HOMAG GROUP

Annual Report 2012

CONTENTS

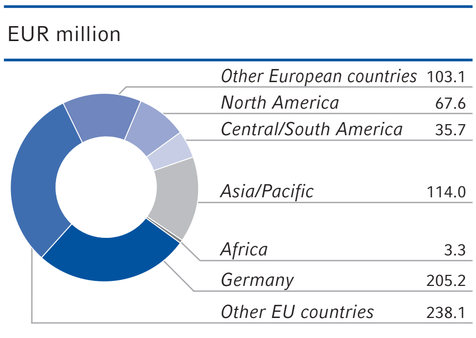
* *Parent company*

Key Group Figures

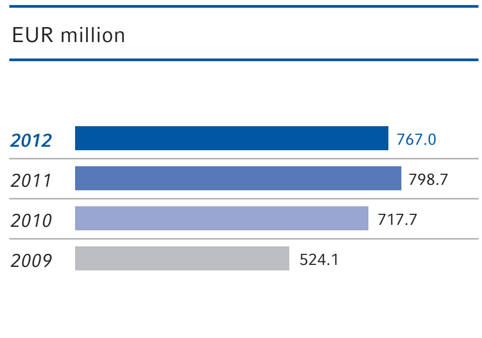
		2012	2011	2010	2009
Total sales revenue	EUR million	767.0	798.7	717.7	524.1
Sales revenue Germany	EUR million	205.2	194.3	156.0	137.6
Sales revenue other EU countries	EUR million	238.1	235.4	255.9	204.3
Sales revenue other European countries	EUR million	103.1	154.7	91.8	53.6
Sales revenue North America	EUR million	67.6	53.9	37.2	22.7
Sales revenue Central/South America	EUR million	35.7	34.0	41.3	22.5
Sales revenue Asia/Pacific	EUR million	114.0	124.0	132.5	78.5
Sales revenue Africa	EUR million	3.3	2.4	3.0	4.9
operative EBITDA [1) 2)]	EUR million	71.0	70.5	65.1	15.6
operative EBITDA [1) 2)]	as % of sales revenue	9.3	8.8	9.1	3.0
EBIT [1)]	EUR million	38.4	20.8	32.0	-22.6
EBIT [1)]	as % of sales revenue	5.0	2.6	4.5	-4.3
EBT	EUR million	24.3	6.4	14.4	-29.8
EBT	as % of sales revenue	3.2	0.8	2.0	-5.7
Net profit/loss					
- before non-controlling interests	EUR million	12.2	-3.3	8.1	-22.1
- after non-controlling interests	EUR million	12.7	-4.7	6.7	-20.7
Earnings per share [3)]	EUR	0.81	-0.30	0.43	-1.32
ROCE [4)] after taxes	as %	10.4	10.5	8.6	-2.3
HVA [5)]	as %	0.8	0.9	-1.0	-11.2
Free cash flow [6)]	EUR million	-2.8	9.3	42.2	-0.7
Equity as of the reporting date	EUR million	165.8	161.7	170.0	157.2
Equity ratio	as %	30.6	29.0	29.8	30.3
Net liabilities to banks	EUR million	89.5	80.9	55.8	94.6
Net debt to EBITDA ratio [7)]		1.3	1.1	0.9	6.1
Investments/capitalized intangible assets [8)]	EUR million	19.2	18.2	14.3	15.1
Investments in property, plant and equipment [8)]	EUR million	17.7	15.6	8.7	13.4
Amortization of intangible assets [8)]	EUR million	11.7	13.3	10.6	7.1
Depreciation of property, plant and equipment [8)]	EUR million	13.8	15.7	14.3	15.4
Employees	annual average	5,075	5,110	4,981	5,158
thereof trainees	annual average	343	368	388	387
Order intake accumulated [9)]	EUR million	575.8	574.8	541.0	413.0
Order backlog as of the reporting date [9)]	EUR million	179.7	158.6	149.3	171.0

1) Before taking into account employee profit participation
2) Before restructuring/non-recurring expenses
3) Net profit/loss after non-controlling interests, based on 15,668,000 shares
4) (Adjusted EBIT [1) 2)] x 70%)/capital employed (non-current assets + net working capital) (assumed tax rate of 30%)
5) ROCE after taxes less weighted average cost of capital
6) Cash flow from operating activities plus cash flow from investing activities
7) Net liabilities to banks/operative EBITDA (before employee profit participation and before restructuring/non-recurring expenses)
8) Excluding leases
9) Order intake and order backlog only contain own machines without merchandise, spare parts and services

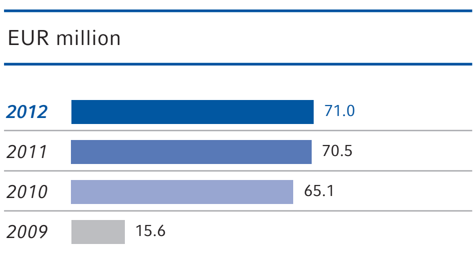
SALES REVENUE BY REGION 2012



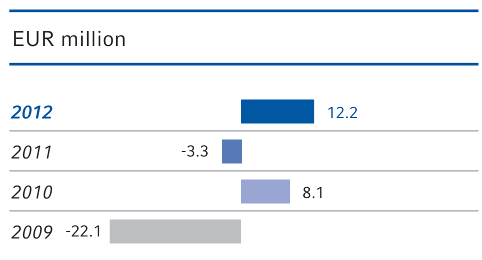
SALES REVENUE



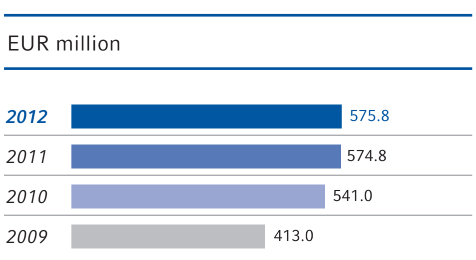
operative **EBITDA** [1]



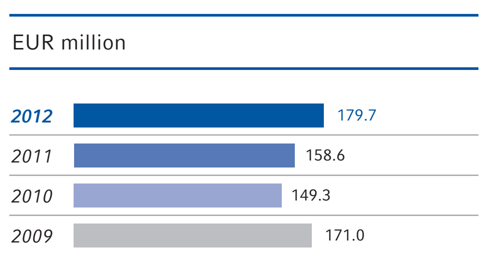
NET PROFIT/LOSS
(before non-controlling interests)



ORDER INTAKE [2]



ORDER BACKLOG [2]



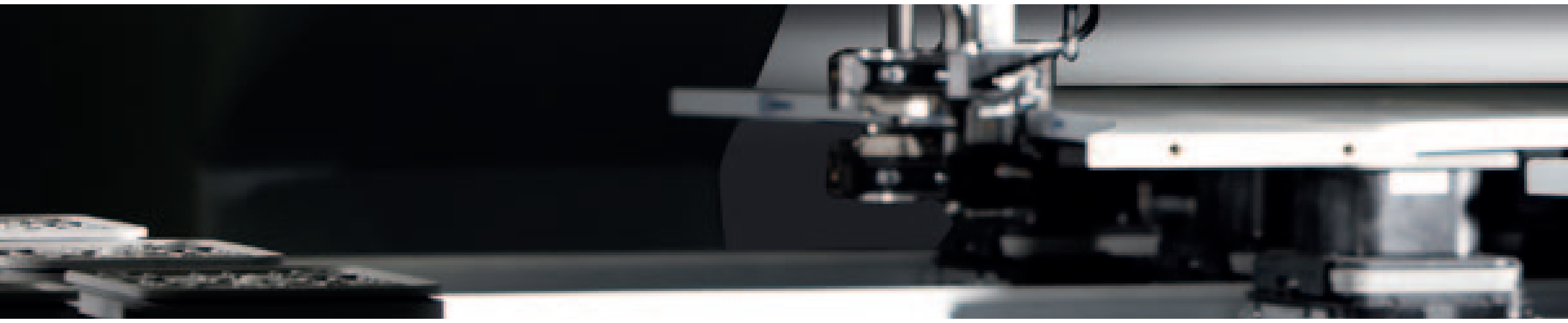
[1] Before taking into account employee profit participation and before restructuring/non-recurring expenses
[2] Order intake and order backlog only contain own machines without merchandise, spare parts and services

Values for Sustainable Success

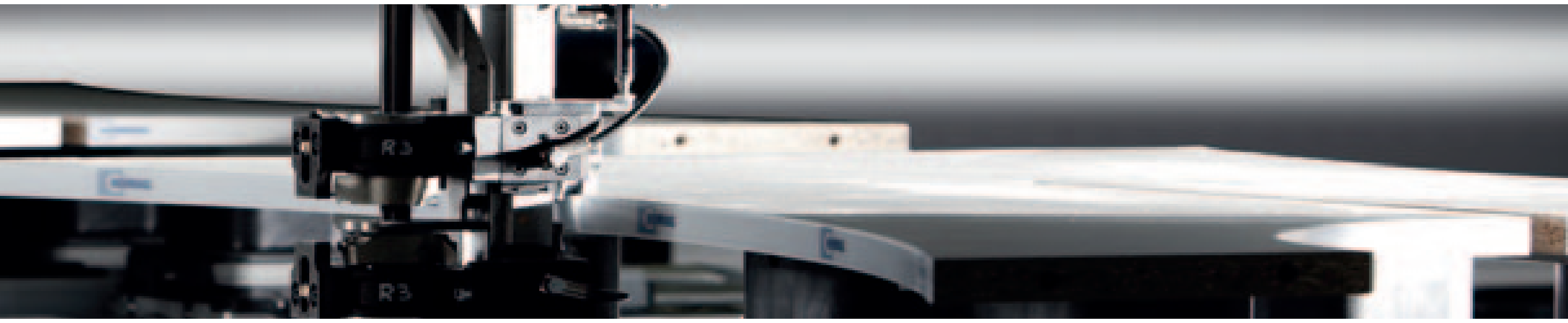
The high-tech machines and production lines of the HOMAG Group manufacture the modern worlds we live and work in every day. With them, our customers produce home and office furniture, kitchens, parquet and laminate flooring, windows, doors, stairs or even complete wooden house construction systems. With an estimated global market share of 28 percent and some 5,000 employees, we are the world's leading manufacturer of wood processing machines. We achieved this position also thanks to our clear values that we have demonstrated for more than 50 years.

Our reliability and our acting in a responsible manner ensure sustainable success. Our great innovative power and our strategy for the long term are additional success factors.

The offering for our customers ranges from stand-alone machines for cabinet shops to complete production lines for highly industrialized series production or even highly flexible production lines for the manufacture of individual furniture items. Add to this a comprehensive service offering that is perfectly tailored to our high-performance machines and production lines. We sell these products in over 90 countries and are represented in all key and growing regions with local production facilities as well as sales and service companies.



Contents



FINANCIAL STATEMENTS (AG)*

FURTHER INFORMATION

* *Parent Company*

Dr. Markus Flik
BORN 1960

CEO, Corporate Development, CTO
Joined the Company in 2011

Harald Becker-Ehmck
BORN 1968

Head of Production, Materials Management, Quality Management, Affiliates
Joined the Company in July 2012

Ladies and Gentlemen,
Dear shareholders,

> We at the HOMAG Group met all our goals, fulfilled or exceeded our forecasts and improved our profitability in fiscal 2012. We were able to achieve this in spite of the difficult economic environment and the general downward trend in customers' propensity to invest on account of the persisting uncertainty in the financial markets.

In this way we were able to keep order intake at the good level of the prior year and outperformed our relevant market. Adjusted for the special effect from the large-scale project for the customer Mekran, we saw a slight rise in sales revenue compared to 2011.

As announced, we strengthened our earning power in 2012. Here our measures to enhance efficiency are taking effect. These include the HOMAG Group Action Program and in particular the restructuring of three companies, where we have made good progress with the implementation phase. For instance, we agreed a reconciliation of interests and a redundancy plan at each of the subsidiaries concerned and we plan to conclude the restructuring in the first half of 2013.

We were able to increase all key earnings figures and improved our position significantly in some cases in the past fiscal year. We thus achieved a slight increase in operative EBITDA compared to the prior year and the operative EBITDA margin rose from 8.8 to 9.3 percent. Earnings before taxes after employee profit participation expenses and after extraordinary expenses improved considerably from EUR 6.4 million to EUR 24.3 million. In this context, the prior-year figure mainly stemmed from high extraordinary expenses in relation to the restructuring. At 49.9 percent, we were able to reduce our tax expense ratio significantly in the reporting year (prior year: 151.7 percent). As a result, net profit for the year of EUR 12.7 million was clearly positive as forecast. We would like to appropriately share this profit of the HOMAG Group with you, our shareholders, and, together with the supervisory board, propose to the annual general meeting the distribution of a dividend of EUR 0.25.

Jürgen Köppel
BORN 1963

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

Hans-Dieter Schumacher
BORN 1963

CFO, Head of IT, Personnel
Joined the Company in 2011

In 2012, we have aligned the HOMAG Group for a successful future. In addition to reducing our cost base, we also concluded a syndicated loan agreement with a term of four years in the past fiscal year. With this, we have secured sound financing for implementing our growth plans. Moreover, the improved conditions concluded show the good credit standing that we enjoy with the banks.

Changes were made to the management board in 2012 as well. Harald Becker-Ehmck was appointed to the management board and is responsible for the extended portfolio covering production, materials management, quality management and affiliates. This means that the same person heads the entire value-added chain. Achim Gauss and Herbert Högemann left the management board in 2012. We would like to thank them for their valuable work and their strong commitment to the HOMAG Group.

The need for investment in modern and powerful machines and production lines remains uninterrupted in the medium term. We currently see a trend of increasing investments in the US following the weakness over the past few years and are confident that the trend towards urbanization and the corresponding higher demand for quality standards for housing in Asia and eastern Europe in particular will continue. At LIGNA, the world's leading trade fair, we will once again give strong impetus and inspire customers with our innovations. Based on this, we aim to reach sales revenue of EUR 1 billion for 2017 with a double-digit operative EBITDA margin.

We also intend to expand our market position and improve our operating performance in the current fiscal year. Based on forecasts by economists, the economic framework conditions will remain challenging in 2013 as well. According to this, the global economy will gradually grow at a slightly stronger pace following a slow start to the year. For the market of relevance to HOMAG, the competent industry association is forecasting a slight increase of 2 percent for the full fiscal year. We aim to continue growing in 2013 as well subject to the condition that these forecasts are accurate and there are no major disruptions in the global economy.

In 2013, we aim to exceed 2012 order intake and to increase our sales revenue further, raising it to about EUR 800 million. We estimate operative EBITDA of around EUR 75 million and anticipate net profit for the year of about EUR 15 million.

In addition to the comprehensive explanations of the figures, the annual report also presents the values that we bring to life in the HOMAG Group. In the following pages, we show you what has united us as a Group for decades and what is important to us – be it with our day-to-day work or our dealings with one another, business partners, with the Company and our environment.

These values are brought to life first and foremost by our employees. With their dedicated work, they bring the HOMAG Group a step forward every day and enhance the Group with their values. For this, we are sincerely grateful to them. For the trust they have placed in us, we would also like to express our gratitude to our customers and our shareholders who have created the basis for the success of the HOMAG Group through their loyalty. We would also like to express our thanks to our suppliers and all other business partners for the constructive collaboration in the past fiscal year.

Schopfloch, March 2013
The management board

DR. MARKUS FLIK

HARALD BECKER-EHMCK

JÜRGEN KÖPPEL

HANS-DIETER SCHUMACHER

*From left to right: Jürgen Köppel, Dr. Markus Flik,
Hans-Dieter Schumacher, Harald Becker-Ehmck*

Chronicle 2012

FIRST QUARTER

Restructuring on schedule

The restructuring measures at our subsidiaries BÜTFERING Schleiftechnik GmbH, FRIZ Kaschiertechnik GmbH and TORWEGGE Holzbearbeitungsmaschinen GmbH are progressing on schedule. In March 2012, for instance, we came to an agreement with the works' councils of BÜTFERING and TORWEGGE as well as the group works´ council and issued a reconciliation of interests and a redundancy plan in each case. With the restructuring measures, the number of production locations in Germany is to be reduced. With this move, we are making the HOMAG Group fit for the future, improving our competitiveness and strengthening our profitability.

Positive feedback at important trade fairs

The HOMAG Group was once again the largest exhibitor at the tandem industry trade fairs, HOLZ-HANDWERK and fensterbau/frontale, held at the end of March in Nuremberg. At the important leading trade fair for cabinet shops, the response was very positive with a large number of visitors and a good contribution to order intake. Our new concept "Factory of the future", which offers new perspectives in flexible production for craftsmen, was received very well.

SECOND QUARTER

Management holding

By introducing a management holding structure, we reorganized management at the HOMAG Group. The goal was to decentralize personnel at management level within HOMAG Group AG and HOMAG Holzbearbeitungssysteme GmbH. In this way, we will have a clear division of strategic duties of group management and operative tasks of the management areas. We completed the management team of four in October when Harald Becker-Ehmck assumed the role of management board member in charge of production, materials management, quality management and affiliates and this concluded the reorganization.

Project business success

Despite the rather difficult economic environment and the associated weaker willingness to investment, our project business was successful in 2012. After five months, we already achieved the order intake mark of EUR 100 million. Renowned manufacturers are satisfied with our one-stop solutions and our services and, in many cases, have placed their trust in the HOMAG Group over many years. For instance, our customer Maja put its trust in our high-tech production lines again in 2012 and invested a double-digit million figure in the production of lightweight furniture.

THIRD QUARTER

New syndicated loan agreement signed

In September we concluded a new syndicated loan agreement with improved conditions. The agreement concluded with a syndicate of banks led by Commerzbank, Deutsche Bank and UniCredit has a volume of EUR 210 million. It has a term of four years and, like the agreement valid to date, is subject to compliance with specific covenants. The former agreement originally had a volume of EUR 198 million and a term of three years. With the new syndicated loan agreement, we have sound financing for implementing our growth plans. It demonstrates the good credit standing that HOMAG Group AG enjoys with banks.

Shareholding in BRANDT increased to 100 percent

Effective as of July 30, 2012, we purchased all the remaining shares in BRANDT Kantentechnik GmbH, thus increasing HOMAG Group AG's equity interest from 70 to 100 percent. In this we took a further step towards simplifying our group structure and, at the same time, this brings about further synergies and additional tax benefits within the Group. Equal amounts of shares were sold by Marianne and Heinrich Brandt (brother and sister), who are retiring from entrepreneurial responsibility.

FOURTH QUARTER

New offices open in Switzerland

In Höri near Zurich, we opened the new headquarters of our sales and service branch in Switzerland. The attached 700 m^2 showroom provides the perfect space for presenting our plant and machinery and offers modern training rooms for our customers.

New CompetenceCenter opens

In November, we opened a new CompetenceCenter in Herzebrock and we can present the HOMAG Group's entire product spectrum for the first time across 1,600 m^2 – state-of-the-art technology packed into one location. Over 20 machines are constantly available there for demonstration. In addition to stand-alone machines, interlinked cells with storage capability are also presented and can be viewed. Regular training events, customer training seminars, workshops and specialist talks on current topics are also offered here.

Sales revenue of EUR 1 billion by 2017

We presented our new medium-term planning at the German Equity Forum in Frankfurt, one of the largest and most important events in our capital market communications. We strive to generate EUR 1 billion in sales revenue by 2017. For this planned growth we are, among other things, increasingly focusing on the Chinese market and have developed a strategy for China, which we also presented.

PARTNER

SHIP]

[SUCCESS THROUGH PARTNERSHIP]

Successful together.

> Success at the HOMAG Group has many names. After all, it is only thanks to our qualified employees that we are the clear number one in our industry. The outstanding competence of each individual makes us so strong as a team. The best results are generated through partnership. Our customers receive the best plant and machinery possible and the associated first-class services in particular thanks to development, production, sales and administration working in harmony together. Based on constant communication and regular knowledge sharing between the individual companies within the HOMAG Group we are able to continuously develop as a learning organization.

We also put our team philosophy into practice outside of the company: Our collaboration in partnership with our customers, suppliers, investors and other business partners is one of our key factors to success.

Together, our employees develop ideas for innovative production solutions and implement these in collaboration with our customers. In this way we develop standards for the industry.


[RELIABILITY]

TRUST BASED

We planned and realized one of the most modern custom door production units for our Swiss customer RIWAG. RIWAG boss Aldo Rickenbach (right) and the head of sales at HOMAG Schweiz AG Peter Niederer (left) worked hand in hand in this project.

ON RELIABILITY

Younger employees of the HOMAG Group benefit from the knowledge of their experienced colleagues, thus constantly boosting their know-how – until they themselves become the sought-after specialists.

Siemens, as our long-standing supplier, has now produced one million industrial PCs. The Siemens representative Werner Weber (left) presents the jubilee unit to the R&D director of systems technology at HOMAG Holzbearbeitungssysteme GmbH Winfried Hils (right).

Strong relationships.

> Reliability is a valuable asset for us at the HOMAG Group. Therefore, we are a reliable and fair partner. For instance, many of our employees have been employed with us for decades and we also have relationships based on long-standing, close cooperation with numerous suppliers.

We are especially proud of our long-standing relationships to our customers. We have earned this trust:

- by being in close touch with our customers and the market
- by addressing customers' individual needs and often actively working together with customers on developments
- by our customers growing and developing further with us
- by our customers benefiting from our developments as an innovation leader
- by offering them a one-stop supplier with our strong team

In short: by being there when they need us.

[OPENNESS]

[FURTHER DEVELOPMENT

Be curious.

Our employees are inspired by new ideas and solutions time and time again. Together they draw on these to create successful products.

> What distinguishes us at the HOMAG Group is our openness to new ideas. With this pioneering spirit, our company's founders developed the world's first edge banding machine using the hot-cold technique over 50 years ago. Over time, this has been succeeded by numerous, revolutionary developments and innovations which have sustainably shaped the world of woodworking and changed it time and again. This is only made possible thanks to our creative employees who are curious and have a vision for the future. They are always reviewing the processes in place, exploring new avenues and finding innovative solutions. For this reason, unusual customer needs specifically present a challenge that we are happy to accept.

This entrepreneurial curiosity was also the driving force for our entry into new markets throughout the world. As pioneers in our industry, we set out for new countries and continents as early as in the seventies. We are able to adapt quickly to different cultures with tolerance, openness and sensitivity. With our clear strategy we are driving our international expansion, today and going forward. In this way, we aim to secure and extend our global market leadership.

BASED ON OPENNESS

Our student from the University of Cooperative Education, Manuel Sikeler, was able to help organize his first in-house trade fair and gather many new impressions during his semester abroad at HOMAG Asia in Singapore.

Our customers are time and again fascinated by our great innovative power at presentations of our new developments.


[RESPON

SIBILITY]

SUSTAINABILITY THROUGH

We donated the furniture produced at a trade fair in India to local kindergartens and schools.

In our workshop for apprentices we give our trainees the basics for their future jobs – enthusiasm for our products and for wood as a raw material comes naturally along the way.

RESPONSIBILITY]

Act for the long term.

> We are aware of our responsibility to society, the environment and future generations. We are happy to accept this responsibility and act with the utmost care. Sustainably protecting the environment and a conscientious use of resources are integral components of our corporate strategy. This starts with our own production and continues through the plant and machinery for our customers. In this, not only does low energy consumption contribute to protecting the environment, but now also serves as a clear selling point.

As part of "HOMAG Cares" we are also engaged in both local and global social projects in a large number of ways. Among other things, we donate the furniture produced at trade fairs to kindergartens, schools or other local social facilities. Furthermore, our employees also support customers and companies in their free time that are, for example, suffering in the wake of a natural disaster. We also maintain our traditionally high level of trainees as part of fulfilling our social responsibility. Offering young people the opportunity to make a good start to their careers is very important to us.

*With a touch of a button a range of energy-saving measures are activated in a machine with our **eco**Plus package. In this way, it makes an active contribution to resource conservation.*

TORSTEN GREDE, *Chairman of the supervisory board*

Report of the Supervisory Board

> In fiscal year 2012, the supervisory board of HOMAG Group AG and its committees intensively performed its duties as prescribed by law, the articles of incorporation and bylaws, the rules of procedure of the supervisory board and the German Corporate Governance Code (Code). The supervisory board continually advised the management board as regards its corporate management function and supervised its activities on an ongoing basis. The management board comprehensively informed the supervisory board in a timely manner with regular written and oral reports on all business transactions of importance. The supervisory board was directly and involved in all decisions of fundamental importance to the Group in a timely manner. All measures requiring approval pursuant to the law and the articles of incorporation and bylaws were presented to the supervisory board for the process of passing resolutions in a timely manner. It rendered its opinion on all measures requiring its approval.

Between the meetings, the chairman of the supervisory board maintained regular contact with the management board, in particular with the CEO and discussed current business developments, the strategy, planning, the risk position, risk management and compliance. The CEO informed the supervisory board immediately of all significant events of importance for the assessment of the Group's situation and development and for managing the Group.

PERSONNEL CHANGES

Personnel Changes to the Management Board

Harald Becker-Ehmck has been on the management board of HOMAG Group AG since July 1, 2012. On October 1, 2012, he assumed responsibility for production, materials management and quality management from Herbert Högemann, and additionally assumed responsibility for affiliates. Herbert Högemann stepped down from the management board of HOMAG Group AG on September 30, 2012. He remains head of production, materials management and quality management at the subsidiary HOMAG Holzbearbeitungssysteme GmbH. In addition, the management board member responsible for research and development, Achim Gauß, stepped down from HOMAG Group AG's management board of his own volition in the second quarter of 2012. The management board members Dr. Markus Flik and Jürgen Köppel have assumed his tasks. The supervisory board thanks Mr. Högemann and Mr. Gauß for their long-standing trust-based work, their unwavering commitment and their outstanding work for the Company.

Personnel Changes on the Supervisory Board

There were no personnel changes on the supervisory board in the fiscal year 2012.

SIGNIFICANT MATTERS ON THE AGENDA

In fiscal year 2012, the supervisory board held six meetings and two conference calls; in some cases it was convened without the participation of the management board. Topics discussed during the supervisory board's two conference calls concerned management board matters. In all meetings in which the management board participated, it reported in detail to the supervisory body on the current development of the HOMAG Group, the financial position and results of operations, demand trends in the individual markets as well as additional expectations and forecasts. The supervisory board was also informed on the development of business areas, of the project business and of subsidiaries. This was supplemented by reports of the management board members on materials management, production, sales as well research and development. Various HR topics were also discussed. Moreover, the supervisory board was informed of the activities of the committees established by it at the start of each meeting.

Supervisory Board Meeting on March 22, 2012

At the *supervisory board meeting of March 22, 2012*, the management board reported on the fiscal year 2011 and the auditors of the financial statements reported on their audit and findings. Following an extensive discussion and examination, the annual and consolidated financial statements of HOMAG Group AG as of December 31, 2011 were approved and the financial statements were thus ratified. In addition, the supervisory board seconded the management board's proposal for the appropriation of profits and issued the agenda for the annual general meeting. The supervisory board also discussed and approved the corporate governance report and the supervisory board's report to the annual general meeting. Other topics were the strategic focal points of the HOMAG Group, the status of the refinancing negotiations for the current syndicated loan agreement and the progress of the restructuring at the subsidiaries BÜTFERING Schleiftechnik GmbH, FRIZ Kaschiertechnik GmbH and TORWEGGE Holzbearbeitungsmaschinen GmbH. In addition, Harald Becker-Ehmck was appointed member of the management board of HOMAG Group AG for the period from July 1, 2012 to June 30, 2015. In addition, the parameters of the variable component of the management board's remuneration system for the reference period was set for fiscal year 2012. At the meeting, the supervisory board also performed the efficiency audit in accordance with no. 5.6 of the Code. Overall, the efficiency of the supervisory board's activities received a positive assessment.

Supervisory Board Meeting on April 30, 2012

The *meeting of April 30, 2012* was only concerned with management board matters.

Supervisory Board Meeting on May 15, 2012

The *meeting of May 15, 2012* was only concerned with management board matters.

Supervisory Board Meeting on July 3, 2012

At its *meeting of July 3, 2012,* the supervisory board approved the allocation plan of duties for the management board as of July 1, 2012 and October 1, 2012 as well as the purchase of the remaining shares (30 percent) in BRANDT Kantentechnik GmbH. The management board reported on the status of the restructuring at the subsidiaries BÜTFERING, FRIZ and TORWEGGE, informed the supervisory board on the progress of the negotiations for the new syndicated loan agreement and presented a contracted market study on China, its analysis and the planned strategic measures that were derived from it. The supervisory board approved the engagement of an external auditor to review the management board's remuneration system and decided on the relevant opening price for the LTI program for the reference period 2012 to 2014.

Supervisory Board Meeting on September 18, 2012

At the *meeting of September 18, 2012,* the supervisory board acknowledged the cornerstones of the strategic sales revenue planning up to 2017 and approved the conclusion of the new syndicated loan agreement totaling EUR 210 million and with a term of four years. The management board explained the next steps to be taken to structure HOMAG Group AG as a management holding. In addition, the results of the appraisal of the management board's remuneration and, in particular, the assessment of the appropriateness and conformity with the legal requirements were presented. The supervisory board acknowledged, that according to the results of the appraisal, the remuneration of HOMAG Group AG's management board complies with the requirements of stock corporation law and is deemed appropriate. It was also decided to conclude a termination agreement with Herbert Högemann as of September 30, 2012 and conclude a service agreement with Herbert Högemann as managing director of HOMAG Holzbearbeitungssysteme GmbH.

Supervisory Board Meeting on December 14, 2012

At the *supervisory board meeting of December 14, 2012,* the body approved the budget for 2013 and the medium-term planning from 2014 through 2017 and approved the recapitalization of a subsidiary as well as the planned adjustment to the remuneration of the supervisory board in accordance with the recommendations of the current code. According to the management board's report on the status of the restructuring of FRIZ, the supervisory board also approved the cancellation of the profit and loss transfer agreement between HOMAG Holzbearbeitungssysteme GmbH and FRIZ Kaschiertechnik GmbH. The management board also reported on a benchmarking analysis against the Chinese competition and the status of the compliance project's implementation. In addition, the supervisory board approved the declaration of compliance with the recommendations of the Code that has to be issued each year pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act]. In addition, the chairman of the supervisory board was authorized to negotiate the prolongation and amendment of the management board service agreement of Hans-Dieter Schumacher.

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

WORK PERFORMED BY THE SUPERVISORY BOARD'S COMMITTEES

In fiscal 2012, the supervisory board had set up a total of four committees: the audit committee, the personnel committee, the nomination committee and the mediation committee in accordance with pursuant to Sec. 27 (3) MitbestG ["Mitbestimmungsgesetz": German Co-determination Act]. These committees primarily prepare issues and resolutions for discussion by the supervisory board. In certain cases they also exercise the decision-making authority transferred to them by the supervisory board – where legally permissible – or by law. The chairpersons of the committees reported on the work of their committees at the meetings of the supervisory board.

Mediation Committee and Nomination Committee

The *mediation committee* and the *nomination committee* had no need to act and were therefore not convened in the fiscal year 2012.

Audit Committee

The *audit committee* convened three times in fiscal year 2012. In addition, three conference calls were held. At the first meeting, the consolidated and separate financial statements including the Group's management report and the management report of HOMAG Group AG as of December 31, 2011, the corporate governance report and the proposal for the appropriation of profits were discussed in the presence of the auditor of the financial statements. Also discussed was supervisory board's report to the annual general meeting as well as the agenda for the annual general meeting. In addition, it was recommended that an external consultant should be engaged through the supervisory board to assess the compliance and risk management system. At its other meetings, the audit committee focused on with all quarterly reports, the analysis of effects from interest rate changes on expenses from employee profit participation, the optimization of the tax expense ratio as well as the insurance policies currently in place and their coverage. It obtained information on several occasions on the progress of the negotiations for the syndicated loan agreement and the implementation of the compliance project. This encompasses a review of the compliance management system, the institutionalization of a group-wide compliance organization for regulating, providing training on and monitoring the compliance requirements. The management board also reported on the 2012 forecast, the 2013 planning, the medium-term planning for 2014 to 2017 and presented the risk management and risk management manual as well as the use of derivatives. The priorities for the audit of the separate and consolidated financial statements for 2012 were also set. At its last meeting, the audit committee obtained information on the current status and the concept for the further development of the financial and controlling systems of the HOMAG Group and approved the planning for 2013. Consultations were also held on the recapitalization of a subsidiary.

Personnel Committee

The *personnel committee* held three meetings in fiscal year 2012. The topics discussed were the prolongation of Achim Gauß's management board service agreement and the management board's variable remuneration for fiscal year 2011. In addition, the personnel committee was concerned with the new appointment of the management board member in charge of production, materials management and quality management, which was extended to include responsibility for affiliates.

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 2012

At the annual general meeting of May 24, 2012, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, was elected as the auditor of the Company's and the Group's financial statements for fiscal year 2012. The supervisory board commissioned the audit engagement accordingly after the audit firm had presented a declaration of independence. The following audit priorities were set: the silent employee profit participation and the corresponding reconciliation from IFRS to HGB, the provisions relating to personnel against the backdrop of the potential change in the retirement age as well as the deferred taxes, while focusing on subsidiaries.

The auditor audited the separate and consolidated financial statements for fiscal year 2012 prepared by the management board together with the combined management report and the underlying accounting records. The audit did not give rise to any objections and an unqualified audit opinion was rendered in each case. In addition, the auditor confirmed that the management board had an appropriate risk monitoring system in accordance with Sec. 91 (2) AktG that is suitable for detecting at an early stage developments that might jeopardize the ability of the Company to continue as a going concern.

The separate and consolidated financial statements, together with the combined management report, the management board's proposal for the appropriation of profits and the auditor's audit report were made available to the members of the supervisory board in a timely manner. These documents were reviewed in detail by the audit committee at its meeting of March 15, 2013 and by the supervisory board at its meeting of March 21, 2013 and intensively explained. The auditor attended both meetings and reported on the key findings of the audit. The supervisory board monitored the independence of the auditor before and during the audit. After rendering the results of its audit, the supervisory board raised no objections and was in agreement with the auditor's audit findings. At its meeting of March 21, 2013, the supervisory board ratified the separate and consolidated financial statements, together with the combined management report as of December 31, 2012, prepared by the management board, thus ratifying HOMAG Group AG's annual financial statements as of December 31, 2012. The supervisory board also approved the management board's proposal for the appropriation of the retained earnings for fiscal year 2012. According to this, it will be proposed to the annual general meeting of May 28, 2013 to pay out a dividend for fiscal year 2012 of EUR 0.25 per share from the net profit for the year.

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 supervisory board expresses its thanks to the management board, management, works' council representatives and all employees for their great personal contribution to the positive development of the Company in 2012.

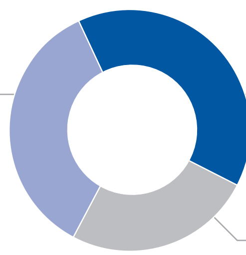
Schopfloch, March 2013
On behalf of the supervisory board

TORSTEN GREDE
Chairman of the supervisory board

The HOMAG Group AG Share

Shareholder Structure as of March 15, 2013 [1]

As %



Free float	35.49
Deutsche Beteiligungs AG and the parallel funds managed by it	39.50
Group of shareholders Schuler family/ Klessmann Stiftung	25.01

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

DEVELOPMENT OF STOCK MARKETS

2012 was an extremely successful stock market year. The expansionary policy pursued by central banks led to rising share prices. As part of this, the European Central Bank started its program to buy unlimited quantities of government bonds in cases of emergency. The US Federal Reserve also continues to back an expansionary policy and the People's Bank of China reduced its minimum reserve ratio for Chinese banks as well as the key interest rate. Additional positive factors for the stock markets were the robust economic figures in the US in 2012. Although burdening factors did lead to interim losses, stock markets came under pressure only temporarily. This included the recession in the eurozone, concerns surrounding the Spanish banking sector, weakening growth in China and the impending US fiscal cliff.

