COMBINED MANAGEMENT REPORT

OF HOMAG GROUP AG AND THE GROUP

_ PRELIMINARY REMARKS

The group management report of HOMAG Group AG for the fiscal year 2014 and the management report pertaining to the separate financial statements of HOMAG Group AG for the fiscal year 2014 have been prepared according to the requirements of German commercial law and have been combined as in the prior year.

The general conditions for the corporate strategy are equally applicable to HOMAG Group AG's Group ("HOMAG Group") and the separate entity HOMAG Group AG ("HOMAG Group AG"). A separate report on the separate results of HOMAG Group AG can be found on pages 78 and 79 "Results of operations, net assets and financial position of HOMAG Group AG".

The combined management report, the consolidated financial statements of the HOMAG Group as well as the financial statements of HOMAG Group AG are published together in the Bundesanzeiger [German Federal Gazette]. The annual report 2014 can also be downloaded from the internet at www.homag-group.com/investors.

www.homag-group.com/investors

_ DETAILED INDEX

BUSINESS AND MANAGEMENT SYSTEM

_BUSINESS ACTIVITIES OF THE HOMAG GROUP

The HOMAG Group is the world's leading manufacturer of plant and machinery for the woodworking industry and for cabinet makers. As a global player, we are present in all relevant markets around the world with an estimated market share of 29.8 percent, selling plant, machinery and services for the woodworking industry in about 100 countries. In the furniture production, structural element production and wooden house construction systems segments we offer our customers an extensive range of precisely tailored solutions ranging from stand-alone machines to complete production lines. Our offering is unparalleled on account of the interlinking of our production plant and machinery, pertinent services and the appropriate control software customized to each individual application.

For more information see glossary, pages 188 et seq.

_LEGAL STRUCTURE

HOMAG Group AG is a holding company without own operating activities. Its main tasks as the parent company are to define and implement the Group's strategy, arrange group financing and to technically lead the production and sales companies in Germany and abroad. HOMAG Group AG holds, among other things, a 100 percent interest in HOMAG Holzbearbeitungssysteme GmbH, which is the Group's largest company, and majority shareholdings in eight German and six foreign production companies as well as 23 sales and service entities (see also the group structure on page 186).

For more information see page 186 et seq.

The following change was made to the group structure in fiscal 2014:

- HOMAG Group AG holds 100 percent of the shares in the newly formed HOMAG US, Inc.
- HOMAG Group AG increased its holding of voting shares in the US sales and service company Stiles Machinery, Inc. from 29.4 percent to 100 percent.
- HOMAG Finance indirectly holds 80 percent in the newly formed sales and service company HOMAG Equipment Machinery Trading L.L.C. in the United Arab Emirates. The company holds 100 percent of the voting rights.
- The sales and service company HOMAG Australia Pty. Ltd. formed the sales and service company HOMAG NEW ZEALAND LIMITED, based in New Zealand.

_SEGMENT STRUCTURE

For reporting purposes, the HOMAG Group is organized in the segments "Industry", "Cabinet Shops", "Sales & Service" and "Other".

The Industry segment comprises those group entities whose business activities center on the provision of system solutions for industrial companies. We offer our customers seamless solutions and cover the woodworking process chain with our own products for the most part.

The Cabinet Shops segment encompasses the group entities focused on machines with a high degree of standardization that cater for the special requirements of cabinet shops as well as small and medium-sized enterprises (SMEs).

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

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

_CORPORATE GOVERNANCE

HOMAG Group AG is managed by the Group's management board, which has at least 3 members in accordance with the articles of incorporation and bylaws of HOMAG Group AG. Group management comprised 4 persons for most of the fiscal year 2014, with 5 members on the management board for a brief transition period following changes to the management board. The management board reports to the supervisory board on a regular basis. The supervisory board is equally balanced with 6 shareholder representatives and 6 employee representatives. In the fiscal year 2014, the management board and the supervisory board implemented almost all of the recommendations and many of the suggestions proposed by the German Corporate Governance Code. Any exceptions relating to the recommendations are stated in the declaration of compliance. The declaration of compliance pursuant to Sec. 161 AktG ["Aktiengesetz": German Stock Corporations Act] is published on pages 57 et seq. of this report and on the HOMAG Group's website.

For more information see page 57 – 59

_CORPORATE MANAGEMENT

The management of the HOMAG Group is in the main based on 4 key performance indicators (KPIs):

- Earnings before interest, taxes, depreciation and amortization as well as before employee profit participation expenses and before extraordinary expenses (operative EBITDA)
- Earnings before taxes after employee profit participation expenses and after extraordinary expenses (EBT)
- Return on Capital Employed (ROCE), i.e., earnings before interest and taxes (EBIT), before employee profit participation expenses and before extraordinary expenses as a percentage of capital employed
- Net liabilities to banks

For more information see glossary, pages 188 et seq.

These annual key performance indicators are budgeted and monitored using monthly reporting.

_CHANGES IN COMPANY BOARDS

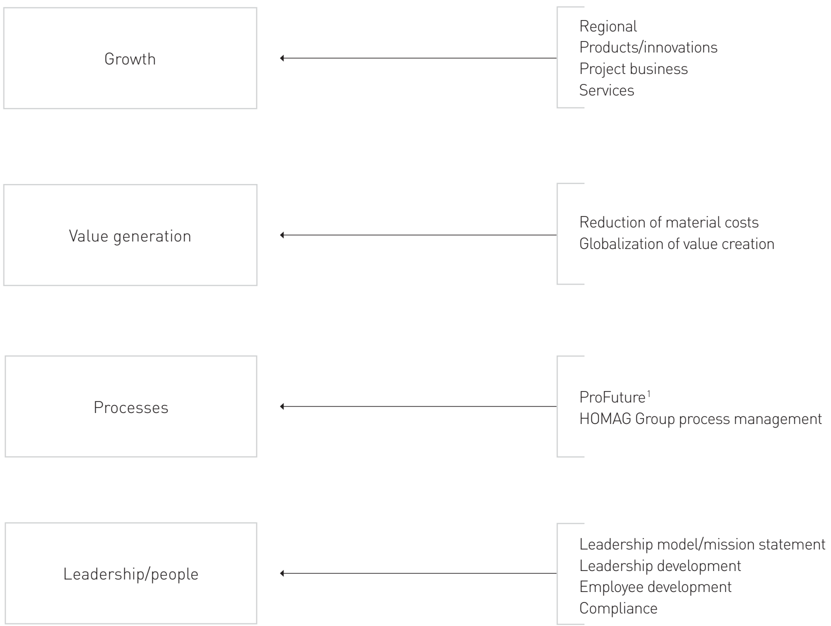
The CEO of HOMAG Group AG, Dr. Markus Flik, stepped down from the management board, effective November 30, 2014. The supervisory board appointed Mr. Ralph Heuwing, CFO of Dürr AG, as a new member of the management board of HOMAG Group AG with effect as of October 27, 2014. While continuing his duties as CFO of Dürr AG, Mr. Heuwing assumed the position of CEO of HOMAG Group AG, effective as of December 1, 2014.

In the course of the acquisition by Dürr Technologies GmbH, there were changes on the shareholder side of HOMAG Group AG's supervisory board. Torsten Grede, Hans Fahr, Dr. Horst Heidsieck, Dr. Dieter Japs and Thomas Keller stepped down with immediate effect on October 10, 2014. 5 new members were appointed by court order of October 13, 2014 until the end of the next general meeting. Stuttgart regional court appointed the following persons to HOMAG Group AG's supervisory board: Ralf W. Dieter, Stuttgart, CEO of Dürr AG, Dr. Hans Schumacher, Schönaich, CEO of Dürr Systems GmbH, Richard Bauer, Wentorf, CEO of Körber AG, Dr. Anja Schuler, Zurich, medical specialist for psychiatry and psychotherapy (FMH), and Dr. Jochen Berninghaus, Herdecke, lawyer, auditor, tax advisor, law firm Spieker & Jaeger.

STRATEGY AND OBJECTIVES

_STRATEGIC POINTS OF FOCUS

_M1_Strategic Points of Focus



1 Group-wide large-scale IT project

The HOMAG Group set out a group strategy in 2012. The strategy is based on 4 strategic points of focus founded on a wide range of targeted measures and forms the basis for our growth over the long term.

The first strategic focus is on growth, which breaks down into the 4 areas of "regional", "products/innovations", "project business" and "services". With a view to participating in regional growth at least in proportion to our market share, we are implementing targeted measures worldwide. In 2014, these measures included, for example, the construction of a new assembly hall at our production location in Poland, the formation of the new sales and service entities in Dubai and New Zealand, as well as the acquisition of all the remaining shares in the sales company Stiles Machinery, Inc. In the area of products/innovations, our objective is to ensure that our Company is the driving force behind most of the qualified new developments within our industry. This will safeguard our innovation leadership. In addition, we intend to reduce the level of complexity of our range of product program by introducing modular platforms throughout the Group. This will enable us to improve our cost situation. The first specially developed platform, in the area of edge banding machines, was presented to the public in 2014. Also in the project business, we expect growth potential to arise from the general move towards networked production and our customers' increasing demand for automation and robotics solutions, specifically in the US and China. For this reason, we have combined the production entities BARGSTEDT and LIGMATECH to form the new company HOMAG Automation. Bundling expertise will allow us to drive developments more efficiently and exploit internal synergies. In the area of services, our strategy is based on the use of key account managers for major customers, the deployment of state-of-the-art communications technology, further increasing our availability to 24/7 and ongoing optimization of global distribution of spare parts. This strategy is intended to further set us apart from our competitors in every market worldwide and create added value for our customers.

The second strategic focus "value generation" will ensure that such growth is also profitable. It relates to measures that serve to increase margins, boost productivity and cut costs within the Group. As an example, we performed a group-wide purchasing project in 2014, among other things. This has already enabled us to reduce our cost of materials. We also intend to further bundle our procurement activities at a global level. The project forms a sound base for further product cost optimization. The methods of value analysis are used to systematically examine machine lines in order to uncover potential cost savings in the design of machine parts while fully maintaining the relevant functions. Increasing internationalization and globalization of the economy are changing the global value added chains. For this reason, our strategic focus value generation is a driving force behind constant globalization of our production and our sales and service organizations. For instance, we began setting up a center for the production of switch cabinets at the Polish production location in 2014.

The objectives of growth and increasing value can only be realized if there are stable, tried-and-tested processes and procedures in place. The most important project for this third strategic point of focus is the large-scale IT project ProFuture. On the one hand, it focuses on the end-to-end reengineering of the complete offer and order process chain and, on the other hand, it involves the replacement of the associated IT systems. This includes, for instance, the integration of inventory management in our existing SAP ERP system at all production sites. One more entity was converted to the expanded SAP ERP system in 2014. The program is scheduled to run until 2018. In order to ensure uniform processes in the Group, we began building up a group-wide process management system in 2014. This system defines all key processes, provides structure to company procedures and allocates responsibilities. By standardizing processes, we aim to save costs in the long run.

i For more information see glossary, pages 188 et seq.

"Leadership/people", the fourth strategic focus, centers on leadership and employee development. Firstly, the objective is to enhance leadership skills through training measures that also involve the next generation of executives. We aim to cover our long-term need for leaders, both in terms of numbers and skills, by creating the necessary potential. Secondly, we intend to deploy target employee development measures to train further specialists within the Company to preempt a possible lack of experts in the future. 2014 saw our compliance system in particular refined. The code of conduct, the policy on anti-corruption measures and antitrust law and instructions on how to cooperate with business partners has been binding for all employees since April 2014.

ECONOMIC ENVIRONMENT

_DEVELOPMENT OF THE ECONOMY

After a very modest first half of year, the expansion of the global economy strengthened over the course of 2014. According to statistics provided by the IfW ["Institut für Weltwirtschaft": Institute for the World Economy] global gross domestic product (GDP) increased by 3.4 percent. The expansive monetary policy worldwide and low energy prices had a positive effect. Stronger growth was prevented by geopolitical risks such as the Russia-Ukraine dispute, the conflicts in the Middle East and the economic weakness of South America.

The emerging economies showed less dynamic development overall in 2014 than in prior years, with growth coming to 4.8 percent according to the IfW. Comparatively higher growth rates were seen in China (7.4 percent) and India (5.9 percent). The economies of Brazil and Russia, however, did little more than stagnate. In the developed economies, output increased by 1.8 percent in 2014, but economic development varied greatly between individual countries and regions. The US economy was clearly on the rise, expanding by 2.2 percent, whereas GDP in Japan rose by a mere 0.2 percent.

Europe continued to see only moderate rates of growth. The European Union as a whole generated growth of 1.3 percent, whereas the eurozone only managed growth of 0.8 percent. Countries outside the eurozone, such as the UK, Poland, Sweden, Hungary and Romania, returned above-average growth rates. In the eurozone, economies such as Italy, Austria, France and Finland were very weak. Ireland, Slovakia and Slovenia saw slightly better development.

Following a good start to the year and a weak summer season, the German economy returned to a stable upward trajectory towards the end of the year. This resulted in a rise in GDP of 1.6 percent for 2014. The main stimulus for this growth stemmed from retail consumption.

_MECHANICAL AND PLANT ENGINEERING

In 2014, the German engineering sector failed to meet the expectations of the industry association VDMA ["Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation] of growth of +3 percent, recording an increase in production of 0.7 percent. Order intake rose by 2 percent, with domestic and foreign markets seeing identical developments.

The HOMAG Group focuses on the field of wood processing machines, a sub-market of the mechanical engineering industry. This is characterized by a small number of large players that offer a relatively broad spectrum of products worldwide. In addition, there is a large number of smaller players that are frequently specialized in individual segments or manufacture special-purpose machines. The Biesse group and the SCM group, both based in Italy, and the German-based IMA group are the HOMAG Group's largest competitors with comparable product ranges. We estimate that the 4 corporate groups command a combined share of the global market of just under 52 percent.

For more information see glossary, pages 188 et seq.

