# Interim Report Q3/2011

HOMAG Group – Success through partnership and strategy

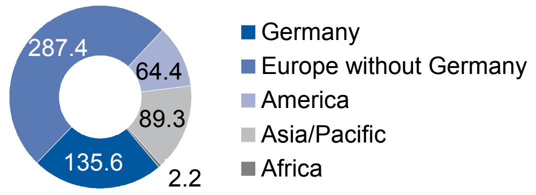
# KEY GROUP FIGURES

| | | 9 months 2011 | 9 months 2010 | Variance as % |
|---|---|---|---|---|
| Total sales revenue | EUR m | 578.9 | 517.1 | 12.0 |
| Sales revenue Germany | EUR m | 135.6 | 109.8 | 23.5 |
| Sales revenue outside Germany | EUR m | 443.3 | 407.3 | 8.8 |
| thereof Europe | EUR m | 287.4 | 249.4 | 15.2 |
| North America | EUR m | 38.3 | 24.3 | 57.6 |
| South America | EUR m | 26.1 | 30.2 | -13.6 |
| Asia/Pacific | EUR m | 89.3 | 101.5 | -12.0 |
| Foreign share | as % | 76.6 | 78.8 | -2.8 |
| EBITDA[1] | EUR m | 42.2 | 39.6 | 6.6 |
| EBITDA adjusted[2] before employee participation | EUR m | 45.7 | 41.4 | 10.4 |
| EBITDA adjusted[2] after employee participation | EUR m | 42.5 | 38.5 | 10.4 |
| EBITDA[1] | as % of sales revenue | 7.3 | 7.7 | -5.2 |
| EBITDA[1] | as % of total operating performance | 7.1 | 7.3 | -2.7 |
| EBIT[1] | EUR m | 21.2 | 18.2 | 16.5 |
| EBIT adjusted[2] before employee participation | EUR m | 24.7 | 19.9 | 24.1 |
| EBIT adjusted[2] after employee participation | EUR m | 21.5 | 17.0 | 26.5 |
| EBIT[1] | as % of sales revenue | 3.7 | 3.5 | 5.7 |
| EBIT[1] | as % of total operating performance | 3.6 | 3.4 | 5.9 |
| Net profit (before non-controlling interests) | EUR m | 5.0 | 4.2 | 19.0 |
| Earnings per share[3] | EUR | 0.27 | 0.20 | 35.0 |
| ROCE [4] after taxes | as % | 7.5 | 6.2 | 21.0 |
| ROCE [5] before taxes | as % | 10.8 | 8.9 | 21.3 |
| Equity as of the reporting date | EUR m | 168.5 | 164.4 | 2.5 |
| Own funds as of the reporting date[6] | EUR m | 200.5 | 205.9 | -2.6 |
| Own funds ratio | as % | 35.3 | 35.6 | -0.8 |
| Capital expenditures on property, plant and equipment[7] | EUR m | 10.3 | 6.9 | 49.3 |
| Depreciation of property, plant and equipment[7] | EUR m | 10.2 | 10.7 | -4.7 |
| Employees | average of the period | 5,084 | 4,965 | 2.4 |
| thereof trainees | average of the period | 356 | 373 | -4.6 |
| Personnel expenses adjusted[2] | EUR m | 203.2 | 188.6 | 7.7 |
| Order intake accumulated[8] | EUR m | 468.1 | 436.1 | 7.3 |
| Order backlog as of reporting date[8] | EUR m | 221.8 | 202.6 | 9.5 |

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

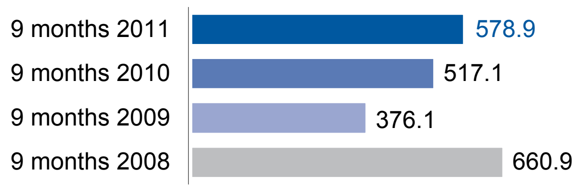
**SALES REVENUE BY REGION 9 months 2011**

EUR million



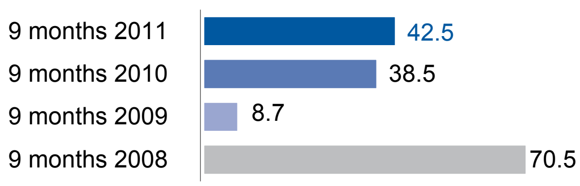

**SALES REVENUE**

EUR million



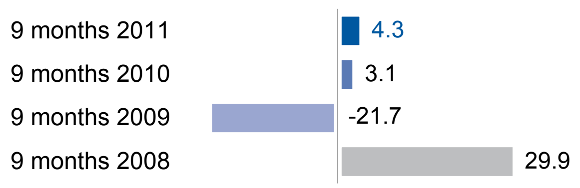

**EBITDA adjusted[2)] after employee participation**

EUR million



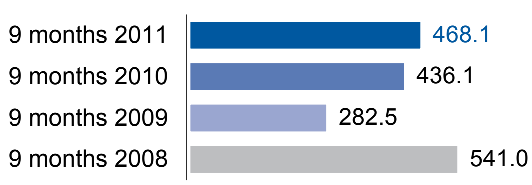

**NET PROFIT/LOSS (after non-controlling interests)**

EUR million



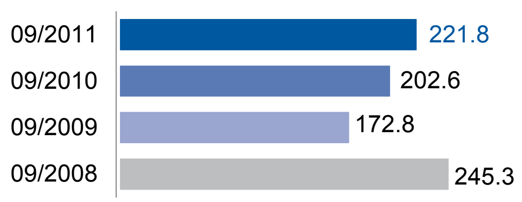

**ORDER INTAKE[8)]**

EUR million




**ORDER BACKLOG[8)]**

EUR million



# CONTENTS

# FOREWORD BY THE MANAGEMENT BOARD

From left to right:
Dr. Markus Flik
Achim Gauß
Herbert Högemann

**DEAR SHAREHOLDERS,**

Our declared goal is to continue strengthening the earnings of the HOMAG Group in a sustainable fashion. Initial successes became evident in the third quarter of 2011 in which we were able to improve our earnings indicators both on the prior year as well as on the prior quarter. In addition to sales revenue growth, this improvement in earnings can be attributed to the cost cutting measures we adopted in response to the weak results for the first six months and which we pursued consistently. These include a restrictive recruiting policy and clear targets to reduce other operating expenses.

As the fall in the ratio of personnel expenses to total operating performance in comparison to the prior two quarters and fiscal year 2010 shows, these measures have had an effect, which was also boosted by the reduction in the vacation and non-working shift accounts. Likewise, the ratio of cost of materials to total operating performance fell in the third quarter after eliminating the extraordinary effect of the major project with Mekran, a Russian customer. Although other operating expenses have risen on the prior quarter on account of the significant burden of impairment losses recorded on receivables, they would have fallen had there not been any need to record impairment losses. The improved operating results for the third quarter of 2011 have shown us that we are on the right course.

The cost-cutting measures that have been initiated are crucial, also with regard to the growing uncertainty associated with the ongoing financial crisis. As one of the companies in the engineering sector that is affected at an early stage by the economic cycle, we already see the first signs of a negative impact on the investment patterns of our customers. Although our sales revenue rose by 20 percent in the third quarter of 2011 in comparison to the same period of the prior year, our order intake fell slightly.

**OUTLOOK**

Based on the healthy development of sales revenue in the first nine months of the year, we confirm our previous forecasts for the full year 2011 and anticipate at least a mid-single-digit percentage growth in sales revenue. We continue to expect a slight increase in our order intake provided that the economic prospects do not become any gloomier. We forecast that our operative EBITDA will remain at roughly the same level as the prior year, thus confirming our earlier forecast. With regard to our earnings after tax, we now assume, as reported in October, that we will suffer a small loss. This is due to high extraordinary expenses that will be incurred in the fourth quarter of 2011 for the planned expansion of our restructuring measures, quantified at approximately EUR 20 million for the full year 2011. After completion of the restructuring measures at the three entities of the Group, we expect to see a sustained annual improvement in operative EBITDA as a result of between EUR 6 million and EUR 8 million from 2013 onwards.


