and equipment	6.1	-8,725	-13,381
	Cash received (+) from disposal of intangible assets		0	6
	Cash paid (-) for investments in intangible assets		-14,257	-15,026
	Cash received (+) from disposal of financial assets		302	0
	Cash paid (-) for the acquisition of consolidated companies		0	-12,851
	CASH FLOW FROM INVESTING ACTIVITIES		**-20,530**	**-36,168**

EUR k	Note 4.2.20	2010	2009
3. CASH FLOW FROM FINANCING ACTIVITIES			
Dividends	5.18	0	-4,706
Cash paid (-) to non-controlling interests		-570	-1,700
Cash received (+) from allocations to equity		274	250
Cash received (+) from the issue of (financial) liabilities		81,000	25,231
Cash repayment (-) of bonds and (financial) liabilities		-85,636	-25,137 [1]
CASH FLOW FROM FINANCING ACTIVITIES		**-4,932**	**-6,062**
4. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			
Change in cash and cash equivalents (subtotal 1-3)		37,273	-9,772
Effect of currency translation adjustments and change in scope of consolidation on cash and cash equivalents		3,190	1,007
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**29,823**	**38,588**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD [2]		**70,286**	**29,823**

[1] *Adjusted*

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF DECEMBER 31, 2010

EUR k	Issued capital	Capital reserve	Revenue Revenue reserves
Jan. 1, 2009	**15,688**	**32,976**	**87,746**
OTHER CHANGES			**-416**
Capital increase			
Dividends paid			-4,706
Non-controlling interests from aquisitions			
Changes from non-controlling interests			-119
TRANSACTIONS WITH OWNERS			**-4,825**
RECLASSIFICATION TO REVENUE RESERVES			**31,944**
Net result for the year			
Other income and expense			
TOTAL COMPREHENSIVE INCOME			
DEC. 31, 2009	**15,688**	**32,976**	**114,449**
Jan. 1, 2010	**15,688**	**32,976**	**114,449**
OTHER CHANGES			**-380**
Dividends paid			
Non-controlling interests from aquisitions			
Changes from non-controlling interests			-11
TRANSACTIONS WITH OWNERS			**-11**
RECLASSIFICATION TO REVENUE RESERVES			**-20,710**
Net result for the year			
Other income and expense			
TOTAL COMPREHENSIVE INCOME			
DEC. 31, 2010	**15,688**	**32,976**	**93,348**

reserves					
Other comprehensive income	Translation reserve	Group profit	Equity before non-controlling interests	Non-controlling interests	Total
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			
		-20,710	-20,710	-1,382	**-22,092**
-187	816		629	-3	**626**
-187	**816**	**-20,710**	**-20,081**	**-1,385**	**-21,466**
57	**490**	**-20,710**	**142,950**	**14,295**	**157,245**
57	**490**	**-20,710**	**142,950**	**14,295**	**157,245**
			-380		**-380**
				-570	**-570**
				274	**274**
			-11	11	
			-11	**-285**	**-296**
		20,710			
		6,683	6,683	1,408	**8,091**
-281	5,200		4,919	435	**5,354**
-281	**5,200**	**6,683**	**11,602**	**1,843**	**13,445**
-224	**5,690**	**6,683**	**154,161**	**15,853**	**170,014**

Notes to the Consolidated Financial Statements for Fiscal Year 2010

1. GENERAL

1.1 Application of Accounting Requirements

The consolidated financial statements of Homag Group AG (Homag Group) as of December 31, 2010 were prepared in accordance with the International Accounting Standards (IASs) and the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), the interpretations of the Standing Interpretations Committee (SIC) and of the IFRS Interpretations Committee (IFRIC) as adopted by the EU and applicable as of the reporting 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 and statement of financial position, a statement of cash flows, a statement of changes in equity and a statement of comprehensive income have been presented separately.

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

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

All those standards (IFRSs/IASs) and interpretations (IFRICs) subject to mandatory application for fiscal year 2010 were observed.

1.2 Company Information

Company name and legal form:	Homag Group AG (parent company and ultimate parent of the Group)
Registered offices:	Schopfloch (Germany)
Address:	Homagstraße 3-5, 72296 Schopfloch
Business purpose and core activities:	Manufacture and sale of machines for wood processing industry. The Group's activities focus on the production and worldwide sale of woodworking and wood processing machines of all kinds as well as complete systems, i.e., woodworking lines. A sub-division develops and sells software as well as providing consulting services in the same market segment. Machines are produced for the entire production process from sawing to surface treatment and packaging for wood materials. The machines are sold to manufacturers of wood construction component materials e.g., wooden flooring, manufacturers of prefabricated post and beam type houses and companies of the furniture industry. Homag Group machines are also used by carpenters and joiners.

1.3 Date of Authorization for Issue of Financial Statements

On March 18, 2011, the management board of Homag Group AG authorized the 2010 consolidated financial statements and the 2010 group management report for issue to the supervisory board.

2. BASIS OF PREPARATION

2.1 Basis of Consolidation

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

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

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

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

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

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

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

2.2 Acquisition of Non-controlling Interests

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

2.3 Foreign Currency Translation

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

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

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

	Closing rate		Average rate	
EUR 1	**Dec. 31, 2010**	Dec. 31, 2009	**2010**	2009
US dollar	1.32820	1.43030	1.32789	1.39463
Pound sterling	0.86300	0.89320	0.85891	0.89169
Australian dollar	1.31210	1.60100	1.44615	1.77586
Canadian dollar	1.32770	1.50310	1.36843	1.58706
Danish krone	7.45550	7.44190	7.44781	7.44693
Japanese yen	108.59360	132.59130	116.57602	130.40371
Swiss franc	1.24420	1.48860	1.38330	1.51022
Chinese CNY	8.76970	9.76600	9.00050	9.54026

3. CONSOLIDATED GROUP

In addition to Homag Group AG, the consolidated financial statements include 17 (prior year: 16) entities with registered offices in Germany and 23 (prior year: 23) entities with registered offices abroad at which Homag Group AG exercises uniform control either directly or indirectly. The list of shareholdings of Homag Group AG is presented in note 9.

3.1 Associates

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

3.2 Changes in the Consolidated Group

3.2.1 Changes in Consolidated Group 2010

In February and July 2010, the share in Bütfering Schleiftechnik GmbH, Beckum, was increased in two tranches from 80 percent to 96.3 percent while at the same time diluting non-controlling interests.

In December, Homag eSolution GmbH was established together with imos AG, Herford. Homag Group AG holds 51 percent of the shares of the entity registered in Schopfloch.

3.2.2 Purchase Accounting of BENZ GmbH 2009

Effective January 1, 2009, 51 percent of the shares in BENZ GmbH Werkzeugsysteme, with its 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 its registered office 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 business combination 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 2009 by EUR -504 k and generated sales revenue of EUR 20,395 k in 2009.

The acquisition cost amounted to EUR 12,146 k, paid in cash. Of this amount, EUR 146 k constitutes costs directly attributable to the business combination. An additional variable purchase price was agreed pegged to the results of operations of BENZ GmbH Werkzeugsysteme in 2010. The valuation of this additional variable purchase price resulted in a value of EUR 0 at the end of the reporting period 2010, such that no further purchase price payment was required.

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	Final fair value as of the date of acquisition based on final purchase price allocation as of December 31, 2009
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 Homag Group AG		1,856
Non-controlling interests		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 cost payment	12,146
Cash associated with the business combination	
Cash and cash equivalents acquired with the business combination	95
Cash paid	-12,146
Net cash outflow	**-12,051**

4. ACCOUNTING POLICIES

The financial statements of the subsidiaries included in the consolidated financial statements are prepared as of the same reporting date as the parent company using uniform accounting policies. 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 27	Consolidated and Separate Financial Statements
Amendments to IAS 39	Eligible Hedged Items
IFRS 1	First-time Adoption of IFRS
Amendments to IFRS 1	Additional Exemptions for First-time Adopters
Amendments to IFRS 2	Group Cash-settled Share-based Payment Transactions
IFRS 3	Business Combinations
Improvements to IFRSs 2009	*Improvements to IFRSs 2009*
IFRIC 12	Service Concession Arrangements
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedge of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

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

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 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. In contrast, the effects of disposal of shares that do not lead to loss of control are recognized directly in equity. The transitional provisions provide for prospective application. Assets and liabilities that arose from such transactions prior to the first-time application of the new standard are therefore not affected. 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 non-controlling interests.

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 specifies how the principles contained in IAS 39 for recognizing hedges should be applied to the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk. It clarifies that an entity is only permitted to designate a portion of the fair value

changes or cash flow variability of a financial instrument as a hedged item. Recognition of hedges in the Group is not affected by this amendment.

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. This interpretation was adopted by EU law in November 2009 and becomes operative in the EU for the first fiscal year after December 31, 2009 at the latest. 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 for first-time adopters of IFRS and do not have any effect on 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. The provisions of IFRS 1 are for first-time adopters of IFRS and do not have any effect on the Group.

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 provides for 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 intergroup 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 revoked as separate interpretations. These amendments are not currently applicable to the Group and therefore have no effects.

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 non-controlling interests using either the purchased goodwill method or the full goodwill method, in which the entire goodwill of the acquired entity must be recognized, including that part attributable to non-controlling interests. Other important aspects include the revaluation to profit or loss of existing capital interests when control is initially obtained (business combination achieved in stages), mandatory accounting for contingent consideration at the date of acquisition and the recognition of transaction costs in profit or loss. The transitional provisions provide for prospective application of the new regulation. There were no changes concerning the assets and liabilities arising in the Group from business combinations effected prior to first-time adoption of the new standard. The changes will affect the amount of goodwill recognized, the profit or loss for the period in which an acquisition takes place, and future earnings. In particular, the application of the full goodwill method could increase goodwill.

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:

IFRS 2 Share-based Payment: This amendment clarifies that transactions involving the contribution of a business in a combination of entities or businesses under common control or 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: This amendment 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: This amendment clarifies that segment assets and liabilities need only be presented when those assets and liabilities are included in measures that are regularly reported to 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 statement of financial position.

IAS 7 Statement of Cash Flows: This amendment explicitly states that only expenditure that results in recognizing 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 appendix to IAS 18 does not form part of the standard and is not subject to any transitional provisions, meaning that it entered into force on the date of issue.

IAS 36 Impairment of Assets: This amendment clarifies that the largest cash-generating unit permitted for allocating goodwill acquired in a business combination is the operating segment as defined in IFRS 8 before aggregation for reporting purposes according to the criteria given in that standard.

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 cash 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 gains or losses from the cash flow hedge of a forecast transaction later recognized as a financial instrument, or from a cash flow hedge for recognized financial instruments, are reclassified during the period in which the expected hedged cash flow affects profit or loss.

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.

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 applies the new provisions.

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

IFRIC 12 Service Concession Arrangements

IFRIC Interpretation 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 March 2009. The interpretation governs the accounting treatment 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 did not therefore have any effect on the Group.

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC Interpretation 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 beginning 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 does not have any effect on the consolidated financial statements because the Company’s business model does not encompass projects of this kind.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC Interpretation 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 beginning 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, relating to both the net investment and the hedging instrument, to be reclassified from equity to profit or loss on disposal of the net investment. 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 Interpretation 17 was issued in November 2008 and becomes effective for fiscal years beginning on or after July 1, 2009. This interpretation was adopted by EU law in November 2009 and becomes operative in the EU for the first fiscal year after October 31, 2009 at the latest. 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 does not have any effects on the consolidated financial statements, since no distributions of non-cash assets are planned in the Group.

IFRIC 18 Transfers of Assets from Customers

IFRIC Interpretation 18 was issued in January 2009 and becomes effective for reporting periods beginning on or after July 1, 2009. This interpretation was adopted by EU law in November 2009 and becomes operative in the EU for the first fiscal year after October 31, 2009 at the latest. 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 or/and 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 Interpretation 18 will not have an impact on the consolidated financial statement because the Group does not conduct such business transactions.

The following standards have been endorsed by the EU and issued. Application was not yet mandatory for the fiscal year 2010. The Group has not early adopted these standards and interpretations.

IAS 24	Related Party Disclosures
Amendments to IAS 32	Classification of Rights Issues
Amendments to IFRS 1	Limited Exemption from Comparative IFRS 7 – Disclosures for first-time adopters
Improvements to IFRSs 2010	*Improvements to IFRSs 2010*
Amendments to IFRIC 14	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

IAS 24 Related Party Disclosures

The revised IAS 24 was issued in November 2009 and becomes effective for the first time in fiscal years beginning on or after January 1, 2011. The revised standard changes the definition of related parties and exempts government-related entities from the disclosure requirement for business transactions with the government and other government-related entities in the same state. The standard is to be applied retroactively. The broader definition may result in additional disclosures on the Group's related parties. The application of the amended definition is currently under review. However, the change will not have any effect on the recognition and measurement of assets and liabilities in the consolidated financial statements and the results in future fiscal years.

Amendment to IAS 32 – Classification of Rights Issues

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

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. This change does not have any effect, since the Group is not a first-time adopter of IFRSs.

Improvements to IFRSs 2010

The improvements to IFRSs 2010 were published in May 2010 and constitute an omnibus standard containing amendments to various IFRSs. The date that each standard becomes effective and any transitional rulings are set out individually. Unless stated to the contrary below, individual regulations are effective for fiscal years beginning on or after January 1, 2011. The Group has not yet applied the following amendments:

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendments to IFRS 1 presented in the following do not have any effect on the Group, since Homag Group AG is not a first-time adopter.

- *Change in accounting methods in the year of first-time adoption:*
  If a first-time adopter, after publishing interim financial statements in accordance with IAS 24, changes its accounting methods or its application of the exemptions granted in IFRS 1, explanations musts be provided for these changes together with a reconciliation from the previous GAAP to IFRS. The change must be applied prospectively.
- *Revaluation as a basis for deemed cost:*
  First-time adopters can now elect to use certain event-driven fair value measurements as the basis for deemed cost, even if the event occurs after the date of transition to IFRSs, but before publication of the first IFRS financial statements. If the revaluation is carried out after the transition to IFRS, but within the reporting period of the first IFRS financial statements, the adjustment must be made in the revenue reserve or in another appropriate item of equity. Entities that had already transitioned to IFRS in a prior period, can retrospectively apply this change in the first fiscal year after it comes into effect.
- *Use of deemed cost for basis for business activities in markets subject to regulation:*
  The scope of application of deemed cost is extended for property, plant and equipment and intangible assets to assets used as part of business activities in markets subject to regulation. An exemption is applied on a case-by-case basis. These assets have to be tested for impairment as of the date of transition to IFRSs. For entities active on markets subject to regulation, the change also permits the use of carrying amounts of property, plant and equipment and intangible assets measured using previous GAAP as a basis for deemed cost. These carrying amounts can contain amounts that should not have been capitalized pursuant to *IAS 16 Property, Plant and Equipment*, *IAS 23 Borrowing Costs* and *IAS 38 Intangible Assets*. This change is applied prospectively.

IFRS 3 Business Combinations

- *Transitional provisions for contingent consideration from a business combination with an acquisition date preceding the date on which the amended IFRS comes into effect:* This amendment is effective for fiscal years beginning on or after July 1, 2010. The amendment clarifies that the changes to *IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation* and *IAS 39 Financial Instruments: Recognition and Measurement*, which revoke the exclusion of the contingent consideration from the scope of these standards, do not apply to contingent consideration resulting from business combinations with an acquisition date preceding the adoption of IFRS 3 (revised 2008). At Homag Group AG, this does not at present have any effects on the contingent consideration from business combinations.
- *Measurement of non-controlling interests:*
  This amendment is effective for fiscal years beginning on or after July 1, 2010. It limits the scope of the measurement option such that only the non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at fair value or the present ownership instruments' proportionate share in the recognized amounts of the acquiree's net identifiable assets. All other components of non-controlling interests are measured at their acquisition-date fair values, unless another measurement basis is required by other IFRSs, such as IFRS 2. The effects on the Group are currently being assessed.
- *Share-based payments voluntarily replaced or not replaced:*
  This amendment is effective for fiscal years beginning on or after July 1, 2010. The standard provides for the prospective application as of the date of adoption of IFRS 3 (2008). The changed standard states that entities are obliged to recognize share-based payments replaced in connection with business combinations. As a result, the consideration has to be separated from the expense incurred in the business combination. Post-combination expenses also include the replacement of share-based payment awards of the acquiree, provided that they were incurred in connection with business combinations. Under the amended standard, share-based payment transactions that the acquirer does not replace with its own share-based payment awards are accounted for as follows: Vested payment transactions constitute non-controlling interests and are measured at their market-based measure. Non-vested payment transactions are measured at their market-based measure as if they had been awarded at the acquisition date and are allocated between the non-controlling interests and post-combination cost. The amendment may have effects on future business combinations.

IFRS 7 Financial Instruments: Disclosures

The amendment is applicable retrospectively and clarifies the interaction between qualitative and quantitative disclosures as well as the type of and exposure to risks arising from financial instruments. It primarily contains changes concerning the quantitative disclosures on credit risk. This amendment affects the disclosures in the notes to the financial statements, which are adjusted accordingly.

IAS 1 Presentation of Financial Statements

This amendment is applicable retrospectively and clarifies that the analysis of comprehensive income for individual equity components should be presented either in the notes to the financial statements or in the statement of changes in equity. In the Group's consolidated financial statements, the analysis is included in the statement of changes in equity.

IAS 27 Consolidated and Separate Financial Statements

The amendment clarifies that the consequential amendments resulting from IAS 27 to *IAS 21 The Effects of Changes in Foreign Exchange Rates*, *IAS 28 Investments in Associates* and *IAS 31 Interests in Joint Ventures* are applicable prospectively for fiscal years beginning on or after July 1, 2009; earlier application is permitted provided that IAS 27 is early adopted. The amended standard is applicable retrospectively and effective for the first time for fiscal years beginning on or after July 1, 2010.

IAS 34 Interim Financial Reporting

The amendment of IAS 34 is applicable retrospectively and contains guidance on the application of the basic recognition and measurement principles in IAS 34. The list of events and transactions subject to mandatory disclosure is extended to include the following examples in particular: circumstances expected to affect the fair values of financial instruments and their classification; transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments; changes in the classification of financial assets; and changes in contingent liabilities or contingent assets. The Group's interim financial reporting will be supplemented to include these disclosures in future.

IFRIC 13 Customer Loyalty Programs

This amendment, which is effective retrospectively, clarifies that the amount of the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale should be taken into account in the measurement of the fair value of award credits by reference to the fair value of the awards for which they could be redeemed. The Group does not have customer loyalty program in place and is therefore not affected by the amendment of IFRIC 13.

Amendment to IFRIC 14 – Prepayments of a Minimum Funding Requirement

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 was issued in November 2009 and became effective for fiscal years beginning on or after July 1, 2010. This interpretation clarifies that in the case of an equity instrument being issued to a creditor by way of payment for a financial liability, the equity instrument is to be treated as consideration for the repayment of the liability. The equity instruments are measured either at their own fair value or at the fair value of the liability settled depending on which can be determined with the greatest degree of reliability. Any difference between the carrying amount of the financial liability settled and the fair value of the equity instrument issued is posted directly to profit or loss for the period. This amendment does not have any effect at present on the Group as it has not issued and does not plan to issue such equity instruments.

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 2010. These standards and interpretations have not yet been endorsed by the EU and have not been applied by the Group.

Amendments to IAS 12	Deferred Taxes: Recovery of Underlying Assets
Amendments to IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets
IFRS 9	Financial Instruments: Classification and Measurement
Improvements to IFRS 9	Accounting for Financial Instruments

Amendment to IAS 12 – Deferred Tax: Recovery of Underlying Assets

The amendment to IAS 12 was issued in December 2010 and becomes effective for the first time for fiscal years beginning on or after January 1, 2012. Deferred tax assets and liabilities are measured for certain assets on the assumption that the full carrying amount of these assets will be recovered on disposal. The effects of this amendment on the net assets, financial position and results of operations are still being examined at present by the Group.

Amendment to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

The amended IFRS 1 was published in December 2010. The amendment is applicable for the first time for fiscal years beginning on or after July 1, 2011. Fixed dates of application for the derecognition and the requirement to initially recognize a gain or loss pursuant to IFRS 1 are revoked by the new requirements and replaced by the date of transition to IFRS. In addition, the amendment clarifies the transition back to IFRS accounting after a period in which the reporting entity was unable to comply with IFRS owing to severe hyperinflation in its functional currency. Since the Group is not a first-time adopter of IFRSs, this change does not have any effect.

Amendment to IFRS 7 – Disclosures – Transfers of Financial Assets

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

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, depending on their respective characteristics and taking the business model or models into account, financial assets are either accounted for at amortized cost or recognized at fair value through profit or loss. Investments in equity instruments are always accounted for at fair value; fluctuations in the value of equity instruments can, however, be recorded in other comprehensive income. In this case, only certain dividend income would be recognized in profit or loss for equity instruments. The second phase of the project was published in October 2010. The amendment is still applicable for the first time for fiscal years beginning on or after January 1, 2013. As a rule, the standard is to be applied retroactively. The existing measurement and classification requirements for financial liabilities remain unchanged, with the following exceptions: Effects from changes in the entity’s own credit risk for financial liabilities measured at fair value through profit or loss now have to be recognized in other comprehensive income and derivative liabilities linked to unquoted equity instruments may not be recognized at cost. The completion of this project is expected in mid-2011. The adoption of the first phase may have an effect on the classification and possibly on the measurement of the Group’s financial assets. The second phase is not expected to have any effect on the Group’s net assets, financial position and results of operations. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

4.2 Accounting Policies for Selected Items

4.2.1 Goodwill

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a business segment determined in accordance with IFRS 8.5 Operating Segments.

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

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

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

At the Homag Group, the definition of CGU was adjusted to the change in IAS 36 as of January 1, 2010. For production companies, the legal entities are defined as CGUs; while for sales activities, the existing goodwill was allocated to groups of CGUs (Europe, America and Asia/Pacific).

The impairment tests are performed on the defined (groups of) CGUs in accordance with the provisions of IAS 36 using the discounted cash flow method based on the values in use, which correspond to the recoverable amount. Data from business planning was used for this purpose. The calculation of the present value of future cash flows is based on significant assumptions, particularly with respect to future sales prices, sales quantities and costs. The plan is based on the detailed planning period up to fiscal 2015. The cash flow for 2015 was projected for the period following the detailed planning period, assuming no further changes in working capital and annual replacement investment in the amount of amortization and depreciation.