Woodworking machinery can be divided into various product categories. HOMAG Group products belong to the segment of plant and machinery for secondary wood processing. According to information from the industry association within the VDMA responsible for it, this segment reported an increase in order intake in 2014–without taking into account price adjustments–of 6 percent. While international orders increased by 4 percent, orders from within Germany increased by 14 percent. Sales revenue likewise increased by 6 percent in 2014. In this respect, the 12 percent rise from outside Germany was significantly better than the figure for Germany itself, which saw a decrease of 11 percent.

_DEVELOPMENT OF SALES MARKETS

The HOMAG Group's fiscal year 2014 was characterized by significant growth in the Asia/Pacific, North America and Central Europe regions. Even western Europe made a contribution to growth, which meant that it was possible to more than compensate for the weaker development in some countries in eastern Europe and South America. The structural measures that we have continued to consistently implement in our sales and service organization produced further positive effects in this fiscal year. We were successful on the market both in the project business and with our stand-alone machines.

Driven by the positive economic environment in North America, order intake in that region developed very positively. The acquisition of Stiles means that the HOMAG Group can now directly benefit from the good market development and align the sales and service organization even more closely to the market. South America, by contrast, fell below our expectations on account of the ongoing market weakness.

The Asia/Pacific region similarly revealed significant growth, driven on the one hand by our involvement in China and, on the other hand, by other smaller and medium-sized markets in the region.

Eastern Europe did not succeed in matching the good figures seen in the prior year, which was mainly due to the strained political and economic situation in Russia and Ukraine. Due to the uncertainty still prevailing, many of our customers seem to be awaiting further developments despite their ongoing interest in purchasing our products.

In western Europe, we succeeded in generating single-digit growth in order intake compared to the prior year, but the situation in some countries, such as Italy, is still considered critical.

In 2014, the central Europe region saw satisfactory double-digit growth, which was attributable to the good development in Germany, among other factors. In addition to a distinct business with production lines, we also achieved successes with SMEs, which formed a sound basis for such growth.

The order intake in the BRIC countries was driven mainly by China, but we were also able to generate double-digit growth in India despite the weakening of the rupee. The market success of our machines from our HOMAG Machinery plant, based in Bangalore, India, was the basis for our good development on the Indian subcontinent. Although Brazil and Russia did not manage to match the prior year, the HOMAG Group saw double-digit growth in the BRIC countries once again.

_SIGNIFICANT EVENTS IN THE FISCAL YEAR 2014

The central event in the fiscal year 2014 was Dürr's acquisition of the majority shareholding. Dürr Technologies GmbH, a wholly-owned subsidiary of Dürr AG, acquired the majority of the shares in HOMAG Group AG with effect as of October 10, 2014. Following the necessary approval by the respective antitrust authorities in Germany and abroad, Dürr acquired a total interest of 53.7 percent of the HOMAG shares from various major shareholders. The voluntary public bid Dürr made to the other HOMAG shareholders that ended on October 7, 2014 was accepted for 2.1 percent of the shares. Furthermore, with 3 percent of its shares, Dürr joined the shareholder pool of the Schuler family and the Klessmann Foundation, which itself holds 22.1 percent. The HOMAG Group has been fully consolidated in the Dürr Group as of the start of the fourth quarter of 2014.

A second, important milestone was the acquisition of Stiles in the first quarter of 2014, which sets the course for our further growth on the US market. Effective as of February 3, 2014, we increased our holding of voting shares in Stiles Machinery, Inc. from 29.4 to 100 percent, thus acquiring the leading sales and service organization for plant and machinery in the US woodworking industry. This takeover gives us direct access to the US market, which will enable us to profit directly from the current excellent market performance.

We also anticipate major opportunities for growth in the fields of automation and robotics. For this reason, we merged the two subsidiaries BARGSTEDT Handlingsysteme GmbH and LIGMATECH Automationssysteme GmbH to form Homag Automation GmbH in 2014. The merger allows us to create further capacities for the planned growth and globalization in 5 areas: warehouse technology, automation and robotics, sorting and order picking, assembly technology as well as packaging technology. Such bundled skills provide good conditions to penetrate the international market even more effectively.

One important event in the area of finances was in the second quarter of 2014 the premature extension of the term of the syndicated loan agreement, originally concluded in 2012, to 2019; this gave us an opportunity to again improve the terms and allowed us to release a substantial amount of collateral. Like the previous agreement, this agreement is contingent on compliance with certain covenants. Both the syndicate of banks led by Commerzbank, Deutsche Bank and UniCredit and the volume of EUR 210 million are identical to the previous agreement, which would have expired in September 2016.

_ ORDER INTAKE AND SALES REVENUE

The fiscal year 2014 was a record year for the HOMAG Group. We recorded the highest level of sales revenue in the history of the Company, were very successful with regard to order intake and once again achieved a significant improvement in our operating figures. We successfully presented our Company and our innovative products at the major trade fairs held in 2014 such as HOLZ-HANDWERK in Nuremberg or XYLEXPO in Milan, which allowed us to win over numerous customers with our innovations. We experienced great demand not only in the project business with large-scale plant but also with stand-alone machines.

The acquisition of the sales and service company Stiles, which has been fully consolidated since February 2014, gave rise to non-recurring effects on our statement of financial position as well as our income statement for 2014. We refer to the pertinent sections of this group management report for details of these effects. It should additionally be noted that, in order to enhance comparability with sales revenue, we have changed how order intake is calculated. The merchandise of the production companies and the after-sales segment will be included in order intake from now on. The prior-year figure was restated accordingly.

In 2014, we increased **order intake** by 9.3 percent to EUR 802.6 million (prior year: EUR 734.3 million), which exceeded our forecast (between EUR 760 million and EUR 780 million). According to the new calculation method, our **order backlog** came to EUR 307.3 million as of December 31, 2014, which constitutes a record year-end high and means that we have exceeded our prior-year figure (EUR 207.6 million) by around 48 percent. The acquisition of the sales and service company Stiles does not have any impact on order intake or order backlog, as the calculation of these 2 figures does not comprise the merchandise of the sales companies or their margins.

With regard to the Group's sales revenue of EUR 914.8 million in 2014, we achieved the highest figure in the history of the Company, exceeded our forecast (between EUR 860 million and EUR 880 million) and improved this figure by around 16 percent compared to the prior year (EUR 788.8 million). Approximately EUR 68 million stems from the acquisition of Stiles in terms of the sale of non-Group products and the gross profit margin from sales revenue from HOMAG Group products. After eliminating effects from the Stiles acquisition, this represents an increase in sales revenue of EUR 57.8 million or 7 percent. Our inventories increased in connection with the acquisition of Stiles so that our total operating performance comes to EUR 947.7 million (prior year: EUR 809.1 million).

_ SEGMENT SALES REVENUE

Sales revenue improved substantially in all segments in the fiscal year 2014: Sales revenue in the Industry segment (before consolidation between segments) rose to EUR 510.8 million (prior year: EUR 470.7 million) and in the Cabinet Shop segment to EUR 209.8 million (prior year: EUR 200.5 million). The by far largest growth impetus was seen in the Sales & Service segment with growth of EUR 148.6 million to EUR 411.5 million (prior year: EUR 262.9 million). This figure includes the sales revenue of the new sales and service company, Stiles Machinery, Inc. Sales revenue in the Other segment increased to EUR 107.9 million (prior year: EUR 91.8 million), above all at our subsidiaries in Poland and China.

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

_RESULTS OF OPERATIONS

Our earnings figures also developed well in 2014, despite negative special effects. From a purely operating perspective, we succeeded in significantly increasing earnings margins. The special effects are reflected in the significant increase in our **extraordinary expenses** to EUR 17.1 million (prior year: EUR 3.8 million), primarily as a result of the Stiles acquisition. In this respect, cost of materials includes special effects relating to the elimination of intercompany profits of EUR 8.4 million and inventory-related effects from the purchase price allocation of EUR 2.4 million. Extraordinary expenses include, among other things, an amount incurred by the Company relating to a member of the management board stepping down at the end of fiscal 2014.

Other operating income increased to EUR 19.8 million (prior year: EUR 16.4 million), essentially on account of exchange rate gains that have risen by EUR 4.9 million. In the prior year, this item had included EUR 1.5 million from the sale of property at the subsidiary FRIZ Kaschiertechnik GmbH.

Our **cost of materials** rose to EUR 407.9 million (prior year: EUR 342.0 million) primarily due to the positive development of business. In addition, the effects from the acquisition of Stiles caused an increase in cost of materials. This means that the cost of materials ratio (defined as cost of materials to total operating performance) increased slightly to 43.0 percent (prior year: 42.3 percent). Adjusted for the non-recurring Stiles expenses, the ratio of cost of materials to total operating performance decreased to 41.9 percent. Our purchasing project, which enabled us to further reduce our cost of materials, also contributed to this development.

Personnel expenses came to EUR 335.8 million in the fiscal year 2014 (prior year: EUR 286.1 million). This increase is primarily attributable to the rise in the number of employees, specifically from the full consolidation of Stiles. The collectively bargained wage increases at German production companies is an additional factor, as are the rapidly increasing labor costs in emerging economies, in particular in China. Our ratio of personnel expenses to total operating performance stood at 35.4 percent, which is the same level as the prior year.

At EUR 31.4 million, **amortization of intangible assets and depreciation of property, plant and equipment** remained at the prior-year level.

In the reporting year, **other operating expenses** rose to EUR 147.2 million (prior year: EUR 124.4 million). This is above all due to the first-time consolidation of Stiles, including the resulting higher travel costs as well as exchange rate losses and higher costs for consulting services, leases and maintenance.

Employee profit participation expenses rose to EUR 8.6 million (prior year: EUR 7.0 million). This is due to a special effect amounting to EUR 2.2 million from the much lower discount rate, which led to a smaller discounting effect for the non-current obligation.

Our **interest result** improved again compared to the prior year on account of lower debt level, better interest rates owing to the renegotiated syndicated loan agreement and the generally lower interest level to EUR –4.8 million (prior year: EUR –5.9 million). The **profit/loss from associates** decreased to EUR 0.7 million on account of Stiles' contribution to earnings which is no longer included here (prior year: EUR 2.1 million). This gives rise to a **financial result** of EUR –4.1 million (prior year: EUR –3.8 million).

For more information see glossary, pages 188 et seq.

In the reporting year, our **tax expense ratio** was reduced further to 37.4 percent (prior year: 38.3 percent).

_ EARNINGS INDICATORS

Operative EBITDA before employee profit participation expenses and before extraordinary expenses is the definitive indicator we use to measure the actual operational development of the HOMAG Group as all special effects are eliminated. This indicator rose by 23.0 percent to EUR 93.2 million (prior year: EUR 75.8 million), which exceeded our forecast (between EUR 82 million and EUR 84 million). As the increase outpaced the Group's sales revenue growth, the operative EBITDA margin improved further to 10.2 percent (prior year: 9.6 percent). **EBIT before employee profit participation expenses and after extraordinary expenses** increased by 8.8 percent to EUR 45.3 million (prior year: EUR 41.6 million).

EBT after employee profit participation expenses and after extraordinary expenses increased to EUR 32.6 million (prior year: EUR 30.9 million). Our tax expense ratio, which has continued to decrease, gives rise to **net profit for the year after non-controlling interests** of EUR 18.9 million (prior year: EUR 18.4 million). Due to the negative special effects seen in the fiscal year 2014, we have fallen just below the forecast net profit for the year of between EUR 20 million and EUR 22 million. This means that earnings per share stood at EUR 1.21 (prior year: EUR 1.17).

For more information see glossary, pages 188 et seq.

We report the **return on capital employed** (ROCE) on the basis of adjusted EBIT, i.e., before employee profit participation and adjusted for extraordinary expenses. On account of the significantly increased adjusted EBIT and the lower level of capital employed, ROCE 2014 before tax rose clearly above the prior-year figure (prior year: 16.1 percent) to 24.1 percent.

The decrease in **capital employed** mainly results from the significant reduction in net working capital. The reasons for the decrease are the higher level of prepayments received and the increase in trade payables, of which a large portion is attributable to the acquisition of Stiles. Other current liabilities and deferred income also increased significantly. On the one hand, the increase stems from the acquisition of Stiles. On the other, these items include higher management bonuses on account of the improved earnings situation as well as a severance payment for a member of the management board who stepped down in 2014. Another reason for the decline in the level of capital employed is the reduction in financial assets of around EUR 5 million on account of the Stiles acquisition.

At 16.9 percent, **ROCE after tax** (the tax rate used for this calculation was 30 percent in both years) was also above the prior-year level (prior year: 11.3 percent). This means that we have once again earned more than our cost of capital this fiscal year.

_ SEGMENT RESULTS

At EUR 64.0 million, **operative EBITDA before employee profit participation expenses and before extraordinary expense** in the Industry segment before consolidation rose significantly in comparison to the prior year (EUR 54.5 million). The operating result also developed very well in the Cabinet Shop segment, coming to EUR 12.4 million (prior year: EUR 11.4 million). The significant rise to EUR 29.9 million in the Sales & Service segment mainly results from the Stiles acquisition (prior year: EUR 11.5 million). Both the cost of materials and personnel expenses rose at a higher rate than sales revenue in the Other segment. For this reason, operative EBITDA fell to EUR –4.0 million (prior year: EUR –2.1 million).

The segment result, which corresponds to **EBT after employee profit participation expenses and after extraordinary expense** rose to EUR 34.9 million in the Industry segment (prior year: EUR 26.4 million). This improvement is mainly a result of the rise in the volume of sales revenue. Earnings before taxes for the Cabinet Shops segment decreased to EUR 3.3 million (prior year: EUR 4.4 million). In addition to the higher cost of materials, higher personnel expenses are another reason for this decrease. In the Sales & Service segment, earnings improved to EUR 14.3 million (prior year: EUR 8.3 million) although the restructuring and non-recurring expenses rose substantially as a result of the integration of Stiles. EBT in the Other segment, however, declined in the reporting year to EUR –11.6 million (prior year: EUR –8.6 million). This is due, among other things, to severance payments for a member of the management board who stepped down in 2014.