From left to right:
Jürgen Köppel
Hans-Dieter Schumacher

The economic outlook for 2012 has already darkened and there is substantial uncertainty about the future. This is associated with the doubts regarding further developments on the financial markets and also the global economy. In light of these factors, it is extremely difficult to make a forecast for 2012 as the extent of a potential global economic slowdown cannot be reliably estimated, which can result in risks. Our goal is to keep our sales revenue in 2012 at the same level as 2011 – after eliminating the extraordinary impact of the major project with Mekran. We also want to remain at the level of 2011 with respect to the order intake and operative EBITDA. Taking these sales forecasts as a basis, we assume that the Group will return to profit in 2012 as the expenses of the restructuring measures will be incurred in fiscal year 2011.

Schopfloch, November 2011

The management board

DR. MARKUS FLIK

ACHIM GAUSS

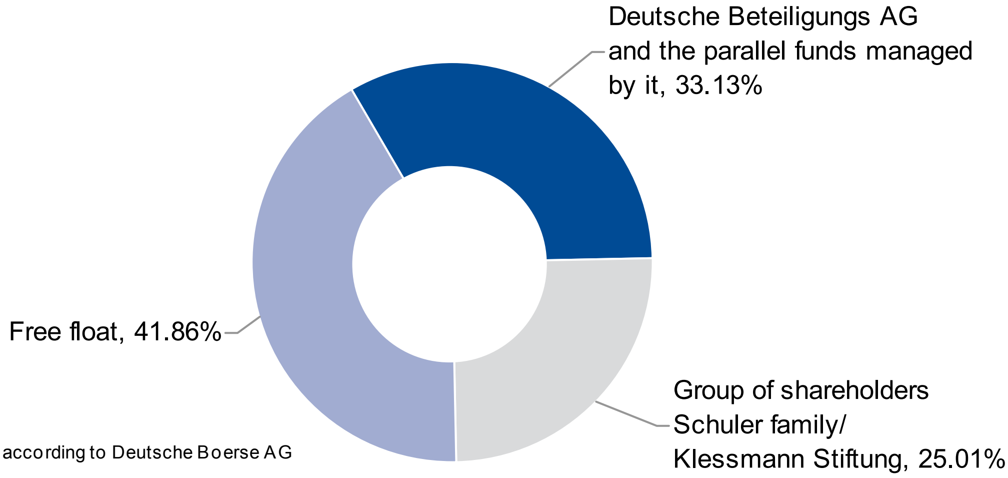
HERBERT HÖGEMANN

JÜRGEN KÖPPEL

HANS-DIETER SCHUMACHER

# THE HOMAG GROUP AG SHARE

**SHAREHOLDER STRUCTURE AS OF OCTOBER 31, 2011***




*Method of calculation according to Deutsche Boerse AG

The share markets were extremely weak in the third quarter of 2011, both in Germany and abroad. The great deal of uncertainty on the financial markets on account of the debt crisis in the USA and in the euro zone as well as the first fears of recession resulted in a painful fall in share prices, particularly in August. The DAX, the MDAX and the TecDAX each dropped around 25 percent between July and September, while the SDAX was down 20 percent.

After lying between EUR 15 and EUR 16 in July, the share of HOMAG Group AG fell to below EUR 10 at the beginning of August. This drop was only partly due to the weak market. The ad hoc announcement on August 1, 2011, in which we scaled back our earnings forecast for 2011 on account of unplanned personal expenses and restructuring costs, also played a role in the fall. Until the end of the quarter, the share price fluctuated around EUR 10, closing the quarter at EUR 9.66.

In spite of the difficulties on the international financial markets and the continuing insecurity, the German share markets picked up again in October 2011. Our share price slid again in October and closed the month at EUR 8.48. This renewed fall was also due to an ad hoc announcement made on October 6 in which we announced the acceleration of our restructuring measures, leading to a high extraordinary expense for fiscal year 2011.

In a number of personal discussions and telephone interviews, the management board informed interested investors and analysts once again in the third quarter of 2011 about the latest situation and the plans of the HOMAG Group for the future. These measures were supplemented by a conference call on the results of the second quarter and a road show in Frankfurt. At the end of September 2011 we also participated in an investor event hosted by the Baden-Württemberg Small Caps (BWSC) and the Stuttgart Stock Exchange. We published an ad hoc announcement in the third quarter and an investor newsletter, informing our shareholders and other interested parties of the latest developments, also in numerous telephone calls.

## PERFORMANCE OF THE HOMAG GROUP SHARE IN COMPARISON WITH SDAX

January 4, 2010 to October 31, 2011


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

## 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* January 4, 2010-September 30, 2011 | December 14, 2010 | EUR 18.20 |
| Price low* January 4, 2010-September 30, 2011 | August 8, 2011 | EUR 9.21 |
| Price* as at September 30, 2011 | | EUR 9.66 |
| Earnings per share | January 1-September 30, 2011 | EUR 0.27 |
| Market capitalization (September 30, 2011) | | EUR 151.5 million |

* XETRA closing quote

# INTERIM MANAGEMENT REPORT AS OF SEPTEMBER 30, 2011

## ECONOMIC ENVIRONMENT

In their fall reports released in October 2011, leading German economic research institutes perceive a trend reversal that has been evident since the summer of 2011. Although global production in the first six months of 2011 and also the summer months of the year remained high, numerous indicators were already pointing towards an economic downturn. The prospects for the global economy have deteriorated significantly. The general gloom set in during July as the debt crisis in the USA and Europe grew more severe. The sovereign debt crisis is threatening to spread to a bank crisis, in Europe in particular. As a result, many investments were laid on ice in the second half of the year as the outlook of many companies darkened. In comparison to the more advanced economies, demand in most emerging economies remained strong despite a slight slowdown in economic growth.

According to economic experts, the German economy will be increasingly burdened by the debt crisis in the euro zone and the concomitant loss of faith of the markets. Although GDP growth was relatively strong in the third quarter of 2011, important economic mood indicators have deteriorated significantly since August. For example, the ifo business climate index remained at a very high level but nevertheless dipped for the fourth month in succession in October. Both the present situation and the prospects for the coming six months are regarded in less favorable light.

According to the VDMA, the engineering sector reported a rise in order intake of 10 percent in the third quarter, with orders from German customers rising stronger than export orders. Demand for wood processing machines in the segments relevant to HOMAG rose by 6 percent between July and September compared to the same period of the prior year. Overall, sales increased by 16 percent.

## BUSINESS DEVELOPMENT

The huge degree of uncertainty in the global financial markets, which grew even worse in the third quarter of 2011, led to a number of investment decisions being postponed. As one of the companies that feels any shift in the economic cycle at an early stage, we have noticed the first signs of this growing unease. In spite of the extremely positive turnout at the leading trade fair for the industry, the Ligna, at the beginning of June, where we managed to conduct numerous positive discussions with potential customers and issued many quotes for new machinery, at EUR 129 million our order intake for the third quarter of 2011 was down on the figure for the same period of the prior year (EUR 136.0 million). Customer interest in our products was also very high at our in-house exhibitions, which are held in the last weeks of September simultaneously at a number of our subsidiaries.

Due to the slight drop in demand in the summer months and high deliveries in the third quarter of 2011, our order backlog dropped from the high level recorded at the end of the prior quarter (June 30, 2011: EUR 231.3 million) to stand at EUR 221.8 million at the end of the quarter. However, this figure is almost EUR 20 million up on the figure for the comparable period of the prior year (EUR 202.6 million).

On account of the healthy order situation in the first six months of 2011 and the numerous deliveries shipped in the reporting quarter between July and September 2011, our sales revenue developed excellently, rising by 20 percent to EUR 204.6 million (prior year: EUR 171.0 million). The major project with our Russian customer Mekran, which has a total contract volume of about EUR 58 million, contributed EUR 15.9 million to sales revenue. Total operating performance in the third quarter of 2011 increased to EUR 205.2 million (prior year: EUR 180.7 million).

Once again, developments in the individual markets and regions were disparate in the third quarter of 2011. This is partly due to the uncertainty related to the sovereign debt problems in the euro zone. Central Europe, including Germany, Austria and Switzerland, recorded an order intake that matched the high level of the prior year. Likewise, eastern Europe displayed robust activity with the order intake significantly up on the prior year. The strength of the Russian market contributed to this development, even if one disregards the impact of the Mekran project. However, even smaller and medium-sized markets, such as Lithuania and Romania were also factors in the overall success of the region. In the third quarter, western Europe continued to suffer from the consequences of the financial crisis and was unable to reach the excellent prior-year figure, despite the continuing strength of the French market. A reluctance on the part of customers to invest was felt keenly in Greece and Portugal.