The German stock markets in particular saw growth in 2012, and developed better than many foreign indices. The Dow Jones index grew a solid 7 percent and Euro Stoxx 50 by slightly below 14 percent. By contrast, the DAX improved a solid 29 percent and the MDAX even grew by around 34 percent. The German second-line stocks grew at a slightly lower rate, as was evidenced by the growth of approximately 21 percent on the TecDAX and an increase of nearly 19 percent on the SDAX.

THE HOMAG SHARE IN 2012

The HOMAG Group AG shares are listed on the Prime Standard of the Frankfurt stock exchange. Our shares developed positively throughout 2012 and were consistently above the 2011 closing price of EUR 7.80. At the start of 2012, the HOMAG share benefited more than most from the good mood prevailing overall on the stock exchange and rose to more than EUR 11 by the end of February. Our share reached its peak for the year of EUR 12.50 at the end of June, before the price declined slightly. By the end of 2012, losses in prices had recovered to a closing price of EUR 11.46 for 2012. Our share thus rose by around 47 percent in 2012; while the SDAX improved by just below 19 percent.

DEVELOPMENT AT THE BEGINNING OF 2013

The German stock markets got off to a good start in 2013 and saw significant growth in some cases in the first two months of the year. While the DAX saw growth of nearly 2 percent by the end of February, second-line stocks developed even better. The MDAX and TecDAX each increased by about 11 percent and the SDAX rose by nearly 15 percent. The HOMAG share mirrored this positive development and grew by 13 percent in the first two months of 2013, causing the share price to reach EUR 12.96 on February 28, 2013.

ANNUAL GENERAL MEETING AND DIVIDEND

A total of around 347 shareholders took part in the annual general meeting of HOMAG Group AG in Freudenstadt on May 24, 2012 – representing more than 82 percent of the capital stock. The shareholders present seconded the proposal of the management board and supervisory board not to pay out a dividend for the fiscal year 2011 owing to the net loss incurred. The management’s proposal as regards the election of the auditor for 2012 was also seconded by the annual general meeting. The management board and the supervisory board were exonerated. The shareholders present did not approve the remuneration system for the management board and the point on the agenda to create new authorized capital.

The management board and supervisory board propose to the annual general meeting for the fiscal year 2012 on May 28, 2013 the payment of a dividend of EUR 0.25. This is in line with our dividend policy to date and we want to again share an appropriate portion of our net profit with our shareholders.

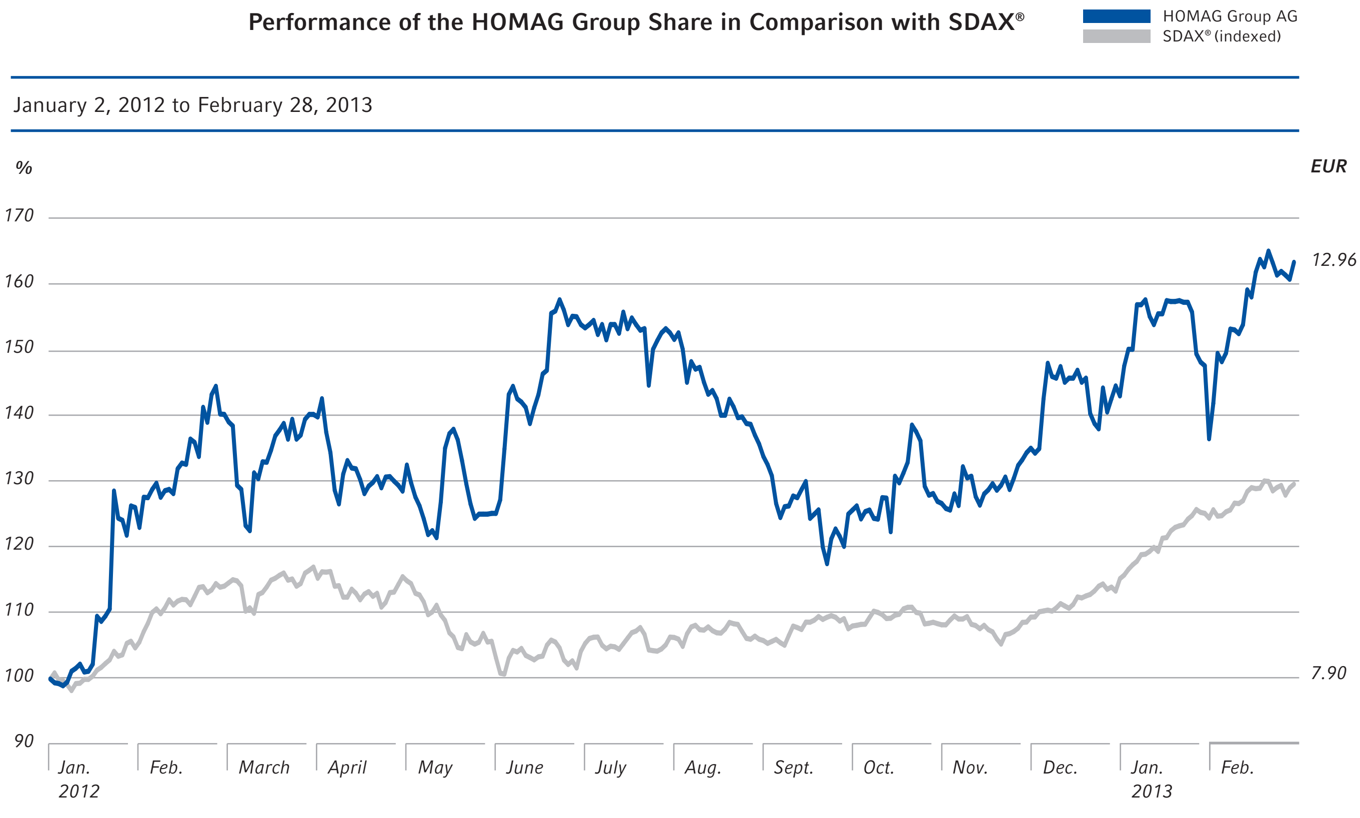
COMMUNICATION WITH THE CAPITAL MARKET

We continued to pursue our capital market communications efforts in 2012 and informed all market participants in an open, fair, timely and comprehensive manner on all events of significance. We consider investor relations efforts to be within the remit of the management board, which is why both the CEO Dr. Markus Flik and CFO Hans-Dieter Schumacher in particular are actively involved in this task.

We presented at various events for professional investors and analysts. In addition to three roadshows in Frankfurt, Zurich and London, we also held an analyst conference in Frankfurt and participated in the German Equity Forum as well as in the investor conference of

Performance of the HOMAG Group Share in Comparison with SDAX®

January 2, 2012 to February 28, 2013



Source: XETRA closing quote, performance indexed (January 2, 2012 = 100)

Deutsche Beteiligungs AG, both of which were held in Frankfurt. We were also available to inform analysts and answer their questions at three conference calls on our quarterly reports, as well as during telephone calls and face-to-face meetings. Both the CEO and CFO were also available in numerous telephone calls and face-to-face meetings with investors.

Private investors are also extremely important to us, we want to offer them as well as other interested parties the same high level of transparency. For this reason, all important information concerning the HOMAG Group and significant events are available on our continually updated website. Furthermore, we kept the general public informed of the business development in 2012 through our press briefing on annual results and by issuing nine press releases and one investor newsletter in 2012. In addition, our CEO Dr. Markus Flik gave numerous interviews to various members of the press.

Share Performance Indicators

ISIN CODE		DE0005297204
STOCK EXCHANGE SEGMENT		Prime Standard
XETRA CODE		HG1
IPO	July 13, 2007	
NUMBER OF SHARES	no-par value ordinary bearer shares	15,688,000
PRICE HIGH* 2012	June 22, 2012	EUR 12.50
PRICE LOW* 2012	January 5, 2012	EUR 7.82
PRICE* AS AT DECEMBER 28, 2012		EUR 11.46
EARNINGS PER SHARE		EUR 0.81
MARKET CAPITALIZATION (DECEMBER 28, 2012)		EUR 179.8 million

* *XETRA closing quote*


HOMAG
GROUP

Combined management report of HOMAG Group AG and the Group

1. BUSINESS ENVIRONMENT AND CONDITIONS

1.1 Group Structure and Management System

Business Activities of the HOMAG Group

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

Legal Structure

HOMAG Group AG is a holding company without own operating activities. Its main tasks as the parent company are to establish and monitor the implementation of the Group's strategy, to arrange group financing and to technically lead the production and sales companies in Germany and abroad. It holds inter alia a 100 percent interest in HOMAG Holzbearbeitungssysteme GmbH, which is the Group's largest company. As of December 31, 2012, the Group comprised inter alia 9 German and 6 foreign production entities as well as 21 sales and service entities (see also the group structure on the inside flap at the back of this report).

The following changes were made to the group structure in fiscal 2012:

- HOMAG Holzbearbeitungssysteme GmbH increased its share in BÜTFERING Schleiftechnik GmbH from just under 98 percent to 100 percent in March 2012.
- HOMAG Group AG increased the share in BRANDT Kantentechnik GmbH from 70 percent to 100 percent in July 2012.
- HOMAG Holzbearbeitungssysteme GmbH acquired the shares in HOMAG Vertriebs-Beteiligungs GmbH from BARGSTEDT Handlingsysteme GmbH, LIGMATECH Automationssysteme GmbH and WEINMANN Holzbausystemtechnik GmbH in July 2012 and from HOLZMA Plattenaufteiltechnik GmbH, FRIZ Kaschiertechnik GmbH and WEEKE Bohrsysteme GmbH in October 2012 and now holds 90 percent of the shares in HOMAG Vertriebs-Beteiligungs GmbH.
- In September 2012, BÜTFERING Schleiftechnik GmbH was merged into WEEKE Bohrsysteme GmbH with retroactive effect as of January 1, 2012.
- HOMAG Group AG acquired the shares in HOMAG Machinery Środa Sp. z o.o. from BARGSTEDT Handlingsysteme GmbH, BRANDT Kantentechnik GmbH, HOMAG Holzbearbeitungssysteme GmbH, WEEKE Bohrsysteme GmbH and WEINMANN Holzbausystemtechnik GmbH in November 2012 and now has a shareholding of 100 percent.
- Due to the intercompany restructuring and the increase in the shareholding in BRANDT Kantentechnik GmbH, the Company has not had any indirect non-controlling interests in sales companies since July 2012 with the exception of HOMAG Korea Co. Ltd.

* Glossary page 211

Segment Structure

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

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

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

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

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

Corporate Governance

HOMAG Group AG is managed by the Group's management board, which has at least three members in accordance with the articles of incorporation and bylaws of HOMAG Group AG. Following personnel adjustments, the management board had five members most of the time in fiscal year 2012. From October 1, 2012 onwards, the group management board of HOMAG Group AG has four members in total. 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 year 2012, the management board and the supervisory board implemented all of the recommendations and many of the suggestions proposed by the German Corporate Governance Code*. Exceptions from this as regards the recommendations concerning the compensation caps and change of control are detailed in the declaration of compliance, which however only apply to the service agreement of the CEO as well as performance-related remuneration of the supervisory board, which currently does not contain a multi-year measurement basis. The declaration of compliance pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporations Act] is published on page 58 of this report and on the HOMAG Group's website.

Corporate Management

We primarily manage the HOMAG Group by reference to earnings before interest, taxes, depreciation and amortization before employee profit participation expenses and before extraordinary expenses (operative EBITDA)*; earnings before taxes after employee profit participation expenses and after extraordinary expenses (EBT)*; return on capital employed (ROCE = ratio of earnings before interest and taxes (EBIT)* before employee profit participation expenses and before extraordinary expenses to capital employed); earnings per share (EPS)*; net liabilities to banks as well as the net debt to EBITDA ratio* (measured as the ratio of net liabilities to banks to operative EBITDA). These annual key performance indicators are budgeted and monitored using monthly reporting.

** Glossary page 212 to 214*

1.2 Economy and Market

Development of the Economy

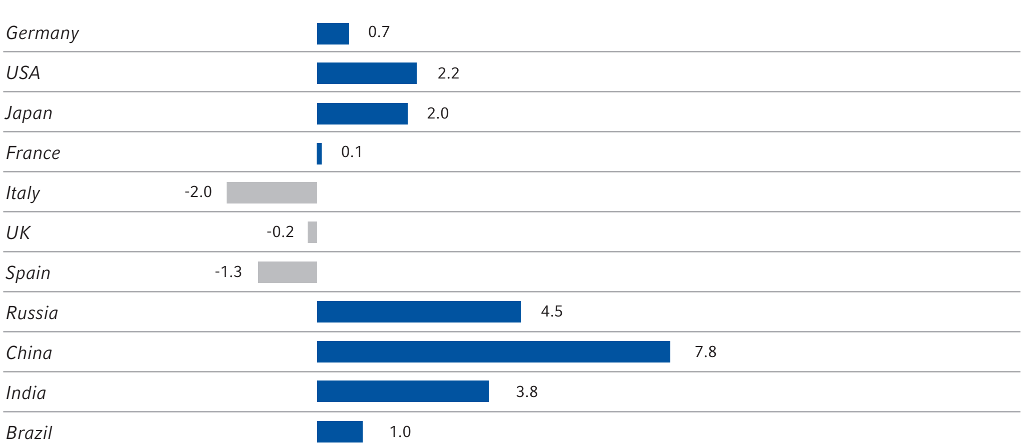
The global economy lost momentum somewhat again in 2012. Uncertainties continue to surround the sovereign debt crisis in the eurozone and have a particular negative effect on the investment climate. According to the IfW ["Institut für Weltwirtschaft": Institute for the World Economy], global gross domestic product grew by 3.2 percent in 2012 (prior year: 3.8 percent).

At 5.3 percent, emerging economies outpaced industrialized countries. However, the economy cooled off as the year progressed and the growth rates of the prior year were not reached. This was on account of the lack of demand from abroad due to the weakened economy in many industrialized countries and domestic economic factors in connection with inflation slowing measures as part of economic policy. According to the IfW, China continues to be the driving force with economic growth of 7.8 percent, although it was not possible to maintain the high prior-year level. Asia grew in total by 6.6 percent; the Indian economy, however, slowed significantly with a growth rate of 3.8 percent. Indeed, GDP in Brazil rose by a mere 1.0 percent. By contrast, the economy in Russia grew by 4.5 percent.

The economic performance of industrialized countries remained weak at a total of 1.2 percent and again lost momentum in part in 2012, with the United States reaching 2.2 percent and Japan 2.0 percent. The eurozone has been impacted by the sovereign debt and banking crisis and slid into a recession and recorded a drop in GDP of 0.5 percent. Economic performance in the EU decreased on the whole by 0.3 percent. Economic development in Europe continues to vary. The economy contracted in the countries in crisis, Greece, Portugal, Italy and Spain in particular, but also for example in the Netherlands and the UK. While GDP in France stagnated, growth was seen for instance in Austria, Poland, Sweden and Slovakia.

GDP (Real) 2012

Year-on-year percentage change



Source: IfW

The German economy was slowed by a cooling of the global economy in 2012. Order intake and production in industry have been showing a downward trend since the spring. According to the German Federal Statistical Office, gross domestic product rose by 0.7 percent. Investment in capital goods saw extremely weak development with a drop of 5.3 percent.

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 grew again slightly by 0.9 percent following the strong growth in 2010 and 2011. By contrast, order intake – without taking into account price adjustments – decreased by 1 percent, although international orders rose by 2 percent while order income in Germany fell by 6 percent.

The HOMAG Group focuses on the field of wood processing machines, a sub-market of the mechanical engineering industry. This is characterized by a small number of large players that offer a relatively broad spectrum of products worldwide. In addition, there is a large number of smaller players that are frequently specialized in individual segments or manufacture special-purpose machines. The Italian corporations Biesse group and SCM group are the HOMAG Group's largest competitors with comparable product ranges. We estimate that the three corporate groups command a combined share of about 45 percent of the global market.

Woodworking machinery can be divided into various product categories. HOMAG Group products belong to the plant and machinery for secondary wood processing* segment. The industry association within the VDMA responsible for this segment reports a decrease in order intake in 2012 – without taking into account price adjustments – by 4 percent. Sales revenue decreased by 1 percent. Similar development was seen both in Germany and abroad.

1.3 Business Development

Order Intake and Sales Revenue

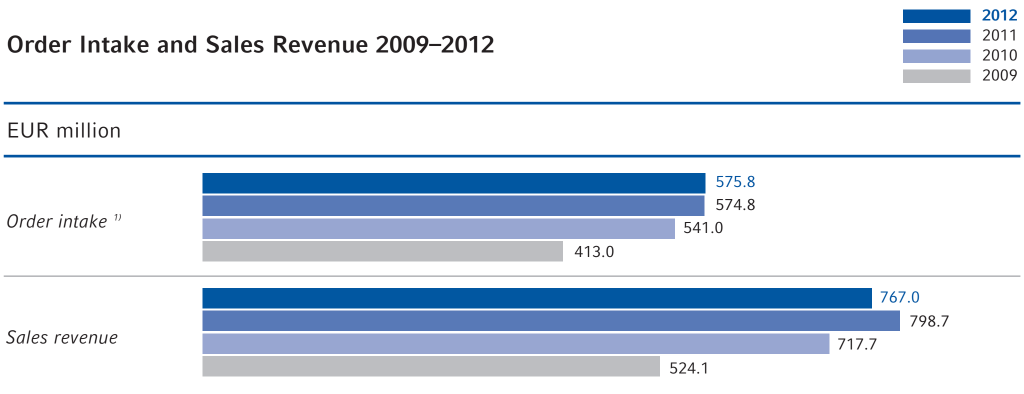
In spite of the difficult conditions, we at the HOMAG Group fulfilled or exceeded our goals in fiscal 2012. Although the effects from the euro crisis continue to be felt and companies' willingness to invest saw a decline in the second half of the year in particular, we were able once again to reach the good order intake level from the prior year. We see this fact as a clear vote of confidence from our customers in our products and in our capabilities. Our project business was particularly successful in the first half of the year as our customers invested in new production technologies in a bid to raise their competitiveness in the long term. We were able to win numerous projects despite focusing on consistent risk and earnings management and paying special attention to attainable margins with a view to the fierce competition.

Our *order intake* only contains own machines without merchandise, spare parts and service. In the Group, this came to EUR 575.8 million in fiscal 2012 (prior year: EUR 574.8 million). This means that we met our target set at the start of the year and that order intake even slightly exceeded the level of the prior year. This is also a result of the rigorous implementation of the packages of planned sales measures and the successful supra-regional trade fairs, for instance in the US, as well as our in-house trade fairs. In addition, we had a successful fourth quarter and recorded an increase of around 16 percent on the prior year.

* *Glossary page 214*

The seasonality of order intake common to the industry, marked by declining figures as the year progresses, remained, albeit not as pronounced as in 2011. As of December 31, 2012, our *order backlog* came to EUR 179.7 million, a 13 percent increase on the prior year (prior year: EUR 158.6 million).

Order Intake and Sales Revenue 2009–2012



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

In *consolidated sales revenue,* we were able to exceed our forecast of around EUR 750 million and recorded EUR 767.0 million (prior year: EUR 798.7 million). The special effects from the large-scale project for the customer Mekran should be taken into account for both years. Adjusted for the corresponding portion of sales revenue of EUR 49.4 million in 2011 and EUR 10.0 million in 2012, sales revenue increased slightly by 1 percent in 2012.

Development of Sales Markets

The implementation of planned structural measures concerning sales as well as the expansion of our global sales and service organization has allowed us to benefit notably from better framework conditions in the America and Asia regions in 2012. Above all, order intake in the United States and China was very pleasing with double-digit growth rates, although smaller Asian markets also developed excellently. BRIC countries were unable to reach the excellent prior-year level on account of the weak development of our order intake in Russia due to the difficult financing situation. HOMAG Finance has developed financing plans that are designed to also support these regions in 2013.

In 2012, the eastern Europe region was not able to match the excellent results seen in the prior year. Some smaller markets developed positively, but were unable to make up for the weak development of order intake in Russia.

The America region is still lagging behind its very good pre-crisis level, even though good growth rates were seen in the United States. Order intake in Brazil displayed a significant improvement in the second half of the year, but still below figures from strong past years, which means we see additional potential here. Canada's industrial project business is suffering from the current trend in the United States where many companies are moving their capacities back to the United States with a view to strengthening their home market, while having to invest less in their foreign locations.

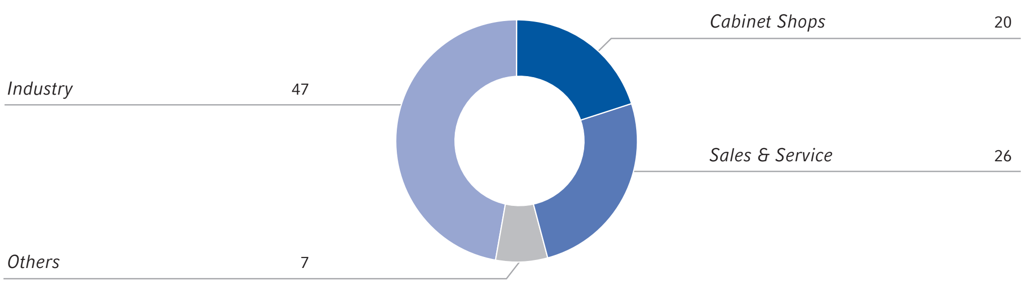
In spite of the highly challenging situation, which impacted the important Italian market among others, we were able to realize a single-digit rate of growth in western Europe in 2012. The region is currently marked by the extremely fierce competitive situation, but was able nevertheless to secure its position as the second strongest region.

Central Europe with Germany, Austria and Switzerland, was able to repeat the record order intake figures from the prior year and was thus once again the strongest region in the reporting year. In our home market of Germany, we were again able to increase the order intake level slightly and have thus significantly surpassed the pre-crisis level.

In the Asia/Pacific region, most markets were able to exceed their prior-year figures, some of them substantially. The Chinese market was also extremely stable; here we were able to realize very good double-digit growth rates in order intake. Both China and the region as a whole thus underscore their great importance for our company and form important factors for our further growth. A commissioned study also confirms that we have an extremely effective sales structure in the market with our associate HOMAG China Golden Field. With this, together with our production plant HOMAG Machinery Shanghai, we will be able to benefit above-trend from the further market growth.

Segment Sales Revenue 2012

As %



Segment Sales Revenue

Sales revenue varied considerably between segments in fiscal 2012. Sales revenue in the Industry segment before consolidation of the segments decreased to EUR 462.8 million (prior year: EUR 489.9 million). The main reason for this was the significantly higher sales revenue received from the large-scale project Mekran in the prior year. At EUR 199.8 million (prior year: EUR 198.0 million), the Cabinet Shops segment matched the good level of sales revenue from the prior year (prior year: EUR 198.0 million), while the Sales & Service segment decreased slightly to EUR 260.0 million (prior year: EUR 269.1 million). Sales revenue in the Other segment increased in 2012 to EUR 71.9 million (prior year: EUR 67.0 million).

Significant Events in Fiscal 2012

We made progress in implementing the restructuring measures at the subsidiaries BÜTFERING Schleiftechnik GmbH, FRIZ Kaschiertechnik GmbH, and TORWEGGE Holzbear-beitungsmaschinen GmbH in 2012. We thus came to an agreement with BÜTFERING and TORWEGGE and issued a reconciliation of interests and a redundancy plan in each case. At BÜTFERING, we were able to sell the metal grinding machines business unit as planned and fully conclude the integration into the subsidiary WEEKE Bohrsysteme GmbH.

We reached a further step towards simplifying our group structure with the acquisition of the remaining shares in BRANDT Kantentechnik GmbH in 2012. In this context, we increased our equity interest from 70 to 100 percent.

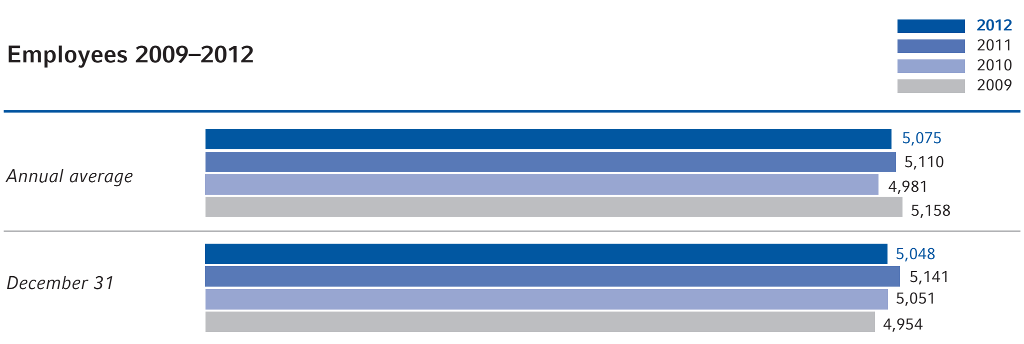
With the new syndicated loan agreement* concluded in September, we have sound financing for implementing our growth plans. The new agreement has a volume of EUR 210 million and a term of four years. The improved conditions compared to the former agreement, which originally had a volume of EUR 198 million and a term of three years, shows the high credit standing that we enjoy with banks.

We also further strengthened our sales activities in 2012. In this context, we opened our new central sales and service branch in Switzerland with a large showroom. We also opened a new CompetenceCenter in Herzebrock, where we present the complete spectrum of the HOMAG Group's products in an area totaling 1,600 square meters. More than 20 machines and production lines are permanently available there for demonstration and viewing.

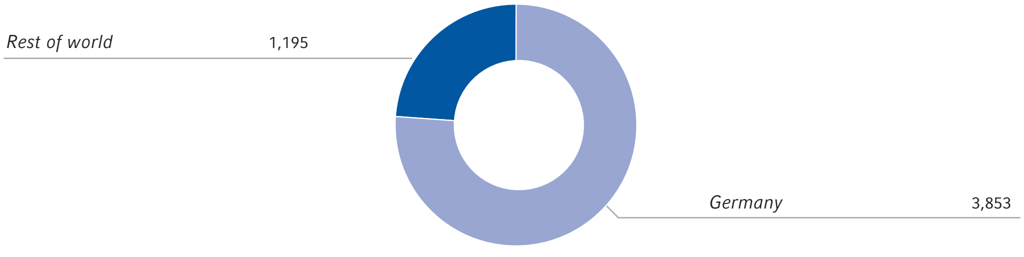
1.4 Employees

The Group headcount decreased to 5,048 employees as of December 31, 2012 (prior year: 5,141 employees). As part of restructuring measures, the headcount was reduced in Germany, while the headcount abroad rose slightly. We increased our headcount in Poland and India in particular. As of year end, there were 3,853 employees in Germany (prior year: 3,980 employees) and 1,195 employees abroad (prior year: 1,161 employees). On average over 2012, headcount came to 5,075 employees, after 5,110 employees in 2011. At the end of 2012, the HOMAG Group employed 82 contract workers as in the prior year.

Employees 2009–2012



Employees by Region as of December 31, 2012



* Glossary page 214

The average headcount in 2012 decreased slightly in the Industry segment to 2,676 employees (prior year: 2,705 employees) due, among other things, to the restructuring measures implemented; and it also decreased slightly in the Cabinet Shops segment to 1,000 employees (prior year: 1,016 employees). By contrast, the average headcount in 2012 increased in the Sales & Service segment to 735 employees (prior year: 729 employees) as well as in the Other segment to 664 employees (prior year: 660 employees).

The HOMAG Group as Employer

We have clearly defined principles governing our dealings with one another, our management style and our relationships to customers. These are not only guidelines but also a duty. Together, we bring to life our values "Success through Partnership", "Trust based on Reliability", "Further Development based on Openness" and "Sustainability through Responsibility". As the conduct of our employees both internally and externally is an essential factor in our success, it is more important than ever that these values are brought to life in the day-to-day work of all employees. More information on the values of the HOMAG Group can be found on pages 14 to 29.

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

Training

Demographic shifts in western industrialized countries pose challenges – in the future even more than today – to German companies in finding qualified staff. This is one reason why securing the future generation of qualified young employees is an important task for the entire Group. The HOMAG Group has therefore maintained a high ratio of trainees to total workforce. As of the reporting date, there were a total of 366 trainees (prior year: 404) in the group, thereof 301 (prior year: 333) in technical and 65 (prior year: 71) in commercial positions. This corresponds to a ratio of trainees to total workforce of just over 9.5 percent (prior year: 10.2 percent) in Germany. A total of 105 young people began their training at the Group's production companies in the reporting year.

In total, the HOMAG Group offers training for 11 attractive and challenging technical and commercial professions. In addition, we cooperate closely with Baden-Württemberg Cooperative State University (DHBW) and provide training in eight different technical subjects as well as business management and information technology. High school graduates can complete the dual concept studies program with a Bachelor's degree.

In order to spark school children's interest in training professions at the Company, subsidiaries of the HOMAG Group offer diverse activities. For instance, the companies HOMAG Holzbearbeitungssysteme GmbH and HOLZMA Plattenaufteiltechnik GmbH organized training meets, at which the focus was on providing information about the Company and industrial occupations. The workshops, factory tours and other informative events offered were very well received by school children. The HOMAG Group also positions itself as an attractive training company by participating in a number of events in the course of the year. In this regard, several subsidiaries participated in Girls' Day again in 2012, to inspire young women to also pursue technical professions at the HOMAG Group to a greater extent.

As part of our active university marketing measures, we started taking part in university careers fairs again in fiscal 2012. The aim is to engage in dialog with as many students and graduates as possible in order to show them the possibilities for starting a career at the global leader for wood processing systems. The HOMAG Group offers placements to students writing their BA and Masters dissertations and work experience semesters, also overseas, in order to give them the opportunity to put into practice the theoretical knowledge they have gained in their degree course.

Advanced Training Programs

Our employees are the guarantee of our success, which is why we consistently promote employee development in order to maintain the high level of qualification. To this end, we provide a wide range of training possibilities for personal development to employees. Product-specific topics are the focus of the wide range on offer. The language, IT and specialist courses also contribute to the further development of our workforce.

Employees as Fellow Entrepreneurs

Back in 1974, we introduced an employee profit participation scheme that we consider to be one of the factors of our success. Indeed, 95.2 percent of the entitled workforce holds investments in HOMAG Holzbearbeitungssysteme GmbH at present (prior year: 94.5 percent). Employees thus bear some of the entrepreneurial opportunities and risks in that they share in the profit generated by the Company, but likewise in any loss incurred. Under the participation scheme, we expect to distribute EUR 3.6 million group-wide to our employees for the past fiscal year 2012.

1.5 Sustainability

Sustainable action is an integral component of the corporate strategy for the HOMAG Group, as it also a means of securing the Company's future. We are aware of our responsibility for the environment, our employees and shareholders and are convinced that a balance can be struck between the economic, ecological and social factors. For this reason, the highest level of ecological efficiency possible in both our production processes and our product development was one of the most important areas of action in the reporting year. The HOMAG Group also dedicated numerous other activities to its responsibility to employees and society. Especially as the market leader in our industry we are taking the opportunity to press forward with ecological, economic and social issues – in the interest of our company, society and the environment.

For us, the need to make sparing use of energy and raw materials is self-evident. This applies equally to our own sales and production locations as it does to the products manufactured there, so that our customers can pursue production activities while simultaneously conserving resources to the greatest extent possible. We strive to reduce energy consumption at our global production facilities in the long term by making environmentally compatible investments in modern technology. Initial positive results could already be seen in individual sub-projects, such as the installation of a photovoltaic plant or the use of carbon neutral district heating from a biogas plant at individual production locations. Smaller sub-projects, including for instance intelligent light controls in production facilities, make a long-term contribution to reducing carbon emissions.

We meet global challenges with our innovative power which is our motor for growth. In this respect, we always pay attention to boosting plant and equipment productivity while achieving savings in resources and improvements to industrial safety. In light of this, we drove our developments forward in fiscal 2012, which enabled us to increase the environmental-friendliness of our product portfolio. The largest amount of energy needed in wood processing is used for extracting wood dust and chips, followed by costs for compressed air. Compressed air savings of up to 25 percent makes our new developments in the field of through-feed machines possible. It is now possible to regulate the demand for compressed air through two separate circuits. This not only results in energy savings, but also substantial cost savings. This is only one example of measures included in our **eco**Plus technology*, which we implemented in our machines at an early stage. Thanks to the continuous expansion of this technology, it now includes more than 100 aspects to conserve resources. A focal point in development is the connection between performance and economy, which will safeguard the future of this technology in the long term. Nearly all HOMAG Group machines and production lines can now be equipped with individual **eco**Plus features.

We also work closely with suppliers and research institutes to further improve the energy balance of new and enhanced products. In cooperation with the Fraunhofer Society for the Advancement of Applied Research, we have developed a concept to standardize how energy efficiency is determined for woodworking machinery.

Our employees are our most important capital. They are a decisive factor in guaranteeing the success of the HOMAG Group. For this reason, we attach great value to the ongoing development of our employees and a corresponding high level of qualification. With our balanced and extensive training opportunities, we give each employee individual development options. Their safety and health play an important role. In order to keep the risk of injury to an absolute minimum, targeted industrial safety training is performed on a regular basis. This increases employees' awareness of potential areas of danger and means that each and every employee shares responsibility for safety at their workplace in their day-to-day work.

As a global company, we developed a code of conduct* for our foreign companies in 2010. The aim of this code of conduct* is to prepare employees to do the right thing when encountering any legal and ethical challenges in their day-to-day work to avoid any employee discrimination worldwide.

In order to fulfill our responsibility to society, we introduced our HOMAG Cares initiative in 2008 to help people in need throughout the world. For example, we donated the funds raised at the trade fairs HOLZ-HANDWERK in Germany, Xylexpo in Italy and AWISA in Australia and profits from trade fair demonstration parts sold to trade fair visitors, to social

** Glossary page 210, 212*

facilities in fiscal 2012. The initiative also organized new projects again at this year's in-house trade fairs based on the respective topic of each individual in-house trade fair. For example, customers, employees and visitors were able to suggest charities that could use the donations in kind to support their voluntary work. At the end of the fiscal year, we decided to donate a car to a children's cancer charity.

We see it as our duty in the Company to consider all economic, ecological and social aspects in all of our activities. By acting in a responsible manner, we thus do our best to counter in an effective way complex challenges such as climate change and globalization, and will continue to do so in the future.

1.6 Research and Development

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

With our products, we aim, on the one hand, to further develop the market with our innovations. On the other, we focus on preparing individual solutions tailored to the needs of our industrial customers. In this way, we are affording them the scope necessary to create unique selling points.

In order to identify new technologies and trends at an early stage, the HOMAG Group participates in a number of research projects at federal and EU level. In this context, we cooperate with institutes, colleges and industrial partners.

R&D expenses including costs for made-to-order contracts rose slightly as a percentage of consolidated sales revenue and amounted to around 7 percent in 2012 (prior year: about 6 percent). As of December 31, 2012, the Group had 747 developers and project engineers (prior year: 773 employees). The decrease in this area mainly stemmed from the restructuring measures performed in 2012. Our innovative drive is also reflected in the large number of patent applications, which exceeded 60 again in 2012 (prior year: 80 patent applications). This places us on the long-term trend. New patents were filed in virtually all of our product areas of technology with a view to securing our technological edge. With a portfolio of currently more than 900 patents (prior year: about 850 patents) we set ourselves apart from our competitors.

In addition to customers in our established markets, we also aim to attract customers in growth markets with our product strategy. Especially for the key markets China and India, in which we produce locally in some cases, we have developed a new edge banding line as well as a flooring production line – featuring processing technologies modified for those markets – and launched them on the market in 2012. Further harmonization of our product portfolio in fiscal 2012 and the expansion of integrated product stages, will make it possible offer our products in various performance classes for numerous fields of application.