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

4.2.2 Internally Generated Intangible Assets

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

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

4.2.3 Other Intangible Assets

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

4.2.4 Property, Plant and Equipment

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

Depreciation is generally based on the following useful lives:

	Years
Property	15 to 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 or rent payments are expensed as incurred.

4.2.7 Financial Instruments

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

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

IAS 39 distinguishes between the following categories of financial instruments:

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

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

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

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

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

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

Apart from loans and receivables, the Homag Group has financial instruments held for trading in the form of derivatives without a hedging relationship and derivatives as part of an effective hedge. The Group had not recognized any financial assets or liabilities at fair value through profit loss as of December 31, 2010 or December 31, 2009.

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

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

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

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

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

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

Impairment of Financial Assets

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

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

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

4.2.8 Inventories

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

Borrowing costs are not capitalized if there are no qualifying assets.

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

4.2.9 Long-term Construction Contracts

Construction contracts that satisfy the criteria of IAS 11 are accounted for using the percentage of completion method. The stage of completion to be recognized is calculated per contract, generally using the cost-to-cost method. The corresponding profit on the construction contract is recognized on the basis of the percentage of completion calculated in this way. These contracts are recognized under receivables or liabilities from long-term construction. If the work in process exceeds the prepayments, construction contracts are reported on the asset side under receivables from long-term construction. If the balance is negative after deducting the prepayment, the item is reported under liabilities from long-term construction. 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 statement of financial position and the tax base of the assets and liabilities (liability method) as well as for unused tax losses, provided they are capable of being used in the next five years and have no history of loss. Deferred tax assets for accounting and measurement differences as well as for unused tax losses are only recorded to the extent that it is probable that these differences will lead to realization of the corresponding benefit in the future. Deferred taxes are determined on the basis of the tax rates that apply or that are expected to apply based on the current or expected legislation in the individual countries at the time of realization. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities can only be offset against each other provided that they relate to taxes levied by the same taxation authority.

4.2.12 Pensions and Other Post Employment Benefits

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

Actuarial gains and losses are recognized outside profit or loss in the period in which they occur under 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 normally 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.

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

4.2.14 Share-based Payments

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

The costs resulting from cash-settled transactions are initially measured at fair value as at the grant date using an option price model (cf. note 5.6 for details). This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date with changes in fair value recognized in the income statement.

4.2.15 Other Provisions

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

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

4.2.16 Liabilities

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

4.2.17 Borrowing Costs

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

4.2.18 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Homag Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. Discounts and rebates are taken into account. The specific recognition criteria 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, 2010, the best estimate of the carrying amount of capitalized development costs was EUR 22,221 k (prior year: EUR 18,142 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, 2010 was EUR 16,004 k (prior year: EUR 16,282 k). We refer to note 6.2 for further information.

Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. We refer to note 5.14 for further information.

Pensions and Other Post-employment Benefits

The cost of providing post-employment benefits under defined benefit plans is determined using actuarial calculations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, mortality rates and future pension increases. As these plans are of a long-term nature, such estimates are highly uncertain. As of December 31, 2010, the provision for pensions and other post-employment benefits amounted to EUR 3,310 k (prior year: EUR 2,708 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, 2010 amounted to EUR 12,392 k (prior year: EUR 11,035 k). We refer to note 6.17 for further information.

Share-based Payments

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

4.2.20 Consolidated Cash Flow Statement

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

To improve the informative value of the cash flow statement, changes in overdraft liabilities to banks are disclosed in cash flow from financing activities for the first time in the consolidated financial statements. Until now, payments received and made in connection with changes in overdraft liabilities to banks were reported in the item "Increase (+) / decrease (-) in trade payables and other liabilities" under cash flow from operating activities. The figures for the comparative period have been restated accordingly.

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

EUR k	**2010**	2009
Cash on hand	123	160
Checks	145	129
Bank balances	70,018	29,534
	70,286	**29,823**

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

5. NOTES TO INDIVIDUAL INCOME STATEMENT ITEMS

5.1 Sales Revenue

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

EUR k	**2010**	2009
Germany	**156,026**	**137,580**
Other EU countries	255,935	204,300
Rest of Europe	91,819	53,589
North America	37,184	22,709
South America	41,272	22,548
Asia/Pacific	132,512	78,537
Africa	2,989	4,812
Other countries	**561,711**	**386,495**
TOTAL	**717,737**	**524,075**

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 254,482 k (prior year: EUR 153,172 k) was recorded from customized construction contracts in the reporting year using the percentage of completion method.

5.2 Own Work Capitalized

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

5.3 Other Operating Income

Other operating income comprises the following:

EUR k	2010	2009
Income from cost allocations to third parties	1,947	2,132
Exchange rate gains	7,095	8,391
Gains on disposal of non-current assets	424	197
Income from the reversal of specific bad debt allowances	1,792	2,709
Income from cost reimbursements	894	1,083
Income from private car usage	2,103	2,026
Income from the derecognition of liabilities	70	1,470
Canteen revenues	630	534
Income from receivables that have been written off	61	307
Commission received	201	245
Other income	4,783	4,776
	20,000	**23,870**

5.4 Cost of Materials

EUR k	2010	2009
Cost of raw materials, consumables and supplies and purchased goods	295,420	211,516
Cost of purchased services	18,725	9,938
	314,145	**221,454**

5.5 Personnel Expenses and Number of Employees

EUR k	2010	2009
Wages and salaries	214,521	186,294
Social security, pension and other benefit costs	42,263	38,910
- thereof pension benefits	*17,228*	*17,205*
	256,784	**225,204**

Personnel expenses include refunds from the Federal Employment Agency in Germany of EUR 3,384 k (prior year: EUR 9,457 k). These refunds are for government-subsidized shorter working hours as well as social security expenses for various German production companies.

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

EUR k	2010	2009
Result from employee participation	**-6,857**	**2,039**

The result from employee profit participation mainly includes allocations to profit (and loss in the prior year) pursuant to HGB.

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

	Germany	Outside Germany	**Total 2010**	**Total 2009**
Wage earners	1,767	257	**2,024**	**2,107**
Salaried employees	1,795	774	**2,569**	**2,664**
Trainees	386	2	**388**	**387**
	3,948	**1,033**	**4,981**	**5,158**

5.6 Total Remuneration of the Supervisory Board and Management Board

Total Remuneration of the Supervisory Board

The remuneration of the supervisory board members in fiscal 2010 amounted to EUR 364 k (prior year: EUR 248 k). This does not include a performance-based remuneration. 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	**2010**	2009
Current remuneration	1,487	1,179
Long-term incentives (LTI)	278	-153
	1,765	**1,026**

The remuneration of the management board members in fiscal 2010 amounted to EUR 1,765 k. Since the basic requirement, a positive value-added, was not met for the short-term incentive (STI), no variable components were paid out under this program for 2010. In connection with a contractually agreed increase of the fixed annual salary, the majority of the management board received a performance-based non-recurring bonus payment in the past fiscal year. This non-recurring payment was subject to the condition of reaching a positive consolidated earnings before taxes (EBT) for the past four quarters in total. Moreover, the supervisory board granted a member of the management board a special bonus.

A provision of EUR 278 k was recognized for the first third of the fair value of the LTI. This will be paid out after the 2013 annual general meeting for 2012. The expenses of EUR 278 k recognized in fiscal 2010 in connection with these LTI relate solely to cash-settled share-based payment transactions within the meaning of IFRS 2.30 et seq. Income of EUR 153 k was recognized in the prior year.

Obtaining the cash settlement is subject to the condition precedent that cumulative positive value added is generated in the reporting period (return on capital employed minus weighted average cost of capital). The reference period spans the fiscal years 2010, 2011 and 2012 (prior year: 2007, 2008 and 2009 fiscal years). This LTI, which is determined on a straight-line basis, is capped (12 percent of value added; prior year: 18 percent of value added). Another component of the LTI bonus is tied to the development of the HOMAG Group share during the reference period, which can either increase or decrease the LTI. To this end, the increase in the value of the share between the beginning of the reference period (relevant opening price) and the end of the reference period (relevant closing price) is determined. If the relevant closing rate exceeds the relevant opening rate by up to 70 percent, the second part of the LTI falls due for payment. If the quoted price of the share drops, a mark-down is determined by analogy to the above. In this case a maximum drop in value of 70 percent represents the lower limit. However, the share-based LTI can be reduced by the mark-down to a maximum of EUR 0.

The share appreciation rights have a contractual term from 2010 through 2012 (prior year: 2007 through 2009). The fair value of the share appreciation rights is determined as at the date of issue using a binominal model and taking into account the condition under which the instruments were granted. The expenses for the benefits received or the debt to settle these benefits are recognized over the vesting period. The liability is remeasured at each reporting date and on the grant date, with changes in fair value recognized in the income statement.

The following table presents the parameters underlying the measurement of share appreciation rights for the fiscal year ended December 31, 2010:

	2010
Dividend yield (%)	2.40
Expected volatility (%)	43.60
Risk-free interest rate (%)	1.56
Expiry of options	Dec. 31, 2012
Relevant opening price (EUR)	12.13

There were no such parameters set for the fiscal year ended December 31, 2009 because the carrying amount of the liability was reduced to EUR 0 at the end of the fiscal year as the triggering conditions did not occur.

As of December 31, 2010, the carrying amount of the liability, which is equivalent to its fair value in this case, amounts to EUR 278 k (prior year: EUR 0 k).

In the fiscal year, remuneration of the management board within the meaning of IAS 24 totaled EUR 1,765 k (prior year: EUR 1,026 k) and broke down as follows:

	Fixed remuneration		Short-term incentives		Long-term incentives (LTI)		Benefits in kind		**Total remuneration**	
			Bonuses		Change in provision					
EUR k	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Rolf Knoll	323	241	38	0	77	-31	8	7	446	217
Achim Gauß	274	226	38	0	77	-31	7	8	396	203
Andreas Hermann	247	201	37	0	0	-28	7	7	291	180
Herbert Högemann	236	202	25	0	65	-28	8	8	334	182
Jürgen Köppel	218	48	15	0	59	0	6	2	298	50
Dr. Joachim Brenk	0	223	0	0	0	-35	0	6	0	194
TOTAL	**1,298**	**1,141**	**153**	**0**	**278**	**-153**	**36**	**38**	**1,765**	**1,026**

The first third of the fair value of the LTI remuneration was transferred to the provision. This is not the actual value but the fair value calculated using actuarial methods. This will be paid out after the 2013 annual general meeting for 2012.

Remuneration of Former Board Members

Pension provisions of EUR 645 k (prior year: EUR 621 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 57 k in the past fiscal year (prior year: EUR 55 k).

5.7 Amortization and Impairment of Intangible Assets

EUR k	**2010**	2009
Scheduled amortization of intangible assets	10,410	7,410
Impairment charges on intangible assets	480	0
	10,890	**7,410**

5.8 Depreciation and Impairment of Property, Plant and Equipment

EUR k	**2010**	2009
Scheduled depreciation of property, plant and equipment	17,876	17,616
Impairment charges on property, plant and equipment	29	733
	17,905	**18,349**

5.9 Other Operating Expenses

Other operating expenses comprise the following:

EUR k	**2010**	2009
Sales commissions, special direct selling costs	13,288	10,991
Advertising and trade fair expenses	7,478	7,480
Office supplies, postage and telecommunication costs	4,827	4,513
Legal expenses and consulting fees, license fees and patent costs	6,675	6,463
Travel expenses and entertainment	15,153	14,604
Rental and lease expenses	9,165	9,142
Other taxes	1,129	1,004
Bad debt allowances	3,914	3,227
Bad debts	296	738
Transportation expenses	10,915	7,863
Maintenance	7,446	5,295
Insurance costs	1,480	1,611
Exchange rate losses	5,485	6,234
Losses on disposals of non-current assets	480	755
Donations, fees, dues and contributions	886	885
Expenses from money transactions	2,117	1,303
Cleaning costs	976	856
Sundry other expenses	26,925	10,428
	118,635	**93,392**

5.10 Profit/Loss from Associates

The profit/loss from investments accounted for at equity is attributable to Stiles Machinery Inc., Grand Rapids, USA (EUR 557 k; prior year: EUR 28 k) as well as Homag China Golden Field Ltd., Hong Kong, China (EUR 668 k; prior year: EUR -34 k).

5.11 No Disclosure

5.12 No Disclosure

5.13 Interest Income/Interest Expenses

EUR k	2010	2009
Interest income on loans granted and other receivables	91	132
Other interest and similar income	2,134	1,262
Total interest income of all financial receivables which were not recognized by the Company for the mark-to-market measurement	**2,225**	**1,394**
Interest income from derivative financial instruments	68	21
INTEREST INCOME	**2,293**	**1,415**
Interest expenses from		
liabilities to banks	-8,583	-6,325
changes in the discount on profit participation rights due to the passage of time	-138	199
obligations from finance leases	-363	-458
Interest expenses from increasing the discount on transaction costs	-970	-259
Other interest and similar expenses	-3,852	-3,561
Total interest expenses of all financial liabilities which were not recognized by the Company for the mark-to-market measurement	**-13,906**	**-10,404**
Interest expenses from increasing the discount on provisions	-129	-191
Interest expenses from derivative financial instruments	-192	0
INTEREST EXPENSES	**-14,227**	**-10,595**
NET INTEREST	**-11,934**	**-9,180**

5.14 Taxes on Income and Deferred Taxes

Income tax expenses are classified by origin as follows:

Tax Expense

EUR k	2010	2009
Current taxes	5,428	3,577
Deferred taxes		
from temporary measurement differences	-972	1,463
form unused tax losses carried forward	1,865	-12,729
	6,321	**-7,689**

The tax expense was reduced by EUR 441 k for utilization of unused tax losses on which no tax assets had previously been recognized (prior year: EUR 0 k).

The tax expense based on the earnings before taxes of EUR 14,412 k (prior year: EUR -29,781 k) and on the applicable consolidated tax rate for the Homag Group entities in Germany of 27.375 percent (prior year: theoretical tax expense of 27.375 percent) is reconciled to the current tax expense as follows:

EUR k	2010	2009
Theoretical tax expense (-)/income (+)	-3,945	8,153
Differences due to the tax rate	3	50
Tax reductions (+)/tax increases (-) due to tax-free income or non-deductible expenses	-3,042	-2,571
Change in write-downs on deferred taxes recognized on unused tax losses	-164	3,003
Other differences	827	-946
INCOME TAXES (ACTUAL TAX EXPENSE (-)/INCOME (+))	**-6,321**	**7,689**

Other differences primarily stem from tax expenses for prior years amounting to EUR 466 k (prior year: EUR 1,584 k) partly attributable to expected back payments from a tax audit at a foreign subsidiary and which could partly be offset by reverse effects from prior years.

Deferred taxes were not recognized on the profits of EUR 63,510 k retained by subsidiaries since it is planned to use these profits to secure and expand the volume of business at these entities.

The deferred taxes recognized without effect on profit or loss amount to EUR 82 k (prior year: EUR -59 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, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Intangible assets and property, plant and equipment	835	486	14,211	14,269
Inventories	3,964	5,868	3,086	781
Current receivables and other assets	2,738	2,781	903	631
Other assets	148	586	926	2,496
Non-current financial liabilities	2,241	1,701	836	663
Non-current liabilities and provisions	4,743	3,775	22	192
Sundry current liabilities and deferred income	6,968	4,826	319	246
Other current provisions	71	245	5,596	6,720
Other liabilities	3,787	4,473	11,104	11,223
	25,495	**24,741**	**37,003**	**37,221**
Deferred taxes from temporary measurement differences	25,495	24,741	37,003	37,221
Deferred taxes on unused tax losses	18,033	19,898	0	0
Netting	-26,169	-24,929	-26,169	-24,929
	17,359	**19,710**	**10,834**	**12,292**

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 increased the tax expense by EUR 164 k (prior year: decreased by EUR 3,003 k).

As of December 31, 2010, the existing unused tax losses on which deferred tax assets were recognized were for corporate income tax (EUR 46,556 k; prior year: EUR 54,898 k), for trade tax (EUR 43,334 k; prior year: EUR 52,019 k) and on foreign unused tax losses (EUR 17,516 k; prior year: EUR 14,774 k). There were unused tax losses on which no tax assets were recognized because they could not be utilized for corporate income tax (EUR 36,043 k; prior year: EUR 32,644 k), for trade tax (EUR 32,839 k; prior year: EUR 31,176 k) and for foreign taxes (EUR 8,024 k; prior year: EUR 12,240 k).

The unused tax losses in Germany can be carried forward for an indefinite period. Of the total amount of unused tax losses abroad of EUR 25,540 k, a partial amount of EUR 22,535 k can be carried forward for an indefinite period. Tax losses of EUR 190 k expire within the next year. Tax losses of EUR 388 k expire within the next two years. An additional amount of EUR 1,020 k expires within the next three years. An amount of EUR 1,407 k expires after three years.

5.15 No Disclosure

5.16 Profit/Loss Attributable to Non-controlling Interests

The profit for 2010 attributable to non-controlling interests amounts to EUR 1,408 k (prior year: loss of EUR 1,382 k).

5.17 Earnings per Share

The basic earnings per share is determined pursuant to IAS 33 by dividing the result attributable to the shareholders of Homag Group AG by the weighted average number of shares outstanding. Earnings per share after non-controlling interests came to EUR 6,683 k (prior year: EUR -20,710 k) and led to earnings per share of EUR 0.43 (prior year: EUR -1.32). There is no difference between diluted and basic earnings.

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

	2010	2009
Profit/loss attributable to the owners of Homag Group AG for the calculation of basic earnings in EUR k	6,683	-20,710
Earnings per share in EUR	0.43	-1.32
BASIC EARNINGS PER SHARE PURSUANT TO IAS 33 IN EUR	**0.43**	**-1.32**
Weighted average of shares (basis for the calculation of earnings per share)	15,688,000	15,688,000

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

5.18 Dividends Paid and Proposed

In 2010, no dividend was paid out for fiscal 2009.

A proposal will be submitted to the annual general meeting on May 25, 2011 to appropriate the retained earnings of EUR 25,917,951.45 disclosed in the financial statements of Homag Group AG as of December 31, 2010 as follows:

- Distribution of a dividend of EUR 0.30 per participating no-par value share for the 15,688,000 participating no-par value shares, or EUR 4,706,400.00 in total
- Carry forward of EUR 21,211,551.45 to new account

EUR k	2010	2009
Dividend distribution	4,706	0
Retained earnings carried forward	21,212	25,493
	25,918	**25,493**

EUR	2010	2009
DIVIDEND PER PARTICIPATING NO-PAR VALUE SHARE	**0.30 ***	**0.00**

* *Proposed*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6. NOTES TO THE STATEMENT OF FINANCIAL POSITION

6.1 Intangible Assets/Property, Plant and Equipment

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

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

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

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

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, 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

6.2 Intangible Assets

Intangible assets broken down by region developed as follows:

EUR k	2010	2009
Germany	**53,525**	**49,988**
Other EU countries	1,302	1,438
Rest of Europe	1,464	1,465
North America	297	300
South America	330	343
Asia/Pacific	1,153	1,165
Other countries	**4,546**	**4,711**
TOTAL	**58,071**	**54,699**

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

In the reporting year, impairment losses of EUR 480 k (prior year: EUR 0 k) were charged on intangible assets; of this amount, EUR 278 k was attributable to impairment of goodwill.

Goodwill

The disclosed goodwill of EUR 16,004 k (prior year: EUR 16,282 k) is allocable to groups of cash generating units (CGUs) as follows:

EUR k	Dec. 31, 2010	Dec. 31, 2009
CGUs/groups of CGUs		
Homag Holzbearbeitungssysteme GmbH	10,290	10,290
HOLZMA Plattenaufteiltechnik GmbH	23	23
Bargstedt Handlingsysteme GmbH	115	115
Torwegge Holzbearbeitungsmaschinen GmbH	1,764	1,764
Sales Europe	2,634	2,634
Sales America	266	266
Sales Asia/Pacific	912	912
SCHULER Consulting GmbH (formerly: Schuler Business Solutions AG)	-	278
TOTAL	**16,004**	**16,282**

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

The change in the definition of CGUs discussed in section 4.2.1 of the notes resulted in the following reallocation of goodwill:

	Dec. 31, 2009 Allocation in prior-year report		Dec. 31, 2009 Allocation after restructuring
Industry			
		Homag Holzbearbeitungssysteme GmbH	10,290
		HOLZMA Plattenaufteiltechnik GmbH	23
		Bargstedt Handlingsysteme GmbH	115
		Torwegge Holzbearbeitungsmaschinen GmbH	1,764
	12,192		**12,192**
Sales and Service			
		Sales Europe	2,634
		Sales America	266
		Sales Asia/Pacific	912
	3,812		**3,812**
Other			
		SCHULER Consulting GmbH (formerly: Schuler Business Solutions AG)	278
	278		**278**
TOTAL	**16,282**		**16,282**

The impairment tests performed as of December 31, 2010 did not reveal any need to recognize impairment losses on goodwill. The goodwill of EUR 278 k allocated to the CGU SCHULER Consulting GmbH had already been written off in full as of September 30, 2010.

The WACC pre-tax discount rates underlying the impairment tests performed as of the reporting date December 31, 2010 are presented in the following table:

Planning period %	Years	**Dec. 31, 2010** 2011-2015	Dec. 31, 2009 2010-2014
CGUs/groups of CGUs			
Homag Holzbearbeitungssysteme GmbH		10.31	11.21
HOLZMA Plattenaufteiltechnik GmbH		10.22	11.21
Bargstedt Handlingsysteme GmbH		10.32	11.21
Torwegge Holzbearbeitungsmaschinen GmbH		10.51	11.21
Sales Europe		10.25	11.69
Sales America		10.13	11.69
Sales Asia/Pacific		10.75	11.69
SCHULER Consulting GmbH (formerly: Schuler Business Solutions AG)		-	10.77

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 CGUs 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.

Expensed research and development costs totaled EUR 19,777 k (prior year: EUR 15,030 k).

6.3 Property, Plant and Equipment

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

EUR k	2010	2009
Germany	**108,945**	**114,709**
Other EU countries	16,985	18,195
Rest of Europe	555	486
North America	2,265	2,113
South America	2,632	2,446
Asia/Pacific	7,265	6,913
Other countries	**29,702**	**30,153**
TOTAL	**138,647**	**144,862**

The classification of the items of property, plant and equipment condensed in the statement of financial position and their development in the reporting year are presented in the statement of changes in non-current assets. The focus of capital expenditure is detailed in the management report. As in the prior year, 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 amounting to EUR 29 k (prior year: EUR 733 k) were charged on property, plant and equipment.