_NET ASSETS

Our Group's **total assets** rose to EUR 610.8 million as of December 31, 2014 (prior year: EUR 543.9 million). In this respect, an increase of EUR 68.9 million is attributable to the takeover of Stiles. Disregarding this non-recurring item, the increase in total assets did not match that in total operating performance thanks to our active assets management.

On the **assets side**, **intangible assets** increased by EUR 5.6 million to EUR 77.7 million (prior year: EUR 72.1 million). This was due to the addition of the goodwill from Stiles as well as capital expenditure on the major IT project ProFuture and the conversion of the goods management system to SAP ERP that it involves. Our **property, plant and equipment** increased to EUR 128.9 million on account of the Stiles acquisition and above all the expansion of our production in Poland (prior year: EUR 125.0 million). The **investments in associates** item decreased to EUR 4.8 million (prior year: EUR 10.1 million) as it no longer includes Stiles. Deferred taxes rose by EUR 1.1 million to EUR 10.1 million (prior year: EUR 9.0 million).

Of the significant rise in **inventories** of EUR 41.3 million to EUR 174.8 million (prior year: EUR 133.5 million), around EUR 37 million is attributable to the acquisition of Stiles. In addition, there was a slight build-up of inventories on account of the good order situation. **Receivables from associates** rose significantly to EUR 44.0 million (prior year: EUR 21.5 million), which is mainly attributable to cut-off effects on the measurement of the stage of completion determined for large-scale plants. The decrease in **receivables from associates** to EUR 4.7 million (prior year: EUR 15.4 million) results from the complete takeover of Stiles, which is no longer included in this item. Our **cash and cash equivalents** increased to EUR 50.0 million despite extensive repayment of debt (prior year: EUR 44.9 million).

On the **equity and liabilities side**, the net profit for the period led to an increase in **equity** to EUR 194.7 million as of the end of the fiscal year 2014 (prior year: EUR 177.7 million). Our **equity ratio** (ratio of equity to total assets) decreased to 31.9 percent as of December 31, 2014 on account of an increase in total assets caused by the acquisition (prior year: 32.7 percent).

Our **non-current financial liabilities** increased to EUR 71.9 million (prior year: EUR 64.0 million) on account of a loan taken out in connection with the acquisition of Stiles. Deferred tax liabilities increased to EUR 19.2 million (prior year: EUR 13.1 million).

Thanks to our extensive repayment of debt in the fiscal year 2014, our **current financial liabilities** decreased by a total of EUR 44.6 million to EUR 14.6 million (prior year: EUR 59.2 million). Trade payables rose to EUR 84.9 million (prior year: EUR 61.2 million). The takeover of Stiles, accounting for EUR 27 million, and the positive order situation are the main reasons for this development. On account of the takeover of Stiles, the high order backlog and strict prepayment management, **prepayments received** rose to EUR 59.9 million (prior year: EUR 39.7 million). The increase in **current liabilities and deferred income** relates to the takeover of Stiles, the higher bonuses compared to the prior year as well as a severance payment for a member of the management board who stepped down in 2014.

_FINANCIAL POSITION

The good business development and the good operative results in the fiscal year 2014 are also reflected in **net liabilities to banks**, which as of December 31, 2014 had fallen significantly by 59 percent to EUR 28.5 million (December 31, 2013: EUR 69.2 million). We achieved this despite the cash outflow for the Stiles acquisition, a higher level of investment and a larger dividend distribution. In addition to the positive development of business, this decrease is also a result of successful working capital management. For example, we were able to achieve higher prepayment rates commensurate with the good project business and agreed longer terms of payments with our suppliers.

The **operating cash flow** (cash flow from operating activities) rose significantly to EUR 90.3 million in fiscal 2014 (prior year: EUR 46.5 million). This rise is attributable in particular to strict working capital management. **Cash flow from investing activities** increased mainly on account of the Stiles acquisition and the rise in the volume of investment in property, plant and equipment and intangible assets to EUR –40.2 million (prior year: EUR –18.0 million). All in all there was, despite the Stiles acquisition, a significant improvement in free cash flow (the sum of operating cash flow and cash flow from investing activities) in comparison to fiscal year 2014 to EUR 50.1 million (prior year: EUR 28.5 million). This underlines our ability to repay existing financial liabilities. **Cash flow from financing activities** rose to EUR –46.1 million (prior year: EUR –27.3 million). The increase is mainly attributable to the repayment of financial liabilities. **Cash and cash equivalents** stood at EUR 50.0 million as of December 31, 2014 (prior year: EUR 44.9 million).

For more information see glossary, pages 188 et seq.

_ CAPITAL EXPENDITURE

In 2014, our **capital expenditure on intangible assets and property, plant and equipment** (without leases) once again increased significantly to EUR 35.9 million in the Group (prior year: EUR 24.3 million). The focal points included an extension at our production plant in Poland, which virtually doubled the production floor area at that location. In addition, we invested in our enterprise software in connection with our large-scale IT project, ProFuture, in the development of software and control technology as well as in the development of a new line of machines. In addition, we implemented a state-of-the-art energy concept at our location in Schopfloch, where we invested in significantly improved insulation of the halls and in new combined heat and power plants as well as refurbishing existing ones. Capital expenditures include **capitalized development work** of EUR 7.5 million (prior year: EUR 7.6 million). As of December 31, 2014, the total value of our property, plant and equipment and intangible assets stood at EUR 206.6 million (prior year: EUR 197.0 million).

Investments in the Industry segment rose on account of the large-scale IT project ProFuture to EUR 19.1 million (prior year: EUR 17.7 million), while investments in the Cabinet Shops segment decreased slightly to EUR 3.6 million (prior year: EUR 4.3 million). Our investments in the Sales & Service segment increased significantly to EUR 5.3 million due to the acquisition of Stiles (prior year: EUR 1.0 million). Our investments in the Other segment also increased to EUR 4.6 million on account of the extension to our production plant in Poland (prior year: EUR 1.3 million).

_ OVERALL STATEMENT ON THE ECONOMIC SITUATION OF THE GROUP

In the opinion of the HOMAG Group's management board, fiscal 2014 was a successful year. New records were set with regard to both sales revenue and order backlog as of the end of the reporting period. The Group's sales revenue grew faster than the industry average by around 16 percent, which meant that we were able to win market shares. The management board gives the development of the results of operations a positive assessment. This confirms that the measures implemented to enhance efficiency are taking effect. For instance, it was possible to reduce the cost base and further improve the operating performance. The good development of the fiscal year 2014 is also reflected in the significant decrease in net liabilities to banks from nearly EUR 70 million to EUR 28.5 million.

Following the successful reporting year, the management board sees the HOMAG Group on the right track with the implementation of the long-term strategy and the goals defined therein. Profitable growth in the Group is expected to continue in the coming years despite a higher level of economic uncertainty.

RESEARCH AND DEVELOPMENT

_GENERAL

In addition to new machines and production lines, the research and development (R&D) department develops innovative software packages and services for the woodworking and wood materials processing industry and cabinet makers.

As a technology leader, we are intent on being the first to market with our innovations. When it comes to new developments, the focus is always on customers and the market. In order to bring about technology advances in the industry, we are also driving developments in completely new directions. For this reason, the HOMAG Group cooperates with universities and Fraunhofer Institutes. The input from external experts from these institutions enables the HOMAG Group to build up expertise in fields of technology of interest for the Company and to gain access to the most recent scientific findings. By doing so, the HOMAG Group also safeguards its innovation leadership in the long run. In total, there are 830 research and development employees in the R&D functions, including order-based design, throughout the Group as of December 31, 2014 (prior year: 786 employees); 329 employees of whom work exclusively in development activities. Just under 30 percent of the new hires in this function worked in R&D departments at foreign companies in 2014.

The research and development ratio, i.e., R&D expenses including the costs of made-to-order contracts and project development as a percentage of sales revenue, came to 7.3 percent in the reporting year (prior year: 7.7 percent). The pure development ratio, i.e., non-capitalized development costs and the amortization of capitalized development costs as a percentage of sales revenue came to 3.4 percent in 2014 (prior year: 3.6 percent).

Our innovative drive is also reflected in the high number of patent applications of more than 70 in 2014 (2013: more than 60). New patents were filed in virtually all of our product areas of technology with a view to securing our technological edge. As of December 31, 2014 we had more than 370 patent families. Our portfolio currently has a total of 1,035 published individual patents (prior year: 953).

In 2014, the HOMAG Group presented its new developments at just under 60 national and international trade fairs. The most important trade fairs included HOLZ-HANDWERK in Nuremberg, XYLEXPO in Milan, IWF in Atlanta and CIFF Interzum in Guangzhou.

For our customers, the automation of transport and handling systems are important areas for the future. For this reason, we merged the entities BARGSTEDT and LIGMATECH to form one company. Bundling expertise in the new entity HOMAG Automation boosts performance and flexibility, especially for new and customized developments. We are driving development forward and leveraging internal synergies in all five areas: warehouse technology, automation and robotics, assembly technology, sorting and order picking, as well as packaging technology.

Our long-term product strategy is aimed in 3 directions: increasing productivity, differentiation and sustainability. The focus of all new developments and refinements for cabinet shops and industry is placed on the benefit to our customers. Our innovations are intended to increase our customers' productivity and set them apart from the competition in terms of design and quality, while meeting demands on sustainability as regards energy and material consumption. All 3 focal points form the basis of our product strategy.

_INCREASING PRODUCTIVITY

There are several ways in which customers of the HOMAG Group boost their productivity: firstly, through shorter cycle times in mass production with HOMAG machines and secondly through a greater level of flexibility in customized production, thanks for instance to shorter retooling times. Thirdly, we can also improve productivity by optimally connecting all of our machines and production lines to customers' planning and management systems and continuously improving the user interface.

For more information see glossary, pages 188 et seq.

An all-brand platform strategy enables us, on the one hand, to structure our own R&D process as cost-efficiently as possible, reduce the complexity of our products and thus shorten development times. On the other hand, we use fixed basic configurations and modular equipment packages to fulfill virtually all customer requirements with considerably less variance. In the area of edge banding machines with a sliding chain, the first specially developed platform was presented to the public in 2014. In addition, the new platform has higher-performance aggregate families and exhibits improved user and service friendliness.

For more information see glossary, pages 188 et seq.

As part of CNC machining, a smart machine configuration facilitates 360 degree edge banding with lower space requirements. Another advantage is direct and quicker access to the edge exchange in order to facilitate topping up hot-melt glue and to service the aggregate.

In the area of high-performance saws, we made innovative changes for example, to reduce dust levels. To this end, we have completely overhauled and improved our extraction technology. Furthermore, various components of the machine were optimized in such a way to allow customers to perform regular maintenance tasks in the shortest amount of time possible.

For more information see glossary, pages 188 et seq.

Our service area, which has gained in importance for our Company and our customers, presented the new Service**Board** in the reporting year. It enables precise remote diagnosis in real time. Using a specially designed app, machine operators worldwide can film machine malfunctions. A HOMAG Group service technician can then make a remote diagnosis in real time and regardless of location. As a result, machine uptime can be restored in an extremely short space of time.

_ DIFFERENTIATION

Our customers set themselves apart from the competition with the design of their products, e.g., surfaces that simply look and feel good and style. As a result, it is important that our customers have the highest possible level of flexibility with respect to the production of the most unique design variations.

Hydrophobing is at the center of the new **seal**Tec technology. The application of this new process provides a higher resistance to moisture, steam and temperature changes, above all for kitchen and bathroom furniture. In the edge banding process, a fluid with hydrophobic characteristics is applied to the surface of the edges. This prevents the penetration of moisture in a more effective manner and increases the strength of the joint.

The new version of the wood**WOP7** software for programming our machines now allows interpolation processing. The full potential of a 5 axis processing center or 5 axis aggregate technology can now be exploited with the new software. wood**WOP7** allows free-form surfaces to be created as well as multi-dimensional curved bodies to be designed in just a few steps. All designs can be generated in 3D.

In addition, we offer our customers software for no-contact 3D scanning. This simply digitizes unusual free-form components and design models, so that then a 3D model can be generated and imported into wood**WOP7**.

_ SUSTAINABILITY

One important field of research in the development of our machines and production lines in the area of sustainability is extraction technology, which is energy intensive. Once again in 2014, we made further progress in this field. Using an innovative material (CFK), it is possible to optimize energy efficient removal of chips. The fitting of covers for variable direction of ambient air reduces energy consumption.

Additional promising development projects are currently being worked on, with which we will demonstrate our innovation power to customers at the LIGNA, the leading trade fair for the industry, in Hanover in May 2015, and beyond.

SUSTAINABILITY REPORT

_SUSTAINABILITY IS FIRMLY ANCHORED IN OUR MISSION STATEMENT

Sustainable action is an integral component of the corporate strategy for the HOMAG Group. We are aware of our responsibility for the environment, our employees and shareholders as well as our business partners and are convinced that a balance can be struck between economic, ecological and social factors. Our commitment to "sustainability through responsibility" is also contained in our mission statement.

_ECOLOGICAL RESPONSIBILITY

In order to use every unit of material in wood processing, however small it may be, for a purpose we develop and refine processes on an ongoing basis to reduce production waste as well as creating individual products for sustainable use. In addition, increasing the energy efficiency of new developments is a key element in development, as sustainability in products, e.g., energy efficiency and conserving resources in production activities, is becoming ever more important, both for us and our customers. As a result, we attach great value in all new developments to the fusion between performance and economy in the consumption of energy and materials and thereby ensuring that our future technologies are future-proof.

More than 5 years ago, we at the HOMAG Group combined all these measures enhancing sustainability into the eco**Plus** concept. This includes for example the energy-saving standby operation of our machines and production lines. Furthermore, a large number of all HOMAG Group machines work with highly-efficient IE2 motors. Compared to conventional motors, these motors are able to generate considerably higher output, while at the same time reducing CO_2 emissions.

