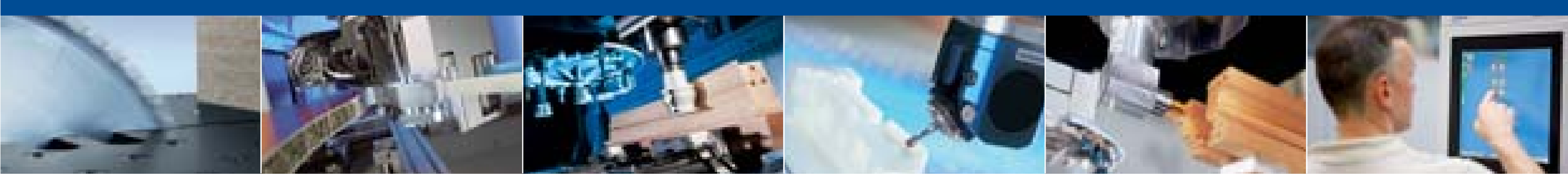
Annual Financial Statements 2008

SUCCESS WITH A SYSTEM



CONTENTS

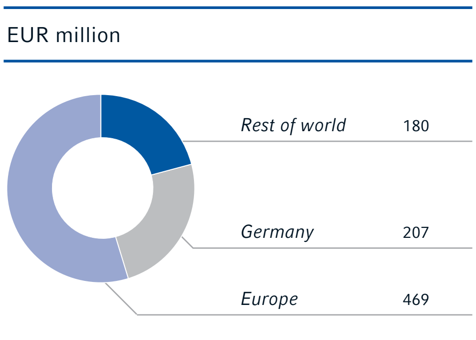
* *Parent company*

Key Group Figures*

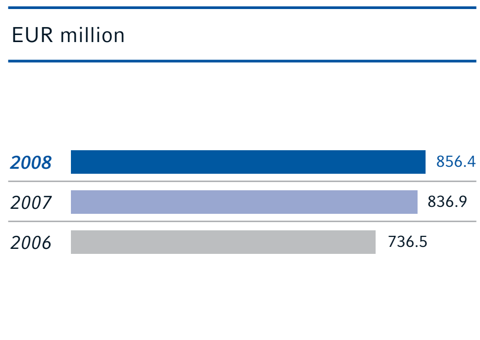
		2008	2007	Variance %
Total sales revenue	EUR million	856.4	836.9	2.3
Sales revenue Germany	EUR million	207.1	173.5	19.4
Sales revenue outside Germany	EUR million	649.3	663.4	-2.1
thereof Europe	EUR million	469.5	450.3	4.3
North America	EUR million	64.4	95.2	-32.4
Asia/Pacific	EUR million	84.9	91.7	-7.4
Foreign share	%	75.8	79.3	-4.5
EBITDA [1]	EUR million	91.0	100.1	-9.1
EBITDA adjusted [2]	EUR million	95.0	103.3	-8.0
	as % of sales revenue	11.1	12.3	-10.5
	as % of total operating performance	10.9	12.0	-9.3
EBIT [1]	EUR million	68.8	78.9	-12.8
EBIT adjusted [2]	EUR million	72.8	82.2	-11.4
	as % of sales revenue	8.5	9.8	-13.2
	as % of total operating performance	8.4	9.6	-12.6
Net profit (after minority interests)	EUR million	31.9	32.0	-0.3
Earnings per share [3]	EUR	2.04	2.12	-3.8
ROCE after taxes	%	15.9 [4]	17.6 [5]	-9.7
ROCE [6] before taxes	%	23.0	28.9	-20.4
Equity at the balance sheet date	EUR million	183.9	166.1	10.7
Own funds as of the balance sheet date [7]	EUR million	224.7	207.6	8.2
Own funds ratio	%	40.8	36.5	11.8
Capital expenditures on property, plant and equipment	EUR million	22.0	22.7	-3.1
Depreciation on property, plant and equipment	EUR million	16.6	16.8	-1.2
Employees	annual average	5,281	4,941	6.9
thereof trainees	annual average	345	338	2.1
Personnel expenses	EUR million	264.5	250.5	5.6
Order intake accumulated [8]	EUR million	617.8	746.6	-17.3
Order backlog as of the balance sheet date [8]	EUR million	163.6	255.0	-35.8

** IFRS*
[1] Before taking into account employee profit participation expense
[2] Before taking into account employee profit participation expense and restructuring/non-recurring costs, in the prior-year: IPO costs
[3] Net profit after minority interests, based on 15,688,000 shares (prior year: 15,095,349; weighted average)
[4] (EBIT adjusted x 69%)/capital employed (non-current assets + net working capital) (tax rate 31%)
[5] (EBIT adjusted x 61%)/capital employed (non-current assets + net working capital) (tax rate 39%)
[6] (EBIT adjusted)/capital employed (non-current assets + net working capital)
[7] Equity plus profit participation rights and silent participation
[8] Order intake and order backlog only contain own machines without merchandise, spare parts and service; order backlog as of December 31, 2008 incl. BENZ

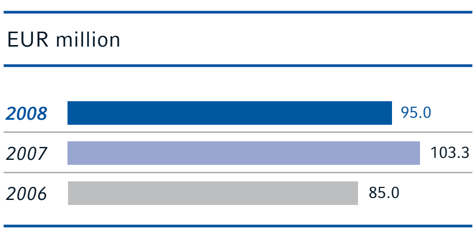
SALES REVENUE BY REGION



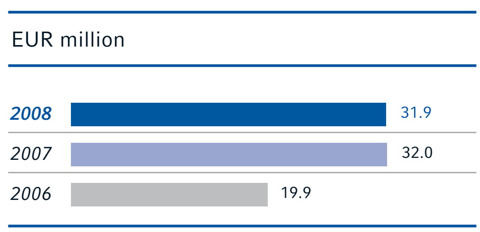
SALES REVENUE



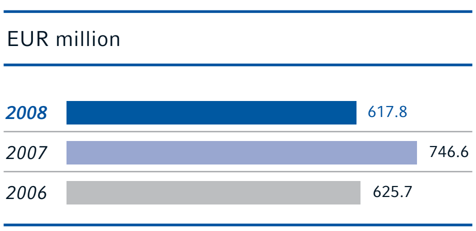
EBITDA adjusted [1]



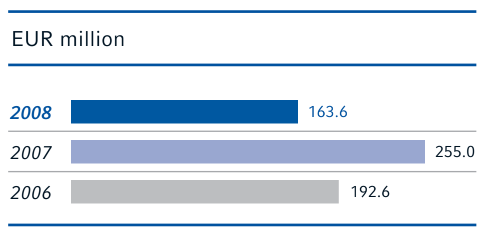
NET PROFIT (after minority interests)



ORDER INTAKE [2]

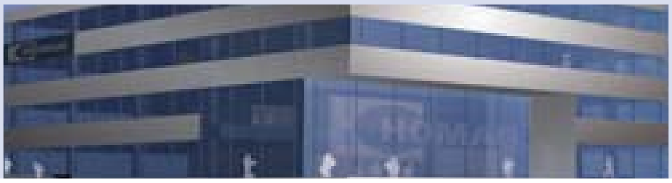


ORDER BACKLOG [2]



[1] Before taking into account employee profit participation expense and restructuring/non-recurring costs, in the prior-year: IPO costs

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



Success with a system

> HOMAG Group AG's management lays claim to being the world's leading manufacturer of machines and equipment for the woodworkling industry. As a global player, we are present in more than 60 countries and hold an estimated 26 percent share of the market.

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

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HOMAG Group AG *Annual Financial Statements 2008*

CONSOLIDATED FINANCIAL STATEMENTS

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* *Parent company*

FURTHER INFORMATION

HOMAG GROUP

Dr. Joachim Brenk (CEO)
BORN 1961

Head of Sales, Service,
Project Business, Marketing
Joined the Company in 2005

Achim Gauß
BORN 1961

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

Andreas Hermann
BORN 1968

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

Ladies and Gentlemen,
Dear shareholders,

> 2008 was a year of contrasting developments – for the global economy as a whole but also for our industry and, in turn, for HOMAG Group AG. Apart from a very high order backlog at the start of the year, the strong demand for our plant and machinery remained steady in the first quarter. As a result of this positive development at the beginning of the year our production facilities were working at full capacity. As the year progressed, the financial crisis worsened, directly triggering a global economic crisis that led to a slowdown in numerous industries and a collapse in sales markets around the world in the last quarter. Companies' lack of willingness to invest also caused a perceptible decrease in order intake, which lagged significantly behind the prior-year level, particularly in the fourth quarter.

Nevertheless, it must be said that 2008 was a successful year for the HOMAG Group across all quarters, a year in which we were able to surpass the record sales revenue generated in the prior year, despite some negative non-recurring effects. Our first annual general meeting since the IPO was also successful. Shareholders passed a number of resolutions including increasing the dividend from EUR 0.40 to EUR 0.90 per share. Another successful move, in our opinion, was the acquisition of the majority shareholding in BENZ GmbH Werkzeugsysteme, which was set rolling last year. We have acquired a well-positioned business that we have known well for many years as a reliable system supplier. We see BENZ as a mechatronics development factory for the HOMAG Group, and we have effectively shortened the channels so that new ideas and developments can be realized more quickly.

Group earnings have been good, partly due to the high sales revenue and partly due to our strict cost management as part of the earnings enhancement program "Project 2008", which was completed successfully. We have thus permanently tapped into some EUR 30 million in earnings potential and realized synergies and efficiency increases in just about every business area, while establishing leaner structures and processes.

Herbert Högemann
BORN 1954

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

Rolf Knoll
BORN 1949

Head of Group Operations
Joined the Company in 1999

And we would again like to share these good earnings generated in 2008 with you, our shareholders. Conflicting interests and other matters had to be weighed up against each other when deciding the amount of dividend to pay out. On the one hand, we have to take into account the very difficult market conditions at present, and want to retain some maneuverability for potential acquisitions. On the other hand, we want to offer you an appropriate and a relatively stable dividend policy. As a result, the management board and the supervisory board will propose a dividend distribution of EUR 0.30 per share to the shareholders' meeting.

The main focus of our "Project 2008" was on increasing the flexibility of costs in our business, which is clearly cyclical. Temporary employment arrangements, the use of contract workers as well as the above-average use of vacation and non-working shift accounts have allowed us to tackle the growth needed in the past while also permitting us – together with the targeted use of forced leave arrangements – to react quickly to a downturn in the business cycle. However, the current market ailments are far in excess of a cyclical downturn. As a result, redundancies for operational reasons will likely prove unavoidable.

Nevertheless we clearly have to assume that 2009 will be a difficult year for the entire industry in light of the significant weakness of the global economy and the recession affecting many countries. This is also evidenced by our weak order intake in the fourth quarter of 2008. For the first quarter and the first half of 2009 we expect a significant decrease in revenue compared to the historical record year 2008.

It is uncertain at present, however, how long the economic crisis and the related reluctance to invest in our industry will prevail. It is therefore not possible to make reliable forecasts as to the magnitude of the decrease in sales revenue in the full year 2009. We will be in a position to venture a more accurate forecast during the second quarter of the year, based on the insights provided by the industry's most important trade fair, LIGNA. The same applies to the order intake in 2009. Here, we will do everything within our power to increase our market share further. There will probably be a departure from the usual seasonal pattern of investment activity and the trade fair will instead probably mark the start of the season. Although we anticipate negative results, particularly in the first two quarters of 2009, we nevertheless want to return a positive operating result (i.e., before restructuring expenses) for 2009.

Our objective is to emerge from this difficult market situation with renewed vitality and we believe that we are in a good position to achieve this goal. Indeed, our position as global market leader and as a strong group with worldwide operations affords us a clear edge over smaller competitors, especially at the moment. We therefore want to take advantage of the current conditions to increase our market share. We also continue to assess potential acquisition opportunities in the fields of technology, surface processing and the cabinet shops business and believe that we will be able to take advantage of the current weak market phase and negotiate acceptable terms.

The group action program “HOMAG GAP” is intended to contribute to our future success. In light of global economic slowdown in the last few months, we have decided to extend the program. The objective is to continue generating sustainable growth and tap EUR 40 million worth of sustainable earnings growth and cost improvement potential by 2013. The short-term measures include a response to the expected decrease in sales revenue based on a cost improvement program while increasing the latitude to adapt to fluctuations. We want to raise our earnings in the medium- and long-term with “HOMAG GAP” based on a number of measures, including strengthening and optimizing our project business, expanding our high-margin service offerings and marketing these more effectively, while permanently reducing production cost levels.

The strong demand for our plant and machines in the first quarter of 2008 is proof that our capital expenditures as well as our innovations and product upgrades successfully targeted our customers’ needs and that our portfolio comprises the right products. We are therefore very confident that we are well prepared to keep the HOMAG Group on course, once the general willingness to invest recovers.

From left to right: Herbert Högemann, Achim Gauß, Dr. Joachim Brenk, Andreas Hermann, Rolf Knoll

We wish to express our gratitude to our customers, suppliers and other business partners for the constructive and trusting cooperation. The HOMAG Group's performance critically depends on its qualified and motivated employees, and we are truly grateful for their commitment. We would also like to thank you, dear shareholders, for the trust that you have placed in HOMAG Group AG, and we hope that you enjoy reading our Annual Financial Statements 2008. Apart from our financial statements, we present to you the HOMAG Group's broad portfolio of products and provide you with an insight into the wide range of fields of applications targeted by our plant and machinery so that you can get to know your company even better.

Schopfloch, March 2009
The Management Board

DR. JOACHIM BRENK

ACHIM GAUSS

ANDREAS HERMANN

HERBERT HÖGEMANN

ROLF KNOLL

Chronicle 2008

JANUARY

POSITIVE START TO THE YEAR

As the new year got under way, we were able to provide a highly positive report of results for the previous financial year. 2007 was a record year for the HOMAG Group, returning the best set of results ever recorded throughout the whole of the company's history. We achieved record levels in both turnover and order intake, and we also succeeded in achieving a dispro-portionately high improvement in our result. We reported this profitable growth record to a large gathering of press representatives at our balance sheet press conference in Stuttgart, and also at the subsequent analyst conference in Frankfurt.

FEBRUARY

1,000TH VENTURE MACHINE

January 2007 saw the launch of the HOMAG Group "CNC Offensive", whose aim was to boost the international sale of processing centers in this machine segment. The sales drive proved an impressive success, demonstrated by the sale in February 2008 of the 1,000th machine from the Venture series. The prize awarded to the buyer was presented at the "Holz-Handwerk" fair in Nuremberg in April. By cooperating across the whole of the Group, we succeeded in making a distinctive mark and offering our customers a seamless machine series featuring sophisticated and proven technology.

MARCH

INTRODUCTION OF CYCLICAL ASSEMBLY

With our new HOMAG Group production system, we are aiming to be among the most profitable production plants in the mechanical engineering sector in all our different locations. One central element in this objective is the introduction of cyclical assembly, which we have now successfully introduced in the majority of our producing companies. This new concept triggered a series of changes and improvements to existing structures, allowing us to reduce throughput times and increase productivity. By dividing work processes in the assembly department into cycles, we have succeeded in optimizing workstations, creating a more manageable work environment and making our work processes more effective.

APRIL

LAUNCH OF POWER**PROFILER**

*The "fensterbau frontale 2008" trade fair saw the world premiere of our new power**Profiler**, a high-performance processing center which pushes out the boundaries of window construction performance. This new machine permits the simultaneous automatic processing of three workpieces, adding up to an impressive 400 workpieces per shift, which corresponds to 50 window units. For window producers who offer a wide range of systems, a tool changer for up to 288 tools is additionally available. The power**Profiler** permits the simultaneous processing of several different workpieces with minimal use of manpower, alongside a high level of flexibility and precision.*

MAY

XYLEXPO
IN MILAN

As there was no LIGNA in 2008, the XYLEXPO in Milan came to the fore as the most important trade fair. Some 85,000 visitors – over 50 percent of them from abroad – traveled to attend this international gathering of the woodworking trade. Many customers from Italy and neighboring countries put in an appearance at the show, and we were able to impress them with a wide range of technological highlights and innovations on our stand. The main objective of the highly flexible and diverse plant concepts on show at the XYLEXPO is to further enhance efficiency and productivity for our customers.

JUNE

ANNUAL GENERAL
MEETING

On June 5, 2008, over 350 shareholders and guests traveled to attend the first regular Annual General Meeting of the HOMAG Group AG since its public listing. A good 72 percent of the company's share capital was represented at what was an extremely good-tempered AGM. After the management board and supervisory board had answered all questions from the floor, the shareholders present voted in favor of all six resolutions on the agenda with a clear majority of more than 99 percent in each case, including the proposal to increase the dividend from EUR 0.40 to 0.90 per share.

JUNE

GROUND-BREAKING
CEREMONY IN
SCHOPFLOCH

The ground-breaking ceremony for the new HOMAG Center at our Group headquarters in Schopfloch was held in June. From mid 2009, the new center will provide space for a workforce of over 150 on an area of 3,900 square meters. With a new reception area and foyer, as well as a conference center and several meeting rooms, the new building is designed very much with the customer in mind. At the same time, its function will be to expand the high-tech departments in the fields of research and development as well as sales and engineering. Including a new computing center, we will be investing around EUR 8 million in the new facilities in Schopfloch.

SEPTEMBER

IN-HOUSE EXHIBITIONS
AT HOMAG, HOLZMA
AND FRIZ

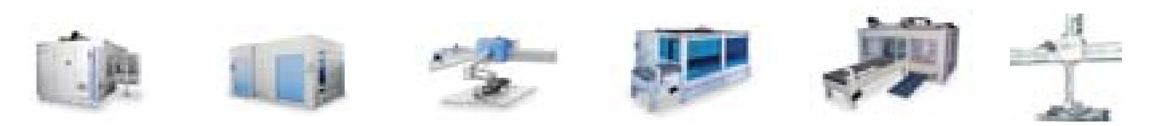
In-house exhibitions were staged at the end of September simultaneously by HOMAG, HOLZMA and FRIZ, three of the Group members located within close geographical proximity of each other. We view our annual in-house exhibitions as an ideal opportunity to present our entire range of products and services to existing and potential new customers without space restrictions away from the major trade fairs. Despite the general downturn in the wider economy, the in-house exhibitions proved a resounding success, and actually received more visitors than the previous year. The positive response was also reflected in the stable number of orders received compared to the previous year's event.

NOVEMBER

ACQUISITION BENZ

On November 20, 2008, a notorized agreement was concluded under which we took over 51 percent of the shares in BENZ GmbH Werkzeugsysteme, Haslach, effective January 1, 2009. The previous sole shareholder, Zimmer GmbH, Vermögens-verwaltung in Rheinau, holds the remaining 49 percent. In BENZ, we have acquired a well-positioned business which is a high-precision producer of tools and units with a high performance density for the metal, wood and plastics processing industries. The company has been a close associate of ours as a system supplier for many years. The new subsidiary has some 230 employees and plans to generate unconsolidated sales revenue in 2009 at about EUR 35 million.

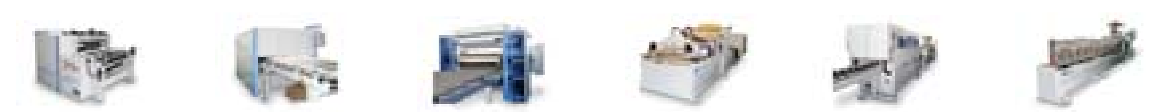
Wide Product Diversity for Individual Solutions



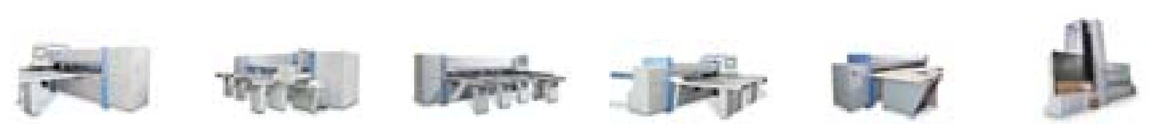
BARGSTEDT **Handling systems**	TSH 270	TBH 500	TLF 410	TBH 200	TBH 270	TXP 410

BRANDT **Edging technology**	Optimat KTD 820	Optimat KTD 720	Optimat FTK 130	Optimat KDN 210	Optimat KDN 340	Optimat KDF 350

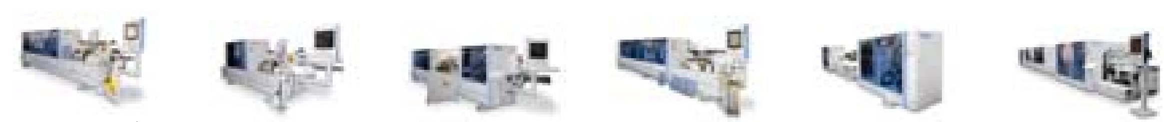
BÜTFERING **Sanding technology**	**profi**Line SUR 413	Optimat SCO 100	Optimat SGO 211	**profi**Line SBR 413	**profi**Line SBR 313	Optimat SCO 213



FRIZ **Laminating technology**	Optimat PFS 700	Optimat MFP 250	**profi**Line FLW 300	Optimat FKP 100	**profi**Line PUS 400	**profi**Line PUM 310



HOLZMA **Panel dividing technology**	**profi**Line HKL 380	**profi**Line HPL 550	**profi**Line HPL 380 PC	HPP 350	HPP 230	Optimat HVP 120



HOMAG **Wood processing systems**	**Throughfeed machines** Ambition 2260	Ambition 2220	**profi**Line KAL 310/E	**profi**Line KAL 310	**profi**Line KFL 610	**power**Line KFL 620


> With our broad-based spectrum of products and services, the HOMAG Group is able to offer just the right solution to address every conceivable requirement, from the small-scale joinery through to highly complex industrial manufacture. From the stand-alone machine to the seamless high-performance production plant, we offer our customers the specific solution they are looking for – whether for the production of top-quality furniture, fitted kitchens, timber frame houses, wooden flooring or staircases: Living and furnishing start with our machines.

HOMAG

Wood processing systems

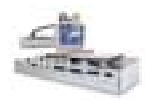
Stationary machines

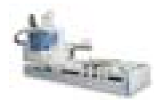

profiLine BAZ 523


profiLine BAZ 722


Optimat BOF 612 / Optimat TBP 370

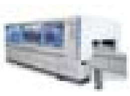

Venture 12 XXL

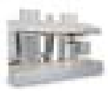

Venture 21 M

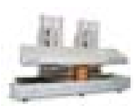

Venture 16 L

LIGMATECH

Automation engineering

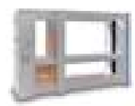

Optimat VKV 700


profiLine MDE 120


Optimat MDE 110


Optimat ZHR 05

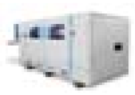

Optimat ZHR 01


Optimat MPH 400

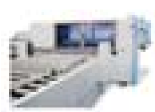
TORWEGGE

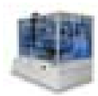
Wood processing machines


FPL 626


ZSR 500

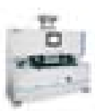

SBL 500

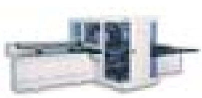

Optimat PWT 100


CNC Unit for Throughfeed

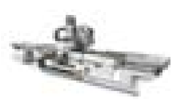
WEEKE

Drilling systems


Optimat ABD 100


Optimat BHX 500


profiLine BST 500

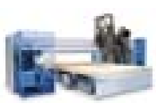

profiLine ABL 210

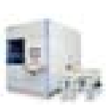

profiLine BHT 500

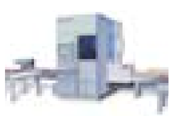

Venture 2.5

WEINMANN

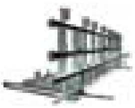
Timber frame construction technology


profiLine WMS 150 / WTZ 150


profiLine WBZ 150

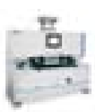

profiLine WBS 120

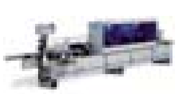

profiLine WMS 120


profiLine WTW 150

HOMAG MACHINERY

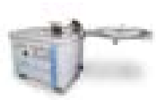
Production plants in future regions


Optimat ABD 100


Optimat DKR 350


Optimat DKR 15/A

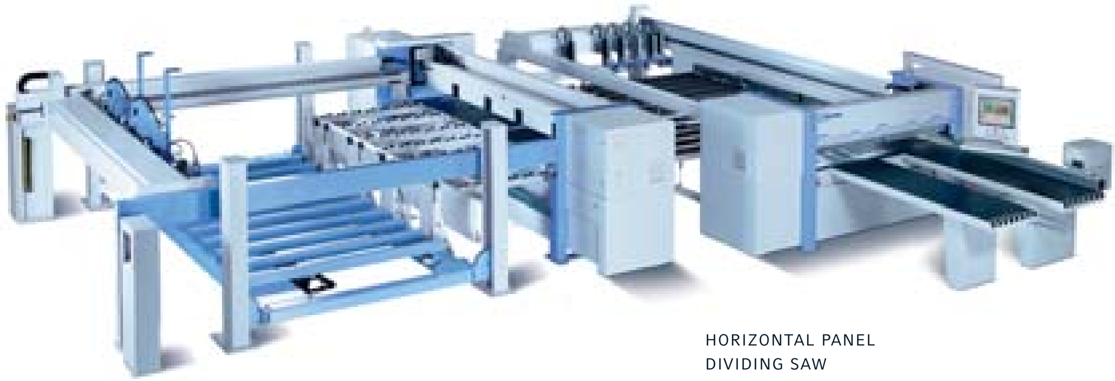

Optimat KTD 820


Optimat KTD 720


Optimat SGO 211

Precision Cutting for Top-Quality Furnishing Elements

> Wherever high precision is called for in the field of woodworking, HOMAG Group machines are in use. For instance for the precise cutting of panels used to create the perfect furnishing environment. Whether cabinet elements, shelving components or table tops – our panel dividing plants provide a highly reliable, outstanding quality cut. With the efficiency and speed our customers need to stay highly productive and ensure maximum economy. The result: top quality furnishing elements at an affordable price – a happy outcome which benefits furniture buyers too.



HORIZONTAL PANEL DIVIDING SAW

Speed in conjunction with extreme accuracy permits economical production

HIGH-QUALITY PRODUCTS

Our machines are used to create top-quality products for everyday use

Seamless Plant Concepts Guarantee a Trouble-Free Production Process

> The enormous strength of the HOMAG Group lies in its capacity to create complete solutions. For every processing step, we can draw on a team of competent specialists with complementary talents whose plants and systems are perfectly in step with each other. All the solutions offered to our customers come from a single reliable source, featuring standardized control engineering and software. These benefits guarantee a seamless production process in which panels are inserted into an interlinked large-scale production plant, and emerge for instance in the form of completely assembled and packaged shelving units. Individual items of furniture, whole fitted kitchens or even a complete set of interior fittings – any of these are all in a day's work for our machines.

EDGE BANDING MACHINE

Every plant reliably performs its own task within the seamless production process

COMPLETE SOLUTIONS

We have all the solutions needed for complete furniture production

Market Leadership with Extreme High-Performance Flooring Plants

> An increasing number of people around the world enjoy the benefits of laminate and parquet flooring. And it is highly likely that any laminate or parquet floor you are standing on was produced on a Homag Group machine: We are the undisputed market leader in this growth field, because we have what it takes to offer our customers innovative and highly efficient solutions. For instance a complex machine line operating at a feed rate of up to 350 m/min which is capable of producing around 500 kilometers of laminate planks a day. It is the extreme degree of precision achieved by our plants and machines that guarantee a smooth, troublefree material flow.

PRODUCTION PLANT FOR LAMINATE FLOORING

The world's fastest flooring plant comes from the HOMAG Group

WOODEN FLOORING FOR ALL

Over 60 percent of the laminate floors installed around the world were produced on our plants

High-Performance Plants for Flexible Structural Element Production

> Not just in the world of furniture, fitted kitchens or flooring, but also when it comes to structural elements such as wooden staircases, wall and ceiling panelling or doors and windows you will encounter products originating from HOMAG Group machines more often than you are probably aware. Because here too, producers place their trust in our plants and machines. In 2008, for instance, we entered into a whole new dimension in the field of window production with a new high-performance processing center. Our power**Profiler** guarantees extreme productivity and flexibility in the fully automatic complete processing of wide-ranging different wooden window elements.

POWER**PROFILER**
PROCESSING CENTER

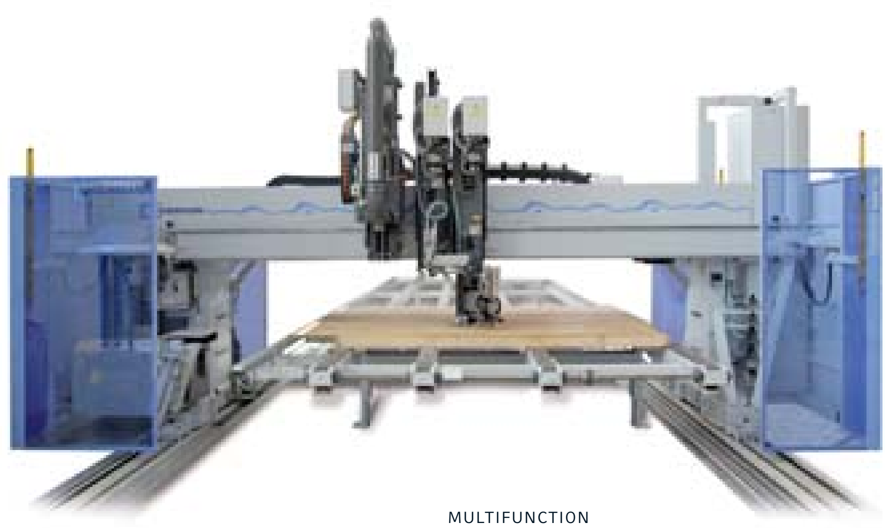
Giving window production a whole new performance dimension

WINDOW
PRODUCTION

Different structural elements are produced using HOMAG Group machines

International Success Achieved in the Future Market Timber Frame House Construction

> From assembly tables and turning stations for carpentry shops through to fully automatic production plants for industrial operations: the HOMAG Group offers a wide, technically matured range of products for the manufacture of timber frame houses. These innovative production facilities are used to manufacture modular housing elements which only have to be assembled on site. After just a single day, the house is assembled and quickly ready to be occupied. We are highly active in this globally growing market, have already equipped several factories for the manufacture of timber frame homes and envisage further potential in this promising field for the future.



MULTIFUNCTION BRIDGE

Individual elements are prefabricated in the factory to an extreme standard of precision for assembly on site

BUILDING WITH WOOD

A pleasant living environment with excellent ecological credentials

Innovative Technologies for New Application Areas

> Interesting scope for new applications also exists for our products beyond our traditional target markets. Our machines and systems are also in demand when it comes to the production of interior fittings for boats and caravans or railway carriages. The focus here is on lightweight components which can be manufactured using our state-of-the-art lightweight construction technology. For these applications, lightweight panels are processed in a wide range of different variants. With a few easy modifications, our plants are also ideally suited for machining plastics and light alloys. We are already registering a positive response to our panel dividing saws and plants developed specifically for the plastics industry.

PROCESSING CENTER FOR LIGHTWEIGHT COMPONENTS

We offer a seamless range of solutions for lightweight construction

ALTERNATIVE SALES MARKETS

New applications offer promising sales opportunities

Report of the Supervisory Board

> In the past fiscal year 2008, the supervisory board has dealt intensively with the situation of the Company, has advised and supervised the management board and, in so doing, has fulfilled its duties with due care as prescribed by law, the articles of incorporation and bylaws and the rules of procedure. The supervisory board was directly and quickly involved in all decisions of fundamental importance to the Company. The management board informs the supervisory board in a timely manner, regularly and extensively about the development of business, significant transactions, risk management and business planning as well as transactions requiring the approval of the supervisory board. Any divergence between the actual development of business and previously formulated plans and targets were explained to the supervisory board in detail in each case. The supervisory board examined such matters based on the documents made available to it. The management board discussed the Group's strategic orientation with the supervisory board. Based on the management board's reports, the supervisory board explained in detail the business transactions of significance to the Company. For the purpose of passing resolutions, the management board submitted all matters requiring the approval of the supervisory board in a timely manner.

To the extent required by law or the articles of incorporation and bylaws, the supervisory board rendered its opinion on the reports issued and resolutions proposed by the management board after careful review and consultation. In urgent instances, resolutions were passed by written circulation. The chairman of the supervisory board was also in close, regular contact with the management board outside the supervisory board meetings in order to keep abreast of the current development of business and significant business transactions and support the management board in an advisory capacity.

There were no personnel changes in the supervisory board or in the management board during the reporting year.

SIGNIFICANT MATTERS ON THE AGENDA

In fiscal 2008, the supervisory board held four ordinary meetings: in April, July, October and December.

Supervisory Board Meeting of April 23, 2008

The significant items on the agenda of the *supervisory board meeting of April 23, 2008* were the approval and ratification of the consolidated and separate financial statements including the group management report for 2007, the discussion and conclusion of the

TORSTEN GREDE, *Chairman of the supervisory board*

agenda for the first annual general meeting since the IPO as well as the decision to propose a dividend of EUR 0.90 per share to the annual general meeting. Other significant points discussed at the meeting were the construction of the new HOMAG Center in Schopfloch, the capital increase measures at various subsidiaries and the corporate governance issue.

Supervisory Board Meeting of July 15, 2008

At the second *supervisory board meeting of July 15, 2008*, the planned majority takeover of BENZ GmbH Werkzeugsysteme, the implementation of the surface strategy and the restructuring of a production company were discussed. It was also decided to bring forward an investment for introducing a new ERP system and to conclude a profit and loss transfer agreement between FRIZ Kaschiertechnik GmbH and HOMAG Holzbearbeitungssysteme AG.

Supervisory Board Meeting of October 16, 2008

At the *supervisory board meeting of October 16, 2008*, the establishment of the assembly plant WEEKE North America, Inc., USA, the acquisition of a majority shareholding in BENZ GmbH Werkzeugsysteme, the implementation of the surface strategy and the restructuring of a production company were approved. Discussions were held concerning the forecast for 2008 and outlook for 2009, including measures and a potential acquisition of a foreign sales company.

Supervisory Board Meeting of December 18, 2008

At the *supervisory board meeting of December 18, 2008*, the planning for 2009 and the medium-term planning for the period 2010 to 2013 were discussed. Both plans were unanimously approved. The supervisory board looked at measures to counter the slowdown. In addition, the new allocation of duties plan of the HOMAG Group AG's management board and the acquisition of a minority interest in a production company of the Group were approved. The corporate governance issue and especially the declaration of compliance that has to be made annually pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporation Act] were discussed in detail.

In addition, the business development of the HOMAG Group on international markets and the expected effects of the finance and economic crisis on the Group were recurring themes that were discussed at all meetings.

WORK PERFORMED BY THE SUPERVISORY BOARD'S COMMITTEES

In order to exercise its duties efficiently, the supervisory board set up a total of four committees in 2008: accounting committee (equivalent to the audit committee), the personnel committee, the nomination committee and the mediation committee. The committees prepare the resolutions and the topics to be discussed by the full supervisory board. To the extent that it is permissible under law, the supervisory board's decision-making authority was transferred to the committees. The chairpersons of the committees reported regularly and in depth about the work of their committees at all full meetings of the supervisory board.

The mediation committee did not have to take any action in fiscal 2008. The nominations committee did not have to convene a meeting either in 2008. The accounting committee met eight times. Five of these meetings were teleconferences. The main themes dealt with at these meetings were risk management, IFRS accounting, the quarterly financial statements, compliance and the structure of an internal audit system as well as the test procedures of the DPR ["Deutsche Prüfstelle für Rechnungslegung e.V.": Financial Reporting Enforcement Panel]. There were no objections.