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

EUR k	**Carrying amount Dec. 31, 2010**	Carrying amount Dec. 31, 2009
Intangible assets	47	326
Land, land rights and buildings	3,833	3,944
Technical equipment and machines	6,323	9,091
Other equipment, furniture and fixtures	2,516	1,774
	12,719	**15,135**

The underlying interest rates of the agreements vary depending on the date on which the agreements were concluded between 2.65 percent and 10.5 percent p.a. The payments due in the future from finance lease arrangements, the corresponding interest components and the present value of future lease payments, which are accounted for under 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, 2010 Total**	**Dec. 31, 2009 Total**
Minimum lease payments	3,913	7,032	1,957	**12,902**	**12,219**
Discount amounts	455	564	276	**1,295**	**1,124**
PRESENT VALUES	**3,458**	**6,468**	**1,681**	**11,607**	**11,095**

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, 2010**	Dec. 31, 2009
Due in less than 1 year	4,717	4,579
Due in between 1 and 5 years	7,301	7,343
Due in more than 5 years	4,951	5,697
	16,969	**17,619**

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

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

EUR k	Dec. 31, 2010	Dec. 31, 2009
Minimum lease payments	**9,165**	**9,142**

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

	Acquisition and production cost	
EUR k	As of Jan. 1, 2010	Disposals
NON-CURRENT ASSETS		
I. Intangible assets		
1. Industrial rights	14	-2
	14	**-2**
II. Property, plant and equipment		
1. Land, land rights and buildings	1,111	0
2. Technical equipment and machines	406	-123
3. Other equipment, furniture and fixtures	138	-83
	1,655	**-206**
	1,669	**-208**

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, 2010	Dec. 31, 2009
Total assets	19,743	15,979
Total liabilities	13,138	10,856
EQUITY	**6,605**	**5,123**

EUR k	2010	2009
Total sales revenue	37,456	23,795
Profit/loss for the year	1,225	-6

As of Dec. 31, 2010	Amortization and depreciation: As of Jan. 1, 2010	Additions	Disposals	As of Dec. 31, 2010	Carrying amount: As of Dec. 31, 2010	As of Dec. 31, 2009
12	12	2	-2	12	0	2
12	**12**	**2**	**-2**	**12**	**0**	**2**
1,111	314	43	0	357	754	796
283	341	35	-123	253	30	65
55	129	9	-83	55	0	9
1,449	**784**	**87**	**-206**	**665**	**784**	**870**
1,461	**796**	**89**	**-208**	**677**	**784**	**872**

6.5 Inventories

EUR k	**Dec. 31, 2010**	Dec. 31, 2009
Raw materials, consumables and supplies	46,490	38,464
Work in process	15,769	19,589
Finished goods, merchandise	58,195	51,760
Prepayments	7,779	2,013
	128,233	**111,826**

Valuation allowances of EUR 515 k (prior year: EUR 1,625 k) were recognized on inventories through profit or loss in 2010. Inventories carried at fair value less costs to sell, i.e., on which impairment losses have been charged, amount to EUR 41,725 k (prior year: EUR 33,564 k). An amount of EUR 69,259 k (prior year: EUR 5,216 k) was pledged as collateral on loans in the reporting period. The significant increase is attributable to the conclusion of the new syndicated loan agreement.

6.6 Receivables and Other Assets

	Dec. 31, 2010			Dec. 31, 2009		
		Due in			Due in	
EUR k	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Trade receivables	98,965	94,810	4,155	95,089	91,170	3,919
Receivables from long-term construction contracts	15,941	15,941	0	23,354	23,354	0
Receivables from associates	8,797	8,797	0	6,065	6,065	0
Other financial assets	13,464	10,309	3,155	13,259	8,913	4,346
Other assets and prepaid expenses	3,769	3,636	133	4,663	4,544	119
Income tax receivables	8,587	6,144	2,443	9,521	6,668	2,853
	149,523	**139,637**	**9,886**	**151,951**	**140,714**	**11,237**

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

Trade receivables totaling EUR 6,342 k (prior year: EUR 6,587 k) were sold under factoring agreements.

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

EUR k	2010	2009
AS OF JANUARY 1	**7,483**	**8,632**
Changes in the consolidated group	0	12
Exchange rate effects	151	100
Charge for the year	-1,933	-1,779
Unused amounts written off	-1,792	-2,709
Increase in impairments recognized in profit or loss	3,914	3,227
AS OF DECEMBER 31	**7,823**	**7,483**

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

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

EUR k	2010	2009
Bad debt expenses	-296	-738
Income from the receipt of payments on receivables that have been written off	61	307

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, 2010	Dec. 31, 2009
Neither past due nor impaired	70,595	70,188
Receivables past due but not impaired		
less than 90 days	31,861	31,090
90 to 179 days	4,582	4,604
180 to 365 days	3,137	4,757
1 year or more	8,120	5,404
Total receivables past due but not impaired	**47,700**	**45,855**
Impaired receivables	13,231	15,948
TRADE RECEIVABLES, GROSS	**131,526**	**131,991**
Impairment losses	-7,823	-7,483
NET AMOUNT/CARRYING AMOUNT OF TRADE RECEIVABLES	**123,703**	**124,508**

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

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

6.7 Long-term Construction Contracts

In the receivables from long-term construction contracts, the sales revenue recognizable in accordance with the percentage of completion is offset against the prepayments received for each contract. As of the reporting date, contract costs incurred for long-term construction contracts and profits disclosed of EUR 27,372 k (prior year: EUR 40,767 k) were offset against prepayments received of EUR 12,296 k (prior year: EUR 19,067 k). This resulted in receivables of EUR 15,941 k (prior year: EUR 23,354 k) and liabilities of EUR 865 k (prior year: EUR 1,654 k).

6.8 Other Financial Assets

Other financial assets break down as follows:

	Dec. 31, 2010			Dec. 31, 2009		
		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 non-derivative financial assets						
Loans extended	413	25	388	380	34	346
Receivables from factoring agreements	474	474	0	721	721	0
Sundry	12,230	9,773	2,457	11,929	7,929	4,000
Derivative financial assets	347	37	310	228	228	0
	13,464	**10,309**	**3,155**	**13,259**	**8,913**	**4,346**

The derivative financial assets concern receivables from derivative currency and interest transactions totaling EUR 347 k (prior year: EUR 228 k).

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 that have a significant effect on the recorded fair value that are not based on observable market data.

Financial assets at fair value through profit or loss:

	Dec. 31, 2010				Dec. 31, 2009			
EUR k	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivatives without hedge relationship	37	0	37	0	228	0	228	0
Derivatives with hedge relationship	310	0	310	0	0	0	0	0
	347	**0**	**347**	**0**	**228**	**0**	**228**	**0**

Financial liabilities at fair value through profit or loss:

	Dec. 31, 2010				Dec. 31, 2009			
EUR k	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivatives without hedge relationship	299	0	299	0	377	0	377	0

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

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

EUR k	**2010**	2009
Derivatives without hedge relationship	37	249
Derivatives with hedge relationship	-186	0
	-149	**249**

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

EUR k	**2010**	2009
Derivatives without hedge relationship	-299	-377

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, 2010			Dec. 31, 2009		
		Thereof due in			Thereof due in	
EUR k	**Total**	**less than 1 year**	**more than 1 year**	Total	less than 1 year	more than year
Excise duties claims	1,925	1,925	0	2,795	2,795	0
Prepaid expenses	1,844	1,711	133	1,855	1,749	106
Other receivables from associates	0	0	0	13	0	13
	3,769	**3,636**	**133**	**4,663**	**4,544**	**119**

6.10 Income Tax Receivables

EUR k	Dec. 31, 2010 Total	Dec. 31, 2010 Thereof due in less than 1 year	Dec. 31, 2010 Thereof due in more than 1 year	Dec. 31, 2009 Total	Dec. 31, 2009 Thereof due in less than 1 year	Dec. 31, 2009 Thereof due in more than 1 year
Income tax receivables	8,587	6,144	2,443	9,521	6,668	2,853

The income tax receivables primarily concern corporate income tax credits that will flow to the Group in the years 2011 through 2017 as well as receivables from current income taxes.

6.11 Cash and Cash Equivalents

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

In connection with the investment of liquid funds and the portfolio of derivative financial assets, the Group is exposed to losses from credit risks 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 consolidated statement of changes in equity.

6.13.1 Issued Capital

As of December 31, 2010, the issued capital amounted to EUR 15,688 k (prior year: EUR 15,688 k). It has been fully paid in and is split into 15,688,000 no-par value bearer shares with an imputed value of EUR 1 each.

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

6.13.2 Capital Reserve

As of December 31, 2010, the capital reserve amounted to EUR 32,976 k (prior year: EUR 32,976 k).

6.13.3 Revenue Reserves

The revenue reserves of EUR 98,814 k (prior year: EUR 114,996 k) contain the profits generated in the past by the companies included in the consolidated financial statements, to the extent that they were not distributed. Goodwill resulting from business combinations before January 1, 2005 was also offset against the revenue reserves. The credit differences from business combinations that arose in the course of the preparation of the opening IFRS statement of financial position and the currency differences reclassified as of January 1, 2005 are also disclosed here.

Differences resulting from the purchase of non-controlling interests are also reported under revenue reserves.

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

6.13.4 Group Profit/Loss for the Year

This item contains the profit or loss of the period.

6.13.5 Non-controlling Interests

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

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

6.14 Financial liabilities

	Dec. 31, 2010			Dec. 31, 2009		
		Thereof due in			Thereof due in	
EUR k	**Total**	**less than 1 year**	**more than 1 year**	Total	less than 1 year	more than 1 year
Liabilities to banks	126,126	29,400	96,726	124,440	99,880	24,560
Lease liabilities	11,607	3,458	8,149	11,095	4,551	6,544
Profit participation capital	29,863	24,911	4,952	29,725	0	29,725
	167,596	**57,769**	**109,827**	**165,260**	**104,431**	**60,829**

In 2004, Homag Holzbearbeitungssysteme GmbH issued profit participation rights totaling EUR 25,000 k (tranche 1: EUR 10,000 k; tranche 2: EUR 15,000 k). The profit participation rights have a term of seven years and thus expire in 2011. Consequently, EUR 24,911 k of the participation rights is disclosed under current financial liabilities. They are charged interest at 7.9 percent p.a. or 7.5 percent plus a component based on company performance. In 2005, HOLZMA Plattenaufteiltechnik GmbH issued profit participation rights of EUR 5,000 k with a term of seven years which bear interest at a rate of 6.9 percent p.a. plus a variable component based on company performance. 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, 2010				Dec. 31, 2009			
	Currency	Carrying amount EUR k	No. of months until maturity	Effective interest rate %	Currency	Carrying amount EUR k	No. of months until maturity	Effective interest rate %
Syndicated loan of 2002	EUR	5,600	23	5.14	EUR	8,400	35	5.14
Several loans	EUR	19,483	up to 144	3.4-6.42	EUR	22,369	up to 117	1.63-6.42
Loan	DKK	551	84	5.48	DKK	613	96	5.48
Loan	GBP	116	8	2.32	GBP	280	20	2.27
Loan	PLN	250	12	4.91	PLN	497	24	4.91
Syndicated loan of 2010	EUR	77,753	26	3.51	-	-	-	-
Overdraft facility/ syndicated loan of 2010	EUR	3,980	26	4.68-5.50	-	-	-	-
Syndicated loan of 2007	-	-	-	-	EUR	49,856	7	2.32
Overdraft facility/ syndicated loan of 2007	-	-	-	-	EUR	11,099	7	3.39-5.5
Euro loan (syndicated loan) of 2007	-	-	-	-	EUR	12,200	7	2.14-2.70
Overdraft facility/ euro loan	various	18,393	-	1.60-11.25	various	19,126	-	2.00-11.25
		126,126				**124,440**		

Variable interest arrangements have been made for the syndicated loans and overdraft facilities. 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. 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 2010, expenses for defined contribution plans in the Homag Group totaled EUR 17,228 k (prior year: EUR 17,022 k).

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

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

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

As %	**Dec. 31, 2010**	Dec. 31, 2009
Discount rate	5.0	5.4
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	**2010**	2009
Current service cost	149	166
Interest cost	211	219
Expected return on plan assets	-64	-65
Benefit expense	**296**	**320**

The table below shows the actuarial gains and losses recognized directly in equity:

EUR k	2010	2009
Net actuarial gains (-)/losses (+) recognized	**435**	**254**

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

EUR k	2010	2009
Actual return on plan assets	**81**	**87**

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 interest income.

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

EUR k	2010	2009
Defined benefit obligation	4,934	4,453
Fair value of plan assets	-1,624	-1,745
RESIDUAL OBLIGATION AS OF DECEMBER 31	**3,310**	**2,708**

The Homag Group expects contributions to defined benefit plans in 2011 to be similar to the level of the reporting period.

Of the pension obligations, a total of EUR 2,737 k (prior year: EUR 1,890 k) relates to obligations for which there are no plan assets.

The funding status is presented in the table below:

	Funded obligations		Unfunded obligations	
EUR k	2010	2009	2010	2009
Defined benefit obligation	2,197	2,104	2,737	2,349
Fair value of plan assets	-1,624	-1,745	0	0
RESIDUAL OBLIGATION AS OF DECEMBER 31	**573**	**359**	**2,737**	**2,349**

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

EUR k	2010	2009
DEFINED BENEFIT OBLIGATION AS OF JANUARY 1	**4,453**	**4,057**
Interest expense	211	219
Current service cost	149	166
Benefits paid	-331	-265
Actuarial gains (-)/losses (+)	452	276
DEFINED BENEFIT OBLIGATION AS OF DECEMBER 31	**4,934**	**4,453**

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

EUR k	2010	2009
FAIR VALUE OF PLAN ASSETS AS OF JANUARY 1	**1,745**	**1,776**
Expected return on plan assets	64	65
Current service cost	0	-8
Benefits paid	-202	-110
Actuarial gains (+)/losses (-)	17	22
FAIR VALUE OF PLAN ASSETS AS OF DECEMBER 31	**1,624**	**1,745**

In most cases, the plan assets are insurance policies.

In the reporting year, cumulated actuarial gains (+) and losses (-) came to EUR -192 k (prior year: EUR 243 k).

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

EUR k	2010	2009	2008	2007	2006
Defined benefit obligation	4,934	4,453	4,057	4,246	4,435
Fair value of plan assets	-1,624	-1,745	-1,776	-1,826	-1,857
Deficit (+)/surplus (-)	3,310	2,708	2,281	2,420	2,578
Experience adjustments on plan liabilities (gains (-)/losses (+))	300	-135	-35	-2	0
Experience adjustments on plan assets (gains (+)/losses (-))	17	22	7	7	5

6.17 Obligations from Employee Profit Participation

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

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

	Employee profit participation	
As %	**Dec. 31, 2010**	Dec. 31, 2009
Discount factor	5.00	5.40

6.18 Other Provisions

	Dec. 31, 2010			Dec. 31, 2009		
		Thereof due in			Thereof due in	
EUR k	**Total**	**less than 1 year**	**more than 1 year**	Total	less than 1 year	more than 1 year
Provisions for personnel matters	6,895	1,538	5,357	6,396	1,391	5,005
Provisions for production and sales	10,861	10,861	0	7,596	7,564	32
Sundry other provisions	4,800	4,800	0	4,800	4,800	0
OTHER PROVISIONS	**22,556**	**17,199**	**5,357**	**18,792**	**13,755**	**5,037**

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

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

Other provisions developed as follows:

EUR k	As of Jan. 1, 2010	Translation difference	Utilized	Reversed	Increased	**As of Dec. 31, 2010**
Provisions for personnel matters	6,396	30	-972	-289	1,730	6,895
Provisions for production and sales	7,596	37	-4,826	-1,812	9,866	10,861
Sundry other provisions	4,800	86	-1,481	-762	2,157	4,800
OTHER PROVISIONS	**18,792**	**153**	**-7,279**	**-2,863**	**13,753**	**22,556**

7. OTHER EXPLANATIONS

7.1 Financial Instruments

Book values, carrying amounts and fair values by measurement category

EUR k	Book value Dec. 31, 2010	Carrying amount in Amortized cost
ASSETS		
Cash and cash equivalents	70,286	70,286
Trade receivables	107,762	107,762
Receivables from long-term construction contracts	15,941	
Other financial assets	493	
Other non-derivative financial assets	13,117	13,117
Derivative financial assets		
Derivatives without hedging relationship	37	
Derivatives with hedging relationship	310	
EQUITY AND LIABILITIES		
Trade payables	71,160	71,160
Liabilities from long-term construction contracts	865	
Financial liabilities		
Liabilities to banks	126,126	126,126
Profit participation capital	29,863	29,863
Lease liabilities	11,607	
Sundry financial liabilities	0	0
Derivative financial liabilities		
Derivatives without hedging relationship	299	
THEREOF COMBINED ACCORDING TO THE MEASUREMENT CATEGORIES IN ACCORDANCE WITH IAS 39		
Loans and receivables	191,165	191,165
Held-for-sale financial assets	493	
Financial assets held for trading	37	
Financial liabilities measured at amortized cost	227,149	227,149
Financial liabilities held for trading	299	

statement of financial position IAS 39				
Acquisition cost	Fair value through profit and loss	Carrying amount according to IAS 11	Carrying amount according to IAS 17	Fair value Dec. 31, 2010
				70,286
				107,762
		15,941		15,941
493				-
				13,117
	37			37
	310			310
				71,160
		865		865
				125,633
				30,543
			11,607	10,687
				0
	299			299
				191,165
493				-
	37			37
				227,336
	299			299

EUR k	Book value Dec. 31, 2009	Carrying amount in 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 non-derivative 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	

statement of financial position IAS 39				
Acquisition cost	Fair value through profit and loss	Carrying amount according to IAS 11	Carrying amount according to IAS 17	Fair value Dec. 31, 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

Cash and cash equivalents, trade receivables and other non-derivative assets fall due in the short term for the most part. Consequently, their carrying amounts as of the end of the reporting period approximate their fair value.

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

The fair value of derivative financial instruments, which are mainly interest rate hedges and forward exchange contracts, is determined using standardized 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	**2010**	2009
Financial assets and financial liabilities at fair value through profit and loss	-428	-128
Loans and receivables	-2,538	-949
Financial liabilities at amortized cost	1,914	2,306

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 2010, the sum of the positive market values of derivative financial instruments came to EUR 347 k (prior year: EUR 228 k), while the sum of their negative market values came to EUR 299 k (prior year: EUR 377 k).

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

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

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

Credit Risk

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

The Group trades only with creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The existing trade receivables are due from a large number of customers distributed across different regions. The majority of debtors are entities active in the wood processing industry (including the furniture industry and cabinet makers) as well as wholesale machine retailers, whereby 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 statement of financial position. As of the end of December 31, 2010, the maximum risk of default is equivalent to the financial assets described in note 7.1 totaling EUR 207,946 k (prior year: EUR 168,361 k). The Group has not issued any financial guarantees that could increase its credit risk exposure.

Liquidity Risk

Liquidity risk describes the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group continually monitors the risk of being faced with a shortage of funds. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, loans and finance lease agreements. The Group controls its liquidity by maintaining sufficient cash and cash equivalents and lines of credits at banks in addition to cash inflows from operating activities. In addition, the main group entities have access to liquid funds via a syndicated loan agreement in place between Homag Group AG and a syndicate of banks. From the syndicated loan agreement and bilateral agreements entered into between the group entities, the Group had undrawn lines of credit (bank deposits are deducted from the amounts drawn in some cases) of EUR 94,044 k as of December 31, 2010 (prior year: EUR 113,939 k). Taking into account the increase in cash and cash equivalents, there is more leeway available than in the prior year.

A new syndicated loan agreement with a term of three years and a volume of EUR 198,000 k was concluded in February 2010.

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

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 capital	29,725	2,540	26,920	5,456	0
Lease liabilities	11,095	8,905	2,087	492	0
Derivative financial liabilities					
Derivatives without a hedging relationship	377	377	0	0	0

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

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

EUR k	Carrying amount Dec. 31, 2009	Cash flows expected 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

Financial Market Risks

As regards financial market risks, the Group's activities mainly comprise financial risks from exchange rate and interest rate fluctuations.

Currency Risk

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

Some 18 percent (prior year: 16 percent) of the Group's sales revenue is generated in currencies other than the euro. Currency risks for sales revenue generated in volatile currencies are hedged close to the market at the respective sales companies, rather than centrally. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

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

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

	Effect on earnings before taxes	
EUR k	**2010**	2009
Appreciation of EUR against other currencies +10%	219	236
Depreciation of EUR against other currencies -10%	-179	-193

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

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

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

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

EUR k	Effect on earnings before taxes 2009
10% appreciation of EUR against the Polish złoty	-90
10% appreciation of EUR against the pound sterling	14
10% appreciation of EUR against the Singapore dollar	359
10% appreciation of EUR against the Swiss franc	96
10% appreciation of EUR against the Brazilian real	-178
10% appreciation of EUR against the Chinese yuan	-14
10% appreciation of EUR against the Danish krone	24
10% appreciation of EUR against the Japanese yen	25
TOTAL	**236**

EUR k	Effect on earnings before taxes 2009
10% depreciation of EUR against the Polish złoty	74
10% depreciation of EUR against the pound sterling	-11
10% depreciation of EUR against the Singapore dollar	-294
10% depreciation of EUR against the Swiss franc	-79
10% depreciation of EUR against the Brazilian real	146
10% depreciation of EUR against the Chinese yuan	11
10% depreciation of EUR against the Danish krone	-20
10% depreciation of EUR against the Japanese yen	-20
TOTAL	**-193**

Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's non-current financial liabilities with variable interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. In addition, the risk of rising interest rates is hedged by contracting interest derivatives (interest rate caps).

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

The following table presents the contractual settlement terms of the above mentioned interest rate caps for the new hedges recognized in 2010:

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

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

As of December 31, 2010, 42.6 percent of the financial liabilities entered into were subject to fixed rates of interest (prior year: 48.5 percent).

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.