The economies of South America, Brazil in particular, have leveled off at a very healthy level, even if significantly below that of the same period in the prior year. The growth trend in the USA was confirmed in the third quarter, albeit at a low level. However, we were unable to match the excellent order intake recorded in the same quarter of the prior year, which benefited from a major contract. In spite of the slight drop in the order intake in China in comparison to the same period of the prior year, the Asia-Pacific region developed positively overall. The markets in Korea, Japan and Malaysia were just some of the factors in this development.

In the first nine months of 2011 we were able to increase our sales revenue for the Group by 12 percent to EUR 578.9 million (comparable period of the prior year: EUR 517.1 million). Total operating performance increased to EUR 594.3 million (prior year: EUR 540.3 million). Order intake rose by 7 percent in the first three quarters of 2011 to EUR 468.1 million (prior year: EUR 436.1 million).

**EARNINGS SITUATION**

After our earnings indicators for the first six months of 2011 had slipped below our expectations, we initiated measures to improve our profitability. These include a restrictive recruiting policy to reduce our personnel expenses and clear targets to reduce other operating expenses. High impairment losses on receivables and the distortions in exchange rates triggered by the crisis in the euro zone burdened earnings. The net result from changes in exchange rates burdened earnings by EUR 0.6 million in the third quarter of 2011 alone, with impairments of receivables up EUR 3.5 million in comparison to the third quarter of 2010. Accumulated for the first nine months of 2011, the burden on earnings from impairment losses on receivables was EUR 4.7 million higher than in the comparable period of the prior year with net exchange rate losses adding another EUR 2.7 million.

Nevertheless, our measures have already shown the first positive effects, as can be seen in the operative EBITDA before employee participation expenses and before extraordinary expenses for restructuring measures (extraordinary expenses), which rose by 25 percent to EUR 17.1 million in the third quarter of 2011 (prior year: EUR 13.7 million).

As expected, the ratio of cost of materials to total operating performance increased on the prior year to 45.5 percent (prior year: 43.9 percent). The rise can be attributed to the greater share of merchandise involved for the major project with Mekran. After eliminating this special effect, the ratio of cost of materials to total operating performance in the third quarter of 2011 comes to 41.9 percent. At the end of 2011, we expect the ratio of cost of materials to total operating performance to be at an elevated level on account of the deliveries for the Mekran project.

However, the development in personnel expenses reveals that our cost-savings measures are having effect. In comparison to the second quarter of 2011, personnel expenses dropped substantially in the quarter from EUR 71.3 million to EUR 66.1 million in spite of the rise in sales revenue. Reductions in vacation and non-working shift accounts were additional factors in the decrease. The rise on the same period in the prior year (EUR 62.8 million) is due to a higher headcount, but, has risen at a slower rate than sales revenue as the substantial fall in the ratio of personnel expenses to total operating performance to 32.2 percent illustrates (prior year: 34.7 percent).

Extraordinary expenses in the third quarter of 2011 came to EUR 0.4 million (prior year: EUR 0.8 million). In the fourth quarter of 2011, extraordinary expenses are expected to rise significantly on account of the greater scope of restructuring measures, as discussed in the section on subsequent events. The employee participation program resulted in an expense of EUR 1.6 million for the period July to September 2011 (prior year: EUR 1.2 million).

The rise in sales revenue, in conjunction with the effectiveness of the measures taken to improve earnings, resulted in EBIT before employee participation expenses yet after extraordinary expenses climbing by 76 percent to EUR 10.0 million (prior year: EUR 5.6 million). The financial result improved to EUR -2.4 million (prior year: EUR -3.1 million). This is primarily due to the fall in interest expenses as a consequence of more favorable contractual terms for loans and the repayment from available cash of the first tranche of profit participation rights of EUR 10 million in May 2011. EBT after the employee participation expenses and after extraordinary expenses has increased clearly, reaching EUR 6.0 million (prior year: EUR 1.3 million), the highest result of the three quarters of 2011. In particular, this underscores the improvement in our profitability compared to the prior quarter (EUR 1.6 million).

Compared to the extremely high rate in second quarter of 2011 (96 percent) our effective tax rate dropped significantly to 47 percent in the quarter under review. This is attributable to the extremely low extraordinary expenses and the healthy results of many subsidiaries. On account of the rules limiting the deductibility of interest expenses and the losses at some subsidiaries for which no deferred tax assets could be recognized, this rate is still very high and slightly above the rate reported in the prior year (39 percent). The tax rate will rise significantly once again in the fourth quarter of 2011 on account of the extraordinary expenses for restructuring measures at some subsidiaries.

The net profit for the period before non-controlling interests comes at EUR 3.2 million in the third quarter of 2011 (prior year: EUR 0.8 million) and after non-controlling interests to EUR 2.7 million (prior year: EUR 0.3 million) and gives rise to earnings per share of EUR 0.17 (prior year: EUR 0.02).

Thanks to the good result in the third quarter, our earnings indicators have improved overall for the first nine months of 2011 on the comparable figures for the prior year. For instance, operative EBITDA before employee participation expenses and before extraordinary expenses climbed to EUR 45.7 million (prior year: EUR 41.4 million). EBIT before employee participation expenses and after extraordinary expenses comes to EUR 21.2 million (prior year: EUR 18.2 million) and EBT after employee participation expenses and after extraordinary expenses comes to EUR 11.0 million (prior year: EUR 7.5 million). The effective tax rate in the first nine months of 2011 comes to 55 percent (prior year: 44 percent), also due to some extent to the restructuring at BÜTFERING. Without this extraordinary item, the effective tax rate would have come to 45 percent, the same level as the prior year. The net profit for the first nine months of 2011 before non-controlling interests stands at EUR 5.0 million (prior year: EUR 4.2 million) and after non-controlling interests at EUR 4.3 million (prior year: EUR 3.1 million) and gives rise to earnings per share of EUR 0.27 (prior year: EUR 0.20).

**NET ASSETS AND FINANCIAL POSITION**

Our total assets as of September 30, 2011 fell slightly to EUR 567.7 million compared to EUR 570.1 million as of December 31, 2010. As a result, total assets remain below the figure for the second quarter of 2011 (EUR 573.0 million) despite the rise in cash and cash equivalents. We have stocked up our inventories of raw materials, consumables and supplies to avoid the threat of delivery bottlenecks. However, we intend to scale our inventories back to approximately the same level as the prior year by the end of the year (December 31, 2010: EUR 128.2 million).

With regard to equity and liabilities, trade payables increased while financial liabilities decreased owing to the repayment of the first tranche of the profit participation rights. Our equity ratio as of September 30, 2011 has not changed on the end of 2010 and lies at 30 percent.

Net liabilities to banks continued to decline over the course of the third quarter of 2011 to close the period at EUR 79.7 million (June 30, 2011: EUR 91.6 million). However, this figure as of September 30, 2011 is still significantly higher than the extremely low figure recorded at the end of fiscal 2010 (EUR 55.8 million) on account of the cash outflows for the repayment of profit participation rights, dividend payments and the payment of the cash portion of the employee participation program and is also above the figure for the comparable period of the prior year (EUR 67.1 million).

The return on capital employed (ROCE) before taxes on the basis of EBIT before the employee participation expenses and before extraordinary expenses increased to 10.8 percent in the first three quarters of 2011 (prior year: 8.9 percent). After taxes (tax rate used in calculation: 30 percent), ROCE on the basis of EBIT before the result from employee participation and before extraordinary expenses came to 7.5 percent (prior year: 6.2 percent). We were able to realize this by improving the management of working capital, which we were able to reduce significantly in comparison to the first six months of the year. Working capital has also risen at a much slower rate than business volume since September 30, 2010.

The cash flow from operating activities in the first nine months of 2011 came to EUR 16.2 million in spite of the much higher pre-tax result for the period. This is significantly below the figure for the comparable period of the prior year when cash flow from operating activities came to EUR 44.5 million. The difference of EUR 28.3 million is based primarily on the change in payments received on account which rose by EUR 18.5 million in the comparable period of the prior year whereas this item fell by EUR 4.6 million in the first nine months of 2011. Cash flow from investing activities came to EUR -21.8 million on account of higher cash outflows for investments (prior year: EUR -14.5 million), resulting in free cash flow (cash flow from operating activities less cash flow from investing activities) of EUR -5.6 million (prior year: EUR 30.0 million). Cash flow from financing activities decreased to EUR -21.1 million for the period January to September 2011 (prior year: EUR 2.7 million). This is primarily due to the cash outflows needed to repay the profit participation rights and dividends. Cash and cash equivalents stood at EUR 43.9 million as of September 30, 2011 (prior year: EUR 64.6 million).