We use simulation technology already in the planning of new lines for our customers in order to optimize the flow of materials, avoid bottlenecks and develop an efficient production line. The focus in this context is on discovering unnecessary energy consumption through performance losses.

At the same time, the HOMAG Group is a partner of the VDMA Blue Competence sustainability initiative. This campaign is designed to promote sustainable technologies for business, the environment and society at large in order to take and maintain long-term technological leadership worldwide in sustainability issues.

By investing in modern, environmentally compatible technology, we strive to reduce energy consumption at our global production facilities in the long term. All in all, we invested a total of EUR 1.9 million in 2014 in measures to reduce energy consumption at the largest subsidiary in Schopfloch. In this respect, the energy concept involved retrofitting the existing combined heat and power plants to run on gas instead of oil. Additional heat exchangers will make it possible in the future to use the waste heat produced to also cool the Company's buildings in the summer. The current energy-intensive air conditioning system will thus become redundant. The annual savings in CO2 emissions at this location alone will come to 1,750 metric tons per annum.

_SOCIAL RESPONSIBILITY

As employer we take our responsibility towards our employees seriously. Promoting young talent and the ongoing professional and personal development of our employees are a vital component of our corporate strategy (see also page 40 et seq.). We set great store by social corporate responsibility. For this reason, we cooperate with several educational institutions in order to provide young people with guidance early on when it comes to finding a profession.

For more information see page 40 – 41

For more information see glossary, pages 188 et seq.

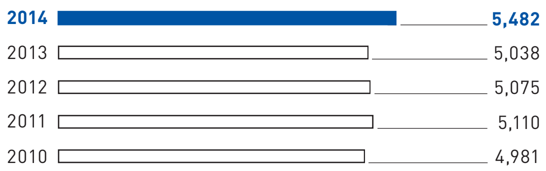
The HOMAG Group has given its corporate social responsibility the name "HOMAG Cares". This initiative has been, among other things, part of trade fairs and events worldwide for many years now. The focus in this context is always placed on supporting charitable organizations. In 2014, for example, we donated the sales revenue generated from the sale of demonstration parts to national and international charities.

EMPLOYEES

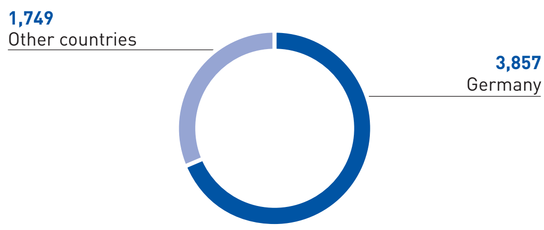
The Group's headcount increased to 5,606 employees as of December 31, 2014 (prior year: 5,064 employees). As a result of the full acquisition of the remaining shares in Stiles Machinery, Inc., 329 of their employees were included in the Group as of the reporting date. In addition, we primarily increased our workforce at our foreign production companies in Poland and China. As of year-end, the Group had 3,857 employees in Germany (prior year: 3,810 employees) and 1,749 employees in other countries (prior year: 1,254 employees). The average headcount rose from 5,038 employees to 5,482 employees, 322 of whom on average worked at Stiles Machinery, Inc. At the end of 2014, the HOMAG Group employed 155 contract workers (prior year: 99 contract workers).

In the Industry segment, average headcount in 2014 stood at 2,619 employees (prior year: 2,609 employees) and in the Cabinet Shops segment it stood at 995 employees (prior year: 984 employees). Average headcount in the Sales & Service segment stood at 1,054 employees on account of the integration of Stiles (prior year: 725 employees). This corresponds to an increase of 329 employees on the prior year. In the Other segment we build up headcount mainly in growth regions; an annual average of 814 employees (prior year: 720 employees) were working in this segment.

_M2_Employees 2010 – 2014 (Annual Average)



_M3_Employees as of the Reporting Date by Region 2014



_THE HOMAG GROUP AS EMPLOYER

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

The balance between work commitments and private life is a decisive basis for motivation and performance. For this reason, we offer our employees an extensive range of part-time solutions and flexible working hours and thus help them strike a work-life balance.

_PERSONNEL DEVELOPMENT AT THE HOMAG GROUP

Our employees are the guarantee of our success, which is why we consistently promote employee development in order to maintain the high level of qualification and innovation within the Group. To this end, we provide a wide range of training possibilities to employees for their personal development. In this context, we distinguish between development opportunities for specialist and leadership career paths. In addition to methodological topics, employees can attend language, IT and specialist courses specific to their professions. We also support further development programs, such as Bachelor's, Master's or technician training as a part-time arrangement or with a guaranteed right to return to the Company.

Overall, our employees in Germany attended around 2,400 courses with 32.9 percent of all employees in Germany participating in development programs. In addition, we extended our offering of specialist online training courses, primarily in the Service area. Furthermore, all employees received compliance training in fiscal 2014.

The innovation power demonstrated by our employees secures the continued existence of our Company. In the long term, we too will be impacted by demographic change. This means that recruiting qualified staff will constitute an ever greater challenge. The Group considers permanently securing the future generation of young qualified employees to be an important task. The HOMAG Group has therefore always maintained a high ratio of trainees to total workforce. As of the reporting date, there were a total of 330 trainees (prior year: 365) in the Group, thereof 258 (prior year: 294) in technical and 72 (prior year: 71) in commercial positions. Compared to other companies in the industry in Germany, this corresponds to a high ratio of trainees to total workforce of just over 8.6 percent (prior year: 9.6 percent). A total of around 80 young people began their training at Group production entities in the reporting year (prior year: about 100). As the first training company in the Freudenstadt district, the largest subsidiary of the HOMAG Group received the "Excellence in Training" quality seal from the northern Black Forest Chamber of Industry and Commerce in the 2014 reporting year.

In total, the HOMAG Group offers training for 11 attractive and challenging technical and commercial professions. In addition, we cooperate closely with Baden-Württemberg Cooperative State University (DHBW) and provide training in 10 different technical subjects as well as business management and information technology. High school graduates can complete the dual concept studies program with a Bachelor's degree. In total, 17 casual student workers and 146 interns worked at the German locations of the HOMAG Group, 27 students were writing their dissertations in 2014.

In order to spark school children's interest in training professions at the Company, subsidiaries of HOMAG Group AG offer diverse activities. In addition to professional training meets where the companies introduce themselves in workshops and workplace tours, the HOMAG Group holds presentations at a number of college and university job fairs. The aim is to engage in dialog with as many students and graduates as possible in order to show them possibilities for starting a career at the global leader for wood processing systems.

_EMPLOYEES AS FELLOW ENTREPRENEURS

Some of the HOMAG Group subsidiaries have an employee profit participation scheme. Employees thus bear some of the entrepreneurial opportunities and risks in that they share in both the profit generated by the respective companies and also in any loss incurred. The companies with an employee profit participation scheme expect to distribute EUR 4.2 million (prior year: EUR 3.9 million) to their employees participating in the respective schemes for the past fiscal year 2014.

DISCLOSURES PURSUANT TO SEC. 289 (4) AND SEC. 315 (4) HGB [“HANDELSGESETZBUCH”: GERMAN COMMERCIAL CODE]

Composition of issued capital (No. 1): Issued capital of EUR 15,688,000.00 comprises 15,688,000 no-par value bearer shares with an imputed share in share capital of EUR 1.00 per share. The rights and duties associated with ordinary shares are defined in German stock corporation law.

Restrictions relating to the voting rights or transferability of shares (No. 2): Gerhard Schuler, Freudenstadt, Mareike Hengel, Freudenstadt, Silke Schuler-Gunkel, Freiburg, Dr. Anja Schuler, Zurich, Switzerland, Erich und Hanna Klessmann Stiftung, Gütersloh, Lea Gunkel, Freiburg, Luisa Gunkel, Freiburg, Mira Gunkel, Freiburg, Simon Hengel, Freudenstadt, Tobias Hengel, Freudenstadt, Runa Schuler, Zurich, Switzerland, Anna GbR, Freudenstadt, Hengel MST GbR, Freudenstadt, Wood Generations GbR, Freiburg, and Dürr Technologies GmbH, Stuttgart, concluded a vote pooling agreement on October 10, 2014. This vote pooling agreement contains limitations on both voting rights and the transfer of shares. The management board is not aware of any further restrictions, especially arising from agreements between shareholders.

Capital investments exceeding 10 percent of the voting rights (No. 3): Deutsche Beteiligungs AG, Frankfurt am Main and the parallel funds managed by it held an interest in the Company’s share capital and voting rights of more than 10 percent until October 10, 2014. As of October 10, 2014, Dürr Technologies GmbH, Stuttgart, holds a capital investment and voting right in the Company of greater than 10 percent. The same applies to Gerhard Schuler, Freudenstadt, and Mareike Hengel, Freudenstadt, Silke Schuler-Gunkel, Freiburg, Dr. Anja Schuler, Zurich, and Erich und Hanna Klessmann Stiftung, Gütersloh, who are allocated a voting right in the Company of greater than 10 percent on account of the aforementioned vote pooling agreement.

Shares with special rights that grant control authority (No. 4): There are no shareholders in HOMAG Group AG with special rights granting control.

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

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

a) **Appointment and dismissal of management board members:** The appointment and dismissal of members of the management board comply with Secs. 84 and 85 AktG and Sec 31 MitbestG [“Mitbestimmungsgesetz”: German Co-determination Act]. Supplementary to this, Art. 5 (1) of the articles of incorporation and bylaws prescribes that the management board has to comprise at least 3 persons and that the appointment of deputy members of the management board is permitted. In accordance with Art. 5 (2) of the articles of incorporation and bylaws, the supervisory board determines the number of members of the management board, appoints them, concludes changes and terminates service agreements, as well as revokes appointments; it is also responsible for appointing the chairperson and the deputy chairperson of the management board.

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

Resolutions of the annual general meeting to amend the articles of incorporation and bylaws are passed, to the extent permitted by the provisions of law, by simple majority of votes cast pursuant to Art. 20 (1) of the articles of incorporation and bylaws in conjunction with Sec. 179 (2) Sentence 2 AktG and, to the extent that the law provides for a majority of share capital represented in addition to the majority of votes cast, by simple majority of the share capital represented at the passing of the resolution.

Authority of the management board, in particular regarding the possibility to issue or redeem shares (No. 7):

a) **Authorization to issue shares:** The management board is not authorized to issue new shares.

b) **Authorization to purchase treasury shares:** The annual general meeting of May 28, 2010 authorized the Company pursuant to Sec. 71 (1) No. 8 AktG, with the approval of the supervisory board, to purchase treasury shares up to a total of 10 percent of the share capital, i.e., up to 1,568,800 no-par value bearer shares until April 30, 2015. The Company may not use the authorization to trade with treasury shares. The Company can exercise the authorization wholly or in part, once or several times. The management board can choose to purchase the treasury shares either a) via the stock exchange or b) through a public offer made to all shareholders.

Subject to the approval of the supervisory board, the management board is authorized to redeem the treasury shares purchased pursuant to this authorization without requiring any further resolutions by the annual general meeting. Moreover, subject to the approval of the supervisory board, treasury shares acquired on the basis of the authorization can be sold in a way other than on the stock exchange, provided that they are purchased in exchange for contributions in cash and at a price that does not fall materially short of the quoted price of the same category of the Company's shares at the time of the sale. The total imputed share in share capital attributable to the number of treasury shares sold under this authorization together with the imputed share in share capital attributable to new shares issued, while precluding subscription rights in accordance with Sec. 186 (3) Sentence 4 AktG directly or by analogy, since the resolution granting this authorization was passed, may not exceed a total of 10 percent of the share capital as of the date on which the authorization takes effect or, if lower, as of the date on which this authorization is exercised. The price at which the Company's shares are sold to third parties may not fall short by more than 5 percent (excluding incidental purchase costs) of the average closing rate of the Company's shares in XETRA trading (or a functionally comparable successor system) on the Frankfurt am Main stock exchange during the 5 trading days prior to the agreement with the third party. Subject to the approval of the supervisory board, the management board is also authorized to offer the treasury shares purchased under the authorization to third parties in the course of business combinations or for the purpose of acquiring entities, parts of entities or equity investments. Shareholders' subscription rights are thus precluded.

Material agreements of the Company in the event of a change of control as a result of a takeover bid (No. 8): HOMAG Group AG is party to an agreement governing a syndicated loan of EUR 210,000,000.00. Under this syndicated loan agreement, all sums paid must be repaid prematurely together with all other sums owed under the syndicated loan agreement upon any "Change of Control". A change of control within the present meaning is deemed to have taken place if 50 percent or more of the voting rights or 50 percent or more of the capital of a debtor is acquired by one person or a group of people acting together, with voting rights allocated in accordance with Sec. 30 WpÜG ["Wertpapiererwerbs- und Übernahmegesetz": Securities Acquisition and Takeover Act]. The syndicate of banks approved the acquisition by Dürr Technologies GmbH in the 2014 reporting year.

For more information see glossary, pages 188 et seq.

Compensation agreements 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. With regard to the effect of the expiration of Dr. Flik's management board service agreement at the end of December 31, 2014, reference is made to the corresponding explanations in the remuneration report on page 61 et seq.

For more information see page 61 – 66

CLOSING STATEMENT BY THE MANAGEMENT BOARD ON RELATIONSHIPS WITH AFFILIATES

HOMAG Group AG has been a dependent company as defined by Sec. 312 AktG of Dürr AG, Stuttgart, Germany, since October 10, 2014. Pursuant to Sec. 312 (1) AktG, the management board of HOMAG Group AG prepared a dependent company report; this details relationships with affiliates, and closes with the following declaration:

"The management board states with regard to the dependent relationship with the constructive controlling company Dürr AG from October 10, 2014 to December 31, 2014, that the Company, in the circumstances known to it at the date on which it entered into the relevant transaction or undertook or refrained from undertaking the relevant act, received adequate consideration for each transaction and did not suffer any disadvantage which would have required compensation, by reason of undertaking or refraining from undertaking the act."