It is of particular importance to our cabinet shops customers to be able to produce in a flexible and efficient manner. Particularly in light of the increasing requirements with respect to the automation of various performance categories, we aim to reduce set-up times and provide easier machine operation with our new developments.

We offer our industry customers products ranging from highly automated machinery and cells* to complete interlinked large-scale lines from a single source. In industrial series production in particular, the requirements are rising with respect to cost-efficiency and quality. We satisfy these requirements by continually refining our products, in order to fulfill even the most recent quality standards, in edge banding specifically, in addition to increasing performance. In the furniture industry, the trend towards manufacturing customized products, i.e., batch size 1 production*, continues. In this way, we present four different performance levels to our customers to offer the most suitable system solution for each requirement.

A comprehensive modular system* in the field of *sawing* makes it possible to retrofit the related technology on a needs-basis – from software to feeding and saw cutting patterns to destacking of finished parts. Comprehensive extension opportunities enhance performance, increase the degree of automation and thus ensure the security of investment. As such, the saw is upgraded to meet the requirements of our customers. An automated *surface labeling system** assists in later identifying parts in the production process, as labels are attached prior to cutting raw panels to help identify parts. Combining the saws with a unique *storage system* developed for small and medium-sized companies allows for an optimum materials flow.

In *surface processing*, we developed a new entry-level sanding machine for cabinet makers. The machine allows a consistent surface quality thanks to adjustable sanding pressure. The equipment can be fitted individually to the wooden materials to be processed. Two plants with our revolutionary lamination technology were sold and went into operation in 2012. **reac**Tec* allows cost-effective and environmentally friendly production with improved surface quality.

In the field of *through-feed machines*, we developed a new model of the edge banding machine that unites the strengths found in two existing machine types. In addition to increased performance, the new development also offers a lower throughput time as well as an excellent cost-to-performance ratio. Due to an integrated free space, the **laser**Tec* unit can be retrofitted at any time. We have already successfully sold the new model at in-house trade fairs.

We also introduced further innovations in *individual units* for through-feed machines. In the field of edge and surface processing, the combined use of a new cabinet scraper* and a new polishing unit allows for the improved processing of acrylic edges and high-gloss surfaces. The final product has a higher gloss level and an even more consistent polished finish in the transition from workpiece edges to workpiece surfaces. We developed a new unit to process the excess edge of workpiece surfaces for the cabinet shop business. This enables fully automated processing of edge materials and workpieces prone to damage

** Glossary page 210, 211*

under pressure, such as lightweight panels. In order to realize a high-performance production plant, we continued to develop our processing unit technology in fiscal 2012 in order to achieve an unprecedented production speed (50 furniture parts per minute). This acceleration is, on the one hand, due to the use of two identical profile trimming* units that work alternately. On the other, the end trimming units used to precisely cut excess ends to edges were converted to a linear drive.

We changed generations in *CNC processing centers** in 2012, all new machine series now have the moving gantry design*. As a result, customers benefit from an improved processing quality due to a more stable machine construction as well as the use of the mineral-based construction material SORB TECH, which improves the stability of the machine bed. Simple operation and better visibility of the part processing stage as well as early implementation of future industry standard requirements in safety technology are additional features of this new generation. A further development allows cabinet shops to now use 5-axis technology* in interior fittings as well as in furniture and door production. This means that with just a few standard tools, practically any assignment can be tackled.

A new highly flexible *cardboard cutting machine* for packaging furniture parts and structural elements lowers packaging time and optimizes product protection for shipping. The machine produces custom fit and therefore the smallest possible boxes for a wide variety of product combinations. In this way, our customers can process the packaging of furniture parts in an environmentally conscious manner by significantly saving packaging material.

There were also new versions in the field of *software* in 2012. Our software program for cut optimization of materials was equipped with new features to calculate the weight of panels, components, scraps and waste even faster than in the past. Customers benefit from time saved and lower costs thanks to even more efficient cutting processes as well as improved planning and storage, which reduces inventories and allows for the optimal utilization of raw materials.

Our *CNC programming system* wood**WOP*** celebrates 20 years on the market. During this time, the system has become the most frequently installed programming system in woodworking machinery and is also an established standard for CNC training in vocational training schools and universities. The new version allows operators to generate, import or modify drawings directly from their workstation or at the machine. Furthermore, new safety features as well as visualization options to avoid errors or faults were integrated. Production planning was also optimized. Intelligent simplifications even allow newcomers to learn how to program and operate CNC machines.

In 2012, we were able to expand our strong market position in the *project business* as a competent and reliable system developer and technology leader. In addition to individual machinery and cells, the HOMAG Group offers the corresponding software and manufacturing control technology to manage the entire production line. In this context, the integration of large-scale plants to individual customer needs has been modified to maximize profitability. Significant increases in performance were realized in this way in 2012.

*Glossary
page 210, 211

Additional promising development projects are currently in their final stages. These projects will be presented at this year's LIGNA, the industry's leading trade fair, in May 2013.

1.7 Changes in Company Boards

Harald Becker-Ehmck was appointed to HOMAG Group AG's management board as of July 1, 2012, and has been the member responsible for the extended portfolio covering production, materials management, quality management and affiliates, since October 1, 2012. This means the same person now heads the entire value-added chain. He is thus the successor of Herbert Högemann, the former management board member in charge of production and materials, who stepped down from the management board of HOMAG Group AG as of September 30, 2012. As the managing director for the same divisions at HOMAG Holzbearbeitungssysteme GmbH, Herbert Högemann continues to be active for the HOMAG Group. During the second quarter of 2012, the management board member responsible for research and development, Achim Gauß, stepped down from HOMAG Group AG's management board of his own volition. The management board members Dr. Markus Flik and Jürgen Köppel have assumed his tasks.

There were no personnel changes on the supervisory board in the fiscal year 2012.

1.8 Disclosures pursuant to Sec. 289 (4) and Sec. 315 (4) HGB ["Handelsgesetzbuch": German Commercial Code]

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

Restrictions relating to the voting rights or transferability of shares (No. 2): The shareholders Gerhard Schuler, Freudenstadt, Mareike Hengel, Freudenstadt, Silke Schuler-Gunkel, Freiburg, Dr. Anja Schuler, Zurich and 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 an interest in the company's share capital and voting rights of more than 10 percent. The same applies to Gerhard Schuler, Freudenstadt, who holds an interest in the Company's share capital and voting rights of more than 10 percent, and Mareike Hengel, Freudenstadt, Silke Schuler-Gunkel, Freiburg, Dr. Anja Schuler, Zurich and Erich and Hanna Klessmann Stiftung, Gütersloh, 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 the 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 and dismissal of management board members:* The appointment and dismissal of members of the management board comply with Secs. 84 and 85 AktG and Sec. 31 MitbestG ["Mitbestimmungsgesetz": German Co-determination Act]. Supplementary to this, Art. 5 (1) of the articles of incorporation and bylaws prescribes that the management board has to comprise at least three persons and that the appointment of deputy members of the management board is permitted. 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 them, concludes 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) *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 wording 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) Sentences 2 and 3 AktG, the articles of incorporation and bylaws can prescribe a stricter share capital majority to amend the purpose of the Company and impose 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:* By corresponding amendment of Art. 4 (3) of the articles of incorporation and bylaws, the annual general meeting of June 22, 2007 authorized the management board, 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). In compliance with the authorization granted, the management board, with the approval of the supervisory board, decided on the conditions of share issue. In addition, the management board was 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 10 percent of share capital on the date of authorization. Shares disposed of during the term of authorized capital II precluding the subscription rights of the shareholders pursuant to Sec. 71 (1) No. 8 Sentence 5 and Sec. 186 (3) Sentence 4 AktG, as well as those with conversion or exercise rights or obligations issued after this authorization was granted pursuant to Sec. 221 (4) and Sec. 186 (3) Sentence 4 AktG are offset against this cap of 10 percent of the share capital.

A new authorization to replace authorized capital II, which expired on May 31, 2012, has not been granted as yet.

b) *Authorization to purchase treasury shares:* The annual general meeting of May 28, 2010 authorized the Company pursuant to Sec. 71 (1) No. 8 AktG to purchase treasury shares up to a total of 10 percent of the share capital, i.e., up to 1,568,800 no-par value bearer shares until April 30, 2015. 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, treasury shares acquired on the basis of the authorization can be sold in a way other than on the stock exchange, provided that they 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

* *Glossary page 212*

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) 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 in the event 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 210,000,000.00. 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 within the present meaning is deemed to have taken place if 50 percent or more of the voting rights or 50 percent or more of the capital of a debtor 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 or employees in the event of a takeover bid (No. 9): The Company has not entered into compensation agreements with the members of the management board or employees in the event of a takeover bid. However, compensation by the Company was agreed with Dr. Flik under a management board service agreement in the event of early termination of his management board duties due to a change of control. With regard to this agreement reference is made to the corresponding explanations on page 64 of the remuneration report.

2. DECLARATION OF COMPLIANCE (INCLUDING CORPORATE GOVERNANCE REPORT)[1]

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 of HOMAG Group AG reports on the management of the Company in this declaration in accordance with Sec. 289a (1) HGB. At the same time, the management board and supervisory board report on the corporate governance of the Company in accordance with No. 3.10 of the German Corporate Governance Code (GCGC).

[1] *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.*

* Glossary page 214

2.1 Corporate Governance at HOMAG Group

We firmly believe that good corporate governance* is a key component of the Company's sustainable success, because responsible, value-centric and transparent corporate governance strengthens the trust placed in the company by shareholders and the capital markets as well as by employees, customers and suppliers.

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. The management board and the supervisory board as well as the HOMAG Group's employees feel duty-bound to the GCGC and its recommendations and suggestions are therefore at the core of our activities. Based on the requirements of this code, the following Declaration of Compliance was issued pursuant to Sec. 161 AktG.

Declaration of Compliance 2013

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

The management board and supervisory board declare that, since their last declaration of compliance of January 2012, Homag Group AG has complied with the recommendations of the German Corporate Governance Code (GCGC) in the version dated May 26, 2010 and will comply with the recommendations of the GCGC in the version dated May 15, 2012 in the future.

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

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

The supervisory board's performance-related compensation to date is based on the HOMAG Value Added* (HVA) indicator. The compensation model does not currently comply with the corresponding suggestions of the previous version of the code (5.4.6) nor the recommendation of the current version of the code (5.4.6) as the performance-related components are based on one fiscal year rather than on a multiple-year measurement basis. The management board and the supervisory board intend to propose to the 2013 annual general meeting a new compensation system for the supervisory board that complies with the current recommendation in 5.4.6.

* *Glossary page 212, 213*

The above Declaration of Compliance by the management board and supervisory board has also been available on the website of HOMAG Group AG since January 2013.

Compliance

Compliance involves observing and monitoring the observance of laws and regulations as well as rules of procedure adopted voluntarily by the Company. Conforming with the laws and regulations of all of the countries where HOMAG Group is active is a top priority for us. Any activity that would break the law must be avoided. There are no exceptions to this rule, not even if that is customary for the industry or region. Every person working for the HOMAG Group is required to comply with the provisions of law without exception, and to practice integrity and fairness at work. We want to compete fairly with competitors and leverage our strengths to win our customers' esteem for our products and services. This is why our principles also include in particular compliance with requirements under antitrust law, which safeguards and maintain 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. Granting of advantages or corruption by the employees of the HOMAG Group are not tolerated under any circumstances. In order to drive forward this important topic and to further sharpen the awareness for it across the entire HOMAG Group, an anti-corruption guideline, a guideline on antitrust-compliant behavior and a guideline on cooperation with business partners are scheduled to be issued and implemented in fiscal year 2013 as part of a compliance project. The compliance project will be executed in cooperation with a reputable consultant. In addition, the management board will appoint a compliance officer in fiscal 2013, although responsibility will continue to rest with the management board. The thus established compliance organization of the HOMAG Group is to be enhanced, in particular through regular training courses aimed at boosting employee awareness. The compliance system is to be closely linked into the operating risk management system, the internal monitoring system and the internal audit system. The compliance officer will report directly to the management board. The management board will, in turn, regularly report to the supervisory board on the status quo of the compliance organization in place and the material compliance risks that arise and will consult the supervisory board in this regard.

Code of Conduct

In 2010, code of conduct* was issued for our companies outside Germany. This contains binding guidelines for the actions of the management board, middle management and all employees of the HOMAG Group. Ethical business practice, fairness and responsible and legally compliant conduct are already both a duty and a matter of course for us. Nevertheless, the 13 principles in the code of conduct are intended to support us in our daily activities. It is therefore a summary of many years of practice rather than setting up any new or detailed rules. A corresponding code of conduct is likewise to be issued for the German companies before the end of fiscal 2013.

Composition of the Management Functions and Management Board

The former version of the GCGC as amended on May 26, 2010 and the new version as last amended on May 15, 2012 recommends that companies consider diversity when filling management positions in companies and specifically that women are given appropriate consideration. HOMAG Group AG's management board welcomes and supports this recommendation and is thus considering, among other things, whether appropriately qualified women are available for the positions concerned. The supervisory board also

Glossary page 212

considers diversity when selecting the members of the management board and specifically aims to appropriately consider women in its choice. Notwithstanding this, our main priority is to act in the Company's interest, and we therefore prioritize the professional and personal suitability of each candidate.

Objectives Concerning the Supervisory Board's Composition

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

- *International nature:*
  The supervisory board should have no less than two members who particularly reflect the international nature of the Company, for example by being foreign nationals or having relevant experience abroad.
- *Potential conflicts of interest:*
  The supervisory board should have no less than eight members who do not have an advisory function on and are not members of the corporate boards of customers, suppliers, lenders or other business partners of the Company.
- *Independence:*
  The supervisory board should have at least three independent members representing the shareholders who have neither personal nor business relations with the company, its executive bodies, a controlling shareholder or an entity associated with the latter which may cause a substantial and not merely temporary conflict of interests.
- *Diversity:*
  The supervisory board should have no less than two women appointed to it.

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

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

2.2 Management and Control Structure

The Supervisory Board

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

The supervisory board exercises its function pursuant to the legal provisions and the requirements of the articles of incorporation and bylaws and on the basis of the rules of procedure of the supervisory board. The articles of incorporation and bylaws and the rules of procedure govern the supervisory board's internal order and procedure for passing resolutions, and in particular when and how the meetings of the supervisory are convened, the mode for passing resolutions and the majority requirements for resolutions.

The supervisory board appoints the management board of the Company. The supervisory board monitors and advises the management board on the conduct of its business in accordance with the legal provisions and the requirements of the articles of incorporation and bylaws. The supervisory board discusses with the management board at regular intervals the development of business and planning, the corporate strategy and its implementation as well as relevant issues concerning the risk position, risk management and compliance. The management board keeps the supervisory board informed regularly, promptly and comprehensively about all questions of relevance to the Company and of current developments. The supervisory board was directly involved at an early stage in all decisions of fundamental importance. 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.

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 third parties. 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. This agreement was cancelled effective March 31, 2012. A new consultant agreement between HOMAG Group AG and Mr. Schuler entered into effect on April 1, 2012.

The supervisory board has set up a total of four committees: the audit committee, the personnel committee, the nomination committee and the mediation committee. These committees primarily prepare issues and resolutions for discussion by the supervisory board. In certain cases they also exercise the decision-making authority transferred to them by the supervisory board – where legally permissible – or by law. The chairpersons of the committees report on the work of their respective committees at the meetings of the full supervisory board. In all other cases, the supervisory board committees are subject to the requirements of the articles of incorporation and bylaws and the rules of procedures of the supervisory board, the supervisory board's procedure for passing resolutions and concerning the minutes of the supervisory board's meetings and resolutions.

Audit committee: The audit committee deals in particular with monitoring the financial reporting including the accounting process, the effectiveness of the internal monitoring system and the internal audit system as well as the management board's risk management, the audit of the financial statements and compliance. The audit committee is responsible for the preliminary review of the annual financial statements and combined management report. In addition the audit committee awards the audit engagement to the auditors elected by the annual general meeting.

Personnel committee: The personnel committee deals in particular with the preparation of personnel decisions to be made by the supervisory board and – to the extent permitted by law – with the conclusion, amendment and termination of the employment agreements with management board members.

Nomination committee: The nomination committee is tasked with proposing suitable candidates to the supervisory board for its election nominations for the annual general meeting.

Mediation committee: In addition to the three aforementioned committees, the mediation committee legally required in accordance with Sec. 27 (3) MitbestG proposes candidates to the supervisory board if a two-thirds majority is not reached when appointing or revoking the appointment of a member of the management board (Sec. 31 (3) Sentence 1 MitbestG).

With the exception of the nomination committee, all committees have equal representation. Details on the composition of the supervisory board's committees and of the supervisory board are provided on pages 171 and 172. With regard to the number of meetings of the supervisory board and its committees in fiscal 2012, reference is made to the disclosures in the report of the supervisory board on pages 30 to 35 of the annual report.

The Management Board

The management board is jointly responsible for the Company's business operations and duty bound to act in its interest in accordance with the provisions of the AktG and to increase its long-term value. 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.

Pursuant to the articles of incorporation and bylaws of HOMAG Group AG the management board comprises at least three members. The management board of HOMAG Group AG currently comprises four members. Following personnel adjustments, the management board temporarily had five members in fiscal year 2012. An allocation of duties plan, which requires the supervisory board's approval, governs the allocation of duties within the management board. Irrespective of the joint responsibility of the management board, each member of the management board acts independently within the scope of the portfolio appointed to them.

The CEO leads the cooperation with the supervisory board and its members in all business matters. The management board regularly informs the supervisory board in a timely manner and in detail on issues of relevance for the Company concerning strategy, planning, the development of business, the risk position, risk management and compliance. He coordinates the Company's strategic alignment with the supervisory board and discusses with them the status of strategy implementation at regular intervals. 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 conducts the business of HOMAG Group AG based on the rules of procedure released by the supervisory board on July 5, 2011. The rules of procedure prescribe that the CEO, apart from leading the cooperation with the supervisory board as mentioned above, is also responsible for the formal coordination and the supervision at a management board level of the individual business divisions. Some of the significant transactions and measures governed by the rules of procedure for the management board require the supervisory board's prior approval.

In accordance with the management board's rules of procedure, each member of the management board has to disclose any conflicts of interest to the supervisory board, to the attention of the chairman of the supervisory board, and notify the management board accordingly. In the reporting year, there were no such conflicts of interest among the management board members of HOMAG Group AG. Details on the composition of the management board and the allocation of responsibilities are provided on page 173.

Annual General Meeting

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

Financial Reporting and Annual Audit

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

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

Risk Management

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

The risk report included in the combined management report on page 79 et seq. contains details on risk management. This includes the report on the internal monitoring and risk management system for accounting purposes as required by the 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.

2.3 Remuneration Report

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

Remuneration of the Supervisory Board

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

For each full fiscal year of membership, the members of the supervisory board received fixed remuneration of EUR 10,000. The members of the supervisory board also receive fixed remuneration of EUR 1,500 for each meeting.

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

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

Supervisory board members who are also committee members in accordance with the articles of incorporation and bylaws receive a lump-sum fee of EUR 1,500 per committee meeting. 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 any VAT payable on their remuneration and out-of-pocket expenses.

In compliance with the requirement in No. 3.8 of the GCGC, the directors and officers liability* 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 2012:

EUR k	Fixed remuneration	Attendance fees [2]	Remuneration for committee work [2]	Performance-based remuneration [2]	**Total remuneration**
Torsten Grede, chairman	30	36	9	10	85
Reiner Neumeister, deputy chairman [1]	15	18	13	5	51
Ernst Esslinger [1]	10	11	0	3	24
Hans Fahr	10	9	5	3	27
Gerhard Federer	10	11	18	3	42
Dr. Horst Heidsieck	10	10	3	3	26
Carmen Hettich-Günther [1]	10	12	9	3	34
Dr. Dieter Japs	10	12	0	3	25
Thomas Keller	10	10	9	3	32
Hannelore Knowles [1]	10	12	5	3	30
Jochen Meyer [1]	10	11	4	3	28
Reinhard Seiler [1]	10	9	0	3	22
TOTAL	**145**	**161**	**75**	**45**	**426**

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

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

The honorary chairman of the supervisory board, Mr. Gerhard Schuler, receives remuneration of EUR 10,000 in line with the remuneration of the members of the supervisory board, plus variable components amounting to EUR 3,170 and the reimbursement of all out-of-pocket expenses and the related VAT payable. In addition, Gerhard Schuler, received remuneration of about EUR 37,800 in the reporting year as compensation for the consulting services he provided to HOMAG Holzbearbeitungssysteme GmbH and HOMAG Group AG.

* *Glossary page 212*

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 individual members of the management board is appropriate in relation to their responsibilities and tasks as well as the situation of the Company. They do not exceed the customary remuneration without special reason. The structure of remuneration also takes 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-related 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 in place. 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 GCGC. Exceptions from this as regards the recommendations concerning the compensation caps and change of control are detailed on page 58 of this report, which however only apply to the service agreement of the CEO.

In the event of a termination of a management board appointment by mutual agreement, a dismissal by the supervisory board of a management board member, or if a management board member steps down from the board at the instigation of the Company, the management board member concerned receives as settlement of remuneration including fringe benefits a compensation payment of two years' compensation, but no more than the amount of remuneration for the residual term of the agreement. Dr. Flik's management board service agreement contains clauses that could have potentially resulted in higher compensation under certain circumstances in the fiscal year 2012. That means that to this extent and under certain circumstances Dr. Flik's management board service agreement does not comply in full with 4.2.3. (4) GCGC. The same applies *mutatis mutandis* in the event of early termination of Dr. Flik's duties on the management board due to a change of control. In such an event, Dr. Flik has, subject to certain preconditions, a special right to terminate his agreement; if Dr. Flik effectively exercises this right, he would be entitled to compensation of 125 percent of the compensation described above. Taking into account all potential variants, this agreement does not entirely comply with 4.2.3 (5) GCGC in the fiscal year 2012.

No management board members are entitled to a settlement within the meaning described above if the Company has a right to terminate the contract for good cause as defined in Sec. 626 BGB ["Bürgerliches Gesetzbuch": German Civil Code].

Non-performance-related fixed remuneration
The non-performance-related 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. D&O insurance policies for both the members of the management board and the members of the supervisory board include a deductible in accordance with the requirements of 3.8 GCGC. 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.

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

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

* Glossary
page 213, 214

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 that began on January 1, 2010 and ended on December 31, 2012.

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

The remuneration of the management board members for the fiscal 2012 breaks down as follows:

	Fixed remuneration		Performance-related-remuneration (STI and bonuses)		Long-term incentives (LTI)		Benefits in kind		**Total remuneration**	
EUR k	**2012**	2011	**2012** [1]	2011	**2012**	2011	**2012**	2011	**2012**	2011
Dr. Markus Flik	555	382	95	250	264	106	10	7	924	745
Harald Becker-Ehmck	130	0	30	0	0	0	4	0	164	0
Jürgen Köppel	253	240	58	81	176	69	7	6	494	396
Hans-Dieter Schumacher	290	279	67	95	185	80	10	8	552	462
Achim Gauß	130	311	0	106	0	87	3	7	133	511
Herbert Högemann	195	260	33	88	10	72	9	9	247	429
Andreas Hermann	0	71	0	24	0	0	0	2	0	97
Rolf Knoll	0	209	0	106	0	0	0	4	0	319
TOTAL	**1,553**	**1,752**	**283**	**750**	**635**	**414**	**43**	**43**	**2,514**	**2,959**

[1] *To be paid out after the 2013 annual general meeting for the fiscal year 2012*

Figures given for remuneration acting as a long-term incentive (LTI) are not actual values, but rather fair values on the date of granting calculated using financial modeling methods. Consequently, the full amount of the fair value of the third reference period is reported in 2012. The provision is recognized pro rata temporis. An expense of EUR 374 k was recognized accordingly in the financial statements (prior year: income of EUR 91 k). The liability pertaining to remuneration acting as a long-term incentive was valued at EUR 561 k as of December 31, 2012 (prior year: EUR 187 k) and breaks down as follows:

	First reference period 2010–2012		Second reference period 2011–2013		Third reference period 2012–2014		Total	
EUR k	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Dr. Markus Flik	0	0	84	35	88	0	172	35
Harald Becker-Ehmck	0	0	0	0	0	0	0	0
Jürgen Köppel	39	9	58	23	59	0	156	32
Hans-Dieter Schumacher	0	0	64	27	61	0	125	27
Achim Gauß	0	12	0	29	0	0	0	41
Herbert Högemann	35	10	20	24	3	0	58	34
Rolf Knoll	50	18	0	0	0	0	50	18
TOTAL	**124**	**49**	**226**	**138**	**211**	**0**	**561**	**187**

An accrued liability of EUR 124 k was recognized for the LTI bonus for the first reference period 2010 to 2012. This will be paid out in 2013, after the annual general meeting for 2012. For the second reference period 2011 to 2013, the accrued liability rose to EUR 226 k for two thirds of the fair value of the LTI bonus. The payment of the actual value will be made in 2014, after the annual general meeting for 2013. For the third reference period 2012 to 2014, an accrued liability of EUR 211 k was recognized for first third of the fair value of the LTI bonus. The payment of the actual value will be made in 2015, after the annual general meeting for 2014.

In addition, in the fiscal year 2012 Mr. Achim Gauß received a compensation payment of EUR 550 k for the remaining term of his service agreement and for a post-contract non-compete clause when he handed over his duties as a member of HOMAG Group AG’s management board. In addition, Mr. Gauß will receive a monthly compensation payment of EUR 20 k for the post-contract non-compete clause for 2013. This will be paid in fiscal 2013.

Shareholdings of Board Members

As of December 31, 2012, the members of the management board together held 1,000 shares (prior year: 38,436 shares). This is 0.01 percent of HOMAG Group AG’s share capital (prior year: 0.25 percent). The year-on-year change in the shareholding relates to the fact that Achim Gauß and Herbert Högemann stepped down from the management board. As of December 31, 2012, the members of the supervisory board held 400 shares (prior year: 400 shares), which is 0.00 percent (prior year: 0.00 percent) of HOMAG Group AG’s capital stock. As no member of the management or supervisory board held more than 1 percent of the capital as of December 31, 2012, 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 7.1.3 GCGC.

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 transactions notified to HOMAG Group AG in fiscal year 2012 were appropriately published and can be obtained from the Company’s website at www.homag-group.com.

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

3.1 Results of Operations

As announced, in 2012 we returned the HOMAG Group (also after taxes) back to profitability and returned a significant net profit for the Group for the year. Here our measures to cut costs and enhance efficiency have had a positive impact on the results of operations. These include the restructuring and the HOMAG Group Action Program*. Backed by the lower cost base, we have further strengthened our operative performance and we were able to exceed our forecasts for fiscal year 2012 across all earnings indicators, despite the difficult environmental conditions brought on by the economic uncertainties prevailing on the market.

Other operating income increased by EUR 3.0 million to EUR 20.4 million in the reporting year (prior year: EUR 17.4 million). Among other things, the increase stems from the sale of the metal grinding machines business unit of BÜTFERING Schleiftechnik GmbH to LISSMAC Maschinenbau GmbH as well as a property sale in India.

Our *cost of materials* decreased year on year to EUR 330.2 million (prior year: EUR 363.0 million). In the prior year, this figure included merchandise of about EUR 36 million for the large-scale project with Mekran, resulting from the fact that the HOMAG Group acted as general contractor for this large-scale project. In fiscal year 2012, the share of merchandise from this project totaled EUR 6.0 million. As a result, the *cost of materials ratio* (defined as cost of materials to total operating performance) decreased to 42.5 percent (prior year: 44.7 percent). Similarly adjusted for the share of merchandise in the large-scale project with Mekran, the cost of materials ratio slightly improved to 42.1 percent (prior year: 42.3 percent).

Personnel expenses decreased to EUR 281.3 million in fiscal year 2012 (prior year: EUR 284.0 million). Extraordinary expenses of EUR 14.3 million were included in the prior year, that were essentially attributable to the additions to accrued liabilities for severance payments stemming from the restructuring measures. The fact that personnel expenses in 2012 only decreased by a small amount, despite the above non-recurring effect no longer being included, is primarily attributable to the collectively bargained wage and salary increases in Germany effective as of May 1, 2012. This was also due to increasing wages in emerging economies, China in particular. The lower number of employees as of year-end 2012 compared to 2011 only had minor effects, as the average annual headcount only changed marginally. The *personnel expenses ratio* (defined as the ratio of personnel expenses to total operating performance) rose to 36.2 percent (prior year: 35.0 percent), as a significantly higher sales revenue from the large-scale project with Mekran was included in the total operating performance.

Amortization of intangible assets and depreciation of property, plant and equipment fell to EUR 28.1 million (prior year: EUR 32.1 million). Impairment losses of EUR 4.1 million were charged in the prior year as part of the restructuring of TORWEGGE. This primarily related to goodwill.

* *Glossary page 213*

Other operating expenses decreased to EUR 119.3 million in 2012 (prior year: EUR 129.1 million). In the reporting year, the bad debt allowances recognized on trade receivables were lower by EUR 5.5 million compared to the prior year overall, after netting with the reversals of bad debt allowances previously recognized on trade receivables. The valuation bad debt stood at EUR 12.6 million in total at the end of fiscal year 2012. Shipping costs were reduced by EUR 1.9 million in the reporting year, as a large portion of shipping costs related to the large-scale project with our customer Mekran was included in the prior year. Advertising and trade fair expenses decreased by EUR 1.1 million in the reporting year, as the prior-year figure included costs for LIGNA, the industry's leading trade fair.

Employee profit participation expenses rose to EUR 7.0 million (prior year: EUR 5.1 million). This was primarily due to the fact that the discount rate declined significantly, which led to a lower discounting effect for non-current obligations. The EUR 1.6 million increase in employee profit participation expenses in the reporting year was solely due to this decrease. In accordance with International Financial Reporting Standards, the interest rate was determined by reference to market yields as prevailing on the reporting date on high-quality fixed interest bearing corporate bonds.

Our *interest result* improved further in 2012 by about EUR 1.8 million compared to the prior year. This is attributable on the one hand to the lower interest rates and the corresponding interest payable, partly as a result of the repayment in full of the profit participation rights at improved interest conditions, and to our successful cash pooling arrangement, which allows a central management of the cash balances of several subsidiaries, on the other. Combined with the likewise improved *profit/loss from associates,* the *financial result** comes to EUR -7.1 million (prior year: EUR -9.3 million).

After the very high rate of 151.7 percent in the prior year, the *tax expense ratio* has decreased to 49.9 percent as the negative non-recurring effects from the restructuring no longer apply. As in the past, the interest limitation regulations and losses incurred at some subsidiaries for which no deferred tax assets could be recognized prevented an even larger decrease.

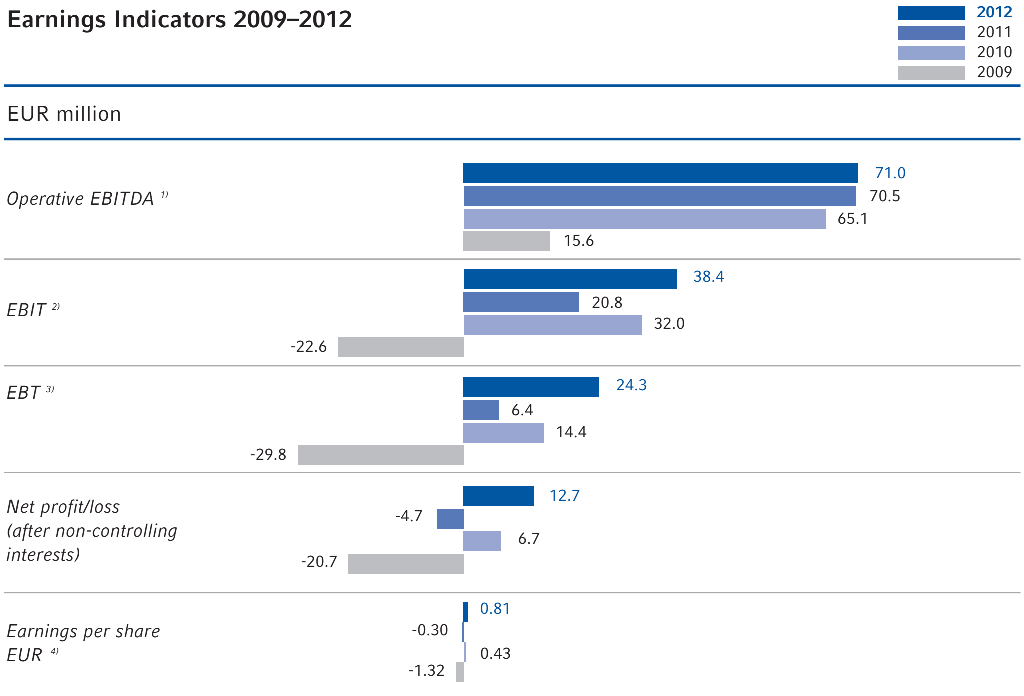
As announced, our *extraordinary expenses* decreased significantly again, returning to the average level of the past few years at EUR 4.5 million (prior year: EUR 21.6 million). The prior-year figure contains EUR 18.9 million relating to the restructuring measures at our subsidiaries BÜTFERING Schleiftechnik GmbH, FRIZ Kaschiertechnik GmbH and TORWEGGE Holzbearbeitungsmaschinen GmbH.

Earnings Indicators

*Operative EBITDA** before employee profit participation expenses and before extraordinary expenses increased slightly to EUR 71.0 million, despite the lower sales revenue of the Group for the reporting year (prior year: EUR 70.5 million). As a result, the operative EBITDA margin increased from 8.8 to 9.3 percent. *EBIT** before employee profit participation expenses and after extraordinary expenses in the Group climbed significantly to EUR 38.4 million (prior year: EUR 20.8 million). The prior-year figure was burdened by high extraordinary expenses in connection with the restructuring.

** Glossary page 212, 213*

Earnings Indicators 2009–2012



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

*EBT** after employee profit participation expenses and after extraordinary expenses improved considerably to EUR 24.3 million (prior year: EUR 6.4 million). Owing to the lower tax expense ratio of 49.9 percent (prior year: 151.7 percent), the *net profit for the year* before non-controlling interests stands at EUR 12.2 million (prior year: EUR -3.3 million) and after non-controlling interests at EUR 12.7 million (prior year: EUR -4.7 million) and gives rise to *earnings per share** of EUR 0.81 (prior year: EUR -0.30).

We report the *return on capital employed** (ROCE) on the basis of adjusted EBIT, i.e., before employee profit participation and adjusted for extraordinary expenses. Due to the somewhat higher adjusted EBIT and a higher amount of capital employed, the ROCE for 2012 before taxes reached 14.9 percent and almost matched the prior-year level (prior year: 15.0 percent). The increase in capital employed essentially stems from a significantly increased amount of intangible assets reported under non-current assets in connection with our large-scale IT project ProFuture*. ROCE after taxes (tax expense ratio of 30 percent used for the calculation in both years) also approached the prior-year level at 10.4 percent for the full year (prior year: 10.5 percent).

Segment Results

The *operative EBITDA* before employee profit participation expenses and before extraordinary expenses in the Industry segment before consolidation decreased slightly year on year to EUR 52.1 million (prior year: EUR 52.9 million). Owing to the higher ratio of cost of materials to total operating performance, the operative EBITDA in the Cabinet Shops segment decreased slightly to EUR 13.0 million (prior year: EUR 13.8 million). The decrease to EUR 8.8 million

* Glossary
page 212, 214

(prior year: EUR 10.3 million) in the Sales & Service segment stems from a lower sales revenue and increased personnel expenses. In the Other segment, sales revenue, and in turn the operative EBITDA, improved to EUR -4.4 million (prior year: EUR -7.5 million).