## EMPLOYEES

Our headcount as of September 30, 2011 rose to 5,147 compared to 5,075 at the end of the second quarter of 2011. Compared to the headcount as of September 30, 2010 (5,040), the workforce has increased by 107 employees – the new jobs were primarily created at production and sales companies in growth markets abroad. In addition over 100 trainee positions were provided groupwide in the period from July to September 2011. We also had 112 temporary workers as of the end of the third quarter (September 30, 2010: 128 temporary workers).

## CAPITAL EXPENDITURE

Compared to the low value for the prior year, our capital expenditure (excluding leases) rose, as planned, in the third quarter of 2011 to reach EUR 9.4 million (prior year: EUR 6.6 million), returning to the average level of recent years. The main focus of investment in the reporting period lay on expansions to our production facility in China and purchase of a property for a new building for the Swiss sales office. Capital expenditure contains own work capitalized of EUR 2.7 million (prior year: EUR 2.3 million). In aggregate terms, capital expenditure for the first nine months of 2011 amounts to EUR 22.7 million (prior year: EUR 15.9 million).

## RESEARCH AND DEVELOPMENT

The HOMAG Group was once again able to present a number of new products and product refinements at its in-house exhibitions at several of its subsidiaries. The recently completed showroom in Schopfloch, the HOMAG Technikum, now provides permanent space of 2,000 $m^2$ for approximately

20 demonstration machines with numerous innovations. At this showroom, customers can see for themselves the high performance of our products in use.

Examples of the machines presented at the in-house trade fairs include a fully automated CNC production cell enabling complete processing of wooden window parts, doors, arches and conservatory elements. We also presented two completely redesigned product lines for panel cutting featuring numerous technical innovations and new processing units for finishing and fine sanding. We have now integrated our mineral-based material for machine beds in two lines of sanding machines, thereby increasing the processing quality a further notch.

Our refinements for surfacing techniques enable us to meet the needs of our customers for the cost-effective production of furniture and building elements requiring a very high surface quality. Another positive point is the reduced environmental impact of our refined laminating techniques. In terms of sanding technology, the HOMAG Group offers comprehensive solutions from just one source.

Innovative laser technology for perfect edge processing is now provided in the form of a modular system for CNC and through-feed machines, which will accelerate its market acceptance. Also in terms of IT integration, we presented the latest in diagnostic and monitoring software systems to our customers at our in-house exhibitions. These solutions make a significant contribution to the productivity and performance of our machines, particularly for batch-1 production.

**RISK REPORT**

The risk management system in place and the individual business risks are described in the annual report 2010, pages 73 - 77. The comments made there are still essentially valid. There are no discernable risks at present that could jeopardize the continuation of HOMAG Group as a going concern.

**SUBSEQUENT EVENTS**

In October 2011, after the close of the reporting period, the supervisory board approved the management board’s proposal to enlarge the scope of the restructuring measures already planned without prejudice to the rights of the co-determination bodies. On this basis, we will discontinue the production and administration departments of our subsidiary, FRIZ, but retain its development and service unit for surfacing technology, which employs 15 workers. The Löhne site is to be closed down in its entirety, together with the operations of TORWEGGE and the service branch of WEEKE located there. In the course of these measures and the planned restructuring at BÜTFERING, which will be linked to WEEKE, approximately 180 jobs in total are expected to be lost. In collaboration with the works’ councils, we are looking to find the best possible solutions for the employees concerned.

After intensively examining other avenues, we do not see any other feasible alternative to this measure as both FRIZ and TORWEGGE have been making losses for several years and no improvement is in sight. This is mainly a consequence of the massive fluctuations in demand for the machines and production lines produced at this location. Consequently, their viable production is only possible within a larger product portfolio. For this reason we will expand the strategically important product lines of FRIZ and TORWEGGE at HOMAG Holzbearbeitungssysteme GmbH in future. In sum the planned structure for the HOMAG Group is viable for the future and will further improve the efficiency of development and production by concentrating our operations at fewer sites, a move that will allow us to strengthen our profitability while safeguarding jobs and the Group's future. Once the full restructuring program is completed, we expect to generate a sustained improvement in operative EBITDA as a result (before employee participation expenses and before extraordinary expenses) ranging between EUR 6 million and EUR 8 million each year from 2013 onwards.

**OUTLOOK**

According to the reports made by economic research institutes in their reports for the fall of 2011, the growing uncertainty in the advanced economies is creating pessimism for the future among both companies and households. In addition, the terms of finance are deteriorating, leading to expectations of a weak winter season in which production in the euro zone will fall intermittently. For the global economy, the economic experts are forecasting growth of 2.6 percent for 2011 and 2.5 percent for 2012, with the emerging economies remaining the main driver, with growth of over 6 percent. The Chinese and Indian economies are forecast to grow in high single digits in this and the coming year. The gross domestic product of the various nations in Latin America is expected to grow by approximately 4 percent.

The advanced economies, by contrast, are only expected to grow by 1.4 percent in 2011 and 1.3 percent in 2012. Of the advanced economies, the USA is forecast to see growth of 1.6 percent in each of these years. GDP growth in the countries of the EU is also forecast to reach 1.6 percent in 2011; although economic output is only expected to grow by 0.7 percent in 2012. The main worries remain Greece, Spain, Italy and Portugal although some eastern European states are expected to see robust growth. In Germany, GDP is expected to remain very buoyant in 2011, growing by 2.9 percent but is expected to stagnate in the winter of 2011/12 on account of the general economic gloom. Exports are also expected to slow down noticeably, with growth of just 0.8 percent forecast for 2012.

According to the forecast of the VDMA, issued in September, German manufacturers of plant and machinery are still expected to report a 14 percent increase in production for the full year 2011. This trend is expected to slow down in 2012 with growth rates expected to fall from month to month; nevertheless, production levels for the full year are expected to rise 4 percent. In the sector of wood-processing machinery, in which HOMAG operates, the professional association within VDMA is forecasting revenue growth in the order of a mid-single-digit figure for 2011. The economy is forecast to cool off noticeably in 2012, with sales revenue growth in the sector of wood-processing machinery expected to be in low-single-digit figures.

For 2011, we are still acting on the assumption that the HOMAG Group's order intake will be slightly up, provided that the economic prospects do not become even more gloomy. Also in terms of sales revenue, we can confirm our previous forecasts based on the first nine months of the year and believe that our sales revenue will grow by a mid-single-digit figure. This includes sales revenue of

EUR 40 to EUR 50 million originating from the large-scale project with our major Russian customer, Mekran, which will not be fully completed in 2011.

Assuming that the global economy does not deteriorate any further on account of the uncertainty particularly with regard to the euro zone, we assume that the disparate trends seen in our sales markets worldwide in the year to date will continue until the end of 2011. Given these conditions, the domestic market is expected to remain stable and the order intake will, as far as we can tell today, surpass the healthy level seen in the prior year. The order intake in western Europe will continue to be overshadowed by the tense situation in Greece, Spain, Portugal and Italy, and we therefore do not expect to match in 2011 the excellent figure of the prior year in western Europe.

By contrast, eastern Europe is certain to surpass the prior-year figure in the current fiscal year, driven primarily by Russia but also supported by small and medium-sized markets. On account of the slow-down in South America, which was more severe in the third quarter of 2011 than first expected, particularly in Brazil, it is unlikely that we will be able to make the figure for the prior year for the America region as a whole, despite a positive trend in the USA. We expect the Asia-Pacific region to remain at a high level in the fourth quarter, but the figure for the full year 2011 will be below the excellent figure returned in the prior year.

We expect operative EBITDA in 2011 to remain at the level of the prior year (EUR 65.1 million) but now assume, as reported in October, that our after tax earnings will be slightly in the red. The reason for the loss lies in high extraordinary expenses for restructuring measures, as reported in the section on subsequent events. These are expected to amount to roughly EUR 20 million in 2011. Although the majority of these expenses will not impact cash until 2012, they will burden earnings in the fourth quarter of 2011.