	2010		2009	
Change in interest rate in base points	+100	-100	+150	-150
Effect on Group earnings before taxes (EUR k)	-955	1,429	-1,199	1,200

Owing to the lower interest rates, the interest sensitivity analysis presented above for 2010 was prepared based on a +/- 1 percent change in interest rates.

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

Derivative Financial Instruments

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

	2010		2009	
EUR k	Nominal value	Fair value	Nominal value	Fair value
Currency hedges with a term of less than 1 year	4,971	-262	10,433	46
Currency hedges with a term of between 1 and 5 years	0	0	1,100	-5
Currency hedges with a term of more than 5 years	0	0	0	0
TOTAL CURRENCY-RELATED TRANSACTIONS	**4,971**	**-262**	**11,533**	**41**
Interest hedges with a term of less than 1 year	0	0	11,113	-190
Interest hedges with a term of between 1 and 5 years	80,000	310	0	0
Interest hedges with a term of more than 5 years	0	0	0	0
TOTAL INTEREST-RELATED TRANSACTIONS	**80,000**	**310**	**11,113**	**-190**
TOTAL DERIVATIVES	**84,971**	**48**	**22,646**	**-149**

The currency hedges solely relate to EUR.

Capital Management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made to the objectives, policies and methods as of December 31, 2010 and December 31, 2009.

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

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

7.3 Contingent Liabilities

The Group provided the following collateral:

EUR k	**Dec. 31, 2010**	Dec. 31, 2009
Group-owned land and buildings	70,056	67,842
Group-owned technical equipment and machines	12,297	2,128
Group-owned other equipment, furniture and fixtures	11,150	691
Inventories	69,259	5,216
Trade receivables	47,138	3,825
Receivables from long-term construction contracts	15,023	0
Cash and cash equivalents	38	253
	224,961	**79,955**

In addition, obligations of the Group from finance lease agreements (cf. 6.3) are secured by rights of the lessors on the leased assets. The leased assets are recognized at a carrying amount of EUR 12,719 k (prior year: EUR 15,155 k).

The significant increase in collateral pledged compared to the prior year is attributable to the conclusion of the new syndicated loan agreement.

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

EUR k	**2010**	2009
Notes payable	4,394	3,494
Liabilities from guarantees	757	1,093
Liabilities from warranty agreements/ take-back obligations under lease agreements	4,808	5,134
Litigation risks	500	150
Guarantees to fulfill contractual obligations	24,745	31,018
Other obligations	5,517	7,770
	40,721	**48,659**

Litigation Risks

A German production company set up a provision of EUR 250 k for litigation risks concerning legal proceedings with a customer. Management aims to settle out of court.

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

7.4 Segment Reporting

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

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

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

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

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

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

The Other segment primarily comprises the holding activities of Homag Group AG, foreign production facilities in regions with potential for the future, the services division with the software and consulting portfolio of SCHULER Consulting GmbH and the timber frame house construction division. Homag eSolution GmbH, which was newly established in 2010, was allocated to the segment Other.

	Industry		Cabinet Shops	
EUR k	**2010**	2009	**2010**	2009
Third-party sales	275,449	221,280	89,770	73,946
Sales with group companies from other segments	113,256	64,821	80,375	46,479
Sales with investments recognized at equity	43,497	17,805	14,483	7,021
Total sales revenue	**432,202**	**303,906**	**184,628**	**127,446**
Cost of materials	-199,174	-137,005	-104,097	-67,718
Personnel expenses	-151,499	-129,519	-50,725	-49,142
EBITDA [1]	**43,544**	**17,129**	**12,630**	**-3,329**
Non-recurring expenses	-1,986	-6,321	-683	-3,787
EBITDA [2]	**41,558**	**10,808**	**11,947**	**-7,116**
Depreciation of property, plant and equipment and amortization of intangible assets	-19,433 [3]	-15,807	-5,100	-6,050 [4]
Result from employee participation	-4,788	1,240	-1,603	878
Share in result of associates	557	28	0	0
Interest result	-4,896	-4,758	-1,066	-1,259
SEGMENT RESULT [7]	**12,998**	**-8,489**	**4,178**	**-13,547**

ASSETS				
Investments in associates	4,827	3,957	0	0
Capital expenditure [8]	17,895	19,470	3,003	3,714
SEGMENT ASSETS	**373,836**	**341,101**	**127,673**	**123,290**
SEGMENT LIABILITIES	**238,899**	**204,382**	**57,296**	**56,745**
EMPLOYEES [9]	**2,688**	**2,802**	**1,025**	**1,090**

Sales & Service		Other		Total segments		Consolidation		Group	
2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
262,798	176,843	12,832	18,887	640,849	490,956	0	0	640,849	490,956
2,549	1,842	29,090	13,161	225,270	126,303	-225,270	-126,303	0	0
229	277	18,679	8,016	76,888	33,119	0	0	76,888	33,119
265,576	**178,962**	**60,601**	**40,064**	**943,007**	**650,378**	**-225,270**	**-126,303**	**717,737**	**524,075**
-203,931	-130,449	-31,367	-16,135	-538,569	-351,307	224,424	129,853	-314,145	-221,454
-33,849	-30,894	-20,711	-15,649	-256,784	-225,204	0	0	-256,784	-225,204
10,104	**-503**	**-328**	**-1,204**	**65,950**	**12,093**	**-801**	**3,465**	**65,149**	**15,558**
-729	-1,365	-978	-960	-4,376	-12,433	0	0	-4,376	-12,433
9,375	**-1,868**	**-1,306**	**-2,164**	**61,574**	**-340**	**-801**	**3,465**	**60,773**	**3,125**
-2,232 [5]	-2,105	-2,030 [6]	-1,797	-28,795	-25,759	0	0	-28,795	-25,759
-334	-121	-132	42	-6,857	2,039	0	0	-6,857	2,039
668	-34	0	0	1,225	-6	0	0	1,225	-6
-801	-447	-5,171	-2,717	-11,934	-9,181	0	1	-11,934	-9,180
6,676	**-4,575**	**-8,639**	**-6,636**	**15,213**	**-33,247**	**-801**	**3,466**	**14,412**	**-29,781**
2,692	1,885	0	0	7,519	5,842	0	0	7,519	5,842
1,000	4,063	1,084	1,270	22,982	28,517	0	0	22,982	28,517
161,056	**157,803**	**233,268**	**209,575**	**895,833**	**831,769**	**-325,702**	**-312,285**	**570,131**	**519,484**
103,930	**109,131**	**132,851**	**110,851**	**532,976**	**481,109**	**-132,859**	**-118,870**	**400,117**	**362,239**
695	**710**	**573**	**556**	**4,981**	**5,158**	**0**	**0**	**4,981**	**5,158**

[1] EBITDA before employee participation and restructuring/non-recurring expenses
[2] EBITDA before employee participation
[3] Including impairment of EUR 202 k
[4] Including impairment of EUR 733 k
[5] Including impairment of EUR 29 k
[6] Including impairment of EUR 278 k
[7] The segment result is equivalent to EBT
[8] Capital expenditure relates to additions to property, plant and equipment and intangible assets without investments under lease agreements.
[9] 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 2009 and 2010, the annual general meeting elected Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, which have been our group auditors for some years, as the group auditors for the fiscal years 2009 and 2010.

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	**2010**	2009
Statutory audit	817	828
Other assurance services	140	143
Tax advisory services	425	368
Other services	153	273
	1,535	**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

Hans-Dieter Schumacher has been on the management board since January 15, 2011 and will succeed Andreas Hermann as CFO on April 1, 2011. In August 2010, Andreas Hermann had already asked the supervisory board to terminate his service agreement early for personal reasons. On April 1, 2011, the supervisory board also appointed Dr. Markus Flik onto the management board; he will become its chairman on July 1, 2011. The CEO to date, Rolf Knoll, will retire as planned when his contract ends, although he will continue to serve the Homag Group in an advisory capacity.

At the end of February 2011, Homag Group AG was engaged to equip a complete factory in Krasnojarsk, Russia. This large-scale project with a total volume of about EUR 58 million is managed by an engineering team of the Homag Group’s subsidiary Homag Holzbearbeitungssysteme GmbH. The proportion of the project volume allocable to the Homag Group comes to about EUR 8 million. The project encompasses the complete value added chain – from the tree trunk to the finished piece of furniture. The facilities are scheduled to go into operation before the end of 2011.

7.7 Related Parties

In accordance with IAS 24, persons or entities which are in control of or controlled by the Homag Group must be disclosed, unless they are already included as consolidated entities in the consolidated financial statements of the Homag Group. Control exists if a shareholder owns more than one half of the voting rights in Homag Group AG or, by virtue of a provision of the articles of incorporation and bylaws or of an agreement, has the power to control the financial and operating policies of Homag Group's management.

The disclosure requirements under IAS 24 also extend to transactions with associates as well as transactions with persons who have significant influence on the Homag Group's financial and operating policies, including close family members and intermediate persons. Significant influence is deemed to be exerted on the financial and operating policies of the Homag Group by persons holding a seat on the management board or the supervisory board of Homag Group AG, or another key management position.

In the fiscal year 2010, the Homag Group is affected by the disclosure requirements of IAS 24 solely with respect to business relationships with associates, members of the management board and the supervisory board as well as shareholders that hold more than 20 percent of the shares in the parent company Homag Group AG.

There are liabilities from employee profit participation of EUR 71 k (prior year: EUR 61 k) attributable to members of the supervisory board.

Homag Holzbearbeitungssysteme GmbH concluded a consulting agreement in 1999 with the former chairman of the supervisory board and current honorary chairman of the supervisory board. The corresponding annual remuneration amounts to EUR 61 k (prior year: EUR 61 k). The honorary chairman of the supervisory board, Gerhard Schuler, receives remuneration in line with the remuneration of the members of the supervisory board totaling EUR 10 k (prior year: EUR 10 k).

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

	Services and supplies rendered by the Group for related parties		Services and supplies received by the Group from related parties	
EUR k	**2010**	2009	**2010**	2009
Associates	**77,578**	**33,205**	**1,879**	**1,097**

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

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

7.8 Corporate Governance

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

8.COMPANY BOARDS

8.1 Supervisory Board

	Membership in statutory supervisory boards (1) and other comparable domestic and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2010 or as of the end of the term on the supervisory board)	
Torsten Grede, Frankfurt am Main Chairman of the supervisory board Member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main	(1) (2)	- MCE AG, Linz, Austria until January 26, 2010 - Clyde Bergemann Power Group, Inc., Delaware, USA - Grohmann Engineering GmbH, Prüm until January 1, 2010
Reiner Neumeister, Wildberg* Deputy chairman of the supervisory board Main representative and managing director of IG-Metall trade union, Freudenstadt	(1) (2)	- Bauknecht Hausgeräte GmbH, Stuttgart (Deputy chairman) - Brueninghaus Hydromatik GmbH, Elchingen (Deputy chairman) until October 1, 2010 - AOK Baden-Württemberg, Stuttgart
Dr. Jochen Berninghaus, Dortmund Supervisory board member until May 28, 2010 Lawyer, auditor and tax advisor	(1) (2)	- Geno-Volksbank-Essen e. G., Essen (Deputy chairman) - Kludi GmbH & Co. KG, Menden - A.W. Kisker GmbH & Co. KG, Bielefeld - Heinrich Schlenkhoff GmbH, Essen - Erich und Hanna Klessmann Stiftung, Gütersloh
Klaus M. Bukenberger, Schenkenzell Supervisory board member until May 28, 2010 Business consultant	(1) (2)	- SICK AG, Waldkirch (Chairman) - Carl Mahr GmbH & Co. KG, Göttingen (Chairman) - Deutsche Bank AG, Stuttgart - Hauck & Aufhäuser KGaA, Frankfurt am Main - Investcorp Group, London, UK - Seven Industries Holding B.V., Amsterdam, Netherlands
Ernst Esslinger, Alpirsbach* Head of IT engineering at Homag Holzbearbeitungssysteme GmbH, Schopfloch		
Dipl.-Ing. Hans Fahr, Munich Supervisory board member since May 28, 2010 Business consultant	(1) (2)	- Sumida AG, Obernzell (Chairman) - CEDIM AG, Karlsruhe (Chairman) until November 9, 2010 - Bucyrus Europe GmbH, Lünen - BOA Holding GmbH, Stutensee until September 9, 2010 - König Metall GmbH, Gaggenau - Vollack Management Holding GmbH, Karlsruhe - BOA Luxembourg Investment s.a.r.l., Luxembourg, Luxembourg since December 21, 2010

* *Employee representative*

	Membership in statutory supervisory boards (1) and other comparable domestic and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2010 or as of the end of the term on the supervisory board)	
Gerhard Federer, Neuried Supervisory board member since May 28, 2010 CEO of Schunk GmbH, Heuchelheim and of Schunk Verwaltungsgesellschaft mbH, Heuchelheim	(1) (2)	- SÜDVERS Holding GmbH & Co. KG, Au - Schunk Iberica S.A., Pinto, Spain - XYCARB Ceramics B.V., Helmond, Netherlands - Commerzbank AG, Regional Advisory Committee (central Germany), Frankfurt am Main - Hoffmann & Co. Elektrokohle AG, Bad Goissern, Austria - Schunk Wien Gesellschaft mbH, Vienna, Austria
Wilhelm Freiherr von Haller, Stuttgart Supervisory board member until May 28, 2010 Chairman of the management board of Sal. Oppenheim jr. & Cie. Komplementär AG, Cologne, CEO of the management board of BHF-BANK AG, Frankfurt am Main and since January 16, 2010 managing director of FARAMIR Beteiligungs- und Verwaltungs GmbH, Cologne	(1) (2)	- GEZE GmbH, Leonberg - Aesculap AG, Tuttlingen - Oppenheim Kapitalanlagegesellschaft mbH, Cologne, since Feb. 22, 2010 - Gühring oHG, Albstadt - Landeskreditbank Baden-Württemberg – Förderbank, Karlsruhe (replacement member) - Deutsche Bank Österreich AG, Vienna, Austria, since Feb. 12, 2010 - Sal. Oppenheim jr. & Cie. Komplementär S.A., Luxembourg, Luxembourg (chairman), since January 14, 2010
Dr. Horst Heidsieck, Büdingen Supervisory board member since May 28, 2010 Managing partner of Value Consult Management- und Unternehmens-beratungsgesellschaft mbH, Büdingen and managing partner of DOMINO GmbH, Büdingen	(1) (2)	- Coperion GmbH, Stuttgart (Chairman) - Mauser Holding GmbH, Brühl (Chairman) - Agfa-Gevaert N.V., Mortsel, Belgium
Ralf Hengel, Freudenstadt Supervisory board member until May 28, 2010 Head of IT at schlott GmbH, Freudenstadt		
Carmen Hettich-Günther, Rottenburg* Strategic sourcing employee and chair of the works' council of Homag Holzbearbeitungssysteme GmbH, Schopfloch		
Dr. Dieter Japs, Reichenberg Supervisory board member since May 28, 2010, Consulting engineer	(2)	- Leitz GmbH & Co. KG, Oberkochen
Thomas Keller, Freiburg Supervisory board member since May 28, 2010 regional manager for Württemberg at Deutsche Bank AG, Frankfurt am Main	(2)	- Deutsche Clubholding GmbH, Frankfurt am Main - Sick Holding GmbH, Freiburg im Breisgau
Hannelore Knowles, Calw* Chair of the Group's works' council of Homag Group AG, Schopfloch and chair of the works' council of HOLZMA Plattenaufteiltechnik GmbH, Calw-Holzbronn		
Reinhard Löffler, Weil der Stadt Supervisory board member until May 28, 2010 Former member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main and former managing director of Deutsche Beteiligungs GmbH, Königstein/Taunus		
Jochen Meyer, Herzebrock-Clarholz* Deputy chairman of the Group's works' council of Homag Group AG, Schopfloch and chairman of the works' council of Weeke Bohrsysteme GmbH, Herzebrock-Clarholz until March 31, 2010		
Reinhard Seiler, Lemgo* Main representative of IG-Metall trade union, Detmold	(1)	- Dorma Holding GmbH & Co. KGaA, Ennepetal

* *Employee representative*

Supervisory Board Committees

Audit committee	Gerhard Federer (chairman) since July 13, 2010 Carmen Hettich-Günther* Reiner Neumeister* Thomas Keller since July 13, 2010 Wilhelm Freiherr von Haller until May 28, 2010 Reinhard Löffler (chairman) until May 28, 2010
Personnel committee	Torsten Grede (chairman) Hannelore Knowles* Jochen Meyer* Reiner Neumeister* Hans Fahr since July 13, 2010 Dr. Horst Heidsieck since July 13, 2010 Klaus M. Bukenberger until May 28, 2010 Reinhard Löffler until May 28, 2010
Nomination committee	Torsten Grede, (chairman) Hans Fahr since July 13 2010 Dr. Dieter Japs since July 13, 2010 Dr. Jochen Berninghaus until May 28, 2010 Ralf Hengel until May 28, 2010 Reinhard Löffler until May 28, 2010
Mediation committee pursuant to Sec. 27 (3) MitbestG ["Mitbestimmungsgesetz": German Co-determination Act]	Torsten Grede (chairman) Jochen Meyer* Reiner Neumeister* Dr. Horst Heidsieck since May 28, 2010 Reinhard Löffler until May 28, 2010

8.2 Management Board

	Membership in statutory supervisory boards (1) and other comparable domestic and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2010)	
Rolf Knoll CEO Board member for group operations Dettingen an der Erms	(2)	- Chairman of the management board of the professional association for wood processing machinery of the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], Frankfurt am Main
Achim Gauß Board member for research and development Dornstetten	(1)	- Coveright Surfaces Beteiligungs GmbH, Düsseldorf
Andreas Hermann CFO until March 31, 2011 Freudenstadt		
Herbert Högemann Board member for production, procurement and quality assurance Freudenstadt		
Jürgen Köppel Board member for sales, service and marketing Beckum		
Hans-Dieter Schumacher Board member since January 15, 2011 CFO from April 1, 2011 Tuttlingen	(2)	- Commerzbank AG, Regional Advisory Committee South West, Frankfurt am Main

* *Employee representative*

9. LIST OF SHAREHOLDINGS

	Status	Currency	Issued capital Dec. 31, 2010	Share in capital % Dec. 31, 2010	Equity (thousands) Dec. 31, 2010	Profit/loss (thousands) 2010
GERMANY						
Direct shareholdings:						
Homag Holzbearbeitungssysteme GmbH, (formerly: Homag Holzbearbeitungssysteme AG), Schopfloch	(fc)	EUR	30,000,000.00	100.00	82.284	PLTA
SCHULER Consulting GmbH, (formerly: Schuler Business Solutions AG), Pfalzgrafenweiler	(fc)	EUR	5,150,000.00	100.00 [1]	-379	-1,998
Torwegge Holzbearbeitungsmaschinen GmbH, Löhne	(fc)	EUR	1,600,000.00	100.00 [2]	-2,170	-241
HOLZMA Plattenaufteiltechnik GmbH, Holzbronn	(fc)	EUR	5,600,000.00	100.00 [3]	20,130	PLTA
Brandt Kantentechnik GmbH, Lemgo	(fc)	EUR	4,000,000.00	70.00	20,271	2,796
Weeke Bohrsysteme GmbH, Herzebrock	(fc)	EUR	17,550,000.00	100.00	29,917	2,223
BENZ GmbH Werkzeugsysteme, Haslach	(fc)	EUR	25,000.00	51.00	2,130	223
Homag eSolution GmbH, Schopfloch	(fc)	EUR	50,000.00	51.00	560	0
Wehrmann Maschinen Center GmbH [4], Barntrup	(nc)	EUR	2,500,000.00	43.82	1,087 [5]	-2,567 [5]
Indirect shareholdings:						
Homag Vertriebs-Beteiligungs GmbH, Schopfloch	(fc)	EUR	7,200,000.00	100.00 [6]	25,568	2,105
Ligmatech Automationssysteme GmbH, Lichtenberg	(fc)	EUR	6,650,000.00	100.00	5,090	418
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	4,974	22
Bütfering Schleiftechnik GmbH, Beckum	(fc)	EUR	2,000,000.00	96.30	-1,010	-1,998
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	(fc)	EUR	1,000,000.00	51.00	4,908	364
Homag GUS GmbH, Schopfloch	(fc)	EUR	100,000.00	100.00 [6]	2,100	PLTA
Homag Finance GmbH, Schopfloch	(fc)	EUR	100,000.00	100.00 [6]	110	-15
Homag India GmbH, Schopfloch	(nc)	EUR	400,000.00	100.00 [6]	3 [7]	0 [7]
Homag Vertrieb & Service GmbH, Schopfloch	(fc)	EUR	300,000.00	100.00 [6]	379	-127
Hüllhorst GmbH, Barntrup	(nc)	EUR	255,645.94	100.00	259	3

[1] *Thereof 94.00% held by Homag Holzbearbeitungssysteme GmbH and 6.00% by Homag Group AG*
[2] *Thereof 39.95% held by Homag Holzbearbeitungssysteme GmbH and 60.05% by Homag Group AG*
[3] *Thereof 54.46% held by Homag Holzbearbeitungssysteme GmbH and 45.54% by Homag Group AG*
[4] *The insolvency proceedings have not been completed*
[5] *Fiscal year from April 1, 2002 to March 31, 2003*
[6] *Exactly calculated share in capital: 96.44%*
[7] *Figures from fiscal year January 1 to December 31, 2009*
PLTA Control and profit and loss transfer agreement with Homag Group AG or Homag Holzbearbeitungssysteme GmbH or Homag Vertriebs-Beteiligungs GmbH
(fc) Fully consolidated
(nc) Not consolidated