The accounting committee dealt with the necessary independence required of the auditor and the additional services rendered by the auditor, issuing the audit mandate to the auditor, determining the audit priorities and agreeing the fee.

Appointment of the Management Board

The personnel committee met four times in total, of which one was a conference call. The meetings focused on the service contracts of the members of the management board and their remuneration structure. In addition, the personnel committee proposed to the supervisory board to extend the appointment of Achim Gauß, Andreas Hermann and Herbert Högemann to the management board for an additional three years. At its meeting on April 23, 2008, the supervisory board decided to prolong the appointment of Mr. Andreas Hermann as member of the management board until March 31, 2012. The resolutions to prolong the appointments of Mr. Herbert Högemann and Mr. Achim Gauß as members of the management board until December 31, 2012 were passed at the meeting of the management board on March 30, 2009.

No member of the supervisory board attended fewer than half of the meetings. All members participated in the meetings of the personnel and accounting committees.

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

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS 2008

Appointment of Auditor of the Financial Statements

Ernst & Young AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart was appointed auditor of the financial statements at the annual general meeting of June 5, 2008. As a result, the audit committee engaged Ernst & Young AG to audit the separate and consolidated financial statements and determined the audit priorities. The financial statements of HOMAG Group AG, the management report, the consolidated financial statements and the group management report prepared by the management board for the fiscal year 2008 were audited, with reference to the bookkeeping, by the auditor. The auditor did not make any objections and certified this by rendering an unqualified audit opinion.

The documentation pertaining to the financial statements together with the audit reports were made available to all members of the supervisory board in a timely manner. This as well as the proposal for the appropriation of profits by the management board were examined in depth and discussed in detail at the March 20, 2009 meeting of the accounting committee and the March 30, 2009 meeting of the supervisory board at which the financial statements were ratified. At both meetings, the auditor explained in detail the key audit findings and was available to answer any questions raised.

Based on the review performed by the accounting committee and its own in-depth review, the supervisory board has approved the findings of the audit of the financial statements, in particular taking into account the liquidity of the Company, financial planning and capital expenditure planning as well as the provisioning for the Company and shareholders' interests. The final review performed by the accounting committee or the supervisory board's review did not raise any objections. The supervisory board has approved the financial statements and management report as well as the consolidated financial statements and group management report as of December 31, 2008 prepared by the management board, which are herewith ratified. Having concluded its own review, the supervisory board approves the proposal by the management board to pay a dividend from retained earnings of EUR 0.30 per participating no-par value share.

Dividend payment of EUR 0.30 per share

The supervisory board expresses its thanks to the members of the management board, management, works council representatives and employees for their commitment and their endeavors to make fiscal 2008 a successful year.

Schopfloch, March 2009
On behalf of the supervisory board

TORSTEN GREDE
Chairman of the supervisory board

Corporate Governance Report

> JOINT REPORT OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD OF HOMAG GROUP AG ON CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AT HOMAG GROUP AG

Corporate governance stands for transparent and responsible management and control geared at increasing value in the long term. The management board and supervisory board as well as the HOMAG Group AG's employees feel duty-bound to these principles, which are at the core of our activities. With few exceptions, we have thus complied with all the recommendations of the Code (see declaration of compliance) and follow many of the suggestions. We also intend to implement additional recommendations in the future.

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

MANAGEMENT AND CONTROL STRUCTURE

Supervisory Board

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

In order to permit independent advice to and supervision of the management board, only one former member of the management board sits on the supervisory board. 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 supervisory board members are required to inform the supervisory board of any conflicts of interest that might arise, in particular due

Back row, from left to right: Ralf Hengel, Reiner Neumeister, Jochen Meyer
Front row, from left to right: Carmen Hettich-Günther, Klaus M. Bukenberger, Reinhard Seiler, Wilhelm Freiherr von Haller, Hannelore Knowles, Reinhard Löffler, Torsten Grede, Ernst Esslinger, Dr. Jochen Berninghaus

to their acting in an advisory or board function at customers, suppliers, investors or other business associates. In its report to the annual general meeting, the supervisory board provides information about any conflicts of interest that may have arisen and the way they were dealt with. Pursuant to the rules of procedure of the supervisory board, a member of the supervisory board has to step down in the event of material conflicts of interest that are of a permanent nature. In the reporting year, there were no such conflicts of interest among the supervisory board members of HOMAG Group AG. Consulting or other service agreements between members of the supervisory board and the Company are subject to the approval of the supervisory board. Corresponding contracts were only in place in the period under review with the honorary chairman of the supervisory board, Mr. Gerhard Schuler. The consulting agreement was concluded between HOMAG Holzbearbeitungssysteme AG, a subsidiary of HOMAG Group AG, and Mr. Schuler in 1999.

For further information on the work of the supervisory board and its committees as well as on the cooperation between management board and supervisory board is provided in the report of the supervisory board on page 28 et seq.

The Management Board

The management board of HOMAG Group AG consists of five members and has a CEO.

The supervisory board of HOMAG Group AG has issued a code of procedure for the management board. The management board conducts the business of the Company with joint responsibility of all its members. It is bound to act in the interest of the Company and to increase the long-term value of the Company. The management board develops the Company's strategy, consults with the supervisory board on this and ensures that it is implemented. The management board ensures that the law and corporate guidelines are observed and encourages group companies to comply as well. In addition to that, the management board is responsible for ensuring that appropriate risk management and risk steering is in place in the Company.

The management board keeps the supervisory board informed regularly, promptly and comprehensively about all questions of relevance to the Company. Before the beginning of the next fiscal year, it presents a business plan to the supervisory board. Differences between the actual business development and previously formulated plans and targets are presented to the supervisory board for review in a timely manner and explained in detail. The management board discusses the Group’s strategic orientation with the supervisory board. During the fiscal year, measures requiring the approval of the supervisory board must be submitted to the supervisory board without delay.

Annual General Meeting

The shareholders of HOMAG Group AG protect their rights in the annual general meeting. This is where they exercise their voting rights. Among other things, the annual general meeting adopts resolutions on profit appropriation, the exoneration of the management board and of the supervisory board and the election of the auditor. Amendments to the articles of incorporation and measures to increase or decrease capital are resolved exclusively by the annual general meeting and implemented by the management board.

The shareholders have the opportunity to exercise their voting right at the annual general meeting in person or by a proxy of their choice or by a proxy appointed by HOMAG Group AG who is bound to follow instructions.

Financial Reporting and Annual Audit

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

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

Risk Management

We refer to page 68 et seq. of the annual financial statements for details of HOMAG Group AG’s risk management system.

Transparency

Great importance is attached at the Company to the provision of timely and consistent information. To this end, the Company uses the internet. If unexpected events arise at HOMAG Group AG between the regular reporting dates that could potentially have a significant influence on the market price of the HOMAG Group share, such events are announced in ad hoc reports.

REMUNERATION REPORT

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

Remuneration of the Supervisory Board

The remuneration of the supervisory board is fixed by the annual general meeting and is governed by Art. 14 of the articles of sincorporation 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 in the supervisory board, the members of the supervisory board receive fixed remuneration of EUR 10,000. In addition, for each full fiscal year, they receive variable remuneration of EUR 500 for each percentage by which the dividend payment for the year in question exceeds 10 percent of the capital stock of the Company, but at most EUR 20,000. The chairman receives three times the fixed and variable compensation together, the deputy chairman one-and-a-half times that amount.

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

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

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

Directors and Officers Liability Insurance (D&O insurance) has been taken out by the Company for the supervisory board members. The existing D&O insurance only provides for a deductible for US damages for all persons covered by the insurance.

The table below shows a breakdown of the remuneration of the supervisory board for the fiscal year 2008:

EUR k	Fixed remuneration	Remuneration for committee work	Performance-based remuneration	**Total remuneration**
Torsten Grede, chairman	30	8	30	68
Jochen Meyer*, deputy chairman	15	4	15	34
Dr. Jochen Berninghaus	10	0	10	20
Klaus M. Bukenberger	10	4	10	24
Ernst Esslinger*	10	0	10	20
Wilhelm Freiherr von Haller	10	8	10	28
Ralf Hengel	10	0	10	20
Carmen Hettich-Günther*	10	8	10	28
Hannelore Knowles*	10	4	10	24
Reinhard Löffler	10	20	10	40
Reiner Neumeister*	10	12	10	32
Reinhard Seiler*	10	0	10	20
Gerhard Schuler, honorary chairman	18	0	25	43
- thereof for prior year	*8*	*0*	*15*	*23*
TOTAL	**163**	**68**	**170**	**401**

* *Employee representative*

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, received remuneration of about EUR 61,000 in the year under review as compensation for the consulting services he provided to HOMAG Group AG.

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

Remuneration of the Management Board

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

The direct remuneration is made up of a fixed salary and a variable performance-based component. The variable component consists of a short-term and a long-term incentive system and is based on indicator-based targets. It is also capped. There are no stock option plans. The members of the management board are not remunerated for board functions at subsidiaries.

The existing management board contracts do not currently include nor have they in the past included a general cap on severance payments to a maximum of two annual salaries in the event of early termination of service on the management board. Nor are severance payments currently capped at 150 percent in the event of the early termination of service on the management board due to change of control. However, there are plans to introduce a severance payment cap when management board contracts are concluded or prolonged in the future.

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

Fixed remuneration

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

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

Variable remuneration component

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

The STI is based on the value added (VA) as an indicator of the increase in value of HOMAG Group AG. The STI is calculated on a straight-line basis from a positive VA greater than 0.00 percent up to a fixed indicator (5.5 percent VA) and is paid out in this amount. The STI is capped at this indicator.

As an incentive system with long-term effect, the LTI bonus is based on fixed targets for the price development of the HOMAG Group share. To obtain the LTI bonus, the accumulated VA over the fiscal years 2007, 2008 and 2009 (reference period) must also be positive. This basic LTI bonus, which is also determined on a straight-line basis, is capped at 18 percent VA.

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

In a first step, the increase in the value of the share between the first listing (relative opening price) and the end of the reference period (relative closing price) is determined; the supervisory board considers this in its evaluation of the value development of the share price.

If the share price increases by up to 70 percent – relative closing price starting from the relative opening price – the second part of the LTI bonus, a mark-up amount (also calculated on a straight-line basis) is due for payment.

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

The LTI bonus is paid out in two installments, 50 percent no later than the annual general meeting in the fiscal year 2009, the second after the annual general meeting in the fiscal year 2010.



The remuneration of the management board members pursuant to IAS 24 for the fiscal 2008 breaks down as follows:

EUR k	Fixed salary		Short-term incentives (STI)		Long-term incentives (LTI)			Benefits in kind		Total remuneration	
	2008	2007	**2008** [1]	2007	**Change in provision 2008**	Provision 2008 [2]	Provision 2007	**2008**	2007	**2008**	2007
Dr. Joachim Brenk	310	285	225	450	-128	35	163	7	7	414	905
Achim Gauß	235	215	202	363	-115	31	147	8	8	330	733
Andreas Hermann	209	193	180	375	-102	28	130	5	5	292	703
Herbert Högemann	210	193	180	300	-103	28	130	7	7	294	630
Rolf Knoll	234	211	203	363	-116	31	147	8	7	329	728
TOTAL	**1,198**	**1,097**	**990**	**1,851**	**-564**	**153**	**717**	**35**	**34**	**1,659**	**3,699**

[1] *To be paid out after the 2009 annual general meeting for 2008.*
[2] *Two thirds of the fair value of long-term incentive remuneration was recognized as a provision. Payments of 50 % each will be paid after the 2010 annual general meeting for 2009 and 2011 for 2010. This is not the actual value but the fair value determined using actuarial methods.*

SHAREHOLDINGS OF BOARD MEMBERS

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

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

Member of the supervisory board	No. of shares on **Dec. 31, 2008**	No. of shares on Dec. 31, 2007	% of total shares on **Dec. 31, 2008**	% of total shares on Dec. 31, 2007
Ernst Esslinger and related parties	100	100	0.0	0.0
Ralf Hengel and related parties	386,631	386,631	2.5	2.5
TOTAL	**386,731**	**386,731**	**2.5**	**2.5**

On December 31, 2008, Mr. Gerhard Schuler, honorary chairman of the supervisory board, held 1,326,481 shares in Homag Group AG (December 31, 2007: 923,361). This corresponds to a share in capital stock as of December 31, 2008 of 8.46 percent (December 31, 2007: 5.89 percent).

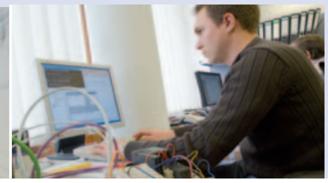
At present, there are no stock option programs or similar value-based incentive systems in place that would have to be addressed in this report pursuant to No. 7.1.3 Corporate Governance Code.

The transactions notified between January 1, 2008 to December 31, 2008 pursuant to Sec. 15a WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] of the honorary chairman of the supervisory board, Mr. Gerhard Schuler, are presented in the table below:

Trading day	Stock exchange	Type	No. of shares	Price EUR	Total volume EUR
Jan. 7, 2008	XETRA	Purchase	15,000	19.9628	229,442.00
Jan. 8, 2008	XETRA	Purchase	10,000	19.9625	199,625.00
Jul. 25, 2008	XETRA	Purchase	2,288	16.8727	38,604.74
Jul. 28, 2008	OTC	Purchase	10,000	16.4300	164,300.00
Jul. 28, 2008	XETRA	Purchase	7,247	16.6105	120,376.29
Jul. 29, 2008	XETRA	Purchase	6,741	16.7177	112,694.02
Jul. 29, 2008	OTC	Purchase	21,844	16.3000	356,057.20
Sept. 11, 2008	XETRA	Purchase	867	15.0000	13,005.00
Sept. 15, 2008	XETRA	Purchase	9,194	14.9845	137,767.49
Sept. 16, 2008	XETRA	Purchase	13,000	14.9786	194,721.80
Sept. 17, 2008	XETRA	Purchase	623	15.0000	9,345.00
Sept. 18, 2008	XETRA	Purchase	11,670	14.8634	173,455.88
Sept. 19, 2008	XETRA	Purchase	4,200	14.9100	62,622.00
Sept. 22, 2008	XETRA	Purchase	10,446	14.7410	153,984.49
Oct. 10, 2008	OTC	Purchase	80,000	11.3884	911,072.00
Oct. 24, 2008	OTC	Purchase	100,000	9.5937	959,370.00
Oct. 30, 2008	OTC	Purchase	1,831	8.5000	15,563.50
Oct. 31, 2008	OTC	Purchase	36,578	8.3400	305,060.52
Nov. 21, 2008	OTC	Purchase	32,000	9.1479	292,732.80
Nov. 27, 2008	OTC	Purchase	9,000	9.0613	81,551.70
Dec. 2, 2008	OTC	Purchase	20,591	8.9656	184,610.67

There were no other transactions in fiscal 2008 that have to be reported pursuant to Sec. 15a WpHG. For up-to-date information on directors' dealings, please refer to our homepage at www.homag-group.com.





DECLARATION OF COMPLIANCE IN ACCORDANCE WITH SEC. 161 AKTG

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

The management board and supervisory board declare that, since their declaration of compliance dated January 18, 2008, HOMAG Group AG has complied with the recommendations of the German Corporate Governance Code in the version dated June 14, 2007 until August 7, 2008 as well as with the version of the Codex dated June 6, 2008 since August 8, 2008 – with the following exceptions – and will continue to comply with them in the future:

1. *No. 7.1.2 Sentence 4 (publication of the consolidated financial statements within 90 days)*
   The Company intends to follow this recommendation in future. As last year's consolidated financial statements were included in the first annual report prepared since the IPO, they were not published within the required 90-day period. The 2008 annual report including the consolidated financial statements will be published within the required period of 90 days.
2. *No. 4.2.3 (4) (cap on severance payments in employment agreements with management board members)*
   The provisions concerning caps on severance payments, which have been upgraded to the status of "recommendations" concern any management board agreements that are concluded or prolonged. Until now, no caps have been agreed on severance payments when concluding or prolonging management board contracts. However, there are plans to introduce a severance payment cap as management board contracts are concluded or prolonged in the future.
3. *No. 3.8 (deductible for D&O insurance)*
   The existing D&O insurance only provides for a deductible for US damages for all persons covered by the insurance. The Company does not believe that a further deductible will make a material contribution to compliance with the rules of proper governance and thus diverges from the Code in this respect.

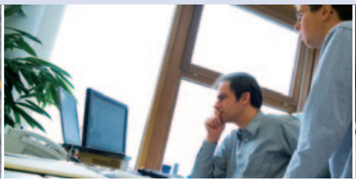
Schopfloch, January 14, 2009

For the supervisory board of Homag Group AG

TORSTEN GREDE
Chairman of the supervisory board

For the management board of Homag Group AG

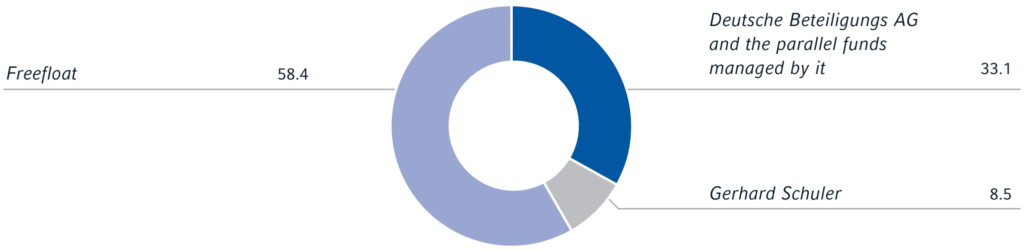
DR. JOACHIM BRENK
CEO



The HOMAG Group AG Share

Shareholder Structure as of February 27, 2009 [1]

%



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

DEVELOPMENT OF STOCK MARKETS

The stock exchange year 2008 was dominated by the financial crisis that was triggered by the US real estate market and shook the foundations of global capital markets. Signs of global economic crisis followed in the last quarter of 2008. This combination led to high losses on international stock markets. Indeed, the Dow Jones plummeted 36 percent over the course of the year and the Euro STOXX 50 index lost about 44 percent. Closing with a loss of more than 40 percent, the German DAX recorded the second worst year in its history. The losses remained manageable up to June, when it became increasingly clear that the US financial crisis would have a negative impact worldwide. Uncertainty on capital markets rose considerably again after the US investment bank Lehmann Brothers declared bankruptcy in September leading to the virtual collapse of stock markets.

The crisis has been even harsher on Germany's smaller stocks indices MDAX, TecDAX and SDAX, each losing well over 40 percent in value and recording the worst year since their establishment. For instance, SDAX was down over 50 percent in the six months between mid-May and mid-November before rallying slightly towards the end of the year, closing with a total loss of 46 percent.

DEVELOPMENT OF THE HOMAG SHARE

The shares of the HOMAG Group AG are listed on the Prime Standard of the Frankfurt Stock Exchange and quoted on the SDAX index of the German Stock Exchange. After a weak start to the year, the HOMAG share picked up substantially from February reaching its peak for the year of EUR 24.50 in May – representing an 18 percent increase on the value at the start of the year. However, the share had lost the ground gained again by the end of June and continued to drop following the trend on the stock markets. From September, the international financial crisis and the ailing economy hit our share head on. The share reached an annual low of EUR 8.43 at the end of October. The HOMAG share recovered slightly, climbing to EUR 10.19 as of December 31.

DEVELOPMENT AT THE BEGINNING OF 2009

Due to a very weak fourth quarter of 2008 experienced by many companies, the significant decrease in order intake across numerous industries and the poor forecasts for the world economy in 2009, prices on the stock exchanges continued to plummet at the beginning of 2009. For instance, the DAX lost some 20 percent again in the first months of the year, while the MDAX and SDAX were both down by about 17 percent. Up to mid-February 2009 the HOMAG share roughly followed the development of our index (SDAX), before being hit by an additional devaluation in response to our ad hoc notification of February 17. At the end of February, the share was quoted at EUR 6.00.

SHAREHOLDERS' MEETING AND DIVIDEND POLICY

More than 350 shareholders and guests attended the first annual general meeting since flotation of the HOMAG Group AG on June 5, 2008 in Freudenstadt. Around 130 of our guests subsequently went on a guided tour of our production halls at our Schopfloch facilities. Some 72 percent of the Company's capital stock was represented at annual general meeting. The shareholders present voted in favor of all six resolutions on the agenda with a clear majority of more than 99 percent in each case – including a resolution to increase the dividend from EUR 0.40 to EUR 0.90 per share.

As a result, we distributed EUR 14.1 million in total to our shareholders. Based on the HOMAG share's closing price of EUR 20.54 at the time of the annual general meeting on June 5, 2008, the dividend yield comes to 4.4 percent. The amount of dividends paid takes account of the development of earnings and the current business situation, while complying with our commitment to maintaining dividend distributions stable. For fiscal 2008, the management board and supervisory board of HOMAG Group AG propose to the annual general meeting on May 27, 2009 the distribution of a dividend of EUR 0.30 per share. This proposal is an attempt to strike a balance between an appropriate dividend distribution without, however, losing sight of the current difficult market environment and the need to secure liquidity for HOMAG Group AG, allowing the Company room to maneuver in the event of acquisition opportunities.

COMMUNICATION WITH THE CAPITAL MARKET

Since our IPO in July 2007 it has been our policy to keep an open, fair and continuous information exchange with all players of the capital market. We invest a great deal of time in financial communication to provide analysts as well as institutional and private investors with the optimal support. Indeed, we organized eight road shows in 2008: in London, Zürich, Frankfurt, Geneva, Helsinki, Stockholm, Vienna and Stuttgart. We also held a conference for

Performance of the HOMAG Group Share in Comparison with SDAX®

January 2, 2008 to February 27, 2009
in EUR

Source: XETRA

analysts in Frankfurt in April which coincided with the presentation of the financial statements for 2007 and made conference calls with analysts to discuss our quarterly financial statements. We also talked with German and international investors and analysts. Most of these talks were held in Schopfloch allowing us the opportunity to show partners our production facilities.

We also presented HOMAG Group AG at various events for investors, including in Frankfurt, Stuttgart, Paris and Munich as well as at our first investor and analysts day in Schopfloch. We are members of Baden Württemberg Small Caps (BWSC), a joint initiative of high-earnings corporations in the region. The BWSC's objective is to increase shareholder value in a sustainable manner by bundling the activities of member companies.

Apart from meeting shareholder representatives, we have kept the press and the general public informed at all times of the latest developments through our financial statements press conference and by issuing press releases that addressed all major events and by granting interview to numerous investor publications. We also issued two ad hoc notifications in 2008.

We support private investors by phone or via e-mail and using our website as a platform that provides continually updated information. We also introduced our investor newsletter in 2008. The newsletter has been published three times so far providing all interested parties with information on current developments in between quarterly reporting.

Share Performance Indicators

ISIN CODE		DE0005297204
STOCK EXCHANGE SEGMENT		Prime Standard
INDEX		SDAX
IPO	July 13, 2007	
NUMBER OF SHARES	until July 11, 2007	14,561,345
(ACCORDING TO COMMERCIAL REGISTER ENTRY)	since July 12, 2007	15,688,000
	no-par value ordinary bearer shares	
PRICE HIGH* 2008	May 06, 2008	EUR 24.50
PRICE LOW* 2008	Oct. 27, 2008	EUR 8.43
PRICE* AS AT DEC. 30, 2008		EUR 10.19
MARKET CAPITALIZATION (DEC. 30, 2008)		EUR 159.9 million

* *XETRA closing quote*

Group Management Report for 2008

1. BUSINESS AND GENERAL ECONOMIC CONDITIONS

1.1 Group Structure and Management System

Business Activities of HOMAG Group AG

We believe HOMAG Group AG is the world's leading manufacturer of plant and machinery for the woodworking industry. As a global player, we are present in more than 60 countries and have an estimated 26 percent share of the world market. In the market segments furniture production, structural element production and timber frame house construction we offer our customers precisely tailored solutions ranging from stand-alone machines to complete production lines. Our offering is unique as regards the wide range of services focusing on plant and machinery together with the provision of appropriate software solutions.

Legal and Company Structure

HOMAG Group AG is a holding company and does not have operating activities. Its main tasks as the parent and controlling company are to establish and supervise the Group's strategy, to manage investments and liquidity. It holds 100 percent of the shares in HOMAG Holzbearbeitungssysteme AG, which has operating activities and is one the of the largest companies in the HOMAG Group, apart from being the management company of a large number of subsidiaries in each of which it holds the majority interest. As of December 31, 2008, the Group had 10 German and 5 foreign production entities as well as 21 sales and service entities (see also the illustration of the group structure on the inside flap at the back of this report).

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

The following changes were made to the corporate structure in fiscal 2008:

- At the end of 2008, FRIZ Kaschiertechnik GmbH entered into a profit and loss transfer agreement with HOMAG Holzbearbeitungssysteme AG.
- SCHULER Business Solutions France was dissolved effective December 31, 2008.
- In November 2008, WEEKE North America, Inc. was established. The corresponding formalities will be initiated. Since no capital contributions had been paid in by the balance sheet date, there are no effects from the establishment until the financial statements are prepared for 2009. Apart from HOMAG Holzbearbeitungssysteme AG, which holds 30 percent of the shares, WEEKE Bohrsysteme GmbH holds 51 percent and Stiles Machinery Inc. holds 19 percent.

Company Structure

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

The Cabinet Shops segment encompasses the group entities focused on products catering for the special requirements of smaller workshops. Apart from high quality and productivity, the market wants simple operation and flexible applications at a competitive price.

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

The Other segment primarily comprises the holding activities of HOMAG Group AG, foreign production facilities in regions with potential for the future, the services division with the software and consulting portfolio of SCHULER Business Solutions AG and the timber frame house construction division.

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

Corporate Management

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

1.2 Economic and Market Conditions

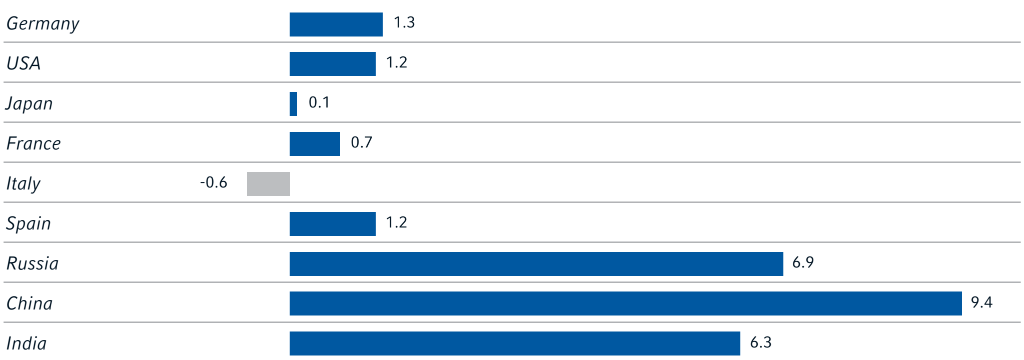
Development of the Economy

A phase of robust global economic expansion ended in 2008. Following a promising start to the year, the slowdown became increasingly evident from the middle of the year, especially during the dramatic escalation of the financial market crisis in September. According to the IfW [“Institut für Weltwirtschaft”: Institute for World Economy], the downturn in many industries essentially brought global activity to a halt at year-end 2008. Overall, the global economy grew by 2.7 percent in 2008 thanks to the good start to the year, after generating growth of 3.9 percent in 2007 according to the DIW [“Deutsche Institut für Wirtschaftsforschung”: German Institute of Economic Research].

Despite a fairly strong rise in production at the start of the year, the leading industrialized nations had slid into recession by the end of 2008 as the economy gradually weakened over the course of the year. Nevertheless, these countries were able to increase their gross domestic product (GDP) slightly by 1.0 percent on average. The US economy grew by 1.2 percent while Japan recorded growth of 0.1 percent. Emerging economies are also increasingly feeling the downturn, although some exhibited fairly high growth rates again in 2008. According to IfW and DIW data, China achieved GDP growth of over 9 percent, India and Russia grew by a solid 6 percent, while Latin America as well as East Asia excluding China and Japan grew by more than 4 percent.

GDP (real) 2008

Year-on-year percentage change



Source: DIW/EU Commission

Europe has also been hit by the economic downturn as is manifested by the mere 1.0 percent increase in GDP in 2008 in the European Union (calculations of the European Commission). Growth in the euro zone reached 0.9 percent. Slovenia, Slovakia, Greece and the Netherlands still fared quite well, while economic output in Ireland and Italy had already shrunk. Eastern European accession countries did somewhat better – Poland, Romania, the Czech Republic and Bulgaria were able to maintain a growth level in excess of 4 percent.

The German economy also edged into recession during 2008. Virtually all economic indicators deteriorated drastically towards the end of the year and GDP decreased significantly in the final quarter. Consequently, the growth rate of 2 percent that had been forecast at the beginning of 2008 could not be reached and GDP rose by a mere 1.3 percent. Export growth came to 3.9 percent.

Mechanical and Plant Engineering

According to the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], 2008 proved to be another good year for the German mechanical and plant engineering industry with a rise of production of 5.4 percent in real terms. However, order intake had already weakened considerably by the fourth quarter both in Germany and abroad. Indeed, between October and December 2008 it decreased significantly by 29 percent against the comparable prior-year period in 2007, orders were down 40 percent in December alone.

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

The industry grew in 2008 for the fifth consecutive year, although this was mainly due to the healthy order backlog at the beginning of the year. German manufacturers of wood processing machines recorded growth in real sales revenue of about 6 percent, although this is partly attributable to the continued healthy revenue generated with suppliers of the saw and timber industry, a market in which the HOMAG Group is not active. By contrast, the market relevant to the HOMAG Group shrunk in 2008 in the wake of economic developments by some 7 percent to about EUR 3.2 billion.

Following the past years of growth, a turning point was already apparent as 2008 progressed. Indeed, data from the relevant industry association within the VDMA suggests that order intake declined by 23 percent in 2008 compared to the prior year. The decline was roughly equal in Germany and abroad. In December alone, order intake decreased by 80 percent.

1.3 Business Development

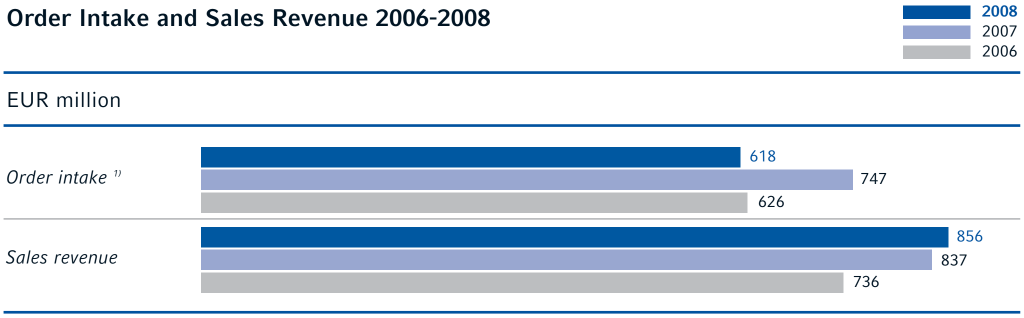
Order Intake and Sales Revenue

Due to the increase in the severity of the financial crisis, 2008 progressed differently than anticipated by just about all business analysts and, indeed, the Company. The HOMAG Group was no exception. Although the order books were well filled at the start of the year to the point that the Company's production capacity was almost overheating, the situation changed dramatically in the second half of the year and particularly in the fourth quarter. Like the rest of the industry, we also recorded a very weak order intake at the end of 2008. As a result, there were significantly fewer systems in production as of December 31, 2008 than in the comparable prior-year quarter. This combined with the percentage-of-completion (PoC) method applied – i.e., the method used to recognize revenue – resulted in a considerable decrease in sales revenue in the fourth quarter. There was an additional effect due to the devaluation of numerous currencies in the fourth quarter compared to the third quarter of 2008, including the pound sterling, the Brazilian real, the Polish zloty, the Australian dollar and the Canadian dollar, which depreciated by as much as 22 percent. The currency translation of sales revenue in these countries resulted in an additional burden on sales.

As a result of these effects, we only increased our sales revenue slightly by 2.3 percent to EUR 856 million in fiscal 2008 (prior year: EUR 837 million). Nevertheless, this was a new record in the history of the Company. Our total operating performance improved to EUR 872 million (prior year: EUR 860 million). In our industry, order intake usually follows a seasonal pattern characterized by weakening intake over the course of the year. However, the current, extreme development is unprecedented and attributable to the ailing global economy and the gloomy forecasts.

As a result, order intake in 2008 decreased by 17 percent to EUR 618 million compared to the record year 2007 (prior year: EUR 747 million), although this also means that we fared better than our market, allowing us to capture a larger market share. The order intake is thus at the level of 2006 (EUR 626 million). The downturn was most noticeable in the fourth quarter, and we attracted order intake of about EUR 65 million less than in the comparable quarter of the prior year. The same applies to order backlog, which stood at EUR 164 million as of December 31, 2008 (prior year: EUR 255 million). This already takes account of the order backlog of EUR 14 million from our acquisition of a 51 percent shareholding in BENZ GmbH Werkzeugsysteme, effective January 2009.

Order Intake and Sales Revenue 2006-2008



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

In line with our significantly weaker order intake, the development of individual regions in 2008 failed to match the levels of 2007. As expected, we recorded the most pronounced drop in order intake in the US. The order intake has also decreased in western and eastern Europe. This trend was particularly pronounced in the UK and Spain, those countries that were hardest hit by the real estate and financial crisis.

Germany still developed relatively well, and our stand-alone machines business did quite well there, although we endured a substantial drop in the area of capital-intensive large-scale systems. In general it can be said that many customers often found it difficult to finance large-scale systems on account of the financial crisis. Together with the uncertainty created by the intensifying economic crisis this meant that investment projects were put on hold.

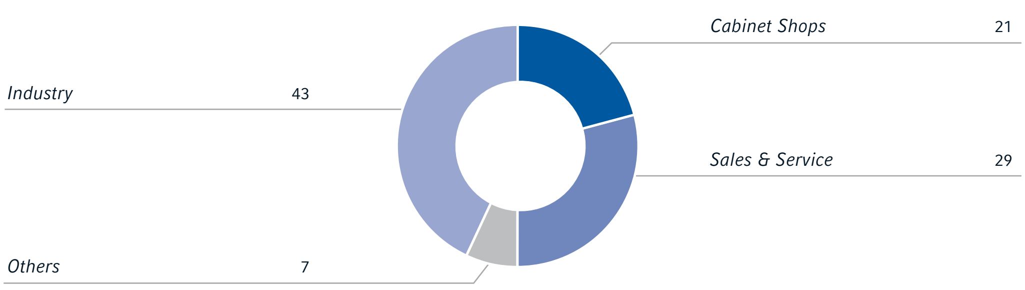
Overall, we were satisfied with the development of markets in China, the rest of Asia and particularly the Orient in 2008, although these markets do not have the volume that would be required to compensate the weakness of US and western European markets.

Segment Sales Revenue

Sales revenue in our largest segment, Industry, remained constant at EUR 494 million in 2008 compared to 2007, and in the Cabinet Shops segment we raised sales revenue by 6 percent to EUR 245 million (prior year: EUR 232 million). This development was attributable to the fact that unit sales of our standard machines were still quite good in the second half of 2008, although demand for large-scale systems weakened substantially. The Sales & Service segment improved its sales revenue by 12 percent to EUR 334 million (prior year: EUR 297 million). With sales revenue of EUR 40 million (prior year: EUR 46 million), timber frame house construction was the largest sub-segment in the Other segment, which generated sales revenue comparable to the prior year (EUR 77 million; prior year: EUR 76 million).