DECLARATION OF COMPLIANCE (INCLUDING CORPORATE GOVERNANCE REPORT[1]) PURSUANT TO SEC. 289A HGB

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

_CORPORATE GOVERNANCE AT THE HOMAG GROUP

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

DECLARATION OF COMPLIANCE 2015

Declaration by the management board and supervisory board of Homag Group AG on the German Corporate Governance Code pursuant to Sec. 161 AktG.

The management board and supervisory board of Homag Group AG (hereinafter the "Company") issue the following declaration of compliance pursuant to Sec. 161 AktG with respect to the recommendations of the government commission for the German Corporate Governance Code and are responsible for its publication on the Company's website. The management board and supervisory board of Homag Group AG issued the declaration of compliance 2014, in January 2014. For the period from the date of issue of the declaration of compliance 2014 to September 29, 2014, the following declaration pertains to the recommendations of the German Corporate Governance Code (hereinafter the "Code") in the version dated May 13, 2013, as published on June 10, 2013 in the Bundesanzeiger [German Federal Gazette]. For the period as of September 30, 2014, the following declaration pertains to the recommendations of the Code in the version dated June 24, 2014, as published on September 30, 2014 in the Bundesanzeiger.

Now therefore, the management board and supervisory board of Homag Group AG declare that recommendations of the Code will be complied with and were complied with in the past. The management board and supervisory board of Homag Group AG also intend to comply with it in the future. Only the following recommendations of the Code were not complied with and will not be complied with:

1. No. 4.2.3 (4) Sentence 3 of the Code – Severance payment cap

No. 4.2.3 (4) of the Code refers to the maximum amount of payments made to a management board member on premature termination of his/her contract (severance payment cap). Pursuant to No. 4.2.3 (4) Sentence 3 of the Code, the severance payment cap should be calculated primarily on the basis of the total compensation for the past fiscal year.

The recommendation in No. 4.2.3 (4) Sentence 3 of the Code was not complied with when concluding the management board service agreement with the former CEO, Dr. Flik, as regards the fact that the severance payment cap was not calculated on the basis of the total compensation for the past fiscal year, but on the total compensation for the fiscal year in which the contract is terminated.

This deviation from the recommendation of the Code was agreed because the supervisory board and Dr. Flik concurred that Dr. Flik has a special need for protection as regards the design of the severance payment cap. This is due to the fact that the service agreement granted Homag Group AG the right to terminate the contractual arrangement with effect as early as March 31, 2014 without Dr. Flik being entitled to severance payment in such an event. Dr. Flik's need for protection resulting from this special termination right led to the design of a severance payment cap that deviates from the recommendations of the Code.

This deviation from the recommendation of the Code ended on December 31, 2014, as Dr. Flik's service agreement expired at this point in time.

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

2. No. 4.2.3 (5) in conjunction with No. 4.2.3 (4) Sentence 3 of the Code – Change of control compensation

In accordance with No. 4.2.3 (5) in conjunction with No. 4.2.3 (4) Sentence 3 of the Code, payments promised in the event of a change of control should not exceed 150 percent of the severance payment cap, i.e., 3 years' compensation (change of control compensation). As with the severance payment cap, the calculation of the change of control compensation should be primarily based on the total compensation of the past fiscal year.

The management board service agreement of Dr. Flik deviated from this recommendation as the contract – as well as the calculation of the severance payment cap – also for the calculation of the change of control compensation takes as a basis the total compensation for the fiscal year in which the contract is terminated rather than the total compensation for the past fiscal year.

This deviation from the recommendation of the Code is likewise attributable to the special need for protection of Dr. Flik due to the special right of termination granted to the Company (cf. No. 1 above).

This deviation from the recommendation of the Code also ended on December 31, 2014, as Dr. Flik's service agreement expired at this point in time.

3. No. 3.8 (2) and (3) of the Code – D&O insurance deductibles

According to No. 3.8 (3) of the Code, the D&O insurance for the supervisory board should include a deductible, the amount of which is defined by No. 3.8 (2) of the Code.

For more information see glossary, pages 188 et seq.

The D&O insurance for the supervisory board has not contained any such deductible since January 1, 2015, meaning that the Company deviates from the recommendation in No. 3.8 (3) of the Code from this point in time onwards.

HOMAG Group AG does not believe that the already high level of commitment and sense of responsibility of the members of the supervisory board could be increased by an agreement providing for deductibles. Moreover, it would be unreasonably expensive for the six employee representatives on the supervisory board of HOMAG Group AG, which has an equal number of members representing employees and shareholders, to take out personal insurance policies at their own expense to cover the residual risk (equivalent to the deductible).

The above Declaration of Compliance by the management board and supervisory board has also been available on the website of HOMAG Group AG since January 2015.

COMPLIANCE

Conforming with the laws and regulations of all of the countries where HOMAG Group is active is a top priority for us. There are no exceptions to this rule, not even if that is customary for the industry or region. Every person working for the HOMAG Group is required to comply with the provisions of law without exception, and to practice integrity and fairness at work. This is why our principles also include in particular compliance with requirements under antitrust law, which safeguard and maintain free and equal competition. In order to further refine the important topic of compliance, anti-corruption guidelines, guidelines on antitrust-compliant conduct and instructions on how to cooperate with business partners were passed and implemented in 2014. The management board regularly reports to the supervisory board on the status quo of the compliance organization in place and the material compliance risks that arise and consults the supervisory board in this regard.

CODE OF CONDUCT

In 2014, the Company introduced a code of conduct that contains uniform guidelines for all German and foreign entities. This contains binding guidelines for the actions of the management board, middle management and all employees of the HOMAG Group in Germany and abroad. Ethical business practice, fairness and responsible and legally compliant conduct are already both a duty and a matter of course for us and all of our employees. The code of conduct are nevertheless intended to support us in our daily activities.

OBJECTIVES CONCERNING THE SUPERVISORY BOARD'S COMPOSITION

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

International nature

The supervisory board should have no less than 2 members who particularly reflect the international nature of the Company, for example by being foreign nationals or having relevant experience abroad.

Potential conflicts of interest

The supervisory board should have no less than 8 members who do not have an advisory function and are not members of the corporate boards of customers, suppliers, lenders or other business partners of the Company.

Independence

The supervisory board should have at least 3 independent members representing the shareholders who have neither personal nor business relations with the Company, its executive bodies, a controlling shareholder or an entity associated with the latter which may cause a substantial and not merely temporary conflict of interests.

Diversity

The supervisory board should have no less than 2 women appointed to it.

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

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

_MANAGEMENT AND CONTROL STRUCTURE

THE SUPERVISORY BOARD

The supervisory board of HOMAG Group AG has twelve members and in accordance with the law on codetermination consists of an equal number of shareholder and employee representatives. The representatives of the shareholders are elected by the annual general meeting, the employee representatives by the employees.

The supervisory board monitors and advises the management board on the conduct of its business. The supervisory board discusses with the management board at regular intervals the development of business and planning, the corporate strategy and its implementation as well as relevant issues concerning the risk position, risk management and compliance. The supervisory board approves the annual planning prepared by the management board and decides on ratifying the separate financial statements and approving the consolidated financial statements of the HOMAG Group. The supervisory board decides on the appointment and dismissal of the members of the Company's management board and their remuneration. If voting in the supervisory board comes to a tie, a second vote will be held on the same issue where the chairman of the supervisory board will have 2 votes in the case of another tie.

The supervisory board has set up a total of 4 committees: the audit committee, the personnel committee, the nomination committee and the mediation committee.

Audit committee: The audit committee deals in particular with monitoring the financial reporting including the accounting process, the effectiveness of the internal monitoring system and the internal audit system as well as the management board's risk management, the audit of the financial statements and compliance. The audit committee is responsible for the preliminary review of the annual financial statements and management report.

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

For more information see page 154

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

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

For more information see page 151 – 153

For more information see page 8 – 13

Details of the composition of the supervisory board and the supervisory board's committees are provided on pages 151 et seq. With regard to the number of meetings of the supervisory board and its committees in fiscal 2014, reference is made to the disclosures in the report of the supervisory board on pages 8 to 13 of the annual report.

www.homag-group.com/annual_general_meeting

THE MANAGEMENT BOARD

Pursuant to the articles of incorporation and bylaws of HOMAG Group AG the management board comprises at least 3 members. Otherwise, the supervisory board determines the number of management board members. The management board is responsible for the Company's business transaction and duty bound to act in its interest and to increase its long-term value.

For more information see glossary, pages 188 et seq.

The management board informs the supervisory board regularly, in a timely manner and in detail on issues of relevance for the Company concerning strategy, planning, the development of business, the risk position, risk management and compliance. Some of the significant transactions and measures governed by the rules of procedure for the management board require the supervisory board's prior approval.

Details on the composition of the management board and the allocation of responsibilities in the fiscal year 2014 are provided on page 154.

ANNUAL GENERAL MEETING

The shareholders of HOMAG Group AG exercise their rights and cast their votes at the annual general meeting. Among other things, the annual general meeting adopts resolutions on profit appropriation, the exoneration of the management board and of the supervisory board and the election of the auditor. Amendments to the articles of incorporation and bylaws and measures to increase or decrease capital, as well as the authorization to increase or decrease capital, are resolved by the annual general meeting. The shareholders have the opportunity to exercise their voting right at the annual general meeting in person or by a proxy of their choice or by a proxy appointed by HOMAG Group AG who is bound to follow instructions. Prior to the annual general meeting, all information and documents that need to be made available together with the agenda are published in accordance with the provisions of the German Stock Corporations Act and posted on our website (www.homag-group.com/annual_general_meeting).

FINANCIAL REPORTING AND ANNUAL AUDIT

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

The auditor and group auditor are elected by the annual general meeting in accordance with the legal provisions. The supervisory board appoints the auditor chosen by the annual general meeting, determines the audit focus and sets the fees. Prior to submitting the nomination proposal for the auditor of the financial statements, the supervisory board ensures that there is no conflict of interest that may impede the auditor's work. Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was appointed auditor for the fiscal year 2014.

RISK MANAGEMENT

Dealing responsibly with business risks is one of the principles of good corporate governance. The management board has extensive, group-wide and company-specific reporting and monitoring systems at its disposal that allow such risks to be identified, evaluated and managed. These systems are constantly being enhanced, adapted to changing conditions and evaluated by the auditor of the financial statements.

The risk report included in the management report on page 67 et seq. contains details on risk management. This includes the report on the accounting-related internal monitoring and risk management system as required by German commercial law.

TRANSPARENCY

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

_REMUNERATION REPORT

The remuneration reports considers the provisions of the German Commercial Code and the principles of the GCGC.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration paid to the supervisory board is governed by Art. 14 of the articles of incorporation and bylaws of HOMAG Group AG. For each full fiscal year of membership, the members of the supervisory board receive fixed remuneration of EUR 10,000. The members of the supervisory board also receive fixed remuneration of EUR 2,000 for each meeting.

For more information see page 67 – 74

Apart from the fixed attendance fee for each supervisory board meeting, the chairman of the supervisory board receives 3 times the fixed remuneration, the deputy one-and-a-half times that amount.

The members of the supervisory board who are also members of the audit committee receive a fixed attendance fee of EUR 2,500 for each committee meeting. The chairman of the audit committee receives twice this amount. Supervisory board members who are also members of another committee in accordance with the articles of incorporation and bylaws receive a fixed fee of EUR 1,500 per committee meeting. The chairman of a committee receives twice this amount.

Supervisory board members who do not belong to the supervisory board for the whole fiscal year are remunerated based on their length of service on the supervisory board. The fixed remuneration and the fixed attendance fees for supervisory board meetings and committee meetings are payable within one month of the annual general meeting exonerating the supervisory board for the relevant fiscal year.

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

The table below shows a breakdown of the remuneration of the supervisory board for the fiscal year 2014:

_M4_Remuneration of the Supervisory Board

EUR K	Fixed remuneration	Attendance fees	Remuneration for committee work	**Total remuneration**
Torsten Grede, chairman [2]	23	42	3	67
Ralf W. Dieter, chairman [3, 5]	0	0	–	0
Reiner Neumeister, deputy chairman [1]	15	30	32	77
Ernst Esslinger [1]	10	18	–	28
Hans Fahr [2]	8	12	2	21
Gerhard Federer	10	20	58	88
Dr. Horst Heidsieck [2]	8	10	1	19
Carmen Hettich-Günther [1]	10	20	27	57
Dr. Dieter Japs [2]	8	14	–	22
Thomas Keller [2]	8	12	22	42
Hannelore Knowles [1]	10	20	5	35
Jochen Meyer [1]	10	20	5	35
Reinhard Seiler [1]	10	12	–	22
Dr. Anja Schuler [3]	2[4]	6	3	12
Dr. Jochen Bernighaus [3]	2[4]	6	5	14
Richard Bauer [3]	2[4]	2	–	4
Dr. Hans Schumacher [3, 5]	0	0	–	0
Total	**145**	**268**	**169**	**543**

1 Employee representative
2 Until October 10, 2014
3 Since October 13, 2014
4 Deviations due to rounding differences
5 No additional remuneration for group functions

REMUNERATION OF THE MANAGEMENT BOARD

The remuneration of the individual members of the management board of HOMAG Group AG is proposed by the personnel committee and decided by the supervisory board. The total remuneration of the individual members of the management board is appropriate in relation to their responsibilities and tasks as well as the situation of the Company. They do not exceed the customary remuneration without special reason. The structure of remuneration also takes into consideration the long-term development of the Company. All components of remuneration must be appropriate, both individually and as a whole, and not encourage the taking of inappropriate risks.