	Status	Currency	Issued capital Dec. 31, 2010	Share in capital % Dec. 31, 2010	Equity (thousands) Dec. 31, 2010	Profit/loss (thousands) 2010
INTERNATIONAL						
Indirect shareholdings:						
Homag Machinery Środa Sp. z o.o., Środa/Poland	(fc)	PLN (EUR	6,001,000.00 1,512,539.38	100.00 [8]	7,337 1,849	1,315 329)
Holzma Plattenaufteiltechnik S.A. Unipersonal, L'Ametlla del Valles/Spain	(fc)	EUR	2,047,748.40	100.00	3,421	503
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo/Brazil	(fc)	BRL (EUR	6,812,180.00 3,082,155.46	100.00	10,062 4,553	765 326)
Homag Machinery (Shanghai) Co. Ltd., Shanghai/China	(fc)	CNY (EUR	70,715,635.00 8,063,632.17	81.25 [9]	106,928 12,193	17,168 1,907)
Homag Austria Gesellschaft mbH, Oberhofen am Irrsee/Austria	(fc)	EUR	370,000.00	100.00 [10]	885	113
Homag Italia S.p.A., Guissano/Italy	(fc)	EUR	1,100,000.00	100.00 [10]	2,269	-228
Homag France S.A., Schiltigheim/France	(fc)	EUR	1,500,000.00	100.00 [10]	8,460	1,480
Homag Asia (PTE) Ltd., Singapore/Singapore	(fc)	SGD (EUR	100,000.00 58,234.33	100.00 [10]	2,451 1,427	1,529 845)
Homag Canada Inc., Mississauga, Ontario/Canada	(fc)	CAD (EUR	4,367,800.00 3,289,749.19	100.00 [10]	10,653 8,024	662 484)
Homag Polska Sp. z o.o., Środa/Poland	(fc)	PLN (EUR	1,050,000.00 264,650.28	100.00 [10]	12,111 3,053	2,478 619)
Homag Japan Co. Ltd., Osaka/Japan	(fc)	JPY (EUR	156,000,000.00 1,436,548.75	100.00 [10]	221,536 2,040	-59,866 -514)
Homag Danmark A/S, Galten/Denmark	(fc)	DKK (EUR	1,970,000.00 264,234.46	100.00 [10]	16,245 2.179	184 25)
Homag U.K. Ltd., Castle Donington/UK	(fc)	GBP (EUR	2,716,778.00 3,148,062.57	100.00 [10]	245 284	-65 -76)
Schuler Business Solutions S.L., Cullera/Spain	(fc)	EUR	301,000.00	100.00	239	-48
Homag Korea Co. Ltd., Seoul/Korea	(fc)	KRW (EUR	320,970,000.00 212,951.95	54.55 [11]	583,344 387	301,802 196)
Holzma Tech GmbH, Assenovgrad/Bulgaria	(nc)	BGN (EUR	370,000.00 189,190.57	100.00	1,021 522	5 3)
Stiles Machinery Inc., Grand Rapids/USA	(e)	USD (EUR	25,806.00 19,429.30	22.00	23,351 17,581	-428 [12] -322)
Weeke North America Inc., Grand Rapids/USA	(fc)	USD (EUR	20,000.00 15,057.97	81.00	-135 -102	2 2)
Homag España Maquinaria S.A., Montmeló/Spain	(fc)	EUR	1,211,300.00	100.00 [10]	1,342	-332

8) Exactly calculated share in capital: 92.81%
9) Exactly calculated share in capital: 79.14%
10) Exactly calculated share in capital: 96.44%
11) Exactly calculated share in capital: 52.61%
12) Figures from fiscal year January 1 to December 31, 2009
(fc) Fully consolidated
(nc) Not consolidated
(e) Consolidated at equity

	Status	Currency	Issued capital Dec. 31, 2010	Share in capital % Dec. 31, 2010	Equity (thousands) Dec. 31, 2010	Profit/loss (thousands) 2010
INTERNATIONAL						
Indirect shareholdings:						
Homag China Golden Field Ltd.,		HKD	27,000.000.00	25.00	84,278	-516[13]
Hongkong/China	(e)	(EUR	2,611,673.21		8,152	-50)
Homag South America Ltda.,		BRL	5,925,031.00	100.00[14]	4,506	786
São Paulo/Brazil	(fc)	(EUR	2,680,766.90		2,039	335)
Homag Australia Pty. Ltd.,		AUD	6,209,158.62	100.00[14]	1,374	701
Sydney/Australia	(fc)	(EUR	4,732,229.72		1,047	485)
Homag (Schweiz) AG,		CHF	200,000.00	100.00[14]	6,369	1,888
Bachenbülach/Switzerland	(fc)	(EUR	160,745.86		5,119	1,365)
OOO "FAYZ- Homag GUS",		USD	174,000.00	33.00[15]	-[16]	-[16]
Taschkent/Uzbekistan	(nc)	(EUR	131,004.37		-[16]	-[16])
OOO "Homag Russland",		RUB	357,215.00	99.00[17]	-26,003	-45,142
Moscow/Russia	(fc)	(EUR	8,814,03		-642	-1,118)
Homag India Private Ltd.,		INR	228,055,010.00	99.90[18]	73,841	1,746
Bangalore/India	(fc)	(EUR	3,823,039.49		1,238	29)
RAMU Machinery Private Limited,		INR	11,500,000.00	52.17[19]	-12,389	-9,088
Bangalore/India	(nc)	(EUR	192,782.23		-208	-149)
HA Malaysia Sdn. Bhd.,		MYR	250,000.00	100.00[14]	-1,377	-151[13]
Kuala Lumpur/Malaysia	(fc)	(EUR	61,042.61		-336	-35)
HA (Thailand) Co. Ltd.,		THB	2,000,000.00	100.00[14]	224	12,059[13]
Bangkok/Thailand	(fc)	(EUR	49,836.04		6	284)
BENZ INCORPORATED,		USD	100.00	100.00[20]	-205	212
Charlotte/USA	(fc)	(EUR	75.29		-154	160)

13) *Figures from fiscal year January 1 to December 31, 2009*
14) *Exactly calculated share in capital: 96.44%*
15) *Exactly calculated share in capital: 31.83%*
16) *Not available*
17) *Exactly calculated share in capital: 95.47%*
18) *Exactly calculated share in capital: 96.34%*
19) *Exactly calculated share in capital: 50.26%*
20) *Exactly calculated share in capital: 51.00%*
(fc) *Fully consolidated*
(nc) *Not consolidated*
(e) *Consolidated at equity*

10. OTHER NOTES

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

Declaration of the Legal Representatives (Group)

Declaration of the Legal Representatives

Declaration pursuant to Sec. 297 (2) Sentence 4 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 18, 2011
Homag Group AG

The management board

ROLF KNOLL	ACHIM GAUSS	ANDREAS HERMANN
HERBERT HÖGEMANN	JÜRGEN KÖPPEL	HANS-DIETER SCHUMACHER

Audit Opinion on the Consolidated Financial Statements (Group)

TRANSLATION OF THE GERMAN AUDIT OPINION CONCERNING THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND 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, 2010. 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, March 18, 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

BLESCH
Wirtschaftsprüfer
[German Public Auditor]

VÖGELE
Wirtschaftsprüferin
[German Public Auditor]


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HOMAG

Management Report for Fiscal Year 2010 (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, investor relations, group accounting, corporate marketing and steering liquidity management activities. It also has regional responsibility for the sales companies. 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

Following the severe recession in 2009, which was triggered by the global financial crisis, the global economy recovered rapidly in 2010. This positive development was buoyed by the numerous monetary and fiscal policy measures introduced to stabilize the financial markets and stimulate the economy. These caused a vigorous rise in global gross domestic product (GDP), which reached 4.8 percent according to the IfW ["Institut für Weltwirtschaft": Institute for the World Economy], even if some momentum was lost as the year progressed. According to the IfW, the volume of global trade grew 11.5 percent.

Economic development was again varied in 2010. In the large emerging economies, for instance, economic output has picked up substantially since mid-2009, even exceeding the pre-crisis level again. On aggregate, emerging nations saw GDP growth of 8.1 percent, in 2010 according to the IfW; the economic performance in Asia in general, and China and India in particular was extremely strong, both of which grew about 10 percent. According to the DIW ["Deutsches Institut für Wirtschaftsforschung": German Institute of Economic Research], Brazil grew 7.8 percent and Russia 3.9 percent.

Although industrial nations are also benefiting from the strong development in emerging countries, their growth is significantly lower and production here remains below the pre-crisis level. Moreover, the pace of economic recovery has slowed steadily in the course of the year. According to the IfW, this translates into a GDP growth of 2.4 percent in industrial countries, with the United States reaching 2.8 percent and Japan 3.3 percent.

Partly as a result of the debt crises in individual member states, the European Union lagged behind the development of other industrial countries, as is evidenced by economic growth of 1.8 percent. More specifically, the eurozone grew by 1.8 percent, while the economic output of the accession countries edged up 1.5 percent. Many economies, including Poland, Sweden, Slovakia, Finland and Belgium, exhibited a positive development. Others, such as Greece, Spain, Ireland, Romania and Bulgaria, reported weak to negative growth.

In 2010, Germany emerged as Europe's engine of growth, with its economy reaching the highest growth rate since reunification. Following the dramatic decline in production experienced in 2009, gross domestic product grew again by 3.6 percent according to government statistics. Specifically, exports recovered noticeably, especially at the beginning of the year, almost offsetting the losses endured in the prior year. According to the DIW, export growth stands at a solid 15 percent. Domestic demand also picked up during the year, increasingly gaining in importance as an economic driver. Up about 10 percent, investment in capital goods has risen substantially, although it still lags about 15 percent behind pre-crisis levels.

Mechanical and Plant Engineering

According to the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], the German mechanical and plant engineering industry has recovered from the severe setbacks in 2009, improving sales revenues in 2010 by about 8 percent. However, the industry thus remains about 20 percent under the peak reached before the crisis in 2008. Order intake developed exceedingly well in 2010 according to the VDMA, up 36 percent, although export growth, at 39 percent, outpaced domestic growth of 29 percent. As a result, exports increased again on the prior year from 73.6 percent of total sales to 74.8 percent in 2010.

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 a large number of smaller and small players that are frequently specialized in individual segments or special-purpose machines. There is clear evidence that the market share of large suppliers is growing as more and more customers tend to procure from multi-tier, single-source suppliers. The Italian corporations Biesse Group and SCM Group are the HOMAG Group's largest competitors with comparable products. We estimate that the three corporate groups have a combined market share of about 47 percent.

Following the collapse in demand of historic proportions that it endured at the end of 2008 and in 2009, the wood processing machines segment is likewise on the path to recovery, recording a 12 percent increase in sales revenue in 2010. Despite this growth, the wood working machines segment has only reached 65 percent of the revenue level reported in 2008. Up 74 percent, order intake rose very substantially in 2010. However, it must be noted that this image is distorted somewhat by the above-trend increase in order intake generated by the saw and timber industry, a field in which the HOMAG Group is not active.

1.2 Development and Structure of the Group

Legal and 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 and to lead the subsidiaries and the Group's sales organization. It is additionally responsible for investor relations, group accounting and corporate marketing, and it has regional responsibility for the sales companies. It holds a 100 percent investment in HOMAG Holzbearbeitungssysteme GmbH, which has operating activities and is one of the largest companies in the HOMAG Group. As of December 31, 2010, the Group included 11 German and 5 foreign production entities as well as 21 sales and service entities (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 management of foreign sales and service entities.

The following changes were made to the corporate structure in fiscal 2010:

- In February and July 2010, the share in BÜTFERING Schleiftechnik GmbH was raised by means of two capital increases from 80 percent to over 96 percent while at the same time diluting non-controlling interests.
- On October 6, 2010, we changed the legal form of HOMAG Holzbearbeitungssysteme AG. Its registered name is now HOMAG Holzbearbeitungssysteme GmbH. At the same time, we reshuffled the company's management, thus reducing the management concentration at HOMAG Group AG.
- Together with Herford-based imos AG, we established HOMAG eSOLUTION GmbH in December 2010; we hold a 51 percent investment in the company. The new company specializes in software solutions for furniture manufacturing, especially for HOMAG Group's machines and production lines.
- After restructuring, SCHULER Business Solutions AG has been registered under the name SCHULER Consulting GmbH since December 2010.
- In the fourth quarter of 2010, HOLZMA Plattenaufteiltechnik GmbH entered into a profit and loss transfer agreement with HOMAG Holzbearbeitungssysteme GmbH, which is effective retrospectively as of January 1, 2010.

Company Structure

HOMAG Group AG is organized into the segments Industry, Cabinet Shops, Sales & Service and Other. The Industry segment comprises those group entities whose business activities center on the provision of system solutions for industrial companies. We offer our customers seamless solutions based on optimally aligned systems that comprise plant and machinery together with the corresponding information and control technology, and thus essentially cover the entire woodworking process chains with our own products.

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 simple operation and flexible applications at a competitive price.

The Sales & Service segment comprises the business activities of the HOMAG sales and service entities in Germany and abroad. 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 Other segment primarily comprises the holding activities of HOMAG Group AG, foreign production facilities in regions with potential for the future, the services division with the software and consulting portfolio of SCHULER Consulting GmbH and HOMAG eSOLUTION GmbH 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 the personnel committee and decided by the supervisory board. In the competition for highly qualified leaders, the remuneration model is designed as an incentive for the management board, while meeting high standards by taking personal performance and the success of the company into account.

The total remuneration of the management board is appropriate in relation to the responsibilities and tasks of each management board member as well as the situation of the Company. They do not exceed the 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.

The remuneration of the members of HOMAG Group AG’s management board is made up of a fixed salary and a variable performance-based component. The variable component consists of a short-term and a long-term incentive system and is based on indicator-based targets and the development of the share price. It is also capped. There are no stock option plans. The members of the management board are not remunerated for board functions at subsidiaries. There is no company pension scheme for the members of the management board. In the reporting year, loans and advances were not granted to the members of the management board, nor have any declarations of liability been made in their favor. All service agreements with the members of the management board comply with the recommendations of the German Corporate Governance Code.

In the event that a service agreement with a member of the management board is terminated, the management board member concerned receives as settlement of remuneration including fringe benefits a compensation payment of two years’ compensation on the date on which the contract is terminated, but no more than the amount of remuneration for the residual term of the agreement (fixed remuneration, short-term incentive and long-term incentive). The management board member is not entitled to a settlement within the meaning described above if the Company has a right to terminate the contract for good cause as defined in Sec. 626 BGB [“Bürgerliches Gesetzbuch”: German Civil Code].

Fixed remuneration

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

The majority of management board service agreements provide for an increase in fixed remuneration as of January 1, 2010, subject to the condition precedent (mark-up amount) that the Group generates earnings before taxes (EBT) in the preceding four quarters in total. If this condition precedent is satisfied, the annual salary for these agreements increases as of July 1, 2010.

Variable remuneration component

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

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

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

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

The LTI bonus is a long-term incentive system based on the development of HOMAG Group's share price (share-based price LTI bonus) and the development of positive HVA (HVA LTI bonus). The LTI schemes are set annually and have a term of three years in each case. Before introducing the LTI scheme in each respective year, the supervisory board reviews the parameters for the LTI used to date together with the HVA target value, the cap and the parameters used to calculate the capital costs. For the new LTI scheme, which has a reference period running from January 1, 2011 to December 31, 2013, the supervisory board decided to use the parameters used to date.

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

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

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

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

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

In connection with a contractually agreed increase of the fixed annual salary, the majority of the management board received a performance-based non-recurring bonus payment of 50 percent of the mark-up in the past fiscal year. Moreover, the supervisory board granted one member of the management board a special bonus.

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. Accordingly new remuneration rules for supervisory board members were decided at the annual general meeting on May 28, 2010 taking into account the recommendations and suggestions in No. 5.4.6 of the German Corporate Governance Code and the corresponding changes to the articles of incorporation and bylaws of HOMAG Group AG. This amendment was filed in the commercial register on June 7, 2010.

Each full fiscal year of membership, the members of the supervisory board still receive fixed remuneration of EUR 10,000. Following the change to Art. 14 of the articles of incorporation and bylaws of HOMAG Group AG, the members of the supervisory board now also receive a fixed attendance fee of EUR 1,500 for each supervisory board meeting.

In addition to the fixed remuneration, the members of the supervisory board receive variable remuneration for each full fiscal year. With the amendment of Art. 14 of HOMAG Group AG's articles of incorporation and bylaws by the annual general meeting, the members of the supervisory board receive EUR 500 per 0.1 percent of the positive HOMAG value added KPI (key performance indicator), but no more than EUR 20,000. Following the introduction of the HOMAG value added KPI as a measurement basis for the variable supervisory board remuneration, which replaced the prior measurement basis (dividends), the variable remuneration of the management board and the supervisory board are linked to the same sustainability-based KPI. The HOMAG value added KPI for a given fiscal year is calculated based on the consolidated financial statements of HOMAG Group AG.

The chairperson of the supervisory board receives three times the sum of the fixed remuneration, the variable remuneration and the attendance fee for each supervisory board meeting, the deputy chairman one-and-a-half times that amount.

Committee membership is still remunerated separately. Following the amendment of Art. 14 of HOMAG Group AG's articles of incorporation and bylaws, the attendance fee has been raised from EUR 1,000 to EUR 1,500 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 receive fixed and variable remuneration based on their length of service on the supervisory board. The fixed and variable remuneration as well as the attendance fee for supervisory board meetings and committee meetings is payable within one month of the annual general meeting exonerating the supervisory board for the relevant fiscal year.

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

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

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, Gütersloh, announced the conclusion of a vote pooling agreement on March 8, 2010. This vote pooling agreement contains limitations on both voting rights and the transfer of shares. The management board is not aware of any further restrictions, especially arising from agreements between shareholders, concerning voting rights or the transfer of shares.

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

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

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

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

a) *Appointment of management board members:* Pursuant to Sec. 84 (1) Sentence 1 AktG ["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 determines the number of members of the management board, appoints, changes and terminates employment contracts, as well as revokes appointments; it is also responsible for appointing the chairperson and the deputy chairperson of the management board.

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

c) *Amendments to the articles of incorporation and bylaws:* : In accordance with Sec. 179 (1) AktG, the articles of incorporation and bylaws may only be amended by resolution of the annual general meeting. The supervisory board is authorized, however, to pass resolutions amending the current version of the articles of incorporation and bylaws in accordance with Art. 15 of the articles of incorporation and bylaws in conjunction with Sec. 179 (1) Sentence 2 AktG. In accordance with Sec. 179 (2) Sentence 1 AktG, a resolution to amend the articles of incorporation and bylaws at the annual general meeting requires a majority of at least three quarters of the share capital represented when the resolution is adopted. Pursuant to Sec. 179 (2) Sentence 2 AktG, the articles of incorporation and bylaws can prescribe a stricter share capital majority to amend the purpose of the Company and other requirements. In accordance with this legal authorization, Art. 20 (1) of the articles of incorporation and bylaws prescribes that resolutions of the annual general meeting require a simple majority of the votes cast, unless legal regulations prescribe otherwise. In such cases where the law requires a majority of the share capital represented when passing a resolution, a simple majority of the share capital represented suffices, unless legal regulations prescribe otherwise.

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

As regards the issue of shares and purchase of treasury shares, the management board is authorized as follows:

a) *Authorization to issue shares:* Pursuant to Art. 4 (3) of the articles of incorporation and bylaws, the management board is authorized, with the approval of the supervisory board, to raise the share capital in the period until May 31, 2012, once or several times, by a total of up to EUR 5,824,536.00 by issuing new no-par value bearer shares in exchange for cash and/or contributions in kind (authorized capital II). The management board is entitled to decide on the conditions of share issue with the approval of the supervisory board. In addition, the management board is authorized, subject to the approval of the supervisory board, to preclude existing shareholders' subscription rights under the following circumstances:
   - for fractional amounts
   - for capital increases in return for contributions in kind for the purpose of acquiring a company, part of a company or an equity investment in a company
   - in the case of capital increases in return for cash contributions, if the issue price of the new shares is not significantly lower than the quoted price of identical shares already listed when the issue price is finalized by the management board within the meaning of Sec. 203 (1) and (2) and Sec. 186 (3) Sentence 4 AktG, and the new shares with precluded subscription rights do not exceed an amount of 10 percent of share capital on the date of authorization. Shares disposed of during the term of authorized capital II precluding the subscription rights of the shareholders pursuant to Sec. 71 (1) No. 8 Sentence 5 and Sec. 186 (3) Sentence 4 AktG, as well as those with conversion or exercise rights or obligations issued after this authorization was granted pursuant to Sec. 221 (4) and Sec. 186 (3) Sentence 4 AktG may not exceed 10 percent of the share capital.

b) *Authorization to repurchase 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 April 30, 2015 with an imputed share in share capital of up to EUR 1,568,800.00. The Company may not use the authorization to trade with treasury shares. The Company can exercise the authorization wholly or in part, once or several times. The management board can choose to purchase the treasury shares either a) via the stock exchange or b) through a public offer made to all shareholders.

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

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 scheduled election by the annual general meeting of HOMAG Group AG on May 28, 2010 of the six shareholder representatives to the supervisory board resulted in the following changes: Hans Fahr, Gerhard Federer, Dr. Horst Heidsieck, Dr. Dieter Japs and Thomas Keller were newly appointed to the supervisory board. Torsten Grede was reelected to the board; at the constituent meeting of the supervisory board following the annual general meeting, he was confirmed as its chairman. Dr. Jochen Berninghaus, Klaus M. Bukenberger, Wilhelm Freiherr von Haller, Ralf Hengel and Reinhard Löffler left the supervisory board.

There were no personnel changes on the management board in fiscal 2010. At the end of fiscal 2010, the supervisory board decided in its meeting of December 16 on personnel changes on the management board that will not have an impact until 2011 and are discussed in more detail in the section on subsequent events.

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 liabilities to banks. These annual key performance indicators are budgeted and 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.

5.1 Corporate Governance at HOMAG Group AG

We firmly believe that good corporate governance is a key component of the Company's sustainable success, because responsible, value-centric and transparent corporate governance strengthens trust-based relationships with shareholders and capital markets as well as employees, customers and suppliers. The management board and the supervisory board as well as the HOMAG Group AG's employees feel duty-bound to the German Corporate Governance Code, and its principles are therefore at the core of our activities. We comply with the recommendations of the German Corporate Governance Code without exceptions (see declaration of compliance pursuant to Sec 161 AktG published on HOMAG Group AG's website and on page 67) and also follow many of the suggestions.

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

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

Compliance

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

Code of Conduct

For years, "satisfied customers, satisfied employees and satisfied investors" have been the corner stones of the philosophy that has guided our Company. The conduct of leadership in our companies is based on the principles "cooperation" and "partnership". Based on these principles and the corporate culture they embody, a code of conduct was issued for our foreign companies in 2010. This contains binding guidelines for the actions of the management board, middle management and all employees of Homag Group. Ethical business practice, fairness and responsible and legally compliant conduct are already both a duty and a matter of course for us. Nevertheless, the 13 principles in the code of conduct are intended to support us in our daily activities. This code of conduct is therefore a summary of many years of practice rather than setting up any new or detailed rules. Once the negotiations with the group works' council have concluded, the code of conduct is to become binding in Germany as well in 2011.