Segment Sales Revenue 2008

%



Significant Events in Fiscal 2008

One of the main events of the past fiscal year was the first annual general meeting since flotation. On June 5, 2008, we welcomed more than 350 shareholders and guests to Freudenstadt. Some 72 percent of the Company’s capital stock was represented at the annual general meeting. The shareholders present voted in favor of all six resolutions on the agenda with a clear majority of more than 99 percent in each case – including a resolution to increase the dividend from EUR 0.40 to EUR 0.90 per share.

We successfully presented the HOMAG Group at numerous national and international trade fairs. Since LIGNA, the industry’s most important trade show in the world, is only held every two years, XYLEXPO in Milan was the most important event on the 2008 trade show calendar. The trade show gave us the opportunity to meet many customers from Italy and neighboring countries at our stand and present to them a wide range of technological highlights and innovations. The in-house trade shows of the companies HOMAG, HOLZMA and FRIZ, which are located in fairly close proximity to each other, coincided at the end of September. Despite the overall weakness of the economy, all three in-house trade shows were a success, even reporting a rise in the number of visitors compared to the prior year. The positive feedback was also reflected in the order intake generated, which was still stable compared to the prior year. It was not until later in the year, in November and December, that the order intake began to decline substantially.

In the first half of 2008, we completed the projects to increase the production space at two subsidiaries. The total investment volume came to some EUR 3 million. At WEINMANN Holzbausystemtechnik GmbH, located in the Swabian town of St. Johann-Lonsingen, our specialist in the field of plant and machinery for prefabricated timber frame house construction, we expanded the production area by 2,800 m²; while at BARGSTEDT Handlingsysteme GmbH, in Hemmoor near Hamburg, our specialist in the field of plant and machinery for transport and handling, the production area was expanded by 2,000 m². In addition, a ground-breaking ceremony for our new HOMAG Center at our Group's headquarters in Schopfloch was held in June. In the future, the center will have 3,900 m² of space for more than 150 employees. With its new reception and foyer as well as a conference room and several meeting rooms, the new building is designed with the customer in mind. At the same time, it will serve the expansion of the advanced technology departments in the research and development as well as the sales and engineering activities.

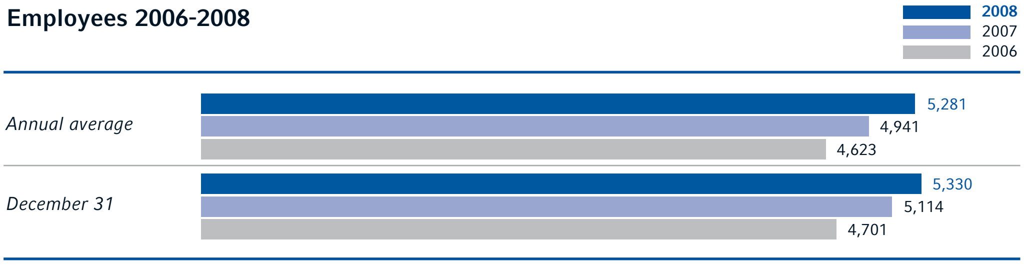
On November 20, 2008, a notorized agreement was concluded under which we took over 51 percent of the shares in BENZ GmbH Werkzeugsysteme, Haslach, effective January 1, 2009. BENZ is a well-positioned business that we have known well for many years as a reliable system supplier. It produces tools and assemblies for the metal, wood and plastics processing industries. The new subsidiary has some 230 employees and plans to generate unconsolidated sales revenue in 2009 of about EUR 35 million.

Our consolidated financial statements 2007 were reviewed in 2008 by the DPR ["Deutsche Prüfstelle für Rechnungslegung e.V.": Financial Reporting Enforcement Panel]. These DPR procedures have been concluded in the interim. No objections were raised.

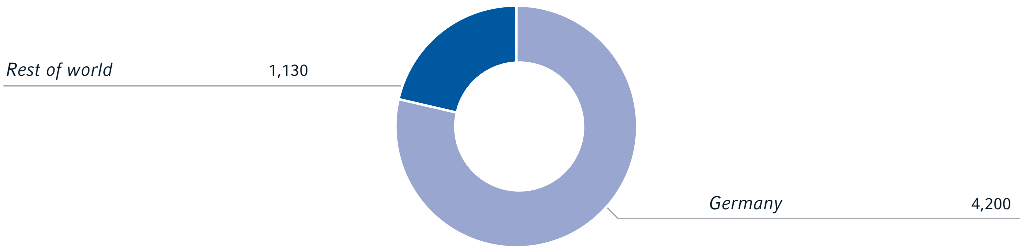
1.4 Employees

The development of the headcount in the year under review reflects the development of business within the HOMAG Group. After a significant increase at the beginning of the year, it fell again in the fourth quarter. An annual average of 5,281 workers was employed by the Group, compared to 4,941 employees in 2007. The headcount increased from 5,114 to 5,330 as of December 31, having reached 5,404 at the end of the third quarter of 2008. At the end of 2008, there were 4,200 employees in Germany and 1,130 employees abroad. We hired new staff in 2008 in particular at the German production companies WEEKE, HOMAG and BRANDT and at our sales and service companies in the growth markets India and CIS.

Employees 2006-2008



Employees by Region as of December 31, 2008



The number of contract workers decreased substantially from 304 at year-end 2007 to 48 as of December 31, 2008.

The annual average number of employees increased in 2008 across all segments. The headcount rose to 2,722 in the Industry segment (prior year: 2,601), to 1,158 in the Cabinet Shops segment (prior year: 1,070), to 732 in the Sales & Service segment (prior year: 642) and to 669 in the Other segment (prior year: 628).

Training

We believe in investing in young people's training. Not only does this give us an opportunity to exercise social responsibility, it is a great way of securing our future need for qualified staff. That is why we have always had a high ratio of trainees, which again stood at about 10 percent at the German production companies in 2008. As of the balance sheet date, the HOMAG Group had 389 trainees in the year under review, 321 in technical and 68 commercial positions.

We used a number of measures to attract trainees such as organizing an in-house training meet and participating in several job fairs in 2008. The visitors obtained detailed information on various careers by participating in application courses and case studies and visiting information stands. In each case, interested young people were provided individual advice. We have also invited students from technology schools to give them an insight into the services and products offered by the HOMAG Group and to provide information on the various possibilities for starting a career in the Company.

We are active at universities and colleges with HR measures to recruit qualified young professionals. We participated in a number of university fairs in 2008. We also offer placements for students writing their B.A. final-year projects and offer students internships and work experience semesters. This gives them an opportunity to get involved in the day-to-day business and to be integrated in internal business processes allowing them to apply the theory acquired during their studies to real-life practice. Our career forum also served to recruit professionals in 2008. The forum provided visitors an overview of the various areas of application including the service business, manufacturing, materials management, research and development or the sales department.

For the HOMAG Group's employees, training programs and initiatives to improve their qualifications form a central element of their career development. We define advanced training as a joint investment in learning, and we provide employees ample opportunity to enhance their qualifications through our numerous "Fit" programs. The extensive offering focuses on issues relevant to products. Most of the courses are provided by internal trainers. Our Expert Career Development Program ECDP is a two-year qualification program for employees. In October, employees from assembly, HOMAG engineering, e-pool, testing, application software, controlling, handling of replacement parts and CAD/CAM/CNC engineering completed the advanced training program successfully.

Employees as Fellow Entrepreneurs

We see our employee participation model as an important building block for the success of the HOMAG Group. Our employees began to invest in their company back in 1974, thus becoming fellow entrepreneurs. This model has received the broad acceptance of employees and, today, about 99 percent of the eligible workforce holds investments in HOMAG Holzbearbeitungssysteme AG. We will distribute some EUR 9 million to our employees for the past fiscal year.

1.5 Sustainability

In the HOMAG Group, actively protecting the environment and a conscientious use of natural resources are not objectives that are pursued in isolation of other targets. They are instead an integral component of a corporate strategy that is geared toward value enhancement. We believe that it is possible to reconcile a successful business operation with environmental and social responsibility. Within the Group, it has become a matter of course to meet ever rising environmental standards and to continually endeavor to conserve resources. We actively engage in dialog concerning the environmental impact of out sites while developing and tracking environmental targets to continually improve our corporate environmental protection activities.

Environmental protection is a significant component of our activities across the board. That is why we save on materials, water and energy where we can. And where the consumption of resources is unavoidable we apply strict environmental criteria. We frequently monitor the effects of our activities on the air, water and soil and intend to continue reducing the environmental impact of our activities and our products in the future. All employees share the responsibility of implementing environmental protection measures in our company. To qualify them to do this they are provided with information as well as basic and advanced training for their workplace on a regular basis. Optimization workshops and own initiatives are encouraged.

To ensure compliance with our environmental policy and its adjustment to new requirements, we have set up an environmental management system designed to help coordinate and steer our Company in the long term. The aim is to continually improve corporate environmental protection activities and our environmental performance. Our environmental management system allows us to ensure compliance with company and regulatory environmental requirements. It serves to secure a sustainable environmental compatibility of products and business processes while encouraging the initiative of employees. The companies of the HOMAG Group can opt to have their environmental management system certified. For instance, our largest subsidiary HOMAG Holzbearbeitungssysteme AG has been certified under DIN EN ISO 14001 since 2006.

We set environmental targets as benchmarks for improving our environmental performance. These targets, which are revised annually, are derived from the environmental policy. They are described more clearly in the form of measures from implementation and documented in an environmental file. This file provides details of competencies, progress, the implementation timeframe and the costs involved. For instance, measures can include intelligent management of hall lighting and heating, tapping the process heat of machines and systems or comprehensive insulation measures. The environmental measures also include the reduction of the quantity of steel and the consumption of compressed air, rainwater use as well as using alternative sources of energy such as solar and wind power or even biomass.

We want to continue improving our environmental key figures in the future and have therefore set specific targets to reduce our consumption of water, wastewater, electricity, gas, heating oil and fuel consumption as well as our production of waste. We intend to achieve these targets by 2015.

1.6 Research and Development

As the market and technology leader in the manufacture of woodworking machinery, the Group unquestionably brings together one of the most powerful and innovative development teams operating in the woodworking sector. Of the 4,578 employees on the payroll of the producing companies in 2008, 754 were involved in R&D.

By pursuing the further development of our product management organization, tightening our order processing and development procedures, expanding our system development, pursuing a program of advance development and coordinating our research program in 2008, we have further consolidated our position as market and technology leader in the long term.

National and international research projects, participation in networks and cooperation with universities and institutes bring a range of benefits including the development of new technologies and processes, which are also patent protected. Industrial property rights registrations in the double figures testify to the success of these endeavors, and we mounted a vigorous and sustainable defense of our industrial property rights against infringement. We also consistently pursued a policy of expanding and safeguarding our core competences in 2008, as evidenced by our majority takeover of BENZ GmbH Werkzeugsysteme.

We continue to regard the HOMAG Group as a full range provider and system supplier to the industry, and our aim is to make a suitable range of products and services available to our worldwide sales and servicing network in every market and product segment. We made good progress towards this aim in 2008, both by contemplating possible acquisitions and refining our product portfolio.

In the standard machine sector, we developed or re-engineered a number of new machine models. These include the “Edging step” project, which entailed joint presentation of the single-sided edge banding machine by the BRANDT and HOMAG subsidiaries as full range suppliers at the LIGNA 2009.

In the processing center sector, we developed and implemented a range of additional functional and processing features, for example in the basic machine, in the field of clamping technology and processing unit technology. These developments helped us to further expand our market position. By the end of 2008 we had developed a new machine series specifically for the world's biggest single market, the USA, which is set to be locally produced in the future.

We succeeded in completing comprehensive development work in the upstream production sector, for the manufacture of both solid and composite panels, and in the fields of lightweight construction and dividing technology. Extremely successful products to emerge from this development include panel saws for plastics processing or the entry-level panel saw produced in the Shanghai plant.

In the field of surface technology, a modular system now exists for hot-melt glue, white adhesive or urea which is capable of covering every conceivable requirement for specific surface laminating applications or in the **complete**Line sector.

An extensive number of new developments were also completed in the plant engineering and project business sector during the course of the past fiscal year. These include innovations in the process chain for batch size 1 production, in door and frame production or mass production at maximum feed and cycle rates. By implementing new procedures, technologies and machines such as a front processing machine or fully automatic carcase presses, intelligent and flexible storage, magazining and assembly systems, we succeeded in substantially expanding the relatively recent sector of drilling, hardware mounting and assembly technology.

With an introduction of a number of innovations, the product spectrum in the timber frame construction sector now ranges from processing and assembly bridges to large-format processing centers.

Our claim to market and technological leadership naturally also encompasses machine-specific and non machine-specific software products developed perfectly in step with our machines and systems. We have substantially increased and expanded our product portfolio in this sector. Everything from ERP systems, process control and network technology through to ultra-modern and efficient real-time machine control systems now form an essential part of the HOMAG Group's core competence.

1.7 Changes in Company Boards

There were no changes in the management board or supervisory board in the year under review.

1.8 Disclosure Pursuant to Sec. 315 (4) HGB

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

Restrictions relating to the voting rights or transferability of shares (No. 2): The management board is not aware of any restrictions, especially arising from agreements between shareholders, concerning voting rights. Regarding trading restrictions, we refer to the lock-up agreed in the course of the IPO. In accordance with the lock-up agreement, existing shareholders and members of management holding shares at the time of the IPO have an obligation to the syndicate of banks to refrain from directly or indirectly offering, selling, or marketing their shares in the Company, or announcing their intention to do so without prior agreement of Dresdner Kleinwort and JPMorgan for a period of six months (shareholders pre-IPO) or eighteen months (members of the management board) following the Company's IPO on the official market.

Direct or indirect capital investments exceeding 10 percent (No. 3): Only Deutsche Beteiligungs AG and the parallel funds managed by it hold a capital investment and voting right in the Company of greater than 10 percent.

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): No employees who cannot exercise their rights of control directly have an interest in capital of HOMAG Group AG.

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

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

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

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

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

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

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

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

a) *Authorization to issues shares:* Pursuant to Art. 4 (3) of the articles of incorporation and bylaws, the management board is authorized with the approval of the supervisory board to raise the share capital in the period until May 31, 2012, once or several times, by a total of up to EUR 5,824,536.00 by issuing new no-par value bearer shares in exchange for cash and/or contributions in kind (authorized capital II). The management board is entitled to decide on the conditions of share issue with the approval of the supervisory board. In addition, the management board is authorized, subject to the approval of the supervisory board, to preclude existing shareholders' subscription rights under the following circumstances:
   - for fractional amounts,
   - for capital increases in return for contributions in kind for the purpose of acquiring a company, part of a company or an equity investment in a company,
   - in the case of capital increases in return for cash contributions, if the issue price of the new shares is not significantly lower than the listed price of identical shares

already listed when the issue price is finalized by the management board within the meaning of Sec. 203 (1) and (2) and Sec. 186 (3) Sentence 4 AktG, and the new shares with precluded subscription rights do not exceed an amount of 10 percent of share capital on the date of authorization. Shares disposed of during the term of authorized capital 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 not allowed to exceed 10 percent of the share capital.

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

b) *Authorization to purchase treasury shares:* Pursuant to Sec. 71 (1) No. 8 AktG, the Company is authorized, with the approval of the supervisory board, to purchase treasury shares up until November 30, 2009 with an imputed share in share capital of EUR 1,568,800. The Company may not use the authorization to trade with treasury shares. The Company can exercise the authorization wholly or in part, once or several times. The management board can choose to purchase the treasury shares either a) from the stock exchange or b) from a public offer made to all shareholders.

Subject to the approval of the supervisory board, the management board is authorized to redeem the treasury shares purchased pursuant to this authorization without requiring any further resolutions by the annual general meeting. Moreover, subject to the approval of the supervisory board, they can be sold in a way other than on the stock exchange, provided that the treasury shares are purchased in exchange for contributions in cash and at a price that does not fall materially short of the quoted price of the same category of the Company’s shares at the time of the sale. The total imputed share in share capital attributable to the number of treasury shares sold under this authorization together with the imputed share in share capital attributable to new shares issued, while precluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG directly or by analogy, since the resolution granting this authorization was passed, may not exceed a total of 10 percent of the share capital as of the date on which this authorization is exercised.

Subject to the approval of the supervisory board, the management board is also authorized to offer the treasury shares purchased under the aforementioned authorization to third parties in the course of business combinations or for the purpose of acquiring entities, parts of entities or equity investments. The price at which the Company’s shares are sold to third parties may not fall short by more than five percent (excluding incidental purchase costs) of the average closing rate the Company’s shares in XETRA trading (or a functionally comparable successor system taking the place of the XETRA system) on the Frankfurt am Main stock exchange during the five trading days prior to the agreement with the third party. Shareholders’ subscription rights are thus precluded.

Material agreements of the company subject to the condition of a change of control as a result of a takeover bid (No. 8): HOMAG Group AG is party to a syndicated loan agreement governing a syndicated loan of EUR 180,000,000.00. Under this syndicated loan agreement, the banks are entitled to cancel for due cause some or all of the syndicated loans granted and demand their immediate redemption. Due cause includes in particular cases in which a third party (a person a group of people acting together) purchase at least 50 percent of the voting rights and/or at least 50 percent of the share capital of HOMAG Group AG. For this purpose, voting rights are allocated pursuant to Sec. 30 WpÜG ["Wertpapiererwerbs- und Übernahmegesetz": Securities Acquisition and Takeover Act]. Third parties include all persons, with the exception of the shareholders of HOMAG Group AG as of February 15, 2007.

Compensation agreements of the company with the members of the management board and employees in the event of a takeover bid (No. 9): The Company has not entered into compensation agreements with the members of the management board or employees in the event of a takeover bid.

1.9 Remuneration of the Management Board and Supervisory Board

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

Remuneration of the Supervisory Board

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

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

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

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

Directors and Officers Liability Insurance (D&O insurance) has been taken out by the Company for the supervisory board members. The existing D&O insurance only provides for a deductible for US damages for all persons covered by the insurance.

The table below shows a breakdown of the remuneration of the supervisory board for the fiscal year 2008:

EUR k	Fixed remuneration	Remuneration for committee work	Performance-based remuneration	**Total remuneration**
Torsten Grede, chairman	30	8	30	68
Jochen Meyer*, deputy chairman	15	4	15	34
Dr. Jochen Berninghaus	10	0	10	20
Klaus M. Bukenberger	10	4	10	24
Ernst Esslinger*	10	0	10	20
Wilhelm Freiherr von Haller	10	8	10	28
Ralf Hengel	10	0	10	20
Carmen Hettich-Günther*	10	8	10	28
Hannelore Knowles*	10	4	10	24
Reinhard Löffler	10	20	10	40
Reiner Neumeister*	10	12	10	32
Reinhard Seiler*	10	0	10	20
Gerhard Schuler, honorary chairman	18	0	25	43
- thereof for prior year	*8*	*0*	*15*	*23*
TOTAL	**163**	**68**	**170**	**401**

* *Employee representative*

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, received remuneration of about EUR 61,000 in the year under review as compensation for the consulting services he provided to HOMAG Group AG.

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

Remuneration of the Management Board

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

The direct remuneration is made up of a fixed salary and a variable performance-based component. The variable component consists of a short-term and a long-term incentive system and is based on indicator-based targets. It is also capped. There are no stock option plans. The members of the management board are not remunerated for board functions at subsidiaries.

The existing management board contracts do not currently include nor have they in the past included a general cap on severance payments to a maximum of two annual salaries in the event of early termination of service on the management board. Nor are severance payments currently capped at 150 percent in the event of the early termination of service on the management board due to change of control. However, there are plans to introduce a severance payment cap when management board contracts are concluded or prolonged in the future.

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

Fixed remuneration

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

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

Variable remuneration component

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

The STI is based on the value added (VA) as an indicator of the increase in value of HOMAG Group AG. The STI is calculated on a straight-line basis from a positive VA greater than 0.00 percent up to a fixed indicator (5.5 percent VA) and is paid out in this amount. The STI is capped at this indicator.

As an incentive system with long-term effect, the LTI bonus is based on fixed targets for the price development of the HOMAG Group share. To obtain the LTI bonus, the accumulated VA over the fiscal years 2007, 2008 and 2009 (reference period) must also be positive. This basic LTI bonus, which is also determined on a straight-line basis, is capped at 18 percent VA.

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

In a first step, the increase in the value of the share between the first listing (relative opening price) and the end of the reference period (relative closing price) is determined; the supervisory board considers this in its evaluation of the value development of the share price.

If the share price increases by up to 70 percent – relative closing price starting from the relative opening price – the second part of the LTI bonus, a mark-up amount (also calculated on a straight-line basis) is due for payment.

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

The LTI bonus is paid out in two installments, 50 percent no later than the annual general meeting in the fiscal year 2009, the second after the annual general meeting in the fiscal year 2010.

The remuneration of the management board members pursuant to IAS 24 for the fiscal 2008 breaks down as follows:

EUR k	Fixed salary		Short-term incentives (STI)		Long-term incentives (LTI)			Benefits in kind		Total remuneration	
					Change in provision	Provision	Provision				
	2008	2007	**2008** [1]	2007	**2008**	2008 [2]	2007	**2008**	2007	**2008**	2007
Dr. Joachim Brenk	310	285	225	450	-128	35	163	7	7	414	905
Achim Gauß	235	215	202	363	-115	31	147	8	8	330	733
Andreas Hermann	209	193	180	375	-102	28	130	5	5	292	703
Herbert Högemann	210	193	180	300	-103	28	130	7	7	294	630
Rolf Knoll	234	211	203	363	-116	31	147	8	7	326	728
TOTAL	**1,198**	**1,097**	**990**	**1,851**	**-564**	**153**	**717**	**35**	**34**	**1,659**	**3,699**

[1] *To be paid out after the 2009 annual general meeting for 2008.*
[2] *Two thirds of the fair value of long-term incentive remuneration was recognized as a provision. Payments of 50 % each will be paid after the 2010 annual general meeting for 2009 and 2011 for 2010. This is not the actual value but the fair value.*

2. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

2.1 Results of Operations

Backed by high sales revenue realized in the year under review, our results of operations for 2008 are good. The main contributors to this development were our strict cost management policy implemented in the successfully completed earnings enhancement program “Project 2008”. Geared at enhancing earnings, the project allowed us to permanently tap into some EUR 30 million in earnings potential. We were able to create synergies and raise efficiency while establishing leaner structures in just about every area of our organization. Particularly in the area of personnel, we have become much more flexible and have far greater scope to influence variable costs. Temporary employment arrangements, the use of contract workers as well as our vacation and non-working shift accounts have allowed us to accommodate the growth of the past while also permitting us – together with the targeted use of forced leave arrangements – to react quickly to cooling market conditions.

Owing to the increase in the average number of employees, our personnel expenses increased in the year under review to EUR 264.5 million (prior year: EUR 250.5 million). The ratio of personnel expenses to total operating performance decreased from 29.1 percent to 30.3 percent, primarily due to the restructuring costs incurred in the fourth quarter as well as the collectively negotiated wage increase of June 2007, which is allocable to the first quarter of 2008 as opposed to the first quarter of 2007. Our cost of materials increased again ever so slightly due an additional increase in total operating performance to EUR 395.5 million (prior year: EUR 394.3 million). The ratio of cost of materials to total operating performance decreased to 45.4 percent (prior year: 45.9 percent) – despite the increase in the volume of merchandise as well as the high price of raw materials in the first three quarters of 2008.

Some special effects have to be taken into account as regards the earnings indicators for 2008 and their comparison to 2007 figures. For instance, non-recurring expenses of EUR 3.2 million with effect on profit were incurred in fiscal 2007 on account of our IPO. In addition, costs of about EUR 5 million were incurred in 2007 for the participation in the LIGNA trade show, compared to about a third of that amount incurred in 2008 for XYLEXPO. On the other hand, the share of sales revenue with low-margin merchandise was higher in fiscal 2008 than in the prior year. In addition, there are exchange rate losses in excess of EUR 4.5 million attributable to the devaluation of numerous currencies as well as negative effects of a comparable magnitude from the application of the PoC method – i.e. revenue recognition. In addition, the restructuring measures and non-recurring costs at some sites in the fourth quarter resulted in extraordinary expenses of some EUR 4 million. The measures at selected plants are designed to improve structures; in some cases personnel will be cut as a precautionary measure in order to be prepared for the future. The objective of the restructuring, which we see as the first step towards an optimization of our business locations, is to make the plants leaner by using synergies. Had it not been for these special effects, EBITDA would have risen parallel to the increase in sales revenue as had been announced.

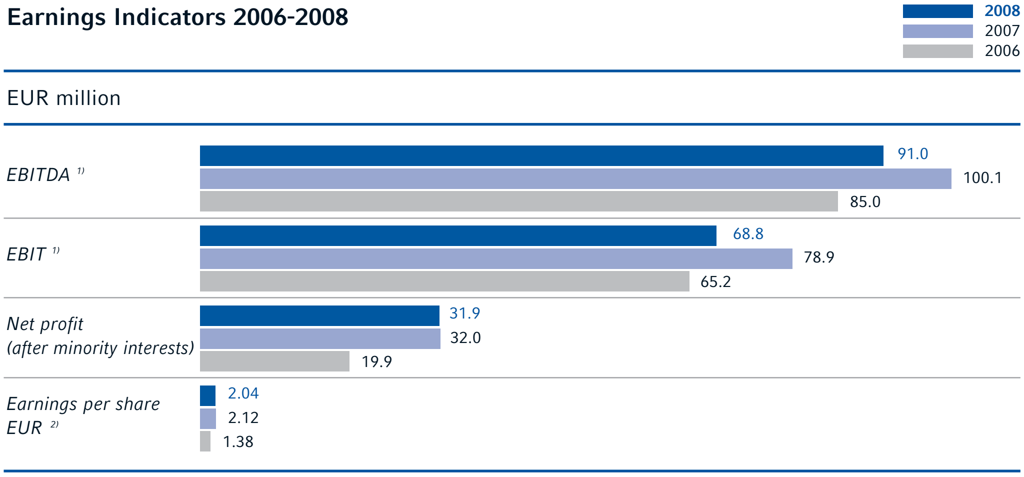
Earnings Indicators

Adjusted for restructuring expenses of EUR 4 million only, EBITDA amounts to EUR 95.0 million. After deducting all special effects of 2008 and the IPO costs of 2007, our EBITDA before employee participation expenses improved to more than EUR 105 million (prior year: EUR 103.3 million). Taking the IPO costs and special effects into account, our EBITDA before employee participation expenses amounts to EUR 91.0 million (prior year: EUR 100.1 million). All of the following earnings indicators are presented adjusted for IPO costs and special effects.

EBIT thus fell to EUR 68.8 million (prior year: EUR 78.9 million) before employee participation expenses and to EUR 58.0 million (prior year: EUR 72.0 million) after employee participation. Employee participation expenses increased from EUR 6.9 million to EUR 10.8 million, since particularly those group entities, with profit participation programs generated excellent results and employee participation is based on earnings after trade tax, which decreased significantly compared to 2007. Discounting effects have also raised the employee participation. The financial result including the results from associates improved slightly to EUR -9.8 million (prior year: EUR -10.8 million). This results in EBT before employee participation expenses of EUR 59.0 million (prior year: EUR 68.1 million) and after employee participation of EUR 48.2 million (prior year: EUR 61.2 million).

Due to the German business tax reform our tax rate decreased significantly from 42.5 percent to 29.9 percent. Consequently, the net profit for the year came to EUR 33.8 million before minority interests (prior year: EUR 35.2 million) and EUR 31.9 million after minority interests (prior year: EUR 32.0 million) and thus remained roughly at the prior-year level. We would have achieved the targeted 30 percent increase in net profit for the year after minority interests had it not been for the substantial special effects. Our earnings per share came to EUR 2.04 (prior year: EUR 2.12). Eliminating 2007 IPO costs and the exchange rate losses as well as the extraordinary restructuring expenses 2008, earnings per share came to EUR 2.58 (prior year: EUR 2.34).

Earnings Indicators 2006-2008



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

The return on capital employed (ROCE) before taxes based on adjusted EBIT (i.e., before employee participation expenses and adjusted for restructuring/non-recurring expenses 2008 and the 2007 IPO costs) decreased due to the significant decrease in payments on account attributable to the weaker order intake in the second half of 2008 and the decreased EBIT to 23.0 percent (prior year: 28.9 percent) and is thus still at a high level. After taxes (calculated using a tax rate of 31 percent; prior year: 39 percent), the ROCE decreases to 15.9 percent (prior year: 17.6 percent).

Segment Results

Adjusted for the restructuring/non-recurring expenses and the IPO cost contained in the prior-year figures, EBITDA changed to EUR 54.9 million in the Industry segment (prior year: EUR 60.8 million), to EUR 28.9 million in the Cabinet Shops segment (prior year: EUR 28.9 million), to EUR 3.9 million in the Sales & Service segment (prior year: EUR 10.0 million) and EUR 7.1 million in the Other segment (prior year: EUR 7.0 million).

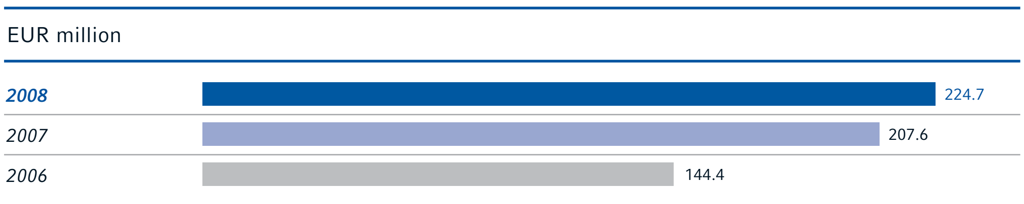
2.2 Net Assets and Financial Position

Net Assets

Compared to year-end 2007, the HOMAG Group's balance sheet total as of December 31, 2008 decreased by more than 3 percent to EUR 551.3 million (prior year: EUR 569.4 million). The rate of capital turnover has improved considerably as a result. Looking at the assets side of the balance sheet, receivables decreased first and foremost, while cash and cash equivalents decreased compared to the very high prior-year level due to special effects. By contrast, inventories, intangible assets and property, plant and equipment increased slightly due to the construction of new buildings.

On the liabilities side, our equity gearing improved substantially again, despite the sizable distribution of EUR 14 million to our shareholders. Buoyed by the healthy earnings, we were able to raise our equity ratio as of December 31, 2008 to 33 percent (prior year: 29 percent). Taking participating capital and the obligations from employee profit participation into account, the own funds ratio climbed to 41 percent (prior year: 37 percent). The Group thus has an excellent balance sheet structure, in that non-current assets are almost entirely covered by equity, for instance – equity and non-current liabilities together exceed non-current assets by almost two thirds.

Own Funds as of the Balance Sheet Date [1] 2006-2008



[1] *Equity plus profit participation rights and silent participation*

After decreasing from EUR 113 million at year-end 2006 to EUR 61 million in 2007, our net bank liabilities edged up again slightly to EUR 79 million as of December 31, 2008. Although the payments received on account decreased by about EUR 19 million and despite the fact that we distributed some EUR 14 million to our shareholders and invested heavily in new buildings, we were able to keep the rise of EUR 18 million in liabilities relatively low.

Financial Position

We secured our liquidity in the medium term by entering into a syndicated loan agreement in July 2007 that is contingent on us complying with certain covenants. The 10-year loan amounting to EUR 7.5 million that we obtained in the midst of the financial and banking crisis of 2008 to finance our new building in Schopfloch highlights the high credit standing that we enjoy with banks.

In 2008, cash flow from operating activities decreased to EUR 37.4 million (prior year: EUR 52.7 million) – mainly due to the EUR 19 million decrease in the payments on account received. This covered the cash paid for capital expenditures and left a free cash flow of EUR 5.1 million (prior year: EUR 19.6 million). Cash flow from financing activities totaled EUR -13.7 million in 2008 (prior year: EUR 10.5 million). Cash and cash equivalents amounted to EUR 38.6 million as of December 31, 2008 (prior year: EUR 47.6 million).

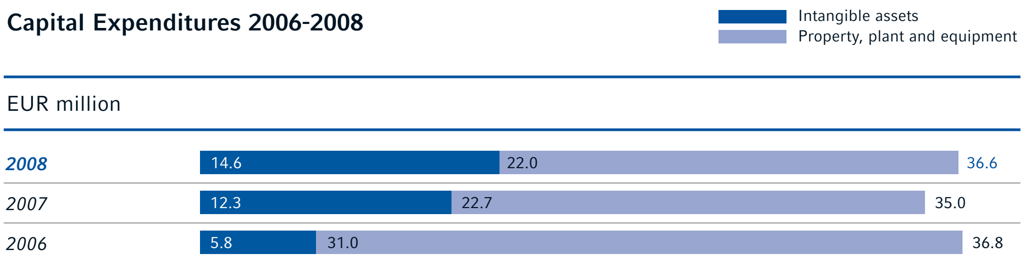
2.3 Capital Expenditures, Amortization and Depreciation

We stepped up our investment in intangible assets and property, plant and equipment in fiscal 2008 again to EUR 36.6 million (prior year: EUR 35.0 million). With this investment volume, we were at the top end of our plan corridor of between 3 percent and 4 percent of total operating performance.

In 2008 we again channeled investment into enhancing our IT systems and into construction projects at our subsidiaries WEINMANN, BARGSTEDT and HOMAG. As a result, our property, plant and equipment and intangible assets increased in value, reaching EUR 175.8 million as of December 31, 2008 (prior year: EUR 164.9 million). The increase in capitalized development costs to EUR 12.1 million also played a role here (prior year: EUR 7.5 million).

Amortization and depreciation increased slightly to EUR 22.2 million in 2008 compared to the prior year (prior year: EUR 21.2 million). Capital expenditures thus significantly exceeded amortization and depreciation in the year under review, thus raising the value of our Company in the long term.

Capital Expenditures 2006-2008



3. SUBSEQUENT EVENTS

Effective January 1, 2009, we assumed 51 percent of the shares in BENZ GmbH Werkzeugsysteme, Haslach. The antitrust authorities granted the permission required. With BENZ GmbH, we have acquired a well-positioned manufacturer of tools and assemblies that combines high performance with high precision and targets the metal, wood and plastics processing industries. We have known the company well for many years as a reliable system supplier. The new subsidiary has some 230 employees and plans to generate unconsolidated sales revenue in 2009 of about EUR 35 million. It was agreed to maintain secrecy as to the exact purchase price. A fixed amount was paid for the shares assumed, which was approximately six times the planned after-tax profit in 2009 (proportionately). A purchase price increase was also tied to the earnings actually generated in 2010. BENZ GmbH's profitability exceeds that of the HOMAG Group.

WEEKE North America, Inc., a purpose-built assembly plant, had already been established in Grand Rapids, Michigan, USA, in November 2008. The contribution to capital was made in March 2009. The assembly line is to be completed and put into operation by April or May 2009. The HOMAG Group will manufacture a standard CNC machine in three sizes at this site, primarily for the US market. This step will afford us a competitive position in the lower market segment, as local assembly is more cost-effective, we save on transport and handling costs and it enables us to supply our customers faster and more flexibly. The HOMAG Group had not served this market segment previously. We believe that we have a good chance of capturing a significant share of the market for entry-level machines.