The result of the Industry segment equal to *EBT* after employee profit participation expenses and after extraordinary expenses increased to EUR 25.9 million (prior year: EUR 9.4 million). This improvement results from significantly lower restructuring and non-recurring expenses; a decrease in depreciation of property, plant and equipment and amortization of intangible assets compared to the prior year; and an improved interest result. Earnings before taxes for the Cabinet Shops segment increased to EUR 4.8 million (prior year: EUR 3.1 million). By contrast, the segment result in the Sales & Service segment decreased to EUR 4.4 million (prior year: EUR 7.6 million). This is, on the one hand, due to the complete restructuring of our sales company in Brazil. On the other, the lingering market weakness in southern Europe burdened the results of our subsidiaries in Spain and Italy in spite of the sales and structural measures. EBT in the Other segment also improved in the reporting year to EUR -12.2 million (prior year: EUR -14.6 million).

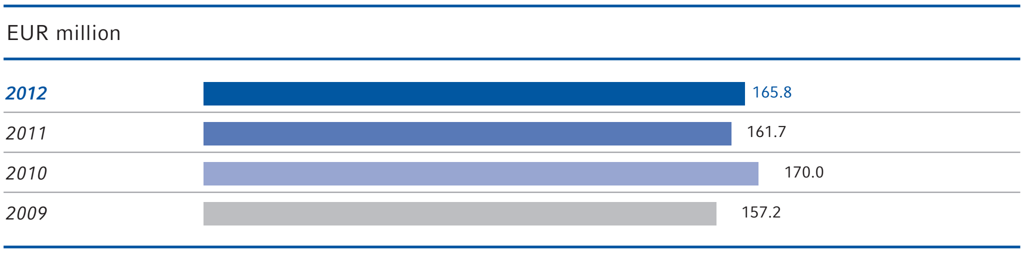
3.2 Net Assets and Financial Position

Net Assets

Our *total assets* for the Group decreased to EUR 541.0 million as of December 31, 2012 (prior year: EUR 558.4 million), which was attributable first and foremost to a lower amount of cash and cash equivalents. This is mainly the result of cash outflow in connection with the restructuring, the new building for the sales branch in Switzerland and the cash outflow for the purchase of the remaining shares in BRANDT Kantentechnik GmbH. This is also due to the significant decrease in *receivables from long-term construction contracts* year on year as the prior-year value was heavily influenced by the large-scale project with Mekran. *Intangible assets* increased by EUR 7.3 million to EUR 69.8 million (prior year: EUR 62.5 million). The main reason for this is the investment in software products in connection with our large-scale IT project ProFuture. In the fiscal year 2012, we further drove forward the parts of this project relating to the SAP ERP extension in the production companies in particular and it is expected that the first company will be able to go live already in 2013. As in the prior year, we substantially reduced our *inventories* that we built up during the year as of the end of the year. Inventories decreased to EUR 128.0 million as a result (prior year: EUR 130.0 million). The line item *receivables from associates* increased to EUR 13.8 million (prior year: EUR 9.8 million). The increase stems from the higher receivables on the part of subsidiaries from associates of the HOMAG Group. *Non-current assets* in connection with the restructuring were classified as held for sale in fiscal year 2012. Amounting to EUR 2.5 million as of the reporting date, this item of the statement of financial position contains land and buildings intended for sale and pertaining to the subsidiaries undergoing restructuring.

On the *equity and liabilities side*, our *equity* as of the end of fiscal year 2012 increased due to the net profit to EUR 165.8 million (prior year: EUR 161.7 million). This resulted in an increase in the *equity attributable to equity holders* from EUR 145.1 million in the prior year to EUR 157.7 million on account of the significantly higher consolidated net income for the year. In contrast, *non-controlling interests* decreased considerably to EUR 8.1 million (prior year: EUR 16.5 million). This is due to the further simplification of our Group’s structure,

Equity as of December 31, 2009–2012



such as through the purchase of remaining shares in BRANDT Kantentechnik GmbH. This increase in equity combined with the decrease in total equity and liabilities has resulted in an increase in our *equity ratio* (defined as ratio of equity to total equity and liabilities) of 30.6 percent as of December 31, 2012 (prior year: 29.0 percent). Owing to our new syndicated loan agreement, there was a shift in the maturity profile of our financial liabilities: our *non-current financial liabilities* have decreased, while the *current financial liabilities* have increased. The new syndicated loan agreement has a term of four years and is divided into three tranches (A, B, C). More flexible options for drawing upon the new syndicated loan were agreed in comparison to the previous loan agreement. This partly explains the higher share of current financial liabilities in the reporting year, drawings of EUR 45 million that were short term by nature were made as part of tranche C (revolving working capital credit lines). This will not necessarily lead to a cash outflow in the short term, as utilization can be extended at any time during the four-year term of the syndicated loan agreement. In total, financial liabilities decreased by EUR 10.0 million in the reporting year. This development is mainly the result of the repayment of bilateral loans, the decrease in lease liabilities and the repayment of the last tranche of the profit participation rights. *Trade payables* decreased in the reporting year, as we have, among other things, paid back existing liabilities to subcontractors in connection with the completed large-scale project with Mekran. The *prepayments received* increased, mainly on account of some large-scale projects in progress. The decrease in *other current liabilities and in deferred income* is primarily attributable to the release of accrued liabilities for severance payments in connection with the restructuring.

Our *net liabilities to banks* rose as expected to EUR 89.5 million as of December 31, 2012 (December 31, 2011: EUR 80.9 million). This is due to the cash outflow from the purchase of the remaining shares in BRANDT Kantentechnik GmbH, the new building for the sales branch in Switzerland, the repayment of the last tranche of the profit participation rights, the cost of the restructuring measures preformed in 2012 and the year-on-year increase in investment. Without these factors, net liabilities to banks would have actually decreased in 2012.

Financial Position

In the third quarter of 2012, we concluded a new syndicated loan agreement, under which we have been able to improve the terms, volumes and conditions compared to the former agreement. The agreement concluded with a syndicate of banks led by Commerzbank, Deutsche Bank and UniCredit has a volume of EUR 210 million. It has a term of four years and, like the agreement valid to date, is subject to compliance with specific covenants. The syndicated loan agreement, which would have expired in February 2013, originally had a volume of EUR 198 million and a term of three years. We currently do not see any risks to compliance with the covenants agreed in conjunction with the syndicated loan agreement, also with regard to fiscal 2013. The main financial convents consist of a stipulated minimum equity threshold and a maximum net debt to EBITDA ratio as well as a defined floor on the interest service coverage ratio for 12 months. The individual financial covenants must be complied with as of the end of each quarter.

Operating cash flow (cash flow from operating activities)* decreased slightly to EUR 38.6 million in fiscal year 2012 (prior year: EUR 40.8 million). There were two opposite changes in this item. On the one hand, receivables from long-term construction contracts, which were heavily influenced by the large-scale project Mekran in the prior year, decreased substantially. On the other, accruals that were set up for restructuring measures in fiscal 2011 were released in part. In total, EUR 6.9 million thereof had an effect on liquidity in 2012. *Cash flow from investing activities* fell significantly to EUR -41.4 million in fiscal 2012 (prior year: EUR -31.6 million) mainly on account of the acquisition of the remaining shares in the subsidiary BRANDT Kantentechnik GmbH and the increase in our capital expenditures. All in all, this gives rise to *free cash flow** (operating cash flow added to cash flow from investing activities) of EUR -2.8 million (prior year: EUR 9.3 million). If adjusted for the restructuring measures performed, the free cash flow would have been positive at EUR 4.1 million. *Cash flow from financing activities* improved to EUR -9.2 million (prior year: EUR -23.6 million). The prior-year figure contained a dividend payment of EUR 4.7 million to the shareholders as well as the repayment of the profit participation right totaling EUR 10 million from cash and cash equivalents. *Cash and cash equivalents* stood at EUR 45.6 million as of December 31, 2012 (prior year: EUR 56.5 million).

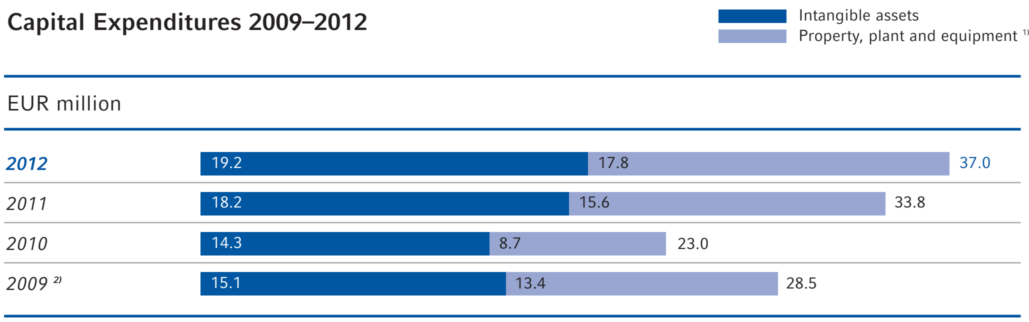
3.3 Capital Expenditures, Amortization and Depreciation

As announced, the investment volume in the Group increased further in fiscal year 2012. For instance, our *investments in intangible assets and property, plant and equipment* (excluding leases) came to EUR 37.0 million (prior year: EUR 33.8 million). The focal point here was on the new building for the sales and service branch in Switzerland, the further expansion of the Chinese production plant in Shanghai, the comprehensive automation of the warehouse logistics at HOMAG Holzbearbeitungssysteme GmbH, investment in our enterprise software in connection with our large-scale IT project ProFuture and investment in our new CompetenceCenter in Herzebrock. Capital expenditures include *capitalized development work* of EUR 9.9 million (prior year: EUR 10.5 million). As of December 31, 2012, the total value of our *property, plant and equipment and intangible assets* stood at EUR 202.4 million (prior year: EUR 197.7 million).

As expected our *amortization, depreciation and impairment losses* at Group level decreased to EUR 28.1 million in fiscal year 2012 (prior year: EUR 32.1 million), as the prior-year figure included impairment losses in connection with the restructuring totaling EUR 4.1 million. Adjusted for these effects, the amortization, depreciation and impairment losses approximate the prior-year level.

* Glossary page 213

Capital Expenditures 2009–2012



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

4. OVERALL STATEMENT ON THE ECONOMIC SITUATION

In the opinion of the HOMAG Group’s management board, fiscal 2012 was a successful year. For instance, all of the targets set in advance for the Group were reached despite the difficult environmental conditions brought on by the economic uncertainties prevailing on markets worldwide. It was possible to fulfill or exceed the forecasts. It was possible to match the good level of order intake reached in the prior year and to slightly increase sales revenue for the Group adjusted for special effects. The management board is particularly pleased with the development of the results of operations. The measures taken to enhance efficiency are having a positive impact here. For instance, it was possible to reduce the cost base and further improve the operative performance. This led to increases – in some cases very significant increases – across all earnings indicators compared to 2011. Following the loss incurred in the prior year, the net profit for the Group after non-controlling interests reached EUR 12.7 million in the past fiscal year. The newly concluded syndicated loan agreement with a term of four years also makes a contribution to the positive overall assessment of fiscal year 2012. With it, the Group's growth plan is backed by sound financing. Overall, the management board believes that the HOMAG Group is well prepared for the future and expects further growth in the coming years.

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

Preliminary Remarks

The group management report was combined with the management report of HOMAG Group AG in 2012. The development of HOMAG Group AG presented in the following is based on its financial statements that were prepared in accordance with the provisions of the HGB and the AktG.

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

5.1 Results of Operations

The *result from ordinary activities* increased within HOMAG Group AG from EUR 1.3 million to EUR 12.8 million. *Other operating income* increased from EUR 5.5 million to EUR 14.5 million. This is partly due to the cross-charging of expenses incurred centrally at HOMAG Group AG. These include, for instance, the cost of the syndicated loan agreement concluded in 2012. The increase is also attributable to the write-ups recognized on financial assets as the investment in the subsidiary WEEKE Bohrsysteme GmbH was written up by EUR 4.0 million. Following the consolidation into the consolidated financial statements, this does not have any effects at a group level. Further cost allocations were made for the specialist departments, which are integrated into HOMAG Group AG and perform services on behalf of subsidiaries. On account of the higher dividend payments at subsidiaries, *income from equity investments* decreased to EUR 1.3 million (prior year: EUR 4.4 million). As the results of operations at HOMAG Holzbearbeitungssysteme GmbH, with which there is a profit and loss transfer agreement in place, improved again, *income from profit and loss transfer agreements* at HOMAG Group AG rose to EUR 19.4 million (prior year: EUR 14.1 million). This reflects in particular the significantly lower losses of the subsidiary FRIZ Kaschiertechnik GmbH and the positive development of HOLZMA Plattenaufteiltechnik GmbH, which in turn has a profit and loss transfer agreement in place with HOMAG Holzbearbeitungssysteme GmbH.

The rise in *personnel expenses* to EUR 6.1 million (prior year: EUR 4.9 million) is partly attributable to the collectively bargained wage and salary increases from May 2012 as well as a compensation payment made in 2012 for a former member of the management board. Moreover, HOMAG Group AG increased its headcount. In total, as of the reporting date 2012, HOMAG Group AG had a total of 30 employees (excluding management board members) (prior year: 23 employees). In the reporting year, HOMAG Group AG increased the number of employees in positions of strategic importance in order to further optimize group-wide cooperation within the Group. *Other operating expenses* came to EUR 11.1 million in the reporting year (prior year: EUR 11.9 million). This includes fees in connection with the conclusion of the syndicated loan agreement and expenses incurred centrally at HOMAG Group AG and that are cross-charged accordingly. In the course of the restructuring, a capital increase was performed at TORWEGGE Holzbearbeitungsmaschinen GmbH, which was then written down again. As a result, *impairment losses* of EUR 1.7 million were recognized on financial assets in the reporting year (prior year: EUR 2.1 million).

The *interest result* improved slightly from EUR -3.6 million to EUR -3.4 million. This is due, among other things, to an improved bank margin, which also lowered the stand-by fees for the syndicated loan agreement. Interest expenses in 2012 include, in addition to the interest payable to banks of EUR 2.6 million, stand-by fees of EUR 0.5 million and interest expenses from intercompany loans and cash pooling of EUR 0.5 million.

Income taxes stand at EUR -3.5 million (prior year: EUR -0.5 million). The increase stems partly from the higher EBT compared to the prior year and partly from the unused corporate income tax losses in 2012.

All in all, HOMAG Group AG reports *net income for the year* 2012 of EUR 9.0 million (prior year: EUR 0.4 million). The *retained earnings* from 2011 amounting to EUR 21.6 million were carried forward in full.

5.2 Net Assets and Financial Position

On the *assets side, receivables from affiliates* increased by EUR 15.4 million to EUR 167.4 million in the reporting year (prior year: EUR 152.0 million). This stems from the purchase of the remaining shares in the subsidiary BRANDT Kantentechnik GmbH, the intercompany assumption of shares in HOMAG MACHINERY Środa Sp. z o.o., the capital increase at HOMAG MACHINERY Bangalore Pvt. Ltd. and the increase in the carrying amount of the equity investment owing to the write-up of the subsidiary WEEKE Bohrsysteme GmbH. *Receivables from affiliates* increased by EUR 7.1 million in the reporting period to EUR 25.3 million mainly due to the profit and loss transfer agreement in place (prior year: EUR 18.2 million). This item also contains receivables of EUR 2.1 million that stem from the cash pooling arrangement introduced in the prior year. The bank balances decreased as of December 31, 2012 to EUR 13.4 million (prior year: EUR 30.2 million). The cash outflow mainly stems from the aforementioned share acquisitions at the subsidiaries HOMAG MACHINERY Środa Sp. z o.o., BRANDT Kantentechnik GmbH and a capital increase at HOMAG MACHINERY Bangalore Pvt. Ltd.

On the *equity and liabilities side*, *tax provisions* rose from EUR 2.3 million to EUR 5.1 million in the reporting year, above all due to the income taxes expected to fall due for the reporting year. *Other provisions* decreased by EUR 0.7 million to EUR 2.1 million (prior year: EUR 2.8 million). This is primarily due to the lower provision for bonuses and lower provisions for outstanding invoices. The liabilities to banks increased in the reporting period by EUR 10 million to a total of EUR 90 million (prior year: EUR 80 million) as a new syndicated loan agreement was concluded in the reporting year. This contains a cash redemption loan of EUR 60 million. In contrast, *liabilities to affiliates* decreased considerably to EUR 28.1 million (prior year: EUR 44.5 million). EUR 10.4 million of this development is attributable to cash pooling. In the prior year, this balance sheet item also contained a loan from an affiliate that was decreased in the course of the repayment of the existing profit participation agreement totaling EUR 5.0 million. *Total assets* increased during the reporting year to EUR 207.9 million (prior year: EUR 203.6 million). Owing to the large increase in retained profit, the *equity ratio* increased significantly from 35.6 percent to 39.2 percent, despite a slight increase in the balance sheet total.

6. SUBSEQUENT EVENTS

After the end of the reporting year, the management of HOMAG Group AG and the management of FRIZ Kaschiertechnik GmbH reached an agreement with the works' council of FRIZ Kaschiertechnik GmbH and the group works' council concerning the terms of the planned restructuring. They jointly agreed on a reconciliation of interests and a redundancy plan. A total of 26 employees will continue to be employed at the Weinsberg site, where profile wrapping machines will still be developed and produced. FRIZ, a brand with a strong tradition, will be kept for these products. Service activities will also be maintained at the site. In close cooperation with FRIZ Kaschiertechnik GmbH, HOMAG Holzbearbeitungssysteme GmbH in Schopfloch will continue to offer the laminating technology*. The other 26 employees affected by the restructuring can all join a transfer company.

* Glossary page 210

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

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

Risk Management System

HOMAG Group's risk management system is essentially supported by the management accounting system. It includes project controlling, cost object controlling and detailed segment reporting. 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 are defined, and their compliance is monitored by the management accounting department. The scope of the analysis includes data relating to market penetration 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 also continued to refine our risk management system in fiscal 2012. As an example, we extended our cash pooling system to nearly all German companies. In 2013, we will incorporate all foreign companies within the eurozone. As part of our internal audit, all group entities are audited at intervals of three to five years. The audits are performed by auditing firms or suitably qualified companies appointed by HOMAG Group AG. This ensures that external specialists identify risks, assess internal processes and ultimately recognize potential for optimization. We audited one production company and five sales companies in the 2012 reporting year. The management board and the audit committee are informed promptly about the findings of the internal audits. The reports are then analyzed and necessary measures are introduced by the management board member ponsible for that portfolio. The audits performed in 2012 revealed that the individual companies operate in compliance with the relevant legal provisions and internal guidelines.

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 have a negative effect even on our order volumes. There are still economic risks, in particular on account of the uncertainty on the financial markets. We counter this overall economic risk by keeping our personnel capacities as flexible as possible and adjusting our production plan early to developments in order intake.

Customer Risks

The Group is not dependent on a single customer or a small group of customers, since, in most cases, no single customer directly generates more than 5 percent of total sales revenue. There is a risk that customers may default on their debts. We minimize this risk by obtaining prepayments based on the stage of completion of projects, by applying our strict receivables management system and by taking out insurance on a case-by-case basis. Overall, this approach has rewarded us with a low proportion of bad debts compared to other companies in the industry.

Product and Development Risks

As the market leader in our industry, we in the HOMAG Group are intent on being and remaining the innovation and technology leader. This has resulted in an innovative product strategy that does, however, also entail a risk of misjudging future market developments and the risk of misguided technological developments. We counter this risk by means of close market observation and close relationships to customers who provide us early feedback in the event of new developments. We rule out R&D budget overruns and unexpected increases in the start-up cost of new products as much as possible using systematic procedural cycles. During product creation, each new development passes through various uniform process stages defined throughout the Group. The costs of new developments are consistently recorded and the progress of development is assessed.

From standard machines for cabinet shops to complex production lines for industrial series production, we have a wide range of different products. The broad scope of the product range means that weak sales revenue in one product segment would not lead to risks to the Group's ability to continue as going concern. In general, the market entry barriers in our industry are very high. As a result, we estimate that there is a comparatively low risk of new competitors encroaching on our technological lead.

Procurement and Purchasing Risks

To ensure that the high quality of key raw materials as well as supplied parts and components meet our standards and to avoid supply bottlenecks, we very carefully select our suppliers and usually work with them closely over many years based on a trusting relationship. Such 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.

Due to the difficult economic situation, it is very difficult to predict how commodity prices will develop, as they continue to be heavily dependent on institutional investors. In 2012, we observed a trend of falling prices, although we expect slightly higher raw materials prices for 2013. Allocating all price increases to our customers is not always possible. For this reason, we counter the negative impact of commodity price increases to the extent possible by concluding master agreements with fixed prices and bundling demand within HOMAG Group to capture the benefits of placing higher order volumes. In addition, the further expansion of our international purchasing function is also designed to safeguard the necessary quality and to keep supply risks to a minimum in the long term.

IT Risks

The main IT risks relate to data loss, damage or misuse. In addition, there is a risk of IT systems or software solutions failure. This could lead to delays in order processing and the supply chain, which may in turn have an impact on costs and sales revenue. In order to counter the existing risks, we continued to improve and expand our IT security in 2012. Malware protection is centralized within the Group to minimize the risk of system failure. In this way, response times are optimized and administration is simplified. In addition to this, we have already introduced an Intrusion Detection System* at some subsidiaries, which makes external attacks visible within the network and allows for a quicker response time. In the past fiscal year we began centralizing Microsoft patch management* within the Group in order to close security gaps in Microsoft operating systems.

The further implementation of our public key infrastructure acts as the basis for a wide range of IT security measures to additionally safeguard computer-based communications. In order to counter data misuse in the long term, we have introduced of a two-factor authentication project that limits future access to systems based on a password combined with a hardware component. Furthermore, notebooks were provided with hard disk encryption at the same time.

Quality Risks

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

Currency Risks

Currency risks can arise from our international activities, which can indirectly impact the Group's sales revenue and results of operations. To mitigate the risks from the large exchange rate 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 use hedging instruments for the portion of sales revenue that we generate in foreign currencies. We also work with price indexing clauses in individual cases.

Liquidity and Financing Risks

We secured our liquidity by entering into a syndicated loan agreement in September 2012 with a term of four years that is contingent on us complying with certain covenants. 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, a portion of our loans bear a fixed interest rate and we hedged another portion of our loans until February 2013 using interest rate hedges that set a maximum interest rate (caps). We also aim to conclude further interest rate hedges in 2013.

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

* Glossary page 210

In connection with the investment of liquid funds, the Group is exposed to losses from credit risks where the obligations from financial instruments are not met. The HOMAG Group manages the resulting risk position by diversifying its portfolio and selecting its contractual parties carefully. There are no liquid funds past due or impaired at present due to default.

Compliance Risks

At the HOMAG Group, compliance relates to all organizational and technical aspects of complying with regulatory requirements, statutory provisions as well as corporate guidelines. In a first step, they serve to prevent violations that may damage the Company. The CFO is responsible for compliance topics at HOMAG Group AG. The CFO prepared a code of conduct for foreign companies in fiscal 2010. This contains binding guidelines for the actions of the management board, middle management and all employees of HOMAG Group. A corresponding code of conduct is to be issued for the German companies before the end of 2013.

The management board of HOMAG Group AG will appoint a compliance officer in fiscal 2013 to manage the further design and development of the compliance organization. Moreover, first measures are to be approved as part of a compliance project by the end of 2013. These measures include an anti-corruption guideline, a guideline on antitrust-compliant behavior and a guideline on cooperation with business partners. During this process, the compliance project will be executed in cooperation with a reputable external consultant. The compliance system is to be closely linked into the operating risk management system, the internal monitoring system and the internal audit system. The compliance officer will report directly to the management board. The management board will, in turn, regularly report to the supervisory board on the status quo of the compliance organization in place and the material compliance topics that arise and will consult the supervisory board in this regard.

Legal Risks

One risk in our business activities relates to the assertion of warranty claims or the related bad debts. There are currently no material risks arising from bad debt or warranty claims being asserted.

Tax Risks

The consolidated financial statements of the HOMAG Group include significant amounts of tax assets recognized on unused tax losses. Firstly, the availability of these tax loss carry forwards for use depends on the actual occurrence of the planned future development of earnings. Secondly, in the event of a change in shareholder composition of more than 25 percent or similar transaction, it is possible that portions of these unused tax losses may be forfeited. In order to mitigate these risks, we have recognized unused tax losses with the utmost caution within the Group for years.

Opportunities Report

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

We see group-wide opportunities and the resulting potential for the HOMAG Group from ongoing globalization and the increasing importance of emerging economies. We are already present on these emerging markets, we are currently further expanding our capacities in China and India and are also further developing our sales and service organization in the growth regions. Even though growth in some markets appears to be slowing, for example in China, they continue to grow. For this reason, the HOMAG Group is expected to follow the present trend. Demand for wood processing machinery and equipment is expected to increase over the next few years as the increasing urbanization in these growing economies will cause a further rise in demand for living space, furniture and structural elements. The pursuit of a higher living standard will also gain importance in these markets in the coming years.

We currently see further opportunities in the recovery in the economic situation in the United States. Following the property crisis, this major market is showing, on the one hand, pent-up demand for wood processing machinery and equipment from which we intend to benefit in future on account of our good position in the market. On the other, many companies in the United States are currently reshoring their production capacities with a view to strengthening their home market and are primarily investing in modernizing domestic production facilities.

In addition, we generally see the market for wood processing machinery to be a growth market. In our industry, increasing demand for individuality and consequently for varied product versions in production can be observed worldwide. With our state-of-the-art batch size 1 lines, we have the machinery necessary to meet the increasing demands of our customers.

There are also a number of opportunities for the HOMAG Group in streamlining the Group structure, thus reducing the associated complexities. For instance, the restructuring performed at subsidiaries BÜTFERING Schleiftechnik GmbH, FRIZ Kaschiertechnik GmbH and TORWEGGE Holzbearbeitungsmaschinen GmbH made a positive contribution to the further development of the Group in 2012. As part of our HOMAG Group Action Program, more than 500 measures to be implemented in the individual projects were defined in 2011. On the whole, these measures had a positive effect on productivity, costs and thus the Group result for the year. The potential expected from the HOMAG Group Action Program of EUR 10 million for 2012 to achieve our planned targets was reached. We will continue to further pursue this program and define additional measures in fiscal 2013.

According to the strategy presented in fiscal 2012, the Company aims to generate group sales revenue of EUR 1 billion by 2017.

Summary

From today's viewpoint there are no identifiable risks that might jeopardize the HOMAG Group's ability to continue as a going concern. The largest risks continue to result from economic uncertainty on the global markets. We have adapted to this situation as best we can with extensive measures. From today's perspective, we do not see any risks in the years to come beyond the risks listed in this risk report. All in all, there are opportunities for growth in our industry that we intend to exploit on the basis of our high level of innovative power, our committed and competent employees, our unique range of products and services and our global presence. As part of an extensive package of measures, we have firmly anchored the opportunities in our corporate strategy.

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

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

- The management board bears overall responsibility for the internal monitoring and risk management system with regard to the group financial reporting process. All consolidated entities and strategic business units are part of a strictly defined management and reporting structure. The supervisory board, and the audit committee in particular, also regularly assess the HOMAG Group's internal monitoring systems (risk management, internal audit) in terms of their effectiveness. The audit committee therefore regularly examines internal monitoring and risk management.
- Certain principles and organizational resolutions and the main processes of the (group) internal monitoring and risk management system with regard to financial reporting are set out in guidelines that apply throughout the group (e.g., risk management handbook) and are adapted to recent external and internal developments on a regular basis. These include guidelines on procedures and timelines for the annual and interim financial statements, the group accounting handbook in accordance with the International Financial Reporting Standards 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 significant influence on group accounting and the overall picture conveyed by the group financial statements and group management report to be material. 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, above all unusual and complex business transactions and non-standard processes;
- Monitoring instruments for (group) financial reporting process and the results thereof at the level of the management board, the strategic business units and consolidated companies;
- Preventative monitoring measures in the finance and accounting of the Group and the individual consolidated companies, as well as in operating business processes which generate the key figures for the preparation of the consolidated financial statements and group management report, which has been combined with the management report of the Company. Other significant aspects include the segregation of functions, the dual control principle and the authorization procedures determined in relevant areas. The use of a group accounting manual 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 the internal audit.

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

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

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

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

The HOMAG Group's internal monitoring and risk management system ensures that the financial reporting of the Company and the consolidated companies is uniform and complies with legal provisions and internal guidelines. The standardized group risk management system in particular, which meets all legal requirements, is charged with the task of identifying and evaluating risks at an early stage, and communicating them appropriately. This ensures that users 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.

8. FORECAST REPORT

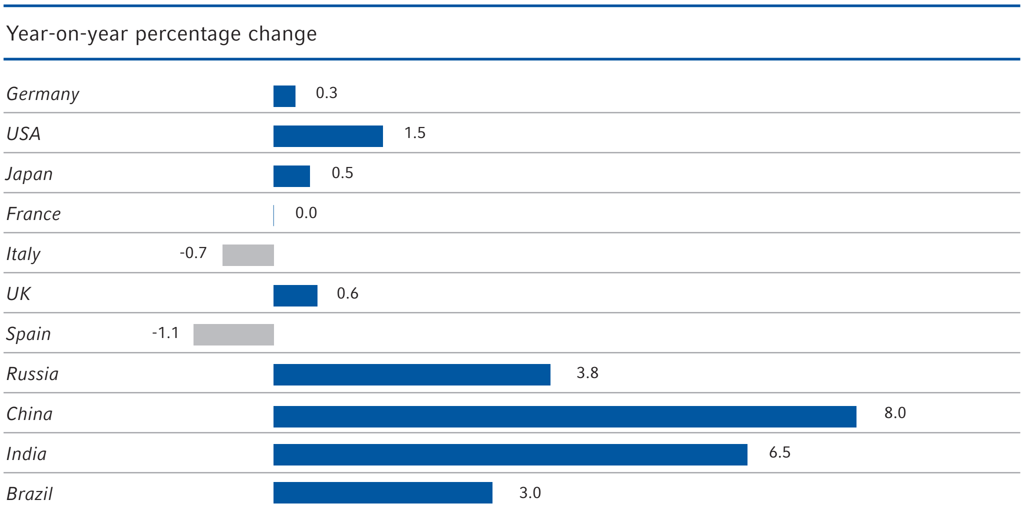
Development of the Economy and Industry

Looking at the current year, 2013, both the IfW ["Institut für Weltwirtschaft": World Economics Institute] and the DIW ["Deutsches Institut für Wirtschaftsforschung": German Institute of Economic Research] are cautiously optimistic. Indeed, some of the major financial policy problems have still not been conclusively resolved and continue to create uncertainty. Nevertheless, the economic experts anticipate that the global economy, after a somewhat weak start to the year, will gradually grow more strongly again. For instance, the IfW expects global gross domestic product to grow by 3.4 percent in 2013, and thus somewhat more strongly than in 2012.

Here, the hopes rest in particular on emerging economies, for which growth of 5.9 percent is forecast. Growth of 8.0 percent is expected for China and of 7.3 percent for Asia on aggregate. Brazil with an increase of 3.0 percent and Russia with an increase of 3.8 percent will continue to develop somewhat more weakly yet still positively according to the forecast.

The institutes project growth of 0.9 percent for industrialized nations. Growth of 1.5 percent is expected for the United States and of 0.5 percent for Japan. For Europe, the IfW expects the economic development of the eurozone to stabilize as the year progresses, despite persisting adverse factors. Notwithstanding this, gross domestic product in the eurozone will decrease by another 0.2 percent. According to the forecasts, the crisis countries of southern Europe will remain in recession. The French and Dutch economies are expected to stagnate, while growth is anticipated in Belgium, Austria and Slovakia, among others.

GDP (real) 2013 Forecast



Source: IfW

There is somewhat less consensus when it comes to forecasting the development of the German economy. For instance, the IfW assumes that the output gap to potential output will not begin to close again until the winter of 2013/2014 and that the Germany economy will only grow by 0.3 percent in 2013. At the same time, investment in capital goods is expected to decrease by 2.9 percent. By contrast, the DIW expects that the recovery from the lull will be quicker and projects economic growth of 0.9 percent. In January, the German federal government reduced its forecast for 2013 from 1.0 percent to 0.4 percent.

For 2013, the professional association for mechanical engineering in the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation] sees opportunities for moderate growth in the mechanical engineering industry and forecasts an increase in machine production in the range of 2 percent. For the wood processing machines segment, the competent industry association also anticipates small growth of 2 percent.

Forecast for HOMAG Group

Forecasts continue to be difficult on account of the economic uncertainties. How the financial crisis in the eurozone pans out will be decisive for the development of the economic cycle. Consequently, the forecast for the HOMAG Group is valid subject to the condition that there are no major disruptions in the global economy and that the economic environment, particularly in Europe, but also in Asia and America does not deteriorate. The development of the HOMAG Group over the next few years will also be impacted by the factors named in the Risk and Opportunities Report (see page 79 ff).

We expect the project business with large-scale production lines to calm down in the first half of 2013 in comparison with the good first six months of the prior year that were characterized to a certain extent by an easing of the investment backlog. However, the need for investment in modern, powerful machinery and lines remains uninterrupted in the medium term. We continue to see large potential in America, Asia and parts of eastern Europe. Driven by our innovation power, we will again make a powerful impact on the market with our innovations at the world's leading trade fair for our industry, LIGNA, in May 2013 in Germany, but also at other major trade fairs, such as in India or China. In the stand-alone machines segment, we expect the competitive situation to remain tense, especially in western Europe. Owing to our strong global presence, which we are expanding further, we can compensate for regional fluctuations in demand or a slowdown in individual regional markets. We continue to see positive trends in our service business, which is why we will continue to expand our service structures. For 2013, we again anticipate that the growth markets will develop more dynamically than the industrialized nations, also in our fields of activity.

In 2013, we want to grow further and exceed the prior year's *order intake* figure in the HOMAG Group. We expect the Group's *sales revenue* to reach about EUR 800 million. We anticipate an *operative EBITDA* before employee profit participation expenses and before extraordinary expenses of around EUR 75 million and the Group to return a *net profit for the year* of about EUR 15 million.

At single-entity level, we expect HOMAG Group AG to also increase its net result in 2013 compared to the prior year. On the one hand, this is due to the expansion of the consolidated tax group, which is expected to increase HOMAG Group AG's earnings further with the planned conclusion of an additional profit and loss transfer agreement with BRANDT Kantentechnik GmbH. On the other, we also expect a further increase in the net income for the year to be transferred from those companies with which profit and loss transfer agreements are already in place. For 2014, we anticipate a further rise on account of the sustained development of the companies with which profit and loss transfer agreement are in place.

We project a slight decrease in headcount in Germany as the restructuring measures are concluded. By contrast, we plan to build up personnel at our foreign production companies in China and Poland as well as at some sales and service companies, especially in growth markets.

In relation to the individual segments of the HOMAG Group (Industry, Cabinet Shops, Sales & Service and Other), we expect a slight increase in sales revenue and earnings in the Industry segment as well as in the Cabinet Shops segment in 2013 compared to 2012. For the Sales & Service segment we even expect a significant improvement in sales revenue and earnings. We also expect to improve on the prior-year values in the Other segment.

The investment volume in 2013 will approach the level of fiscal 2012. Capital expenditures will focus on the automation of warehouse logistics at HOMAG Holzbearbeitungssysteme GmbH and the large-scale IT project, ProFuture.

Fiscal 2014

Economists assume that the global economy will expand substantially again in 2014 and that the eurozone will have left the recession behind it. However, the experts point out that these forecasts are still uncertain. Consequently, our forecast is also subject to the condition that these predictions prove accurate.

Under these premises, we want to continue on our growth course in 2014 as well. *Order intake* and *sales revenue* in the Group should increase further compared to 2013, which means that we anticipate sales revenue in excess of EUR 800 million. We also want to further improve the *results of operations* and increase both the *operative EBITDA* and the *net profit of the Group* for the year compared to the current fiscal year.