Composition of the Management Functions and Management Board

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

Objectives Concerning the Supervisory Board's Composition

When appointing members to the supervisory board, the supervisory board has set itself specific objectives and, in compliance with the German Corporate Governance Code, has passed the following resolutions:

"In light of the purpose of the company, its size, the composition of its workforce and its international operations, the supervisory board aims to achieve a composition that reflects the following factors:

- No less than two seats on the supervisory board for members who particularly reflect the international nature of the Company, for example by being foreign nationals or having relevant experience abroad
- No less than eight seats on the supervisory board for members who do not have an advisory function at and are not members of the corporate boards of customers, suppliers, lenders or other business partners of the Company
- No less than two seats on the supervisory board for women

The supervisory board intends to take these criteria into consideration in its nominations for the next scheduled appointments to the supervisory board in 2015 and for new appointments to the supervisory board prior to that. The same applies to petitions to the court in the event of statutory appointments.

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

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 2011. 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

The Supervisory Board

The supervisory board monitors and advises the management board on the conduct of its business. The supervisory board discusses the development of business and planning, as well as the corporate strategy and its implementation, at regular intervals. The management board's rules of procedure stipulate that significant transactions such as budgetary planning, major acquisitions, divestitures and financing measures require the approval of the supervisory board.

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

In order to permit independent advice to and supervision of the management board, no former members of the management board sit on the supervisory board. According to its rules of procedure, the supervisory board members may not be on the board or act in an advisory capacity at any of the company's major competitors. The rules of procedure also stipulate that supervisory board members are required to inform the supervisory board of any conflicts of interest that might arise, in particular due to their acting in an advisory or board function at customers, suppliers, investors or other business associates. In its report to the 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 GmbH, a subsidiary of HOMAG Group AG, and Mr. Schuler in 1999.

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

The Management Board

The management board of HOMAG Group AG comprises five members. Following personnel adjustments, the management board temporarily has six members in fiscal 2011. Pursuant to the articles of incorporation and bylaws of HOMAG Group AG the management board comprises at least three members. Under the rules of procedure for the management board issued by the HOMAG Group AG's supervisory board, a CEO can be appointed if the supervisory board has not appointed a spokesperson of 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. Measures requiring the approval of the supervisory board must be presented to the supervisory board without delay.

Annual General Meeting

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

Financial Reporting and Annual Audit

The financial statements of HOMAG Group AG are prepared in accordance with the German Commercial Code (HGB), the consolidated financial statements according to International Financial Reporting Standards (IFRSs).

The auditor and group auditor are elected by the annual general meeting in accordance with the legal provisions. Before the election nomination for the audit is made, the supervisory board obtains a declaration from the auditor they have in mind if and whether there are any business, financial, personal or other relations between the audit firms and its governing bodies and audit team leaders on the one hand and HOMAG Group AG and its board members on the other which could give rise to doubts about independence. It was agreed with the auditor that the chairman of the supervisory board would be informed without delay of any grounds for disqualification or any factors affecting impartiality if they arise during the audit, unless they are remedied immediately. The supervisory board also agrees with the auditor that the auditor will immediately report all significant findings and events of relevance for the duties of the supervisory board that may arise during the audit and that the auditor will inform the supervisory board or mention this in the audit report if facts are found during the audit that indicate that the declaration of compliance made by the management board to the supervisory board pursuant to Sec. 161 AktG is incorrect.

Risk Management

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

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

Transparency

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

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 of HOMAG Holzbearbeitungssysteme GmbH, which are transferred to HOMAG Group AG as a result of the profit and loss transfer agreement in place between the two. Due to the significantly better business conditions in 2010 at HOMAG Holzbearbeitungssysteme GmbH, a profit of EUR 10.0 million (prior year: loss of EUR -7.6 million) was transferred. Apart from the positive development of business at HOMAG Holzbearbeitungssysteme GmbH, this significant improvement in earnings is attributable to the profit and loss transfer agreement concluded between HOMAG Holzbearbeitungssysteme GmbH and HOLZMA Plattenaufteiltechnik GmbH, leading to a further improvement in the earnings of HOMAG Holzbearbeitungssysteme GmbH. In addition, investment income from affiliates of EUR 1.4 million was received in the reporting year (prior year: EUR 4.2 million).

Other operating expenses, which rose to EUR 6.6 million in the reporting period (period: EUR 4.1 million), had a negative impact on results of operations. The increase was primarily caused by expenses in connection with the conclusion of a new syndicated loan agreement for the HOMAG Group, which expires in February 2013. One further negative effect on the HOMAG Group's results of operations stems from personnel expenses, which increased to EUR 2.7 million (prior year: EUR 1.2 million). This increase is partly due to the higher management remuneration, but it is mostly a result of the transfer of holding functions and the related employees – most of which were employed at HOMAG Holzbearbeitungssysteme GmbH – to HOMAG Group AG during the reporting year. Since July 2010, the staff assigned to corporate marketing, group accounting, investments management, investor relations, and the staff with regional responsibility for the HOMAG Group’s sales companies have been employed at HOMAG Group AG; their hours are charged using specific cross-charging formulas to the individual group companies. The HOMAG Group AG had 22 employees at year end.

The write-downs recognized on investments developed favorably in the reporting year: only in one instance was it necessary to charge a write-down on a subsidiary (EUR 0.1 million; prior year: EUR 0.4 million). In connection with the significant increase in borrowing costs owing to the new syndicated loan agreement, which was concluded in February 2010, the interest result deteriorated from and expense of EUR 1.7 million in the prior year to an expense of EUR 3.9 million in the reporting year. Income taxes are marked by the trade tax allocation with HOMAG Holzbearbeitungssysteme GmbH and the corporate income tax and solidarity surcharge expenses. Ultimately, this results in a net profit for 2010 of EUR 0.4 million (prior year: net loss for the year of EUR 10.3 million) thanks to the fact that the increased interest expenses, the higher amount of other operating expenses in connection with the conclusion of the syndicated loan agreement and the higher personnel expenses were compensated by the significantly larger profit transferred from HOMAG Holzbearbeitungssysteme GmbH under the profit and loss transfer agreement. Including the profit carryforward from the prior year (EUR 25.5 million), the retained earnings as of the balance sheet date come to EUR 25.9 million.

6.2 Net Assets and Financial Position

Total assets has increased substantially from EUR 161.6 million in the prior year to EUR 184.5 million. The increase in total assets is attributable to the fact that HOMAG Group AG extended significantly larger loans in 2010 to affiliates in Germany. The increase of EUR 9.1 million was financed with an increase in liabilities to banks. Another significant point that contributed to the increase in total assets relates to the profit assumed under the profit and loss transfer agreement in place with HOMAG Holzbearbeitungssysteme GmbH, as this results in a receivable as of year-end 2010 of EUR 10.0 million. Due to the slightly positive profit recorded, equity now stands at EUR 76.9 million (prior year: EUR 76.4 million). The equity ratio thus came to 42 percent (prior year: 47 percent). In 2010, the HOMAG Group did not distribute any dividends (prior year: EUR 4.7 million). A dividend of EUR 0.30 per share or EUR 4.7 million is proposed for 2010.

On the equity and liabilities side, liabilities to banks increased significantly from EUR 56.9 million to EUR 81.2 million and liabilities to affiliates rose from EUR 14.3 million to EUR 18.1 million, while other liabilities decreased from EUR 7.3 million to EUR 0.5 million. As described above, the increase in liabilities to banks stems from HOMAG Group AG’s increased liabilities from banks in connection with the new syndicated loan agreement; some of the funds drawn have been transferred to German production companies as intercompany loans. Nevertheless, the HOMAG Group’s net liabilities to banks decreased substantially in the reporting year owing to the significant improvement in the business conditions and the very successful net working capital management.

7. SUBSEQUENT EVENTS

At the end of fiscal 2010, the supervisory board decided at its meeting on December 16 on personnel changes on the management board that will not take effect until 2011. Namely, Hans-Dieter Schumacher was appointed onto the management board as of January 15, 2011 and will succeed Andreas Hermann as CFO on April 1, 2011. In August 2010, Andreas Hermann had already requested the early termination of his service agreement for personal reasons effective March 31, 2011. On April 1, 2011, the supervisory board also appointed Dr. Markus Flik onto the management board; he will become its chairman on July 1, 2011. The CEO to date, Rolf Knoll, will retire as planned when his contract ends, although he will continue to serve the HOMAG Group in an advisory capacity.

At the end of February 2011, HOMAG Group AG was engaged to set up a complete factory for the production of furniture in Krasnojarsk, Russia. This large-scale project with a total volume of about EUR 58 million is managed by an engineering team of the HOMAG Group's subsidiary HOMAG Holzbearbeitungssysteme GmbH. The proportion of the project volume allocable to the HOMAG Group comes to about EUR 8 million. The project encompasses the complete value chain added – from the tree trunk to the finished piece of furniture. The facilities are scheduled to go into operation before the end of 2011.

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 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

The HOMAG Group's risk management system is essentially supported by the management accounting system. It includes project controlling, cost object controlling and detailed segment reporting. 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, in the event of unexpected developments, notified to the management board and supervisory board immediately. The risk inventory encompasses all relevant companies.

We enhanced and optimized numerous areas of our risk management system again in fiscal 2010. Among other measures, we increased data protection and security and developed a code of conduct for our foreign subsidiaries, which we issued in the fourth quarter of 2010 and which is binding for employees abroad as of year-end 2010.

Once the negotiations with the group works' council have concluded, the code of conduct is to become binding in Germany as well in 2011.

As part of our internal audit, all significant group entities are audited at intervals of three to five years. In 2010 we audited two production companies and two foreign subsidiaries and performed a follow-up audit at a foreign subsidiary. None of five audits resulted in material findings nor were objections raised.

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

Economic Risks

One of the main risks to the HOMAG Group is the development of the global economy. The willingness of our customers to spend falls significantly in difficult economic times, as was confirmed in the crisis year 2009. Although we are able to compensate for crises in individual regions through our global presence, a global crisis will of course have a negative effect even on our order volumes. Although we appear to have made it through the difficult economic crisis, these economic risks still remain overall, particularly in light of the uncertainty still prevailing in financial markets, the unpredictable global economic ramifications of the earthquake disaster in Japan and the unstable political situation in North Africa.

We counter this overall economic risk by keeping our personnel capacities as flexible as possible and adjusting our production plan early to developments in order intake.

Customer Risks

The 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. There is risk that customers may default on their 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 proportion of bad debts compared to other companies in the industry.

Product and Development Risks

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

From standard machines for 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 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 encroaching on our technological lead.

Procurement and Purchasing Risks

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

It is somewhat difficult to project the development of raw materials prices at present, as these continue to be heavily dependent on institutional investors. A further increase in raw materials prices could burden the results of operations of the HOMAG Group, since such increases cannot be passed on through product price adjustment, or at best with a time lapse. We counter the negative impact on raw materials increases to the extent possible by concluding master agreements with fixed prices and bundling demand within the HOMAG Group to capture the benefits of placing higher order volumes.

IT Risks

The main IT risks relate to data loss, damage or misuse. We upgraded our IT security to the latest standards in 2009 in the interest of mitigating these risks. Working in tandem with the new data center in our new building in Schopfloch, the old data center serves as a backup data center. We have also introduced data outsourcing, have expanded the real-time data back-ups in 2010, and set up have dedicated security zones with video monitoring, controlled access authorization and alarm functions. In 2010, we additionally replaced the existing data silos for data backups and archiving with the latest technology and split the AIX servers between our two data centers. We have modernized and upgraded our e-mail gateway further to protect ourselves against malware and spam. All companies also have IT security officers.

Currency Risks

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

Liquidity and Financing Risks

We secured our liquidity until February 2013 by entering into a new syndicated loan agreement in February 2010 that is contingent on us complying with certain covenants. This includes the tranche to repay the participation rights. In this context, we currently do not see any risks to compliance with the covenants agreed under this agreement. To protect ourselves against interest rate changes, we have hedged a considerable proportion of our loans using interest rate hedges (caps) that set a maximum interest rate.

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

Legal Risks

One risk in our business activities relates to the assertion of warranty claims or the related bad debts. In our risk report 2009, we reported on two large-scale orders which resulted in late payments and risk of default. In both cases, we were able to find a mutual agreement with the customers. In one case our claim was settled in full, while in the other case about half of the claim was settled and a payment plan was agreed for the residual amount over a term of four years. We consider the impairment losses recognized in this context to be sufficient.

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 has the following structures and processes:

- The management board bears overall responsibility for the internal monitoring and risk management system with regard to the group financial reporting process. All consolidated entities and strategic business units are part of a strictly defined management and reporting structure. The supervisory board, and the audit committee in particular, also regularly assess HOMAG Group AG's internal monitoring systems (risk management, internal audit) in terms of their effectiveness. The audit committee therefore regularly examines internal monitoring and risk management.
- Certain principles and organizational resolutions and the main processes of the (group) internal monitoring and risk management system with regard to financial reporting are set out in guidelines that apply throughout the group (e.g. risk management handbook) and are adapted to recent external and internal developments on a regular basis. These include guidelines on procedures and timelines for the annual and interim financial statements, the group accounting handbook in accordance with the International Financial Reporting Standards (IFRSs) to be applied uniformly throughout the group, the standardized recording of disclosures in the notes using group-wide consolidation software and a standardized group chart of accounts. All employees involved in the preparation of financial statements receive regular training.

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

- Identification by group accounting of major areas of risk and aspects to be monitored that are particularly relevant to the (group) financial reporting process by group accounting, above all unusual and complex business transactions and non-standard processes;
- Monitoring instruments for (group) financial reporting process and the results thereof at the level of the management board, the strategic business units and consolidated companies, as well as
- Preventative monitoring measures in the finance and accounting of the group and the individual consolidated companies, as well as in operations business 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. The supervisory board discusses and examines key issues with regard to (group) financial reporting, risk management, the auditor's audit engagement and its focus.

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

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

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

HOMAG Group 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

Despite the strong growth of 2010, the economic experts concur that the severe financial crisis has not been completely overcome and that the high level of sovereign debt in some countries and the hard-hit real estate and financial sectors continue to pose risks. As early as the second half of 2010, the growth in many regions slowed owing to these encumbrances, such that global economy has entered a phase of moderate expansion that will prevail in 2011. Indeed, the IfW projects global growth of 3.6 percent and the World Bank forecasts 3.3 percent. Emerging economies remain the engines of growth in this process, although they are losing momentum compared to 2010 and will reach a growth rate of 5.6 percent according to IfW predictions. China and India, among other countries, will develop above average.

Industrial counties will have to contend with a bridled economy and an anticipated increase in gross domestic product of about 2 percent. Growth of about 2 percent is forecast for the United States and of 1 percent for Japan. According to the IfW, the European Union's economy will grow by 1.4 percent, with accession countries outperforming other member countries at 2.4 percent. Austria, Finland, Slovakia, Slovenia and Sweden will also develop above trend according to the report. A weak development is forecast for Italy, Spain, Portugal, Greece and Ireland. The economic experts believe that the upswing in Germany will lose momentum in 2011. However, based on the DIW's forecast growth of 2.2 percent, for instance, the German economy is still expected to develop perceptibly better than the eurozone average. In this context, export growth is expected to weaken significantly and domestic demand to remain robust, with anticipated growth in investment demand for capital goods in Germany of 9 percent for instance.

The industry association VDMA looks to 2011 with optimism and anticipates a continuation of the upswing. German machinery production is expected to increases somewhere around 10 percent, driven in particular by the high order backlog as at year-end 2010. For the wood processing machines segment, the competent industry association within the VDMA anticipates a further recovery from the collapse in demand seen in 2009. For instance, sales revenue is expected to rise 7 percent in 2011.

Forecast for HOMAG Group

Perfectly timed to coincide with the HOMAG's 50th anniversary, fiscal 2010 was a success. We raised our sales revenue forecasts several times and developed significantly better than the overall mechanical engineering sector and our industry segment. Following another strong fourth quarter, within the Group we closed the year with a sales revenue increase of almost 37 percent to EUR 718 million compared to 2009. In 2010, we thus already hit the sales revenue target for 2011, which we set in the interim report for the third quarter of 2010, and exceeded our expectations. After this strong fiscal year 2010, we want to continue growing in 2011, and generate a mid-single-digit percentage increase in sales revenue at least. Our aim is to gradually approach the business volume that we had seen in the record years before the crisis. Our further growth and our 2011 forecast are subject to the condition, however, that there are no economic setbacks, the debt crisis in the eurozone does not worsen, the political situation in North Africa does not deteriorate and the earthquake disaster in Japan does not have global economic ramifications.

In the individual quarters of 2011, we anticipate a diverging development in the Group's sales revenue with large fluctuations and a marked seasonality. Following the high level of deliveries in the fourth quarter of 2010 and the lower order backlog at the end of the year, we anticipate a weaker first quarter of 2011 and sales revenue to merely remain at the prior-year level. By reducing the non-working shift accounts and isolated use of reduced working hours schemes, we will flexibly reduce capacity in the first quarter at some locations. According to our plans, the second quarter should then be significantly better as regards sales revenue.

We likewise aim to generate a slight increase in order intake within the Group in the current fiscal year compared to 2010. In order to reach this target and against the backdrop of the usual seasonal pattern with decreasing figures as the year progresses, we need a strong first quarter. The results of the first two months of 2011 indicate that we are on the right track. After the healthy prior year, the prospects for the project business with the large-scale production lines are still good. The positive trends in the standard machines segment continue to strengthen. Here we benefit from our broad product portfolio, such that we expect our business with stand-alone machines for small and medium-sized businesses to develop favorably. In the production line business, we mainly see growth opportunities in central Europe, Asia and South America. And our presence in all key market regions around the globe allows us, at the HOMAG Group, to compensate rather well for regional fluctuations.

As regards individual sales markets, we expect central Europe, with Germany, Austria and Switzerland, to approximate the good level of 2010 as 2011 progresses. In western Europe, we anticipate slight growth in many individual markets, although the growth rates will remain under those seen in 2010. We are particularly optimistic with regard to France, Belgium, the UK and Italy. In general, the Ligna trade fair and the innovations presented there, should have a positive impact on the European markets.

Again in 2011, we expect business in eastern Europe to grow again, although it is unlikely that we will reach the growth rates of 2010 in Poland owing to the expiry of EU subsidies. Instead, the smaller markets in southern Europe should make a larger contribution to order intake on aggregate. However, a further improvement in the local financing problems will be key to the success of the eastern European market.

America shows a mixed picture in 2011. The United States bottomed out in 2009 and it is believed that the recovery will continue in the current year, albeit at a low level still. We expect the positive trends already evident in Canada to gain further momentum. We still view Central America critically, while in South America the good development in Brazil looks set to continue.

According to our estimates, the Asian market will defend the prominent position it reached in 2011 and even expand it further in the medium term. China will play a key role again in this context, where we expect healthy order intake both for imported plant and machinery and for stand-alone machines manufactured locally. In the project business we are benefiting here from customers' ever increasing quality awareness and the trend toward automation. We are optimistic as regards the markets in India, Malaysia, Thailand and Vietnam, such that order intake in this region has a broader base.

Overall, we aim to improve our results of operations for the Group slightly more than the increase in sales revenue and; reach a return on EBITDA for the Group, also after extraordinary expenses but before the results from employee profit participation, of more than 9 percent; and, in particular, significantly increase the Group's net profit for the year. This will be possible due to the substantially lower extraordinary expenses expected and an improved interest result (assuming an unchanged base interest rate) since we will be able to benefit here over the full year from our improved contractually fixed borrowing conditions. We also anticipate a lower group tax rate. Following the repayment of participation rights of EUR 25 million, we expect the Group's net liabilities to banks to increase accordingly as of December 31, 2011. On a comparable basis, i.e., adjusted for the repayment of these PREPS tranches, we only want to slightly exceed the very low level reached as of December 31, 2010 by year-end 2011, despite a high level of planned investments. In the course of the year, the net liabilities to banks many fluctuate substantially however.

In relation to the individual segments in the HOMAG Group (Industry, Cabinet Shops, Sales & Service and Other), we expect a significant increase in both sales revenue and earnings in both the Industry and Other segments in 2011 compared to 2010, while we anticipate sales revenue and earnings in the Cabinet Shops and the Sales & Service segments to develop in 2011 similarly to fiscal 2010.

For HOMAG Group AG, we likewise anticipate an improvement in earnings in 2011, as a positive result, similar to that reported in 2010, is expected at HOMAG Holzbearbeitungs-systeme GmbH, while other operating expenses and interest expenses at HOMAG Group AG are expected to decrease, leading to improved earnings on aggregate.

With the workforce as of year-end 2010 in the HOMAG Group, we believe we are generally well equipped for 2011. There will be a slight increase in the number of workers employed at our subsidiaries in foreign growth markets.

The Group's investment volume in 2011 will increase significantly again compared to the low level of investment in 2010, returning to our long-term average. Capital expenditure will focus on the investment project already initiated in China and India in order to strengthen our presence in these growth markets further. In addition, we are erecting a new sales building in Switzerland and plan to replace our production planning and management system, which will require follow-up investments in subsequent years.

In 2011, we also expect positive impulses from the world's largest and most important trade fair for our industry, Ligna, which is held in Hanover every two years. Here, we will again present to our customers numerous new and enhanced products. We are also optimistic about the Interzum trade fair in China and the FIMMA trade fair in Brazil in spring.

Again in 2011, we want to build up our global sales and service organization further. Our service business is another essential field that we are continually optimizing and expanding to differentiate ourselves from our competitors and to raise customer satisfaction further. Here, we anticipate some impetus as of 2011 from the newly established HOMAG eSOLUTION, which is specialized in software solutions for cabinet shops and the furniture industry.

Fiscal 2012

Although the economy has kick-started again in most regions after the global economic crisis, the financial markets continue to be dominated by a certain degree of uncertainty, particularly on account of the instability affecting some eurozone countries, the unpredictable global economic ramifications of the earthquake disaster in Japan and the unstable political situation in North Africa. As a company active in the capital goods industry, we can only make forecasts for 2012 with some reservations. If the cyclical upswing of the global economy continues as projected by the economic research institutes, we expect the HOMAG Group to grow further in 2012.