The HOMAG Group's start to 2009 has seen a much weaker order intake compared to prior years. Although there was a slight increase in order intake in the period January to February compared to the months of November and December, it was necessary to introduce forced leave at some of the HOMAG Group's sites in a concerted effort to compensate for the substantial decrease in order backlog. We have already reduced the number of contract workers by more than 310 and during 2009 more than 320 temporary employment contracts will also come to an end. Back in the fourth quarter of 2008, the HOMAG Group also set up provisions for restructuring expenses to cover terminations of around 330 employees who will also leave the company in the course of 2009.

4. RISK REPORT

As a corporate group with operations around the globe, the HOMAG Group is naturally exposed to a large number of risks which are inextricably linked to entrepreneurial activity. With the efficient risk management system that has been implemented, we actively counter such uncertain factors in a bid to detect risks early and continually, to manage these and to thus mitigate any consequences for the Group. The management board and supervisory board are regularly informed of risks that could have a material impact on the development of business. At present there are no recognizable risks to the continued existence of the HOMAG Group as a going concern.

Risk Management

The risk management system is essentially supported by the management accounting system. It includes project controlling, cost object controlling and detailed segment reporting. A balanced scorecard is the central element of the system. It is based on the establishment of objectives, which are monitored based on the monthly reporting by the individual business units. In the course of multiple-year planning, financial data and non-financial data – what is referred to as scorecard indicators – are defined, and their compliance is monitored by management accounting. The scope of the analysis includes data relating to market penetration, innovation power or employee satisfaction. The risks to the Group or its subsidiaries subject to mandatory monitoring or reporting are regularly monitored and, in the event of unexpected developments, notified to the management board and supervisory board immediately.

In the past fiscal year, we systematically enhanced our risk management system, thus further improving the system for the early recognition of risk as well as the response capabilities. We have since implemented throughout the entire Group the risk management manual that was developed in 2007 for HOMAG Group AG. We have also implemented a risk inventory throughout the entire Group in 2008. This is used to determine the value at risk and to report to the supervisory board. During their audit of the financial statements, our auditors reviewed the risk management system that we have established.

In cooperation with external specialists, we further expanded the internal audit system during the year under review. All material group entities are audited within a cycle of three to five years. A production and sales company has thus already been audited in the second half of 2008. The audit did not lead to any material findings or raise any objections.

Economic Risks

The business development of the markets relevant to us and the corresponding impact on our customers' propensity to invest can pose a significant risk for the continued development of the HOMAG Group as a corporate group active in the capital goods industry. Although our global presence allows us to compensate for crises in individual regions, an economic crisis of global proportions will naturally adversely impact the HOMAG Group’s order situation.

This was the case in the second half of the year, and particularly in the final months of 2008, as many companies found it increasingly difficult to finance investments owing to the financial crisis while investment was hampered in many markets by the encroaching recession. We respond to this overall economic risk by maintaining our personnel capacities as flexible as possible and adjusting our production plan early to developments in order intake.

Customer Risks

Business with large-scale systems for industrial customers constitutes a key segment for the HOMAG Group. Nevertheless, the Company is not dependent on a single customer or a small group of customers, since no single customer generates more than 5 percent of total sales revenue. There is a risk attaching to bad debts, which we mitigate by obtaining advance payments based on the stage of completion of projects and by taking out insurance on a case-by-case basis. Overall, this approach has rewarded us with a low ratio of bad debts compared to other companies in the industry.

Product and Development Risks

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

From standard machines for small workshops to complex production lines for industrial mass production, we have a wide range of products. The broad scope of the product range means that weak sales revenue in one product segment would not lead to risks to the Group's ability to continue as going concern.

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

Quality Risks

Quality is prioritized throughout the HOMAG Group. The premium quality of our products also sets us apart from the competition. Notwithstanding this, the complexity of our machines means that it is not possible to completely rule out quality risks. In order to mitigate the risk of product liability and warranty claims we use a comprehensive total quality management system while ensuring a uniform high product quality based on a high degree of standardization. The majority of our production sites are certified pursuant to DIN ISO 9000, which testifies to the high standard of our quality assurance system.

Currency Risks

Currency risks can arise from our international activities, which indirectly can have a negative impact on the Group's sales revenue and results of operations. With the help of experts, we analyzed and optimized our currency flows in the year under review in order to minimize risks. We contract derivative financial instruments on a small scale. We consider currency risks to be low overall since sales revenue is mainly generated in Europe and invoices are issued in euro, even for countries outside of the euro zone. Having said that, we are not able to completely absorb currency fluctuations of the magnitude experienced in the fourth quarter of 2008 in the UK, Canada, Australia, Brazil and Poland, for instance. We therefore suffered exchange rate losses in the Group.

Liquidity and Financing Risks

We secured our liquidity in the medium term by entering into a syndicated loan agreement in July 2007 that is contingent on us complying with certain covenants. The 10-year loan amounting to EUR 7.5 million that we obtained for HOMAG Holzbearbeitungssysteme AG in the midst of the financial and banking crisis of 2008 to finance the new building in Schopfloch highlights the high credit standing that we enjoy with banks. Consequently, there are at present no currently discernable financial risks that could jeopardize the continuation of the Group as a going concern.

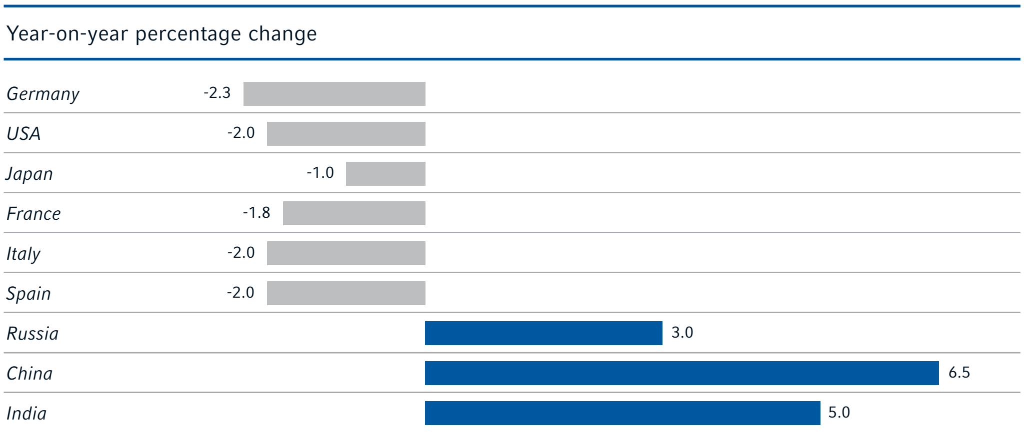
5. OUTLOOK

Development of the Economy and Industry

The global downturn worsened substantially following the escalation of the financial market crisis in the fall of 2008. As a result, the IfW expects a sharp deterioration in the global economy in 2009 and forecasts marginal growth of 0.4 percent for the world economy. Moreover, global trade is expected to decline. Indeed, the economic slowdown is expected to be even more severe in industrial nations in the first few months of 2009, and economic experts anticipate a contraction of GDP of 1.8 percent. At the same time, the IfW expects the US and Japanese economies to each shrink by 1.5 percent. Capital expenditures in both countries are expected to fare particularly badly, with a forecast decrease of about 10 percent in the US for instance. The prospects of emerging economies have also deteriorated, weighed down by weaker exports. The IfW and DIW expect China's GDP to grow by about 6 percent and India's by about 5 percent. Latin America is expected to practically stagnate, while even the forecast growth of about 2 percent in East Asia (excluding China and Japan) and Russia represents a clear break from the performance of past years.

For the European Union, the IfW and the EU Commission anticipate the most severe production collapse since its foundation. Both institutions expect the economy to contract in 2009 by between 1.8 percent and 2.3 percent. This is expected to be coupled with a decrease in capital expenditures of as much as 5 percent. Euro zone countries such as Ireland, Italy and Spain will be particularly hard hit by the recession. Forecasts for eastern European accession countries are a little more positive, with the economies of Bulgaria, Romania, Poland and the Czech Republic even exhibiting slight growth. As far as Germany is concerned, the German government and the EU Commission anticipate a decrease in GDP of 2.3 percent, which would make it the deepest recession in the history of the Federal Republic of Germany. Indeed, the IfW anticipates a decrease of 2.7 percent. This is largely due to the high dependence of Germany's economy on exports, a sector that the federal government expects to contract by about 9 percent. Gross capital expenditures are expected to decrease by 5 percent.

GDP (real) 2009 Forecast



Source: DIW/EU Commission

All economic analysts agree, however, that the forecast uncertainty is unusually high as a result of a financial crisis whose duration and effects are still difficult to predict.

In view of the very weak order intake in the fourth quarter of 2008, the VDMA anticipates in Germany a 7 percent decrease in the production of plant and machines in real terms in 2009. According to VDMA, the decrease is partly attributable to growing uncertainty among many customers in Germany and abroad, which has resulted in a collapse of investment and consumption activity on a broad front. The industry association within the VDMA responsible for wood processing machines anticipates a period of economic drought in 2009, since even the regions that had generated strong growth in the past are not producing any impetus. The forecast made in November 2008, which anticipated a decrease in sales revenue of 5 percent for 2009, is now considered optimistic by the trade association, which now expects a more severe decline. We also expect the negative trend to deteriorate further on the market of relevance to the HOMAG Group in 2009.

Forecast for the HOMAG Group

Due to the significantly weaker global economy with recessions forecast in numerous countries and the resulting contraction of markets in our industry, we expect 2009 to be a challenging year for the HOMAG Group. It is not possible at present to venture serious forecasts as to exactly how harsh the economic crisis will be or how long the current reluctance to invest will prevail in our industry.

After the order intake in the fourth quarter of 2008 was weaker than expected, we started fiscal 2009 with an order backlog of EUR 164 million including the orders of BENZ GmbH Werkzeugsysteme, an entity acquired by the Group on January 1, 2009 (December 31, 2007: EUR 255 million). It should be taken into account, however, that the order backlog as of the end of 2007 was exceptionally high. As of December 31, 2006, for instance, it stood at EUR 193 million. Nevertheless, the start to the current fiscal year was difficult and we anticipate a stark decrease in sales revenue and earnings both in the first quarter and the first half of 2009 vis à vis the comparable prior-year period of 2008. For the first two quarters of 2009, we even expect negative results.

However, we have done everything within our power to shore up for a weaker market phase and have prepared the Group for the future with the introduction of the leaner structures and more efficient processes. We have also become much more flexible and have far greater scope to influence variable costs. Particularly in the area of personnel, we can use temporary employment arrangements, contract workers, vacation and non-working shift accounts and targeted forced leave arrangements means that we can react proactively and quickly to market fluctuations.

Our position as global market leader and as a strong group with worldwide operations affords us a clear edge over smaller competitors. We therefore want to take advantage of the current conditions to increase our market share. We also continue to assess potential acquisition opportunities in the fields of technology, surface processing and the cabinet shops business and believe that we will be able to take advantage of the current weak market phase and negotiate acceptable terms. Further expansion of our distribution network worldwide remains our strategic objective.

At the start of November and in the report on the third quarter of 2008, we issued a forecast predicting a decrease in sales revenue in 2009 of about 10 percent to some EUR 800 million. This was based on the premise that there would not be a “dramatic slowdown”. In the interim, however, the economic crisis has clearly proven severe. As a result, the HOMAG Group, like the rest of the industry, faces a serious slowdown. It is not clear at present just how long this market environment will prevail. A scenario with a more pronounced drop in sales revenue has thus become a real possibility, even taking into account the contribution to sales revenue of the newly acquired entity BENZ GmbH. We will be in a position to venture a more accurate forecast during the second quarter of the year, based on the insights provided by industry’s leading trade fair, LIGNA, which will take place in May. Nevertheless, we target a positive operating result (i.e., before restructuring expenses) for the full year 2009 since, as discussed above, we are well prepared for a significant downturn. We already implemented a price increase throughout the group as of October 1, 2008; this will translate to higher margins from 2009 onwards.

As regards order intake, we will do everything within our power to increase our market share further. At the same time, the seasonal pattern of investment that is characteristic in our business with a gradual decrease in order intake from quarter to quarter is expected to shift somewhat, kick-started by LIGNA, the industry’s leading trade show. We therefore anticipate a weak first quarter with few orders for large-scale systems, but expect a better performance in the second quarter. Overall, the seasonal pattern characterized by a stronger first half of the year and a weaker second half will remain.

We hope demand will be stimulated by the LIGNA in May 2009, the leading trade show in our industry, where we plan to present numerous technical innovations and energy- and resource-saving technologies. And we intend to make an impact on customers with our broad range of products geared at the project and service business.

As regards individual markets, we expect that 2009 will be a very weak year overall in North America, the UK and Spain and anticipate order intake far below the levels of prior years. Regions that had become accustomed to accelerated growth in prior years – such as

Russia and most of eastern Europe – are also suffering the effects of the demand-side crisis and the devaluation of local currencies. In such regions we anticipate a significantly lower level of activity. We expect a somewhat better situation in the other core countries of western Europe where we expect order intake to dip only slightly below the level of 2008.

We also see an opportunity to grow slightly in South America and the Orient but also in Germany where sales are strong or Austria and Switzerland, since consumption here was quite good until now and sentiment in the furniture industry is still positive. It is uncertain, however, whether larger projects will be financed and completed. This is ultimately the key factor on which the development of the market hinges. We have therefore grounds to be optimistic based on the current, high number of bids submitted for large-scale projects. Our perception of the Asian market is highly differentiated. While South East Asian countries are heavily affected by the demand-side crisis in the US and are suffering political instability in some cases, there are good sales opportunities in Korea, Taiwan, China and Australia.

The headcount of the HOMAG Group will decrease in 2009, reflecting the weaker order situation and production level. In a first step, we will stop employing temporary workers and will, in most cases, not prolong contract work agreements. We will also use the flexibility afforded by the vacation and non-working shift accounts and will adopt forced leave measures. The individual group companies will act differently depending on the capacity requirements. In the case of subsidiaries in which these measures do not suffice, redundancies in 2009 for operational reasons cannot be ruled out, and will likely prove unavoidable.

After the high investment of the past few years, particularly the construction measures to raise capacity at some production companies, our investment will also decrease in 2009. The largest single investment will concern the new construction of the HOMAG Center which commenced in June 2008 at our Group's headquarters in Schopfloch and which is scheduled for completion in summer. Capital expenditures are thus expected to remain at the lower end of our budget corridor of between 3 percent and 4 percent of total operating performance.

We do not perceive any serious negative effects from our operating activities on the HOMAG Group's liquidity situation. However, the net liabilities to banks in 2009 will inevitably increase on account of the acquisition of BENZ GmbH alone. Apart from the existing syndicated loan agreements with terms to maturity until mid-2010 and year-end 2012, long-term bilateral financing arrangements are also in place.

Regardless of the weaker order situation, in mid-2008 we approved the group action program "HOMAG GAP", which succeeds the earnings enhancement program "Project 2008". In light of the global economic slowdown in the last few months, we have decided to double our efforts on this initiative. The main objective of the program is to generate sustainable growth. We plan to tap EUR 40 million worth of sustainable earnings growth and cost improvement potential in the next five years up to 2013. Apart from strategic measures, the initiative also includes short-term measures that will be implemented swiftly. For instance, we want to respond to the expected decrease in sales revenue by exploiting the flexibility of variable costs together with cost-cutting programs and increased scope to adjust to fluctuations.

We want to achieve the strategic increase in earnings based on a number of measures, including expanding our high-margin service offerings and marketing these more effectively, while strengthening and optimizing our project business. As regards production activities, our "ProFuture" project is geared to reducing our cost level permanently based on an array of measures such as the group-wide introduction of tact assembly, the optimization of product planning and scheduling (PPS) systems together with the analysis and enhancement of all processes and the introduction of standardized technologies and common development projects throughout the group.

Fiscal Year 2010

The 2009 forecast is marked by considerable uncertainty and hinges on a large number of parameters over which we, as a Group, have little influence. Making a forecast for 2010 is even more difficult. Much depends on the speed with which the international financial markets recover and the time it takes before companies begin to obtain loans again on acceptable terms. The duration and severity of the economic crisis will also be decisive.

We at the HOMAG Group look forward to 2010 with cautious optimism. We believe that demand for our plant and machines will begin to pick up slowly and order intake will rise again. We are convinced that our market will continue to grow. We therefore anticipate a slight rise in sales revenue as of the second half of 2010, and we are confident that we will emerge from the crisis with renewed strength.

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT FOR THE FISCAL YEAR 2008

EUR k	Note	2008	2007
SALES REVENUE	5.1	**856,448**	**836,862**
Increase or decrease in inventories of finished goods and work in process		8,544	15,933
Own work capitalized	5.2	6,510	6,826
		15,054	22,759
TOTAL OPERATING PEFORMANCE		**871,502**	**859,621**
Other operating income	5.3	18,791	18,909
		890,293	**878,530**
Cost of materials	5.4	395,494	394,252
Personnel expenses before employee profit participation	5.5	264,471	250,457
Amortization of intangible assets	5.7	5,569	4,395
Depreciation of property, plant and equipment	5.8	16,645	16,788
Other operating expenses	5.9	139,295	133,722
- thereof IPO costs		*0*	*3,249*
		821,474	**799,614**
OPERATING RESULT BEFORE EMPLOYEE PROFIT PARTICIPATION		**68,819**	**78,916**
Expenses from employee profit participation	5.5	10,840	6,902
NET OPERATING PROFIT		**57,979**	**72,014**
Profit/loss from associates	5.10	-216	320
Interest income	5.13	1,730	1,853
Interest expenses	5.12	11,283	12,978
EARNINGS BEFORE TAXES		**48,210**	**61,209**
Income taxes	5.14	14,400	26,027
NET PROFIT FOR THE YEAR		**33,810**	**35,182**
Profit attributable to minority interests	5.16	1,866	3,152
Profit attributable to equity holders of Homag Group AG	5.17	31,944	32,030
Earnings per share attributable to the equity holders of Homag Group AG in EUR (basic and diluted)		2.04	2.12

CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2008

ASSETS

EUR k		Note	Dec. 31, 2008	Dec. 31, 2007
NON-CURRENT ASSETS				
I.	Intangible assets	6.1, 6.2	33,802	25,050
II.	Property, plant and equipment	6.1, 6.3	141,994	139,867
III.	Investments in associates	6.4	6,046	5,960
IV.	Other financial assets		834	862
V.	Receivables and other assets	6.6		
	Trade receivables	6.6	713	0
	Other financial assets	6.8	3,214	3,910
	Other assets and prepaid expenses	6.9	142	201
	Income tax receivables	6.10	3,250	3,053
VI.	Deferred taxes	5.14	12,404	12,691
			202,399	**191,594**
CURRENT ASSETS				
I.	Inventories	6.5	134,794	128,124
II.	Receivables and other assets	6.6		
	Trade receivables	6.6	121,186	138,938
	Receivables from long-term construction contracts	6.7	25,170	28,579
	Receivables due from associates	6.6	6,986	10,889
	Other financial assets	6.8	13,648	12,556
	Other assets and prepaid expenses	6.9	3,120	8,097
	Income tax receivables	6.10	5,450	1,140
III.	Cash and cash equivalents	6.11	38,588	47,613
			348,942	**375,936**
ASSETS HELD FOR SALE		6.12	**0**	**1,831**
TOTAL ASSETS			**551,341**	**569,361**

EQUITY AND LIABILITIES

EUR k		Note	Dec. 31, 2008	Dec. 31, 2007
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	87,664	69,534
IV.	Group profit for the year	6.13.4	31,944	32,030
	Equity attributable to equity holders		168,272	150,228
V.	Minority interests	6.13.5	15,674	15,907
			183,946	**166,135**
NON-CURRENT LIABILITIES AND PROVISIONS				
I.	Non-current financial liabilities	6.14	116,560	118,809
II.	Other non-current liabilities		2,569	1,537
III.	Pensions and other post employment benefits	6.16	2,243	2,420
IV.	Obligations from employee profit participation	6.17	10,597	9,814
V.	Other non-current provisions	6.18	5,016	5,354
VI.	Deferred taxes	5.14	15,455	13,241
			152,440	**151,175**
CURRENT LIABILITIES AND PROVISIONS				
I.	Current financial liabilities	6.14	39,580	32,915
II.	Trade payables		55,603	77,764
III.	Payments on account		26,616	46,053
IV.	Liabilities from long-term construction contracts	6.7	1,931	2,562
V.	Liabilities to associates		1,466	2,833
VI.	Other financial liabilities		556	3,036
VII.	Other current liabilities and deferred income		68,743	63,089
VIII.	Tax liabilities		5,565	8,713
IX.	Pensions and other post employment benefits	6.16	38	0
X.	Other current provisions	6.18	14,857	15,086
			214,955	**252,051**
TOTAL LIABILITIES			**367,395**	**403,226**
TOTAL EQUITY AND LIABILITIES			**551,341**	**569,361**

CONSOLIDATED CASH FLOW STATEMENT FOR FISCAL YEAR 2008

EUR k		Note 4.2.20	2008	2007
1.	CASH FLOW FROM OPERATING ACTIVITIES			
	Profit or loss before taxes		**48,210**	**61,209**
	Income tax paid (-)		-18,561	-16,357
	Interest result	5.13	9,553	11,125
	Interest paid (-)		-11,781	-11,952
	Interest received (+)		1,730	1,627
	Write-downs (+)/write-ups (-) of non-current assets (netted)	5.7, 5.8	22,120	21,183
	Increase (+)/decrease (-) in provisions		-1,284	6,039
	Other non-cash expenses (+)/income (-)		-170	566
	Share of profit or loss of associates	5.10	202	-322
	Gain (-)/loss (+) on disposals of non-current assets		559	6
	Increase (-)/decrease (+) in inventories, trade receivables and other assets		20,489	-55,723
	Increase (+)/decrease (-) in trade payables and other liabilities		-33,642	35,259
	CASH FLOW FROM OPERATING ACTIVITIES		**37,425**	**52,660**
2.	CASH FLOW FROM INVESTING ACTIVITIES			
	Cash received (+) from disposals of property, plant and equipment		784	5,011
	Cash paid (-) for investments in property, plant and equipment	6.1	-18,517	-17,165
	Cash paid (-) for investments in intangible assets	6.1	-14,596	-12,239
	Cash received (+) from disposals of financial assets		0	19
	Cash paid (-) for the acquisition of consolidated companies		0	-8,691
	CASH FLOW FROM INVESTING ACTIVITIES		**-32,329**	**-33,065**

EUR k	Note 4.2.20	2008	2007
3. CASH FLOW FROM FINANCING ACTIVITIES			
Dividends	5.18	-14,119	-5,825
Cash paid (-) to minority interests		-1,595	-720
Cash received (+) from issue of shares		0	34,926
Cash paid (-) from issue of shares		0	-1,226
Cash received (+) from the issue of (financial) liabilities		14,200	51,128
Cash repayment (-) of bonds and (financial) liabilities		-12,144	-67,737
CASH FLOW FROM FINANCING ACTIVITIES		**-13,658**	**10,546**
4. CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			
Change in cash and cash equivalents (subtotal 1 - 3)		-8,562	30,141
Net foreign exchange rate related changes in cash and cash equivalents		-463	-34
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**47,613**	**17,506**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD*		**38,588**	**47,613**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS OF DECEMBER 31, 2008

EUR k	Issued capital	Capital reserve	Revenue Revenue reserves
DECEMBER 31, 2006	**14,561**	**0**	**55,410**
ACQUISITIONS OF MINORITY INTERESTS			
OTHER CHANGES			**288**
Capital increase due to IPO	1,127	33,800	
Costs from the IPO recognized directly in equity		-1,226	
Tax thereon		402	
Dividends paid			-5,825
TRANSACTIONS WITH SHAREHOLDERS	**1,127**	**32,976**	**-5,825**
RECLASSIFICATIONS PRIOR-YEAR EARNINGS			**19,947**
Other income and expense for the year recognized directly in equity			
Group profit for the year			
TOTAL INCOME RECOGNIZED FOR THE REPORTING PERIOD			
DECEMBER 31, 2007	**15,688**	**32,976**	**69,820**
OTHER CHANGES			**-150**
Dividends paid			-14,119
Changes from minority interests			165
TRANSACTIONS WITH SHAREHOLDERS			**-13,954**
RECLASSIFICATION PRIOR-YEAR EARNINGS			**32,030**
Other income and expense for the year recognized directly in equity			
Group profit for the year			
TOTAL INCOME RECOGNIZED FOR THE REPORTING PERIOD			
DECEMBER 31, 2008	**15,688**	**32,976**	**87,746**

STATEMENT OF RECOGNIZED INCOME AND EXPENSE FOR FISCAL YEAR 2008

EUR k	2008	2007
Actuarial gains and losses	177	188
Deferred taxes on actuarial gains and losses	-60	-66
Currency effects	-265	-1,169
INCOME AND EXPENSE RECORDED DIRECTLY IN EQUITY	**-148**	**-1,047**
Net result of the Group for the year	33,810	35,182
RECOGNIZED INCOME AND EXPENSE	**33,662**	**34,135**
Attributable to minority interests	1,514	3,025
Attributable to equity holders of the parent company	32,148	31,110

reserves Other comprehensive income	Translation reserve	Group profit	Equity before minority interests	Minority interests	Total
53	**581**	**19,947**	**90,552**	**13,446**	**103,998**
				161	**161**
			288	**-5**	**283**
			34,927		**34,927**
			-1,226		**-1,226**
			402		**402**
			-5,825	-720	**-6,545**
0			**28,278**	**-720**	**27,558**
		-19,947			
94	-1,014		-920	-127	**-1,047**
		32,030	32,030	3,152	**35,182**
94	**-1,014**	**32,030**	**31,110**	**3,025**	**34,135**
147	**-433**	**32,030**	**150,228**	**15,907**	**166,135**
			-150	**13**	**-137**
			-14,119	-1,595	**-15,714**
			165	-165	
			-13,954	**-1,760**	**-15,714**
		-32,030			
97	107		204	-352	**-148**
		31,944	31,944	1,866	**33,810**
97	**107**	**31,944**	**32,148**	**1,514**	**33,662**
244	**-326**	**31,944**	**168,272**	**15,674**	**183,946**

SEGMENT REPORTING FOR FISCAL YEAR 2008

	Industry		Cabinet Shops	
EUR k	2008	2007	2008	2007
Third-party sales	311,623	323,507	123,297	104,603
Sales with group companies from other segments	151,393	135,150	103,277	95,000
Sales with investments recognized at equity	30,712	35,362	18,716	32,847
Total sales revenue	**493,728**	**494,019**	**245,290**	**232,450**
Cost of materials	-241,534	-245,328	-137,600	-131,585
Personnel expenses	-150,305	-144,670	-57,695	-52,848
SEGMENT RESULT [1]	**54,875**	**60,796**	**28,884**	**28,898**
Non-recurring expenses*	-2,198	0	-730	0
IPO costs	0	0	0	0
SEGMENT RESULT [2]	**52,677**	**60,796**	**28,154**	**28,898**
Depreciation of property, plant and equipment and amortization of intangible assets	-13,482	-12,758	-5,097	-4,734
Expenses from employee profit participation	-7,475	-4,325	-2,385	-1,851
Share in result of associates	-457	171	0	0
Financial result	-4,674	-5,149	-1,565	-1,445
EARNINGS BEFORE TAXES	**26,589**	**38,735**	**19,107**	**20,868**
ASSETS				
Investments in associates	4,026	4,241	7	4
Capital expenditure [3]	24,184	20,563	6,609	10,472
SEGMENT ASSETS	**387,377**	**403,864**	**144,953**	**139,574**
SEGMENT LIABILITIES	**253,520**	**270,437**	**74,444**	**79,246**
EMPLOYEES [4]	**2,722**	**2,601**	**1,158**	**1,070**

SALES AND NET CARRYING AMOUNTS (INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT) BY REGION

	Sales [5]		Intangible assets		Property, plant and equipment	
EUR k	2008	2007	2008	2007	2008	2007
Germany	**207,141**	**173,495**	**29,482**	**20,662**	**117,237**	**113,612**
Other EU countries	342,156	353,096	1,403	1,383	12,976	14,437
Rest of Europe	127,317	97,193	1,447	1,447	565	378
North America	64,375	95,166	1	3	1,793	2,205
South America	27,522	20,391	284	284	1,823	1,998
Asia/Pacific	84,919	91,746	1,185	1,271	7,600	7,237
Africa	3,018	5,775	0	0	0	0
Other countries	**649,307**	**663,367**	**4,320**	**4,388**	**24,757**	**26,255**
Total	**856,448**	**836,862**	**33,802**	**25,050**	**141,994**	**139,867**

[5] *The above information on segment sales revenue is classified according to the location of customers.*

Sales & Service		Other		Total segments		Consolidation		Group	
2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
331,140	293,550	31,956	40,124	798,016	761,784	0	0	798,016	761,784
2,633	3,347	35,669	29,442	292,972	262,939	-292,972	-262,939	0	0
21	3	8,983	6,865	58,432	75,077	0	0	58,432	75,077
333,794	**296,900**	**76,608**	**76,431**	**1,149,420**	**1,099,800**	**-292,972**	**-262,939**	**856,448**	**836,861**
-272,477	-240,549	-36,577	-36,695	-688,188	-654,157	292,693	259,905	-395,494	-394,252
-34,405	-31,108	-22,066	-21,831	-264,471	-250,457	0	0	-264,471	-250,457
3,093	**10,045**	**7,122**	**6,975**	**94,784**	**106,714**	**249**	**-3,366**	**95,033**	**103,348**
-430	0	-642	0	-4,000	0	0	0	-4,000	0
0	0	0	-3,249	0	-3,249	0	0	0	-3,249
3,473	**10,045**	**6,480**	**3,726**	**90,784**	**103,465**	**249**	**-3,366**	**91,033**	**100,099**
-1,764	-1,593	-1,871	-2,119	-22,214	-21,204	0	21	-22,214	-21,183
-343	-237	-637	-489	-10,840	-6,902	0	0	-10,840	-6,902
241	149	0	0	-216	320	0	0	-216	320
-74	34	-3,240	-4,995	-9,553	-11,555	0	430	-9,553	-11,125
1,533	**8,398**	**732**	**-3,877**	**47,961**	**64,124**	**249**	**-2,915**	**48,210**	**61,209**
2,013	1,715	0	0	6,046	5,960	0	0	6,046	5,960
2,378	2,229	3,474	1,711	36,645	34,975	0	0	36,645	34,975
179,837	**173,080**	**240,584**	**231,474**	**952,751**	**947,992**	**-401,410**	**-378,631**	**551,341**	**569,361**
126,595	**117,379**	**100,784**	**105,837**	**555,343**	**572,899**	**-187,948**	**-169,673**	**367,395**	**403,226**
732	**642**	**669**	**628**	**5,281**	**4,941**	**0**	**0**	**5,281**	**4,941**

[1] *EBITDA from continuing operations, before taking into account employee profit participation expenses and restructuring/non-recurring costs, in the prior year: IPO cost*
[2] *EBITDA from continuing operations, before taking into account employee profit participation expenses*
[3] *The capital expenditures relate to additions to the property, plant and equpment and intangible assets.*
[4] *Annual average*
* *Rounded*

Notes to the Consolidated Financial Statements for Fiscal Year 2008

1. GENERAL

1.1 Application of Accounting Requirements

The consolidated financial statements of Homag Group AG (Homag Group) as of December 31, 2008 were prepared in accordance with the International Accounting Standards (IASs) and the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB), the interpretations of the Standing Interpretations Committee (SIC) and of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the EU and applicable as of the balance sheet date. The supplementary provisions of Sec. 315a ["Handelsgesetzbuch": German Commercial Code] were also complied with.

The consolidated financial statements have been prepared in euro (group currency) and presented in thousands of euros (EUR k). Besides the income statement and balance sheet, a cash flow statement, a statement of changes in equity and a statement of recognized income and expense are presented.

The income statement has been prepared using the cost-summary method.

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

All those standards (IFRSs/IASs) and interpretations (IFRICs) subject to mandatory application for fiscal year 2008 were observed.

1.2 Company Information

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

1.3 Date of Authorization for Issue of Financial Statements

On March 20, 2009, the management board of Homag Group AG authorized the issue of the 2008 consolidated financial statements and the 2008 group management report to the supervisory board.

2. BASIS OF PREPARATION

2.1 Basis of Consolidation

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

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

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

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

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

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

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

2.2 Acquisition of Minority Interests

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

2.3 Currency Translation

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

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

	Closing rate		Average rate	
EUR 1	**Dec. 31, 2008**	Dec. 31, 2007	**2008**	2007
US dollar	1.39770	1.47285	1.47134	1.37074
Pound sterling	0.96000	0.73788	0.79635	0.68479
Australian dollar	2.02570	1.68177	1.74330	1.63592
Canadian dollar	1.71600	1.44635	1.56127	1.46919
Danish krone	7.45180	7.45879	7.45654	7.45118
Japanese yen	126.40000	165.41600	152.50954	161.30828
Swiss franc	1.48600	1.65871	1.58742	1.64318
Chinese CNY	9.60900	10.77257	10.24795	10.43471

3. CONSOLIDATED GROUP

In addition to Homag Group AG, the consolidated financial statements include 16 entities with registered offices in Germany and 21 entities with registered offices abroad at which Homag Group AG exercises uniform control either directly or indirectly. The list of shareholdings of Homag Group AG is presented in note 9.

3.1 Associates

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

3.2 No Disclosure

4. ACCOUNTING POLICIES

The financial statements of the subsidiaries included in the consolidated financial statements are prepared as of the same balance sheet date as the parent company using uniform accounting policies. In addition, the financial statements prepared in accordance with local GAAP are adjusted to the accounting policies of the Homag Group to the extent that they diverge from IFRSs.

4.1 Changes in Accounting Policies

The following new and revised standards and interpretations issued by the IASB had to be applied for the first time:

IFRIC 11	Group and Treasury Share Transactions
Amendments to IAS 39 and IFRS 7	Reclassification of financial assets

The principal effects of these standards are as follows:

IFRIC 11 – Group and Treasury Share Transactions
In accordance with this interpretation, arrangements under which employees are granted rights to an entity's equity instruments are required to be accounted for as equity-settled share-based payment transactions when the entity buys the equity instruments from a third party or the equity instruments needed are granted by the shareholders. The IFRIC is effective for the first time for fiscal years beginning on or after March 1, 2007. This interpretation is not of any relevance to the Homag Group, since Homag Group AG does not have any share-based remuneration.

Amendments to IAS 39 and IFRS 7 – Reclassification of financial assets
The amendments to IAS 39 and IFRS 7 were published in October 2008 and entered into effect retrospectively as of July 1, 2008. The amendments were made in response to the financial market crisis and allow entities the option in certain circumstances of reclassifying non-derivative financial assets from the measurement categories held for trading and held-for-sale financial assets to other measurement categories. The amendments to IFRS 7 require additional disclosures in the notes when reclassifications between measurement categories are made. No use was made of this reclassification option within the Group.

The following standards that have been issued but are not yet subject to mandatory adoption have not been adopted yet:

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

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

IAS 23 Borrowing Costs

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

IAS 1 Presentation of Financial Statements

The revised IAS 1 was issued in September 2007 and becomes effective for the first time in fiscal years beginning on or after January 1, 2009. The revised version of the standard involves significant changes in presentation and disclosure of financial information in the financial statements. In the future, the statement of changes in equity can only present owner changes in equity. All non-owner changes in equity are required to be presented either as one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). In addition, the standard requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative period when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements. The new standard will have an effect on the form in which the Group’s financial information is published, but not on the recognition and measurement of assets and liabilities in the consolidated financial statements.