As the global market leader, we also want to grow faster in the future than our market and thus reach the one-billion mark in sales revenue by 2017. To this end, we see the greatest potential in the growth regions and, particularly in China, we want to raise our sales revenue from about EUR 70 million today to more than double that figure by 2017.

Consolidated Financial Statements for Fiscal Year 2012

CONSOLIDATED INCOME STATEMENT FOR FISCAL YEAR 2012

EUR k	Note	2012	2011
SALES REVENUE	5.1	**766,951**	**798,678**
Increase or decrease in inventories of finished goods and work in process		-1,272	1,394
Own work capitalized	5.2	11,189	11,713
		9,917	13,107
TOTAL OPERATING PERFORMANCE		**776,868**	**811,785**
Other operating income	5.3	20,373	17,368
		797,241	**829,153**
Cost of materials	5.4	330,153	363,025
Personnel expenses before employee participation	5.5	281,332	284,047
Amortization of intangible assets	5.7	11,732	13,356
Depreciation of property, plant and equipment	5.8	16,374	18,751
Other operating expenses	5.9	119,250	129,145
		758,841	**808,324**
OPERATING RESULT BEFORE EMPLOYEE PARTICIPATION		**38,400**	**20,829**
Result from employee participation	5.5	-7,030	-5,116
NET OPERATING PROFIT/LOSS		**31,370**	**15,713**
Profit/loss from associates	5.10	1,136	625
Interest income	5.13	2,762	3,388
Interest expenses	5.13	10,978	13,360
EARNINGS BEFORE TAXES		**24,290**	**6,366**
Income taxes	5.14	-12,111	-9,658
NET PROFIT/LOSS FOR THE YEAR		**12,179**	**-3,292**
Profit/loss attributable to non-controlling interests	5.16	-501	1,426
Profit/loss attributable to owners of Homag Group AG	5.17	12,680	-4,718
Earnings per share attributable to owners of Homag Group AG in EUR (basic and diluted)		0.81	-0.30

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR FISCAL YEAR 2012

EUR k	2012	2011
GROUP NET PROFIT/LOSS FOR THE YEAR	**12,179**	**-3,292**
Currency effects	266	561
- thereof share of associates included using the equity method	*-25*	*81*
Actuarial gains and losses	-327	121
Income tax on other comprehensive income	83	-30
OTHER COMPREHENSIVE INCOME	**22**	**652**
TOTAL COMPREHENSIVE INCOME	**12,201**	**-2,640**
Total comprehensive income attributable to non-controlling interests	-466	1,616
Total comprehensive income attributable to owners of Homag Group AG	12,667	-4,256

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2012

ASSETS

EUR k		Note	**Dec. 31, 2012**	Dec. 31, 2011
NON-CURRENT ASSETS				
I.	Intangible assets	6.1, 6.2	69,793	62,491
II.	Property, plant and equipment	6.1, 6.3	132,594	135,217
III.	Investments in associates	6.4	8,732	7,875
IV.	Other financial assets		501	534
V.	Receivables and other assets			
	Trade receivables	6.6	1,538	1,664
	Other financial assets	6.8	1,136	1,813
	Other assets and prepaid expenses	6.9	73	99
	Income tax receivables	6.10	1,750	2,151
VI.	Deferred taxes	5.14	12,056	13,833
			228,173	**225,677**
CURRENT ASSETS				
I.	Inventories	6.5	127,967	129,961
II.	Receivables and other assets			
	Trade receivables	6.6	84,959	85,382
	Receivables from long-term construction contracts	6.7	23,231	34,233
	Receivables due from associates	6.6	13,792	9,809
	Other financial assets	6.8	8,271	9,540
	Other assets and prepaid expenses	6.9	4,751	4,420
	Income tax receivables	6.10	1,811	2,885
III.	Cash and cash equivalents	6.11	45,557	56,469
			310,339	**332,699**
IV.	Non-current assets held for sale	6.12	2,505	0
			312,844	**332,699**
TOTAL ASSETS			**541,017**	**558,376**

EQUITY AND LIABILITIES

EUR k		Note	Dec. 31, 2012	Dec. 31, 2011
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	96,361	101,203
IV.	Net profit/loss for the year	6.13.4	12,680	-4,718
	Equity attributable to owners		157,705	145,149
V.	Non-controlling interests	6.13.5	8,056	16,505
			165,761	**161,654**
NON-CURRENT LIABILITIES AND PROVISIONS				
I.	Non-current financial liabilities	6.14	71,698	114,328
II.	Other non-current liabilities		9,606	11,101
III.	Pensions and other post employment benefits	6.16	3,368	3,284
IV.	Obligations from employee participation	6.17	13,133	11,885
V.	Other non-current provisions	6.18	5,088	4,562
VI.	Deferred taxes	5.14	12,900	11,602
			115,793	**156,762**
CURRENT LIABILITIES AND PROVISIONS				
I.	Current financial liabilities	6.14	70,894	38,257
II.	Trade payables		60,936	78,444
III.	Prepayments		34,956	27,685
IV.	Liabilities from long-term construction contracts	6.7	3,316	2,917
V.	Liabilities to associates		2,714	1,980
VI.	Other financial liabilities		7	103
VII.	Other current liabilities and deferred income		65,496	71,027
VIII.	Tax liabilities		6,463	2,767
IX.	Pensions and other post employment benefits	6.16	72	52
X.	Other current provisions	6.18	14,609	16,728
			259,463	**239,960**
TOTAL LIABILITIES			**375,256**	**396,722**
TOTAL EQUITY AND LIABILITIES			**541,017**	**558,376**

CONSOLIDATED CASH FLOW STATEMENT FOR FISCAL YEAR 2012

EUR k	Note 4.2.20	2012	2011
1. CASH FLOW FROM OPERATING ACTIVITIES			
Profit or loss before taxes		**24,290**	**6,366**
Income tax paid (-)		-4,198	-6,736
Interest result	5.13	8,216	9,972
Interest paid (-)		-12,088	-12,061
Interest received (+)		2,713	3,326
Write-downs (+)/write-ups (-) of non-current assets (netted)	5.7, 5.8	28,106	32,107
Increase (+)/decrease (-) in provisions		-754	1,827
Other non-cash expenses (+)/income (-)		-1	-26
Share of profit (-) or loss (+) of associates	5.10	-1,136	-625
Dividends from associates		255	350
Gain (-)/loss (+) on disposal of non-current assets		-980	26
Increase (-)/decrease (+) in inventories, trade receivables and other assets		9,534	-8,323
Increase (+)/decrease (-) in trade payables and other liabilities		-15,361	14,613
CASH FLOW FROM OPERATING ACTIVITIES		**38,596**	**40,816**
2. CASH FLOW FROM INVESTING ACTIVITIES			
Cash received (+) from disposals of property, plant and equipment		3,074	2,213
Cash paid (-) for investments in property, plant and equipment	6.1	-17,738	-15,561
Cash received (+) from disposal of intangible assets		1	2
Cash paid (-) for investments in intangible assets		-19,220	-18,204
Cash paid (-) for the acquisition of non-controlling interests		-7,528	0
Cash paid (-) for investments in financial assets		11	0
CASH FLOW FROM INVESTING ACTIVITIES		**-41,400**	**-31,550**

EUR k	Note 4.2.20	2012	2011
3. CASH FLOW FROM FINANCING ACTIVITIES			
Dividends	5.18	0	-4,706
Cash paid (-) to non-controlling interests		-255	-934
Cash received (+) from the issue of (financial) liabilities		112,930	23,063
Cash repayment (-) of bonds and (financial) liabilities		-121,854	-41,029
CASH FLOW FROM FINANCING ACTIVITIES		**-9,179**	**-23,606**
4. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			
Change in cash and cash equivalents (subtotal 1-3)		-11,983	-14,340
Effect of currency translation adjustments and change in scope of consolidation on cash and cash equivalents		1,071	523
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**56,469**	**70,286**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD [1]		**45,557**	**56,469**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR FISCAL YEAR 2012

			Revenue
EUR k	Issued capital	Capital reserve	Revenue reserves
JAN. 1, 2011	**15,688**	**32,976**	**93,348**
OTHER CHANGES			**-81**
Dividends paid			-4,706
Changes from non-controlling interests			31
TRANSACTIONS WITH OWNERS			**-4,675**
RECLASSIFICATION TO REVENUE RESERVES			**6,683**
Net profit/loss for the year			
Other income and expense			
TOTAL COMPREHENSIVE INCOME			
DEC. 31, 2011	**15,688**	**32,976**	**95,275**
JAN. 1, 2012	**15,688**	**32,976**	**95,275**
OTHER CHANGES			**-309**
Dividends paid			
Changes from non-controlling interests			198
TRANSACTIONS WITH OWNERS			**198**
RECLASSIFICATION TO REVENUE RESERVES			**-4,718**
Net profit/loss for the year			
Other income and expense			
TOTAL COMPREHENSIVE INCOME			
DEC. 31, 2012	**15,688**	**32,976**	**90,446**

reserves					
Other comprehensive income	Translation reserve	Group profit	Equity before non-controlling interests	Non-controlling interests	**Total**
-224	**5,690**	**6,683**	**154,161**	**15,853**	**170,014**
			-81	**1**	**-80**
			-4,706	-934	**-5,640**
			31	-31	**0**
			-4,675	**-965**	**-5,640**
		-6,683	**0**	**0**	**0**
		-4,718	-4,718	1,426	**-3,292**
90	372		462	190	**652**
90	**372**	**-4,718**	**-4,256**	**1,616**	**-2,640**
-134	**6,062**	**-4,718**	**145,149**	**16,505**	**161,654**
-134	**6,062**	**-4,718**	**145,149**	**16,505**	**161,654**
			-309	**-1**	**-310**
			0	-255	**-255**
			198	-7,727	**-7,529**
			198	**-7,982**	**-7,784**
		4,718	**0**	**0**	**0**
		12,680	12,680	-501	**12,179**
-243	230		-13	35	**22**
-243	**230**	**12,680**	**12,667**	**-466**	**12,201**
-377	**6,292**	**12,680**	**157,705**	**8,056**	**165,761**

Notes to the Consolidated Financial Statements for Fiscal Year 2012

1. GENERAL

1.1 Application of Accounting Requirements

The consolidated financial statements of Homag Group AG (Homag Group) as of December 31, 2012 were prepared in accordance with the International Financial Reporting Standards* (IFRSs) of the International Accounting Standards Board (IASB) and the interpretations of the IFRS Interpretations Committee (IFRIC) as adopted by the EU and applicable as of the reporting date. The supplementary provisions of Sec. 315a HGB ["Handelsgesetzbuch": German Commercial Code] were also complied with.

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

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

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

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 and for cabinet makers. 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 subdivision 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.

* *Glossary page 213*

1.3 Date of Authorization for Issue of Financial Statements

On March 15, 2013, the management board of Homag Group AG released the 2012 consolidated financial statements and the 2012 combined management report for distribution to the supervisory board.

2. BASIS OF PREPARATION

2.1 Basis of Consolidation

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

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

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

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

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

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

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

2.2 Acquisition of Non-controlling Interests

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

2.3 Foreign Currency Translation

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

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

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

	Closing rate		Average rate	
1 EUR	**Dec. 31, 2012**	Dec. 31, 2011	**2012**	2011
US dollar	1.31830	1.29380	1.28608	1.39284
Pound sterling	0.81540	0.83720	0.81149	0.86821
Australian dollar	1.27120	1.27160	1.24225	1.34876
Canadian dollar	1.31140	1.31970	1.28587	1.37706
Danish krone	7.45990	7.43420	7.44406	7.45118
Japanese yen	113.61110	100.11680	102.66442	111.06358
Swiss franc	1.20720	1.21620	1.20548	1.23358
Chinese renminbi	8.21170	8.14850	8.12766	9.01686
Brazilian real	2.69530	2.41580	2.51383	2.32976

3. CONSOLIDATED GROUP

In addition to Homag Group AG, the consolidated financial statements include 16 (prior year: 17) entities with registered offices in Germany and 23 (prior year: 24) entities with registered offices abroad at which Homag Group AG exercises uniform control either directly or indirectly. The list of shareholdings of Homag Group AG is presented in note 9.

3.1 Associates

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

3.2 Changes in the Consolidated Group

In March 2012, the shareholding in Bütfering Schleiftechnik GmbH, Beckum, was increased from 97.8 percent to 100.0 percent.

On July 30, 2012, Homag Group AG's shareholding in Brandt Kantentechnik GmbH, Lemgo were increased from 70.0 percent to 100.0 percent.

The acquisition of all non-controlling interests from the above transactions resulted in cash outflow of EUR 7,528 k in total.

Due to the intercompany restructuring and the increase in the shareholding in Brandt Kantentechnik GmbH, Lemgo there has not been any indirect non-controlling interests in sales companies since July 2012 with the exception of Homag Korea Co. Ltd.

On account of the aforementioned changes in the consolidated group the non-controlling interests decreased by EUR 7,727 k.

In September 2012, Bütfering Schleiftechnik GmbH, Beckum was merged into Weeke Bohrsysteme GmbH, Herzebrock with retroactive effect as of January 1, 2012.

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 2012:

Amendments to IFRS 7	Transfers of Financial Assets

Amendment to IFRS 7 Disclosures – Transfers of Financial Assets
This change did not have any effects on the disclosures in these notes to the consolidated financial statements relating to assets and liabilities in the current fiscal year.

The following standards have been endorsed by the EU and issued. Application was not yet mandatory for the fiscal year 2012. The Group did not early adopt these standards.

Amendments to IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendments to IFRS 7 and IAS 32	Offsetting of Financial Assets and Financial Liabilities
IFRS 10	Consolidated Financial Statement
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Involvement with Other Entities
IFRS 13	Fair Value Measurement
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets
IAS 19	Employee Benefits (as revised in 2011)
IAS 27	Separate Financial Statements (as revised in 2011)
IAS 28	Investments in Associates and Joint Ventures (as revised in 2011)
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
As the Group is not a first-time adopter, this amendment will not have any effect on its net assets, financial position or results of operations.

Amendment of IFRS 7 and IAS 32 – Offsetting of Financial Assets and Financial Liabilities
The amendments to IFRS 7 and IAS 32 were published in December 2011 and must be applied for the first time in fiscal years beginning on or after January 1, 2013 and, in the case of IAS 32, in fiscal years beginning on or after January 1, 2014. The amendment is to eliminate existing inconsistencies by supplementing the application guidelines. However, the existing fundamental provisions on offsetting financial instruments will be retained. The amendment also defines additional disclosures. The amendment will not have any effects on the accounting policies used by the Group, although it will require additional disclosures.

IFRS 10 – Consolidated Financial Statements
The amendment of this standard will not have any effects on the Group's net assets, financial position and results of operations as the amendment will not result in a change in accounting policies at any of the entities included in the consolidated group.

IFRS 11 – Joint Arrangements
The amendment will not have any effects on the Group's net assets, financial position and result of operations as it does not hold any interests in joint ventures.

IFRS 12 – Disclosure of Interests in Other Entities
IFRS 12 was issued in May 2011 and will become effective for the first time in fiscal years beginning on or after January 1, 2014. The standard includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the

disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. As the new standard defines additional disclosure requirements, the notes to the consolidated financial statements on these entities will be more detailed.

IFRS 13 – Fair Value Measurement
The Group only has a minor amount of assets that are measured at fair value. As a result, this standard will not have any material effects on the Group's net assets, financial position and results of operations.

Amendment of IAS 1 – Presentation of Items of Other Comprehensive Income
The amendment to IAS 1 was issued in June 2011 and became effective for fiscal years beginning on or after July 1, 2012. The amendment to IAS 1 concerns the presentation of the items of other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items that will remain in equity. The amendment merely affects presentation and has no impact on the Homag Group's net assets, financial position and results of operations.

Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets
The amendment will not have any effects on the Group's net assets, financial position and result of operations as none of its real estate is measured using the revaluation model.

IAS 19 – Employee benefits (as revised in 2011)
These amendments will not have any effect on the Group's net assets, financial position or results of operations. The Group had already elected not to apply the corridor method in the past, the Group only has a small amount of plan assets, changes concerning provisions for phased retirement schemes are irrelevant as no new agreements have been entered into and employees with existing agreements are already in the release phase.

IAS 27 – Separate Financial Statements (as revised in 2011)
The amendment of the standard will not have any effects on the Group's net assets, financial position or results of operations.

IAS 28 – Investments in Associates and Joint Ventures (as revised in 2011)
The amendment, under which the equity method is additionally applicable to joint ventures, has no effect on the Group's net assets, financial position and result of operations as it does not hold any interests in joint ventures.

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine
The amendment has no effects on the Group's net assets, financial position and result of perations as it is not active in surface mining.

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 2012. These standards have not yet been endorsed by the EU and have not been applied by the Group.

Amendments to IFRS 1	Government Loans
IFRS 9	Financial Instruments: Classification and Measurement
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Improvements to IFRSs (2009-2011)	

Amendments to IFRS 1 – Government Loans
The amendment of the standard will not have any effects on the Group's net assets, financial position and result of operations as the Group is not a first-time adopter.

IFRS 9 – Financial Instruments: Classification and Measurement
The standard will not have any effects on the Group's net assets, financial position and result of operations as the classification and recognition of financial instruments is not relevant for the Group.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities
The amendment has no effects on the Group's net assets, financial position and result of operations as the Group is not an investment entity and does not hold interests in any investment entities.

Improvements to IFRSs (2009-2011)
The omnibus of improvements was issued in May 2012 and becomes effective for fiscal years beginning on or after January 1, 2013. It encompasses the following amendments:

- *IFRS 1* – The amendment of the standard will not have any effect on the Group's net assets, financial position and result of operations as the Group is not a first-time adopter.
- *IAS 1* – With this amendment, the IASB clarifies that entities that make retrospective restatements (e.g., when correcting errors or applying new standards) or make reclassifications pursuant to IAS 8 must present a third balance sheet as of the beginning of the preceding period if the changes have a material effect on the presentation of net assets, financial position and results of operations. The amendment will be taken into account when the Group in future makes retrospective changes to accounting policies or retrospective restatements and reclassifications.
- *IAS 16* – The amendment will not have any effect on the Group's net assets, financial position and result of operations as the Group does not have any assets that fall within the scope of this amendment.
- *IAS 32* – Income taxes relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction are accounted for in accordance with IAS 12 Income Taxes in future.

As a result, the income tax consequences relating to dividend payments are recorded in the income statements and those relating to transactions costs (issue or redemption of equity instruments) in equity. The amendment of the standard will be taken into account for future equity transactions.

- *IAS 34* – Under this amendment, segment assets and liabilities in interim financial statements only have to be disclosed if there has been a material change in the amounts reported compared to the prior financial statements and such changes are regularly provided to the chief operating decision maker. The Group does not apply the amendment as it wishes to voluntarily continue providing the information to the users of its financial statements.

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 acquiree are assigned to those CGUs or groups of CGUs. Each CGU or group of CGUs to which the goodwill is allocated:

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

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

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

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

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

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 2017. The cash flow for 2017 was projected for the period following the detailed planning period, assuming an increase of 1 percent in working capital as well as in the intangible assets and property, plant and equipment in line with the growth mark-up.

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

4.2.2 Internally Generated Intangible Assets

The internally generated intangible assets partly 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.

In addition, capital expenditure was capitalized in the carrying amount of our enterprise software in connection with our large-scale IT Project ProFuture, which is mainly contained in the prepayments made.

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	15–30
Other equipment, technical equipment and machines	8–15
Furniture and fixtures	4–15

If there are indications of impairment, the recoverability of the carrying amount is reviewed (impairment test). Impairment losses are recorded on property, plant and equipment in accordance with IAS 36 to the extent that the recoverable amount of the asset falls below its carrying amount. The recoverable amount is the higher of the asset's net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The value in use is determined for each asset individually or, if that is not possible, for the CGU to which the asset belongs. To determine the estimated cash flows of each CGU, 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 or 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 or loss. The latter are initially valued at fair value without taking transaction costs into account.

IAS 39 distinguishes between the following categories of financial instruments:

a. Financial assets at fair value through profit or loss
   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 parties in an arm's length transaction. Unrealized gains and losses are recorded with an effect on income.

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

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

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

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

Apart from loans and receivables, the Homag Group has financial instruments held for trading in the form of derivatives without a hedging relationship and derivatives as part of an effective hedge. The Group had not recognized any financial assets or liabilities at fair value through profit loss as of December 31, 2012 or December 31, 2011.

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 directly in equity (hedge reserve); the ineffective part of the change in the value of the hedging instrument is recognized through profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of financial or non-financial assets or liabilities, the accumulated gains or losses associated with the hedge initially remain posted to equity but are subsequently reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

IAS 39 prescribes strict requirements for hedge accounting. These are satisfied by Homag Group AG as follows: At the inception of a hedge both the relationship between the hedging instrument and the hedged item as well as the objective and strategy for undertaking the hedge are documented. This includes a specific designation of the hedging instrument to the associated assets and liabilities or contractually agreed future transactions as well as an estimate of the effectiveness of the hedge instrument used. 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 classified as held for trading in the category marked-to-market financial assets/liabilities at fair value through profit or loss as of the reporting date. The market values are calculated using standardized financial modeling methods (mark-to-market method) or quoted market prices. Gains and losses from the change in the market values of these derivative financial instruments are immediately posted to profit or loss. The derivative financial instruments used by the Group that do not qualify for hedge accounting are 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 each 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*. As a result, the criteria of IAS 11 are satisfied within the HOMAG Group whenever customer-specific contracts have a lower degree of standardization. This can be assumed, for instance, whenever a significant amount of material expenses are incurred for made-to-order contracts. The stage of completion to be recognized is calculated per contract, generally using the cost-to-cost method. The corresponding profit on the construction contract is recognized on the basis of the percentage of completion calculated in this way. These contracts are recognized under receivables or liabilities from long-term construction. If the work in process exceeds the prepayments, construction contracts are reported on the asset side under receivables from long-term construction. If the balance is negative after deducting the prepayment, the item is reported under liabilities from long-term construction. If the total costs are expected to exceed total income, the expected losses are expensed immediately. If the profit on the construction contract cannot be determined reliably, revenue is only recognized to the extent of the contract costs incurred.

4.2.10 Receivables and Other Assets

Receivables and other assets are measured at acquisition cost less appropriate write-downs for all recognizable specific risks. Non-current non-interest-bearing receivables are measured at acquisition 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 based on current business planning 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 sufficiently 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 Non-current Assets Held for Sale

The Group classifies non-current assets or disposal groups as held for sale when the criteria of IFRS 5 are fulfilled. In such cases, the assets or disposal groups are no longer amortized or depreciated, but are instead measured at the lower of carrying amount and fair value less costs to sell. Non-current assets or disposal groups are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The Group reports these assets and disposal groups separately in the statement of financial position.

* *Glossary page 214*

4.2.13 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. 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.

4.2.14 Obligations from Employee Profit Participation

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

Employees that acquire silent participations are entitled to participate in the profits of the Company as recognized in the financial statements prepared according to commercial law. This profit participation is partly used to repay the loan granted, and the remaining amount is paid out to the participating employee. 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.

Expenses from employee profit participation are 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.

4.2.15 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.

4.2.16 Other Provisions

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

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

4.2.17 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.

4.2.18 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.

4.2.19 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Homag Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. Discounts and rebates are taken into account. The specific recognition criteria described below must also be met before revenue is recognized.

Sale of Goods

Sales revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. 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.

4.2.20 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 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, 2012, the best estimate of the carrying amount of capitalized development costs was EUR 28,556 k (prior year: EUR 25,633 k).

Goodwill

The Group tests goodwill for impairment at least once a year. This requires an estimation of the value in use of the CGUs 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 CGU 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, 2012 was EUR 14,240 k (prior year: EUR 14,240 k). We refer to note 6.2 for further information.

Receivables

In the course of determining specific bad debt allowances, receivables that could potentially be impaired are assessed and an impairment loss recognized if needed.

Impairments of doubtful debts are largely based on estimates and judgments of individual receivables which take into account the credit standing and payment arrears of individual customers as well as current economic developments and historical experience of default.

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.

Non-current Assets Held for Sale

A non-current asset is classified as held for sale inter alia if it is expected to be sold within a year and the asset is offered for purchase at a price that is reasonable in relation to its fair value.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell.

Assumptions have to be made with regard to the timing of the sale and the fair value less costs to sell.

Management estimates the timing of the sale based on the progress of negotiations. The fair value of non-current assets held for sale is verified by external appraisals.

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, 2012, the provision for pensions and other post-employment benefits amounted to EUR 3,440 k (prior year: EUR 3,336 k). We refer to note 6.16 for further information.

Employee Profit Participation

The obligations from employee profit participation 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, 2012 amounted to EUR 13,133 k (prior year: EUR 11,885 k). We refer to note 6.17 for further information.

Accrued Liabilities and Provisions

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

Share-based Payments

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

4.2.21 Cash Flow Statement

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

The cash and cash equivalents presented in the cash flow statement contain all 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	**2012**	2011
Cash on hand	120	118
Checks	38	22
Bank balances	45,399	56,329
	45,557	**56,469**

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 sales revenue by geographical region:

EUR k	**2012**	2011
Germany	**205,152**	**194,291**
Other EU countries	238,118	235,407
Rest of Europe	103,116	154,659
North America	67,534	53,889
Central/South America	35,678	33,977
Asia/Pacific	114,046	124,014
Africa	3,307	2,441
Other countries	**561,799**	**604,387**
TOTAL	**766,951**	**798,678**

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 253,904 k (prior year: EUR 305,335 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	**2012**	2011
Income from cost allocations to third parties	2,149	1,979
Exchange rate gains	4,360	4,511
Gains on disposal of non-current assets	2,076	675
Income from the reversal of specific bad debt allowances	1,698	1,474
Income from cost reimbursements	826	455
Income from private car usage	2,386	2,268
Canteen revenues	657	573
Commission received	755	349
Other income	5,466	5,084
	20,373	**17,368**

5.4 Cost of Materials

EUR k	**2012**	2011
Cost of raw materials, consumables and supplies and purchased goods	304,858	332,271
Cost of purchased services	25,295	30,754
	330,153	**363,025**

5.5 Personnel Expenses and Number of Employees

EUR k	**2012**	2011
Wages and salaries	237,693	241,575
Social security, pension and other benefit costs	43,639	42,472
- thereof pension benefits	*17,389*	*17,455*
	281,332	**284,047**

Personnel expenses include refunds from the Federal Employment Agency in Germany of EUR 137 k (prior period: EUR 591 k). These refunds are for government-subsidized shorter working hours as well as for social security expenses for various German production companies borne by the employer.

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	2012	2011
Expenses from employee profit participation	7,030	5,116

Expenses from employee profit participation mainly include allocations to profit or loss pursuant to the German commercial code.

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

	Germany	Outside Germany	Total 2012	Total 2011
Wage earners	1,723	329	**2,052**	**2,091**
Salaried employees	1,816	864	**2,680**	**2,651**
Trainees	340	3	**343**	**368**
	3,879	**1,196**	**5,075**	**5,110**

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 2012 amounted to EUR 426 k (prior year: EUR 396 k). This contains performance-based remuneration of EUR 45 k (prior year: EUR 68 k). As in the prior year, all remuneration is current.

As honorary chairman of the supervisory board, Mr. Gerhard Schuler receives remuneration commensurate with the remuneration of the members of the supervisory board of EUR 13 k (prior year: EUR 15 k).

Total Remuneration of the Management Board

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

EUR k	2012	2011
Current remuneration	1,879	2,545
Long-term-incentives (LTI)	374	-91
	2,253	**2,454**

Since a positive value-added – the basic requirement – was satisfied for the short-term incentive (STI), a performance-based component of EUR 283 k will be paid out under this program for 2012 following the 2013 annual general meeting. The STI is capped at 150 percent of the actual fixed annual remuneration paid out in the fiscal year in question and is reached with a HVA (HOMAG Value Added) of 4 percent.

The expense of EUR 374 k recognized in profit or loss in the fiscal year 2012 in connection with share-based payments (prior year: income of EUR 91 k) relates exclusively to cash-settled share-based payment transactions within the meaning of IFRS 2.30 et seq.

Obtaining the cash settlement is subject to the condition precedent that cumulative positive value added is generated in the reporting period (return on capital employed minus weighted average cost of capital)*. This LTI is determined on a straight-line basis and capped at 12 percent of the value added.

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

The share appreciation rights have a contractual term from 2010 through 2012 for the first reference period, from 2011 through 2013 for the second reference period and from 2012 through 2014 for the third reference period. The fair value of the share appreciation rights is determined as at the date of issue using a binominal model and taking into account the conditions 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 tables present the parameters underlying the measurement of share appreciation rights for the fiscal year ended December 31, 2012:

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

* Glossary page 214

Second reference period 2011 through 2013	2012	2011
Dividend yield (%)	1.81	2.00
Expected volatility (%)	50.00	50.00
Risk-free interest rate (%)	0.33	1.31
Expiry of options	Dec. 31, 2013	Dec. 31, 2013
Relevant opening price (EUR)	15.46	15.46

Third reference period 2012 through 2014	2012
Dividend yield (%)	2.33
Expected volatility (%)	50.00
Risk-free interest rate (%)	0.38
Expiry of options	Dec. 31, 2014
Relevant opening price (EUR)	10.06

In the fiscal year, remuneration of the management board within the meaning of HGB totaled EUR 2,514 k (prior year: EUR 2,959 k) and broke down as follows:

	Fixed remuneration		Performance-related-remuneration (STI and bonuses)		Long-term incentives (LTI)		Benefits in kind		**Total remuneration**	
EUR k	**2012**	2011	**2012** [1]	2011	**2012**	2011	**2012**	2011	**2012**	2011
Dr. Markus Flik	555	382	95	250	264	106	10	7	924	745
Harald Becker-Ehmck	130	0	30	0	0	0	4	0	164	0
Jürgen Köppel	253	240	58	81	176	69	7	6	494	396
Hans-Dieter Schumacher	290	279	67	95	185	80	10	8	552	462
Achim Gauß	130	311	0	106	0	87	3	7	133	511
Herbert Högemann	195	260	33	88	10	72	9	9	247	429
Andreas Hermann	0	71	0	24	0	0	0	2	0	97
Rolf Knoll	0	209	0	106	0	0	0	4	0	319
TOTAL	**1,553**	**1,752**	**283**	**750**	**635**	**414**	**43**	**43**	**2,514**	**2,959**

[1] *To be paid out after the 2013 annual general meeting for the fiscal year 2012.*

Figures given for remuneration acting as a long-term incentive (LTI) are not actual values, but rather fair values on the date of granting calculated using financial modeling methods. Consequently, the full amount of the fair value of the third reference period is reported in 2012. The provision is recognized pro rata temporis.

An accrued liability of EUR 124 k was recognized for the LTI bonus for the first reference period 2010 to 2012. The payment of the actual value will be made in 2013, after the annual general meeting for 2012. For the second reference period 2011 to 2013, an accrued liability of EUR 226 k was recognized for two thirds of the fair value of the LTI bonus. This will be paid out in 2014, after the annual general meeting for 2013. For the third reference period 2012 to 2014, an accrued liability of EUR 211 k was recognized for the first third of the fair value of the LTI bonus. The payment of the actual value will be made in 2015, after the annual general meeting for 2014. The latter two are not the values actually paid out, but rather fair values determined using financial modeling methods.

As a result, an expense of EUR 374 k was recorded in 2012 (prior year: income of EUR 91 k). The liability pertaining to remuneration acting as a long-term incentive was valued at EUR 561 k as of December 31, 2012 (prior year: EUR 187 k) and breaks down as follows:

	First reference period 2010–2012		Second reference period 2011–2013		Third reference period 2012–2014		Total	
EUR k	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Dr. Markus Flik	0	0	84	35	88	0	172	35
Harald Becker-Ehmck	0	0	0	0	0	0	0	0
Jürgen Köppel	39	9	58	23	59	0	156	32
Hans-Dieter Schumacher	0	0	64	27	61	0	125	27
Achim Gauß	0	12	0	29	0	0	0	41
Herbert Högemann	35	10	20	24	3	0	58	34
Rolf Knoll	50	18	0	0	0	0	50	18
TOTAL	**124**	**49**	**226**	**138**	**211**	**0**	**561**	**187**

In addition, in the fiscal year 2012 Achim Gauß received a compensation payment of EUR 550 k for the remaining term of his service agreement and for a post-contract non-compete clause when he handed over his duties as a member of Homag Group AG's management board. In addition, Mr. Gauß will receive a monthly compensation payment of EUR 20 k for the post-contract non-compete clause for 2013. This will be paid in fiscal 2013.

Remuneration of Former Board Members

Pension provisions of EUR 644 k (prior year: EUR 606 k) were set up for former members of the management board of IMA AG, which was merged into Homag Group AG in 1999. The pension payments made amounted to EUR 58 k in the past fiscal year (prior year: EUR 58 k).

5.7 Amortization of Intangible Assets

EUR k	**2012**	2011
Scheduled amortization of intangible assets	11,732	11,347
Impairment charges on intangible assets	0	2,009
	11,732	**13,356**

5.8 Depreciation of Property, Plant and Equipment

EUR k	**2012**	2011
Scheduled depreciation of property, plant and equipment	16,260	16,636
Impairment charges on property, plant and equipment	114	2,115
	16,374	**18,751**

5.9 Other Operating Expenses

Other operating expenses comprise the following:

EUR k	2012	2011
Sales commissions, special direct selling costs	11,329	11,051
Advertising and trade fair expenses	7,279	8,407
Office supplies, postage and telecommunication costs	4,672	4,743
Legal expenses and consulting fees, license fees and patent costs	7,884	8,754
Travel expenses and entertainment	17,625	16,649
Rental and lease expenses	9,531	9,290
Other taxes	1,769	1,516
Bad debt allowances for trade receivables	3,369	8,599
Bad debt	314	1,041
Transportation expenses	11,383	13,279
Maintenance	8,219	7,446
Insurance costs	1,280	1,420
Exchange rate losses	5,339	5,405
Losses on disposals of non-current assets	1,096	701
Donations, fees, dues and contributions	858	912
Expenses from money transactions	2,433	2,122
Cleaning costs	971	957
Incidental personnel expenses	3,163	3,889
Sundry other expenses	20,736	22,964
	119,250	**129,145**

5.10 Profit/Loss from Associates

The profit/loss from equity investments is attributable to Stiles Machinery Inc., Grand Rapids, USA (EUR 394 k; prior year: EUR 31 k) as well as Homag China Golden Field Ltd., Hong Kong, China (EUR 742 k; prior year: EUR 594 k).

5.11 No Disclosure

5.12 No Disclosure

5.13 Interest Income / Interest Expenses

EUR k	2012	2011
Interest income on loans granted and other receivables	579	255
Other interest and similar income	2,183	3,133
Total interest income of all financial receivables which were not recognized by the Company for mark-to-market measurement	**2,762**	**3,388**
INTEREST INCOME	**2,762**	**3,388**
Interest expenses from		
liabilities to banks	-7,383	-8,372
changes in the discount on profit participation rights due to the passage of time	-24	-113
obligations from finance leases	-306	-291
Interest expenses from increasing the discount on transaction costs	-1,711	-1,179
Other interest and similar expenses	-1,053	-2,853
Total interest expenses of all financial liabilities which were not recognized by the Company for mark-to-market measurement	**-10,477**	**-12,808**
Interest expenses from increasing the discount on provisions	-478	-265
Interest expenses from derivative financial instruments	-23	-287
INTEREST EXPENSES	**-10,978**	**-13,360**
NET INTEREST	**-8,216**	**-9,972**

5.14 Taxes on Income and Deferred Taxes

Income tax expenses are classified by origin as follows:

Tax Expense

EUR k	2012	2011
Current taxes	9,036	5,363
Deferred taxes		
from temporary measurement differences	364	-1,099
form unused tax losses carried forward	2,711	5,394
	12,111	**9,658**

There was no reduction in the tax expense on account of the utilization of unused tax losses on which no tax assets had previously been recognized. In the prior year, this resulted in a reduction of EUR 279 k.