The forecast for 2012 is dominated by a substantial uncertainty, which is primarily driven by the highly unpredictable development going forward of the financial markets and the global economy as a whole. Overall, the prospects for the global economy have continued to dim since the beginning of the year, as is confirmed by the reports of the economic research institutes issued in the fall of 2011. In light of the above, we now believe that our sales revenue target of EUR 800 million for 2012 is ambitious. Our goal is to maintain our sales revenue at the level of 2011 – after eliminating the extraordinary impact of the large-scale project with Mekran. With regard to the order intake, we would like to remain at roughly the same level in 2012 as the current year. The potential cooling down of the global economy gives rise to risks, the scope of which cannot be reliably estimated at present. On account of the global prospects for the wood-processing industry, we remain true to our original forecast that, in the medium term, we will return to the sales revenue level seen in the years 2007 and 2008 of approximately EUR 850 million.

Given that the restructuring expenses will be incurred in fiscal year 2011, we forecast that the Group will return a profit once again in 2012 on the basis of the above sales revenue forecasts. We want to keep our operative EBITDA (before employee participation expenses and before extraordinary expenses) at the same level as 2011. In light of the fact that we expect to see a sustained annual improvement in operative EBITDA of between EUR 6 million and EUR 8 million from the year 2013 onwards once the restructuring measures at the three subsidiaries are completed, we intend to once again see a significant improvement in the operative EBITDA margin.

# INTERIM FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT

| EUR k | 2011 07/01-09/30 | 2010 07/01-09/30 | 2011 01/01-09/30 | 2010 01/01-09/30 |
|---|---|---|---|---|
| **SALES REVENUE** | **204,581** | **170,989** | **578,925** | **517,142** |
| Increase or decrease in inventories of finished goods and work in progress | -2,495 | 7,410 | 6,352 | 15,961 |
| Own work capitalized | 3,130 | 2,292 | 9,027 | 7,235 |
| | 635 | 9,702 | 15,379 | 23,196 |
| **TOTAL OPERATING PERFORMANCE** | **205,216** | **180,691** | **594,304** | **540,338** |
| Other operating income | 3,819 | 1,985 | 11,709 | 13,660 |
| | **209,035** | **182,676** | **606,013** | **553,998** |
| Cost of materials | 93,464 | 79,234 | 264,552 | 239,186 |
| Personnel expenses before employee participation | 66,079 | 62,774 | 206,035 | 189,374 |
| Amortization of intangible assets | 2,830 | 2,854 | 8,555 | 8,076 |
| Depreciation of property, plant and equipment | 3,974 | 4,386 | 12,473 | 13,398 |
| Other operating expenses | 32,719 | 27,779 | 93,231 | 85,807 |
| | **199,066** | **177,027** | **584,846** | **535,841** |
| **OPERATING RESULT BEFORE EMPLOYEE PARTICIPATION** | **9,969** | **5,649** | **21,167** | **18,157** |
| Expenses from employee participation | -1,551 | -1,244 | -3,187 | -2,913 |
| **NET OPERATING PROFIT** | **8,418** | **4,405** | **17,980** | **15,244** |
| Profit/loss from associates | 296 | 232 | 862 | 1,274 |
| Interest income | 421 | 548 | 2,367 | 1,436 |
| Interest expenses | 3,130 | 3,885 | 10,186 | 10,488 |
| **EARNINGS BEFORE TAXES** | **6,005** | **1,300** | **11,023** | **7,466** |
| Income taxes | -2,808 | -501 | -6,061 | -3,263 |
| **NET PROFIT FOR THE PERIOD** | **3,197** | **799** | **4,962** | **4,203** |
| Profit attributable to non-controlling interests | 460 | 492 | 693 | 1,138 |
| Profit attributable to owners of Homag Group AG | **2,737** | **307** | **4,269** | **3,065** |
| Earnings per share attributable to owners of Homag Group AG in EUR (basic and diluted) | 0.17 | 0.02 | 0.27 | 0.20 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| EUR k | 2011 07/01-09/30 | 2010 07/01-09/30 | 2011 01/01-09/30 | 2010 01/01-09/30 |
|---|---|---|---|---|
| **NET PROFIT FOR THE PERIOD** | **3,197** | **799** | **4,962** | **4,203** |
| Currency effects | 982 | -2,354 | -849 | 4,075 |
| Actuarial gains and losses | 0 | 0 | 40 | -223 |
| Income taxes on other comprehensive income | 0 | 0 | 0 | 77 |
| **OTHER COMPREHENSIVE INCOME** | **982** | **-2,354** | **-809** | **3,929** |
| **TOTAL COMPREHENSIVE INCOME** | **4,179** | **-1,555** | **4,153** | **8,132** |
| Total comprehensive income attributable to non-controlling interests | 662 | 216 | 701 | 1,424 |
| Total comprehensive income attributable to owners of Homag Group AG | **3,517** | **-1,771** | **3,452** | **6,708** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## ASSETS

| EUR k | | Sep. 30, 2011 | Dec. 31, 2010 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| I. | Intangible assets | 61,776 | 58,071 |
| II. | Property, plant and equipment | 136,609 | 138,647 |
| III. | Investments in associates | 8,118 | 7,519 |
| IV. | Other financial assets | 519 | 493 |
| V. | Receivables and other assets | | |
| | Trade receivables | 817 | 4,155 |
| | Other financial assets | 2,295 | 3,155 |
| | Other assets and prepaid expenses | 95 | 133 |
| | Income tax receivables | 2,150 | 2,443 |
| VI. | Deferred taxes | 16,194 | 17,359 |
| | | **228,573** | **231,975** |
| **CURRENT ASSETS** | | | |
| I. | Inventories | 147,067 | 128,233 |
| II. | Receivables and other assets | | |
| | Trade receivables | 97,352 | 94,810 |
| | Receivables from long-term construction contracts | 20,544 | 15,941 |
| | Receivables due from associates | 7,604 | 8,797 |
| | Other assets and prepaid expenses | 20,221 | 13,945 |
| | Income tax receivables | 2,501 | 6,144 |
| III. | Cash and cash equivalents | 43,884 | 70,286 |
| | | **339,173** | **338,156** |
| **TOTAL ASSETS** | | **567,746** | **570,131** |

## EQUITY AND LIABILITIES

| EUR k | Sep. 30, 2011 | Dec. 31, 2010 |
|---|---|---|
| **EQUITY** | | |
| I. Issued capital | 15,688 | 15,688 |
| II. Capital reserves | 32,976 | 32,976 |
| III. Revenue reserves | 99,874 | 98,814 |
| IV. Net profit for the period | 4,269 | 6,683 |
| Equity attributable to owners | 152,807 | 154,161 |
| V. Non-controlling interests | 15,660 | 15,853 |
| | **168,467** | **170,014** |
| **NON-CURRENT LIABILITIES AND PROVISIONS** | | |
| I. Non-current financial liabilities | 106,525 | 109,827 |
| II. Other non-current liabilities | 11,522 | 11,546 |
| III. Pensions and other post employment benefits | 3,277 | 3,260 |
| IV. Obligations from employee participation | 12,035 | 12,392 |
| V. Other non-current provisions | 5,310 | 5,357 |
| VI. Deferred taxes | 12,139 | 10,834 |
| | **150,808** | **153,216** |
| **CURRENT LIABILITIES AND PROVISIONS** | | |
| I. Current financial liabilities | 47,449 | 57,769 |
| II. Trade payables | 75,906 | 67,002 |
| III. Payments on account | 35,098 | 39,690 |
| IV. Liabilities from long-term construction contracts | 2,627 | 865 |
| V. Liabilities to associates | 1,826 | 4,158 |
| VI. Other financial liabilities | 115 | 299 |
| VII. Other current liabilities and deferred income | 60,956 | 54,043 |
| VIII. Tax liabilities | 2,957 | 5,826 |
| IX. Pensions and other post employment benefits | 50 | 50 |
| X. Other current provisions | 21,487 | 17,199 |
| | **248,471** | **246,901** |
| **TOTAL LIABILITIES** | **399,279** | **400,117** |
| **TOTAL EQUITY AND LIABILITIES** | **567,746** | **570,131** |