Amendments to IFRS 1 and IAS 27 – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
These amendments to IFRS 1 and IAS 27 were issued in May 2008 and become effective for fiscal years beginning on or after January 1, 2009. The amendments to IFRS 1 allow an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendments to IAS 27 only concern the parent company's separate financial statements and essentially require all dividends from a subsidiary, jointly controlled entity or associate to be recognized in the income statement in the separate financial statements. In principle, the transitional provisions provide for prospective application. Since the provisions regarding the first-time application of IFRS and the provisions for separate financial statements are not relevant to the Group, these revised standards have no effect on the consolidated financial statements.

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

Amendments to IAS 32 and IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation
The amendments to IAS 32 and IAS 1 were issued in February 2008 and are effective for the first time for fiscal years beginning on or after January 1, 2009. Alternative accounting treatment is introduced under which puttable financial instruments are classified as equity if certain criteria are satisfied. Disclosures are also required for financial instruments. The effects on the Group's net assets, financial position and results of operations are still being examined at present.

IFRS Improvements Standard (2008)
The amendments from the 2008 improvements project were published in May 2008 and are effective for the first time for fiscal years beginning on or after January 1, 2009 – with the exception of IFRS 5, which is effective as of July 1, 2009. As part of the 2008 improvements project, a range of both material amendments having an effect on accounting and measurement and purely editorial amendments. The latter concern the revision of individual definitions and formulations, for example, in the interest of ensuring consistency with other IFRSs. The Group has not early adopted the following amendments:

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

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

IAS 10 Events after the Balance Sheet Date: clarifies that dividends declared after the balance sheet date but before the financial statements are authorized for issue are not recognized as a liability at the balance sheet date because they do not meet the criteria of an obligation.

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

IAS 19 Employee Benefits: In addition to the revision of numerous definitions, it is clarified that plan adjustments resulting in a reduction in benefits related to future services must be treated as a curtailment. Plan adjustments where the reduction in benefits relates to services already rendered must be recognized as past service cost.

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

IAS 23 Borrowing Costs: The definition of borrowing costs has been revised to include the guidance on the use of the effective interest rate contained in IAS 39.

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

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

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

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

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

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

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

IAS 39 Financial Instruments: Recognition and Measurement: Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the ‘fair value through profit and loss’ classification after initial recognition. In addition, the reference in IAS 39 to a “segment” was removed when determining whether an instrument satisfies the criteria to qualify as a hedge. It is also clarified that the effective interest method should be used to measure a debt instrument once it is no longer accounted for as a fair value hedge.

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

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

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

IAS 38 Intangible Assets: As a result of this amendment, expenses for advertising campaigns will generally be recorded earlier. In addition, the sum-of-the-units method of amortization will be used. The Group is currently assessing which amortization method would best reflect the expected consumption of the economic benefits of intangible assets.

IAS 39 Financial Instruments: Recognition and Measurement: The Group will review its hedging strategy and adjust it the new requirements.

IFRIC 13 Customer Loyalty Programs

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

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 14 was published in July 2007 and must be applied in fiscal years beginning on or after December 31, 2008, at the latest. This interpretation provides guidance for determining the maximum amount of a surplus from a defined benefit plan that can be recognized as an asset pursuant to IAS 19 Employee Benefits. This amendment is not expected to have any effects on the Group, as there are no surpluses from defined benefit plans and none are expected.

The followings standards have not been endorsed by the EU yet:

IFRS 1	First-time Adoption of International Financial Reporting Standards (revised 2008)
IFRS 3	Business Combinations
IAS 27	Consolidated and Separate Financial Statements (revised 2008)
Amendments to IAS 39	Eligible Hedged Items
IFRIC 12	Service Concession Arrangements
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-Cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

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

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

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

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

Amended IAS 39 – Eligible Hedged Items

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

IFRIC 12 Service Concession Arrangements

IFRIC 12 was issued in November 2006 and becomes effective for fiscal years beginning on or after January 1, 2008. This interpretation has not been endorsed into EU law yet. The interpretation governs the accounting treatment of obligations and related rights in service concession arrangements in the financial statements of operators. The entities included in the consolidated financial statements are not operators within the meaning of IFRIC 12. This interpretation will therefore not have any effect on the Group.

IFRIC 15 Agreements for the Construction of Real Estate

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

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued in July 2008 and becomes the effective for fiscal years beginning on or after October 1, 2008. IFRIC 16 provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation is to be applied prospectively. IFRIC 16 will not have any effect on the Group, since it does not have any such investments.

IFRIC 17 Distributions of Non-cash Assets to Owners

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

IFRIC 18 Transfers of Assets from Customers

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

4.2 Accounting Policies for Selected Items

4.2.1 Goodwill

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

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

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

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

In the course of the impairment test, the carrying amount of a CGU (group of CGUs) is compared to the recoverable amount. The recoverable amount of the CGU (group of CGUs) is the higher of the fair value less costs to sell and the value in use. The impairment test is performed once a year.

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

- Industry
- Cabinet Shops
- Sales and Service
- Other

The impairment tests are performed on the defined groups of CGUs in accordance with the provisions of IAS 36 using the discounted cash flow method based on the values in use, which correspond to the recoverable amount. Data from business planning was used for this purpose. The calculation of the present value of future cash flows is based on significant assumptions, particularly with respect to future sales prices, sales quantities and costs. The plan is based on the detailed planning period up to fiscal 2013. The cash flow for 2013 was projected for the period following the detailed planning period, assuming no further changes in working capital annual replacement investment in the amount of amortization and depreciation.

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

4.2.2 Internally Generated Intangible Assets

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

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

4.2.3 Other Intangible Assets

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

4.2.4 Property, Plant and Equipment

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

Depreciation is generally based on the following useful lives:

	Years
Property	15 to 33
Plant and equipment	8 to 12
Furniture and fixtures	4 to 15

If there are indications of impairment, the recoverability of the carrying amount is reviewed (impairment test). Impairment losses are recorded on property, plant and equipment in accordance with IAS 36 to the extent that the recoverable amount of the asset falls below its carrying amount. The recoverable amount is the higher of the asset's net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The value in use is determined for each asset individually or, if that is not possible, for the cash-generating unit to which the asset belongs. To determine the estimated cash flows of each cash-generating unit, basic assumptions have to be made. These include assumptions regarding financial planning and the interest rates used for discounting.

If the reasons for an impairment loss recorded in prior years no longer apply, the impairment loss is reversed. The resulting increase in the carrying amount of the asset may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

4.2.5 Government Grants

Pursuant to IAS 20, government grants are only recognized if there is reasonable assurance that they will be received and the Company will comply with the conditions attaching to them.
Government grants related to assets (e.g. investment grants and subsidies) are deducted from the cost of the underlying asset. Grants related to income are recognized in the income statement under other operating income in the period in which the expenses to be offset are incurred.

4.2.6 Finance Leases and Operating Leases

Under finance leases, economic title is allocated to the lessee in cases in which it bears all risks and rewards incidental to ownership (IAS 17). If the economic title is allocable to the Homag Group, it is recognized as an asset at the inception of the lease at the lower of the fair value or the present value of the minimum lease payments. The leased asset is depreciated over the shorter of the lease term or its useful life, provided that it is not expected that ownership will be obtained at the end of the lease term. The discounted payment obligations resulting from the lease payments are recognized as a liability and reported under financial liabilities.

Should there be any operating leases within the Homag Group, lease payments are expensed as incurred.

4.2.7 Financial Instruments

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

Financial assets are recognized and derecognized on the settlement date. Financial assets are initially recognized at fair value plus transactions costs, with the exception of financial assets recognized at fair value through profit and loss. The latter are initially valued at fair value without taking transaction costs into account.
IAS 39 distinguishes between the following categories of financial instruments:

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

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

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

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

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

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

Apart from loans and receivables, the Homag Group mainly has financial instruments held for trading at present. The latter relate to derivative financial instruments that do not satisfy the requirements for hedge accounting. The Group had not recognized any financial assets or liabilities at fair value through profit and loss as of December 31, 2008 or December 31, 2007.

Within the Homag Group, all derivative financial instruments are allocated as held for trading to the category financial assets at fair value through profit and loss and recognized at market values as of the balance sheet date. The market values are calculated using standardized actuarial methods (mark-to-market method) or quoted market prices. Gains and losses from the change in the market values of derivative financial instruments are immediately posted to profit or loss. The derivative financial instruments used by the Group are primarily forward exchange contracts and interest rate swaps. These are used to hedge against interest and currency risks.

Impairment of Financial Assets

With the exception of financial assets at fair value through profit and loss, financial assets are tested for impairment at every balance sheet date. Financial assets are impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset with a negative impact on the estimated future cash flows. For financial assets measured at amortized cost, the impairment loss is the difference between the carrying amount of the financial instrument and the present value of the expected future cash flows determined using the original effective interest rate. Losses from the measurement of held-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 held 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 held 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 the reasons for writing down inventories in the past no longer apply, the write-down is reversed and recognized as a reduction of the cost of materials.

4.2.9 Long-term Construction Contracts

Construction contracts that satisfy the criteria of IAS 11 are accounted for using the percentage of completion method. The stage of completion to be recognized is calculated per contract, generally using the cost-to-cost method. The corresponding profit on the construction contract is recognized on the basis of the percentage of completion calculated in this way. These contracts are recognized under receivables or liabilities from long-term construction. If the work in process exceeds the prepayments, construction contracts are reported on the asset side under receivables from long-term construction. If the balance is negative after deducting the prepayment, the item is reported under liabilities from long-term construction. Appropriate provisions are created for potential losses if necessary. If the profit on the construction contract cannot be determined reliably, revenue is only recognized to the extent of the contract costs incurred.

4.2.10 Receivables and Other Assets

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

4.2.11 Deferred Taxes

Deferred taxes are set up in accordance with IAS 12 on all temporary differences between the carrying amounts in the consolidated balance sheet and the tax base of the assets and liabilities (liability method) as well as for unused tax losses. Deferred tax assets for accounting and measurement differences as well as for unused tax losses are only recorded to the extent that it is probable that these differences will lead to realization of the corresponding benefit in the future. Deferred taxes are determined on the basis of the tax rates that apply or that are expected to apply based on the current or expected legislation in the individual countries at the time of realization. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities can only be offset against each other provided that they relate to taxes levied by the same taxation authority.

4.2.12 Pensions and Other Post Employment Benefits

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

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

Apart from payments of premiums, the defined contribution plans do not result in any further obligations for the Homag Group.

4.2.13 Obligations from Employee Profit Participation

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

Employees that acquire silent participations are entitled to participate in the profits of the Company. This profit participation is partly used to repay the loan granted, and the remaining amount is paid out to the participating employee. 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 historical turnover rates and biometric data based on actuarial principles.

Expenses from employee profit participation are disclosed separately on the face of the income statement. They also include the related interest income realized.

4.2.14 Share-based Payments

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

4.2.15 Other Provisions

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

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

4.2.16 Liabilities

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

There are no liabilities at the Homag Group that serve trading purposes.

4.2.17 Borrowing Costs

Borrowing costs are recognized as an expense when incurred.

4.2.18 Revenue Recognition

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

Sale of Goods

Sales revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured. This is generally the case upon dispatch of the goods. If, apart from delivery, the transaction also includes assembly of the delivered goods, sales revenue is recognized once assembly at the client's premises has been completed (i.e., after acceptance by the customer) – provided the transaction does not qualify as a long-term construction contract within the meaning of IAS 11.

Long-term Construction Contracts

Sales revenue from long-term construction contacts is recognized pursuant to IAS 11 by reference to the stage of completion.

Interest Income

Interest income is recognized as interest accrues.

4.2.19 Assumptions and Estimates

Estimates and assumptions have to be made in the consolidated financial statements that have an effect on the amount and disclosure of the assets and liabilities, income and expenses and contingent liabilities reported. The actual values may in some cases differ from the assumptions and estimates. Changes are generally recognized in income pursuant to IAS 8, as and when better information is available.

In the process of applying the accounting policies, the management board made the following assumptions and estimates which had a significant effect on the amounts recognized in the financial statements.

Development Costs

Development costs are capitalized in accordance with the accounting policy explained above in the note on “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. The best estimate of the carrying amount of capitalized development costs as of December 31, 2008 was EUR 12,117 k (prior year: EUR 7,460 k).

Impairment of Goodwill

The Group tests goodwill for impairment at least once a year. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating a value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2008 was EUR 5,992 k (2007: EUR 5,992 k). We refer to note 6.2 for further information.

Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. As of December 31, 2008, the existing unused tax losses on which deferred tax assets were recognized were for corporate income tax (EUR 19,134 k; prior year: EUR 26,081 k), for trade tax (EUR 15,013 k; prior year: EUR 6,227 k) and on foreign unused tax losses (EUR 6,597 k; prior year: EUR 6,199 k). There were unused tax losses on which no tax assets were recognized because they could not be utilized for corporate income tax (EUR 41,429 k; prior year: EUR 49,100 k), for trade tax (EUR 39,709 k; prior year: EUR 48,772 k) and for foreign taxes (EUR 12,187 k; prior year: EUR 8,974 k). We refer to note 5.14 for further information.

Pensions and Other Post-employment Benefits

The cost of providing post-employment benefits under defined benefit plans is determined using actuarial calculations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The provision for pensions and other post-employment benefits amounted to EUR 2,281 k as of December 31, 2008 (prior year: EUR 2,420 k). We refer to note 6.16 for further information.

Employee Profit Participation

The obligations from defined benefit plans are determined using actuarial calculations. The actuarial valuation involves making assumptions about discount rates, expected retirement age, mortality rates and expected employee turnover. The liabilities from employee profit participation as of December 31, 2008 amounted to EUR 10,597 k (prior year: EUR 9,814 k). We refer to note 6.17 for further information.

Share-based Remuneration

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

4.2.20 Cash Flow Statement

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

The cash and cash equivalents presented in the cash flow statement contain cash and cash equivalents shown in the balance sheet, i.e. cash in hand, checks and bank balances, to the extent that they are available within three months. Cash and cash equivalents comprise the following:

EUR k	**2008**	2007
Cash on hand	155	82
Checks	1,862	2,756
Bank balances	36,571	44,775
	38,588	**47,613**

Cash and cash equivalents are not subject to any restrictions.

4.2.21

No disclosure

5. NOTES TO INDIVIDUAL INCOME STATEMENT ITEMS

The income statement focuses on the presentation of the continuing operations remaining after the disposal of discontinued operations.

5.1 Sales Revenue

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 307.2 million (prior year: EUR 279.2 million) was recorded from customized construction contracts with third parties 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 “Intangible Assets”.

5.3 Other Operating Income

Other operating income comprises the following:

EUR k	**2008**	2007
Income from cost allocations to third parties	2,184	1,651
Exchange rate gains	8,530	3,495
Gains on disposal of non-current assets	125	532
Income from the reversal of specific bad debt allowances	2,268	2,302
Income from cost reimbursements	749	488
Income from private car usage	1,818	1,516
Income from the derecognition of liabilities	0	326
Canteen revenues	768	543
Income from receivables that have been written off	16	324
Commission received	184	653
Other income	2,149	7,079
	18,791	**18,909**

5.4 Cost of Materials

EUR k	**2008**	2007
Cost of raw materials, consumables and supplies and purchased goods	365,932	366,517
Cost of purchased services	29,562	27,735
	395,494	**394,252**

5.5 Personnel Expenses and Number of Employees

EUR k	**2008**	2007
Wages and salaries	222,618	211,344
Social security, pension and other benefit costs	41,853	39,113
- thereof pension benefits	*17,272*	*16,448*
	264,471	**250,457**

EUR k	**2008**	2007
Cost of employee participation	**10,840**	**6,902**

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

	Germany	Outside Germany	Total 2008	Total 2007
Wage earners	1,965	304	**2,269**	**2,173**
Salaried employees	1,827	840	**2,667**	**2,430**
Trainees	345	0	**345**	**338**
	4,137	**1,144**	**5,281**	**4,941**

5.6 Total Remuneration of the Supervisory Board and Management Board

Total Remuneration of the Supervisory Board

The remuneration of the members of the supervisory board amounted to EUR 401 k in fiscal 2008. This figure includes variable components totaling EUR 170 k.

In the prior year, the remuneration of the members of the supervisory board amounted to EUR 692 k. This figure includes variable components totaling EUR 501 k. The variable components of the supervisory board remuneration are based on dividends distributed in the fiscal year. As in the prior year, both the fixed and variable remuneration in the year under review were due in the short term.

Total Remuneration of the Management Board

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

EUR k	2008	2007
Current remuneration	2,223	2,982
Share-based remuneration	-564	717
	1,659	**3,699**

The remuneration of the management board members amounted to EUR 1,659 k in fiscal 2008. Of this amount, a payment of EUR 990 k will be made for 2008 after the annual general meeting 2009. A provision of EUR 717 k was recognized in 2007 for the share-based remuneration, which was calculated at fair value. This provision was reduced by EUR 564 k to EUR 153 k. The corresponding amounts will be paid out after the annual general meetings in 2010 and 2011.

Share-based Remuneration

The income of EUR 0.6 million (prior year: EUR 0.7 million expense) recognized in fiscal 2008 in connection with share-based payments relate exclusively to cash-settled share-based payment transactions within the meaning of IFRS 2.30 et seq.

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

The share appreciation rights have contractual term of three years. The fair value of the share appreciation rights is determined as at the date of issue using a binominal model and taking into account the condition under which the instruments were granted. The expenses for the benefits received or the debt to settle these benefits are recognized over the vesting period. The liability is remeasured at each reporting date and on the grant date, with changes in fair value recognized in the income statement.
The following table presents the parameters underlying the measurement of share appreciation rights for fiscal year December 31, 2008:

	2008	2007
Dividend yield (%)	9.80	4.35
Expected volatility (%)	49.50	25.10
Risk-free interest rate (%)	3.08	4.53
Expiry of options	Dec. 31 , 2009	Dec. 31, 2009
Relevant opening price (EUR)	27.80	27.80

As of December 31, 2008, the carrying amount of the liability, which is equivalent to its fair value in this case, amounts to EUR 0.2 million (prior year: EUR 0.7 million).

The total remuneration of the management board pursuant to Sec. 314 (1) No. 6a HGB amounted to EUR 2,223 k in the fiscal year (prior year: EUR 3,699 k). Pursuant to HGB, a write-down of the LTI bonus in the management board's remuneration is not recognized in the current year. The total remuneration breaks down as follows:

	Fixed remuneration		Short-term incentives (STI)		Long-term incentives (LTI) [2]		Benefits in kind		**Total remuneration**	
EUR k	**2008**	2007	**2008** [1]	2007	**2008**	2007	**2008**	2007	**2008**	2007
Dr. Joachim Brenk	310	285	225	450	0	163	7	7	542	905
Achim Gauß	235	215	202	363	0	147	8	8	445	733
Andreas Hermann	209	193	180	375	0	130	5	5	394	703
Herbert Högemann	210	193	180	300	0	130	7	7	397	630
Rolf Knoll	234	211	203	363	0	147	8	7	445	728
TOTAL	**1,198**	**1,097**	**990**	**1,851**	**0**	**717**	**35**	**34**	**2,223**	**3,699**

[1] *To be paid out after the 2009 annual general meeting for 2008.*
[2] *Due to the first-time application of GAS 17 in fiscal 2008 and the principle of definitive net worth underlying this concept, the remuneration figures for 2007 must include a disclosure of the fair value of long-term incentives as of the date of issue. The fair value of the date of issue amounts to EUR 2,151 k. Due to the development of the Homag share's price, the fair value of LTI amounts to EUR 230 k as of December 31, 2008. Payments of 50 % each will be paid after the 2010 annual general meeting for 2009 and after the 2011 annual general meeting for 2010.*

Remuneration of Former Board Members

Pension provisions of EUR 618 k (prior year EUR 646 k) were set up for former members of the management board of IMA AG, which was merged into Homag Group AG in 1999. The pension payments made amounted to EUR 55 k in the past fiscal year (prior year: EUR 54 k).

5.7 Amortization of Intangible Assets

EUR k	**2008**	2007
Amortization of intangible assets	**5,569**	**4,395**

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

5.8 Depreciation of Property, Plant and Equipment

EUR k	**2008**	2007
Depreciation of property, plant and equipment	**16,645**	**16,788**

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

5.9 Other Operating Expenses

Other operating expenses comprise the following:

EUR k	**2008**	2007
Sales commissions	19,217	17,765
Advertising and trade fair expenses	10,356	10,891
Office supplies, postage and telecommunication costs	4,892	5,284
Legal expenses and consulting fees, license fees and patent costs	7,157	9,756
Travel expenses and entertainment	20,421	18,272
Rental and lease expenses	9,652	9,993
Other taxes	869	748
Bad debt allowances	5,232	2,866
Bad debts	446	1,595
Transportation expenses	13,777	13,616
Maintenance	7,902	7,530
Insurance costs	1,629	1,414
Exchange rate losses	13,504	4,630
Losses on disposals of non-current assets	359	663
Donations, fees, dues and contributions	1,144	1,163
Sundry other expenses	22,738	27,536
- thereof IPO expenses	*0*	*3,249*
	139,295	**133,722**

5.10 Profit/Loss from Associates

The profit/loss from investments recognized at equity is attributable to Stiles Machinery Inc., Grand Rapids, USA (EUR -0.4 million; prior year: EUR 0.2 million) as well as Homag China Golden Field Ltd., Hong Kong, China (EUR 0.2 million; prior year: EUR 0.1 million).

5.11 No Disclosure

5.12 No Disclosure

5.13 Interest Income / Interest Expenses

EUR k	2008	2007
Interest income on loans granted and other receivables	405	778
Other interest and similar income	1,286	909
Total interest income of all financial receivables which were not recognized by the Company for the mark-to-market measurement	1,691	1,687
Interest income from derivative financial instruments	39	166
INTEREST INCOME	**1,730**	**1,853**
Interest expenses from		
liabilities to banks	-8,726	-8,454
changes in the discount on profit participation rights due to the passage of time	1,498	-223
obligations from finance leases	-566	-800
Interest expenses from increasing the discount on transaction costs	-220	-641
Other interest and similar expenses	-3,003	-2,659
Total interest income of all financial liabilities which were not recognized by the Company for the mark-to-market measurement	-11,017	-12,777
Interest expenses from increasing the discount on provisions	-175	-141
Interest expenses from derivative financial instruments	-91	-60
INTEREST EXPENSES	**-11,283**	**-12,978**
NET INTEREST	**-9,553**	**-11,125**

5.14 Taxes on Income and Deferred Taxes

Income tax expenses are classified by origin as follows:

Tax Expense

EUR k	2008	2007
Current taxes	12,058	18,621
Deferred taxes		
from temporary measurement differences	4,675	-1,363
from unused tax losses carried forward	-2,333	8,769
	14,400	**26,027**

Based on the planning prepared at the end of the year, additional deferred tax assets of EUR 4,056 k (prior year: EUR 1,887 k) were recognized on unused tax losses because the entities anticipate future taxable profits. This was offset by the write-down of EUR 819 k (prior year: EUR 907 k) recognized on deferred tax assets recognized at entities in the prior year because the new planning did not forecast sufficient taxable profits.

The tax expense was reduced by EUR 436 k (prior year: EUR 791 k) due to the utilization of unused tax losses on which no deferred tax assets had previously been recognized.

The tax expense based on the earnings before taxes of EUR 48.2 million (prior year: EUR 61.2 million) and on the applicable tax rate for the Homag Group entities in Germany of 27.375% (prior year: theoretical tax expense of 38%) is reconciled to the current tax expense as follows:

EUR k	2008	2007
Theoretical tax expense	-13,197	-23,259
Effect of changes in tax rate	0	214
Differences due to the tax rate	-427	920
Tax reductions (+)/tax increases (-) due to tax-free income or non-deductible expenses	-1,552	-2,463
Change in valuation allowance on deferred taxes	1,663	-1,308
Taxes on outside basis differences	0	748
Other differences	-887	-879
INCOME TAXES (ACTUAL TAX EXPENSE)	**-14,400**	**-26,027**

The current income tax includes taxes for the prior years in the amount of EUR 0.2 million (prior year: EUR 0.3 million). This primarily reflects the effects of tax field audits. The deferred tax assets include expenses of EUR 0.2 million relating to other periods (prior year: EUR 0 million).

The deferred taxes recognized without effect on profit or loss amount to EUR 136 k (prior year: EUR 84 k).

Deferred Tax Assets and Liabilities

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

	Deferred tax assets		Deferred tax liabilities	
EUR k	**Dec. 31, 2008**	Dec. 31, 2007	**Dec. 31, 2008**	Dec. 31, 2007
Intangible assets and property, plant and equipment	470	473	12,021	11,056
Inventories	4,791	13,788	2,853	1,171
Current receivables and other assets	5,386	2,223	1,306	10,097
Other assets	1,044	1,777	1,196	2,117
Non-current financial liabilities	2,531	4,298	391	695
Non-current liabilities and provisions	3,643	1,886	2	2,111
Sundry current liabilities and deferred income	10,420	3,768	1,692	2,439
Other current provisions	129	1,201	10,252	4,422
Other liabilities	3,424	1,518	12,345	4,108
	31,838	**30,932**	**42,058**	**38,216**
Deferred taxes from temporary measurement differences	31,838	30,932	42,058	38,216
Deferred taxes on unused tax losses	7,169	6,734		
Netting	-26,603	-24,975	-26,603	-24,975
	12,404	**12,691**	**15,455**	**13,241**

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 valuation allowance recorded on the carrying amount of unused tax losses results in a change of EUR 1.7 million (prior year: EUR -1.3 million).

As of December 31, 2008, the existing unused tax losses on which deferred tax assets were recognized were for corporate income tax (EUR 19,134 k; prior year: EUR 26,081 k), for trade tax (EUR 15,013 k; prior year: EUR 6,227 k) and on foreign unused tax losses (EUR 6,597 k; prior year: EUR 6,199 k). There were unused tax losses on which no tax assets were recognized because they could not be utilized for corporate income tax (EUR 41,429 k; prior year: EUR 49,100 k), for trade tax (EUR 39,709 k; prior year: EUR 48,772 k) and for foreign taxes (EUR 12,187 k; prior year: EUR 8,974 k).

The unused tax losses in Germany can be carried forward for an indefinite period. Of the total amount of foreign unused tax losses of EUR 12,187 k, a partial amount of EUR 11,036 k can be carried forward for an indefinite period. Tax losses of EUR 348 k expire within the next two years. An amount of EUR 803 k expires within the next five years.

Deferred taxes were not recognized on the profits of EUR 62,266 k retained by subsidiaries since it is planned to use these profits to secure and expand the volume of business at these entities.

5.15 No Disclosure

5.16 Profit/Loss Attributable to Minority Interests

The profit for 2008 attributable to minority interests amounts to EUR 1.9 million (prior year: EUR 3.2 million).

5.17 Earnings per Share

The basic earnings per share is determined pursuant to IAS 33 by dividing the profit attributable to the shareholders of the Homag Group by the weighted average number outstanding shares. Earnings per share based on earnings after minority interests of EUR 31.9 million (prior year EUR 32.0 million) are presented in the table below (there is no difference between diluted and basic earnings).

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

	2008	2007
Profit/loss attributable to the equity holders of Homag Group AG	31,944	32,030
Profit/loss attributable to the equity holders of Homag Group AG for the calculation of basic earnings	31,944	32,030
Earnings per share in EUR	2.04	2.12
BASIC EARNINGS PER SHARE PURSUANT TO IAS 33 IN EUR	**2.04**	**2.12**
Weighted average of shares (basis for the calculation of earnings per share)	15,688,000	15,095,349

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

5.18 Dividends Paid and Proposed

In 2008, a dividend of EUR 14,119,200.00 was paid for fiscal 2007.

A proposal will be submitted to the annual general meeting on May 27, 2009 to appropriate the retained earnings of EUR 40,495,462.43 disclosed in the financial statements of Homag Group AG as of December 31, 2008 as follows:

- Distribution of a dividend of EUR 0.30 per participating no-par value share for the 15,688,000 no-par value shares, or EUR 4,706,400.00 in total
- Carry forward of EUR 35,789,062.43 to new account

EUR k	**2008**	2007
Dividend distribution	4,706	14,119
Retained earnings carried forward	35,789	17,061
	40,495	**31,180**

EUR k	**2008**	2007
DIVIDEND PER DIVIDEND-ENTITLED NO-PAR VALUE SHARE	**0.30**	**0.90**

There are no income tax consequences from the proposed dividend distribution.

6. NOTES TO THE BALANCE SHEET

6.1 Intangible Assets / Property, Plant and Equipment

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

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

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

Changes in the non-current assets of the of the Homag Group 2007

	Acquisition and production cost				
EUR k	As of Jan. 1, 2007	Currency differences	Additions	Disposals	Re-classifications
NON-CURRENT ASSETS					
I. Intangible assets					
1. Industrial rights	30,311	14	3,121	1,896	216
- thereof leases	*2,237*	*0*	*0*	*0*	*0*
2. Goodwill	6,565	0	0	0	0
3. Internally generated intangible assets	1,864	0	6,561	138	0
4. Prepayments	792	0	2,557	24	-216
	39,532	**14**	**12,239**	**2,058**	**0**
II. Property, plant and equipment					
1. Land and land rights and buildings	142,961	39	3,222	2,620 [1]	1,196
- thereof leases	*0*	*0*	*0*	*0*	*0*
2. Technical equipment and machines	67,449	2	7,133	5,253	1,227
- thereof leases	*13,635*	*1*	*2,339*	*2,961*	*708*
3. Other equipment, furniture and fixtures	57,602	-26	10,975	3,666	188
- thereof leases	*3,968*	*1*	*3,231*	*604*	*32*
4. Prepayments and assets under construction	2,771	14	1,406	0	-2,611
	270,783	**29**	**22,736**	**11,539**	**0**
	310,315	**43**	**34,975**	**13,597**	**0**

	Amortization and depreciation						Carrying amounts	
As of Dec. 31, 2007	As of Jan. 1, 2007	Currency differences	Additions	Disposals	Re-classifications	As of Dec. 31, 2007	**As of Dec. 31, 2007**	**As of Dec. 31, 2006**
31,766	21,435 [2]	3	3,670	1,831	0	23,277	8,489	8,876
2,237	*1,072*	*0*	*279*	*0*	*0*	*1,351*	*886*	*1,165*
6,565	573 [2]	0	0	0	0	573	5,992	5,992
8,287	123 [2]	0	725	21	0	827	7,460	1,741
3,109	0	0	0	0	0	0	3,109	792
49,727	**22,131**	**3**	**4,395**	**1,852**	**0**	**24,677**	**25,050**	**17,401**
144,798	53,682	24	4,696	787 [1]	0	57,615	87,183	89,279
0	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
70,558	38,741	2	5,364	2,746	0	41,361	29,197	28,708
13,722	*2,749*	*4*	*1,461*	*583*	*17*	*3,648*	*10,074*	*10,886*
65,073	39,570	-30	6,728	3,102	0	43,166	21,907	18,032
6,628	*3,203*	*3*	*1,071*	*434*	*10*	*3,853*	*2,775*	*765*
1,580	0	0	0	0	0	0	1,580	2,771
282,009	**131,993**	**-4**	**16,788**	**6,635**	**0**	**142,142**	**139,867**	**138,790**
331,736	**154,124**	**-1**	**21,183**	**8,487**	**0**	**166,819**	**164,917**	**156,191**

[1] *Disposals contain reclassifications to held-for-sale assets (acquisition cost EUR 2,611 k and EUR 780 k).*
[2] *The final value of the accumulated depreciation was calculated wrongly in the 2006 statement of changes in non-current assets. This error was corrected in fiscal 2007 in the amount carried over.*

6.2 Intangible Assets

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

Goodwill

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

Group of CGUs/EUR k	Dec. 31, 2008	Dec. 31, 2007
Industry	1,902	1,902
Sales and Service	3,812	3,812
Other	278	278
	5,992	**5,992**

The organization of group activities into groups of CGUs was adjusted in the prior year to the segment reporting structure pursuant to IFRS 8, which was used for the first time.

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

The impairment tests performed as of December 31, 2008 did not reveal any need to recognize impairment losses on goodwill.

The WACC pre-tax discount rates underlying the impairment tests performed in fiscal 2008 are presented in the following table:

Detailed planning period %		Dec. 31, 2008	Dec. 31, 2007
	Years	2009-2013	2008-2012
Group of CGUs			
Industry		7.00	9.21
Sales and Service		6.52	8.26
Other		6.78	8.90

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 base rate plus a maturity-related mark-up for credit risk adjusted to the Homag Group AG's credit rating. The capital structure within the individual CGUs approximates the capital structure of the Homag Group.

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

Internally Generated Software and Other Product Development Costs

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

Research and development costs included in expenses totaled EUR 19.9 million (prior year: EUR 20.8 million).

6.3 Property, Plant and Equipment

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

In the year under review, no significant impairment losses within the meaning of IAS 36 were recognized on property, plant and equipment.

Property, plant and equipment 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, 2008**	Carrying amount Dec. 31, 2008
Intangible assets	606	886
Technical equipment and machines	9,819	10,074
Other equipment, furniture and fixtures	2,273	2,775
	12,698	**13,735**

The underlying interest rates of the agreements vary depending on the date on which the agreements were concluded between 2.5% and 14.5% p.a. The payments due in the future from finance lease arrangements, the corresponding interest components and the present value of future lease payments, which are accounted for under other liabilities accordingly, are shown in the table below:

EUR k	Due in less than 1 year	Due in between 1 and 5 years	Due in more than 5 years	**Dec. 31, 2008 total**	**Dec. 31, 2007 total**
Minimum lease payments	4,388	5,088	14	**9,490**	**11,775**
Discount amounts	410	219	0	**629**	**918**
PRESENT VALUES	**3,978**	**4,869**	**14**	**8,861**	**10,857**

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, 2008	Dec. 31, 2007
Due in less than 1 year	4,866	5,233
Due in between 1 and 5 years	5,444	6,323
Due in more than 5 years	1,982	3,826
	12,292	**15,382**

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

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

EUR k	Dec. 31, 2008	Dec. 31, 2007
Minimum lease payments	5,737	5,901
Contingent minimum lease payments	0	234
	5,737	**6,135**

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, 2008	Disposals
NON-CURRENT ASSETS		
I. Intangible assets		
1. Industrial rights	55	22
	55	**22**
II. Property, plant and equipment		
1. Land and land rights and buildings	1,127	16
2. Technical equipment and machines	501	16
3. Other equipment, furniture and fixtures	340	102
	1,968	**134**
	2,023	**156**

	Amortization and depreciation				Carrying amounts	
As of Dec. 31, 2008	As of Jan. 1, 2008	Additions	Disposals	As of Dec 31, 2008	**As of Dec. 31, 2008**	**As of Dec. 31, 2007**
33	44	6	21	29	4	11
33	**44**	**6**	**21**	**29**	**4**	**11**
1,111	232	41	0	273	838	895
485	320	61	12	369	116	181
238	266	40	100	206	32	74
1,834	**818**	**142**	**112**	**848**	**986**	**1,150**
1,867	**862**	**148**	**133**	**877**	**990**	**1,161**

6.4 Investments in Associates and Other Investments

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

EUR k	2008	2007
Total assets	19,676	16,900
Total liabilities	13,836	10,940
EQUITY	**5,840**	**5,960**
Total sales revenue	34,699	40,932
Profit/loss for the year	-216	320

6.5 Inventories

EUR k	Dec. 31, 2008	Dec. 31, 2007
Raw materials, consumables and supplies	51,899	57,956
Work in process	15,023	18,176
Finished goods, merchandise	65,594	49,539
Prepayments	2,278	2,453
	134,794	**128,124**

Valuation allowances of EUR 1.6 million (prior year: EUR 2.7 million) were recognized on inventories through profit or loss.