The tax expense based on the earnings before taxes of EUR 24,290 k (prior year: EUR 6,366 k) and on the applicable consolidated tax rate for the Homag Group entities in Germany of 28.075 percent (prior year: a theoretical tax rate of 28.075 percent) is reconciled to the current tax expense as follows:

EUR k	2012	2011
Theoretical tax expense (-)/income (+)	-6,819	-1,787
Differences due to the tax rate	353	331
Tax reductions (+)/tax increases (-) due to tax-free income or non-deductible expenses	-1,062	-5,509
Change in write-downs on deferred taxes recognized on unused tax losses	-3,747	-4,884
Other differences	-836	2,191
INCOME TAXES (ACTUAL TAX EXPENSE (-)/INCOME (+))	**-12,111**	**-9,658**

Other differences primarily result from the tax expenses for prior years amounting to EUR 933 k (prior year: tax income of EUR 2,754 k).

Deferred taxes were not recognized on the profits of EUR 49,199 k (prior year: EUR 51,026 k) retained by subsidiaries since it is planned to use these profits to secure and expand the volume of business at these entities.

The deferred taxes recognized without effect on profit or loss amount to EUR 133 k as of the reporting date (prior year: EUR 50 k). These deferred taxes recognized without effect on profit or loss are reported in the statement of comprehensive income and relate exclusively to deferred taxes recognized on actuarial gains and losses.

Deferred Tax Assets and Liabilities

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

	Deferred tax assets		Deferred tax liabilities	
EUR k	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2011
Intangible assets and property, plant and equipment	893	802	13,836	13,864
Inventories	3,567	3,223	1,497	1,640
Current receivables and other assets	2,186	4,444	987	429
Other assets	389	337	363	629
Non-current financial liabilities	915	1,993	532	476
Non-current liabilities and provisions	4,165	3,888	60	10
Sundry current liabilities and deferred income	6,695	9,051	309	2,721
Other current provisions	333	520	3,963	7,540
Other liabilities	2,254	4,660	10,622	12,017
	21,397	28,918	32,169	39,326
Netting	**-19,269**	**-27,724**	**-19,269**	**-27,724**
Deferred taxes from temporary measurement differences	**2,128**	**1,194**	**12,900**	**11,602**
Deferred taxes on unused tax losses	**9,928**	**12,639**	**-**	**-**
	12,056	**13,833**	**12,900**	**11,602**

Write-downs on the carrying amount of deferred tax assets are recorded if realization of the expected benefits from the deferred taxes is not sufficiently probable. The estimate made can be subject to change over time, which can then lead to a write-up in subsequent periods. The change in write-downs on the carrying amount of unused tax losses had a EUR 3,747 k impact on the tax expense (prior year: EUR 4,884 k).

As of December 31, 2012, the existing unused tax losses on which deferred tax assets were recognized were for corporate income tax (EUR 29,490 k; prior year: EUR 34,107 k), for trade tax (EUR 26,701 k; prior year: EUR 29,913 k) and on foreign unused tax losses (EUR 6,509 k; prior year: EUR 11,886 k). There were unused tax losses on which no tax assets were recognized because they could not be utilized for corporate income tax (EUR 44,737 k; prior year: EUR 52,136 k), for trade tax (EUR 43,030 k; prior year: EUR 49,030 k) and for foreign taxes (EUR 22,436 k; prior year: EUR 14,168 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 28,945 k, a partial amount of EUR 25,593 k can be carried forward for an indefinite period. An amount of EUR 3,352 k expires after more than five years.

5.15 No Disclosure

5.16 Profit/Loss Attributable to Non-controlling Interests

The loss for 2012 attributable to non-controlling interests amounts to EUR 501 k (prior year: profit of EUR 1,426 k).

5.17 Earnings per Share

The basic earnings per share is determined pursuant to IAS 33 by dividing the profit attributable to the shareholders of Homag Group AG by the weighted average number of shares outstanding. Earnings per share after non-controlling interests came to EUR 12,680 k (prior year: EUR -4,718 k) and led to earnings per share of EUR 0.81 (prior year: EUR -0.30). There is no difference between diluted and basic earnings.

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

	2012	2011
Profit/loss attibutable to the equity holders of Homag Group AG for the calculation of the profit/loss in EUR k	12,680	-4,718
Earnings per share in EUR	0.81	-0.30
EARNINGS PER SHARE PURSUANT TO IAS 33 IN EUR	**0.81**	**-0.30**
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 2012, no dividend was paid out for fiscal 2011.

A proposal will be submitted to the annual general meeting on May 28, 2013 to appropriate the retained earnings of EUR 30,665,996.13 disclosed in the financial statements of Homag Group AG as of December 31, 2012 as follows:

- Distribution of a dividend of EUR 0.25 per participating no-par value share for the 15,688,000 participating no-par value shares, or EUR 3,922,000 in total
- Carry forward of EUR 26,743,996.13 to new account

EUR k	**2012**	2011
Dividend distribution	3,922	0
Retained earnings carried forward	26,744	21,637
	30,666	**21,637**

EUR	**2012**	2011
DIVIDEND PER PARTICIPATING NO-PAR VALUE SHARE	**0.25 ***	**0.00**

* *Proposed*

6. NOTES TO THE STATEMENT OF FINANCIAL POSITION

6.1 Intangible Assets/Property, Plant and Equipment

Changes in the non-current assets of the of the Homag Group 2012

			Acquisition and production cost					
EUR k			As of Jan. 1, 2012	Currency differences	Additions	Disposals	Reclassi-fications	As of Dec. 31, 2012
NON-CURRENT ASSETS								
I.	Intangible assets							
	1.	Industrial rights	51,893	13	2,561	-2,213	1,131	53,385
		- 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	42,855	0	9,922	-470	0	52,307
	4.	Prepayments	8,567	-1	6,710	-5	-1,131	14,140
			120,170	**12**	**19,193**	**-2,688**	**0**	**136,687**
II.	Property, plant and equipment							
	1.	Land, land rights and buildings	162,980	63	6,611	-7,380 [1]	2,886	165,160
		- thereof leases	*4,000*	*0*	*0*	*0*	*0*	*4,000*
	2.	Technical equipment and machines	75,866	-141	2,980	-5,803	3,796	76,698
		- thereof leases	*16,133*	*19*	*31*	*-854*	*0*	*15,329*
	3.	Other equipment, furniture and fixtures	78,055	40	6,865	-7,145	208	78,023
		- thereof leases	*8,038*	*15*	*410*	*-356*	*0*	*8,107*
	4.	Prepayments and assets under construction	5,944	3	1,491	-107	-6,890	441
			322,845	**-35**	**17,947**	**-20,435**	**0**	**320,322**
			443,015	**-23**	**37,140**	**-23,123**	**0**	**457,009**

	Amortization and depreciation						Carrying amounts	
	As of Jan.1, 2012	Currency differences	Additions	Disposals	Reclassi-fications	As of Dec. 31, 2012	**As of Dec. 31, 2012**	**As of Dec. 31, 2011**
	37,842	3	4,896	-2,213	0	40,528	12,857	14,051
	2,237	*0*	*0*	*0*	*0*	*2,237*	*0*	*0*
	2,615	0	0	0	0	2,615	14,240	14,240
	17,222	0	6,836	-307	0	23,751	28,556	25,633
	0	0	0	0	0	0	14,140	8,567
	57,679	**3**	**11,732**	**-2,520**	**0**	**66,894**	**69,793**	**62,491**
	78,363	-31	4,758 [3]	-4,664 [2]	0	78,426	86,734	84,617
	278	*0*	*111*	*0*	*0*	*389*	*3,611*	*3,722*
	52,814	-78	4,878 [4]	-4,923	20	52,711	23,987	23,052
	8,677	*11*	*1,485*	*-242*	*0*	*9,931*	*5,398*	*7,456*
	56,451	33	6,738	-6,611	-20	6,591	21,432	21,604
	5,428	*7*	*1,280*	*-353*	*0*	*6,362*	*1,745*	*2,610*
	0	0	0	0	0	0	441	5,944
	187,628	**-76**	**16,374**	**-16,198**	**0**	**187,728**	**132,594**	**135,217**
	245,307	**-73**	**28,106**	**-18,718**	**0**	**254,622**	**202,387**	**197,708**

[1] *Thereof EUR 5,695 k reclassification to the line item "Non-current assets held for sale"*
[2] *Thereof EUR 3,192 k reclassification to the line item "Non-current assets held for sale"*
[3] *Includes impairment losses of EUR 104 k*
[4] *Includes impairment losses of EUR 10 k*

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

		Acquisition and production cost				
EUR k	As of Jan. 1, 2011	Currency differences	Additions	Disposals	Reclassi- fications	As of Dec. 31, 2011
NON-CURRENT ASSETS						
I. Intangible assets						
1. Industrial rights	46,740	-44	2,932	-929	3,194	51,893
- thereof leases	*2,237*	*0*	*0*	*0*	*0*	*2,237*
2. Goodwill	16,855	0	0	0	0	16,855
3. Internally generated intangible assets	32,803	0	10,497	-445	0	42,855
4. Prepayments	7,184	0	4,636	-59	-3,194	8,567
	103,582	**-44**	**18,065**	**-1,433**	**0**	**120,170**
II. Property, plant and equipment						
1. Land, land rights and buildings	161,729	-27	1,240	-14	52	162,980
- thereof leases	*4,000*	*0*	*0*	*0*	*0*	*4,000*
2. Technical equipment and machines	78,331	159	3,211	-6,169	334	75,866
- thereof leases	*16,195*	*-27*	*1,745*	*-1,780*	*0*	*16,133*
3. Other equipment, furniture and fixtures	75,888	-73	6,892	-4,834	182	78,055
- thereof leases	*8,105*	*-19*	*1,474*	*-1,522*	*0*	*8,038*
4. Prepayments and assets under construction	738	168	5,606	0	-568	5,944
	316,686	**227**	**16,949**	**-11,017**	**0**	**322,845**
	420,268	**183**	**35,014**	**-12,450**	**0**	**443,015**

Amortization and depreciation					Carrying amounts	
As of Jan.1, 2011	Currency differences	Additions	Disposals	As of Dec. 31, 2011	**As of Dec. 31, 2011**	**As of Dec. 31, 2010**
34,078	-163	4,738 [1]	-811	37,842	14,051	12,662
2,190	*0*	*47*	*0*	*2,237*	*0*	*47*
851	0	1,764 [2]	0	2,615	14,240	16,004
10,582	0	6,854 [3]	-214	17,222	25,633	22,221
0	0	0	0	0	8,567	7,184
45,511	**-163**	**13,356**	**-1,025**	**57,679**	**62,491**	**58,071**
71,516	-27	6,879 [4]	-5	78,363	84,617	90,213
167	*0*	*111*	*0*	*278*	*3,722*	*3,833*
52,309	148	5,068	-4,711	52,814	23,052	26,022
7,639	*-14*	*1,800*	*-748*	*8,677*	*7,456*	*6,323*
54,214	-17	6,804 [5]	-4,550	56,451	21,604	21,674
5,589	*-8*	*1,347*	*-1,500*	*5,428*	*2,610*	*2,516*
0	0	0	0	0	5,944	738
178,039	**104**	**18,751**	**-9,266**	**187,628**	**135,217**	**138,647**
223,550	**-59**	**32,107**	**-10,291**	**245,307**	**197,708**	**196,718**

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

6.2 Intangible Assets

Intangible assets broken down by region developed as follows:

EUR k	2012	2011
Germany	**65,189**	**57,965**
Other EU countries	1,262	1,260
Rest of Europe	1,466	1,465
North America	299	303
Central/South America	294	313
Asia/Pacific	1,283	1,185
Other countries	**4,604**	**4,526**
TOTAL	**69,793**	**62,491**

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

In the reporting year, no impairment losses were charged on intangible assets (prior year: EUR 2,009 k).

The prepayments made mainly contain assets under construction in connection with the capital expenditure on software products or our large-scale IT project ProFuture.

In total, EUR 12,159 k was invested in the project, of which the amount of EUR 5,778 k pertains to 2012. Of this amount, EUR 862 k had already been capitalized in the line item "industrial rights". The residual useful life is 4 years. The rest of the capital expenditure for ProFuture is reported in prepayments made.

Goodwill

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

EUR k	Dec. 31, 2012	Dec. 31, 2011
CGUs/groups of CGUs		
Homag Holzbearbeitungssysteme GmbH	10,290	10,290
HOLZMA Plattenaufteiltechnik GmbH	23	23
Bargstedt Handlingsysteme GmbH	115	115
Sales Europe	2,634	2,634
Sales America	266	266
Sales Asia/Pacific	912	912
TOTAL	**14,240**	**14,240**

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

The WACC pre-tax discount rates underlying the impairment tests performed as of the reporting date December 31, 2012 are presented in the following table:

Detailed planning period %	Years	Dec. 31, 2012 2013–2017	Dec. 31, 2011 2012–2016
CGUs/groups of CGUs			
Homag Holzbearbeitungssysteme GmbH		9.56	10.21
HOLZMA Plattenaufteiltechnik GmbH		9.66	10.20
Bargstedt Handlingsysteme GmbH		9.56	10.19
Sales Europe		9.48	10.22
Sales America		9.96	10.88
Sales Asia/Pacific		9.46	10.46

The equity costs were determined uniformly for all CGUs based on a peer group selected specifically for the Homag Group. The borrowing costs were determined using a risk-free maturity-related base rate plus a mark-up for interest risk adjusted to the peer group's credit rating.

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

Internally Developed Software and Other Development Costs

The capitalized development costs comprise new machine projects 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.

In the fiscal year 2012, expensed research and development costs totaled EUR 22,404 k (prior year: EUR 20,564 k).

6.3 Property, Plant and Equipment

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

EUR k	2012	2011
Germany	**94,200**	**101,281**
Other EU countries	15,946	15,903
Rest of Europe	5,341	1,625
North America	2,183	2,173
Central/South America	2,149	2,549
Asia/Pacific	12,775	11,686
Other countries	**38,394**	**33,936**
TOTAL	**132,594**	**135,217**

The classification of the items of property, plant and equipment condensed in the statement of financial position and their development in the reporting year are presented in the statement of changes in non-current assets. The focus of capital expenditure is detailed in the management report. As in the prior year, no grants and subsidies were deducted from the cost of property, plant and equipment in the past fiscal year.

In the reporting period, impairment losses within the meaning of IAS 36 amounting to EUR 114 k (prior year: EUR 2,115 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, 2012**	Carrying amount Dec. 31, 2011
Intangible assets	0	0
Land, land rights and buildings	3,611	3,722
Technical equipment and machines	5,398	7,456
Other equipment, furniture and fixtures	1,745	2,610
	10,754	**13,788**

The underlying interest rates of the agreements vary depending on the date on which the agreements were concluded between 2.80 percent and 7.51 percent p.a. The payments due in the future from finance lease arrangements, the corresponding interest components and the present value of future lease payments, which are accounted for under financial liabilities accordingly, are shown in the table below:

EUR k	Due in less than 1 year	Due in between 1 and 5 years	Due in more than 5 years	**Dec. 31, 2012 Total**	**Dec. 31, 2011 Total**
Minimum lease payments	2,534	4,422	1,368	**8,324**	**11,313**
Discount amounts	268	351	140	**759**	**1,093**
PRESENT VALUES	**2,266**	**4,071**	**1,228**	**7,565**	**10,220**

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, 2012**	Dec. 31, 2011
Due in less than 1 year	5,149	4,542
Due in between 1 and 5 years	10,569	6,588
Due in more than 5 years	580	3,781
	16,298	**14,911**

The main lease agreements (operating leases) primarily relate to land and buildings, the vehicle fleet and IT. Fixed rent and 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, 2012**	Dec. 31, 2011
Lease/rent payments	**9,086**	**9,290**

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, 2012	Disposals
NON-CURRENT ASSETS		
I. Intangible assets		
1. Industrial rights	0	0
	0	**0**
II. Property, plant and equipment		
1. Land, land rights and buildings	1,111	0
2. Technical equipment and machines	275	-239
3. Other equipment, furniture and fixtures	4	-4
	1,390	**-243**
	1,390	**-243**

	Amortization and depreciation				Carrying amount	
As of Dec. 31, 2012	As of Jan. 1, 2012	Additions	Disposals	As of Dec. 31, 2012	**As of Dec. 31, 2012**	**As of Dec. 31, 2011**
0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**
1,111	397	41	0	438	673	714
36	275	9	-238	46	-10	0
0	4	0	-4	0	0	0
1,147	**676**	**50**	**-242**	**484**	**663**	**714**
1,147	**676**	**50**	**-242**	**484**	**663**	**714**

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, 2012**	Dec. 31, 2011
Total assets	23,821	20,973
Total liabilities	17,750	14,157
EQUITY	**6,071**	**6,816**

EUR k	**2012**	2011
Total sales revenue	49,361	39,066
Profit/loss for the year	1,136	625

6.5 Inventories

EUR k	**Dec. 31, 2012**	Dec. 31, 2011
Raw materials, consumables and supplies	51,594	49,999
Work in process	18,381	17,421
Finished goods, merchandise	55,838	59,717
Prepayments	2,154	2,824
	127,967	**129,961**

Valuation allowances of EUR 2,798 k (prior year: EUR 7,678 k) were recognized on inventories through profit or loss in 2012. Inventories carried at fair value less costs to sell, i.e., on which impairment losses have been charged, amount to EUR 55,762 k (prior year: EUR 44,935 k). An amount of EUR 94,357 k (prior year: EUR 82,999 k) was pledged as collateral on loans in the reporting period.

6.6 Receivables and Other Assets

	Dec. 31, 2012			Dec. 31, 2011		
		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	86,497	84,959	1,538	87,046	85,382	1,664
Receivables from long-term construction contracts	23,231	23,231	0	34,233	34,233	0
Receivables from associates	13,792	13,792	0	9,809	9,809	0
Other financial assets	9,407	8,271	1,136	11,353	9,540	1,813
Other assets and prepaid expenses	4,824	4,751	73	4,519	4,420	99
Income tax receivables	3,561	1,811	1,750	5,036	2,885	2,151
	141,312	**136,815**	**4,497**	**151,996**	**146,269**	**5,727**

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

Trade receivables totaling EUR 7,185 k (prior year: EUR 6,860 k) were sold under factoring agreements.

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

EUR k	2012	2011
AS OF JANUARY 1	**13,803**	**7,823**
Exchange rate effects	-39	-38
Charge for the year	-2,833	-1,107
Unused amounts written off	-1,698	-1,474
Increase in impairments recognized in profit or loss	3,369	8,599
AS OF DECEMBER 31	**12,602**	**13,803**

Bad debt allowances are recognized on trade receivables on each reporting date 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	2012	2011
Bad debt expenses	-314	-1,041
Income from the receipt of payments on receivables that have been written off	28	32

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, 2012**	Dec. 31, 2011
Neither past due nor impaired	80,164	74,724
Receivables past due but not impaired		
less than 90 days	27,102	44,023
90 to 179 days	4,722	3,664
180 to 365 days	6,073	3,998
1 year or more	3,000	6,660
Total receivables past due but not impaired	**40,897**	**58,345**
Impaired receivables	15,061	11,822
TRADE RECEIVABLES, GROSS	**136,122**	**144,891**
Impairment losses	-12,602	-13,803
NET AMOUNT/CARRYING AMOUNT OF TRADE RECEIVABLES	**123,520**	**131,088**

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 45,151 k (prior year: EUR 80,751 k) were offset against prepayments received of EUR 25,236 k (prior year: EUR 49,435 k). This resulted in receivables of EUR 23,231 k (prior year: EUR 34,233 k) and liabilities of EUR 3,316 k (prior year: EUR 2,917 k).

6.8 Other Financial Assets

Other financial assets break down as follows:

EUR k	Dec. 31, 2012 Total	Dec. 31, 2012 Thereof due in less than 1 year	Dec. 31, 2012 Thereof due in more than 1 year	Dec. 31, 2011 Total	Dec. 31, 2011 Thereof due in less than 1 year	Dec. 31, 2011 Thereof due in more than 1 year
Other non-derivative financial assets						
Loans extended	545	0	545	370	15	355
Receivables from factoring agreements	346	346	0	474	474	0
Sundry	8,504	7,913	591	10,446	9,011	1,435
Derivative financial assets	12	12	0	63	40	23
	9,407	**8,271**	**1,136**	**11,353**	**9,540**	**1,813**

The derivative financial assets concern receivables from derivative currency and interest transactions totaling EUR 12 k (prior year: EUR 63 k).

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

Fair Value Hierarchy

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

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

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

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

Financial assets at fair value through profit or loss:

EUR k	Dec. 31, 2012 Total	Level 1	Level 2	Level 3	Dec. 31, 2011 Total	Level 1	Level 2	Level 3
Derivatives without hedge relationship	12	0	12	0	40	0	40	0
Derivatives with hedge relationship	0	0	0	0	23	0	23	0
	12	**0**	**12**	**0**	**63**	**0**	**63**	**0**

Financial liabilities at fair value through profit or loss:

EUR k	Dec. 31, 2012 Total	Level 1	Level 2	Level 3	Dec. 31, 2011 Total	Level 1	Level 2	Level 3
Derivatives without hedge relationship	7	0	7	0	103	0	103	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 (-) recognized in profit or loss from assets measured at fair value:

EUR k	2012	2011
Derivatives without hedge relationship	12	40
Derivatives with hedge relationship	-23	-287
	-11	**-247**

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

EUR k	2012	2011
Derivatives without hedge relationship	-7	-103

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, 2012			Dec. 31, 2011		
		Thereof due in			Thereof due in	
EUR k	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Excise duties claims	2,687	2,687	0	2,352	2,352	0
Prepaid expenses	2,137	2,064	73	2,167	2,068	99
	4,824	**4,751**	**73**	**4,519**	**4,420**	**99**

6.10 Income Tax Receivables

	Dec. 31, 2012			Dec. 31, 2011		
		Thereof due in			Thereof due in	
EUR k	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Income tax claims	3,561	1,811	1,750	5,036	2,885	2,151

The income tax receivables primarily concern corporate income tax credits that will flow to the Group in the years 2013 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 should the obligations from financial instruments not be met.

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

6.12 Non-current Assets Held for Sale

In connection with the restructuring of three group companies, the requirements for classifying non-current assets as held for sale have been satisfied since the first quarter of 2012, resulting in the recognition of disposal groups.

The sale of the metal grinding machines business unit of Bütfering Schleiftechnik GmbH gave rise to a disposal group in the Cabinet Shops segment comprising property, plant and equipment, inventories and receivables as well as pension obligations and other current liabilities. The transfer dates for these sale transactions were April 1, 2012 and October 1, 2012.

The non-current assets held for sale as of the balance sheet date pertain to land and buildings of the other two companies from the Industry segment affected by the restructuring, which are now subject to the requirements of IFRS 5. The sales are scheduled to be completed within a year. As the fair value less costs to sell of all assets exceeded their carrying amount, it was not necessary to recognize an impairment loss.

In addition, a plot of land in the Sales & Service segment was classified as held for sale during the year. The sale took place in the third quarter of 2012.

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, 2012, 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.

6.13.2 Capital Reserves

As of December 31, 2012, 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 96,361 k (prior year: EUR 101,203 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. Some 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 onwards 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.

Non-controlling interests decreased substantially from EUR 16,505 k in 2011 to EUR 8,056 k in 2012. This is due to the further simplification of our Group's structure, such as through the purchase of the remaining shares in Brandt Kantentechnik GmbH.

6.14 Financial Liabilities

	Dec. 31, 2012			Dec. 31, 2011		
		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	135,027	68,628 *	66,399	137,389	30,113	107,276
Lease liabilities	7,565	2,266	5,299	10,220	3,168	7,052
Profit participation capital	0	0	0	4,976	4,976	0
	142,592	**70,894**	**71,698**	**152,585**	**38,257**	**114,328**

* *An amount of EUR 45,000 k relating to the existing syndicated loan agreement is reported under current liabilities. This will not necessarily lead to a cash outflow in the short term, as utilization can be extended at any time during the four-year term of the syndicated loan agreement.*

Due to the conclusion of a new syndicated loan agreement, there was a shift from non-current to current liabilities due to banks.

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. These expired in 2012.

Liabilities to banks break down as follows:

	Dec. 31, 2012				Dec. 31, 2011			
	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 from 2002	-	-	-	-	EUR	2,800	11	5.14
Several loans	EUR	13,805	up to 95	3.30–5.90	EUR	15,434	up to 132	3.44–5.90
Loan	DKK	426	69	1.60	DKK	498	81	6.13
Syndicated loan from 2010	-	-	-	-	EUR	93,679	14	3.39–4.22
Overdraft facility/ syndicated loan from 2010	-	-	-	-	EUR	3,595	14	4.56–6.00
Syndicated loan A from 2012	EUR	57,187	45	2.39	-	-	-	-
Syndicated loan C from 2012	EUR	45,000	3*	2.49	-	-	-	-
Overdraft facility/ syndicated loan from 2012	EUR	1,928	3*	4.63–4.75	-	-	-	-
Overdraft facility/ euro loan	various	16,681	-	1.73–7.75	various	21,383	-	1.50–14.05
		135,027				**137,389**		

* *An amount of EUR 45,000 k relating to the existing syndicated loan agreement is reported under current liabilities. This will not necessarily lead to a cash outflow in the short term, as utilization can be extended at any time during the four-year term of the syndicated loan agreement.*

Variable interest arrangements have been made for the syndicated loans and overdraft facilities. The Group’s liquidity is secured until September 2016 under a syndicated loan agreement that is contingent on the observance of certain covenants. Collateral has been pledged for liabilities to banks. For further details, please refer to note 7.3.

6.15 No Disclosure

6.16 Pensions and Other Post-employment Benefits

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

In the case of the defined contribution plans, the entities have no obligations other than payment of contributions to insurance firms or other special purpose funds. In the Homag Group, the German companies in particular 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 2012, expenses for defined contribution plans in the Homag Group totaled EUR 17,389 k (prior year: EUR 17,455 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 directly in equity in the period in which they occur.

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

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

As %	**Dec. 31, 2012**	Dec. 31, 2011
Discount rate	3.9	5.3
Expected return on plan assets	4.0	4.0
Rate of pension increase	2.0	2.0

The expense for pensions and similar obligations comprises the following:

EUR k	**2012**	2011
Current service cost	159	132
Interest cost	211	239
Expected return on plan assets	-49	-62
Benefit expense	**321**	**309**

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

EUR k	2012	2011
Net actuarial gains (-)/losses (+) recognized	327	-121

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

EUR k	2012	2011
Actual return on plan assets	75	87

The current service cost is reported under personnel expenses, the interest expense in the corresponding item in the income statement and the expected return on plan assets is disclosed 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	2012	2011
Defined benefit obligation	4,666	4,937
Fair value of plan assets	-1,226	-1,601
RESIDUAL OBLIGATION AS OF DECEMBER 31	3,440	3,336

The Homag Group expects contributions to defined benefit plans in 2013 to be similar to the level of the reporting period.

Of the pension obligations, a total of EUR 3,144 k (prior year: EUR 2,844 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	2012	2011	2012	2011
Defined benefit obligation	1,522	2,093	3,144	2,844
Fair value of plan assets	-1,226	-1,601	0	0
RESIDUAL OBLIGATION AS OF DECEMBER 31	296	492	3,144	2,844

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

EUR k	2012	2011
DEFINED BENEFIT OBLIGATION AS OF JANUARY 1	**4,937**	**4,934**
Interest expense	211	239
Current service cost	159	132
Benefits paid	-413	-272
Actuarial gains (-)/losses (+)	353	-96
Plan settlement	-581	0
DEFINED BENEFIT OBLIGATION AS OF DECEMBER 31	**4,666**	**4,937**

The plan settlement results from the disposal of the metal grinding machines business from Bütfering Schleiftechnik GmbH.

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

EUR k	2012	2011
FAIR VALUE OF PLAN ASSETS AS OF JANUARY 1	**1,601**	**1,624**
Expected return on plan assets	49	62
Benefits paid	-110	-110
Actuarial gains (-)/losses (+)	26	25
Decrease in plan assets due to plan settlement	-340	0
FAIR VALUE OF PLAN ASSETS AS OF DECEMBER 31	**1,226**	**1,601**

In most cases, the plan assets are insurance policies.

In the reporting year, cumulated actuarial gains (+) and losses (-) came to EUR -398 k (prior year: EUR -71 k).

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

EUR k	2012	2011	2010	2009	2008
Defined benefit obligation	4,666	4,937	4,934	4,453	4,057
Fair value of plan assets	-1,226	-1,601	-1,624	-1,745	-1,776
Deficit (+)/surplus (-)	3,440	3,336	3,310	2,708	2,281
Experience adjustments on plan liabilities (gains (-)/losses (+))	38	5	300	-135	-35
Experience adjustments on plan assets (gains (+)/losses (-))	26	25	17	22	7

6.17 Obligations from Employee Profit Participation

For general explanations on silent employee participation, we refer to note 4.2.14.

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

As %	Dec. 31, 2012	Dec. 31, 2011
Discount factor	3.90	5.30

6.18 Other Provisions

	Dec. 31, 2012			Dec. 31, 2011		
		Thereof due in			Thereof due in	
EUR k	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Provisions for personnel matters	5,777	1,315	4,462	5,899	1,337	4,562
Provisions for production and sales	11,821	11,821	0	14,375	14,375	0
Sundry other provisions	2,099	1,473	626	1,016	1,016	0
OTHER PROVISIONS	**19,697**	**14,609**	**5,088**	**21,290**	**16,728**	**4,562**

The provisions relating to production and sales mainly contain provisions for 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, 2012	Translation difference	Utilized	Reversed	Increased	As of Dec. 31, 2012
Provisions for personnel matters	5,899	-10	-1,202	-53	1,143	5,777
Provisions for production and sales	14,375	15	-9,615	-1,477	8,523	11,821
Sundry other provisions	1,016	11	-430	-260	1,762	2,099
OTHER PROVISIONS	**21,290**	**16**	**-11,247**	**-1,790**	**11,428**	**19,697**

The expenses resulting from the unwinding of discounted provisions came to EUR 267 k in the fiscal year (prior year: EUR 127 k).

7. OTHER EXPLANATIONS

7.1 Financial Instruments

Book values, carrying amounts and fair values by measurement category

EUR k	Book value Dec. 31, 2012	Carrying amount in
		Amortized cost
ASSETS		
Cash and cash equivalents	45,557	45,557
Trade receivables	100,289	100,289
Receivables from long-term construction contracts	23,231	
Other financial assets	501	
Other non-derivative financial assets	9,395	9,395
Derivative financial assets		
Derivatives without hedging relationship	12	
EQUITY AND LIABILITIES		
Trade payables	63,650	63,650
Liabilities from long-term construction contracts	3,316	
Financial liabilities		
Liabilities to banks	135,027	135,027
Lease liabilities	7,565	
Derivative financial liabilities		
Derivatives without hedging relationship	7	
THEREOF COMBINED ACCORDING TO THE MEASUREMENT CATEGORIES IN ACCORDANCE WITH IAS 39		
Loans and receivables	155,241	155,241
Held-for-sale financial assets	501	
Financial assets held for trading	12	
Financial liabilities measured at amortized cost	198,677	198,677
Financial liabilities held for trading	7	

statement of financial position IAS 39				
Acquisition cost	Fair Value through profit or loss	Carrying amount according to IAS 11	Carrying amount according to IAS 17	Fair Value Dec. 31, 2012
				45,557
				100,289
		23,231		23,231
501				-
				9,395
	12			12
				63,650
		3,316		3,316
				135,677
			7,565	7,674
	7			7
				155,241
501				-
	12			12
				199,327
	7			7

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

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

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. This concerns strategic investments for which there is no intent to sell at present.

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

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

As regards financial liabilities, non-current liabilities due to banks are determined using a fixed interest rate, while the fair value of the finance lease liabilities and in the prior year the liabilities from profit participation rights was 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	**2012**	2011
Financial assets and financial liabilities at fair value through profit or loss	-18	-351
Loans and receivables	-1,957	-7,734
Financial liabilities at amortized cost	-384	-1,294

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 and mainly include results from impairment losses.

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

In fiscal 2012, the sum of the positive market values of derivative financial instruments came to EUR 12 k (prior year: EUR 63 k), while the sum of their negative market values came to EUR 7 k (prior year: EUR 103 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 and interest risks from the operating business or reduce the resulting financing requirements. The Homag Group recorded 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, 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 the financial 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 in the area of financial market risk. The management agrees policies for managing each of these risks which are summarized below.

Credit Risk

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

The Group trades only with creditworthy third parties. It is Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The existing trade receivables are due from a large number of customers distributed across different regions. The majority of debtors are entities active in the wood processing industry (including the furniture industry and cabinet makers) as well as wholesale machine retailers, whereby the title 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 December 31, 2012, the maximum risk of default is equivalent to the financial assets described in the table "Book values, carrying amounts and fair values by measurement category" totaling EUR 178,985 k (prior year: EUR 199,444 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. This syndicated loan agreement has a term of four years and is tied to compliance with agreed covenants. From the syndicated loan agreement and bilateral agreements entered into between the group entities and banks, the Group had undrawn lines of credit (bank deposits are deducted from the amounts drawn in some cases) of EUR 110,978 k as of December 31, 2012 (prior year: EUR 97,128 k). Of this amount, EUR 30,000 k is earmarked for the financing of acquisitions and the purchase of non-controlling interests in subsidiaries.

The table below summarizes the maturity profile of the Group's financial liabilities at year end. The cash flow statement reports the repayment plus interest based on contractual undiscounted payments.

EUR k	**Carrying amount Dec. 31, 2012**	Estimated cash flows in the year/years 2013	2014	2015–2017	2018 et seq.
Trade payables	63,650	63,650	0	0	0
Liabilities from long-term construction contracts	3,316	3,316	0	0	0
Financial liabilities					
Liabilities to banks	135,027	65,680*	13,605	63,474	2,198
Lease liabilities	7,565	2,534	3,270	1,152	1,368
Derivative financial liabilities					
Derivatives without a hedging relationship	7	7	0	0	0

* *An amount of EUR 45,000 k relating to the existing syndicated loan agreement is reported under current liabilities. This will not necessarily lead to a cash outflow in the short term, as utilization can be extended at any time during the four-year term of the syndicated loan agreement.*

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

The disclosed derivative financial 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, 2012**	Estimated cash flows in the year/years 2013	2014	2015–2017	2018 et seq.
Inflows		2,671	0	0	0
Outflows		-2,678	0	0	0
Net	7	-7	0	0	0

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

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

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

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

	Effect on earnings before taxes	
EUR k	**2012**	2011
Appreciation of EUR against other currencies +10%	-1,682	-1,802
Depreciation of EUR against other currencies -10%	1,374	1,475

The sensitivity analysis only includes outstanding monetary items denominated in foreign currency, and adjusts the currency translation as of 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 2012
10% appreciation of the EUR against the Polish złoty	-78
10% appreciation of the EUR against the US dollar	-301
10% appreciation of the EUR against the Australian dollar	-152
10% appreciation of the EUR against the South Korean won	-123
10% appreciation of the EUR against the Singapore dollar	128
10% appreciation of the EUR against the Swiss franc	-70
10% appreciation of the EUR against the Japanese yen	-389
10% appreciation of the EUR against the Danish krone	32
10% appreciation of the EUR against the pound sterling	-30
10% appreciation of the EUR against the Thai baht	35
10% appreciation of the EUR against the Taiwanese dollar	-59
10% appreciation of the EUR against the Russian ruble	45
10% appreciation of the EUR against the Canadian dollar	-168
10% appreciation of the EUR against the Malaysian ringgit	11
10% appreciation of the EUR against the Brazilian real	-563
TOTAL	**-1,682**

EUR k	Effect on earnings before taxes 2012
10% depreciation of the EUR against the Polish złoty	64
10% depreciation of the EUR against the US dollar	247
10% depreciation of the EUR against the Australian dollar	124
10% depreciation of the EUR against the South Korean won	100
10% depreciation of the EUR against the Singapore dollar	-105
10% depreciation of the EUR against the Swiss franc	57
10% depreciation of the EUR against the Japanese yen	319
10% depreciation of the EUR against the Danish krone	-27
10% depreciation of the EUR against the pound sterling	24
10% depreciation of the EUR against the Thai baht	-29
10% depreciation of the EUR against the Taiwanese dollar	48
10% depreciation of the EUR against the Russian ruble	-37
10% depreciation of the EUR against the Canadian dollar	137
10% appreciation of the EUR against the Malaysian ringgit	-9
10% depreciation of the EUR against the Brazilian real	461
TOTAL	**1,374**

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

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

Interest Rate Risk

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

Following the conclusion of the syndicated loan in 2010, Homag Group AG contracted interest rate caps for existing loans of EUR 80,000 k. The changes in cash flows from the hedged transactions resulting from changes in the Euribor rate are offset by changes in cash flows (compensation payments) from the interest rate caps once a specified interest rate level is reached. The aim of the hedging measures is to transform the variable-rate financial liabilities upon reaching a specified cap into a fixed-interest financial liability and thus to hedge the cash flow from the financial liabilities. Credit risks are not hedged.