# CONSOLIDATED CASH FLOW STATEMENT

| EUR k | 2011 01/01-09/30 | 2010 01/01-09/30 |
|---|---|---|
| **1. CASH FLOW FROM OPERATING ACTIVITIES** | | |
| **Profit or loss before taxes** | **11,023** | **7,466** |
| Income tax paid (-) | -5,313 | -2,396 |
| Interest result | 7,819 | 9,052 |
| Interest paid (-) | -9,223 | -9,517 |
| Interest received (+) | 2,330 | 1,395 |
| Write-downs (+)/write-ups (-) of non-current assets (netted) | 21,028 | 21,474 |
| Increase (+)/decrease (-) in provisions | 967 | 3,121 |
| Other non-cash expenses (+)/income (-) | -1 | 94 |
| Share of profit (-) or loss (+) of associates | -862 | -1,274 |
| Gain (-)/loss (+) on disposals of non-current assets | -67 | -27 |
| Increase (-)/decrease (+) in inventories, trade receivables and other assets | -29,918 | -22,226 |
| Increase (+)/decrease (-) in trade payables and other liabilities | 18,424 | 37,369 [1)] |
| **CASH FLOW FROM OPERATING ACTIVITIES** | **16,207** | **44,531** |
| **2. CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Cash received (+) from disposals of property, plant and equipment | 889 | 1,057 |
| Cash paid (-) for investments in property, plant and equipment | -10,335 | -6,888 |
| Cash received (+) from disposal of intangible assets | 2 | 0 |
| Cash paid (-) for investments in intangible assets | -12,380 | -8,992 |
| Cash received (+) from disposals of financial assets | 0 | 301 |
| Cash paid (-) for investments in financial assets | -25 | 0 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | **-21,849** | **-14,522** |

| EUR k | 2011 01/01-09/30 | 2010 01/01-09/30 |
|---|---|---|
| **3. CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Dividends | -4,706 | 0 |
| Cash paid (-) to non-controlling interests | -913 | -570 |
| Cash received (+) from the issue of (financial) liabilities | 9,228 | 81,000 |
| Cash repayment (-) of bonds and (financial) liabilities | -24,670 | -77,740 [1)] |
| **CASH FLOW FROM FINANCING ACTIVITIES** | **-21,061** | **2,690** |
| **4. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | | |
| Change in cash and cash equivalents (subtotal 1-3) | -26,703 | 32,699 |
| Effect of currency translation adjustments and change in scope of consolidation on cash and cash equivalents | 301 | 2,028 |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | **70,286** | **29,823** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** [2)] | **43,884** | **64,550** |

1) To improve the informative value of the cash flow statement, changes in overdraft liabilities to banks were disclosed in cash flow from financing activities for the first time in the consolidated financial statements for 2010. Previously, payments received and made in connection with changes in overdraft liabilities to banks were reported in “Increase (+)/decrease (-) in trade payables and other liabilities” under cash flow from operating activities. The figures for the comparative period, the first nine months of 2010, have been restated accordingly.

2) Cash and cash equivalents at the end of the period correspond to the line item cash and cash equivalents in the statement of financial position.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | | | Revenue |
|---|---|---|---|
| EUR k | Issued capital | Capital reserves | Revenue reserves |
| **Jan. 1, 2010** | **15,688** | **32,976** | **114,449** |
| **Other changes** | | | **-381** |
| Dividends paid | | | |
| Changes from non-controlling interests | | | -10 |
| **Transactions with owners** | | | **-10** |
| **Reclassification to revenue reserves** | | | **-20,710** |
| Net result for the period | | | |
| Other income and expense | | | |
| **Total comprehensive income** | | | |
| **Sep. 30, 2010** | **15,688** | **32,976** | **93,348** |
| | | | |
| **Jan. 1, 2011** | **15,688** | **32,976** | **93,348** |
| **Other changes** | | | **-79** |
| Dividends paid | | | -4,706 |
| Changes from non-controlling interests | | | -21 |
| **Transactions with owners** | | | **-4,727** |
| **Reclassification to revenue reserves** | | | **6,683** |
| Net result for the period | | | |
| Other income and expense | | | |
| **Total comprehensive income** | | | |
| **Sep. 30, 2011** | **15,688** | **32,976** | **95,225** |

| reserves | | | | | |
|---|---|---|---|---|---|
| Other comprehensive income | Translation reserve | Group result | Equity before non-controlling interests | Non-controlling interests | Total |
| **57** | **490** | **-20,710** | **142,950** | **14,295** | **157,245** |
| | | | **-381** | | **-381** |
| | | | | -570 | **-570** |
| | | | -10 | 10 | **0** |
| | | | **-10** | **-560** | **-570** |
| | | **20,710** | **0** | **0** | **0** |
| | | 3,065 | 3,065 | 1,138 | **4,203** |
| -138 | 3,781 | | 3,643 | 286 | **3,929** |
| **-138** | **3,781** | **3,065** | **6,708** | **1,424** | **8,132** |
| **-81** | **4,271** | **3,065** | **149,267** | **15,159** | **164,426** |
| | | | | | |
| **-224** | **5,690** | **6,683** | **154,161** | **15,853** | **170,014** |
| | | | **-79** | **-2** | **-81** |
| | | | -4,706 | -913 | **-5,619** |
| | | | -21 | 21 | **0** |
| | | | **-4,727** | **-892** | **-5,619** |
| | | **-6,683** | **0** | **0** | **0** |
| | | 4,269 | 4,269 | 693 | **4,962** |
| 39 | -856 | | -817 | 8 | **-809** |
| **39** | **-856** | **4,269** | **3,452** | **701** | **4,153** |
| **-185** | **4,834** | **4,269** | **152,807** | **15,660** | **168,467** |

# SELECTED EXPLANATORY NOTES

## GENERAL

These interim condensed consolidated financial statements for the first three quarters of 2011 were released for publication by resolution of the management board on November 9, 2011.

### COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

The interim condensed consolidated financial statements of Homag Group AG (the Homag Group) as of September 30, 2011, like the consolidated financial statements as of December 31, 2010, were prepared in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), the interpretations of the Standing Interpretations Committee (SIC) and of the IFRS Interpretations Committee (IFRS IC) as adopted by the EU and applicable as of the end of the reporting period. The provisions of IAS 34 on interim financial reporting were applied.

The same accounting policies generally apply for this interim report as for the 2010 consolidated financial statements. These policies are explained in detail in the 2010 annual report. In addition, the amendments to IFRSs and the new policies mandatory as of September 30, 2011 have been adopted in the interim financial statements. The amendments to the following IFRSs became applicable for the first time in the reporting period:

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

The application of the above amendments did not have any significant effect on the quarterly consolidated financial statements.

Further mandatory amendments to IFRSs and new policies were described in detail in the 2010 annual report.

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

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

## BASIS OF CONSOLIDATION

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

The interim condensed consolidated financial statements do not contain all of the information required for consolidated financial statements and should therefore be read in conjunction with the published consolidated financial statements as of December 31, 2010.

## CHANGES IN THE CONSOLIDATED GROUP

Homag Machinery Bangalore Private Limited, which was founded on July 20, 2011, was consolidated for the first time. Homag Group AG and Homag Holzbearbeitungssysteme GmbH hold 100 percent of the shares of the entity. The first-time inclusion of this company in the interim consolidated financial statements does not give rise to any material effect on the Homag Group's net assets, financial position and results of operations.

Production is scheduled to start in the fourth quarter of 2011.