6.6 Receivables and Other Assets

	Dec. 31, 2008			Dec. 31, 2007		
		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	121,899	121,186	713	138,938	138,938	0
Receivables from long-term construction contracts	25,170	25,170	0	28,579	28,579	0
Receivables from associates	6,986	6,986	0	10,889	10,889	0
Other financial assets	16,862	13,648	3,214	16,466	12,556	3,910
Other assets	3,262	3,120	142	8,298	8,097	201
Income tax receivables	8,700	5,450	3,250	4,193	1,140	3,053
	182,879	**175,560**	**7,319**	**207,363**	**200,199**	**7,164**

Corporate income tax receivables concern the corporate income tax credits recognized.

Trade receivables totaling EUR 12.1 million (prior year: EUR 11.6 million) were sold under factoring agreements.

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

EUR k	2008	2007
AS OF JANUARY 1	**5,809**	**6,803**
Exchange rate effects	419	-10
Charge for the year	-560	-1,498
Unused amounts written off	-2,268	-2,352
Increase in impairments recognized in profit or loss	5,232	2,866
AS OF DECEMBER 31	**8,632**	**5,809**

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

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

EUR k	2008	2007
Bad debt expenses	446	1,595
Income from the receipt of payments on receivables that have been written off	16	324

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, 2008	Dec. 31, 2007
Neither past due nor impaired	93,538	97,301
Receivables past due but not impaired		
less than 90 days	31,787	50,548
90 to 179 days	8,445	12,250
180 to 365 days	5,164	9,216
1 year or more	2,741	2,465
Total receivables past due but not impaired	48,137	74,479
Impaired receivables	21,012	12,435
TRADE RECEIVABLES, GROSS	**162,687**	**184,215**
Less impairments	8,632	5,809
NET AMOUNT/CARRYING AMOUNT OF TRADE RECEIVABLES	**154,055**	**178,406**

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.

In the year under review, machines pledged as collateral by defaulting parties were valued at EUR 0 k (prior year: EUR 50 k).

6.7 Long-term Construction Contracts

In the receivables from long-term construction contracts, the sales revenue recognizable in accordance with the percentage of completion is offset against the prepayments received for each contract. As of the balance sheet date, contract costs incurred for long-term construction contracts and profits disclosed of EUR 48.6 million (prior year: EUR 44.4 million) were offset against prepayments received of EUR 25.3 million (prior year: EUR 18.4 million). This resulted in receivables of EUR 25.2 million (prior year: EUR 28.6 million) and liabilities of EUR 1.9 million (prior year: EUR 2.6 million).

6.8 Other Financial Assets

Other financial assets break down as follows:

	Dec. 31, 2008			Dec. 31, 2007		
		Thereof due in			Thereof due in	
EUR k	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Other primary financial assets						
Loans extended	0	0	0	307	307	0
Receivables from suppliers	730	718	12	386	386	0
Receivables from factoring agreements	11,002	11,002	0	657	657	0
Sundry	4,610	1,408	3,202	14,381	10,477	3,904
Derivative financial assets	520	520	0	735	729	6
	16,862	**13,648**	**3,214**	**16,466**	**12,556**	**3,910**

The derivative financial assets concern receivables from derivative currency and interest transactions totaling EUR 0.5 million (prior year: EUR 0.7 million).

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

6.9 Other Assets and Prepaid Expenses

Other assets and prepaid expenses break down as follows:

	Dec. 31, 2008			Dec. 31, 2007		
		Thereof due in			Thereof due in	
EUR k	**Total**	**less than 1 year**	**more than 1 year**	Total	less than 1 year	more than year
Excise duties claims	1,181	1,181	0	6,071	6,071	0
Prepaid expenses	2,081	1,939	142	2,227	2,026	201
	3,262	**3,120**	**142**	**8,298**	**8,097**	**201**

6.10 Income Tax Receivables

	Dec. 31, 2008		Dec. 31, 2007	
EUR k	**Total**	**Thereof more than 1 year**	Total	Thereof more than 1 year
Income tax claims	**8,700**	**3,250**	**4,193**	**3,053**

The income tax receivables primarily concern corporate income tax credits that will flow to the Group in the years 2009 through 2017.

6.11 Cash and Cash Equivalents

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

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

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

6.12 Assets Held for Sale

In the prior year, this item disclosed developed land in Herford which was up for sale. Ownership was transferred to the buyer at the start of February 2008. There were no other matters of a similar nature in the year under review.

6.13 Equity

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

6.13.1 Issued Capital

As of December 31, 2008, the issued capital amounted to EUR 15,688,000.00 (prior year: EUR 15,688,000.00). It has been fully paid in and is split into 15,688,000 no-par value bearer shares with an imputed value of EUR 1 each.

6.13.2 Capital Reserves

As of December 31, 2008, the capital reserve amounted to EUR 32,976,199.00 (prior year: EUR 32,976,199.00).

6.13.3 Revenue Reserves

The revenue reserves of EUR 87.7 million (prior year: EUR 69.5 million) contain the profits generated in the past by the companies included in the consolidated financial statements, to the extent that they were not distributed. Goodwill resulting from business combinations before January 1, 2005 was also offset against the revenue reserves. The credit differences from business combinations that arose in the course of the preparation of the IFRS opening balance sheet, which had been disclosed as a separate item in equity in accordance with HGB until December 31, 2004, are also disclosed here as well as currency differences reclassified as of January 1, 2005.

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

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

6.13.4 Group Profit for the Year

The net profit of the Group for the year includes the profit.

6.13.5 Minority Interests

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

6.14 Financial Liabilities

	Dec. 31, 2008			Dec. 31, 2007		
		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	117,104	35,601	81,503	109,029	27,834	81,195
Lease liabilities	8,861	3,979	4,882	10,857	4,916	5,941
Profit participation capital	30,175	0	30,175	31,673	0	31,673
Other loans	0	0	0	165	165	0
	156,140	**39,580**	**116,560**	**151,724**	**32,915**	**118,809**

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

Liabilities to banks break down as follows:

	Dec. 31, 2008				Dec. 31, 2007			
	Currency	Carrying amount EUR k	No. of years until maturity	Effective interest rate %	Currency	Carrying amount EUR k	No. of years until maturity	Effective interest rate %
Syndicated loan	EUR	12,000	4.0	5.14	EUR	15,000	5.0	5.14
Several loans	EUR	26,617	up to 11.0	4.29-6.42	EUR	21,870	up to 18.0	3.03-6.42
Loan	PLN	748	3.0	5.05	PLN	1,000	4.0	4.91
Loan	GBP	417	3.0	7.00	GBP	770	4.0	7.00
Loan	DKK	669	10.0	5.98	DKK	724	11.0	5.48
Syndicated loan	EUR	49,644	1.5	3.34	EUR	50,000	2.5	5.05
Overdraft facility/ syndicated loan	EUR	3,999	2.5	6.00-7.34	EUR	10,052	2.5	6.75-7.00
Euro loan (syndicated loan)	EUR	4,600	2.5	3.85-4.17	EUR	4,800	2.5	5.12-5.53
Overdraft facility/ Euro loan	diverse	18,410	-	1.50-12.50	diverse	4,813	-	6.10-7.50
		117,104				**109,029**		

Variable interest arrangements have been made for the syndicated loans and overdraft facilities.

6.15 No Disclosure

6.16 Pensions and Other Post Employment Benefits

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

In the case of the defined contribution plans, the entities have no obligations other than payment of contributions to insurance firms or other special purpose funds. In the Homag Group, the German companies incur expenses for defined contribution plans in the form of contributions to the statutory pension insurance.

On a small scale there, there are also agreements with employees about the company financing of post employment benefits in the form of direct insurance. In fiscal 2008, expenses for defined contribution plans in the Homag Group totaled EUR 17.1 million (prior year: EUR 16.3 million).

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

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

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

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

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

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

%	**Dec. 31, 2008**	Dec. 31, 2007
Discount rate	5.9	4.5-5.5
Rate of salary increase	2.6	2.0-7.5
Expected return on plan assets	4.0	4.0
Rate of pension increase	2.0	2.0

The expense from pensions and other post-employment benefits as well as the actuarial gains and losses recognized directly in equity break down as follows:

EUR k	**2008**	2007
Current service cost	181	171
Interest cost	215	193
Expected return on plan assets	-67	-67
Benefit expense	**329**	**297**
Net actuarial gains (-)/losses (+)	-155	-255
ACTUAL RETURN ON PLAN ASSETS	**74**	**74**

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

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

EUR k	**2008**	2007
Defined benefit obligation	4,057	4,246
Fair value of plan assets	-1,776	-1,826
RESIDUAL OBLIGATION AS OF DECEMBER 31	**2,281**	**2,420**

The Homag Group does not expect any contributions to defined benefit plans in 2009.

Of the pension obligations, a total of EUR 1,704 k (prior year: EUR 1,717 k) relates to obligations for which there are no plan assets.

The funding status is presented in the table below:

	Obligations for which there are plan assets		Obligations for which there are no plan assets	
EUR k	**2008**	2007	**2008**	2007
Defined benefit obligation	2,353	2,529	1,704	1,717
Fair value of plan assets	-1,776	-1,826	0	0
RESIDUAL OBLIGATION AS OF DECEMBER 31	**577**	**703**	**1,704**	**1,717**

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

EUR k	2008	2007
DEFINED BENEFIT OBLIGATION AS OF JANUARY 1	**4,246**	**4,435**
Interest expense	215	193
Current service cost	181	171
Benefits paid	-437	-305
Actuarial gains (-)/losses (+)	-148	-248
DEFINED BENEFIT OBLIGATION AS OF DECEMBER 31	**4,057**	**4,246**

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

EUR k	2008	2007
FAIR VALUE OF PLAN ASSETS AS OF JANUARY 1	**1,826**	**1,857**
Expected return on plan assets	67	67
Employer contributions	0	5
Benefits paid	-124	-110
Actuarial gains (+)/losses (-)	7	7
FAIR VALUE OF PLAN ASSETS AS OF DECEMBER 31	**1,776**	**1,826**

In most cases, the plan assets are insurance policies.

In the reporting year, cumulated actuarial gains and losses came to EUR 497 k (prior year: EUR 342 k).

In fiscal 2006, the Homag Group prepared consolidated financial statements pursuant to IFRS for the first time. Contributions in the current and three previous reporting periods are presented in the table below:

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

6.17 Obligations from Employee Profit Participation

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

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

%	Employee participation Dec. 31, 2008	Dec. 31, 2007
Discount factor	5.90	5.50
Turnover	0.08-3.80	0.90-2.79

6.18 Other Provisions

EUR k	Dec. 31, 2008 Total	Thereof due in less than 1 year	Thereof due in more than 1 year	Dec. 31, 2007 Total	Thereof due in less than 1 year	Thereof due in more than 1 year
Provisions for personnel matters	5,839	1,326	4,513	6,522	1,885	4,637
Provisions for production and sales	11,675	11,172	503	12,471	11,805	666
Sundry other provisions	2,359	2,359	0	1,447	1,396	51
OTHER PROVISIONS	**19,873**	**14,857**	**5,016**	**20,440**	**15,086**	**5,354**

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

The personnel provisions mainly contain obligation for phased retirement arrangements and long-service bonuses as well as variable salary payments.

Other provisions developed as follows:

EUR k	As of Jan. 1, 2008	Currency adjustment	Utilized	Reversed	Increased	Re-classified	As of Dec. 31, 2008
Provisions for personnel matters	6,522	2	1,019	1,083	1,407	10	5,839
Provisions for production and sales	12,471	12	8,634	514	8,340	0	11,675
Sundry other provisions	1,447	-20	1,129	2	2,073	-10	2,359
OTHER PROVISIONS	**20,440**	**-6**	**10,782**	**1,599**	**11,820**	**0**	**19,873**

7. OTHER NOTES

7.1 Financial Instruments

Book values, carrying amounts and fair values by measurement category

EUR k	Book value Dec. 31, 2008	Carrying amount Amortized cost
ASSETS		
Cash and cash equivalents	38,588	38,588
Trade receivables	121,899	121,899
Receivables from long-term construction contracts	25,170	
Other financial assets	834	
Other primary financial assets	18,707	18,707
Derivative financial assets		
Derivatives without hedging relationship	520	
EQUITY AND LIABILITIES		
Trade payables	55,603	55,603
Liabilities from long-term construction contracts	1,931	
Financial liabilities		
Liabilities to banks	117,104	117,104
Profit participation capital	30,175	30,175
Lease liabilities	8,861	
Sundry financial liabilities	0	0
Derivative financial liabilities		
Derivatives without hedging relationship	556	
THEREOF COMBINED ACCORDING TO THE MEASUREMENT CATEGORIES IN ACCORDANCE WITH IAS 39		
Loans and receivables	179,194	179,194
Held-for-sale financial assets	834	
Financial assets held for trading	520	
Financial liabilities measured at amortized cost	202,882	202,882
Financial assets held for trading	556	

in balance sheet IAS 39				
Acquisition cost	Fair value through profit and loss	Carrying amount according to IAS 11	Carrying amount according to IAS 17	Fair value Dec. 31, 2008
				38,588
				121,899
		25,170		25,170
834				-
				18,707
	520			520
				55,603
		1,931		1,931
				118,957
				33,737
			8,861	8,585
				0
	556			556
				179,194
834				-
	520			520
				202,882
	556			556

EUR k	Book value Dec. 31, 2007	Carrying amount Amortized cost
ASSETS		
Cash and cash equivalents	47,613	47,613
Trade receivables	138,938	138,938
Receivables from long-term construction contracts	28,579	
Other financial assets	862	
Other primary financial assets	15,731	15,731
Derivative financial assets		
Derivatives without hedging relationship	735	
EQUITY AND LIABILITIES		
Trade payables	77,764	77,764
Liabilities from long-term construction contracts	2,562	
Financial liabilities		
Liabilities to banks	109,029	109,029
Profit participation capital	31,673	31,673
Lease liabilities	10,857	
Sundry financial liabilities	165	165
Derivative financial liabilities		
Derivatives without hedging relationship	3,036	
THEREOF COMBINED ACCORDING TO THE MEASUREMENT CATEGORIES IN ACCORDANCE WITH IAS 39		
Loans and receivables	202,282	202,282
Held-for-sale financial assets	862	
Financial assets held for trading	735	
Financial liabilities measured at amortized cost	218,466	218,466
Financial assets held for trading	3,036	

in balance sheet IAS 39				
Acquisition cost	Fair value through profit and loss	Carrying amount according to IAS 11	Carrying amount according to IAS 17	Fair value Dec. 31, 2007
				47,613
				138,938
		28,579		28,579
862				-
				15,731
	735			735
				77,764
		2,562		2,562
				108,590
				34,632
			10,857	11,016
				165
	3,036			3,036
				202,282
862				-
	735			735
				218,466
	3,036			3,036

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

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

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

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

As regards financial liabilities, non-current liabilities due to banks are determined using a fixed interest rate, while the value of the finance lease liabilities and the liabilities from profit participation rights is determined based on the present value of the expected future cash flows. Discounting is based on the prevailing market interest rates with reference to the terms concerned; terms are classified into those falling due between one and five years and terms of more than five years. If there is objective evidence that the credit risk has changed since the liability was entered into, this is taken into account when determining the discount rate. As regards the current liabilities to banks, it is assumed that the carrying amount of these financial instruments approximates their fair values owing to the short terms to maturity.

Net Gains or Net Losses

The following table presents the net gains or net losses from financial instruments recognized in the income statement:

EUR k	**2008**	2007
Financial assets and financial liabilities at fair value through profit and loss	311	-1,654
Held-for-sale financial assets	0	19
Loans and receivables	-3,796	-768
Financial liabilities at amortized cost	-716	121

The net gains and net losses from financial assets and financial liabilities at fair value through profit and loss include the results of changes in fair value and from interest income and expenses from these financial instruments.

The net gains from held-for-sale financial assets are gains on disposal.

The net gains and net losses from loans and receivables mainly include results from impairment losses.

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

In fiscal 2008, the sum of the positive market values of derivative financial instruments came to EUR 0.5 million (prior year: EUR 0.7 million), while the sum of their negative values came to EUR 0.6 million (prior year: EUR 3.0 million).

In the course of its business operations, the Homag Group is exposed to interest and currency risks. One aim of the risk management system is to hedge against adverse effects on 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 the international nature of its business, the Homag Group is exposed to currency risks for various foreign currencies. Consequently, the hedging strategy focuses on a general hedge of foreign currency amounts at the time a claim or obligation denominated in foreign currency arises. For this purpose, derivative financial instruments are entered into with banks or cash inflows are offset against cash outflows. The hedged items can relate to forecast transactions, for which hedging instruments with short terms to maturity (< one year) are used to hedge against their respective exchange rate risks. Within the Homag Group, derivative financial instruments are only used to hedge against currency, interest and fair value risks from the operating business or to reduce the resulting financing requirements. The Homag Group records the changes in fair value of all derivative financial instruments in the reporting period. The market values of derivative financial instruments are disclosed under other financial assets or other financial liabilities.

7.2 Financial Risk Management Objectives and Policies

General Information on Financial Risks

The Group's principal financial instruments, other than derivative financial instruments, comprise bank loans and overdrafts, profit participation capital, finance leases and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and loans granted, which arise directly from its operations.

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

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

Credit Risk

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

The Group trades only with creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The existing trade receivables are due from a large number of customers distributed across different regions. The majority of debtors are entities active in the wood processing industry (including the furniture industry and cabinet makers) as well as wholesale machine retailers, whereby the title is generally retained on the goods delivered. Credit insurance is concluded on a case-by-case basis. In addition, receivable balances are monitored on an ongoing basis. The Group's exposure to risk of default is therefore not significant.

The Group is not exposed to significant credit risk from any individual contractual party or group of contractual parties with similar characteristics. The credit risk attaching to liquid funds is low, since the contractual parties are banks with excellent credit ratings from international credit rating agencies. There are no liquid funds past due or impaired at present due to default.

The maximum credit risk from financial assets (including derivatives with positive market value) is equivalent to the carrying amounts recognized in the balance sheet. The maximum credit risk amounts to EUR 205,718 million as of the balance sheet date (prior year: EUR 232,458 million). The Group has not issued any financial guarantees that could increase its credit risk exposure.

Liquidity Risk

Liquidity risk describes the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group continually monitors the risk of being faced with a shortage of funds. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, loans and finance lease agreements. The Group controls its liquidity by maintaining sufficient cash and cash equivalents and lines of credits at banks in addition to cash inflows from operating activities. In addition, the main group entities have access to liquid funds via a syndicated loan agreement in place between Homag Group AG and a syndicate of banks. From the syndicated loan agreement and bilateral agreements entered into between the group entities, the Group had undrawn lines of credit (bank deposits are deducted from the amounts drawn in some cases) of EUR 158 million as of December 31, 2008 (prior year: EUR 165 million).

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

EUR k	Carrying amount Dec. 31, 2008	Estimated cash flows in the year/years 2009	2010	2011-2013	2014 et seq.
Trade payables	55,603	55,603	0	0	0
Liabilities from long-term construction contracts	1,931	1,931	0	0	0
Financial liabilities					
Liabilities to banks	117,104	47,266	64,317	23,738	11,399
Profit participation capital	30,175	2,860	2,260	31,956	0
Lease liabilities	8,861	4,451	4,474	543	14
Derivative financial liabilities					
Derivatives without hedging relationship	556	196	224	0	0

EUR k	Carrying amount Dec. 31, 2007	Estimated cash flows in the year/years 2008	2009	2010-2012	2013 et seq.
Trade payables	77,764	77,654	0	0	0
Liabilities from long-term construction contracts	2,562	2,562	0	0	0
Financial liabilities					
Liabilities to banks	109,029	26,937	14,156	79,503	6,140
Profit participation capital	31,673	3,205	3,205	40,956	0
Lease liabilities	10,857	5,494	3,831	2,423	27
Derivative financial liabilities					
Derivatives without hedging relationship	3,036	859	817	1,167	65

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 17% (prior year: 18%) of the Group's sales revenue is generated in currencies other than the euro. Currency risks are hedged close to the market at the respective sales companies, rather than centrally. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

Overall, the Group is exposed to manageable currency risks, since a large portion of sales revenue is generated in Europe and invoices are issued in euro, even for countries outside of the euro zone. Having said that, it is not possible to completely absorb currency fluctuations of the magnitude experienced in the fourth quarter of 2008 in the UK, Canada, Australia, Brazil and Poland, for instance. Exchange rate losses were thus incurred by the Group.

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

	Effect on pre-tax result	
EUR k	**2008**	2007
Increase in value of EUR against other currencies +10%	779	720
Decrease in value of EUR against other currencies -10%	-694	-673

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

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

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

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

EUR k	Effect on pre-tax result 2007
10% increase in value of EUR against the Polish złoty	-251
10% increase in value of EUR against the pound sterling	66
10% increase in value of EUR against the Canadian dollar	73
10% increase in value of EUR against the Singapore dollar	459
10% increase in value of EUR against the Swiss franc	287
10% increase in value of EUR against the Brazilian real	140
10% increase in value of EUR against the Korean won	34
10% increase in value of EUR against the Indian rupee	-81
10% increase in value of EUR against the Australian dollar	0
10% increase in value of EUR against other currencies	-7
TOTAL	**720**

EUR k	Effect on pre-tax result 2007
10% decrease in value of EUR against the Polish Złoty	205
10% decrease in value of EUR against the pound sterling	-58
10% decrease in value of EUR against the Canadian dollar	-57
10% decrease in value of EUR against the Singapore dollar	-375
10% decrease in value of EUR against the Swiss franc	-330
10% decrease in value of EUR against the Brazilian real	-115
10% decrease in value of EUR against the Korean won	-28
10% decrease in value of EUR against the Indian rupee	66
10% decrease in value of EUR against the Australian dollar	0
10% decrease in value of EUR against other currencies	19
TOTAL	**-673**

Interest Rate Risk

The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s non-current financial liabilities with floating interest rates. The Group’s policy is to manage its interest cost using a mix of fixed and variable rate debts. In addition, the risk of rising interest rates is hedged by contracting interest derivatives – primarily interest rate swaps. As of December 31, 2008, 50.1% of the financial liabilities entered into were subject to fixed rates of interest (prior year: 50.1%).

The table below shows the sensitivity of pre-tax consolidated profit or loss to a reasonably possible change in the interest rates (due to the effect on the variable interest loans and variable interest receivables). All other variables remain constant. Group equity is not affected directly.

	2008		2007	
Change in interest rate in base points	+150	-150	+100	-100
Effect on Group earnings before tax	-827	1,131	-1,823	1,457

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:

	2008		2007	
EUR k	**Nominal value**	**Fair value**	Nominal value	Fair value
Currency hedges with a term of less than 1 year	2,561	379	4,524	431
Currency hedges with a term of between 1 and 5 years	33	141	3.000	-69
Currency hedges with a term of more than 5 years	0	0	0	0
TOTAL CURRENCY-RELATED TRANSACTIONS	**2,594**	**520**	**7,524**	**362**
Interest hedges with a term of less than 1 year	0	0	0	0
Interest hedges with a term of between 1 and 5 years	8,263	-415	5,412	49
Interest hedges with a term of more than 5 years	3,000	-141	24,000	-2,712
TOTAL INTEREST-RELATED TRANSACTIONS	**11,263**	**-556**	**29,412**	**-2,663**
TOTAL DERIVATIVES	**13,857**	**-36**	**36,936**	**-2,301**

The currency hedges primarily concern euro and Swiss francs.

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, 2008 and December 31, 2007.

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

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

The determination of the gearing for 2008 and 2007 is presented in the following table:

EUR k	**2008**	2007
Financial liabilities (without profit participation rights)	125,965	119,886
Other interest-bearing liabilities (without pension provisions)	0	165
GROSS FINANCIAL DEBT	**125,965**	**120,051**
Equity	183,946	166,135
Obligations from employee profit participation	10,597	9,814
Profit participation capital	30,175	31,673
TOTAL EQUITY WITHIN THE CAPITAL MANAGEMENT CONTEXT = OWN FUNDS	**224,718**	**207,622**
Gearing	0.6	0.6

7.3 Contingent Liabilities

The following assets were pledged as security for the Group's loans:

EUR k	**Dec. 31, 2008**	Dec. 31, 2007
Group-owned land and buildings	59,345	57,495
Group-owned technical equipment and machines	2,426	2,537
Group-owned other equipment, furniture and fixtures	814	0
Inventories	6,693	11,605
Trade receivables	6,534	6,097
Cash and cash equivalents	0	945
	75,812	**78,679**

In addition, obligations of the Group from finance lease agreements (see note 6.3) are secured by rights of the lessors' on the leased assets. The leased assets have a carrying amount of EUR 12,698 k (prior year: EUR 13,735 k).

Additional obligations of the Group break down as follows:

EUR k	**2008**	2007
Notes payable	3,282	6,179
Liabilities from guarantees	1,734	540
Liabilities from warranty agreements/ take-back obligations under lease agreements	3,499	3,984
Litigation risks	3,556	3,964
Other obligations	4,389	2,514
	16,460	**17,181**

Litigation Risks

The litigation risks of some EUR 3.7 million presented in the prior year at a foreign sales company remained as of December 31, 2008. In the interim, the dispute has been settled out of court. A provision had been recognized in fiscal 2008 to cover the costs incurred by the Company due to this settlement.

A dispute from the prior year was resolved at another foreign sales company in the third quarter of the year under review. The sales company in question reached an out-of-court agreement with the customer. The resulting expense for the Company amounted to approximately EUR 160 k. A provision was recognized accordingly.

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 entities concerned have formed provisions of suitable amounts to account for any financial burdens from other litigation or arbitration proceedings, or there is sufficient security to cover these items and this has been taken into account in the Group.

7.4 Notes on Segment Reporting

Use was made of the option to early adopt IFRS 8 (Operating Segments) in the following first-time presentation of the Homag Group's segments. The internal group structure was modified and adjusted to the segment structure pursuant to IFRS 8.

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

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

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

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 Business Solutions AG and the timber frame house construction division.

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 2007 and 2008, the annual general meeting elected Ernst & Young AG, Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, which have been our group auditors for some years, as the group auditors for the fiscal years 2007 and 2008.

The table below presents all of the fees invoiced by the group auditor for the last two fiscal years in the following categories: (1) Statutory audit, i.e. fees in connection with the statutory audit performed by the auditor in accordance with the articles of incorporation and bylaws or regulatory requirements invoiced in the fiscal years in question; (2) other assurance and valuation 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 and valuation work or tax advisory services. All amounts are net of VAT.

EUR k	**2008**	2007
Statutory audit	936	708
Other assurance or valuation services	238	1,368
Tax advisory services	242	270
Other services	196	74
	1,612	**2,420**

In 2007, the other assurance and valuation services mainly included those relating to the IPO. The fees for tax advisory services including service fees contain fees for advisory and support services for filing tax returns.

7.6 Subsequent Events

Effective January 1, 2009, 51 percent of the shares in BENZ GmbH Werkzeugsysteme, Haslach, were assumed. A fixed amount was paid for the shares assumed, which was approximately six times the planned after-tax profit in 2009 (proportionately). A purchase price increase was also tied to the earnings actually generated in 2010. The speed with which this share purchase developed meant that the BENZ GmbH's IFRS data was not available so that the remaining disclosures required by IFRS 3.66 (b) could not be made by the date on which these notes to the consolidated financial statements were prepared.

In November 2008, Weeke North America, Inc. was established and the corresponding formalities initiated. Since no capital contributions had been paid in by the balance sheet date, there are no effects from the establishment until the financial statements are prepared for 2009. Apart from HOMAG Holzbearbeitungssysteme AG, which holds 30 percent of the shares, Weeke Bohrsysteme GmbH holds 51 percent and Stiles Machinery Inc. holds 19 percent. The contributions to capital were made in March 2009.

As regards the litigation risks of about EUR 3.7 million presented in the prior year at a foreign sales company, a settlement was reached out of court in February 2009. A provision had been recognized in fiscal 2008 to cover the costs incurred by the Company due to this settlement.

The Homag Group's start to 2009 has seen a much weaker order intake compared to prior years. Although there was a slight increase in order intake in the period January to February compared to the months of November and December, it was necessary to introduce forced leave at some of the Homag Group's sites in a concerted effort to compensate for the substantial decrease in order backlog.

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 intermediaries. 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 2008, the Homag Group is affected by the disclosure requirements of IAS 24 solely with respect to business relationships with associates, members of the management board and the supervisory board as well as shareholders that hold more than 20% of the shares in the parent company Homag Group AG.

There are liabilities from employee profit participation of EUR 47 k (prior year: EUR 30 k) attributable to members of the supervisory board.

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

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

	Group services and supplies for related parties		Services and supplies received by the Group from related parties	
EUR k	**2008**	2007	**2008**	2007
Associates	**58,541** [1]	**75,212** [1]	**2,277**	**3,766**

[1] *Sales revenue plus other operating income*

The above figures include amounts disclosed under other operating income or other operating expenses.

Transfer prices for intercompany sales are determined using a market-based approach in compliance with the arm's length principle. The related entities are sales and service companies that sell machines and spare parts to 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

Declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG was issued by the management board and the supervisory board on January 14, 2009. An up-to-date version is made permanently available to shareholders on Homag Group AG's homepage at www.homag-group.com.

8. COMPANY BOARDS

8.1 Supervisory Board

Torsten Grede (chairman), Frankfurt am Main, member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main, chairman of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch, and of AKsys GmbH, Worms, until November 21, 2008, member of the supervisory board of MCE AG, Linz, Austria, member of the board of directors of Clyde Bergemann Power Group, Inc., Delaware, USA, member of the advisory board of Grohmann Engineering GmbH, Prüm

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

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

Klaus M. Bukenberger, Schenkenzell, business consultant, chairman of the supervisory board of SICK AG, Waldkirch, member of the supervisory board of Pfleiderer AG, Neumarkt, until June 12, 2008, chairman of the advisory board of Leitz Holding GmbH & Co. KG, Oberkochen, member of the advisory board of Carl Mahr Holding GmbH, Göttingen and Rutronik GmbH, Ispringen, advisory director of Investcorp Group, London, UK, since January 1, 2008

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

Wilhelm Freiherr von Haller, Stuttgart, member of management of Deutsche Bank AG, Frankfurt am Main and member of the management committee for Germany of Deutsche Bank AG, Frankfurt am Main, member of the supervisory board of GEZE GmbH, Leonberg, member of the advisory board of Gühring OHG, Albstadt-Ebingen and of AESCULAP AG & Co. KG, Tuttlingen

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

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

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

Reinhard Löffler, Weil der Stadt, deputy chairman of the supervisory board of transtec AG, Tübingen, and until June 12, 2008 member of the supervisory board of Coveright Surfaces Beteiligungs GmbH, Düsseldorf,

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

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

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

* *Employee representative*

Supervisory Board Committees

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

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

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

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

8.2 Management Board

Dr. Joachim Brenk (CEO), Loßburg, board member for sales and marketing, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch

Achim Gauß, Dornstetten, board member for research and development, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch, member of the supervisory board of Schuler Business Solutions AG, Pfalzgrafenweiler and member of the supervisory board of Coveright Surfaces Beteiligungs GmbH, Düsseldorf since June 2008

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

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

Rolf Knoll, Dettingen an der Erms, board member for Group operations, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch, chairman of the management board of the specialist association for wood processing machines of VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], Frankfurt am Main

9. LIST OF SHAREHOLDINGS

	Status	Currency	Issued capital Dec. 31, 2008	Share in capital Dec. 31, 2008 %	Equity Dec. 31, 2008 in thousand	Profit/loss 2008 in thousand
GERMANY						
Direct shareholdings:						
Homag Holzbearbeitungssysteme AG, Schopfloch	(fc)	EUR	30,000,000.00	100.00	82,125	PLTA
Schuler Business Solutions AG, Pfalzgrafenweiler	(fc)	EUR	5,150,000.00	100.00 [1]	2,529	-273
Torwegge Holzbearbeitungsmaschinen GmbH, Löhne	(fc)	EUR	1,600,000.00	100.00 [2]	318	-831
Holzma Plattenaufteiltechnik GmbH, Holzbronn	(fc)	EUR	5,600,000.00	100.00 [3]	28,765	9,861
Brandt Kantentechnik GmbH, Lemgo	(fc)	EUR	4,000,000.00	70.00	21,546	4,251
MAW Montagetechnik GmbH, Herford	(fc)	EUR	17,550,000.00	100.00	-552	174
Wehrmann Maschinen Center GmbH [4], Barntrup	(nc)	EUR	2,500,000.00	43.82	1,087 [5]	-2,567 [5]
Indirect shareholdings:						
Homag Vertriebs-Beteiligungs GmbH, Schopfloch	(fc)	EUR	7,200,000.00	100.00 [6]	24,564	821
Ligmatech Automationssysteme GmbH, Lichtenberg	(fc)	EUR	6,650,000.00	95.23	7,869	1,215
Weeke Bohrsysteme GmbH, Herzebrock	(fc)	EUR	9,300,000.00	100.00	35,716	PLTA
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	7,892	717
Bütfering Schleiftechnik GmbH, Beckum	(fc)	EUR	370,000.00	51.00	881	-531
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	(fc)	EUR	1,000,000.00	51.00	6,237	2,665
Homag GUS GmbH, Schopfloch	(fc)	EUR	100,000.00	100.00 [6]	1,750	PLTA
Homag Finance GmbH, Schopfloch (formerly: Homag Leasing GmbH, Schopfloch)	(fc)	EUR	100,000.00	100.00 [6]	161	32
Homag India GmbH, Schopfloch	(nc)	EUR	400,000.00	100.00 [6]	13	-8 [7]
Homag Vertrieb & Service GmbH, Schopfloch	(fc)	EUR	300,000.00	100.00 [6]	746	570
Hüllhorst GmbH, Barntrup	(nc)	EUR	255,645.94	100.00	253	-2 [7]
Entwicklungs- und Innovationsgesellschaft Westfalen-Lippe mbH & Co. KG, Westfalen-Lippe	(nc)	EUR	34,512.20 [8]	34.78	19	8 [7]

[1] *Thereof 94.00% held by Homag Holzbearbeitungssysteme AG and 6.00% by Homag Group AG.*
[2] *Thereof 39.95% held by Homag Holzbearbeitungssysteme AG and 60.05% by Homag Group AG.*
[3] *Thereof 54.46% held by Homag Holzbearbeitungssysteme AG and 45.54% by Homag Group AG.*
[4] *Insolvency proceedings not yet completed*
[5] *Fiscal year from April 1, 2002 to March 31, 2003*
[6] *Precise overall shareholding: 95.39%*
[7] *Figures from fiscal year January 1 to December 31, 2007*
[8] *Partners' capital*
PLTA *Control and profit and loss transfer agreement with Homag Group AG or Homag Holzbearbeitungssysteme AG or Homag Vertriebs-Beteiligungs GmbH*
(fc) *Fully consolidated*
(nc) *Not consolidated*