We are the market and technology leader in our industry, our products are sought-after worldwide and customers have confidence in the high quality of our products and service level. If the market continues to grow, we are certain to benefit and, as in the past, we aim to capture additional market share. Based on these premises, we think that reaching the EUR 800 million consolidated sales revenue mark again in 2012 is a realistic target. At the same time, we expect that our extensive investments in China and India will have a positive impact on the order intake generated in these growth markets. In addition, we expect that the Russian and US markets will continue to recover.

If the Group's sales revenue develops as planned, we anticipate a further improvement in earnings for 2012, since our restructuring measures should be completed by then and have a corresponding positive impact on earnings. In addition, we anticipate a further decrease in the interest rate expense (assuming a stable base interest rate) and a further decrease in the Group's tax rate compared to 2011.

Financial Statements for Fiscal Year 2010 (AG)

INCOME STATEMENT FOR FISCAL YEAR 2010

in EUR	Note	2010	2009
Other operating income	23	1,234,504.01	1,632,496.44
Personnel expenses	24		
- Wages and salaries		-2,525,449.24	-1,124,870.51
- Social security, pension and other benefit costs		-162,467.89	-96,639.91
Depreciation on intangible assets property, plant and equipment		-26,353.65	0.00
Other operating expenses	26	-6,620,493.94	-4,058,663.78
		-8,100,260.71	**-3,647,677.76**
Income from equity investments	27	1,365,000.00	4,235,000.00
Income (prior year: expenses) from profit and loss transfer agreement	27	10,022,956.66	-7,613,937.27
Other interest and similar income	28	695,634.43	366,981.48
Write-downs on financial assets	27	-94,846.53	-403,000.00
Interest and similar expense	28	-4,590,102.54	-2,085,728.50
RESULT FROM ORDINARY ACTIVITIES		**-701,618.69**	**-9,148,362.05**
Extraordinary expenses		-22,991.00	0.00
EXTRAORDINARY RESULT		**-22,991.00**	**0.00**
Income taxes	30	1,152,578.69	-1,021,400.81
Other taxes	31	-3,275.64	-126,041.48
NET INCOME FOR THE YEAR (PRIOR YEAR: NET LOSS)		**424,693.36**	**-10,295,804.34**
Profit brought forward from prior year		25,493,258.09	35,789,062.43
NET RETAINED PROFIT		**25,917,951.45**	**25,493,258.09**

BALANCE SHEET AS OF DECEMBER 31, 2010

ASSETS

EUR			Note	Dec. 31, 2010	Dec. 31, 2009
A.	**ASSETS**				
I.	Intangible assets				
		1. Purchased industrial and similar rights		754,607.00	0.00
II.	Property, plant and equipment				
		1. Furniture and fixtures		1,205.00	0.00
III.	Financial assets				
		1. Shares in affiliates	3	152,060,936.16	151,870,182.69
		2. Equity investments	3	1.00	1.00
				152,060,937.16	151,870,183.69
				152,816,749.16	**151,870,183.69**
B.	**CURRENT ASSETS**				
I.	Receivables and other assets				
		1. Trade receivables	5	0.00	2,042.29
		2. Receivables from affiliates	5	26,496,607.99	5,488,431.21
		3. Other assets	5	5,026,253.83	4,120,144.45
				31,522,861.82	9,610,617.95
II.	Bank balances			21,106.91	0.00
				31,543,968.73	**9,610,617.95**
C.	**PREPAID EXPENSES**			**116,312.27**	**114,166.15**
TOTAL ASSETS				**184,477,030.16**	**161,594,967.79**

EQUITY AND LIABILITIES

EUR		Note	Dec. 31, 2010	Dec. 31, 2009
A.	**EQUITY**			
I.	Issued 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.	Retained earnings	11	25,917,951.45	25,493,258.09
			76,861,735.95	**76,437,042.59**
B.	**PROVISIONS**			
	1. Pension provisions	15	535,735.00	513,223.00
	2. Tax provisions	16	5,470,084.70	5,118,147.55
	3. Other provisions	17	1,555,159.32	828,137.60
			7,560,979.02	**6,459,508.15**
C.	**LIABILITIES**			
	1. Liabilities to banks	18	81,224,010.68	56,936,248.74
	2. Trade payables	18	243,110.77	171,369.83
	3. Liabilities to affiliates	18	18,092,603.44	14,297,190.11
	4. Other liabilities	18	474,590.30	7,268,608.37
			100,034,315.19	**78,673,417.05**
D.	**DEFERRED INCOME**		**20,000.00**	**25,000.00**
TOTAL EQUITY AND LIABILITIES			**184,477,030.16**	**161,594,967.79**

Notes to the Financial Statements for Fiscal Year 2010 (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 items in the balance sheet and in the income statement, and have disclosed them separately in the notes to the financial statements. For the same reason, we have also indicated in the notes where individual items are related to “thereof” items.

The provisions of BilMoG [“Bilanzrechtsmodernisierungsgesetz“: German Accounting Law Modernisation Act] were applied for the first time in the reporting year. In accordance with Art. 67 (8) EGHGB ["Einführungsgesetz zum Handelsgesetzbuch": Introductory Law of the German Commercial Code], the prior-year figures were not adjusted.

ACCOUNTING POLICIES

The following accounting and valuation methods, which have essentially remained unchanged in comparison to the prior year, have been used to prepare the financial statements.

The balance sheet classification complies with Sec. 266 (2) and (3) HGB.

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

Property, plant and equipment are measured at cost and, if they have a limited life, less systematic depreciation in accordance with their useful lives.

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

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

Pension provisions are determined using the projected unit credit method within the meaning of IAS 19 and based on the 2005 G mortality tables. Discounting was calculated using the mean market interest rate of 5.16 percent for a remaining term of 15 years in accordance with the RückAbzinsV ["Rückstellungsabzinsungsverordnung": German Ordinance on the Discounting of Provisions]. Expected pension increases were taken into account at 2.0 percent.

Exercising the option under Art. 67 (1) Sentence 1 EGHGB, the allocation amount resulting from the change in the accounting for provisions pursuant to Sec. 249 (1) Sentence 1 and Sec. 253 (1) Sentence 2, (2) HGB due to BilMoG is spread evenly over a period of 5 years.

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

Liabilities are stated at the settlement amount.

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

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

Statement of Changes in Fixed Assets

		Acquisition and production		
EUR		Jan. 1, 2010	Additions	Disposals
I.	Intangible assets			
	1. Purchased industrial and similar rights	0.00	780,658.41	0.00
II.	Property, plant and equipment			
	1. Furniture and fixtures	0.00	1,507.24	0.00
III.	Financial assets			
	1. Shares in affiliates	169,879,090.65	285,600.00	0.00
	2. Equity investments	4,274,310.74	0.00	0.00
		174,153,401.39	285,600.00	0.00
		174,153,401.39	**1,067,765.65**	**0.00**

cost	Accumulated amortization, depreciation and write-downs				Carrying amounts	
Dec. 31, 2010	Jan. 1, 2010	Additions	Disposals	Dec. 31, 2010	**Dec. 31, 2010**	**Dec. 31, 2009**
780,658.41	0.00	26,051.41	0.00	26,051.41	754,607.00	0.00
1,507.24	0.00	302.24	0.00	302.24	1,205.00	0.00
170,164,690.65	18,008,907.96	94,846.53	0.00	18,103,754.49	152,060,936.16	151,870,182.69
4,274,310.74	4,274,309.74	0.00	0.00	4,274,309.74	1.00	1.00
174,439,001.39	22,283,217.70	94,846.53	0.00	22,378,064.23	152,060,937.16	151,870,183.69
175,221,167.04	**22,283,217.70**	**121,200.18**	**0.00**	**22,404,417.88**	**152,816,749.16**	**151,870,183.69**

3 Financial Assets

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

Information on shareholdings	Currency	Issued capital Dec. 31, 2010	Share in capital % Dec. 31, 2010	Equity (thousands) Dec 31, 2010	Profit/loss (thousands) 2010
GERMANY					
Direct shareholdings:					
Homag Holzbearbeitungssysteme GmbH (formerly: Homag Holzbearbeitungssysteme AG), Schopfloch	EUR	30,000,000.00	100.00	82,284	PLTA
SCHULER Consulting GmbH (formerly: Schuler Business Solutions AG), Pfalzgrafenweiler	EUR	5,150,000.00	100.00 [1]	-379	-1,998
Torwegge Holzbearbeitungsmaschinen GmbH, Löhne	EUR	1,600,000.00	100.00 [2]	-2,170	-241
HOLZMA Plattenaufteiltechnik GmbH, Holzbronn	EUR	5,600,000.00	100.00 [3]	20,130	PLTA
Brandt Kantentechnik GmbH, Lemgo	EUR	4,000,000.00	70.00	20,27	12,796
Weeke Bohrsysteme GmbH, Herzebrock	EUR	17,550,000.00	100.00	29,917	2,223
BENZ GmbH Werkzeugsysteme, Haslach	EUR	25,000.00	51.00	2,130	223
Homag eSolution GmbH, Schopfloch	EUR	50,000.00	51.00	560	0
Wehrmann Maschinen Center GmbH [4], Barntrup	EUR	2,500,000.00	43.82	1,087 [5]	-2,567 [5]
Indirect shareholdings:					
Homag Vertriebs-Beteiligungs GmbH, Schopfloch	EUR	7,200,000.00	100.00 [6]	25,568	2,105
Ligmatech Automationssysteme GmbH, Lichtenberg	EUR	6,650,000.00	100.00	5,090	418
Friz Kaschiertechnik GmbH, Weinsberg	EUR	2,400,000.00	100.00	921	PLTA
Bargstedt Handlingsysteme GmbH, Hemmoor	EUR	5,133,000.00	100.00	4,974	22
Bütfering Schleiftechnik GmbH, Beckum	EUR	2,000,000.00	96.30	-1,010	-1,998
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	EUR	1,000,000.00	51.00	4,908	364
Homag GUS GmbH, Schopfloch	EUR	100,000.00	100.00 [6]	2,100	PLTA
Homag Finance GmbH, Schopfloch	EUR	100,000.00	100.00 [6]	110	-15
Homag India GmbH, Schopfloch	EUR	400,000.00	100.00 [6]	3 [7]	0 [7]
Homag Vertrieb & Service GmbH, Schopfloch	EUR	300,000.00	100.00 [6]	379	-127
Hüllhorst GmbH, Barntrup	EUR	255,645.94	100.00	259	3

[1] *Thereof 94.00% held by Homag Holzbearbeitungssysteme GmbH and 6.00% by Homag Group AG*
[2] *Thereof 39.95% held by Homag Holzbearbeitungssysteme GmbH and 60.05% by Homag Group AG*
[3] *Thereof 54.46% held by Homag Holzbearbeitungssysteme GmbH and 45.54% by Homag Group AG*
[4] *The insolvency proceedings have not been completed*
[5] *Fiscal year from April 1, 2002 to March 31, 2003*
[6] *Exactly calculated share in capital: 96.44%*
[7] *Figures from fiscal year January 1 to December 31, 2009*
PLTA Control and profit and loss transfer agreement with Homag Group AG or Homag Holzbearbeitungssysteme GmbH or Homag Vertriebs-Beteiligungs GmbH

Information on shareholdings	Currency	Issued capital Dec. 31, 2010	Share in capital % Dec. 31, 2010	Equity (thousands) Dec 31, 2010	Profit/loss (thousands) 2010
INTERNATIONAL					
Indirect shareholdings:					
Homag Machinery Środa Sp. z o.o., Środa/Poland	PLN (EUR	6,001,000.00 1,512,539.38	100.00 [1]	7,337 1,849	1,315 329)
Holzma Plattenaufteiltechnik S.A. Unipersonal L'Ametlla del Valles/Spain	EUR	2,047,748.40	100.00	3,421	503
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo/Brazil	BRL (EUR	6,812,180.00 3,082,155.46	100,00	10,062 4,553	765 326)
Homag Machinery (Shanghai) Co. Ltd., Shanghai/China	CNY (EUR	70,715,635.00 8,063,632.17	81.25 [2]	106,928 12,193	17,168 1,907)
Homag Austria Gesellschaft mbH, Oberhofen am Irrsee/Austria	EUR	370,000.00	100.00 [3]	885	113
Homag Italia S.p.A., Giussano/Italy	EUR	1,100,000.00	100.00 [3]	2,269	-228
Homag France S.A., Schiltigheim/France	EUR	1,500,000.00	100.00 [3]	8,460	1,480
Homag Asia (PTE) Ltd., Singapore/Singapore	SGD (EUR	100,000.00 58,234.33	100.00 [3]	2,451 1,427	1,529 845)
Homag Canada Inc., Mississauga, Ontario/Canada	CAD (EUR	4,367,800.00 3,289,749.19	100.00 [3]	10,653 8,024	662 484)
Homag Polska Sp. z o.o., Środa/Poland	PLN (EUR	1,050,000.00 264,650.28	100.00 [3]	12,111 3,053	2,478 619)
Homag Japan Co. Ltd., Osaka/Japan	JPY (EUR	156,000,000.00 1,436,548.75	100.00 [3]	221,536 2,040	-59,866 -514)
Homag Danmark A/S, Galten/Denmark	DKK (EUR	1,970,000.00 264,234.46	100.00 [3]	16,245 2,179	184 25)
Homag U.K. Ltd., Castle Donington/UK	GBP (EUR	2,716,778.00 3,148,062.57	100.00 [3]	245 284	-65 -76)
Schuler Business Solutions S.L., Cullera/Spain	EUR	301,000.00	100.00	239	-48
Homag Korea Co. Ltd., Seoul/Korea	KRW (EUR	320,970,000.00 212,951.95	54.55 [4]	583,344 387	301,802 196)
Holzma Tech GmbH, Assenovgrad/Bulgaria	BGN (EUR	370,000.00 189,190.57	100.00	1,021 522	5 3)

[1] *Exactly calculated share in capital: 92.81%*
[2] *Exactly calculated share in capital: 79.14%*
[3] *Exactly calculated share in capital: 96.44%*
[4] *Exactly calculated share in capital: 52.61%*

Information on shareholdings	Currency	Issued capital Dec. 31, 2010	Share in capital % Dec. 31, 2010	Equity (thousands) Dec 31, 2010	Profit/loss (thousands) 2010
INTERNATIONAL					
Indirect shareholdings:					
Stiles Machinery Inc.,	USD	25,806.00	22.00	23,351	-428 [1]
Grand Rapids/USA	(EUR	19,429.30		17,581	-322)
Weeke North America Inc.,	USD	20,000.00	81.00	-135	2
Grand Rapids/USA	(EUR	15,057.97		-102	2)
Homag España Maquinaria S.A., Montmeló/Spain	EUR	1,211,300.00	100.00 [2]	1,342	-332
Homag China Golden Field Ltd.,	HKD	27,000,000.00	25.00	84,278	-516 [1]
Hongkong/China	(EUR	2,611,673.21		8,152	-50)
Homag South America Ltda.,	BRL	5,925,031.00	100.00 [2]	4,506	786
São Paulo/Brazil	(EUR	2,680,766.90		2,039	335)
Homag Australia Pty. Ltd.,	AUD	6,209,158.62	100.00 [2]	1,374	701
Sydney/Australia	(EUR	4,732,229.72		1,047	485)
Homag (Schweiz) AG,	CHF	200,000.00	100.00 [2]	6,369	1,888
Bachenbülach/Switzerland	(EUR	160,745.86		5,119	1,365)
OOO ”FAYZ-Homag GUS“	USD	174,000.00	33.00 [3]	- [4]	- [4]
Taschkent/Uzbekistan	(EUR	131,004.37		- [4]	- [4])
OOO ”Homag Russland“	RUB	357,215.00	99.00 [5]	-26,003	-45,142
Moscow/Russia	(EUR	8,814.03		-642	-1,118)
Homag India Private Ltd.,	INR	228,055,010.00	99.90 [6]	73,841	1,746
Bangalore/India	(EUR	3,823,039.49		1,238	29)
RAMU Machinery Private Limited,	INR	11,500,000.00	52.17 [7]	-12,389	-9,088
Bangalore/India	(EUR	192,782.23		-208	-149)
HA Malaysia SDN. Bhd,	MYR	250,000.00	100.00 [2]	-1,377	-151 [1]
Kuala Lumpur/Malaysia	(EUR	61,042.61		-336	-35)
HA (Thailand) Co. Ltd.,	THB	2,000,000.00	100.00 [2]	224	12,059 [1]
Bangkok/Thailand	(EUR	49,836.04		6	284)
BENZ INCORPORATED,	USD	100.00	100.00 [8]	-205	212
Charlotte/USA	(EUR	75.29		-154	160)

[1] *Figures from fiscal year January 1 to December 31, 2009*
[2] *Exactly calculated share in capital: 96.44%*
[3] *Exactly calculated share in capital: 31.83%*
[4] *Not available*
[5] *Exactly calculated share in capital: 95.47%*
[6] *Exactly calculated share in capital: 96.34%*
[7] *Exactly calculated share in capital: 50.26%*
[8] *Exactly calculated share in capital: 51.00%*

4 No Disclosure

5 Receivables and Other Assets

EUR k	Dec. 31, 2010	Dec. 31, 2009
Trade receivables	0	2
- thereof due in more than one year	*0*	*0*
Receivables from affiliates	26,497	5,488
- thereof due in more than one year	*1,401*	*1,401*
Other assets	5,026	4,120
- thereof due in more than one year	*1,281*	*1,211*
	31,523	**9,610**

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 Reserve

The capital reserve of Homag Group AG, Schopfloch, remained unchanged at EUR 33,800 k as of the reporting 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/Accumulated Loss

EUR k		
Carried forward January 1, 2010	25,493	
Profit distribution	0	
		25,493
Net income for 2010		425
AS OF DECEMBER 31, 2010		**25,918**

12 No Disclosure

13 No Disclosure

14 No Disclosure

15 Pension Provisions

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

The deficit to be eliminated by recognizing provisions in future periods pursuant to Art. 67 (2) EGHGB amounts to EUR 92 k.

16 Tax Provisions

Tax provisions mainly relate to income taxes for previous years, as well as taxes arising from the tax field audit concluded for the years 2002 through 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
- Bonuses
- Outstanding vacation
- Obligations from cost allocations

18 Liabilities

EUR k		Due in: less than 1 year	1 to 5 years	more than 5 years	**Total Dec. 31, 2010**	**Total Dec. 31, 2009**
1.	Liabilities to banks	1,224	80,000	0	81,224	
	(prior year)	(56,936)	(0)	(0)		(56,936)
2.	Trade payables	243	0	0	243	
	(prior year)	(171)	(0)	(0)		(171)
3.	Liabilities to affiliates	18,093	0	0	18,093	
	(prior year)	(14,297)	(0)	(0)		(14,297)
4.	Other liabilities	474	0	0	474	
	(prior year)	(7,269)	(0)	(0)		(7,269)
	- thereof for taxes	*279*	*0*	*0*	*279*	
	(prior year)	*(260)*	*(0)*	*(0)*		*(260)*

As regards the amounts accrued in connection with the syndicated loan agreement and the related collateral we refer to the disclosures made under contingent liabilities.

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

19 No Disclosure

20 Contingent Liabilities

EUR k	**Dec. 31, 2010**	Dec. 31, 2009
From guarantees	37,630	53,422
- thereof for liabilities to affiliates	*36,976*	*52,597*
From warranties	0	829
- thereof in favor of affiliates	*0*	*829*
	37,630	**54,251**

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

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

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

The funds drawn under the syndicated loan agreement amount to EUR 81,224 k and are reported under liabilities to banks. In addition, affiliated companies had drawn a total of EUR 17,337 k under the syndicated loan agreement as of the reporting date.

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

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

There are also other financial obligations from leases amounting to EUR 95 k. The lease agreements expire between 2011 and 2012.

21 Derivative Financial Instruments

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

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

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

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

The mark-to market method of valuation was applied.

The interest rate hedge qualifies as a micro hedge.

The following *hedges* qualified for hedge accounting:

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

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

NOTES TO THE INCOME STATEMENT

22 No Disclosure

23 Other Operating Income

This item primarily comprises:

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

24 Personnel Expenses

In addition to the members of the management board, Homag Group AG had 17 employees as of the reporting date.

Annual average headcount:

	Number
Salaried employees	3
Management board	5
TOTAL	**8**

Pension expenses totaled EUR 21 k (prior year: EUR 45 k) and relate to three beneficiaries.

25 No Disclosure

26 Other Operating Expenses

This item primarily comprises:

- Legal and consulting fees
- Incidental borrowing costs
- Remuneration of the supervisory board
- Travel expenses
- Personnel incidental costs
- Costs relating to the annual report and the annual general meeting
- Cost allocations

27 Investment Result

A profit transfer of EUR 10,023 k was made in fiscal 2010 pursuant to the profit and loss transfer agreement concluded with Homag Holzbearbeitungssysteme GmbH, Schopfloch (prior year: EUR -7,614 k).

In addition, a dividend of EUR 1,365 k (prior year: EUR 2,730 k) paid out by HOLZMA Plattenaufteiltechnik GmbH, Calw-Holzbronn, for 2009 was received; this is an affiliated company.

In the reporting year, an impairment loss of EUR 95 k had to be recognized on the investment SCHULER Consulting GmbH (formerly: Schuler Business Solutions AG), Pfalzgrafenweiler.

28 Interest Result

Interest income of EUR 622 k (prior year: EUR 286 k) was received from affiliated companies, while interest expenses of EUR 566 k (prior year: EUR 412 k) were attributable to affiliated companies. Interest income for cash in banks amounted to EUR 1 k (prior year: EUR 1 k), while interest expenses for bank overdraft facilities and loans together came to EUR 3,816 k (prior year: EUR 1,412 k). The interest expenses in connection with the reversal of the discount for pension provisions amount to EUR 37 k (prior year: EUR 0 k).

29 Extraordinary Expenses

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

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

30 Income Taxes

This disclosure mainly concerns corporate income tax, the solidarity surcharge and trade tax for the current year and cross charged trade tax of Homag Holzbearbeitungssysteme GmbH, Schopfloch.

31 Other Taxes

The item contains motor vehicle tax.