For more information see page 57

The remuneration of the members of HOMAG Group AG's management board is made up of a fixed salary and a variable performance-related component. The variable component consists of a short-term and a long-term incentive system and is based on indicator-based targets and the development of the share price. It is also capped. There are no stock option plans in place. The members of the management board are not remunerated for board functions at subsidiaries. There is no company pension scheme for the members of the management board. According to his service agreement with HOMAG Group, Mr. Ralph Heuwing only receives half of his non-performance-related fixed remuneration and no performance-related remuneration components on account of his current service agreement with Dürr AG. In the reporting year, loans and advances were not granted to the members of the management board, nor have any declarations of liability been made in their favor.

All service agreements with the members of the management board comply with the GCGC. Exceptions from this as regards the recommendations concerning the compensation caps and change of control are detailed on page 57 et seq. of this report, which however only apply to the service agreement of the former CEO Dr. Flik.

In the event of a termination of a management board appointment by mutual agreement, a dismissal by the supervisory board of a management board member, or if a management board member steps down from the board at the instigation of the Company, the management board member concerned receives as settlement of remuneration including fringe benefits a compensation payment of 2 years' compensation, but no more than the amount of remuneration for the residual term of the agreement. Dr. Flik's management board service agreement contains clauses that could have potentially resulted in higher severance payments under certain circumstances in the fiscal year 2014. Details of this can be found in the declaration of compliance on page 57 et seq.

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

Non-performance-related fixed remuneration

The non-performance-related fixed remuneration of the members of the management board consists of an annual fixed salary and fringe benefits. The annual salary is fixed for the term of the service agreements of the management board members and is paid out in twelve equal monthly installments. The fringe benefits consist of the value of the use of a company car that must be recognized for tax purposes and the payment of insurance premiums. In addition, the employer's share of the statutory health insurance contributions is assumed, and for the statutory pension insurance the amount is assumed that the management board member would have to pay if the member were subject to compulsory insurance. Expenses incurred by the management board member while exercising his or her duties under the management board service agreement are reimbursed as prescribed in the Company's rules of procedure.

Performance-related remuneration component

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

The STI, as annual value added bonus, is based on the HOMAG value added (HVA), calculated on the basis of HOMAG Group AG's consolidated financial statements, as an indicator of the return on capital costs.

Claims to the STI are subject to the condition that a positive HVA is generated. From a HVA of more than 0 percent up to the predetermined HVA target value of 4 percent, the STI amount increases on a straight-line basis. The STI is capped at 150 percent of the actual fixed annual remuneration paid out in the fiscal year in question and is reached with a HVA of 4 percent.

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

The LTI bonus is a long-term incentive system based on the development of HOMAG Group's share price (share-price-based LTI bonus) and the development of positive HVA (HVA LTI bonus). The LTI schemes are set annually and have a term of 3 years in each case. Before introducing the LTI scheme in each respective year, the supervisory board reviews the parameters for the LTI schemes used to date for example the HVA target value, the cap and the parameters used to calculate the capital costs.

For more information see page 57

To obtain the HVA component of the LTI bonus, the cumulative HVA over 3 successive fiscal years (performance period) must be positive. From a HVA of more than 0 percent up to the predetermined HVA target value of 12 percent, the LTI amount increases on a straight-line basis. The cap is set at 43.3 percent of the actual cumulative fixed annual salary paid out during the performance period.

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

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

For more information see glossary, pages 188 et seq.

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

The table below shows a breakdown of the remuneration of the management board for the fiscal year 2014:

_M5_Remuneration of the Management Board Members

Figures in EUR k	Fixed remuneration 2014	Fixed remuneration 2013	Performance-related remuneration (STI and bonuses) 2014	Performance-related remuneration (STI and bonuses) 2013	Long-term incentives (LTI) 2014	Long-term incentives (LTI) 2013	Benefits in kind 2014	Benefits in kind 2013	Total remuneration 2014	Total remuneration 2013
Ralph Heuwing	24	0	0	0	0	0	0	0	24	0
Dr. Markus Flik	561	558	416	171	673	383	9	10	1,659	1,122
Harald Becker-Ehmck	273	260	394	107	477	239	9	9	1,153	615
Jürgen Köppel	291	291	420	120	471	267	10	10	1,192	688
Hans-Dieter Schumacher	313	291	453	120	517	277	12	11	1,295	699
Total	**1,462**	**1,400**	**1,683**	**518**	**2,138**	**1,166**	**40**	**40**	**5,323**	**3,124**

The benefits granted to the management board members for the fiscal 2014 break down as follows:

_M6_Benefits Granted

	Ralph Heuwing CEO Joined: Oct. 27, 2014				Dr. Markus Flik CEO Left: Dec. 31, 2014			
Figures in EUR k	2014	2014 (min)	2014 (max)	2013	2014	2014 (min)	2014 (max)	2013
Fixed remuneration	24	24	24	0	561	561	561	558
Fringe benefits	0	0	0	0	9	9	9	10
Total	**24**	**24**	**24**	**0**	**570**	**570**	**570**	**568**
One-year variable remuneration	0	0	0	0	600	0	600	171
Multi-year variable remuneration	0	0	0	0	673	0	800	383
Performance period 2013 – 2015	0	0	0	0	0	0	0	383
Performance period 2014 – 2016	0	0	0	0	673	0	800	0
Total	**24**	**24**	**24**	**0**	**1,843**	**570**	**1,970**	**1,122**
Service cost	0	0	0	0	0	0	0	0
Total remuneration	**24**	**24**	**24**	**0**	**1,843**	**570**	**1,970**	**1,122**

Figures given for remuneration acting as a long-term incentive (LTI) are not actual values, but rather fair values on the date of granting calculated using financial modeling methods. Consequently, the full amount of the fair value of the third performance period is reported in 2014. The provision is recognized pro rata temporis. An amount of EUR 1,832 k was recognized as expenses in the financial statements (prior year: EUR 940 k). The liability pertaining to remuneration acting as a long-term incentive was valued at EUR 2,864 k as of December 31, 2014 (prior year: EUR 1,377 k).

An accrued liability of EUR 1,300 k was recognized for the LTI bonus for the first performance period 2012 to 2014. For the second performance period 2013 to 2015, the accrued liability rose to EUR 1,076 k for two-thirds of the fair value of the LTI bonus. For the third performance period 2014 to 2016, an accrued liability of EUR 488 k was recognized for first third of the fair value of the LTI bonus.

Harald Becker-Ehmck Head of Production				Jürgen Köppel Head of Sales				Hans-Dieter Schumacher CFO			
2014	2014 (min)	2014 (max)	2013	**2014**	2014 (min)	2014 (max)	2013	**2014**	2014 (min)	2014 (max)	2013
273	273	273	260	291	291	291	291	313	313	313	291
9	9	9	9	10	10	10	10	12	12	12	11
282	**282**	**282**	**269**	**301**	**301**	**301**	**301**	**325**	**325**	**325**	**302**
394	0	394	107	420	0	420	120	453	0	453	120
477	0	566	239	471	0	560	267	517	0	615	277
0	0	0	239	0	0	0	267	0	0	0	277
477	0	566	0	471	0	560	0	517	0	615	0
1,153	**282**	**1,242**	**615**	**1,192**	**301**	**1,281**	**688**	**1,295**	**325**	**1,393**	**699**
0	0	0	0	0	0	0	0	0	0	0	0
1,153	**282**	**1,242**	**615**	**1,192**	**301**	**1,281**	**688**	**1,295**	**325**	**1,393**	**699**

Allocations to the management board members for the fiscal 2014 break down as follows:

_M7_Allocations to Management Board Members

	Ralph Heuwing CEO Joined: Oct. 27, 2014		Dr. Markus Flik CEO Left: Dec. 31, 2014		Harald Becker-Ehmck Head of Production		Jürgen Köppel Head of Sales		Hans-Dieter Schumacher CFO	
Figures in EUR k	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Fixed remuneration	24	0	561	558	273	260	291	291	313	291
Fringe benefits	24	0	9	10	9	9	10	10	12	11
Total	**0**	**0**	**570**	**568**	**282**	**269**	**301**	**301**	**325**	**302**
One-year variable remuneration	0	0	416	171	394	107	420	120	453	120
Multi-year variable remuneration	0	0	479	141	0	0	396	97	425	107
Performance period 2011 – 2013			0	141	0	0	0	97	0	107
Performance period 2012 – 2014			479	0	0	0	396	0	425	0
Total	**24**	**0**	**1,465**	**880**	**676**	**376**	**1,117**	**518**	**1,203**	**529**
Service cost	0	0	0	0	0	0	0	0	0	0
Total remuneration	**24**	**0**	**1,465**	**880**	**676**	**376**	**1,117**	**518**	**1,203**	**529**

In connection with the termination of service on the management board by the former CEO Dr. Markus Flik as of November 30, 2014 due to the change of control, it was agreed to terminate his current employment contract as of December 31, 2014. The contractually arranged benefits were granted up until that date. A severance payment of EUR 3,332 k was agreed with Dr. Flik in connection with the early termination of his management board duties. This includes the right earned to the LTI bonus 2013–2015 and 2014–2016 amounting to EUR 1,249 k. In addition, a post-contractual non-compete clause was arranged with Dr. Markus Flik for a period of 12 months, i.e., until December 31, 2015. For the non-complete clause, he is entitled to compensation of EUR 574 k. He additionally receives a severance payment of EUR 1,509 k.

Shareholdings of Board Members

As of December 31, 2014, the members of the management board together held 0 shares (prior year: 1,000 shares). This is 0 percent of HOMAG Group AG's share capital (prior year: 0.01 percent). As no member of the management board held more than 1 percent of the capital as of December 31, 2014, an individual breakdown is not required.

As of December 31, 2014, the members of the supervisory board held 842,502 shares (prior year: 400 shares), which is 5.37 percent (prior year: 0.00 percent) of HOMAG Group AG's share capital. These 842,502 shares were held directly by Dr. Anja Schuler, member of HOMAG Group AG's supervisory board since October 13, 2014. Dr. Anja Schuler is a member of the Schuler/Klessmann/Dürr pool, the members of which hold a total of 25.05 percent of the shares in HOMAG Group AG. As a result, the voting rights of the other members of the pool of 19.68 percent are indirectly attributed to her pursuant to Sec. 22 (2) WpHG.

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

SUBSEQUENT EVENTS

On March 5, 2015, the extraordinary general meeting of HOMAG Group AG voted in favor of the conclusion of a profit and loss transfer agreement between Dürr Technologies GmbH and HOMAG Group AG. The agreement comes into effect upon entry in the commercial register. The obligation to transfer profits will apply for the first time to the entire profit for the fiscal year beginning on January 1, 2016 or for the later fiscal year of HOMAG Group AG in which this agreement comes into effect by entry in the commercial register. The compensation pursuant to Sec. 304 AktG agreed in the domination and profit and loss transfer agreement is a gross amount of EUR 1.18 (net of corporation income tax and solidarity surcharge: EUR 1.01) per HOMAG share for a full fiscal year. The settlement amount pursuant to Sec. 305 AktG totals EUR 31.56 per HOMAG share.

At the same extraordinary general meeting, the shareholders of HOMAG Group AG appointed Mr. Ralf W. Dieter, Stuttgart, Mr. Richard Bauer, Wentorf, Dr. Jochen Berninghaus, Herdecke, Dr. Anja Schuler, Zurich, Switzerland, and Dr. Hans Schumacher, Schönaich, to the supervisory board for the period from the end of the extraordinary general meeting on March 5, 2015 until the end of the general meeting that passes a resolution on exoneration for the fourth fiscal year after the beginning of the term of office. In addition, the office of Mr. Gerhard Federer, Offenburg, which would have run until the end of annual general meeting in 2015, was also extended for a further period of office at the extraordinary general meeting 2015.

Our CFO Hans-Dieter Schumacher stepped down from the management board of HOMAG Group AG of his own volition as of March 31, 2015, in order to take on new professional challenges. Franz Peter Matheis will become a new member of the management board as of April 1, 2015. As CFO, he will be responsible for finance and IT.

RISK, OPPORTUNITIES AND FORECAST REPORT

(Including a description and explanation of the key aspects of the internal monitoring and risk management system with regard to the (group) financial reporting process pursuant to Sec. 289 (5) and Sec. 315 (2) No. 5 HGB)

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

_RISK REPORT

RISK MANAGEMENT SYSTEM

The risk management system is based on the monthly reporting, project controlling and detailed segment reporting. It is based on the establishment of objectives, which are monitored based on the monthly reporting by the individual business units. This involves assessment of the individual risks that the Group and its subsidiaries must monitor and report, condensing them at corporate level, and allocating them to specific fields of risk. Unforeseen developments are communicated to the management board and supervisory board without delay. The risk inventory encompasses all relevant companies.

A total of 21 production and sales companies were audited within the framework of our internal audit over the course of the last five years. The audits were performed by local audit firms or similarly qualified firms working under contract for HOMAG Group AG. This ensures that external specialists identify risks, review internal processes and recognize potential for optimization. We audited one production company and two sales companies in the 2014 reporting year. The management board and the audit committee are informed promptly about the findings of the internal audits. Taking the reports as the point of departure, the necessary measures are decided on and initiated by the management board member responsible. The audits performed in 2014 revealed that there had not been any infringements of the legal requirements by the separate entities.

DESCRIPTION AND EXPLANATION OF THE MAIN FEATURES OF THE SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT WITH REGARD TO THE (GROUP) FINANCIAL REPORTING PROCESS (SEC. 289 (5) AND SEC. 315 (2) NO. 5 HGB)

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

Observing the customary industry standards and the legal provisions, the HOMAG Group has introduced a system of internal control and risk management for the group accounting processes to identify potential risks and mitigate them. It refines this system on an ongoing basis.

The system of internal control and risk management ensures that business events are correctly accounted for, prepared, appraised and transferred to the accounting records. Adequate staffing and equipment, suitable software instruments and unambiguous statutory requirements and internal guidelines are the basis for proper, uniform and consistent accounting process. Clear definition of fields of responsibility and various control and review mechanisms (in particular plausibility checks, application of the principle of dual control, audit procedures implemented by the internal audit department) ensure correct financial reporting.