	Status	Currency	Issued capital Dec. 31, 2008	Share in capital Dec. 31, 2008 %	Equity Dec. 31, 2008 in thousand	Profit/loss 2008 in thousand
INTERNATIONAL						
Indirect shareholdings:						
Homag Machinery Środa Sp. z o.o., Środa/Poland	(fc)	PLN (EUR	6,001,000.00 1,434,856.42	100.00 [9]	7,449 1,781	-4,375 -1,046)
Holzma Plattenaufteiltechnik S.A. Unipersonal L'Ametlla del Valles/Spain	(fc)	EUR	2,047,748.40	100.00	3,077	1,389
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo/Brazil	(fc)	BRL (EUR	16,192,675.00 4,930,327.62	100.00	9,276 2,824	718 219)
Homag Machinery (Shanghai) Co. Ltd. [10], Shanghai/China	(fc)	CNY (EUR	70,715,635.00 7,359,312.62	81.25[11]	123,824 12,886	13,129 1,366)
Homag Austria Gesellschaft mbH, Salzburg/Austria	(fc)	EUR	370,000.00	100.00[12]	912	219
Homag Italia S.p.A., Monza/Italy	(fc)	EUR	1,100,000.00	100.00[12]	2,827	274
Homag France S.A., Schiltigheim/France	(fc)	EUR	1,500,000.00	100.00[12]	8,096	1,469
Homag Asia (PTE) Ltd., Singapore/Singapore	(fc)	SGD (EUR	100,000.00 49,563.84	100.00[12]	-454 -225	-1,742 -863)
Homag Canada Inc., Mississauga, Ontario/Canada	(fc)	CAD (EUR	4,367,800.00 2,545,338.00	100.00[12]	13,426 7,824	890 519)
Homag Polska Sp. z o.o., Środa/Poland	(fc)	PLN (EUR	1,050,000.00 251,058.03	100.00[12]	10,820 2,587	898 215)
Homag Japan Co. Ltd., Osaka/Japan	(fc)	JPY (EUR	156,000,000.00 1,234,177.22	100.00[12]	304,350 2,408	-21,096 -167)
Homag Danmark A/S, Galten/Denmark	(fc)	DKK (EUR	1,970,000.00 264,365.66	100.00[12]	21,172 2,841	6,828 916)
Homag U.K. Ltd., Castle Donington/UK	(fc)	GBP (EUR	2,716,778.00 2,829,977.08	100.00[12]	707 736	-1,413 -1,472)
Schuler Business Solutions S.L., Cullera/Spain	(fc)	EUR	301,000.00	100.00	245	42
Homag Korea Co. Ltd., Seoul/Korea	(fc)	KRW (EUR	320,970,000.00 180,828.17	54.55[13]	158,007 89	-413,693 -233)
Holzma Tech GmbH, Assenovgrad/Bulgaria	(nc)	BGN (EUR	370,000.00 189,161.55	100.00	868 444	86[14] 44)
Stiles Machinery Inc., Grand Rapids/USA	(e)	USD (EUR	25,806.00 18,463.19	22.00	30,279 21,663	872[14] 624)
Weeke North America Inc. [15], Grand Rapids/USA	(fc)	USD	-	81.00	-	-
Homag España Maquinaria S.A., Montmeló/Spain	(fc)	EUR	1,211,300.00	100.00[12]	2,525	-28

9) Precise overall shareholding: 96.65%
10) An additional 18.75% of share was assigned to Homag Holzbearbeitungssysteme AG, Schopfloch as collateral for a loan with a term until 2009 granted to Homag China Golden Field Ltd., Hong Kong, China.
11) Precise overall shareholding: 74.15%
12) Precise overall shareholding: 95.39%
13) Precise overall shareholding: 52.03%
14) Figures from fiscal year January 1 to December 31, 2007
15) The company was established in 2008. Homag Holzbearbeitungssysteme AG assumed a share of 30%. Weeke Bohrsysteme GmbH assumed a share of 51%. Outstanding contributions have not been called in as of the balance sheet date.
(fc) Fully consolidated
(nc) Not consolidated
(e) Consolidated at equity

	Status	Currency	Issued capital Dec. 31, 2008	Share in capital Dec. 31, 2008 %	Equity Dec. 31, 2008 in thousand	Profit/loss 2008 in thousand
INTERNATIONAL						
Indirect shareholdings:						
Homag China Golden Field Ltd., Hong Kong/China	(e)	HKD (EUR	27,000,000.00 2,492,545.44	25.00	81,609 7,534	7,262[17] 670)
Homag South America Ltda., São Paulo/Brazil	(fc)	BRL (EUR	2,014,531.00 613,382.15	100.00[16]	-2,763 -841	-3,806 -1,159)
Homag Australia Pty. Ltd., Sydney/Australia	(fc)	AUD (EUR	5,309,158.62 2,620,900.74	100.00[16]	487 240	-3,156 -1,558)
Homag (Schweiz) AG, Bachenbülach/Switzerland	(fc)	CHF (EUR	200,000.00 134,589.50	100.00[16]	5,878 3,956	1,768 1,190)
Schuler Business Solutions S.A.R.L. [18], Strasbourg/France	(nc)	EUR	50,000.00	100.00	-126	-44[17]
Bütfering Qinhuangdao Machinery Manufacturing Co. Ltd. [19], Qinhuangdao/China	(nc)	CNY (EUR	2,395,681.75 249,316.45	100.00	3,261 339	-165[20] -17)
OOO "FAYZ- Homag GUS", Taschkent/Uzbekistan	(nc)	USD (EUR	174,000.00 124,490.23	33.00	not available	not available)
OOO "Homag Russland" Moscow/Russian Federation	(fc)	RUB (EUR	357,215.00 8,451.79	99.00[16]	26,598 629	6,329 150)
Homag India Private Ltd., Bangalore/India	(fc)	INR (EUR	171,425,010.00 2,505,114.86	99.90[16]	79,051 1,155	-68,182 -996)
RAMU Machinery Private Limited, Bangalore/India	(nc)	INR (EUR	11,500,000.00 168,054.95	52.17	2,249 33	-4,141[17] -61)
HA Malaysia Sdn. Bhd., Kuala Lumpur/Malaysia	(fc)	MYR (EUR	250,000.00 51,334.70	100.00	-1,226 -252	-761 -156)
HA (Thailand) Co. Ltd., Bangkok/Thailand	(fc)	THB (EUR	2,000,000.00 40,937.47	100.00	-11,835 -242	-6,868 -141)

[16] *Precise overall shareholding: 95.39%*
[17] *Figures from fiscal year January 1 to December 31, 2007*
[18] *Company is being dissolved*
[19] *Company is being liquidated*
[20] *Figures from fiscal year January 1 to December 31, 2004*
(fc) Fully consolidated
(nc) Not consolidated
(e) Consolidated at equity

10. OTHER NOTES

The exemption provision pursuant to Sec. 264 (3) HGB was exercised for Weeke Bohrsysteme GmbH, Herzebrock, Friz Kaschiertechnik GmbH, Weinsberg, and Homag Holzbearbeitungssyteme AG, Schopfloch.

Declaration of the Legal Representatives (Group)

Declaration of the Legal Representatives

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

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

Schopfloch, March 20, 2009
Homag Group AG

The Management Board

DR. JOACHIM BRENK   ACHIM GAUSS

ANDREAS HERMANN   HERBERT HÖGEMANN   ROLF KNOLL

Audit Opinion on the Consolidated Financial Statements

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

Audit opinion

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

"We have audited the consolidated financial statements prepared by Homag Group AG, Schopfloch, comprising the income statement, the balance sheet, cash flow statement, statement of changes in equity, the statement of recognized income and expense and notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart, March 20, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

MÜLLER-MARQUÉS BERGER	VÖGELE
Wirtschaftsprüfer	*Wirtschaftsprüferin*
[German Public Auditor]	*[German Public Auditor]*

Management Report (AG) for Fiscal Year 2008

1. BUSINESS AND GENERAL ECONOMIC CONDITIONS

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

1.1 Background

Development of the Economy

A phase of robust global economic expansion ended in 2008. Following a promising start to the year, the slowdown became increasingly evident from the middle of the year, especially during the dramatic escalation of the financial market crisis in September. According to the IfW ["Institut für Weltwirtschaft": Institute for World Economy], the downturn in many industries essentially brought global activity to a halt at year-end 2008. Overall, the global economy grew by 2.7 percent in 2008 thanks to the good start to the year, after generating growth of 3.9 percent in 2007 according to the DIW ["Deutsche Institut für Wirtschaftsforschung": German Institute of Economic Research].

Despite a fairly strong rise in production at the start of the year, the leading industrialized nations had slid into recession by the end of 2008 as the economy gradually weakened over the course of the year. Nevertheless, these countries were able to increase their gross domestic product (GDP) slightly by 1.0 percent on average. The US economy grew by 1.2 percent while Japan recorded growth of 0.1 percent. Emerging economies are also increasingly feeling the downturn, although some exhibited fairly high growth rates again in 2008. According to IfW and DIW data, China achieved GDP growth of over 9 percent, India and Russia grew by a solid 6 percent, while Latin America as well as East Asia excluding China and Japan grew by more than 4 percent.

Europe has also been hit by the economic downturn as is manifested by the mere 1.0 percent increase in GDP in 2008 in the European Union (calculations of the European Commission). Growth in the euro zone reached 0.9 percent. Slovenia, Slovakia, Greece and the Netherlands still fared quite well, while economic output in Ireland and Italy had already shrunk. Eastern European accession countries did somewhat better – Poland, Romania, the Czech Republic and Bulgaria were able to maintain a growth level in excess of 4 percent.

The German economy also edged into recession during 2008. Virtually all economic indicators deteriorated drastically towards the end of the year and GDP decreased significantly in the final quarter. Consequently, the growth rate of 2 percent that had been forecast at the beginning of 2008 could not be reached and GDP rose by a mere 1.3 percent. Export growth came to 3.9 percent.

Mechanical and Plant Engineering

According to the VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], 2008 proved to be another good year for the German mechanical and plant engineering industry with a rise of production of 5.4 percent in real terms. However, order intake had already weakened considerably by the fourth quarter both in Germany and abroad. Indeed, between October and December 2008 it decreased significantly by 29 percent against the comparable prior-year period in 2007, orders were down 40 percent in December of 2007 alone.

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

The industry grew in 2008 for the fifth consecutive year, although this was mainly due to the healthy order backlog at the beginning of the year. German manufacturers of wood processing machines recorded growth in real sales revenue of about 6 percent, although this is partly attributable to the continued healthy revenue generated with suppliers of the saw and timber industry, a market in which the HOMAG Group is not active. By contrast, the market relevant to the HOMAG Group shrunk in 2008 in the wake of economic developments by some 7 percent to about EUR 3.2 billion.

Following the past years of growth, a turning point was already apparent as 2008 progressed. Indeed, data from the relevant industry association within the VDMA suggests that order intake declined by 23 percent in 2008 compared to the prior year. The decline was roughly equal in Germany and abroad. In December alone, order intake decreased by 80 percent.

1.2 Development and Structure of the Group

Legal and Company Structure

HOMAG Group AG is a holding company and does not have operating activities. Its main tasks as the parent and controlling company are to establish and supervise the Group's strategy, to manage investments and liquidity. It holds 100 percent of the shares in HOMAG Holzbearbeitungssysteme AG (hereinafter also referred to as "HOMAG AG"), which has operating activities and is one the of the largest companies in the HOMAG Group, apart from being the management company of a large number of subsidiaries in each of which it holds the majority interests. As of December 31, 2008, the Group had ten German and five foreign production entities as well as 21 sales and service entities.

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

The following changes were made to the corporate structure in fiscal 2008:

- At the end of 2008, FRIZ Kaschiertechnik GmbH entered into a profit and loss transfer agreement with HOMAG Holzbearbeitungssysteme AG
- SCHULER Business Solutions France was dissolved effective December 31, 2008.

Company Structure

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

The Cabinet Shops segment encompasses the group entities focus on products catering for the special requirements of smaller workshops. Apart from high quality and productivity, the market wants simple operation and flexible applications at a competitive price.

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

The Other segment primarily comprises the holding activities of HOMAG Group AG, foreign production facilities in regions with potential in the future, the services division with the software and consulting portfolio of SCHULER Business Solutions AG and the timber frame house construction division.

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

Main Features of the Remuneration System

Remuneration of the Management Board

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

The direct remuneration is made up of a fixed salary and a variable performance-based component. The variable component consists of a short-term and a long-term incentive system and is based on indicator-based targets. It is also capped. There are no stock option plans. The members of the management board are not remunerated for board functions at subsidiaries.

The existing management board contracts do not currently include nor have they in the past included a general cap on severance payments to a maximum of two annual salaries in the event of early termination of service on the management board. Nor are severance payments currently capped at 150 percent in the event of the early termination of service on the management board due to change of control. However, there are plans to introduce a severance payment cap as management board contracts are concluded or prolonged in the future.

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

Fixed remuneration

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

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

Variable remuneration component

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

The STI is based on the value added (VA) as an indicator of the increase in value of HOMAG Group AG. The STI is calculated on a straight-line basis from a positive VA greater than 0.00 percent up to a fixed indicator (5.5 percent VA) and is paid out in this amount. The STI is capped at this indicator.

As an incentive system with long-term effect, the LTI bonus is based on fixed targets for the price development of the HOMAG Group share. To obtain the LTI bonus, the accumulated VA over the fiscal years 2007, 2008 and 2009 (reference period) must also be positive. This basic LTI bonus, which is also determined on a straight-line basis, is capped at 18 percent VA.

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

In a first step, the increase in the value of the share between the first listing (relative opening price) and the end of the reference period (relative closing price) is determined; the supervisory board considers this in its evaluation of the value development of the share price.

If the share price increases by up to 70 percent – relative closing price starting from the relative opening price – the second part of the LTI bonus, a mark-up amount (also calculated on a straight-line basis) is due for payment.

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

The LTI bonus is paid out in two installments, 50 percent no later than the annual general meeting in the fiscal year 2009, the second after the annual general meeting in the fiscal year 2010.

Remuneration of the Supervisory Board

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

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

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

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

Directors and Officers Liability Insurance (D&O insurance) has been taken out by the Company for the supervisory board members. The existing D&O insurance only provides for a deductible for US damages for all persons covered by the insurance.

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

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

Restrictions relating to the voting rights or transferability of Shares (No. 2): The management board is not aware of any restrictions, especially arising from agreements between shareholders, concerning voting rights. Regarding trading restrictions, we refer to the lock-up agreed in the course of the IPO. In accordance with the lock-up agreement, existing shareholders and members of management holding shares at the time of the IPO have an obligation to the syndicate of banks to refrain from directly or indirectly offering, selling, or marketing their shares in the Company, or announcing intention of this without prior agreement of Dresdner Kleinwort and JPMorgan for a period of six months (shareholders pre-IPO) or eighteen months (members of the management board) following the Company's IPO on the official market.

Direct or indirect capital investments exceeding 10 percent (No. 3): Only Deutsche Beteiligungs AG and the parallel funds managed by it hold a capital investment and voting right in the Company of greater than 10 percent.

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): No employees who cannot exercise their rights of control directly have an interest in capital of HOMAG Group AG.

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

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

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

It is also responsible for appointing the chairperson and the deputy chairperson of the management board.

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

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

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

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

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

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

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

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

b) *Authorization to purchase treasury shares:* Pursuant to Sec. 71 (1) No. 8 AktG, the Company is authorized, with the approval of the supervisory board, to purchase treasury shares up until November 30, 2009 with an imputed share in share capital of EUR 1,568,800. The Company may not use the authorization to trade with treasury shares. The Company can exercise the authorization wholly or in part, once or several times. The management board can choose to purchase the treasury shares either a) from the stock exchange or b) from a public offer made to all shareholders.

Subject to the approval of the supervisory board, the management board is authorized to redeem the treasury shares purchased pursuant to this authorization without requiring any further resolutions by the annual general meeting. Moreover, subject to the approval of the supervisory board, they can be sold in a way other than on the stock exchange, provided that the treasury shares are purchased in exchange for contributions in cash and at a price that does not fall materially short of the quoted price of the same category of the Company's shares at the time of the sale. The total imputed share in share capital attributable to the number of treasury shares sold under this authorization together with the imputed share in share capital attributable to new shares issued, while precluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG directly or by analogy, since the resolution granting this authorization was passed, may not exceed a total of 10 percent of the share capital as of the date on which this authorization is exercised.

Subject to the approval of the supervisory board, the management board is also authorized to offer the treasury shares purchased under the aforementioned authorization to third parties in the course of business combinations or for the purpose of acquiring entities, parts of entities or equity investments. The price at which the Company's shares are sold to third parties may not fall short by more than five percent (excluding incidental purchase costs) of the average closing rate the Company's shares in XETRA trading (or a functionally comparable successor system taking the place of the XETRA system) on the Frankfurt am Main stock exchange during the five trading days prior to the agreement with the third party. Shareholders' subscription rights are thus precluded.

Material agreements of the company subject to the condition of a change of control as a result of a takeover bid (No. 8): HOMAG Group AG is party to a syndicated loan agreement governing a syndicated loan of EUR 180,000,000.00. Under this syndicated loan agreement, the banks are entitled to cancel for due cause some or all of the syndicated loans granted and demand their immediate redemption. Due cause includes in particular cases in which a third party (a person a group of people acting together) purchase at least 50 percent of the voting rights and/or at least 50 percent of the share capital of HOMAG Group AG. For this purpose, voting rights are allocated pursuant to Sec. 30 WpÜG ["Wertpapiererwerbs- und Übernahmegesetz": Securities Acquisition and Takeover Act]. Third parties include all persons, with the exception of the shareholders of HOMAG Group AG as of February 15, 2007.

Compensation agreements of the company with the members of the management board and employees in the event of a takeover bid (No. 9): The Company has not entered into compensation agreements with the members of the management board or employees in the event of a takeover bid.

Corporate Management

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

2. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

2.1 Results of Operations

When comparing the results of operations of HOMAG Group AG to the prior-year figures it has to be taken into account that costs totaling EUR 4.5 million were incurred in the prior year in connection with the IPO. Other operating expenses decreased as a result in the past fiscal year.

Income of EUR 26.3 million (prior year: 28.7 million) was recorded from the profit and loss transfer agreement in place with Homag Holzbearbeitungssysteme AG. Despite this slight year-on-year decrease, the net profit for the year increased from EUR 21.6 million to EUR 23.4 million because of the non-recurring costs incurred in the prior year.

Taking account of the profit carryforward from the prior year and the distribution of dividends, the retained earnings as of the balance sheet date came to EUR 40.5 million (prior year: EUR 31.2 million).

2.2 Net Assets and Financial Position

Total assets rose from EUR 153.7 million to EUR 159.7 million. The increase in net assets was mainly the result of a rise in receivables from affiliated companies in relation to the profit and loss transfer agreement in place with HOMAG AG. This was offset by the reduction in other assets, partly due to the sale of the property in Herford in February 2008, as well as the change in cash and cash equivalents.

Due to the good results, equity now stands at EUR 91.4 million (prior year: EUR 82.1 million). This brought about an improvement in the equity ratio to 57 percent (prior year: 53 percent) of total assets.

In 2008, HOMAG Group AG carried out a distribution of 90 cents per share, bringing the total dividend up to EUR 14.1 million.

HOMAG AG has agreed short-, medium- and long-term bilateral credit facilities with a syndicate of banks in order to secure the liquidity of HOMAG Group AG. Subsidiaries and their subsidiaries can draw on these lines of credit.

Both the Company and the Group as a whole have sufficient liquidity and a financial buffer appropriate for the volume of business. There are no financial risks at present that could jeopardize the continuation of the Company as a going concern. The HOMAG Group’s net liabilities to banks amounted to EUR 51.2 million in the year under review compared to the prior-year figure of EUR 47.6 million.

3. SUBSEQUENT EVENTS

Effective January 1, 2009, we assumed 51 percent of the shares in BENZ GmbH Werkzeugsysteme, Haslach. The antitrust authorities granted the permission required. With BENZ GmbH, we have acquired a well-positioned manufacturer of tools and assemblies that combines high performance with high precision and targets the metal, wood and plastics processing industries. We have known the company well for many years as a reliable system supplier. The new subsidiary has some 230 employees and plans to generate unconsolidated sales revenue in 2009 of approximately EUR 35 million. The new purchase price was agreed implicitly. A fixed amount was paid for the shares assumed, which was approximately six times the planned after tax profit in 2009 (proportionately). A purchase price increase was also agreed depending on the earnings actually generated in 2010. BENZ GmbH's profitability exceeds that of the HOMAG Group.

The Homag Group's start to 2009 has seen a much weaker order intake compared to prior years. Although there was a slight increase in order intake in the period January to February compared to the months of November and December, it was necessary to introduce forced leave at some of the Homag Group's sites to vehemently compensate for the substantial decrease in order backlog.

4. RISK REPORT

As a company with operations around the globe, the HOMAG Group AG is naturally exposed to a large number of risks which are inextricably linked to entrepreneurial activity. With the efficient risk management system that has been implemented, we actively counter such uncertain factors in a bid to detect risks early and continually, to manage these and to thus mitigate any consequences for the Group. The management board and supervisory board are regularly informed of risks that could have a material impact on the development of business. At present there are no recognizable risks to the continued existence of HOMAG Group AG as a going concern.

Risk Management

The HOMAG Group AG's risk management system is essentially supported by the management accounting system. It includes project controlling, cost object controlling and detailed segment reporting. A balanced scorecard is the central element of the system. It is based on the establishment of objectives, which are monitored based on the monthly reporting by the individual business units. In the course of multiple-year planning, financial data and non-financial data – what is referred to as scorecard indicators – are defined, and their compliance is monitored by management accounting. The scope of the analysis includes data relating to market penetration, innovation power or employee satisfaction. The risks to the Group or its subsidiaries subject to mandatory monitoring or reporting are regularly monitored and, in the event of unexpected developments, notified to the management board and supervisory board immediately.

In the past fiscal year, we systematically enhanced our risk management system, thus further improving the system for the early recognition of risk as well as the response capabilities. We have since implemented throughout the entire Group the risk management manual that was developed in 2007 for HOMAG Group AG. We have also implemented a risk inventory throughout the entire Group in 2008. This is used to determine the value at risk and to report to the supervisory board. During their audit of the financial statements, our auditors reviewed the risk management system that we have established.

In cooperation with external specialists, we further expanded the internal audit system during the year under review. All material group entities are audited within a cycle of three to five years. A production and sales company has thus already been audited in the second half of 2008. The audit did not lead to any material findings or raise any objections.

Economic Risks

The business development of the markets relevant to us and the corresponding impact on our customers' propensity to invest can pose a significant risk for the continued development of HOMAG Group AG as a company active in the capital goods industry. Although our global presence allows us to compensate for crises in individual regions, an economic crisis of global proportions will naturally adversely impact the HOMAG Group's order situation.

This was the case in the second half of the year, and particularly in the final months of 2008, as many companies found it increasingly difficult to finance investments owing to the financial crisis while investment was hampered in many markets by the encroaching recession. We respond to this overall economic risk by maintaining our personnel capacities as flexible as possible and adjusting our production plan early to developments in order intake.

Customer Risks

Business with large-scale systems for industrial customers constitutes a key segment for the HOMAG Group. Nevertheless, the Company is not dependent on a single customer or a small group of customers, since no single customer generates more than 5 percent of total sales revenue. There is a risk attaching to bad debts, which we mitigate by obtaining advance payments based on the stage of completion of projects and by taking out insurance on a case-by-case basis. Overall, this approach has rewarded us with a low ratio of bad debts compared to other companies in the industry.

Product and Development Risks

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

From standard machines for small workshops to complex production lines for industrial mass production, we have a wide range of products. The broad scope of the product range means that weak sales revenue in one product segment would not lead to risks to the Group's ability to continue as going concern.

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

Quality Risks

Quality is prioritized throughout the HOMAG Group. The premium quality of our products also sets us apart from the competition. Notwithstanding this, it is not possible to completely rule out a quality risk in view of the complexity of our machines. In order to mitigate the risks of product liability and warranty claims we use a comprehensive total quality management system while ensuring a uniform high product quality based on a high degree of standardization. The majority of our production sites are certified pursuant to DIN ISO 9000, which testifies to the high standard of our quality assurance system.

Currency Risks

Currency risks can arise from our international activities, which indirectly can have a negative impact on the Group's sales revenue and results of operations. With the help of experts, we analyzed and optimized our currency flows in the year under review in order to minimize risks. We contract derivative financial instruments on a small scale. We consider currency risks to be low overall on account of the fact that the majority of sales revenue is generated in Europe and invoices are issued in euro, even for countries outside of the euro zone. Having said that, we are not able to completely absorb currency fluctuations of the magnitude experienced in the fourth quarter of 2008 in the UK, Canada, Australia, Brazil and Poland, for instance. We therefore suffered exchange rate losses in the Group.

Liquidity and Financing Risks

We secured our liquidity in the medium term by entering into a syndicated loan agreement in July 2007 that is contingent on us complying with certain covenants. The 10-year loan amounting to EUR 7.5 million that we obtained in the midst of the financial and banking crisis of 2008 to finance the new building in Schopfloch highlights the high credit standing that we hold with banks. Consequently, there are at present no currently discernable financial risks that could jeopardize the continuation of the Company as a going concern.

5. OUTLOOK

Development of the Economy and Industry

The global downturn worsened substantially following the escalation of the financial market crisis in the fall of 2008. As a result, the IfW expects a sharp deterioration in the global economy in 2009 and forecasts marginal growth of 0.4 percent for the world economy. Moreover, global trade is expected to decline. Indeed, the economic slowdown is expected to be even more severe in industrial nations in the first few months of 2009, and economic experts anticipate a contraction of GDP of 1.8 percent. At the same time, the IfW expects the

US and Japanese economies to each shrink by 1.5 percent. Capital expenditures in both countries are expected to fare particularly badly, with a forecast decrease of about 10 percent in the US for instance. The prospects of emerging economies have also deteriorated, weighed down by weaker exports. The IfW and DIW expect China's GDP to grow by about 6 percent and India's by about 5 percent. Latin America is expected to practically stagnate, while the forecast growth of about 2 percent in East Asia (excluding China and Japan) and Russia represents a clear break from the performance of past years.

For the European Union, the IfW and the EU Commission anticipate the most severe production collapse since its foundation. Both institutions expect the economy to contract in 2009 by between 1.8 percent and 2.3 percent. This is expected to be coupled with a decrease in capital expenditures of as much as 5 percent. Euro zone countries such as Ireland, Italy and Spain will be particularly hard hit by the recession. Forecasts for eastern European accession countries are a little more positive, with the economies of Bulgaria, Romania, Poland and the Czech Republic even exhibiting slight growth. As far as Germany is concerned, the German government and the EU Commission anticipate a decrease in GDP of 2.3 percent, which would make it the deepest recession in the history of the Federal Republic of Germany. Indeed, the IfW anticipates a decrease of 2.7 percent. This is largely due to the high dependence of Germany's economy on exports, a sector that the federal government expects to contract by about 9 percent. Gross capital expenditures are expected to decrease by 5 percent.

All economic analysts agree, however, that the forecast uncertainty is unusually high as a result of a financial crisis whose duration and effects are still difficult to predict.

In view of the very weak order intake in the fourth quarter of 2008, the VDMA anticipates in Germany a 7 percent decrease in the production of plant and machines in real terms in 2009. According to VDMA, the decrease is partly attributable to growing uncertainty among many customers in Germany and abroad, which has resulted in a collapse of investment and consumption activity on a broad front. The industry association within the VDMA responsible for wood processing machines anticipates a period of economic drought in 2009, since even the regions that had generated strong growth in the past are not producing any impetus. The forecast made in November 2008, which anticipated a decrease in sales revenue of 5 percent for 2009, is now considered optimistic by the trade association, which now expects a more severe decline.

Forecast for HOMAG Group AG

Due to the significantly weaker global economy with recessions forecast in numerous countries and the resulting contraction of markets in our industry, we expect 2009 to be a challenging year for HOMAG Group AG. It is not possible at present to venture serious forecasts as to exactly how harsh the economic crisis will be or how long the current reluctance to invest will prevail in our industry. The following forecasts are therefore made on the assumption that the conditions prevailing in the economy and the industry will not deteriorate further, failing to match expectations at the beginning of 2009.

After the order intake in the fourth quarter of 2008 was weaker than expected, we started fiscal 2009 with an order backlog of EUR 164 million including the orders of BENZ GmbH Werkzeugsysteme, an entity acquired by the Group on January 1, 2009 (December 31, 2007: EUR 255 million). It should be taken into account, however, that the order backlog as of the end of 2007 was exceptionally high. As of December 31, 2006, for instance, it stood at EUR 193 million. Nevertheless, the start to the current fiscal year was difficult and we anticipate a stark decrease in sales revenue and earnings both in the first quarter and the first half of 2009 vis-à-vis the comparable prior-year period of 2008. For the first two quarters of 2009, we even expect negative results.

However, we have done everything within our power to shore up for a weaker market phase and have prepared the Group for the future with the introduction of the leaner structures and more efficient processes. We have also become much more flexible and have far greater scope to influence variable costs. Particularly in the area of personnel, we can use temporary employment arrangements, contract workers, vacation and non-working shift accounts and targeted forced leave arrangements means that we can react proactively and quickly to market fluctuations.

Our position as global market leader and as a strong group with worldwide operations affords us a clear edge over smaller competitors. We therefore want to take advantage of the current conditions to increase our market share. We also continue to assess potential acquisition opportunities in the fields of technology, surface processing and the cabinet shops business and believe that we will be able to take advantage of the current weak market phase and negotiate acceptable terms. Further expansion of our distribution network worldwide remains our strategic objective.

At the start of November and in the report on the third quarter of 2008, we issued a forecast predicting a decrease in sales revenue in 2009 of about 10 percent to some EUR 800 million. This was based on the premise that there would not be a “dramatic slowdown”. In the interim, however, the economic crisis has clearly proven severe. As a result, the HOMAG Group, like the rest of the industry, faces a serious slowdown. It is not clear at present just how long this market environment will prevail. A scenario with a more pronounced drop in sales revenue has thus become a real possibility, even taking into account the contribution to sales revenue of the newly acquired entity BENZ GmbH. We will be in a position to venture a more accurate forecast during the second quarter of the year, based on the insights provided by industry’s leading trade fair, LIGNA, which will take place in May. However, we target a positive operating result (i.e., before restructuring expenses) in fiscal 2009 since, as discussed above, we are well prepared for a significant downturn. We already implemented a price increase throughout the group as of October 1, 2008; this will result translate to higher margins from 2009 onwards.

As regards order intake, we will do everything within our power to increase our market share further. At the same time, the seasonal pattern of investment that is characteristic in our business with a gradual decrease in order intake from quarter to quarter is expected to shift somewhat, kick-started by LIGNA, the industry’s leading trade show. We therefore anticipate a weak first quarter with few orders for large-scale systems, but expect a better performance in the second quarter. Overall, the seasonal pattern characterized by a stronger first half of the year and a weaker second half will remain.

We hope demand will be stimulated by the LIGNA in May 2009, the leading trade show in our industry, where we plan to present numerous technical innovations and energy- and resource-saving technologies. And we intend to make an impact on customers with our broad range of products geared at the project and service business.

As regards individual markets, we expect that the full year 2009 will be a very weak year overall in North America, the UK and Spain and anticipate order intake far below the levels of prior years. Regions that had become accustomed to accelerated growth in prior years – such as Russia and most of eastern Europe – are also suffering the effects of the demand-side crisis and the devaluation of local currencies. In such regions we anticipate a significantly lower level of activity. We expect a somewhat better situation in the other core countries of western Europe where we expect order intake to dip only slightly under the level of 2008.

We also see an opportunity to grow slightly in South America and the Orient but also in Germany where sales are strong or Austria and Switzerland, since consumption here was quite good until now and sentiment in the furniture industry is still positive. It is uncertain, however, whether larger projects will be financed and completed. This is ultimately the key factor on which the development of the market hinges. We have therefore grounds to be optimistic based on the current, high number of bids submitted for large-scale projects. Our perception of Asian market is highly differentiated. While South East Asian countries are heavily affected by the demand-side crisis in the US and are suffering political instability in some cases, there are good sales opportunities in Korea, Taiwan, China and Australia.

The headcount of the HOMAG Group will decrease in 2009, reflecting the weaker order situation and production level. In a first step, we will stop employing temporary workers and will, in most cases, not prolong contract work agreements. We will also use the flexibility afforded by the vacation and non-working shift accounts and will adopt forced leave measures. The individual group companies will act differently depending on the capacity requirements. In the case of subsidiaries in which these measures do not suffice, redundancies due to operational reasons cannot be ruled out in the course of 2009, and will likely prove unavoidable.

After the high investment of the past few years, particularly the construction measures to raise capacity at some production companies, our investment will also decrease in 2009. The largest single investment will concern the new construction of the HOMAG Center which commenced in June 2008 at our Group's headquarters in Schopfloch and which is scheduled for completion in summer. Capital expenditures are thus expected to remain at the lower end of four budget corridor of between 3 percent and 4 percent of total operating performance.

We do not perceive any serious negative effects from our operating activities on the HOMAG Group's liquidity situation. However, the net liabilities to banks in 2009 will inevitably increase on account of the acquisition of BENZ GmbH alone. Apart from the existing syndicated loan agreements with terms to maturity until mid-2010 and year-end 2012, long-term bilateral financing arrangements are also in place.

Regardless of the weaker order situation, in mid-2008 we approved the group action program "HOMAG GAP", which succeeds the earnings enhancement program "Project 2008". In light of the global economic slowdown in the last few months, we have decided to double our efforts on this initiative. The main objective of the program is to generate sustainable growth. We plan to tap EUR 40 million worth of sustainable earnings growth and cost improvement potential in the next five years up to 2013. Apart from strategic measures, the initiative also includes short-term measures that will be implemented swiftly. For instance, we want to respond to the expected decrease in sales revenue by exploiting the flexibility of variable costs together with cost-cutting programs and increased scope to adjust to fluctuations.

We want to achieve the strategic increase in earnings based on a number of measures, including expanding our high-margin service offerings and marketing these more effectively, while strengthening and optimizing our project business. As regards production activities, our “ProFuture” project is geared to reducing our cost level permanently based on an array of measures such as the group-wide introduction of tact assembly, the optimization of product planning and scheduling (PPS) systems together with the analysis and enhancement of all processes and the introduction of standardized technologies and common development projects throughout the group.

Fiscal Year 2010

The 2009 forecast is marked by considerable uncertainty and hinges on a large number of parameters over which we, as a Group, have little influence. Making a forecast for 2010 is even more difficult. Much depends on the speed with which the international financial markets recover and the time it takes before companies begin to obtain loans again on acceptable terms. The duration and severity of the economic crisis will also be decisive.

We at the HOMAG Group look forward to 2010 with cautious optimism. We believe that demand for our plant and machines will begin to pick up slowly and order intake will rise again. We are convinced that our market will continue to grow. We therefore anticipate a slight rise in sales revenue as of the second half of 2010, and we are confident that we will emerge from the crisis with renewed strength.