OTHER NOTES

32 Members of the Supervisory Board

		Membership in statutory supervisory boards (1) and other comparable domestic and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2010 or as of the end of the term on the supervisory board)
Torsten Grede, Frankfurt am Main Chairman of the supervisory board Member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main	(1) (2)	- MCE AG, Linz, Austria until January 26, 2010 - Clyde Bergemann Power Group, Inc., Delaware, USA - Grohmann Engineering GmbH, Prüm until January 1, 2010
Reiner Neumeister, Wildberg* Deputy chairman of the supervisory board Main representative and managing director of IG-Metall trade union, Freudenstadt	(1) (2)	- Bauknecht Hausgeräte GmbH, Stuttgart (Deputy chairman) - Brueninghaus Hydromatik GmbH, Elchingen (Deputy chairman) until October 1, 2010 - AOK Baden-Württemberg, Stuttgart
Dr. Jochen Berninghaus, Dortmund Supervisory board member until May 28, 2010 Lawyer, auditor and tax advisor	(1) (2)	- Geno-Volksbank-Essen e. G., Essen (Deputy chairman) - Kludi GmbH & Co. KG, Menden - A.W. Kisker GmbH & Co. KG, Bielefeld - Heinrich Schlenkhoff GmbH, Essen - Erich und Hanna Klessmann Stiftung, Gütersloh
Klaus M. Bukenberger, Schenkenzell Supervisory board member until May 28, 2010 Business consultant	(1) (2)	- SICK AG, Waldkirch (Chairman) - Carl Mahr GmbH & Co. KG, Göttingen (Chairman) - Deutsche Bank AG, Stuttgart - Hauck & Aufhäuser KGaA, Frankfurt am Main - Investcorp Group, London, UK - Seven Industries Holding B.V., Amsterdam, Netherlands
Ernst Esslinger, Alpirsbach* Head of IT engineering at Homag Holzbearbeitungssysteme GmbH, Schopfloch		
Dipl.-Ing. Hans Fahr, Munich Supervisory board member since May 28, 2010 Business consultant	(1)	- Sumida AG, Obernzell (Chairman) - CEDIM AG, Karlsruhe (Chairman) until November 9, 2010 - Bucyrus Europe GmbH, Lünen - BOA Holding GmbH, Stutensee until September 9, 2010

* *Employee representative*

Dipl.-Ing. Hans Fahr, Munich Continued	(2)	- König Metall GmbH, Gaggenau - Vollack Management Holding GmbH, Karlsruhe - BOA Luxembourg Investment s.a.r.l., Luxembourg, Luxembourg since December 21, 2010
Gerhard Federer, Neuried Supervisory board member since May 28, 2010 CEO of Schunk GmbH, Heuchelheim and of Schunk Verwaltungsgesellschaft mbH, Heuchelheim	(1) (2)	- SÜDVERS Holding GmbH & Co. KG, Au - Schunk Iberica S.A., Pinto, Spain - XYCARB Ceramics B.V., Helmond, Netherlands - Commerzbank AG, Regional Advisory Committee (central Germany), Frankfurt am Main - Hoffmann & Co. Elektrokohle AG, Bad Goissern, Austria - Schunk Wien Gesellschaft mbH, Vienna, Austria
Wilhelm Freiherr von Haller, Stuttgart Supervisory board member until May 28, 2010 Chairman of the management board of Sal. Oppenheim jr. & Cie. Komplementär AG, Cologne, CEO of BHF-BANK AG, Frankfurt am Main and since January 16, 2010 managing director of FARAMIR Beteiligungs- und Verwaltungs GmbH, Cologne	(1) (2)	- GEZE GmbH, Leonberg - Aesculap AG, Tuttlingen - Oppenheim Kapitalanlagegesellschaft mbH, Cologne since Feb. 22, 2010 - Gühring oHG, Albstadt - Landeskreditbank Baden-Württemberg – Förderbank, Karlsruhe (substitute member) - Deutsche Bank Österreich AG, Vienna, Austria since February 12, 2010 - Sal. Oppenheim jr. & Cie. Komplementär S.A., Luxembourg, Luxembourg (chairman) since January 14, 2010
Dr. Horst Heidsieck, Büdingen Supervisory board member since May 28, 2010 Managing partner of Value Consult Management- und Unternehmensberatungs-gesellschaft mbH, Büdingen and managing partner of DOMINO GmbH, Büdingen	(1) (2)	- Coperion GmbH, Stuttgart (Chairman) - Mauser Holding GmbH, Brühl (Chairman) - Agfa-Gevaert N.V., Mortsel, Belgium
Ralf Hengel, Freudenstadt Supervisory board member until May 28, 2010 Head of IT at schlott GmbH, Freudenstadt		
Carmen Hettich-Günther, Rottenburg* Strategic sourcing employee and chair of the works' council of Homag Holzbearbeitungs-systeme GmbH, Schopfloch		
Dr. Dieter Japs, Reichenberg Supervisory board member since May 28, 2010 Consulting engineer	(2)	- Leitz GmbH & Co. KG, Oberkochen
Thomas Keller, Freiburg Supervisory board member since May 28, 2010 regional manager for Württemberg at Deutsche Bank AG, Frankfurt am Main	(2)	- Deutsche Clubholding GmbH, Frankfurt am Main - Sick Holding GmbH, Freiburg im Breisgau
Hannelore Knowles, Calw* Chair of the Group's works' council of Homag Group AG, Schopfloch and chairperson of the works' council of HOLZMA Plattenaufteiltechnik GmbH, Calw-Holzbronn		
Reinhard Löffler, Weil der Stadt Supervisory board member until May 28, 2010 Former member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main and former managing director of Deutsche Beteiligungs GmbH, Königstein/Taunus		
Jochen Meyer, Herzebrock-Clarholz* Deputy chairman of the Group's works' council of Homag Group AG, Schopfloch and chairman of the works' council of Weeke Bohrsysteme GmbH, Herzebrock-Clarholz until March 31, 2010		
Reinhard Seiler, Lemgo* Main representative of IG-Metall trade union, Detmold	(1)	- Dorma Holding GmbH & Co. KGaA, Ennepetal

* *Employee representative*

Supervisory Board Committees

Audit committee	Gerhard Federer (chairman) since July 13, 2010 Carmen Hettich-Günther* Reiner Neumeister* Thomas Keller since July 13, 2010 Wilhelm Freiherr von Haller until May 28, 2010 Reinhard Löffler (chairman) until May 28, 2010
Personnel committee	Torsten Grede (chairman) Hannelore Knowles* Jochen Meyer* Reiner Neumeister* Hans Fahr since July 13, 2010 Dr. Horst Heidsieck since July 13, 2010 Klaus M. Bukenberger until May 28, 2010 Reinhard Löffler until May 28, 2010
Nomination committee	Torsten Grede (chairman) Hans Fahr since July 13, 2010 Dr. Dieter Japs since July 13, 2010 Dr. Jochen Berninghaus until May 28, 2010 Ralf Hengel until May 28, 2010 Reinhard Löffler until May 28, 2010
Mediation committee pursuant to Sec. 27 (3) MitbestG ["Mitbestimmungsgesetz": German Co-determination Act]	Torsten Grede (chairman) Jochen Meyer* Reiner Neumeister* Dr. Horst Heidsieck since May 28, 2010 Reinhard Löffler until May 28, 2010

33 Members of the Management Board

	Membership in statutory supervisory boards (1) and other comparable domestic and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2010)	
Rolf Knoll CEO Board member for group operations Dettingen an der Erms	(2)	- Chairman of the management board of the professional association for wood processing machinery of the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], Frankfurt am Main
Achim Gauß Board member for research and development Dornstetten	(1)	- Coveright Surfaces Beteiligungs GmbH, Düsseldorf
Andreas Hermann CFO until March 31, 2011 Freudenstadt		
Herbert Högemann Board member for production, procurement and quality assurance Freudenstadt		
Jürgen Köppel Board member for sales, service and marketing Beckum		
Hans-Dieter Schumacher Board member since January 15, 2011 CFO from April 1, 2011 Tuttlingen	(2)	- Commerzbank AG, Regional Advisory Committee South West, Frankfurt am Main

* *Employee representative*

34 Total Remuneration of Management and Supervisory Board Members

In the fiscal year, remuneration of the management board totaled EUR 1,765 k (prior year: EUR 1,179 k). These break down as follows:

EUR k	Fixed remuneration 2010	Fixed remuneration 2009	Short-term incentives (STI) and bonuses 2010	Short-term incentives (STI) and bonuses 2009	Long-term incentives (LTI)[1] 2010	Long-term incentives (LTI)[1] 2009	Benefits in kind 2010	Benefits in kind 2009	**Total remuneration** 2010	**Total remuneration** 2009
Dr. Joachim Brenk	0	223	0	0	0	0	0	6	0	229
Achim Gauß	274	226	38	0	77	0	7	8	396	234
Andreas Hermann	247	201	37	0	0	0	7	7	291	208
Herbert Högemann	236	202	25	0	65	0	8	8	334	210
Rolf Knoll	323	241	38	0	77	0	8	7	446	248
Jürgen Köppel	218	48	15	0	59	0	6	2	298	50
TOTAL	**1,298**	**1,141**	**153**	**0**	**278**	**0**	**36**	**38**	**1,765**	**1,179**

[1] *Negative changes in the provision for LTI remuneration are not disclosed pursuant to GAS 17. This may lead to a diverging presentation compared with IAS 24.*

In the fiscal year, remuneration of the supervisory board totaled EUR 364 k (prior year: EUR 238 k).

The honorary chairman of the supervisory board, Mr. Gerhard Schuler, receives remuneration in line with the remuneration of the members of the supervisory board totaling EUR 10 k (prior year: EUR 10 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 of the Company in the period until May 31, 2012, once or several times, by a total of up to EUR 5,824,536.00 by issuing new no-par value bearer shares in exchange for cash or contributions in kind. The management board is entitled to decide on the conditions of share issue with the approval of the supervisory board. In addition, the management board is authorized, subject to the approval of the supervisory board, to preclude existing shareholders' subscription rights under the following circumstances:

a) for fractional amounts
b) for capital increases in return for contributions in kind for the purpose of acquiring a company, part of a company or an equity investment in a company
c) in the case of capital increases in return for cash contributions, provided the issue price of the new shares is not significantly lower than the quoted price of identical shares already listed when the issue price is finalized by the management board within the meaning of Sec. 203 (1) and (2) and Sec. 186 (3) Sentence 4 AktG, and the new shares with precluded subscription rights do not exceed 10 percent of share capital on the date of authorization. Shares disposed of during the term of authorized capital precluding the subscription rights of the shareholders pursuant to Sec. 71 (1) No. 8 Sentence 5 and

Sec. 186 (3) Sentence 4 AktG, as well as those with conversion or exercise rights or obligations issued after this authorization was granted pursuant to Sec. 221 (4) and Sec. 186 (3) Sentence 4 AktG may not exceed 10 percent of the share capital.

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 2011. 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, 2010, the members of the management board held a total of 57,963 shares (prior year: 56,963 shares), which is equivalent to 0.37 percent (prior year: 0.36 percent) of HOMAG Group AG's share capital; as of December 31, 2010, the supervisory board held 100 shares (prior year: 486,731 shares), which is equivalent to 0.00 percent (prior year: 3.10 percent) of HOMAG Group AG's share capital. As no member of the management or supervisory board held more than 1 percent of the share capital as of December 31, 2010, an individual breakdown is not required.

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]:

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

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50% and amounted to 30.54% on that date (4,790,846 voting rights).

  As of July 17, 2007, pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 3.68% of voting rights (577,888 voting rights) are attributed to us via companies that we control and whose share in Homag Group AG is less than 3%.

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 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 further total of 4.50% of voting rights (705,235 voting rights) are attributed to us via companies that we control and whose share in Homag Group AG is less than 3%.

  As of July 17, 2007, pursuant to Sec. 22 (2) WpHG, a total of 20.95% further voting rights (3,286,875 voting rights) are attributed to us via the following companies 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 further total of 1.69% of voting rights (265,697 voting rights) are attributed to us via companies that we control and whose share in Homag Group AG is less than 3%.

  As of July 17, 2007, pursuant to Sec. 22 (2) WpHG, a total of 24.96% further voting rights (3,914,943 voting rights) are attributed to us via the following companies 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 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 and whose share in Homag Group AG is 3% or more:

  DBG Advisors V GmbH & Co. KG;
  Deutsche Beteiligungs AG.

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

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 5% and amounted to 3.89% on that date (610,206 voting rights).

- DBAG Fund V International GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:

  On July 12, 2007, DBAG Fund V International GmbH & Co. KG held a 9,76% voting interest (equivalent to 1,531,316 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.

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

- On March 31, 2008, BWInvest, Baden-Württembergische Investmentgesellschaft mbH, Stuttgart, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of March 27, 2008 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, for all of its separate trust assets exceeded the threshold of 5 percent and now amounts to 5.44 percent (852,958 voting rights). Of those, 5.04% (791,458 shares) is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.
- On March 11, 2010, Erich und Hanna Klessmann Stiftung, Gütersloh, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of March 8, 2010 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the thresholds of 5%, 10%, 15% and 20% of the voting rights and amounted to 24.41% on that date (3,830,153 voting rights).

  19.64% of the voting rights (equivalent to 3,080,701 voting rights) are attributable to Erich und Hanna Klessmann Stiftung pursuant to Sec. 22 (2) WpHG.

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

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

Correction to above notification:

- Erich und Hanna Klessmann Stiftung, Gütersloh, Germany, informed us pursuant to Sec. 21 (1) WpHG, correcting a prior notification, that as of March 8, 2010 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the thresholds of 5%, 10%, 15% and 20% of the voting rights and amounted to 24.42% on that date (3,830,380 voting rights).

  19.64% of the voting rights (equivalent to 3,080,928 voting rights) are attributable to Erich und Hanna Klessmann Stiftung pursuant to Sec. 22 (2) WpHG.

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

  Gerhard Schuler,
  Mareike Hengel,
  Silke Schuler-Gunkel,
  Dr. Anja Schuler.
- On March 11, 2010, Gerhard Schuler, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of March 8, 2010 his voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the thresholds of 15% and 20% of the voting rights and amounted to 24.41% on that date (3,830,153 voting rights).

  14.08% of the voting rights (2,209,345 voting rights) are attributable to Gerhard Schuler pursuant to Sec. 22 (2) WpHG.

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

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

Correction to above notification:

- Gerhard Schuler, Germany, informed us pursuant to Sec. 21 (1) WpHG, correcting a prior notification, that as of March 8, 2010 his voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the thresholds of 15% and 20% of the voting rights and amounted to 24.42% on that date (3,830,380 voting rights).

  14.08% of the voting rights (2,209,345 voting rights) are attributable to Gerhard Schuler pursuant to Sec. 22 (2) WpHG.

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

  Erich und Hanna Klessmann Stiftung,
  Mareike Hengel,
  Silke Schuler-Gunkel,
  Dr. Anja Schuler.
- On March 12, 2010, Mareike Hengel, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of March 8, 2010 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the thresholds of 5%, 10%, 15% and 20% of the voting rights and amounted to 24.41% on that date (3,830,153 voting rights).

  21.31% of the voting rights (3,343,522 voting rights) are attributable to Mareike Hengel pursuant to Sec. 22 (2) WpHG.

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

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

Correction to above notification:

- Mareike Hengel, Germany, informed us pursuant to Sec. 21 (1) WpHG, correcting a prior notification, that as of March 8, 2010 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the thresholds of 5%, 10%, 15% and 20% of the voting rights and amounted to 24.42% on that date (3,830,380 voting rights).

  21.31% of the voting rights (3,343,749 voting rights) are attributable to Mareike Hengel pursuant to Sec. 22 (2) WpHG.

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

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

- On March 12, 2010, Silke Schuler-Gunkel, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of March 8, 2010 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the thresholds of 5%, 10%, 15% and 20% of the voting rights and amounted to 24.41% on that date (3,830,153 voting rights).

  21.31% of the voting rights (3,343,522 voting rights) are attributable to Silke Schuler-Gunkel pursuant to Sec. 22 (2) WpHG.

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

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

Correction to above notification:

- Silke Schuler-Gunkel, Germany, informed us pursuant to Sec. 21 (1) WpHG, correcting a prior notification, that as of March 8, 2010 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the thresholds of 5%, 10%, 15% and 20% of the voting rights and amounted to 24.42% on that date (3,830,380 voting rights).

  21.31% of the voting rights (3,343,749 voting rights) are attributable to Silke Schuler-Gunkel pursuant to Sec. 22 (2) WpHG.

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

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

- On March 12, 2010, Dr. Anja Schuler, Switzerland, informed us pursuant to Sec. 21 (1) WpHG that as of March 8, 2010 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the thresholds of 5%, 10%, 15% and 20% of the voting rights and amounted to 24.41% on that date (3,830,153 voting rights).

  21.31% of the voting rights (3,343,522 voting rights) are attributable to Dr. Anja Schuler pursuant to Sec. 22 (2) WpHG.

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

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

Correction to above notification:

- Dr. Anja Schuler, Switzerland, informed us pursuant to Sec. 21 (1) WpHG, correcting a prior notification, that as of March 8, 2010 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the thresholds of 5%, 10%, 15% and 20% of the voting rights and amounted to 24.42% on that date (3,830,380 voting rights).

  21.31% of the voting rights (3,343,749 voting rights) are attributable to Dr. Anja Schuler pursuant to Sec. 22 (2) WpHG.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Declaration of the Legal Representatives (AG)

Declaration of the Legal Representatives

Declaration pursuant to Sec. 264 (2) Sentence 3 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 18, 2011
Homag Group AG

The management board

ROLF KNOLL | ACHIM GAUSS | ANDREAS HERMANN

HERBERT HÖGEMANN | JÜRGEN KÖPPEL | HANS-DIETER SCHUMACHER

Audit Opinion on the Annual Financial Statements (AG)

TRANSLATION OF THE GERMAN AUDIT OPINION CONCERNING THE AUDIT OF THE FINANCIAL STATEMENTS AND 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 to December 31, 2010. 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 18, 2011

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

BLESCH
Wirtschaftsprüfer
[German Public Auditor]

VÖGELE
Wirtschaftsprüferin
[German Public Auditor]

Financial Calendar

March 31, 2011	Press conference on the financial results in Stuttgart
March 31, 2011	Analysts conference in Frankfurt am Main
May 13, 2011	Three-month report 2011
May 25, 2011	Annual general meeting in Freudenstadt
August 12, 2011	Six-month report 2011
November 14, 2011	Nine-month report 2011

Subject to modification

Disclaimer

SERVICE
This annual report as well as other up-to-the-minute information about HOMAG Group AG can be downloaded from the internet at: **www.homag-group.com**

FUTURE-ORIENTED STATEMENTS
This annual report contains certain statements relating to the future.
Future-oriented statements are all those statements that do not pertain to historical facts and events or expressions pertaining to the future such as “believes”, “estimates”, “assumes”, “forecasts”, “intend”, “may”, “will”, “should” or similar expressions. Such future-oriented statements are subject to risks and uncertainty since they relate to future events and are based on current assumptions of the Company, which may not occur in the future or may not occur in the anticipated form. The Company points out that such future-oriented statements do not guarantee the future; actual results including the financial position and the profitability of the HOMAG Group AG as well as the development of economic and regulatory framework conditions may deviate significantly (and prove unfavorable) from what is expressly or implicitly assumed or described in these statements. Even if the actual results of the HOMAG Group AG including the financial position and profitability as well as the economic and regulatory framework conditions should coincide with the future-oriented statements in that annual report, it cannot be guaranteed that the same will hold true in the future.

OTHER INFORMATION
This annual report is published in German and in English. In case of doubt, the German version shall prevail.

Minor differences may arise from use of amounts and percentages rounded to the nearest whole number.

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Group Structure*

Homag Group AG

100%

Homag Holzbearbeitungssysteme

100% [1]	*100%*	*96.3%*	*70%* [1]	*100%* [1]	*51%* [1]	*100%* [1]	*100%*
HOLZMA Plattenaufteil-technik GmbH (incl. Holzma S.A.U.)	Friz Kaschiertechnik GmbH	Bütfering Schleiftechnik GmbH	Brandt Kantentechnik GmbH	Torwegge Holzbear-beitungs-maschinen GmbH	BENZ GmbH Werkzeug-systeme (incl. BENZ, Inc.)	Weeke Bohrsysteme GmbH (incl. Weeke North America, Inc. [2])	Ligmatech Automations-systeme GmbH

Sawing | **Surface** | **Sizing & Edge processing** | **Drilling & Hardware mounting** | **Assembly/**

12%	*3%*	*2%*	*10%*	*1%*		*12%*	*3%*

Homag Vertriebs-Beteiligungs

100%	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*22%*
Homag Vertrieb & Service GmbH	Homag Austria Ges. mbH	Homag (Schweiz) AG	Homag France S.A.	Homag Italia S.p.A.	Homag España Maquinaria S.A.	Homag Danmark A/S	Homag U.K. Ltd.	Homag Polska Sp. z o.o.	Homag GUS GmbH (incl. OOO "Homag Russland")	Stiles Machinery Inc.

Central Europe | **Western Europe** | **Eastern Europe**

** Simplified view*

[1] Shares are partly or wholly held directly by Homag Group AG

[2] Shares are partly held by Weeke Bohrsysteme GmbH, Homag Holzbearbeitungssysteme GmbH and Stiles Machinery Inc.

[3] Shares are partly held by Homag Holzbearbeitungssysteme GmbH, Brandt Kantentechnik GmbH, Bütfering Schleiftechnik GmbH, Weeke Bohrsysteme GmbH and HOLZMA Plattenaufteiltechnik GmbH

[4] Shares are partly held by Homag Holzbearbeitungssysteme GmbH, Brandt Kantentechnik GmbH, Bargstedt Handlingsysteme GmbH, Weinmann Holzbausystemtechnik GmbH and Weeke Bohrsysteme GmbH

GmbH

100%	51%	81.3% [3]	100%	100% [4]	100% [1]	51% [1]
Bargstedt Handling-systeme GmbH	Weinmann Holzbausystem-technik GmbH	Homag Machinery (Shanghai) Co., Ltd.	HOMAG MACHINERY (São Paulo) Ltda.	HOMAG MACHINERY Środa Sp. z o.o.	SCHULER Consulting GmbH	Homag eSolution GmbH

Handling/Packaging	Timber frame house contruction	Production plants in future regions	Services

3%

1%

53%

GmbH

100%	100%	25%	100%	100%	54.6%	100%	100%	100%
Homag Canada Inc.	Homag South America Ltda.	Homag China Golden Field Ltd.	Homag Asia (PTE) Ltd.	Homag Japan Co. Ltd.	Homag Korea Co. Ltd.	Homag Australia Pty. Ltd.	Homag India Pvt. Ltd.	Homag Finance GmbH

America	Asia/Pacific	Services

www.homag-group.com