This ensures uniform accounting in accordance with the statutory requirements, the principles of proper accounting and local GAAP and International Financial Reporting Standards and the Group's internal guidelines. It also ensures that business transactions are recorded and assessed consistently throughout the Group within the scope of publishing the financial reporting, enabling the provision of correct and reliable information.

The existing internal control and risk management system relating to the group financial reporting process essentially has the following material characteristics:

_ Identification by group accounting of major areas of risk and aspects to be monitored that are particularly relevant to the (group) financial reporting process

_ Measures to ensure the proper computerized processing of (group) financial reporting content and data

_ Spot-testing of the completeness and accuracy of the accounting data, automated plausibility checks using suitable software tools

_ Conducting suitable controls (principle of dual control, analytical audit procedures) for all accounting processes, additional audit by the internal audit department

_ Review of the functionality of the internal control and risk management system with regard to the accounting process by the audit committee of the supervisory board.

OPERATING, FINANCIAL AND COMPLIANCE RISKS OF THE HOMAG GROUP AND HOMAG GROUP AG

Materiality

In the following we describe risks that could have a material effect on our business operations, financial position and results of operations, cash flow and reputation. We have classified all risks into 3 risk groups: operating risks, financial risks and compliance risks. The direction in which the arrow points shows whether the respective risk has risen, remained unchanged or fallen in the reporting year in comparison to the prior year.

Macroeconomic Risks

Economic cycles have an impact on the market for wood processing machines. Investment decisions by customers depend to a great extent on the development of the wider economy in the respective region and the situation in the respective sector. During economic downturns customers tend to postpone making

Operating Risks

_M8_Development of Operating Risks (Dec. 31, 2014/Dec. 31, 2013)

Macro-economic Risks	Customer and Competitive Risks	Product and Development Risks	Procurement and Purchasing Risks	IT Risks	Quality Risks	Risks from the Project Business	Risks arising from the Dürr Integration
↘	↗	↘	→	↗	→	→	↗

increase ↗
unchanged →
decrease ↘

purchases of plant and machinery. Demand for services, by contrast, is less cyclical. Although we can compensate economic downturns in one region or another due to our global operations, a global economic crisis will nevertheless have a negative impact on our orders. We counter this overall economic risk by keeping our personnel capacities as flexible as possible and adjusting our production capacity to developments in the order intake and the project pipeline.

The ongoing geopolitical risks are having a negative impact on the economies of several countries and therefore also for an investment decision of our customers. Current developments in Russia and Brazil are representative of this. The continuing good market situation in the sectors served by HOMAG, reflected in our high order backlog, more than offset this risk. Thus macroeconomic risks have actually decreased for the HOMAG Group in comparison to the prior year.

Customer and Competitive Risks

The Group is not dependent on a single customer or a small group of customers, since, in most cases, the share directly generated by any one customer is less than 5 percent of total sales revenue. There is a risk that customers may default on their debts. Customer-specific risks increased slightly by the end of 2014, in line with the trend in sales revenue. We minimize this risk by obtaining prepayments based on the stage of completion of projects, by applying our strict receivables management system and by taking out credit insurance on a case-by-case basis.

Given that the market entry barriers in our industry are high, we estimate that there is a comparatively low risk of competitors encroaching on our technological lead. However, we cannot completely rule this out. The competitive risk increased only very slightly in the reporting period. It is mainly in the lower market segment for our products that the number of competitors' products is slowly increasing on the global market.

Product and Development Risks

Our innovative mid-term and long-term product strategy has safeguarded our technological leadership for many years now, but it is also associated with the risk of adverse technological developments. We counter this risk by means of close market observation and close relationships to customers who provide us early feedback in the event of new developments. Product and development risks eased in the reporting year. We prevent increases in the start-up cost of new products as much as possible using systematic procedural cycles. During product creation, each new development passes through a standardized process that is consistently defined throughout the Group. The costs of new developments are consistently recorded and the progress of development is assessed. This makes it possible to keep quality risks to a minimum already at the development stage. We put special emphasis on the predevelopment phase in 2014. This forms the bridge between the general research landscape and product development.

Procurement and Purchasing Risks

To ensure that the quality of key raw materials as well as supplied parts and components meet our standards and to avoid supply bottlenecks, we select our suppliers very carefully and usually work with them over many years. This allows us to identify financial difficulties faced by suppliers at an early stage. We also perform more far-reaching measures, such as supplier audits.

Procurement and purchasing risks were not elevated in 2014 for the HOMAG Group. It is difficult to make a reliable prediction of how steel, copper and aluminum prices will develop on account of the rapidly changing political and economic situation in many countries, as they continue to be heavily dependent on institutional investors. For this reason, the HOMAG Group exploits the global reach of its procurement activities to obtain regional price advantages. Specialized lead buyers, who operate globally, coordinate the procurement of important product groups. Prices were generally stable in 2014, although a slight increase in commodity prices is forecast for 2015. The HOMAG Group counters the negative impact of prices rises, where possible, by concluding master agreements with fixed prices and bundling demand within the Group. In this way, the HOMAG Group can profit from the higher purchase volume. A project initiated for this purpose in 2013 was successfully concluded in 2014. In addition, the further expansion of the international purchasing function is also designed to safeguard the necessary quality and to keep supply risks to a minimum in the long term.

IT Risks

The HOMAG Group counters IT-related risks, which can arise from disruptions to IT systems and the IT infrastructure, by continuously developing a reliable scalable and flexible IT systems environment. The reliability and security of information technology is of growing significance for our Group.

Threats to data security continue to rise worldwide. This increasingly applies both to the use of IT systems that support business processes and those that are used for external communication by the HOMAG Group. The risks for the HOMAG Group relate to data loss, corruption or misuse. This can lead to delays in processing orders or even impair the production output of a plant. It cannot be ruled out that this would have an impact on costs and sales revenue.

In fiscal 2014 IT risks were higher than in the past, particularly the risk of data loss, hacking or virus attacks. This includes, for example, the rise in the volume of phishing mails allegedly from banks, telecommunications providers and suppliers. In 2014, we continued to review, improve and further expand our IT security. We therefore conducted IT security audits at four subsidiaries.

In addition, we have fully centralized the malware for the entire Group and developed and introduced a method for ensuring compliance with our malware policy. In this way, compliance with the policy on all end-user devices can be kept at a very high level. Firewalls with intrusion detection system are being rolled out. We have introduced a two-factor authentication process for all end-user devices to improve data protection and information security within the Company. Currently, a system to improve IT security is being introduced to our service area, which will improve data security during remote servicing.

For more information see glossary, pages 188 et seq.

Quality Risks

Quality is prioritized at HOMAG Group. Notwithstanding this, it is not possible to completely rule out the quality risks associated with the manufacture of complex plants and machinery. In order to mitigate the risk of product liability and warranty claims we use a comprehensive total quality management system.

The quality risks did not change in 2014 in comparison to the prior year. As in the prior year, we work constantly within the Group on improving our processes, our quality assurance system and our products. The majority of our production sites are certified pursuant to DIN EN ISO 9001, which testifies to the high standard of our quality assurance system.

Risks from the Project Business

The entities of the HOMAG Group act, among other things, as general contractor for the planning of integrated production lines for customers in the wood-processing industry. The project business brings with it various risks that, due to the complexity of the projects, the coordination and integration of various national and international parties and components, are impossible or very difficult to fully assess and/or insure prior to completion of a project. Despite meticulous planning, cost and project controlling, it cannot be ruled out that contractual penalties and/or damage claims are asserted against entities of the HOMAG Group for example as a consequence of delayed or faulty project work. This can lead to the loss of key customers and/or a loss of reputation on the market. This could also have a substantial impact on the net assets, financial position or results of operations of the HOMAG Group. In order to counter these risks, the Group has introduced a detailed project management system, a tight project control system and a regular project reporting system. In this respect, the project management and controlling system relates to internal project processes while project reporting is addressed to the management board. Both processes include scheduling and financial components.

Overall the risk from the project business has not changed for the HOMAG Group. In the second half of the year, we carried out some organizational changes. A managing director was recruited for this purpose at the largest subsidiary of the HOMAG Group, who will coordinate project business worldwide in the future. He will also take care of developing the methods and systems used in project management to further reduce the risk of processing errors in the project business in the future.

Risks arising from the Dürr Integration

Subsequent to the conclusion of the domination and profit and loss transfer agreement related to integration in the Dürr Group, there are risks for the HOMAG Group associated with the combination and harmonization of processes and structures. This could lead to frictional losses in the initial phase of adjusting structures until all processes have been harmonized. Risks can also arise from potential changes to personnel in the course of the integration. We are of the opinion that these risks are manageable. To ensure the success of the integration process we have drawn up a comprehensive integration roadmap. An overarching steering committee, a project management team and over 20 specialist integration teams composed of experts in the HOMAG Group and the Dürr Group are carrying out the integration process.

Currency Risks

Currency risks can arise from our international activities, which can negatively impact the Group's sales revenue and results of operations. In terms of the Group as a whole and also the various markets, operative risks did not change significantly in 2014 compared to the prior year. Volatility in exchange rates, such as the EUR/USD exchange rate, increased over the course of 2014. However, we minimize this risk by billing as much business in euro outside the eurozone as possible to reduce the foreign exchange exposure and keep our foreign currency positions low. We conclude project-related hedging transactions in the form of forward exchange instruments for the portion of sales revenue that we generate in foreign currencies.

Liquidity and Financing Risks

We secured our liquidity by entering into a syndicated loan agreement in September 2012 with a term of 4 years that is contingent on us complying with certain covenants. We prolonged this agreement prematurely in May 2014 until 2019 and managed to improve the terms and conditions in the process. In addition, extensive collateral was released. In this context, we

Financial Risks

_M9_Development of Financial Risks (Dec. 31, 2014/Dec. 31, 2013)

Currency Risks	Liquidity and Financing Risks	Tax Risks	Personnel Risks
→	→	↘	→

increase ↗
unchanged →
decrease ↘

currently do not see any risks to compliance with the agreed-upon covenants. To protect ourselves against interest rate changes, a portion of our loans bear a fixed interest rate and another portion of our loans is hedged until September 2016 using interest rate hedges (interest swaps). Consequently, there are no currently discernible financial risks that could jeopardize the continuation of the Group as a going concern. In connection with the investment of liquid funds, the Group is exposed to losses from credit risks if the obligations from financial instruments are not met by the counterparty. The HOMAG Group manages the resulting risk position by diversifying its portfolio and selecting its contractual parties carefully. There are no liquid funds past due or impaired at present due to default. Our net liquidity and financing risks have not changed in comparison to the prior year.

For more information see glossary, pages 188 et seq.

Tax Risks

Tax losses have been recognized in the consolidated financial statements of the HOMAG Group. The ability to use these unused tax losses depends, on the one hand, on the actual occurrence of the planned future development of earnings. On the other, the change in ownership in fiscal 2014 could play a fundamental role in the ability to utilize these unused tax losses.

As a result, the unused tax losses were completely reassessed in terms of the utilization and this was considered when recognizing and measuring them. This resulted in fewer risks being carried in the statement of financial position. However, this also adversely affected income in fiscal 2014 and the tax rate for 2014. More details on this matter can be found in the tax reconciliation in the notes to the consolidated financial statements. In general, the tax risks have diminished due to the current situation of earnings. Notwithstanding this, a tax field audit is currently being performed within the Group throughout Germany. If the tax authorities are consistent in fulfilling their duty of ensuring equality of taxation this should not give rise to any notable risks for us. We see tax-related opportunities among other things in connection with constitutionality issues relating to the interest limitation rule and a very promising ruling by the Federal Finance Court in this context handed down on December 18, 2013 which identifies these concerns very clearly. Moreover, we will cooperate closely with our new majority shareholder in order to be even better able to exploit tax potential and to counter the increasing pressure exerted by the tax authorities to increase tax revenue. In this respect, the HOMAG Group will remain an honest taxpayer, but will vehemently oppose any requests by the tax authorities worldwide that would ultimately lead to double taxation and will insist on compliance with OECD taxation principles.

Personnel Risks

As a high-tech company with international operations, the HOMAG Group is dependent on highly qualified executives and experts in key functions.

Risks in this regard relate to employee turnover and in not being able to fill vacancies adequately. This could result in negative consequences for the Group. Our personnel risks have not changed in comparison to the prior year. We counter future needs for personnel with our program to promote young talent. In addition, the HOMAG Group is well positioned on the market as an attractive employer and sets great store by training its own employees. Thanks to our targeted personnel development, we are in a good position as regards employees in light of the demographic challenges we face, particularly in Germany.

Compliance Risks

_M10_Development of Compliance Risks (Dec. 31, 2014/Dec. 31, 2013)

General Compliance Risks	Legal Risks
↘	→

increase ↗
unchanged →
decrease ↘

General Compliance Risks

At the HOMAG Group, compliance relates to all organizational and technical aspects of complying with regulatory requirements, statutory provisions as well as corporate guidelines. They primarily serve to prevent violations that may damage the Company. The CFO is responsible for compliance topics at HOMAG Group AG.

With a view to further refining the compliance organization, HOMAG Group AG has appointed a compliance officer, who reports directly to the management board. The management board, in turn, regularly reports to the supervisory board on the status quo of the compliance organization in place and the material compliance topics that arise and consults the supervisory board in this regard.

Every person working for the HOMAG Group is required to comply with the provisions of law without exception, and to practice integrity and fairness at work. This is why our principles also include in particular compliance with requirements under antitrust law, which safeguard and maintain free and equal competition.

We assess compliance risks to be at a lower level than in the prior year. In the first half of 2014, we drew up a code of conduct, a fair trade guideline and an anti-corruption guideline as well as standard procedures for cooperating with business partners. All employees worldwide are receiving face-to-face training as well as computer-based training on these issues.