Annual Financial Statements (AG)

INCOME STATEMENT FOR FISCAL YEAR 2008

EUR	Note	2008	2007
Sales revenue		0.00	268,000.00
Other operating income	23	2,105,619.72	3,972,101.92
Personnel expenses	24		
- Wages and salaries		2,243,397.02	3,164,795.84
- Social security, pension and other benefit costs		92,303.57	67,374.78
Depreciation of property, plant and equipment	25	0.00	161,393.00
Other operating expenses	26	2,736,560.30	6,946,432.94
		-2,966,641.17	**-6,099,894.64**
Income from equity investments	27	3,955,000.00	3,535,000.00
Income from profit and loss transfer agreement	27	26,253,759.85	28,658,896.26
Other interest and similar income	28	781,921.27	548,816.55
Interest and similar expenses	28	3,523,934.39	4,495,329.54
RESULT FROM ORDINARY ACTIVITIES		**24,500,105.56**	**22,147,488.63**
Income taxes	30	-1,061,629.69	-559,307.74
Other taxes	31	-3,877.91	-4,172.01
NET PROFIT FOR THE YEAR		**23,434,597.96**	**21,584,008.88**
Profit carryforward from prior year		17,060,864.47	9,596,055.59
RETAINED EARNINGS		**40,495,462.43**	**31,180,064.47**

BALANCE SHEET AS OF DECEMBER 31, 2008

Assets

EUR		Note	Dec. 31, 2008	Dec. 31, 2007
A.	FIXED ASSETS			
I.	Financial assets			
	1. Shares in affiliated companies	3	105,848,091.51	105,848,091.51
	2. Equity investments	3	1.00	1.00
			105,848,092.51	105,848,092.51
			105,848,092.51	**105,848,092.51**
B.	CURRENT ASSETS			
I.	Receivables and other assets			
	1. Receivables from affiliated companies	5	51,604,014.71	39,626,599.15
	2. Other assets	5	2,141,201.88	5,650,594.62
			53,745,216.59	45,277,193.77
II.	Bank balances		0.00	2,409,094.17
			53,745,216.59	**47,686,287.94**
C.	PREPAID EXPENSES		**146,785.03**	**179,403.91**
TOTAL ASSETS			**159,740,094.13**	**153,713,784.36**

Equity and liabilities

EUR		Note	Dec. 31, 2008	Dec. 31, 2007
A.	EQUITY			
I.	Issued capital	7	15,688,000.00	15,688,000.00
II.	Capital reserves	8	33,799,650.00	33,799,650.00
III.	Revenue reserves			
	Other revenue reserves	9	1,456,134.50	1,456,134.50
IV.	Retained earnings	11	40,495,462.43	31,180,064.47
			91,439,246.93	**82,123,848.97**
B.	PROVISIONS			
	1. Provisions for pensions	15	528,152.00	531,593.00
	2. Tax provisions	16	5,317,230.67	3,626,802.12
	3. Other provisions	17	2,531,276.24	3,244,600.00
			8,376,658.91	**7,402,995.12**
C.	LIABILITIES			
	1. Liabilities to banks	18	51,163,075.97	50,000,000.00
	2. Trade payables	18	245,780.72	277,106.32
	3. Liabilities to affiliated companies	18	8,041,886.43	10,674,481.59
	4. Other liabilities	18	443,445.17	3,200,352.36
			59,894,188.29	**64,151,940.27**
D.	DEFERRED INCOME		**30,000.00**	**35,000.00**
TOTAL EQUITY AND LIABILITIES			**159,740,094.13**	**153,713,784.36**

Notes to the Financial Statements (AG) for Fiscal Year 2008

GENERAL

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

The income statement has been prepared using the cost-summary method.

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

ACCOUNTING AND VALUATION METHODS

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

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

With regard to *financial assets*, equity investments are recorded at the lower of cost or net realizable value.

Statement of Changes in Fixed Assets

		Acquisition and production		
EUR		Jan. 1, 2008	Additions	Disposals
I.	Financial assets			
	1. Shares in affiliated companies	123,453,999.47	0.00	0.00
	2. Equity investments	4,274,310.74	0.00	0.00
		127,728,310.21	**0.00**	**0.00**

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

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

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

Liabilities are stated at the amount repayable.

NOTES TO THE BALANCE SHEET

Fixed Assets

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

1 No Disclosure

2 No Disclosure

cost	Accumulated amortization and depreciation				Carrying amounts	
Dec. 31, 2008	Jan. 1, 2008	Additions	Disposals	Dec. 31, 2008	**Dec. 31, 2008**	**Dec. 31, 2007**
123,453,999.47	17,605,907.96	0.00	0.00	17,605,907.96	105,848,091.51	105,848,091.51
4,274,310.74	4,274,309.74	0.00	0.00	4,274,309.74	1.00	1.00
127,728,310.21	**21,880,217.70**	**0.00**	**0.00**	**21,880,217.70**	**105,848,092.51**	**105,848,092.51**

3 Financial Assets

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

Information on shareholdings	Currency	Issued capital Dec. 31, 2008	Share in capital % Dec. 31, 2008	Equity in thousand Dec. 31, 2008	Profit/loss in thousand 2008
GERMANY					
Direct shareholdings:					
Homag Holzbearbeitungssysteme AG, Schopfloch	EUR	30,000,000.00	100.00	82,125	PLTA
Schuler Business Solutions AG, Pfalzgrafenweiler	EUR	5,150,000.00	100.00 [1]	2,529	-273
Torwegge Holzbearbeitungsmaschinen GmbH, Löhne	EUR	1,600,000.00	100.00 [2]	318	-831
Holzma Plattenaufteiltechnik GmbH, Holzbronn	EUR	5,600,000.00	100.00 [3]	28,765	9,861
Brandt Kantentechnik GmbH, Lemgo	EUR	4,000,000.00	70.00	21,546	4,251
MAW Montagetechnik GmbH, Herford	EUR	17,550,000.00	100.00	-552	174
Wehrmann Maschinen Center GmbH [4], Barntrup	EUR	2,500,000.00	43.82	1,087 [5]	-2,567 [5]
Indirect shareholdings:					
Homag Vertriebs-Beteiligungs GmbH, Schopfloch	EUR	7,200.000.00	100.00 [6]	24,564	821
Ligmatech Automationssysteme GmbH, Lichtenberg	EUR	6,650,000.00	95.23	7,869	1,215
Weeke Bohrsysteme GmbH, Herzebrock	EUR	9,300,000.00	100.00	35,716	PLTA
Friz Kaschiertechnik GmbH, Weinsberg	EUR	2,400,000.00	100.00	921	PLTA
Bargstedt Handlingsysteme GmbH, Hemmoor	EUR	5,133,000.00	100.00	7,892	717
Bütfering Schleiftechnik GmbH, Beckum	EUR	370,000.00	51.00	881	-531
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	EUR	1,000,000.00	51.00	6,237	2,665
Homag GUS GmbH, Schopfloch	EUR	100,000.00	100.00 [6]	1,750	PLTA
Homag Finance GmbH, Schopfloch (formerly: Homag Leasing GmbH, Schopfloch)	EUR	100,000.00	100.00 [6]	161	32
Homag India GmbH, Schopfloch	EUR	400,000.00	100.00 [6]	13	-8 [7]
Homag Vertrieb & Service GmbH, Schopfloch	EUR	300,000.00	100.00 [6]	746	570
Hüllhorst GmbH, Barntrup	EUR	255,645.94	100.00	253	-2 [7]
Entwicklungs- und Innovationsgesellschaft Westfalen-Lippe mbH & Co. KG, Westfalen-Lippe	EUR	34,512.20 [8]	34.78	19	8 [7]

[1] *Thereof 94.00% held by Homag Holzbearbeitungssysteme AG and 6.00% by Homag Group AG.*
[2] *Thereof 39.95% held by Homag Holzbearbeitungssysteme AG and 60.05% by Homag Group AG.*
[3] *Thereof 54.46% held by Homag Holzbearbeitungssysteme AG and 45.54% by Homag Group AG.*
[4] *Insolvency proceedings not yet completed*
[5] *Fiscal year from April 1, 2002 to March 31, 2003*
[6] *Precise overall shareholding: 95.39%*
[7] *Figures from fiscal year January 1 to December 31, 2007*
[8] *Partners' capital*
PLTA *Control and profit and loss transfer agreement with Homag Group AG or Homag Holzbearbeitungssysteme AG or Homag Vertriebs-Beteiligungs GmbH*

Information on shareholdings	Currency	Issued capital Dec. 31, 2008	Share in capital % Dec. 31, 2008	Equity in thousand Dec. 31, 2008	Profit/loss in thousand 2008
INTERNATIONAL					
Indirect shareholdings:					
Homag Machinery Środa Sp. z o.o., Środa/Poland	PLN (EUR	6,001,000.00 1,434,856.42	100.00 [1]	7,449 1,781	-4,375 -1,046)
Holzma Plattenaufteiltechnik S.A. Unipersonal L'Ametlla del Valles/Spain	EUR	2,047,748.40	100.00	3,077	1,389
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo/Brazil	BRL (EUR	16,192,675.00 4,930,327.62	100.00	9,276 2,824	718 219)
Homag Machinery (Shanghai) Co. Ltd. [2], Shanghai/China	CNY (EUR	70,715,635.00 7,359,312.62	81.25 [3]	123,824 12,886	13,129 1,366)
Homag Austria Gesellschaft mbH, Salzburg/Austria	EUR	370,000.00	100.00 [4]	912	219
Homag Italia S.p.A., Monza/Italy	EUR	1,100,000.00	100.00 [4]	2,827	274
Homag France S.A., Schiltigheim/France	EUR	1,500,000.00	100.00 [4]	8,096	1,469
Homag Asia (PTE) Ltd., Singapore/Singapore	SGD (EUR	100,000.00 49,563.84	100.00 [4]	-454 -225	-1,742 -863)
Homag Canada Inc., Mississauga, Ontario/Canada	CAD (EUR	4,367,800.00 2,545,338.00	100.00 [4]	13,426 7,824	890 519)
Homag Polska Sp. z o.o., Środa/Poland	PLN (EUR	1,050,000.00 251,058.03	100.00 [4]	10,820 2,587	898 215)
Homag Japan Co. Ltd., Osaka/Japan	JPY (EUR	156,000,000.00 1,234,177.22	100.00 [4]	304,350 2,408	-21,096 -167)
Homag Danmark A/S, Galten/Denmark	DKK (EUR	1,970,000.00 264,365.66	100.00 [4]	21,172 2,841	6,828 916)
Homag U.K. Ltd., Castle Donington/UK	GBP (EUR	2,716,778.00 2,829,977.08	100.00 [4]	707 736	-1,413 -1,472)
Schuler Business Solutions S.L., Cullera/Spain	EUR	301,000.00	100.00	245	42
Homag Korea Co. Ltd., Seoul/Korea	KRW (EUR	320,970,000.00 180,828.17	54.55 [5]	158,007 89	-413,693 -233)
Holzma Tech GmbH, Assenovgrad/Bulgaria	BGN (EUR	370,000.00 189,161.55	100.00	868 444	86 [6] 44)

[1] *Precise overall shareholding: 96.65%*
[2] *An additional 18.75% of share was assigned to Homag Holzbearbeitungssysteme AG, Schopfloch as collateral for a loan with a term until 2009 granted to Homag China Golden Field Ltd., Hong Kong, China.*
[3] *Precise overall shareholding: 74.15%*
[4] *Precise overall shareholding: 95.39%*
[5] *Precise overall shareholding: 52.03%*
[6] *Figures from fiscal year January 1 to December 31, 2007*

Information on shareholdings	Currency	Issued capital Dec. 31, 2008	Share in capital % Dec. 31, 2008	Equity in thousand Dec. 31, 2008	Profit/loss in thousand 2008
INTERNATIONAL					
Indirect shareholdings:					
Stiles Machinery Inc., Grand Rapids/USA	USD (EUR	25,806.00 18,463.19	22.00	30,279 21,663	872 [1] 624)
Weeke North America Inc. [2], Grand Rapids/USA	USD	-	81.00	-	-
Homag España Maquinaria S.A., Montmeló/Spain	EUR	1,211,300.00	100.00 [3]	2,525	-28
Homag China Golden Field Ltd., Hong Kong/China	HKD (EUR	27,000,000.00 2,492,545.44	25.00	81,609 7,534	7,262 [1] 670)
Homag South America Ltda., São Paulo/Brazil	BRL (EUR	2,014,531.00 613,382.15	100.00 [3]	-2,763 -841	-3,806 -1,159)
Homag Australia Pty. Ltd., Sydney/Australia	AUD (EUR	5,309,158.62 2,620,900.74	100.00 [3]	487 240	-3,156 -1,558)
Homag (Schweiz) AG, Bachenbülach/Switzerland	CHF (EUR	200,000.00 134,589.50	100.00 [3]	5,878 3,956	1,768 1,190)
Schuler Business Solutions S.A.R.L. [4], Strasbourg/France	EUR	50,000.00	100.00	-126	-44 [1]
Bütfering Qinhuangdao Machinery Manufacturing Co. Ltd. [5], Qinhuangdao/China	CNY (EUR	2,395,681.75 249,316.45	100.00	3,261 339	-165 [6] -17)
OOO "FAYZ-Homag GUS" Taschkent/Uzbekistan	USD (EUR	174,000.00 124,490.23	33.00	not available	not available)
OOO "Homag Russland" Moscow/Russian Federation	RUB (EUR	357,215.00 8,451.79	99.00 [3]	26,598 629	6,329 150)
Homag India Private Ltd., Bangalore/India	INR (EUR	171,425,010.00 2,505,114.86	99.90 [3]	79,051 1,155	-68,182 -996)
RAMU Machinery Private Limited, Bangalore/India	INR (EUR	11,500,000.00 168,054.95	52.17	2,249 33	-4,141 [1] -61)
HA Malaysia SDN. Bhd, Kuala Lumpur/Malaysia	MYR (EUR	250,000.00 51,334.70	100.00	-1,226 -252	-761 -156)
HA (Thailand) Co. Ltd., Bangkok/Thailand	THB (EUR	2,000,000.00 40,937.47	100.00	-11,835 -242	-6,868 -141)

[1] *Figures from fiscal year January 1 to December 31, 2007*
[2] *The company was established in 2008. Homag Holzbearbeitungssysteme AG assumed a share of 30%. Weeke Bohrsysteme GmbH assumed a share of 51%. Outstanding contributions have not been called in as of the balance sheet date.*
[3] *Precise overall shareholding: 95.39%*
[4] *Company is being dissolved*
[5] *Company is being liquidated*
[6] *Figures from fiscal year January 1 to December 31, 2004*

4 No Disclosure

5 Receivables and Other Assets

EUR k	**Dec. 31, 2008**	Dec. 31, 2007
Receivables from affiliated companies	51,604	39,627
- thereof due in more than one year	*1,401*	*1,401*
Other assets	2,141	5,650
- thereof due in more than one year	*1,353*	*1,142*
	53,745	**45,277**

6 No Disclosure

7 Issued Capital

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

8 Capital Reserve

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

9 Revenue Reserves

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

10 No Disclosure

11 Retained Earnings

EUR k		
Carryforward January 1, 2008	31,180	
Profit distribution	-14,119	
		17,061
Net income for the year 2008		23,434
DECEMBER 31, 2008		**40,495**

12 No Disclosure

13 No Disclosure

14 No Disclosure

15 Provisions for Pensions

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

16 Tax Provisions

Tax provisions mainly relate to income taxes for the current year and the prior year.

17 Other Provisions

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

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

18 Liabilities

EUR k		less than 1 year	Due in 1 to 5 years	more than 5 years	**Total Dec. 31, 2008**	**Total Dec. 31, 2007**
1.	Liabilities to banks	1,163	50,000	0	51,163	
	(prior year)	(0)	(50,000)	(0)		(50,000)
2.	Trade payables	246	0	0	246	
	(prior year)	(277)	(0)	(0)		(277)
3.	Liabilities to affiliated companies	8,042	0	0	8,042	
	(prior year)	(10,674)	(0)	(0)		(10,674)
4.	Other liabilities	443	0	0	443	
	(prior year)	(3,200)	(0)	(0)		(3,200)
	- thereof for taxes	*438*	*0*	*0*	*438*	
	(prior year)	*(708)*	*(0)*	*(0)*		*(708)*

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

19 No Disclosure

20 Contingent Liabilities

EUR k	**De. 31, 2008**	Dec. 31, 2007
From guarantees	47,083	50,067
- thereof for liabilities to affiliated companies	*47,083*	*50,067*
From warranties	1,043	325
- thereof in favor of affiliated companies	*1,043*	*325*
	48,126	**50,392**

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

There are other financial obligations from the purchase of 51 percent of the shares in BENZ GmbH Werkzeugsysteme, Haslach. It was agreed to maintain secrecy as to the purchase price. A fixed amount was paid for the shares assumed, which was approximately six times the planned after tax profit in 2009 (proportionately). A purchase price increase was also agreed depending on the earnings actually generated in 2010. The profitability of BENZ GmbH GmbH Werkzeugsysteme, Haslach, exceeds that of the HOMAG Group.

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

21 Derivative Financial Instruments

Homag Group AG had not entered into any derivative financial instruments as of December 31, 2008.

NOTES TO THE INCOME STATEMENT

22 No Disclosure

23 Other Operating Income

This item primarily comprises:

- Cost allocations
- Income from private use of motor vehicles

24 Personnel Expenses

Homag Group AG did not have any employees in fiscal 2008. The disclosure comprises the remuneration and bonuses of the management board. Pension expenses totaled EUR 53 k (prior year: EUR 67 k) and relate to three beneficiaries.

25 Amortization and Depreciation

EUR k	2008	2007
Depreciation of property, plant and equipment	0	161

26 Other Operating Expenses

This item primarily comprises:

- Legal and consulting fees
- Remuneration of the supervisory board
- Costs relating to the annual report and the annual general meeting
- Travel expenses

27 Investment Result

A profit transfer of EUR 26,254 k was made in fiscal 2008 pursuant to the profit and loss transfer agreement concluded with Homag Holzbearbeitungssysteme AG (prior year: EUR 28,659 k).

In addition, a dividend of EUR 1,680 k (prior year: EUR 1,260 k) was received from Brandt Kantentechnik GmbH, Lemgo, as well as a dividend of EUR 2,275 k (prior year: EUR 2,275 k) from Holzma Plattenaufteiltechnik GmbH, Calw-Holzbronn, both of which are affiliated companies.

28 Interest Result

Interest income of EUR 705 k (prior year: EUR 196 k) was received from affiliated companies, while interest expenses of EUR 643 k (prior year: EUR 1,714 k) were attributable to affiliated companies. Interest income for cash in banks amounted to EUR 33 k (prior year: EUR 85 k), while interest expenses for bank overdraft facilities and loans together came to EUR 2,881 k (prior year: EUR 2,782 k).

29 No Disclosure

30 Income Taxes

The disclosure is essentially related to corporate income tax, solidarity surcharge, trade tax and capital gains tax. The trade tax allocation to a subsidiary, determined on a stand-alone basis, is also included in the disclosure.

31 Other Taxes

The item includes real estate tax and motor vehicle tax.

OTHER NOTES

32 Members of the Supervisory Board

Torsten Grede (chairman), Frankfurt am Main, member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main, chairman of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch, and of AKsys GmbH, Worms, until November 21, 2008, member of the supervisory board of MCE AG, Linz, Austria, member of the board of directors of Clyde Bergemann Power Group, Inc., Delaware, USA, member of the advisory board of Grohmann Engineering GmbH, Prüm

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

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

Klaus M. Bukenberger, Schenkenzell, business consultant, chairman of the supervisory board of SICK AG, Waldkirch, member of the supervisory board of Pfleiderer AG, Neumarkt, until June 12, 2008, chairman of the advisory board of Leitz Holding GmbH & Co. KG, Oberkochen, member of the advisory board of Carl Mahr Holding GmbH, Göttingen and Rutronik GmbH, Ispringen, advisory director of Investcorp Group, London, UK, since January 1, 2008

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

Wilhelm Freiherr von Haller, Stuttgart, member of management of Deutsche Bank AG, Frankfurt am Main and member of the management committee for Germany of Deutsche Bank AG, Frankfurt am Main, member of the supervisory board of GEZE GmbH, Leonberg, member of the advisory board of Gühring OHG, Albstadt-Ebingen and of AESCULAP AG & Co. KG, Tuttlingen

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

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

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

Reinhard Löffler, Weil der Stadt, deputy chairman of the supervisory board of transtec AG, Tübingen, and until June 12, 2008 member of the supervisory board of Coveright Surfaces Beteiligungs GmbH, Düsseldorf

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

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

G*erhard Schuler (honorary chairman), Freudenstadt,* honorary chairman of the supervisory board of Homag Holzbearbeitungssysteme AG, Schopfloch

** Employee representative*

33 Members of the Management

Dr. Joachim Brenk (CEO), Loßburg, board member for sales and marketing, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch

Achim Gauß, Dornstetten, board member for research and development, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch, member of the supervisory board of Schuler Business Solutions AG, Pfalzgrafenweiler and member of the supervisory board of Coveright Surfaces Beteiligungs GmbH, Düsseldorf since June 2008

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

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

Rolf Knoll, Dettingen an der Erms, board member for Group operations, member of the management board of Homag Holzbearbeitungssysteme AG, Schopfloch, chairman of the management board of the specialist association for wood processing machines of VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation], Frankfurt am Main

34 Total Remuneration of Management and Supervisory Board Members

In the fiscal year, remuneration of the management board totaled EUR 2,223 k (prior year: EUR 3,699 k). These break down as follows:

	Fixed salary		Short-term incentives (STI)		Long-term incentives (LTI) [1]		Benefits in kind		**Total remuneration**	
EUR k	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Dr. Joachim Brenk	310	285	225	450	0	163	7	7	542	905
Achim Gauß	235	215	202	363	0	147	8	8	445	733
Andreas Hermann	209	193	180	375	0	130	5	5	394	703
Herbert Högemann	210	193	180	300	0	130	7	7	397	630
Rolf Knoll	234	211	203	363	0	147	8	7	445	728
TOTAL	**1,198**	**1,097**	**990**	**1,851**	**0**	**717**	**35**	**34**	**2,223**	**3,699**

[1] *Due to the first-time application of GAS 17 in fiscal 2008 and the principle of definitive net worth underlying this concept, the remuneration figures for 2007 must include a disclosure of the fair value of long-term incentives as of the date of issue. The fair value of the date of isssue amounts to EUR 2,151 k. Due to the development of the Homag share's price, the fair value of LTI amounts to EUR 230 k as of December 31, 2008.*

Homag Holzbearbeitungssysteme AG paid EUR 5,842.00 of the total remuneration.

In 2008, remuneration of the supervisory board totaled EUR 400,500.00 (prior year: EUR 692 k). Of this amount, EUR 23 k pertained to the prior year.

35 Authorized Capital

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

a) for fractional amounts,
b) for capital increases in return for contributions in kind for the purpose of acquiring a company, part of a company or an equity investment in a company,
c) in the case of capital increases in return for cash contributions, provided the issue price of the new shares is not significantly lower than the quoted price of identical shares already listed when the issue price is finalized by the management board within the meaning of Sec. 203 (1) and (2) and Sec. 186 (3) Sentence 4 AktG, and the new shares with precluded subscription rights do not exceed an amount of 10 percent of share capital on the date of authorization. Shares disposed of during the term of authorized capital precluding the subscription rights of the shareholders pursuant to Sec. 71 (1) No. 8 Sentence 5 and Sec. 186 (3) Sentence 4 AktG, as well as those with conversion or exercise rights or obligations issued after this authorization was granted pursuant to Sec. 221 (4) and Sec. 186 (3) Sentence 4 AktG are not allowed to exceed 10 percent of the share capital.

36 Group Relationships

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

37 Declaration of Compliance with the German Corporate Governance Code

Declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG was issued by the management board and the supervisory board on January 14, 2009. An up-to-date version is made permanently available to shareholders on Homag Group AG's homepage at www.homag-group.com.

38 Audit Fees

The table below shows the total fees billed to Homag Group AG by our auditor, Ernst & Young AG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Stuttgart, for the fiscal year 2008:

EUR k	2008
Statutory audit	296
Other attestation and valuation services	238
Tax advisory services	150
Other services	178
TOTAL FEES	**862**

The other assurance and valuation services mainly concern the review of the interim financial statements as well as services related to the acquisition of shares in a subsidiary.

39 Shareholdings of Board Members

As of December 31, 2008, board members had the following shareholdings:

	Number of shares	Share in capital	Subscription rights
Management board	**81,936**	**0.5%**	**0**
Supervisory board			
Ernst Esslinger and related parties	100	0.0%	0
Ralf Hengel and related parties	386,631	2.5%	0
Supervisory board, total	**386,731**	**2.5%**	**0**
ALL BOARDS, TOTAL	**468,667**	**3.0%**	**0**

On December 31, 2008, Mr. Gerhard Schuler, honorary chairman of the supervisory board, held 1,326,481 shares in Homag Group AG.

40 Notifications Subject to Mandatory Disclosure

The following notifications were issued in the fiscal year 2008 pursuant to Sec. 21 (1) in conjunction with Sec. 26 (1) Sentence 1 WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act]:

- On February 1, 2007, BWInvest, Baden-Württembergische Investmentgesellschaft mbH, Stuttgart, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of January 29, 2008 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, exceeded the threshold of 3% of our separate trust assets and now amounts to 532,958 shares of 3.39%. Of those, 3.09% (485,458 shares) are attributed to it pursuant to Sec. 22 (1) Sentence 1 No. 6 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 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 29, 2008 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, exceeded the threshold of 3% and now amounts to 4.65% (730,095 voting rights).
- In accordance with Sec. 21 (1) WpHG we received on February 6, 2008 the following notifications from Global Opportunities Capital, Amsterdam, the Netherlands:

  1. On February 1, 2008 the voting interest held by Global Opportunities (GO) Capital Asset Management B.V., Amsterdam, the Netherlands, in Homag Group AG, Schopfloch, Germany, fell below the threshold of 3% and now amounts to 0.00%. This is equal to 0 shares.

  2. On February 1, 2008 the voting interest held by the Global Opportunities Fund, Amsterdam, the Netherlands, in Homag Group AG, Schopfloch, Germany, fell below the threshold of 3% and now amounts to 0.00%. This is equal to 0 shares.

  3. On February 1, 2008 the voting interest held by Global Opportunities (GO) Capital Asset Management N.V., Amsterdam, The Netherlands in Homag Group AG, Schopfloch, Germany fell below the threshold of 3% and now amounts to 0.00%. This is equal to 0 shares.
- On March 13, 2008, SIA Funds AG, Pfäffikon, Switzerland, informed us pursuant to Sec. 21 (1) WpHG that as of March 3, 2008 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, exceeded the threshold of 3% and amounted to 3.10% (486,500 voting rights) on that day.

  Of those, 3.10% (486,500 voting rights) are attributed to it pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.
- On March 18, 2008, SIA Funds AG, Pfäffikon, Switzerland, informed us pursuant to Sec. 21 (1) WpHG that as of March 13, 2008 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, exceeded the threshold of 5% and amounted to 5.16% (809,000 voting rights) on that day.

  Of those, 5.16% (809,000 voting rights) are attributed to it pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.
- In accordance with Sec. 21 (1) WpHG we received on March 18, 2008 the following notification from Adelphi Capital LLP, London, United Kingdom:

  We hereby give notice, pursuant to Sec. 21 (1) WpHG, that, on February 13, 2008, our voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, fell below the threshold of 5% and amounts to 4.37% (686,131 voting rights) on this day.

  4.37% of the voting rights (686,131 voting rights) are attributable to us from Adelphi European Small Cap Fund in accordance with Sec. 22 (1) Sentence 1 No. 6 WpHG.

In accordance with Sec. 21 (1) WpHG we received on March 14, 2008 the following notification from Adelphi European Small Cap Fund, Georgetown, Grand Cayman, Cayman Islands:

We hereby give notice, pursuant to Sec. 21 (1) WpHG, that, on February 13, 2008, our voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, fell below the threshold of 5% and amounts to 4.37% (686,131 voting rights) on this day.

In accordance with Sec. 21 (1) WpHG we received on February 26, 2008 the following notification from Adelphi Capital LLP, London, United Kingdom:

We hereby give notice, pursuant to Sec. 21 (1) WpHG, that, on February 22, 2008, our voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, fell below the threshold of 3% and amounts to 2.97% (466,705 voting rights) on this day. 2.97% of the voting rights (466,705 voting rights) are attributable to us in accordance with Sec. 22 (1) Sentence 1 No. 6 WpHG.

In accordance with Sec. 21 (1) WpHG we received on February 26, 2008 the following notification from Adelphi European Small Cap Fund, Georgetown, Grand Cayman, Cayman Islands:

We hereby give notice, pursuant to Sec. 21 (1) WpHG, that, on February 22, 2008, our voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, fell below the threshold of 3% and amounts to 2.97% (466,705 voting rights) on this day.

- On March 31, 2008, BWInvest, Baden-Württembergische Investmentgesellschaft mbH, Stuttgart, Deutschland, 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, exceeded the threshold of 5% of our separate trust assets and now amounts to 852,958 shares of 5.44%. Of those, 5.04% (791,458 shares) is allocable to it pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.
- On December 17, 2007, FINANCIERE DE L'ECHIQUIER, Paris, France, informed us according to Sec. 21 (1) WpHG that its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, exceeded the threshold of 3% on November 27, 2007 and amounted to 3.0619% (i.e., 480,349 voting rights).

  Correction of the notification dated December 17, 2007:
  Furthermore FINANCIERE DE L'ECHIQUIER, Paris, France, has informed us pursuant to Sec. 21 (1) WpHG that the announcement we received on December 17, 2007, regarding its voting rights in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, has to be corrected to the effect, that its voting rights had crossed the threshold of 3% on November 27, 2007, and amounted to 3.0619% (i.e., 480,349 voting rights) as per this date.

  According to Sec. 22 (1) Sentence 1 No. 6 WpHG, 0.01% (i.e., 2,300 voting rights) of the voting rights were to be attributed to FINANCIERE DE L'ECHIQUIER.

- On October 13, 2008, FINANCIERE DE L'ECHIQUIER, Paris, France has informed us according to Section 21 (1) WpHG that via shares its voting rights in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, fell below the threshold of 3% of the voting rights on October 10, 2008 and now amounts to 2.96% (this corresponds to 464,295 voting rights).

  According to Section 22, (1), Sentence 1, No. 6 WpHG, 0.02% of the voting rights (this corresponds to 3,495 voting rights) is to be attributed to the company.
- On October 27, 2008, SIA Funds AG, Pfäffikon, Switzerland, informed us pursuant to Sec. 21 (1) WpHG that as of October 24, 2008 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 5% of the voting rights and now amounts to 4.94% (774,400 voting rights).

  4.94% of the voting rights (equivalent to 774,400 voting rights) are attributable to the company pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.

Declaration of the Legal Representatives (AG)

Declaration of the Legal Representatives

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

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

Schopfloch, February 27, 2009
Homag Group AG

The Management Board

DR. JOACHIM BRENK   ACHIM GAUSS

ANDREAS HERMANN   HERBERT HÖGEMANN   ROLF KNOLL

Audit Opinion on the Annual Financial Statements (AG)

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

Audit opinion

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

"We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of Homag Group AG, Schopfloch, for the fiscal year from 1 January 2008 to 31 December 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation and bylaws are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart, February 27, 2009

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

MÜLLER-MARQUÉS BERGER
Wirtschaftsprüfer
[German Public Auditor]

VÖGELE
Wirtschaftsprüferin
[German Public Auditor]

Financial Calendar

March 31, 2009	Press conference on the financial results in Stuttgart
March 31, 2009	Analysts conference in Frankfurt am Main
May 15, 2009	Interim report Q1/2009
May 27, 2009	Annual general meeting in Freudenstadt
August 14, 2009	Interim report Q2/2009
November 13, 2009	Interim report Q3/2009

Subject to modification

Disclaimer

SERVICE
These annual financial statements 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
These annual financial statements contain certain statements relating to the future. Future-oriented statements are all those statements that do not pertain to historical facts and events or expressions pertaining to the future such as "believes", "estimates", "assumes", "forecasts", "intend", "may", "will", "should" or similar expressions. Such future-oriented statements are subject to risks and uncertainty since they relate to future events and are based on current assumptions of the Company, which may not occur in the future or may not occur in the anticipated form. The Company points out that such future-oriented statements do not guarantee the future; actual results including the financial position and the profitability of the HOMAG Group AG as well as the development of economic and regulatory framework conditions may deviate significantly (and prove unfavorable) from what is expressly or implicitly assumed or described in these statements. Even if the actual results of the HOMAG Group AG including the financial position and profitability as well as the economic and regulatory framework conditions should coincide with the future-oriented statements in these annual financial statements, it cannot be guaranteed that the same will hold true in the future.

OTHER INFORMATION
These annual financial statements are 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 %	51 %	70 % [1]	100 % [1]	51 % [2]	100 %	100 % [1]
Holzma Plattenaufteil-technik GmbH (incl. Holzma S.A.U.)	Friz Kaschiertechnik GmbH	Bütfering Schleiftechnik GmbH	Brandt Kantentechnik GmbH	Torwegge Holzbear-beitungs-maschinen GmbH	BENZ GmbH Werkzeug-systeme	Weeke Bohrsysteme GmbH (incl. Weeke North America, Inc. [3])	MAW Montage-technik GmbH

Sawing | **Surface** | **Sizing & Edge processing** | **Drilling & Hardware mounting**

12 % 3 % 2 % 10 % 1 % 12 %

Homag Vertriebs-Beteiligungs

100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	22 %
Homag Vertrieb & Service GmbH	Homag Austria Ges. mbH	Homag (Schweiz) AG	Homag France S.A.	Homag Italia S.p.A.	Homag España Maquinaria S.A.	Homag Danmark A/S	Homag U.K. Ltd.	Homag Polska Sp. z o.o.	Homag GUS GmbH (incl. OOO "Homag Russland")	Stiles Machinery Inc.

Central Europe | **Western Europe** | **Eastern Europe**

[1] *Shares are partly or wholly held directly by Homag Group AG*
[2] *Takeover of the shares effective January 1, 2009*
[3] *Shares are partly held by Weeke Bohrsysteme GmbH, Homag Holzbearbeitungssysteme AG and Stiles Machinery Inc.*
[4] *Participation in Homag Machinery (Shanghai) Co., Ltd. temporarily increased to 81.25 %*
[5] *Shares are partly held by Homag Holzbearbeitungssysteme AG, Brandt Kantentechnik GmbH, Bütfering Schleiftechnik GmbH, Weeke Bohrsysteme GmbH and Holzma Plattenaufteiltechnik GmbH*
[6] *Shares are partly held by Homag Holzbearbeitungssysteme AG, Brandt Kantentechnik GmbH, Bargstedt Handlingsysteme GmbH, Weinmann Holzbausystemtechnik GmbH and Weeke Bohrsysteme GmbH*
[7] *Equity investment in Homag Korea Co. Ltd. temporarily increased to 54.55 %*
* *Simplified view*

AG

95% Ligmatech Automations-systeme GmbH

100% Bargstedt Handling-systeme GmbH

51% Weinmann Holzbausystem-technik GmbH

80% [4), 5)] Homag Machinery (Shanghai) Co., Ltd.

100% Homag Machinery (São Paulo) Ltda.

100% [6)] Homag Machinery Środa Sp. z o.o.

100% [1)] Schuler Business Solu-tions AG

Assembly/Handling/Packaging | **Timber frame house contruction** | **Production plants in future regions** | **Services**

3% | 3% | 1% | 53%

GmbH

100% Homag Canada Inc.

100% Homag South America Ltda.

25% Homag China Golden Field Ltd.

100% Homag Asia (PTE) Ltd.

100% Homag Japan Co. Ltd.

51% [7)] Homag Korea Co. Ltd.

100% Homag Australia Pty. Ltd.

100% Homag India Pvt. Ltd.

100% Homag Finance GmbH

America | **Asia/Pacific** | **Services**

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CONCEPT AND DESIGN

MARTINI Werbeagentur GmbH
www.martini-werbeagentur.de

TEXT

kommag –
Agentur für Kommunikation
www.kommag-pr.de

PRINTED BY

Straub Druck+Medien AG
www.straub-druck.de

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