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

### SALES REVENUE

In the first nine months of 2011, the Homag Group generated sales revenue of EUR 578,925 k, up 11.9 percent on the comparable period in 2010.

| EUR k | 2011<br>07/01-09/30 | 2010<br>07/01-09/30 | 2011<br>01/01-09/30 | % | 2010<br>01/01-09/30 | % | % change on the prior year |
|---|---|---|---|---|---|---|---|
| **Germany** | **49,297** | **40,085** | **135,634** | **23.4%** | **109,799** | **21.2%** | **23.5%** |
| Other EU countries | 66,455 | 56,745 | 198,047 | 34.2% | 187,482 | 36.3% | 5.6% |
| Rest of Europe | 40,534 | 27,146 | 89,365 | 15.5% | 61,922 | 12.0% | 44.3% |
| North America | 10,954 | 3,185 | 38,253 | 6.6% | 24,253 | 4.7% | 57.7% |
| South America | 8,216 | 12,283 | 26,142 | 4.5% | 30,246 | 5.8% | -13.6% |
| Asia/Pacific | 28,427 | 30,409 | 89,316 | 15.4% | 101,479 | 19.6% | -12.0% |
| Africa | 698 | 1,136 | 2,168 | 0.4% | 1,961 | 0.4% | 10.6% |
| **Other countries** | **155,284** | **130,904** | **443,291** | **76.6%** | **407,343** | **78.8%** | **8.8%** |
| **TOTAL** | **204,581** | **170,989** | **578,925** | **100.0%** | **517,142** | **100.0%** | **11.9%** |

The regions of North America (57.7 percent), rest of Europe (44.3 percent) and Germany (23.5 percent) saw the greatest percentage increase in sales revenue in the first nine months of 2011 in comparison to the same period of the prior year. Growth was also recorded in Africa (10.6 percent). Sales revenue in the "Rest of Europe" was slightly above the comparable period of the prior year. Sales revenue in both Asia-Pacific and South America fell by 12.0 percent and 13.6 percent respectively in comparison to the comparable period of 2010. The share of sales revenue earned in Germany increased from 21.2 percent in the first nine months of 2010 to 23.4 percent in the reporting period.

### COST OF MATERIALS

| EUR k | 2011<br>07/01-09/30 | 2010<br>07/01-09/30 | 2011<br>01/01-09/30 | 2010<br>01/01-09/30 |
|---|---|---|---|---|
| Cost of raw materials, consumables and supplies and purchased goods | 87,398 | 74,507 | 241,988 | 225,641 |
| Cost of purchased services | 6,066 | 4,727 | 22,564 | 13,545 |
| | **93,464** | **79,234** | **264,552** | **239,186** |

The ratio of cost of materials to total operating performance increased to 44.5 percent in the first three quarters of 2011 compared to 44.3 percent in the corresponding period of the prior-year. This rise is due above all to the increased share of merchandise in connection with the Mekran project. After eliminating the effects of the major project, the ratio of cost of materials to total operating performance in the first three quarters comes to 42.5 percent, significantly below the figure for the prior year.

### PERSONNEL EXPENSES

| EUR k | 2011<br>07/01-09/30 | 2010<br>07/01-09/30 | 2011<br>01/01-09/30 | 2010<br>01/01-09/30 |
|---|---|---|---|---|
| Wages and salaries | 55,264 | 52,871 | 174,276 | 159,544 |
| Social security, pension and other benefit costs | 10,815 | 9,903 | 31,759 | 29,830 |
| *thereof pension benefits* | *4,065* | *4,085* | *12,839* | *12,255* |
| | **66,079** | **62,774** | **206,035** | **189,374** |

| EUR k | 2011<br>07/01-09/30 | 2010<br>07/01-09/30 | 2011<br>01/01-09/30 | 2010<br>01/01-09/30 |
|---|---|---|---|---|
| Expenses from employee participation | -1,551 | -1,244 | -3,187 | -2,913 |

Compared to 5,040 employees as of September 30, 2010 and 5,075 employees as of June 30, 2011, the Homag Group had 5,147 employees as of September 30, 2011.

Personnel expenses in the first nine months of 2011 were up 8.8 percent on the comparable period of the prior year. Compared to the same period of the prior year, personnel expenses thus lagged 1.2 percent behind the rise in the total operating performance. This is reflected in the fall in the ratio of personnel expenses to total operating performance from 35.0 percent in the prior year to 34.7 percent in the first three quarters of 2011. This reduction was achieved in spite of the addition of EUR 2.0 million to provisions for restructuring expenses at our subsidiary Büttfering.

At EUR 3,187 k, employee participation expenses in the first three quarters of 2011 were just above the level of the first three quarters of 2010 in which expenses of EUR 2,913 k were recorded.

**NET PROFIT FOR THE PERIOD**

EBITDA before employee participation expenses and before extraordinary expenses from restructuring measures amounted to EUR 45,719 k in the first nine months of 2011 (prior year: EUR 41,385 k). EBIT before employee participation expenses and after extraordinary expenses from restructuring measures amounted to EUR 21,167 k in the first nine months of the year (prior year: EUR 18,157 k).

The financial result of EUR -6,957 k (prior year: EUR -7,778 k) in the first nine months of 2011 has improved slightly compared to the same period of the prior year. The main factors in the improvement are more favorable conditions agreed on in the loan agreements. In addition, the first tranche of the profit participation rights of EUR 10 million was repaid out of cash and cash equivalents. However, this is counterbalanced by the investment result from associates, which came to EUR 862 k in the first nine months of 2011 and was thus below the comparable period of the prior year (EUR 1,274 k).

EBT increased to EUR 11,023 k in the first nine months of 2011 (prior year: EUR 7,466 k). The net profit for the period came to EUR 4,962 k (prior year: EUR 4,203 k). After non-controlling interests, the net profit for the period came to EUR 4,269 k (prior year: EUR 3,065 k) which leads to earnings per share of EUR 0.27 (prior year: EUR 0.20).

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### ASSETS

Inventories rose by EUR 18,834 k to EUR 147,067 k, an increase of 14.7 percent in comparison to December 31, 2010.

Receivables from long-term construction contracts were up EUR 4,603 k or 28.9 percent. Other current assets and prepaid expenses rose by EUR 6,276 k or 45.0 percent compared to December 31, 2010. The increase in other current assets and prepaid expenses was driven by the annual deferral of vacation pay in the second quarter, which will decrease again by the end of the year, which is also reflected in the reduction of EUR 3,934 k compared to June 30, 2011.

Income tax receivables have fallen by EUR 3,643 k in comparison to December 31, 2010. This corresponds to a fall of 59.3 percent.

Cash and cash equivalents decreased by EUR 26,402 k compared to year-end 2010. This is mainly due to the repayment of profit participation rights (EUR 10 million), employee profit participation payouts, the dividend distribution and the increase in net working capital due to the higher volume of business.

### EQUITY

The change in equity, including other comprehensive income, is presented in the statement of changes in equity.

The equity ratio of 29.7 percent in the first nine months of 2011 approximates the ratio reported on December 31, 2010 of 29.8 percent.

Pursuant to IAS 33, earnings per share are determined by dividing the group's net profit or loss for the period by the average number of shares.

| | **2011** | 2010 |
|---|---|---|
| | **01/01-09/30** | 01/01-09/30 |
| Profit for the period attributable to owners of Homag Group AG for the calculation of the basic earnings in EUR k | 4,269 | 3,065 |
| **BASIC EARNINGS PER SHARE ACCORDING TO IAS 33 IN EUR** | **0.27** | **0.20** |
| Number of shares (basis for the calculation of the earnings per share) | 15,688,000 | 15,688,000 |

There were no dilutive effects in the reporting period.

On May 25, 2011, the annual general meeting resolved to pay a dividend of EUR 0.30 per participating no-par value share. The total dividend distributed thus came to EUR 4,706 k.

**LIABILITIES**

Non-current and current liabilities have remained practically unchanged since December 31, 2010. The same is true of provisions. Larger shifts were registered in the following line items: trade payables increased by EUR 8,904 k (13.3 percent), other current liabilities and deferred income rose by EUR 6,913 k (12.8 percent) and liabilities from long-term construction contracts increased by EUR 1,762 k. By contrast, payments received on account decreased by EUR 4,592 k. Likewise, current financial liabilities decreased by EUR 10,320 k compared to December 31, 2010.

Net liabilities to banks increased from EUR 55,840 k as of December 31, 2010 to EUR 79,661 k as of September 30, 2011. However, thanks to improved cash management, net liabilities to banks fell by EUR 11,939 k in comparison to the balance recorded on June 30, 2011.