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

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

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

As of December 31, 2012, 15.3 percent of the financial liabilities entered into were subject to fixed rates of interest (prior year: 24.4 percent). The decrease compared to the prior year stems from the replacement of fixed-interest profit participation rights with variable-interest liabilities to banks, the decrease in the lease liabilities and scheduled repayments of fixed-interest liabilities to banks.

The table below shows the sensitivity of pre-tax consolidated profit or loss to a reasonably possible change in the interest rates (due to the effect on the variable interest loans and variable interest receivables). As a rule, a change of +/-100 base points is made. If this is not possible on account of the low level of interest rates, an interest rate level of zero is assumed. All other variables remain constant. Group equity is not affected directly.

	2012		2011	
Change in interest rate in base points	+100	-100	+100	-100
Effect on Group earnings before taxes (EUR k)	-1,319	1,186	-1,597	1,767

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:

	2012		2011	
EUR k	Nominal value	Fair value	Nominal value	Fair value
Currency hedges with a term of less than 1 year	3,073	5	5,055	-64
Currency hedges with a term of between 1 and 5 years	0	0	0	0
Currency hedges with a term of more than 5 years	0	0	0	0
TOTAL CURRENCY-RELATED TRANSACTIONS	**3,073**	**5**	**5,055**	**-64**
Interest hedges with a term of less than 1 year	80,000	0	0	0
Interest hedges with a term of between 1 and 5 years	0	0	80,000	23
Interest hedges with a term of more than 5 years	0	0	0	0
TOTAL INTEREST-RELATED TRANSACTIONS	**80,000**	**0**	**80,000**	**23**
TOTAL DERIVATIVES	**83,073**	**5**	**85,055**	**-41**

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, 2012 and December 31, 2011.

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

The strategic target is to aim for an equity ratio of 40 percent and a net debt ratio not exceeding 1.5.

7.3 Contingent Liabilities

The Group provided the following collateral:

EUR k	Dec. 31, 2012	Dec. 31, 2011
Group-owned land and buildings	59,252	62,762
Group-owned technical equipment and machines	12,260	12,845
Group-owned other equipment, furniture and fixtures	11,472	11,266
Inventories	94,357	82,999
Trade receivables	79,268	70,274
Cash and cash equivalents	0	143
	256,609	**240,289**

In addition, obligations of the Group from finance lease agreements (cf. 6.3) are secured by rights of the lessors on the leased assets. The leased assets are recognized at a carrying amount of EUR 10,754 k (prior year: EUR 13,778 k).

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

EUR k	2012	2011
Liabilities from guarantees	105	588
Liabilities from warranty agreements/ take-back obligations under lease agreements	1,357	2,875
Litigation risks	57	85
Guarantees to fulfill contractual obligations	30,826	22,224
Other obligations	7,236	8,885
	39,581	**34,657**

Litigation Risks

A German production company set up a provision of EUR 450 k for risks concerning legal proceedings with a customer. Management aims to settle out of court.

In addition, a provision of EUR 718 k is recorded at a foreign sales company to provide for litigation risks with public authorities.

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.

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.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EUR k	Industry 2012	Industry 2011	Cabinet Shops 2012	Cabinet Shops 2011
Third-party sales	318,322	339,932	89,250	94,855
Sales with group companies from other segments	104,977	109,655	89,658	86,198
Sales with investments recognized at equity	39,467	40,359	20,919	16,935
Total sales revenue	**462,766**	**489,946**	**199,827**	**197,988**
Cost of materials	-213,080	-238,588	-111,373	-109,717
Personnel expenses	-161,407	-166,223	-55,104	-57,450
EBITDA [1)]	**52,138**	**52,888**	**13,004**	**13,845**
Non-recurring expenses [2)]	-1,361	-13,696	-510	-3,146
Depreciation of property, plant and equipment and amortization of intangible assets	-18,473 [3)]	-22,990 [4)]	-5,284	-5,225
Result from employee participation	-5,418	-3,649	-1,551	-1,153
Share in result of associates	394	31	0	0
Interest result	-1,368	-3,183	-820	-1,177
SEGMENT RESULT [7)]	**25,912**	**9,400**	**4,839**	**3,144**

ASSETS	Industry 2012	Industry 2011	Cabinet Shops 2012	Cabinet Shops 2011
Investments in associates	5,279	4,978	0	0
Capital expenditure [8)]	21,156	19,539	6,393	5,725
SEGMENT ASSETS	**332,936**	**359,857**	**121,233**	**121,083**
SEGMENT LIABILITIES	**196,753**	**227,649**	**49,523**	**54,046**
EMPLOYEES [9)]	**2,676**	**2,705**	**1,000**	**1,016**

Sales & Service		Other		Total segments		Consolidation		Group	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
257,873	266,593	17,282	18,123	682,727	719,503	0	0	682,727	719,503
2,039	2,038	30,828	27,423	227,502	225,314	-227,502	-225,314	0	0
49	448	23,789	21,433	84,224	79,175	0	0	84,224	79,175
259,961	**269,079**	**71,899**	**66,979**	**994,453**	**1,023,992**	**-227,502**	**-225,314**	**766,951**	**798,678**
-189,375	-202,683	-45,346	-38,230	-559,174	-589,218	229,021	226,193	-330,153	-363,025
-41,478	-38,404	-23,343	-21,970	-281,332	-284,047	0	0	-281,332	-284,047
8,762	**10,343**	**-4,408**	**-7,471**	**69,496**	**69,605**	**1,553**	**857**	**71,049**	**70,462**
-2,305	-499	-367	-184	-4,543	-17,525	0	0	-4,543	-17,525
-2,143 [5]	-2,138 [6]	-2,206	-1,754	-28,106	-32,107	0	0	-28,106	-32,107
-432	-358	371	44	-7,030	-5,116	0	0	-7,030	-5,116
742	594	0	0	1,136	625	0	0	1,136	625
-255	-335	-5,613	-5,273	-8,056	-9,968	-160	-4	-8,216	-9,972
4,369	**7,607**	**-12,223**	**-14,638**	**22,897**	**5,513**	**1,393**	**853**	**24,290**	**6,366**
3,453	2,897	0	0	8,732	7,875	0	0	8,732	7,875
5,798	2,408	3,642	6,093	36,989	33,765	0	0	36,989	33,765
153,941	**162,162**	**265,808**	**260,530**	**873,918**	**903,632**	**-332,901**	**-345,256**	**541,017**	**558,376**
92,994	**101,545**	**159,946**	**166,385**	**499,216**	**549,625**	**-123,960**	**-152,903**	**375,256**	**396,722**
735	**729**	**664**	**660**	**5,075**	**5,110**	**0**	**0**	**5,075**	**5,110**

1) Operative EBITDA before employee profit participation and restructuring/non-recurring expenses
2) Included in personnel expenses and other operating expenses
3) Including impairment of EUR 104 k
4) Including impairment of EUR 4,116 k
5) Including impairment of EUR 10 k
6) Including impairment of EUR 8 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

Sales revenue in the Industry segment decreased by EUR 27,180 k (down 5.5 percent). This decrease is primarily attributable to the Mekran project which was largely contained in Homag Holzbearbeitungssysteme GmbH's sales revenue for 2011. The Sales & Service segment saw a decrease of EUR 9,118 k (down 3.4 percent). The largest percentage decrease was reported at HOMAG Danmark A/S with a decrease of EUR 7,110 k as the entity's prior-year figures included two larger projects. In the Other and Cabinet Shops segments it was possible to generate an increase of EUR 4,920 k (up 7.3 percent) and EUR 1,839 k (up 0.9 percent) respectively. The largest growth in the Other segment was generated by Homag Machinery Środa Sp. z o.o.

Operative EBITDA before employee profit participation expenses and before restructuring expenses varied between segments. EBITDA in the Other segment rose by EUR 3,063 k (up 41.0 percent). The Sales & Service segment saw a decrease of EUR 1,581 k (down 15.3 percent). There is also a slight decrease in the Cabinet Shops segment (down EUR 841 k or 6.1 percent) and in the Industry segment (down EUR 750 k or 1.4 percent). In the Sales & Service segment, Homag Japan Co. Ltd. (up EUR 886 k or 99.4 percent) and Homag India Private Ltd. (up EUR 1,005 k or 288.1 percent) reported the largest improvement in earnings. The improvement at Homag India Private Ltd. is attributable to the sale of a property. Homag Asia (PTE) Ltd. also developed positively, increasing by EUR 562 k (up 168.3 percent). This was in contrast to the development seen at Homag South America Ltda., which reported a decrease of EUR 1,471 k (down 99.5 percent). In the Other segment, the earnings improvement is mainly attributable to the Homag Group AG (up EUR 5,118 k or 44.3 percent). This is counterbalanced by Weinmann Holzbausystemtechnik GmbH, with a decrease of EUR 2,275 k (down 574.4 percent). The less pronounced change in the Cabinet Shops and Industry segments is attributable to the fact the individual changes are counterbalanced by cancelling developments within the segments.

7.5 Fees and Services Provided by the Group Auditors

In accordance with German law, the group auditors are proposed by the supervisory board and elected by the annual general meeting. Once the group auditors have been elected, the supervisory board engages them, approves the conditions and scope of the audit of the financial statements as well as all audit fees, and monitors the independence of the group auditors. In 2011 and 2012, 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 2011 and 2012.

The table below presents all of the fees invoiced by the group auditors 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 group auditors 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. This

EUR k	2012	2011
Statutory audit	698	694
Other assurance services	3	2
Tax advisory services	354	421
Other services	427	333
	1,482	**1,450**

primarily relates to support for the internal audit and advisory services in connection with the new syndicated loan agreement. All amounts in the table blow are net of VAT.

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

7.6 Subsequent Events

After the end of the reporting year, the management of Homag Group AG and the management of Friz Kaschiertechnik GmbH reached an agreement with the works' council of Friz Kaschiertechnik GmbH and the group works' council concerning the terms of the planned restructuring. They jointly approved a reconciliation of interests and a redundancy plan. A total of 26 employees will continue to be employed at the Weinsberg site, where profile wrapping machines will still be developed and produced here. Friz, a brand with a strong tradition, will be kept for these products. Service activities will also be maintained at the site. In close cooperation with Friz Kaschiertechnik GmbH, Homag Holzbearbeitungssysteme GmbH in Schopfloch will continue to offer the laminating technology. The other 26 employees affected by the restructuring can all join a transfer company.

7.7 Related Parties

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

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

In the fiscal year 2012, the Homag Group is affected by the disclosure requirements of IAS 24 solely with respect to business relationships with associates, members of the management board and the supervisory board as well as shareholders that hold more than 20 percent of the shares in the parent company, Homag Group AG.

The total remuneration of the employee representatives on the supervisory board – comprising wages, salaries, benefits in kind and profit distributions in connection with employee profit participation schemes – amounted to EUR 363 k in the reporting year (prior year: EUR 342 k). Moreover, there are liabilities from employee profit participation of EUR 86 k (prior year: EUR 75 k) attributable to members of the supervisory board.

A consulting agreement was concluded in 1999 with the former chairman of the supervisory board and current honorary chairman of the supervisory board of Homag Holzbearbeitungssysteme GmbH. This agreement was cancelled effective March 31, 2012. The follow-up agreement entered into effect on April 1, 2012. In the fiscal year, he received remuneration of EUR 38 k in connection with the consulting agreement (prior year: EUR 61 k). As honorary chairman of the supervisory board, Mr. Gerhard Schuler receives remuneration commensurate with the remuneration of the members of the supervisory board of EUR 13 k (prior year: EUR 15 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	**2012**	2011	**2012**	2011
Associates	**84,293**	**79,266**	**4,518**	**3,127**

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

7.8 Corporate Governance

A declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG was issued by the management board and the supervisory board in January 2013. An up-to-date version is made permanently available to shareholders on Homag Group AG's homepage at www.homag-group.com.

8. COMPANY BOARDS

8.1 Supervisory Board

		Membership in statutory supervisory boards (1) and other comparable German and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2012)
Torsten Grede, Frankfurt am Main Chairman of the supervisory board Member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main	(2)	- Clyde Bergemann Power Group, Inc., Delaware, USA
Reiner Neumeister, Wildberg* Deputy chairman of the supervisory board Main representative and managing director of the Freudenstadt branch of the IG-Metall trade union, Freudenstadt, and since March 1, 2012 main representative and managing director of the Villingen-Schwenningen branch of the IG-Metall trade union, Villingen-Schwenningen	(1)	- Bauknecht Hausgeräte GmbH, Stuttgart (deputy chairman)
Ernst Esslinger, Alpirsbach* Head of IT engineering at Homag Holzbearbeitungssysteme GmbH, Schopfloch		
Dipl.-Ing. Hans Fahr, Munich Business consultant	(1) (2)	- Sumida AG, Obernzell (chairman) - Oechsler AG, Ansbach - König Metall GmbH, Gaggenau - Vollack Management Holding GmbH, Karlsruhe - BOA Luxembourg Investment s.a.r.l., Luxembourg, Luxembourg
Gerhard Federer, Neuried CEO of Schunk GmbH, Heuchelheim and of Schunk Verwaltungsgesellschaft mbH, Heuchelheim	(1) (2)	- SÜDVERS Holding GmbH & Co. KG, Au - Schunk Iberica S.A., Pinto, Spain - XYCARB Ceramics B.V., Helmond, Netherlands - Commerzbank AG, Regional Advisory Committee Central Germany, Frankfurt am Main - Hoffmann & Co. Elektrokohle AG, Bad Goissern, Austria - Schunk Wien Gesellschaft mbH, Vienna, Austria
Dr. Horst Heidsieck, Büdingen, Managing partner of Value Consult Management- und Unternehmensberatungs-gesellschaft mbH, Büdingen, and managing partner of DOMINO GmbH, Büdingen, and, until October 25, 2012, managing partner of DOMINO GmbH, Büdingen	(1) (2)	- Coperion GmbH, Stuttgart (chairman) - SIMONA AG, Kirn, from June 22, 2012 until November 30, 2012 - Mauser Holding GmbH, Brühl (Chairman), until February 6, 2012 - Agfa-Gevaert N.V., Mortsel, Belgium, until April 24, 2012
Carmen Hettich-Günther, Rottenburg* Strategic sourcing employee and chair of the works' council of Homag Holzbearbeitungssysteme GmbH, Schopfloch		
Dr. Dieter Japs, Reichenberg Consulting engineer	(2)	- Leitz GmbH & Co. KG, Oberkochen - Vollert Anlagenbau GmbH, Weinsberg, (since December 11, 2012)
Thomas Keller, Freiburg Regional manager for Württemberg at Deutsche Bank AG, Stuttgart	(1) (2)	- GEZE GmbH, Leonberg - Deutsche Clubholding GmbH, Frankfurt am Main - Gühring oHG, Albstadt - Cronimet Holding GmbH, Karlsruhe - Baden-Württembergische Wertpapierbörse, Stuttgart - Vereinigung Baden-Württembergische Wertpapierbörse e.V., Stuttgart

* *Employee representative*

	Membership in statutory supervisory boards (1) and other comparable German and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2012)	
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		
Jochen Meyer, Herzebrock-Clarholz* Deputy chairman of the group works' council of Homag Group AG, Schopfloch, and chairman of the group works' council of Weeke Bohrsysteme GmbH, Herzebrock-Clarholz		
Reinhard Seiler, Lemgo* Main representative of IG Metall trade union, Detmold	(1)	- Dorma Holding GmbH & Co. KGaA, Ennepetal

Supervisory Board Committees

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

* *Employee representative*

8.2 Management Board

	Membership in statutory supervisory boards (1) and other comparable domestic and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2012)
Dr.-Ing./U. Cal. Markus Flik, Gerlingen/ Freudenstadt Chairman and board member for corporate development, affiliates until May 23, 2012 Chairman and board member for corporate development, affiliates, research and development until September 30, 2012 Chairman and board member for corporate development, research and development from October 1, 2012	(1) - Benteler International AG, Salzburg, Austria (2) - Anand Automotive Systems Limited, Neu Delhi, India
Harald Becker-Ehmck, Nagold Board member since July 1, 2012 Board member for production, materials management, quality management, affiliates since October 1, 2012	
Achim Gauß, Dornstetten Board member for research and development until May 23, 2012	
Herbert Högemann, Freudenstadt Board member for production, procurement and quality assurance until Sept. 30, 2012	
Jürgen Köppel, Beckum Board member for sales, service, marketing	
Hans-Dieter Schumacher, Tuttlingen CFO and board member for IT, personnel	(2) - Commerzbank AG, Regional Advisory Committee (south-west Germany), Frankfurt am Main

9. LIST OF SHAREHOLDINGS

	Status	Currency	Issued capital Dec. 31, 2012	Share in capital % Dec. 31, 2012	Equity (thousands) Dec. 31, 2012	Profit/loss after taxes (thousands) 2012
GERMANY						
Direct shareholdings:						
Homag Holzbearbeitungssysteme GmbH, Schopfloch	(fc)	EUR	30,000,000.00	100.00	82,284	PLTA
SCHULER Consulting GmbH, Pfalzgrafenweiler	(fc)	EUR	5,150,000.00	100.00 [1]	339	66
Torwegge Holzbearbeitungsmaschinen GmbH, Löhne	(fc)	EUR	1,600,000.00	100.00 [2]	-900	-304
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	100.00	20,165	1,053
Weeke Bohrsysteme GmbH, Herzebrock	(fc)	EUR	17,550,000.00	100.00	30,813	1,797
BENZ GmbH Werkzeugsysteme, Haslach	(fc)	EUR	25,000.00	51.00	4,919	1,513
Homag eSolution GmbH, Schopfloch	(fc)	EUR	50,000.00	51.00	640	97
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	32,814	3,684
Ligmatech Automationssysteme GmbH Lichtenberg	(fc)	EUR	6,650,000.00	100.00	7,850	2,153
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	8,083	2,057
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	(fc)	EUR	1,000,000.00	51.00	1,269	-2,924
Homag GUS GmbH, Schopfloch	(fc)	EUR	100,000.00	100.00	2,100	PLTA
Homag Finance GmbH, Schopfloch	(fc)	EUR	100,000.00	100.00	169	44
Homag India GmbH, Schopfloch	(nc)	EUR	400,000.00	100.00	2 [6]	-1 [6]
Homag Vertrieb & Service GmbH, Schopfloch	(fc)	EUR	300,000.00	100.00	1,351	236
Hüllhorst GmbH, Barntrup	(nc)	EUR	255,645.94	100.00	264	3
Futura GmbH, Schopfloch	(nc)	EUR	25,000.00	100.00	25	0

1) Thereof 94.00% held by Homag Holzbearbeitungssysteme GmbH and 6.00% by Homag Group AG
2) Thereof 39.95% held by Homag Holzbearbeitungssysteme GmbH and 60.05% by Homag Group AG
3) Thereof 54.46% held by Homag Holzbearbeitungssysteme GmbH and 45.54% by Homag Group AG
4) The insolvency proceedings have not been completed
5) Fiscal year from April 1, 2002 to March 31, 2003
6) Figures from fiscal year January 1 to December 31, 2011
PLTA Profit and loss transfer agreement with Homag Group AG, Homag Holzbearbeitungssysteme GmbH or Homag Vertriebs-Beteiligungs GmbH
(fc) Fully consolidated
(nc) Not consolidated

	Status	Currency	Issued capital Dec. 31, 2012	Share in capital % Dec. 31, 2012	Equity (thousands) Dec. 31, 2012	Profit/loss after taxes (thousands) 2012
INTERNATIONAL						
Direct shareholdings:						
Homag Machinery Bangalore Pvt. Ltd., Bangalore/India	(fc)	INR (EUR	75,000,000.00 1,038,448.92	100.00 [7]	42,567 589	-26,309 -381)
Homag Machinery Środa Sp. z o.o., Środa/Poland	(fc)	PLN (EUR	6,001,000.00 1,466,197.56	100.00	14,683 3,587	4,380 1,046)
Indirect shareholdings:						
Holzma Plattenaufteiltechnik S.A., Unipersonal L´Ametlla del Valles/Spain	(fc)	EUR	2,047,748.40	100.00	3,436	839
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo/Brazil	(fc)	BRL (EUR	6,812,180.00 2,527,429.23	100.00	9,263 3,437	-212 -84)
Homag Machinery (Shanghai) Co. Ltd., Shanghai/China	(fc)	CNY (EUR	70,715,635.06 8,611,570.69	81.25	112,270 13,672	6,446 793)
Homag Austria Gesellschaft mbH, Oberhofen am Irrsee/Austria	(fc)	EUR	370,000.00	100.00	843	89
Homag Italia S.p.A., Giussano/Italy	(fc)	EUR	1,100,000.00	100.00	1,608	-1,183
Homag France S.A.S., Schiltigheim/France	(fc)	EUR	1,500,000.00	100.00	4,656	1,957
Homag Asia (PTE) Ltd., Singapore/Singapore	(fc)	SGD (EUR	100,000.00 62,050.14	100.00	3,126 1,940	452 281)
Homag Canada Inc., Mississauga, Ontario/Canada	(fc)	CAD (EUR	4,367,800.00 3,330,639.01	100.00	8,407 6,411	428 333)
Homag Polska Sp. z o.o., Środa/Poland	(fc)	PLN (EUR	1,050,000.00 256,541.82	100.00	9,796 2,393	2,334 557)
Homag Japan Co. Ltd., Osaka/Japan	(fc)	JPY (EUR	206,000,000.00 1,813,203.11	100.00	493,797 4,346	96,623 941)
Homag Danmark A/S, Galten/Denmark	(fc)	DKK (EUR	1,970,000.00 264,078.61	100.00	13,223 1,773	3,796 510)
Homag U.K. Ltd., Castle Donington/UK	(fc)	GBP (EUR	2,716,778.00 3,331,834.68	100.00	1,509 1,851	429 529)
Homag Korea Co. Ltd., Seoul/Korea	(fc)	KRW (EUR	320,970,000.00 227,417.01	54.55	1,111,570 788	185,464 128)
Holzma Tech GmbH, Assenovgrad/Bulgaria	(nc)	BGN (EUR	370,000.00 189,171.23	100.00	1,340 685	193 99)
Stiles Machinery Inc., Grand Rapids/USA	(e)	USD (EUR	25,806.00 19,575.21	22.00	23,965 18,179	193 [8] 150)
Weeke North America Inc., Grand Rapids/USA	(fc)	USD (EUR	20,000.00 15,171.05	81.00	-118 -90	-28 -22)

[7] *Thereof 99.99% held by Homag Group AG and 0.01% by Homag Holzbearbeitungssysteme GmbH*
[8] *Figures from fiscal year January 1 to December 31, 2011*
(fc) Fully consolidated
(nc) Not consolidated
(e) Consolidated at equity

	Status	Currency	Issued capital Dec. 31, 2012	Share in capital % Dec. 31, 2012	Equity (thousands) Dec. 31, 2012	Profit/loss after taxes (thousands) 2012
Homag España Maquinaria S.A., Montmeló/Spain	(fc)	EUR	1,211,300.00	100.00	294	-876
Homag China Golden Field Ltd., Hongkong/China	(e)	HKD (EUR	27,000,000.00 2,642,188.91	25.00	117,130 11,462	26,851 [9] 2,690)
Homag South America Ltda., São Paulo/Brazil	(fc)	BRL (EUR	10,845,031.00 4,023,682.34	100.00	-4,889 -1,814	-11,123 -4,425)
Homag Australia Pty. Ltd., Sydney/Australia	(fc)	AUD (EUR	7,209,158.62 5,671,144.29	100.00	3,090 2,431	701 564)
Homag (Schweiz) AG, Bachenbülach/Switzerland	(fc)	CHF (EUR	200,000.00 165,672.63	100.00	7,311 6,056	1,868 1,550)
OOO "FAYZ-Homag GUS", Taschkent/Uzbekistan	(nc)	USD (EUR	174,000.00 131,988.17	33.00	- [10] - [10]	- [10] - [10])
OOO "Homag Russland", Moscow/Russia	(fc)	RUB (EUR	357,215.00 8,886.34	100.00	27,821 692	4,056 101)
Homag India Private Ltd., Bangalore/India	(fc)	INR (EUR	228,055,010.00 3,157,646.38	99.90	-37,654 -521	-33,044 -478)
HA Malaysia SDN Bhd, Kuala Lumpur/Malaysia	(fc)	MYR (EUR	250,000.00 61,983.98	100.00	-1,283 -318	58 15)
HA (Thailand) Co. Ltd., Bangkok/Thailand	(fc)	THB (EUR	2,000,000.00 49,562.36	100.00	-519 -13	10,620 265)
BENZ INCORPORATED, Charlotte/USA	(fc)	USD (EUR	100.00 75.86	100.00 [11]	37 28	77 60)

[9] Figures from fiscal year January 1 to December 31, 2011
[10] Not available
[11] 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 HGB and Sec. 316 (1) Sentence 6 HGB ["Handelsgesetzbuch": German Commercial Code]

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

Schopfloch, March 15, 2013
Homag Group AG

The Management Board

DR. MARKUS FLIK

HARALD BECKER-EHMCK

JÜRGEN KÖPPEL

HANS-DIETER SCHUMACHER

Audit Opinion on the Consolidated Financial Statements (Group)

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

Audit Opinion

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

"We have audited the consolidated financial statements prepared by Homag Group AG, Schopfloch, comprising the income statement, the statement of comprehensive income, the statement of financial position, the cash flow statement, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report which has been combined with the management report of the Company for the fiscal year from January 1 to December 31, 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the "Institut der Wirtschaftsprüfer" [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations

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

Stuttgart, March 15, 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

BLESCH
Wirtschaftsprüfer
[German Public Auditor]

VÖGELE
Wirtschaftsprüferin
[German Public Auditor]

Financial Statements for Fiscal Year 2012 (AG)

INCOME STATEMENT FOR FISCAL YEAR 2012

EUR	2012	2011
Other operating income	14,517,340.29	5,475,003.71
Personnel expenses		
- Wages and salaries	-5,722.319.54	-4,557,584.28
- Social security, pension and other benefit costs	-348,131.51	-294,140.85
Amortization of intangible assets and depreciation of property, plant and equipment	-160,865.08	-158,743.12
Other operating expenses	-11,139,065.14	-11,940,693.20
	-2,853,040.98	**-11,476,157.74**
Income from equity investments	1,288,000.00	4,400,000.00
Income from profit and loss transfer agreement	19,393,786.14	14,100,407.57
Other interest and similar income	493,687.96	691,496.60
Write-downs on financial assets	-1,681,300.00	-2,118,999.00
Interest and similar expense	-3,873,237.17	-4,275,147.46
RESULT FROM ORDINARY ACIVITIES	**12,767,895.95**	**1,321,599.97**
Extraordinary expenses	-22,991.00	-22,991.00
EXTRAORDINARY RESULT	**-22,991.00**	**-22,991.00**
Income taxes	-3,497,804.44	-533,778.55
Other taxes	-218,565.65	-338,920.60
NET INCOME FOR THE YEAR (PRIOR YEAR: NET LOSS)	**9,028,534.86**	**425,909.82**
Profit brought forward from prior year	21,637,461.27	21,211,551.45
RETAINED EARNINGS	**30,665,996.13**	**21,637,461.27**

BALANCE SHEET AS OF DECEMBER 31, 2012

ASSETS

EUR			Dec. 31, 2012	Dec. 31, 2011
A.	**ASSETS**			
I.	Intangible assets			
		1. Purchased industrial and similar rights	442,343.00	598,474.00
II.	Property, plant and equipment			
		1. Furniture and fixtures	18,699.00	11,702.00
III.	Financial assets			
		1. Shares in affiliates	167,393,279.79	152,028,465.83
		2. Equity investments	1.00	1.00
			167,393,280.79	152,028,466.83
			167,854,322.79	**152,638,642.83**
B.	**CURRENT ASSETS**			
I.	Receivables and other assets			
		1. Trade receivables	39,854.73	5,614.70
		2. Receivables from affiliates	25,294,904.14	18,221,497.02
		3. Receivables from indirect investees and investors	75,595.53	23,676.55
		4. Other assets	1,266,917.02	2,391,733.41
			26,677,271.42	20,642,521.68
II.	Bank balances		13,356,691.58	30,155,589.17
			40,033,963.00	**50,798,110.85**
C.	**PREPAID EXPENSES**		**46,547.86**	**176,805.39**
TOTAL ASSETS			**207,934,833.65**	**203,613,559.07**

EQUITY AND LIABILITIES

EUR		Dec. 31, 2012	Dec. 31, 2011
A.	**EQUITY**		
I.	Issued capital	15,688,000.00	15,688,000.00
II.	Capital reserves	33,799,650.00	33,799,650.00
III.	Revenue reserves		
	Other revenue reserves	1,456,134.50	1,456,134.50
IV.	Retained earnings	30,665,996.13	21,637,461.27
		81,609,780.63	**72,581,245.77**
B.	**PROVISIONS**		
	1. Pension provisions	546,614.00	544,399.00
	2. Tax provisions	5,058,191.35	2,282,088.96
	3. Other provisions	2,110,708.79	2,754,376.64
		7,715,514.14	**5,580,864.60**
C.	**LIABILITIES**		
	1. Liabilities to banks	90,000,000.00	80,000,000.00
	2. Trade payables	296,828.30	663,129.33
	3. Liabilities to affiliates	28,127,671.43	44,526,119.72
	4. Liabilities to indirect investees and investors	580.00	0.00
	5. Other liabilities	174,459.15	186,719.65
		118,599,538.88	**125,375,968.70**
D.	**DEFERRED INCOME**	**10,000.00**	**75,480.00**
TOTAL EQUITY AND LIABILITIES		**207,934,833.65**	**203,613,559.07**

Notes to the Financial Statements for Fiscal Year 2012

GENERAL INFORMATION

These financial statements have been prepared in accordance with Secs. 242 et seq. and Secs. 264 et seq. HGB [“Handelsgesetzbuch”: German Commercial Code] as well as in accordance with the relevant provisions of the AktG [“Aktiengesetz”: German Stock Corporation Act]. The Company qualifies as a large corporation pursuant to Sec. 267 (3) HGB.

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

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

ACCOUNTING POLICIES

The following accounting and valuation methods, which have remained unchanged in comparison to the prior year, have been used to prepare the financial statements.

The balance sheet classification complies with Sec. 266 (2) and (3) HGB.

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

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

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

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 5.05 percent for a remaining term of 15 years in accordance with the RückAbzinsV [“Rückstellungsabzinsungsverordnung”: German Ordinance on the Discounting of Provisions]. Expected pension increases were taken into account at 2.0 percent.

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

Tax provisions and other provisions account for all uncertain liabilities and potential losses from pending transactions. They are recorded at the settlement amount deemed necessary according to prudent business judgment. Provisions due in more than one year 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. They were calculated using a tax rate of 28.0 percent.

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

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

NOTES TO THE BALANCE SHEET

Fixed Assets

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

Statement of Changes in Fixed Assets

		Acquisition and production	
EUR	Jan. 1, 2012	Additions	Disposals
I. Intangible assets			
1. Purchased industrial and similar rights	780,658.41	0.00	0.00
II. Property, plant and equipment			
1. Furniture and fixtures	14,614.36	11,731.08	0.00
III. Financial assets			
1. Share in affiliates	172,251,219.32	13,046,113.96	0.00
2. Equity investments	4,274,310.74	0.00	0.00
	176,525,530.06	13,046,113.96	0.00
	177,320,802.83	**13,057,845.04**	**0.00**

cost	Accumulated amortization, depreciation and write-downs					Carrying amounts	
Dec. 31, 2012	Jan. 1, 2012	Additions	Disposals	Write-ups	Dec. 31, 2012	**Dec. 31, 2012**	**Dec. 31, 2011**
780,658.41	182,184.41	156,131.00	0.00	0.00	338,315.41	442,343.00	598,474.00
26,345.44	2,912.36	4,734.08	0.00	0.00	7,646.44	18,699.00	11,702.00
185,297,333.28	20,222,753.49	1,681,300.00	0.00	4,000,000.00	17,904,053.49	167,393,279.79	152,028,465.83
4,274,310.74	4,274,309.74	0.00	0.00	0.00	4,274,309.74	1.00	1.00
189,571,644.02	24,497,063.23	1,681,300.00	0.00	4,000,000.00	22,178,363.23	167,393,280.79	152,028,466.83
190,378,647.87	**24,682,160.00**	**1,842,165.08**	**0.00**	**4,000,000.00**	**22,524,325.08**	**167,854,322.79**	**152,638,642.83**

Investments

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

List of shareholdings	Currency	Issued capital Dec. 31, 2012	Share in capital % Dec. 31, 2012	Equity (thousands) Dec. 31, 2012	Profit/loss after taxes (thousands) 2012
GERMANY					
Direct shareholdings:					
Homag Holzbearbeitungssysteme GmbH, Schopfloch	EUR	30,000,000.00	100.00	82,284	PLTA
SCHULER Consulting GmbH, Pfalzgrafenweiler	EUR	5,150,000.00	100.00 [1]	339	66
Torwegge Holzbearbeitungsmaschinen GmbH, Löhne	EUR	1,600,000.00	100.00 [2]	-900	-304
HOLZMA Plattenaufteiltechnik GmbH, Holzbronn	EUR	5,600,000.00	100.00 [3]	20,130	PLTA
Brandt Kantentechnik GmbH, Lemgo	EUR	4,000,000.00	100.00	20,165	1,053
Weeke Bohrsysteme GmbH, Herzebrock	EUR	17,550,000.00	100.00	30,813	1,797
BENZ GmbH Werkzeugsysteme, Haslach	EUR	25,000.00	51.00	4,919	1,513
Homag eSolution GmbH, Schopfloch	EUR	50,000.00	51.00	640	97
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	32,814	3,684
Ligmatech Automationssysteme GmbH, Lichtenberg	EUR	6,650,000.00	100.00	7,850	2,153
Friz Kaschiertechnik GmbH, Weinsberg	EUR	2,400,000.00	100.00	921	PLTA
Bargstedt Handlingsysteme GmbH, Hemmoor	EUR	5,133,000.00	100.00	8,083	2,057
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	EUR	1,000,000.00	51.00	1,269	-2,924
Homag GUS GmbH, Schopfloch	EUR	100,000.00	100.00	2,100	PLTA
Homag Finance GmbH, Schopfloch	EUR	100,000.00	100.00	169	44
Homag India GmbH, Schopfloch	EUR	400,000.00	100.00	2 [6]	-1 [6]
Homag Vertrieb & Service GmbH, Schopfloch	EUR	300,000.00	100.00	1,351	236
Hüllhorst GmbH, Barntrup	EUR	255,645.94	100.00	264	3
Futura GmbH, Schopfloch	EUR	25,000.00	100.00	25	0

[1] *Thereof 94.00% held by Homag Holzbearbeitungssysteme GmbH and 6.00% by Homag Group AG.*
[2] *Thereof 39.95% held by Homag Holzbearbeitungssysteme GmbH and 60.05% by Homag Group AG.*
[3] *Thereof 54.46% held by Homag Holzbearbeitungssysteme GmbH and 45.54% by Homag Group AG .*
[4] *The insolvency proceedings have not been completed.*
[5] *Fiscal year from April 1, 2002 to March 31, 2003.*
[6] *Fiscal year from January 1 to December 31, 2011.*
PLTA *Profit and loss transfer agreement with Homag Group AG or Homag Holzbearbeitungssysteme GmbH or Homag Vertriebs-Beteiligungs GmbH .*

List of shareholdings	Currency	Issued capital Dec. 31, 2012	Share in capital % Dec. 31, 2012	Equity (thousands) Dec. 31, 2012	Profit/loss after taxes (thousands) 2012
INTERNATIONAL					
Direct shareholdings:					
Homag Machinery Bangalore Pvt. Ltd., Bangalore/India	INR (EUR	75,000,000.00 1,038,448.92	100.00 [1]	42,567 589	-26,309 -381)
Homag Machinery Środa Sp. z o.o., Środa/Poland	PLN (EUR	6,001,000.00 1,466,197.56	100.00	14,683 3,587	4,380 1,046)
Indirect shareholdings:					
Holzma Plattenaufteiltechnik S.A., Unipersonal L'Ametlla del Valles/Spain	EUR	2,047,748.40	100.00	3,436	839
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo/Brazil	BRL (EUR	6,812,180.00 2,527,429.23	100.00	9,263 3,437	-212 -84)
Homag Machinery (Shanghai) Co. Ltd., Shanghai/China	CNY (EUR	70,715,635.06 8,611,570.69	81.25	112,270 13,672	6,446 793)
Homag Austria Gesellschaft mbH, Oberhofen am Irrsee/Austria	EUR	370,000.00	100.00	843	89
Homag Italia S.p.A., Giussano/Italy	EUR	1,100,000.00	100.00	1,608	-1,183
Homag France S.A.S., Schiltigheim/France	EUR	1,500,000.00	100.00	4,656	1,957
Homag Asia (PTE) Ltd., Singapore/Singapore	SGD (EUR	100,000.00 62,050.14	100.00	3,126 1,940	452 281)
Homag Canada Inc., Mississauga, Ontario/Canada	CAD (EUR	4,367,800.00 3,330,639.01	100.00	8,407 6,411	428 333)
Homag Polska Sp. z o.o., Środa/Poland	PLN (EUR	1,050,000.00 256,541.82	100.00	9,796 2,393	2,334 557)
Homag Japan Co. Ltd., Osaka/Japan	JPY (EUR	206,000,000.00 1,813,203.11	100.00	493,797 4,346	96,623 941)
Homag Danmark A/S, Galten/Denmark	DKK (EUR	1,970,000.00 264,078.61	100.00	13,223 1,773	3,796 510)
Homag U.K. Ltd., Castle Donington/UK	GBP (EUR	2,716,778.00 3,331,834.68	100.00	1,509 1,851	429 529)
Homag Korea Co. Ltd., Seoul/Korea	KRW (EUR	320,970,000.00 227,417.01	54.55	1,111,570 788	185,464 128)
Holzma Tech GmbH, Assenovgrad/Bulgaria	BGN (EUR	370,000.00 189,171.23	100.00	1,340 685	193 99)
Stiles Machinery Inc., Grand Rapids/USA	USD (EUR	25,806.00 19,575.21	22.00	23,965 18,179	193 [2] 150)
Weeke North America Inc., Grand Rapids/USA	USD (EUR	20,000.00 15,171.05	81.00	-118 -90	-28 -22)

[1] *Thereof 99.99% held by Homag Group AG and 0.01% by Homag Holzbearbeitungssysteme GmbH.*
[2] *Figures from fiscal year January 1 to December 31, 2011.*

List of shareholdings	Currency	Issued capital Dec. 31, 2012	Share in capital % Dec. 31, 2012	Equity (thousands) Dec. 31, 2012	Profit/loss after taxes (thousands) 2012
INTERNATIONAL					
Indirect shareholdings:					
Homag España Maquinaria S.A., Montmeló/Spain	EUR	1,211,300.00	100.00	294	-876
Homag China Golden Field Ltd., Hongkong/China	HKD (EUR	27,000,000.00 2,642,188.91	25.00	117,130 11,462	26,851 [1] 2,690)
Homag South America Ltda., São Paulo/Brazil	BRL (EUR	10,845,031.00 4,023,682.34	100.00	-4,889 -1,814	-11,123 -4,425)
Homag Australia Pty. Ltd., Sydney/Australia	AUD (EUR	7,209,158.62 5,671,144.29	100.00	3,090 2,431	701 564)
Homag (Schweiz) AG, Bachenbülach/Switzerland	CHF (EUR	200,000.00 165,672.63	100.00	7,311 6,056	1,868 1,550)
OOO "FAYZ-Homag GUS", Taschkent/Uzbekistan	USD (EUR	174,000.00 131,988.17	33.00	- [3] - [3]	- [3] -) [3]
OOO "Homag Russland", Moscow/Russia	RUB (EUR	357,215.00 8,886.34	100.00	27,821 692	4,056 101)
Homag India Private Ltd., Bangalore/India	INR (EUR	228,055,010.00 3,157,646.38	99.90	-37,654 -521	-33,044 -478)
HA Malaysia SDN Bhd, Kuala Lumpur/Malaysia	MYR (EUR	250,000.00 61,983.98	100.00	-1,283 -318	58 15)
HA (Thailand) Co. Ltd., Bangkok/Thailand	THB (EUR	2,000,000.00 49,562.36	100.00	-519 -13	10,620 265)
BENZ INCORPORATED, Charlotte/USA	USD (EUR	100.00 75.86	100.00 [2]	37 28	77 60)

[1] *Figures from fiscal year January 1 to December 31, 2011.*
[2] *Exactly calculated share in capital: 51.00%.*
[3] *Not available.*

Receivables and Other Assets

EUR k	**Dec. 31, 2012**	Dec. 31, 2011
Trade receivables	40	6
- thereof due in more than one year	*0*	*0*
Receivables from affiliates	25,295	18,221
- thereof due in more than one year	*0*	*934*
Receivables from indirect investees and investors	76	24
- thereof due in more than one year	*0*	*0*
Other assets	1,267	2,392
- thereof due in more than one year	*734*	*927*
	26,678	**20,643**

Of the receivables from affiliates, EUR 1,765 k (prior year: EUR 604 k) relates to trade, EUR 3,756 k (prior year: EUR 3,387 k) to loans (including cash pooling) and EUR 19,774 k (prior year: EUR 14,230 k) to other assets.

Deferred Taxes

Deferred taxes were calculated using a tax rate of 28.0 percent. Deferred tax assets mainly stem from accounting differences in other provisions. These were netted against the significantly lower deferred tax liabilities from accounting differences in fixed assets. The excess of deferred tax assets was not recognized.

Issued Capital

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

Capital Reserves

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

Revenue Reserves

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

Retained Earnings

EUR k		
Carried forward January 1, 2012	21,637	
Profit distribution	0	
		21,637
Net income for 2012		9,029
DECEMBER 31, 2012		**30,666**

Pension Provisions

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

The deficit to be eliminated by recognizing provisions in future periods pursuant to Art. 67 (2) EGHGB amounts to EUR 46 k.

Other Provisions

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

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

Liabilities

EUR k		Due in: less than 1 year	Due in: 1 to 5 years	Due in: more than 5 years	Total: **Dec. 31, 2012**	Total: **Dec. 31, 2011**
1.	Liabilities to banks	32,500	57,500	0	90,000	
	(prior year)	(0)	(80,000)	(0)		(80,000)
2.	Trade payables	297	0	0	297	
	(prior year)	(663)	(0)	(0)		(663)
3.	Liabilities to affiliates	28,128	0	0	28,128	
	(prior year)	(44,526)	(0)	(0)		(44,526)
4.	Liabilities to other investees and investors	1	0	0	1	
	(prior year)	(0)	(0)	(0)		(0)
5.	Other liabilities	174	0	0	174	
	(prior year)	(187)	(0)	(0)		(187)
	- thereof for taxes	*112*	*0*	*0*	*112*	
	(prior year)	*(99)*	*(0)*	*(0)*		*(99)*
	- thereof for social security	*1*	*0*	*0*	*1*	
	(prior year)	*(0)*	*(0)*	*(0)*		*(0)*

As regards the amounts accrued in connection with the syndicated loan agreement (EUR 90,000 k; prior year EUR 80,000 k) and the related collateral we refer to the disclosures made under contingent liabilities.

Of the liabilities to affiliates, EUR 406 k (prior year: EUR 28 k) relates to trade payables and EUR 27,722 k (prior year: EUR 44,498 k) to other liabilities (including cash pooling).

Contingent Liabilities

EUR k	Dec. 31, 2012	Dec. 31, 2011
From guarantees	45,033	46,224
- thereof for liabilities to affiliates	*45,033*	*45,740*
From warranties	3,408	4,987
- hereof in favor of affiliates	*3,408*	*3,397*
	48,441	**51,211**

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

Under the syndicated loan agreement concluded in September 2012 between Homag Group AG, Schopfloch, Homag Holzbearbeitungssysteme GmbH, Schopfloch, and a syndicate of banks, Homag Group AG assigned the following collateral:

- Guarantee.

The funds drawn under the syndicated loan agreement amount to EUR 90,000 k and are reported under liabilities to banks. In addition, affiliates had drawn a total of EUR 27,409 k under the syndicated loan agreement as of the reporting date.

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

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

Other Financial Obligations

There are also other financial obligations from leases amounting to EUR 186 k. The lease agreements expire between 2013 and 2015.

Derivative Financial Instruments

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

The interest rate risk attaching to a bank liability of EUR 80 million was hedged; this loan is subject to a variable interest rate (3-month EURIBOR), and was initially due to expire 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. This syndicated loan agreement was replaced prematurely by a new syndicated loan for EUR 210 million in the reporting year. The new syndicated loan agreement from September 6, 2012 has a term of four years. The Company has bank liabilities of EUR 90 million resulting from this new syndicated loan agreement as of reporting date. It is not possible to qualify as a micro-hedge as a result, but an interest rate cap is economically allocable to the aforementioned hedged item.

They were marked to market.

Hedging instrument	Risk	Amount included (EUR k)	Fair value
Interest rate cap	Interest risk	18,182	0
Interest rate cap	Interest risk	17,172	0
Interest rate cap	Interest risk	14,327	0
Interest rate cap	Interest risk	11,329	0
Interest rate cap	Interest risk	8,081	0
Interest rate cap	Interest risk	4,445	0
Interest rate cap	Interest risk	4,040	0
Interest rate cap	Interest risk	2,424	0
TOTAL		**80,000**	**0**

Upon exceeding a specified interest level (cap), the Company receives a compensation payment from respective hedging transaction. The cap was not exceeded in the past fiscal year.

NOTES TO THE INCOME STATEMENT

Other Operating Income

Other operating income contains income of EUR 7 k relating to other periods (prior year: EUR 55 k), which stemmed from a credit balance pertaining to a fee allocation notice for the fiscal year 2011. Moreover, this also includes income from the reversal of provisions of EUR 321 k (prior year: EUR 0 k) as well as write-ups to the equity investment in Weeke Bohrsysteme GmbH, Herzebrock-Clarholz, of EUR 4,000 k.

Personnel Expenses

Pension expenses totaled EUR 5 k (prior year: EUR 12 k) and relate to three beneficiaries.

Other Operating Expenses

Other operating expenses contain expenses of EUR 2 k relating to other periods (prior year: EUR 26 k), which mainly stemmed from the settlement of contributions to health insurers on account of the adjusted assessment notices.

Write-downs on Financial Assets

In the reporting year, a write-down of EUR 1,681 k had to be recognized on the equity investment Torwegge Holzbearbeitungsmaschinen GmbH, Löhne.

Interest Result

Interest income of EUR 294 k (prior year: EUR 613 k) was received from affiliates, while interest expenses of EUR 514 k (prior year: EUR 699 k) were attributable to affiliates. The interest expenses in connection with reversing the discount on pension provisions amount to EUR 34 k (prior year: EUR 33 k).

Extraordinary Expenses

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

Pursuant to Art. 67 (1) EGHGB, the difference between the previous GAAP and BilMoG accounting treatment 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 at EUR 23 k per annum under "Extraordinary expenses" pursuant to Art. 67 (7) EGHGB.

OTHER NOTES

Members of the Supervisory Board

	Membership in statutory supervisory boards (1) and other comparable German and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2012)	
Torsten Grede, Frankfurt am Main Chairman of the supervisory board Member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main	(2)	- Clyde Bergemann Power Group, Inc., Delaware, USA
Reiner Neumeister, Wildberg* Deputy chairman of the supervisory board Main representative and managing director of the Freudenstadt branch of the IG-Metall trade union, Freudenstadt, and since March 1, 2012 main representative and managing director of the Villingen-Schwenningen branch of the IG-Metall trade union, Villingen-Schwenningen	(1)	- Bauknecht Hausgeräte GmbH, Stuttgart (deputy chairman)
Ernst Esslinger, Alpirsbach* Head of IT engineering at Homag Holzbearbeitungssysteme GmbH, Schopfloch		
Dipl.-Ing. Hans Fahr, Munich Business consultant	(1) (2)	- Sumida AG, Obernzell (chairman) - Oechsler AG, Ansbach - König Metall GmbH, Gaggenau - Vollack Management Holding GmbH, Karlsruhe - BOA Luxembourg Investment s.a.r.l., Luxembourg, Luxembourg
Gerhard Federer, Neuried CEO of Schunk GmbH, Heuchelheim, and of Schunk Verwaltungsgesellschaft mbH, Heuchelheim	(1) (2)	- SÜDVERS Holding GmbH & Co. KG, Au - Schunk Iberica S.A., Pinto, Spain - XYCARB Ceramics B.V., Helmond, Netherlands - Commerzbank AG, Regional Advisory Committee Central Germany, Frankfurt am Main - Hoffmann & Co. Elektrokohle AG, Bad Goissern, Austria - Schunk Wien Gesellschaft mbH, Vienna, Austria

* *Employee representative*

	Membership in statutory supervisory boards (1) and other comparable German and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2012)	
Dr. Horst Heidsieck, Büdingen, Managing partner of Value Consult Management- und Unternehmensberatungs-gesellschaft mbH, Büdingen, and managing partner of DOMINO GmbH, Büdingen, and, until October 25, 2012, managing partner of DOMINO GmbH, Büdingen	(1) (2)	- Coperion GmbH, Stuttgart (chairman) - SIMONA AG, Kirn, from June 22, 2012 until November 30, 2012 - Mauser Holding GmbH, Brühl (Chairman), until February 6, 2012 - Agfa-Gevaert N.V., Mortsel, Belgium, until April 24, 2012
Carmen Hettich-Günther, Rottenburg* Strategic sourcing employee and chair of the works' council of Homag Holzbearbeitungssysteme GmbH, Schopfloch		
Dr. Dieter Japs, Reichenberg Consulting engineer	(2)	- Leitz GmbH & Co. KG, Oberkochen - Vollert Anlagenbau GmbH, Weinsberg, (since December 11, 2012)
Thomas Keller, Freiburg Regional manager for Württemberg at Deutsche Bank AG, Stuttgart	(1) (2)	- GEZE GmbH, Leonberg - Deutsche Clubholding GmbH, Frankfurt am Main - Gühring oHG, Albstadt - Cronimet Holding GmbH, Karlsruhe - Baden-Württembergische Wertpapierbörse, Stuttgart - Vereinigung Baden-Württembergische Wertpapierbörse e.V., Stuttgart
Hannelore Knowles, Calw* Chair of the Group's works' council of Homag Group AG, Schopfloch, and chair of the works' council of HOLZMA Plattenaufteiltechnik GmbH, Calw-Holzbronn		
Jochen Meyer, Herzebrock-Clarholz* Deputy chairman of the group works' council of Homag Group AG, Schopfloch, and chairman of the group works' council of Weeke Bohrsysteme GmbH, Herzebrock-Clarholz		
Reinhard Seiler, Lemgo* Main representative of IG Metall trade union, Detmold	(1)	- Dorma Holding GmbH & Co. KGaA, Ennepetal

* *Employee representative*

Supervisory Board Committees

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

Members of the Management Board

	Membership in statutory supervisory boards (1) and other comparable domestic and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2012)	
Dr.-Ing./U. Cal. Markus Flik, Gerlingen/ Freudenstadt Chairman and board member for corporate development, affiliates until May 23, 2012 Chairman and board member for corporate development, affiliates, research and development until September 30, 2012 Chairman and board member for corporate development, research and development from October 1, 2012	(1) (2)	- Benteler International AG, Salzburg, Austria - Anand Automotive Systems Limited, Neu Delhi, India
Harald Becker-Ehmck, Nagold Board member since July 1, 2012 Board member for production, materials management, quality management, affiliates since October 1, 2012		
Achim Gauß, Dornstetten Board member for research and development until May 23, 2012		
Herbert Högemann, Freudenstadt Board member for production, procurement and quality assurance until Sept. 30, 2012		
Jürgen Köppel, Beckum Board member for sales, service and marketing		
Hans-Dieter Schumacher, Tuttlingen CFO and board member for IT, personnel	(2)	- Commerzbank AG, Regional Advisory Committee (south-west Germany), Frankfurt am Main

** Employee representative*

Total remuneration of management and supervisory board members

The remuneration of the management board members for the fiscal 2012 breaks down as follows:

	Fixed remuneration		Performance-related-remuneration (STI and bonuses)		Long-term incentives (LTI)		Benefits in kind		**Total remuneration**	
EUR k	**2012**	2011	**2012** [1]	2011	**2012**	2011	**2012**	2011	**2012**	2011
Dr. Markus Flik	555	382	95	250	264	106	10	7	924	745
Harald Becker-Ehmck	130	0	30	0	0	0	4	0	164	0
Jürgen Köppel	253	240	58	81	176	69	7	6	494	396
Hans-Dieter Schumacher	290	279	67	95	185	80	10	8	552	462
Achim Gauß	130	311	0	106	0	87	3	7	133	511
Herbert Högemann	195	260	33	88	10	72	9	9	247	429
Andreas Hermann	0	71	0	24	0	0	0	2	0	97
Rolf Knoll	0	209	0	106	0	0	0	4	0	319
TOTAL	**1,553**	**1,752**	**283**	**750**	**635**	**414**	**43**	**43**	**2,514**	**2,959**

[1] *To be paid out after the 2013 annual general meeting for the fiscal year 2012*

Figures given for remuneration acting as a long-term incentive (LTI) are not actual values, but rather fair values calculated using financial modeling methods. Consequently, the full amount of the fair value of the third reference period is reported in 2012. The provision is recognized pro rata temporis.

EUR 374 k was recognized as expenses in the financial statements (prior year: income of EUR 91 k).

The provision pertaining to remuneration acting as a long-term incentive came to EUR 561 k as of December 31, 2012 (prior year: EUR 187 k) and breaks down as follows:

	First reference period 2010–2012		Second reference period 2011–2013		Third reference period 2012–2014		Total	
EUR k	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Dr. Markus Flik	0	0	84	35	88	0	172	35
Harald Becker-Ehmck	0	0	0	0	0	0	0	0
Jürgen Köppel	39	9	58	23	59	0	156	32
Hans-Dieter Schumacher	0	0	64	27	61	0	125	27
Achim Gauß	0	12	0	29	0	0	0	41
Herbert Högemann	35	10	20	24	3	0	58	34
Rolf Knoll	50	18	0	0	0	0	50	18
TOTAL	**124**	**49**	**226**	**138**	**211**	**0**	**561**	**187**

A provision of EUR 124 k was recognized for the LTI bonus for the first reference period 2010 to 2012. This will be paid out in 2013, after the annual general meeting for 2012. For the second reference period 2011 to 2013, the provision rose to EUR 226 k for two thirds of the fair value of the LTI bonus. This will be paid out in 2014, after the annual general meeting for 2013. For the third reference period 2012 to 2014, a provision of EUR 211 k was recognized for the first third of the fair value of the LTI bonus. This will be paid out in 2015, after the annual general meeting for 2014.

In addition, in the fiscal year 2012 Achim Gauß received a compensation payment of EUR 550 k for the remaining term of his service agreement and for a post-contract non-compete clause when he handed over his duties as a member of Homag Group AG's management board. In addition, Mr. Gauß will receive a monthly compensation payment of EUR 20 k for the post-contract non-compete clause for 2013. This will be paid in fiscal 2013.

The remuneration of the supervisory board members in fiscal 2012 amounted to EUR 426 k (prior year: EUR 396 k). This contains performance-based remuneration of EUR 45 k (prior year: EUR 68 k). As in the prior year, all remuneration is current.

As 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 13 k (prior year: EUR 15 k).

Headcount

Annual average headcount:

	Number
Salaried employees	27
Management board	5
TOTAL	**32**

Authorized Capital

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

a) for fractional amounts;
b) for capital increases in return for contributions in kind for the purpose of acquiring a company, part of a company or an equity investment in a company;
c) in the case of capital increases in return for cash contributions, provided the issue price of the new shares is not significantly lower than the quoted price of identical shares already listed when the issue price is finalized by the management board within the meaning of Sec. 203 (1) and (2) and Sec. 186 (3) Sentence 4 AktG, and the new shares with precluded subscription rights do not exceed 10 percent of share capital on the date of authorization. Shares disposed of during the term of authorized capital precluding the

subscription rights of the shareholders pursuant to Sec. 71 (1) No. 8 Sentence 5 and Sec. 186 (3) Sentence 4 AktG, as well as those with conversion or exercise rights or obligations issued after this authorization was granted pursuant to Sec. 221 (4) and Sec. 186 (3) Sentence 4 AktG may not exceed 10 percent of the share capital.

Group Relationships

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

Declaration of Compliance with the German Corporate Governance Code

A declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG was issued by the management board and the supervisory board in January 2013. An up-to-date version is made permanently available to shareholders on Homag Group AG's homepage at www.homag-group.com.

Audit Fees

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

Shareholdings of Board Members

As of December 31, 2012, the members of the management board held a total of 1,000 shares (prior year: 38,436), which is equivalent to 0.01 (prior year: 0.25) percent of Homag Group AG's capital stock. The year-on-year change in the shareholding relates to the fact that Achim Gauß and Herbert Högemann stepped down from the management board. As of December 31, 2012, the members of the supervisory board held a total of 400 shares (prior year: 400), which is equivalent to 0.00 (prior year: 0.00) percent of Homag Group AG's capital stock. As no member of the management or supervisory board held more than 1 percent of the capital as of December 31, 2012, 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 if the value of the transactions equals or exceeds a total of EUR 5,000 within the space of one calendar year. The transactions notified to Homag Group AG in the fiscal year were appropriately published and can be obtained from the Company's website at www.homag-group.com.

Notifications Subject to Mandatory Disclosure

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

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

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50% and amounted to 30.54% on that date (4,790,846 voting rights).

  As of July 17, 2007, pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 3.68% of voting rights (577,888 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or less.

  Pursuant to Sec. 22 (2) Sentence 1 No. 1 WpHG, a further total of 15.17% of voting rights (2,379,874 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:

  DBG Advisors IV GmbH & Co. KG;
  DBG Advisors V GmbH & Co. KG.

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

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50% and amounted to 30.54% on that date (4,790,846 voting rights).

  Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 5.37% of voting rights (842,224 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:

  DBAG Fund V International GmbH & Co. KG.

  As of July 17, 2007, pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, a total of 4.50% of voting rights (705,235 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or less.

  As of July 17, 2007, pursuant to Sec. 22 (2) WpHG, a total of 20.95% further voting rights (3,286,875 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:

  DBG Advisors IV GmbH & Co. KG;
  Deutsche Beteiligungs AG.

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

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50% and amounted to 30.54% on that date (4,790,846 voting rights).

  Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 3.89% of voting rights (610,206 voting rights) are attributed to us via DBAG Fund IV GmbH & Co. KG.

As of July 17, 2007, pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, a total of 1.69% of voting rights (265,697 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is less than 3%.

As of July 17, 2007, pursuant to Sec. 22 (2) WpHG, a total of 24.96% further voting rights (3,914,943 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:

DBG Advisors V GmbH & Co. KG;
Deutsche Beteiligungs AG.

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

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50% and amounted to 30.54% on that date (4,790,846 voting rights).

  Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 5.58% of voting rights (875,903 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:

  DBG Advisors IV GmbH & Co. KG;
  DBAG Fund IV GmbH & Co. KG;
  DBAG Fund IV International GmbH & Co. KG.

  As of July 17, 2007, pursuant to Sec. 22 (2) WpHG, a total of 24.96% further voting rights (3,914,943 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:

  DBG Advisors V GmbH & Co. KG;
  Deutsche Beteiligungs AG.

- DBG Advisors V Verwaltungs GmbH, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1) WpHG:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50% and amounted to 30.54% on that date (4,790,846 voting rights).

  Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 5.58% of voting rights (875,903 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:

  DBG Investment Team GmbH & Co. KG;
  DBG Advisors IV GmbH & Co. KG;
  DBAG Fund IV GmbH & Co. KG;
  DBAG Fund IV International GmbH & Co. KG.

  As of July 17, 2007, pursuant to Sec. 22 (2) WpHG, a total of 24.96% further voting rights (3,914,943 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3% or more:

  DBG Advisors V GmbH & Co. KG;
  Deutsche Beteiligungs AG.

- DBAG Fund V International GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:

  On July 12, 2007, DBAG Fund V International GmbH & Co. KG held a 9.76% voting interest (equivalent to 1,531,316 voting rights) in Homag Group AG pursuant to Sec. 21 (1a) WpHG.
- On February 4, 2008, Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of January 30, 2008 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, exceeded the threshold of 5% and now amounts to 5.65% (886,095 voting rights).
- On March 31, 2008, BWInvest, Baden-Württembergische Investmentgesellschaft mbH, Stuttgart, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of March 27, 2008 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, for all of its separate trust assets exceeded the threshold of 5% and now amounts to 5.44% (852,958 voting rights). Of those, 5.04% (791,458 shares) is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.
- On December 14, 2010, Gerhard Schuler, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of December 9, 2010 his voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 25% of the voting rights and amounted to 25.000019% on that date (3,922,003 voting rights).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- On December 3, 2012, DBAG Fund IV GmbH & Co. KG, Frankfurt am Main, Germany has informed us according to Sec. 21 (1) WpHG that via shares its voting rights on Homag Group AG, Schopfloch, Germany, ISIN: DE 0005297204, WKN: 529720 have exceeded the 5% threshold of the voting rights on December 3, 2012 and amounted to 5.04% on that date (789,940 voting rights).

Declaration of the Legal Representatives (AG)

Declaration of the Legal Representatives

Declaration Pursuant to Sec. 264 (2) Sentence 3 HGB and Sec. 289 (1) Sentence 5 HGB ["Handelsgesetzbuch": German Commercial Code]

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

Schopfloch, March 15, 2013
Homag Group AG

The Management Board

DR. MARKUS FLIK

HARALD BECKER-EHMCK

JÜRGEN KÖPPEL

HANS-DIETER SCHUMACHER

Audit Opinion on the Annual Financial Statements (AG)

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

Audit Opinion

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

"We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report, which has been combined with the group management report, of Homag Group AG, Schopfloch, for the fiscal year from January 1, 2012 to December 31, 2012. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation and bylaws are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Sec. 317 HGB ["Handelsgesetzbuch": German Commercial Code] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of articles of incorporation and bylaws and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development."

Stuttgart, March 15, 2013

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

BLESCH
Wirtschaftsprüfer
[German Public Auditor]

VÖGELE
Wirtschaftsprüferin
[German Public Auditor]

Glossary

TECHNOLOGY

Batch size 1 production

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

Cabinet scraper

Tool for removing excess glue, thus resulting in a smooth surface.

CNC processing center

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

ecoPlus **technology**

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

Intrusion Detection System (IDS)

System for the detection of attacks to computer systems and/or networks. To this end, the IDS system detects and logs all suspicious movements on the network. It allows a rapid response by the Company to attacks.

Laminating technology

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

laserTec

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

Microsoft patch management

This refers to smaller and larger software patches for closing security gaps in programs, thus minimizing system outage time, closing security gaps and increasing protection against outages.

Modular system

Refers to a system that allows the adjustment of a machine's performance to customer needs through the flexible combination of processing units, software, feeding and stacking solutions as needed.

Moving gantry design

In moving gantry machines, the gantry moves over a fixed worktable on which the piece to be processed rests. The gantry is equipped with processing unit carriers fitted with the processing units needed for processing.

Production cell

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

Production lines

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

Profile trimming unit

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

reacTec

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

Surface labeling system

Machine for attaching previously printed self-adhesive labels with all the information needed for the subsequent identification of each workpiece.

wood**WOP**

Workshop-oriented programming system specifically tailored to the needs of the furniture industry and cabinet makers.

5-axis technology

CNC processing centers with five controlled main axes namely 3 linear axes (X, Y, Z) and 2 rotating axes (A-axis and C-axis). This technology affords complete flexibility as every point within the machine's workspace can be reached from any angle. This enables sawing and drilling from any angle.

FINANCE

Authorized capital

Amount of capital that the annual general meeting of a stock corporation has authorized in advance for the purpose of executing any capital increases in exchange for contributions either in cash and/or in kind by three-quarter majority resolution.

Change of control

Contractual clause in service and employment agreements of the members of the management board and middle management granting them a special right to terminate their contract and a previously agreed compensation payment.

Code of conduct

The code of conduct contains binding guidelines for the actions of the management board, middle management and all employees of the Homag Group.

Corporate governance

Legal and constructive regulations for the responsible governance and supervision of a company. The German Corporate Governance Code contains excerpts of the legal provisions as well as recommendations ("should" provisions) and suggestions ("can" provisions).

Directors and officers liability (D&O insurance)

Liability insurance that a company can obtain for its corporate bodies and management staff.

Earnings per share

Defined as the Group's earnings after non-controlling interests divided by the average number of shares outstanding.

EBIT

Earnings before interest and taxes, equivalent to earnings from operating activities.

EBT

Earnings before taxes, equivalent to earnings from ordinary activities.

Financial result

Includes for instance interest income and expenses, profit/loss from associates as well as effects from financing activities.

Free cash flow

Determined as the operating cash flow plus cash flow from investing activities and is a measure of the amount of liquid assets that a company has at its disposal.

HOMAG Group Action Program (HGAP)

The objective of the HGAP is to improve cross-location and cross-functional cooperation in the HOMAG Group and to translate these improvements into cost advantages. This program brings together a wide variety of measures across all operating companies that are being implemented locally but coordinated centrally by the specialist departments.

HOMAG Value Added (HVA)

HVA is a percentage metric determined from the return on capital employed (ROCE) less the weighted average cost of capital (WACC). It is used as a calculation basis for determining the variable remuneration of the supervisory and management boards.

IFRS

International Financial Reporting Standards (IFRS) are accounting standards applicable internationally and are intended to allow comparability of consolidated financial statements from country to country.

Long-term incentive (LTI)

Long-term variable remuneration component for members of the management and supervisory boards. It is performance-based and linked to various parameters.

Net debt to EBITDA ratio

The net debt to EBITDA ratio is a measure of financial stability and is defined as the ratio of net liabilities to banks to operative EBITDA.

Operating cash flow

Change in cash and cash equivalents due to operating activities.

Operative EBITDA

Metric used to assess the results of operations of the HOMAG Group. Earnings before interest, taxes, amortization and depreciation is adjusted for employee profit participation expenses and extraordinary expenses.

Percentage of completion (PoC) method

Under the PoC method, the contribution to results (sales revenue and earnings) from large-scale plant and machinery is recognized based on the stage of production as of the cut-off date.

ProFuture

Major IT project of the HOMAG Group that is divided into several subprojects and encompasses the end-to-end reengineering of the complete order handling process in connection with the modernization of the related IT systems.

ROCE

Return on Capital Employed (ROCE) is defined as earnings before interest and taxes (EBIT) before employee profit participation expenses and before extraordinary expenses as a percentage of capital employed.

Secondary wood processing

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

Short-term incentive (STI)

Short-term variable remuneration component for members of the management and supervisory boards. It is performance-based and linked to various parameters.

Syndicated loan agreement

The loan agreement concluded in September 2012 by the HOMAG Group with a syndicate of banks led by Commerzbank, Deutsche Bank and UniCredit. The new agreement has a term of four years and secures the Group's liquidity with a volume of EUR 210 million.

WACC

Weighted average cost of capital (WACC) is calculated as the weighted average cost of equity and debt capital.

Financial Calendar

March 28, 2013	Press conference on the financial results in Stuttgart
March 28, 2013	Analysts conference in Frankfurt am Main
May 15, 2013	Three-months report 2013
May 28, 2013	Annual general meeting in Freudenstadt
August 14, 2013	Six-months report 2013
November 12, 2013	Nine-months report 2013

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 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 HOMAG Group AG including the financial position and profitability as well as the economic and regulatory framework conditions should coincide with the futureoriented statements in this annual report, it cannot be guaranteed that the same will hold true in the future.

OTHER INFORMATION
This annual report is published in German and in English. In case of doubt, the German version shall prevail.

Minor differences may arise from use of amounts and percentages rounded to the nearest whole number.

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Group Structure*

Homag Group AG

100 %

Homag Holzbearbeitungssysteme

100 % [1]	100 %	100 % [1]	100 % [1]	51 % [1]	100 % [1]	100 %	100 %
HOLZMA Plattenaufteil-technik GmbH (incl. Holzma S.A.U.)	Friz Kaschiertechnik 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	Bargstedt Handling-systeme GmbH
Sawing	Surface	Sizing & Edge processing			Drilling & Hard-ware mounting	Assembly/Handling/Pa	

10 %

Homag Vertriebs-Beteiligungs GmbH

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.S.	Homag Italia S.p.A.	Homag España Maquinaria S.A.	Homag Danmark A/S	Homag U.K. Ltd.	Homag Polska Sp. z o.o.	Homag GUS GmbH (incl. OOO "Homag Russland")	Stiles Machinery Inc.
Central Europe			Western Europe					Eastern Europe		

* *Simplified view*
[1] *Shares are partly or wholly held directly by Homag Group AG*
[2] *Shares are partly held by Weeke Bohrsysteme GmbH, Homag Holzbearbeitungssysteme GmbH and Stiles Machinery Inc.*
[3] *Shares are partly held by Homag Holzbearbeitungssysteme GmbH, Brandt Kantentechnik GmbH, Weeke Bohrsysteme GmbH and HOLZMA Plattenaufteiltechnik GmbH*

GmbH

51%	*81.3%* [3]	*100%*	*100%* [1]	*100%* [1]	*100%* [1]	*51%* [1]
Weinmann Holzbausystem-technik GmbH	Homag Machinery (Shanghai) Co., Ltd.	HOMAG MACHINERY (São Paulo) Ltda.	HOMAG MACHINERY Środa Sp. z o.o.	Homag Machinery Bangalore Pvt. Ltd.	SCHULER Consulting GmbH	Homag eSolution GmbH

ckaging | **Timber frame house contruction** | **Production plants in future regions** | **Services**

90%

100%	*100%*	*25%*	*100%*	*100%*	*54.6%*	*100%*	*100%*	*100%*
Homag Canada Inc.	Homag South America Ltda.	Homag China Golden Field Ltd.	Homag Asia (PTE) Ltd.	Homag Japan Co. Ltd.	Homag Korea Co. Ltd.	Homag Australia Pty. Ltd.	Homag India Pvt. Ltd.	Homag Finance GmbH

America | **Asia/Pacific** | **Services**

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