## SEGMENT REPORTING

| EUR k | Industry 2011 01/01-09/30 | Industry 2010 01/01-09/30 | Cabinet Shops 2011 01/01-09/30 | Cabinet Shops 2010 01/01-09/30 | Sales & Service 2011 01/01-09/30 | Sales & Service 2010 01/01-09/30 |
|---|---|---|---|---|---|---|
| Third-party sales | 245,360 | 195,359 | 70,928 | 63,746 | 191,788 | 188,316 |
| Sales with group companies from other segments | 79,113 | 85,523 | 67,378 | 58,304 | 1,489 | 1,896 |
| Sales with investments recognized at equity | 31,722 | 36,750 | 10,568 | 10,716 | 280 | 172 |
| **TOTAL SALES REVENUE** | **356,195** | **317,632** | **148,874** | **132,766** | **193,557** | **190,384** |
| **EBITDA**[1] | **34,215** | **28,222** | **9,219** | **6,170** | **4,607** | **7,085** |
| Restructuring/non-recurring expenses | -365 | -657 | -2,481 | -182 | -482 | -887 |
| **EBITDA**[2] | **33,850** | **27,565** | **6,738** | **5,988** | **4,125** | **6,198** |
| Depreciation of property, plant and equipment and amortization of intangible assets | -14,380 | -14,387 | -3,848 | -3,817 | -1,499 | -1,677 |
| Expenses from employee participation | -2,333 | -2,442 | -891 | -456 | -165 | 0 |
| Share in result of associates | 7 | 548 | 0 | 0 | 855 | 726 |
| Interest result | -2,592 | -3,914 | -978 | -997 | -335 | -479 |
| **SEGMENT RESULT**[3] | **14,552** | **7,370** | **1,021** | **718** | **2,981** | **4,768** |
| **EMPLOYEES**[4] | **2,695** | **2,682** | **1,017** | **1,025** | **728** | **689** |

[1] EBITDA before expenses from employee participation and restructuring/non-recurring expenses
[2] EBITDA before expenses from employee participation
[3] The segment result is equivalent to EBT
[4] Average of the period

Inter-segment transfers are conducted at arm's length conditions. Transactions between Group segments are eliminated in the Consolidation column.

Details on the breakdown into the individual segments can be found on page 165 et seq. of the 2010 annual report.

Homag Machinery Bangalore has been included in the Other segment.

In real figures, sales revenue grew strongest in the Industry segment. Here a rise of EUR 38,563 k was recorded (12.1 percent). The largest growth was generated at BENZ GmbH Werkzeugsysteme (EUR 3,585 k or 31.7 percent) and at Bargstedt Handlingsysteme GmbH (EUR 3,379 k or 34.1 percent). The Cabinet Shops segment recorded a rise in sales revenue of 12.1 percent or EUR 16,108 k. Brandt Kantentechnik GmbH recorded the strongest growth in this segment (EUR 5,766 k or 19.1 percent).

| Other | | Total segments | | Consolidation | | Group | |
|---|---|---|---|---|---|---|---|
| **2011** | 2010 | **2011** | 2010 | **2011** | 2010 | **2011** | 2010 |
| **01/01-09/30** | 01/01-09/30 | **01/01-09/30** | 01/01-09/30 | **01/01-09/30** | 01/01-09/30 | **01/01-09/30** | 01/01-09/30 |
| 13,064 | 10,987 | 521,140 | 458,408 | 0 | 0 | 521,140 | 458,408 |
| 18,667 | 20,028 | 166,647 | 165,751 | -166,647 | -165,751 | 0 | 0 |
| 15,215 | 11,096 | 57,785 | 58,734 | 0 | 0 | 57,785 | 58,734 |
| **46,946** | **42,111** | **745,572** | **682,893** | **-166,647** | **-165,751** | **578,925** | **517,142** |
| **-1,792** | **1,350** | **46,249** | **42,827** | **-530** | **-1,442** | **45,719** | **41,385** |
| -196 | -28 | -3,524 | -1,754 | 0 | 0 | -3,524 | -1,754 |
| **-1,988** | **1,322** | **42,725** | **41,073** | **-530** | **-1,442** | **42,195** | **39,631** |
| -1,301 | -1,314 | -21,028 | -21,195 | 0 | -279 | -21,028 | -21,474 |
| 202 | -15 | -3,187 | -2,913 | 0 | 0 | -3,187 | -2,913 |
| 0 | 0 | 862 | 1,274 | 0 | 0 | 862 | 1,274 |
| -3,914 | -3,662 | -7,819 | -9,052 | 0 | 0 | -7,819 | -9,052 |
| **-7,001** | **-3,669** | **11,553** | **9,187** | **-530** | **-1,721** | **11,023** | **7,466** |
| **644** | **569** | **5,084** | **4,965** | **0** | **0** | **5,084** | **4,965** |

The development of EBITDA before employee participation expenses and before restructuring expenses is not uniform between the various segments. EBITDA in the Industry segment rose by EUR 5,993 k and by EUR 3,049 k in the Cabinet Shops segment. By contrast, the Other segment recorded a fall in EBITDA of EUR 3,142 k and Sales & Service a fall of EUR 2,478 k. In the Industry segment Holzma Plattenaufteiltechnik GmbH was the entity which recorded the largest rise (up EUR 3,060 k or 243.2 percent). Weeke Bohrsysteme GmbH generated growth of EUR 2,557 k (78.1 percent), the largest increase in earnings in the Cabinet Shops segment. Homag South America Ltda. (down EUR 1,795 k or 237.8 percent) and Homag Asia Ltd. (down EUR 1,813 k or 192.8 percent) recorded the largest fall in earnings in the Sales & Service segment. The fall in the earnings of the Other segment is chiefly due to Homag Machinery (Shanghai) Co., Ltd. (down EUR 1,397 k or 44.3 percent) and Weinmann Holzbausystemtechnik GmbH (down EUR 1,884 k or 81.2 percent).

The most significant change in employee participation expenses concerns an increase of almost 100 percent in the Cabinet Shops segment due to the high earnings at Weeke Bohrsysteme GmbH.

The share in the result from associates decreased by EUR 541 k (or 98.7 percent) on account of the investment of Holzma Plattenaufteiltechnik GmbH in Stiles Machinery Inc. in the Industry segment.

The interest result in the Industry segment improved by EUR 1,322 k or 33.8 percent. This improvement is due almost entirely to Homag Holzbearbeitungssysteme GmbH (EUR 1,127 k or 42.1 percent).

The largest rises in average headcount for the period were 75 employees in the Other segment, due to 25 recruits at Homag Machinery Środa Sp. z o.o. and 52 recruits at Homag Machinery (Shanghai) Co., Ltd. and a rise of 39 in the Sales & Service segment due to 13 recruits at Homag South America Ltda. and 11 recruits at Homag Asia Ltd.

## OTHER NOTES

### CONTINGENT LIABILITIES

As had already been reported as of year-end 2010, a German production company has set up a provision of EUR 250 k for litigation risks concerning legal proceedings with a customer. Management aims to settle out of court.

The Homag Group or its group entities were not involved in any other litigation or arbitration proceedings that could have a considerable influence on the economic situation of the entities or the Group in the past two years, nor are they involved in any such proceedings at present. The group entities concerned have made adequate provision for any financial burdens from other litigation or arbitration proceedings which do not have a significant influence on the economic situation of the group or there is adequate coverage for these items.

### RELATED PARTIES

Trade amounting to EUR 57,847 k was conducted with associates in the first three quarters of the year (prior year: EUR 58,752 k). Goods and services worth EUR 1,997 k were received from associates (prior year: EUR 1,257 k).

### EVENTS AFTER THE REPORTING PERIOD

The supervisory board approved the proposal of the management board in October to expand the scope of the restructuring measures already undertaken. These now include discontinuation of the production and administration departments at Friz Kaschiertechnik GmbH and the location in Löhne and the operations of Torwegge Holzbearbeitungsmaschinen GmbH and the service branch of Weeke Bohrsysteme GmbH. A development and service unit of Friz Kaschiertechnik GmbH will be retained. Bütfering Schleiftechnik GmbH is to be linked into Weeke Bohrsysteme GmbH as planned.

Schopfloch, November 9, 2011

Homag Group AG
The management board

# FINANCIAL CALENDAR, CONTACT AND DISCLAIMER

## FINANCIAL CALENDAR

| | |
|---|---|
| November 22, 2011 | German Equity Forum |
| March 30, 2012 | Publication of annual report 2011 |
| March 30, 2012 | Press conference on the financial results in Stuttgart |
| March 30, 2012 | Analysts conference in Frankfurt am Main |
| May 15, 2012 | Three-months report 2012 |
| May 24, 2012 | Annual general meeting in Freudenstadt |
| August 14, 2012 | Six-months report 2012 |
| November 14, 2012 | Nine-months report 2012 |

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## DISCLAIMER

### SERVICE

Our annual and interim reports 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 interim 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 future-oriented statements in this interim report, it cannot be guaranteed that the same will hold true in the future.

### OTHER INFORMATION

This interim 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.

www.homag-group.com