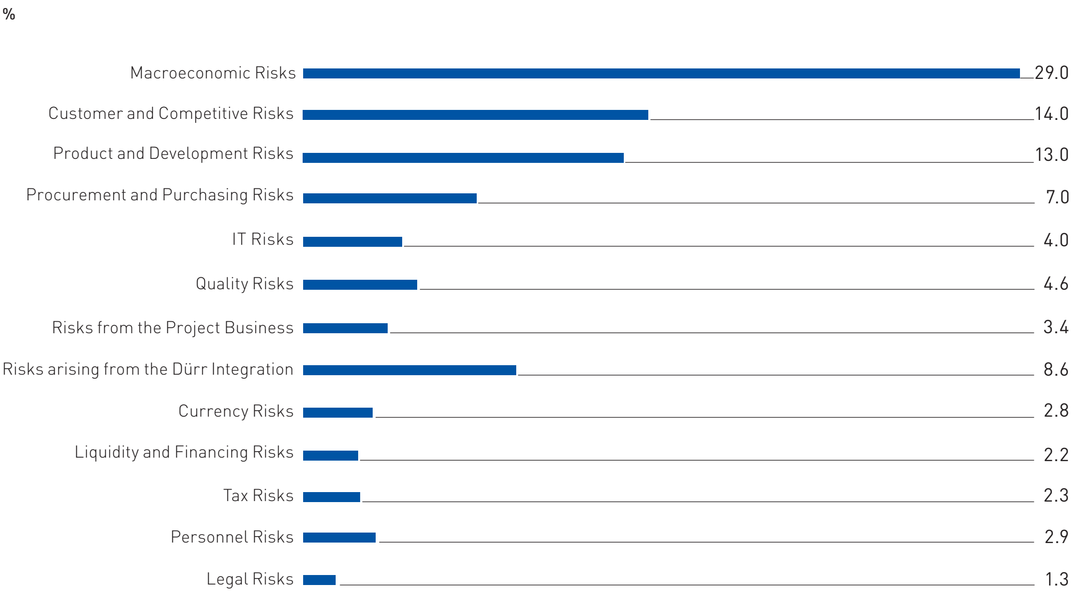
Legal Risks

One risk in our business activities relates to the assertion of warranty claims or the related bad debts. There are currently no material risks arising from bad debt or warranty claims being asserted. The risk has not changed compared to the prior year.

SHARE OF INDIVIDUAL RISK CATEGORIES IN THE GROUP'S TOTAL RISK

The diagram below presents the significant risks of relevance for the Group and discussed in the annual report weighted relative to the Group's total risks.

_M11_Risk Weighting as a Percentage of Significant Group Risks



_OPPORTUNITIES REPORT

Systematically identifying and implementing commercial opportunities that create added value constitute an important aspect of safeguarding profitable growth of our Company. We outline our most significant opportunities in the following. These are, however, only a selection of the possibilities we see.

Within the Group, it is the responsibility of the management board of HOMAG Group AG as well as the respective management of our subsidiaries to identify, analyze and implement operative opportunities. The management board has drafted a clear strategy for the HOMAG Group. It is based on an opportunities analysis from which the strategic objectives are derived. The strategy is implemented in the form of a clearly defined package of measures to facilitate exploitation of the opportunities.

REGIONAL GROWTH

The increasing importance of emerging economies mainly arises from growing purchasing power in those countries. This particularly relates to southeast Asia and parts of South and Central America. They will be among the future growth regions for the HOMAG Group, alongside China, India, Brazil and North America. We also perceive growth potential in Arab countries where we established our own sales and service company in 2014. We are already present in many up-and-coming markets with our own sales and service organizations and will deploy our activities in a targeted manner with a view to generating additional orders.

Ongoing urbanization will lead to increased demand for living space, furniture and structural elements in the these growing economies. The pursuit of a higher living standard will also gain importance.

The acquisition of the subsidiary, Stiles Machinery, Inc., in 2014 as an example further expands our position on the North American market and, in particular, significantly reinforces our sales and service organization. We also perceive additional growth potential in Russia, as soon as the political tension and economic constraints in Ukraine and Russia settle down again.

PRODUCT-SPECIFIC GROWTH

We see an increasing trend in our industry at a global level toward greater individuality and diversity of options. Intelligently networked batch size 1 systems and the field of automation and robotics will therefore be of great importance in the future. In this respect, the topic of networked production, and the associated software and control software, will significantly increase in importance. The faster implementation of this market requirement is an opportunity for us because we cover the entire woodworking process chain combined with our universal control technology and supported by our bundled development capacities.

For more information see glossary, pages 188 et seq.

On account of the greater level of individualization of the final products, we anticipate further growth in the area of packaging as each product has different dimensions that necessitate customized packaging designs.

Online trade in furniture is currently booming and flat-pack furniture is becoming exceedingly popular as a result. Flat-pack furniture may not exceed given weight ranges and it has to be easy and quick to assemble. In addition to the anticipated increase in demand for intelligent fastening systems, it will primarily be lightweight construction that gains in importance in the future. This aspect is also of importance when it comes to increased use of the internet as a channel of distribution.

We also see further opportunities in the field of service, because our customers are placing increasing importance on the availability of their plant and machinery. In this regard, we will make increasing use of mobile applications, such as our Service**App** in addition to our existing products. In comparison to competitors, we have the most closely meshed global service network in our industry.

VALUE GENERATION

We implemented a wide range of measures in 2014 to boost efficiency within our Group for the long term. This includes the purchasing project that will create record-saving potential within the Group, for example by bundling purchasing volume. A newly launched project to streamline product costs is also intended to bring about new more favorably priced solutions for new products from now on. In addition, the platform strategy, that will significantly reduce the level of complexity of the portfolio of products, will positively impact the operative earning power over the long term.

Opportunities for HOMAG Group also arise from its integration in the Dürr Group. The HOMAG Group can leverage synergies in a number of areas in close cooperation with the Dürr Group, made possible by the conclusion of the domination and profit and loss transfer agreement. In addition to benefits in purchasing or in information technology, it will be possible to exchange experience about handling project business, for example, where Dürr holds a leading position. This will give rise to methods, tools and qualifications that can be transferred to HOMAG Group AG and which should have a positive impact on the earnings of the Group. Moreover, in Dürr, the HOMAG Group has won a partner with sound financial resources.

_ OVERALL ASSESSMENT OF THE RISK AND OPPORTUNITIES SITUATION OF THE GROUP

The assessment of the overall risk situation is performed by putting together a wider picture of all material individual risks. The overall risk potential at the end of fiscal 2014, before the measures taken by the Group, amounted to approximately 90 percent of EBIT generated in the fiscal year, before employee profit participation and extraordinary expenses. The overall risk situation for the HOMAG Group has not changed significantly as the changes in opportunities and risks virtually cancel each other out. Although temporary risks arise from the structural changes caused by the integration with Dürr, the changes also open new opportunities for us from the affiliation to a financially strong group with a great deal of experience in change processes. The development of the global economy remains of huge significance for the HOMAG Group. There is a risk in this regard related to the geopolitical uncertainties, but also growth opportunities from positive market trends in regions such as China and the US.

From their current perspective, the management board of the HOMAG Group does not see any risks to the ability of the Group to continue as a going concern. The objective of realizing opportunities for the future is firmly fixed in a comprehensive package of measures under our corporate strategy. It is our objective to add value to our Company and for our shareholders by analyzing new market opportunities.

_ FORECAST REPORT

FORECAST FOR THE DEVELOPMENT OF THE INDUSTRY

The VDMA expects German machine production to grow by 2 percent in 2015. It also perceives opportunities related to the depreciation of the euro, but also risks such as the unresolved Ukraine crisis, the unclear situation in Greece and a property bubble in China. For the wood processing machines segment, the industry association also anticipates sales growth of 3 percent.

FORECAST FOR HOMAG GROUP

Even if the situation has improved in the eurozone, there is uncertainty on how some countries will develop in the future. It is possible that undesirable political and economic developments in some countries will have a negative impact on the global economy. For this reason, our forecasts are subject to the condition that the global economy will see positive developments, as forecast by economic experts and, in particular, that there are no major disruptions to the global economy.

It is expected that the monetary policies pursued by a number of central banks will remain extremely expansive for quite some time. In September, the European Central Bank, for instance, once again reduced the key interest rate to stimulate growth in the eurozone. The currently low exchange rate for the euro makes exports cheaper on the global market and will also provide further stimulus to the economy. Based on the high share of exports in our total sales revenue, we expect the sustained weakness in the euro to have a positive effect in 2015.

We are forecasting further market growth in our sector in 2015. We expect this to be primarily generated in the regions America and Asia, particularly in the US and China. We believe there will be an increased interest in investments in capital goods, also from the LIGNA, the leading trade fair for the industry, at which we will launch a number of new innovative products. The growing global significance of automation, networking and digitalization as well as the continuing rise in demand for individual pieces of furniture, also from industrial production, will, in our opinion, translate into further growth in both our standalone machine and our project business. Service business continues to grow in significance, which is why we will continue to expand our service network.

_M12_Forecast for the HOMAG Group

	2014		2015
In EUR million	Forecast	Achieved	Forecast
Order intake[1]	760 – 780	803	830 – 850
Sales revenue	860 – 880	915	950 – 970
Operative EBITDA[2]	82 – 84	93	95 – 97
Net result	20 – 22	19	31 – 33

1 Order intake includes own machines incl. spare parts of the production companies and after sales segment
2 EBITDA before expenses from employee profit participation and before restructuring/non-recurring expenses

The following forecast corridors are based on a number of assumptions. Any deviations from these assumptions could lead to deviations in the actual development of business. In addition to macroeconomic developments described above, additional expenses could arise for the HOMAG Group from the integration in the Dürr Group which cannot be fully foreseen at present. Furthermore, the development of the HOMAG Group in 2015 could be impacted by the factors discussed in the risk and opportunities report (see page 67 et seq.).

We anticipate **order intake** of between EUR 830 million and EUR 850 million for 2015. With regard to the **Group's sales revenue**, we intend to generate between EUR 950 million and EUR 970 million in 2015.

We expect our **operative EBITDA before employee profit participation expenses and before extraordinary expenses** to be between EUR 95 million and EUR 97 million in 2015. We expect **EBT after employee profit participation expenses and after extraordinary expenses** to be between EUR 48 million and EUR 50 million in 2015. We expect considerable growth in the **Group's net profit** for the year and aim to reach between EUR 31 million and EUR 33 million. This above-average increase stems from the substantially lower extraordinary expense expected. The negative effects arising from the Stiles acquisition have mostly been accounted for in the 2014 result and we also anticipate lower expenses due to the acquisition by Dürr.

We expect higher capital employed in light of the increasing business volume. As a result, we expect a slight decline in **ROCE** and a slight increase in **net liabilities to banks** in 2015.

The group **headcount** will continue to rise in fiscal 2015. We intend to build up our workforce primarily in the growth markets, while in Germany we will maintain similar staffing levels to 2014.

For more information see page 67 – 76

In 2015, our **capital expenditure** will remain at the same high level of 2014. The focal point of our investment will be on the large-scale IT project ProFuture. Additional smaller investments will be made throughout the Group for the retrofitting of plant and machinery as well as building modernization projects.

For HOMAG Group AG as a separate entity, we anticipate for 2015 a **profit for the year** at the same level as the prior year. In addition, it should be noted that HOMAG Group AG does not have any operating activities.

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

_RESULTS OF OPERATIONS

Other operating income rose to EUR 19.8 million in the reporting year (prior year: EUR 13.3 million). The increase is primarily attributable to the rise in **write-ups recognized on financial assets** as the investment in the subsidiary WEEKE Bohrsysteme GmbH was written up by a further EUR 9.3 million (prior year: EUR 4.0 million).

Personnel expenses increased to EUR 12.7 million. (prior year: EUR 6.8 million). This includes higher management bonuses and the severance payment made to a member of the management board who left the Company in 2014. In total, as of the reporting date 2014, HOMAG Group AG had 42 **employees** (excluding management board members) (prior year: 34 employees). The number of employees in positions of strategic importance was increased in order to further optimize group-wide cooperation.

Other operating expenses came to EUR 12.2 million in the reporting year, slightly up on the prior year (EUR 10.6 million). This includes higher legal expenses and consulting fees in 2014 as well as higher incidental borrowing costs in connection with the extension of the syndicated loan agreement.

The **result from ordinary activities** of HOMAG Group AG improved from EUR 23.4 million to EUR 25.0 million compared to the prior year.

On account of the higher dividend payments from subsidiaries, **income from equity investments** rose from EUR 2.6 million to EUR 4.3 million. The **interest result** improved from EUR –2.8 million to EUR –1.7 million. This was due, among other things, to better interest rates owing to the renegotiated syndicated loan agreement and higher interest received from affiliates. The cash pool as a whole was optimized further in 2014. As a result, the additional loans drawn was lower in the reporting year.

Income taxes come to EUR –0.85 million (prior year: EUR –4.3 million). The decrease is primarily attributable to tax-free income, above all on account of the write-up of WEEKE.

All in all, HOMAG Group AG as a separate entity reports **net income for the year** 2014 of EUR 24.2 million (prior year: EUR 19.1 million). The **retained earnings** from 2013 of EUR 45.8 million were carried forward following the dividend payment of EUR 5.5 million.

_NET ASSETS AND FINANCIAL POSITION

On the **assets side, financial assets** rose from EUR 170.6 million to EUR 188.5 million. This increase stems from the formation of HOMAG US, Inc., the intercompany assumption of shares in HOMAG Machinery (São Paulo) Ltda., the capital increase at HOMAG Machinery Bangalore Pvt. Ltd., the increase in the carrying amount of the equity investment owing to the write-up of the subsidiary WEEKE Bohrsysteme GmbH, as well as the partial write-down of the carrying amount of the equity investment in HOMAG Machinery (São Paulo) Ltda.

Current assets rose to EUR 79.4 million compared to the prior year (EUR 72.0 million).

The **bank balances** increased as of December 31, 2014 to EUR 19.1 million (prior year: EUR 15.4 million).

On the **equity and liabilities side, tax provisions** decreased from EUR 8.4 million to EUR 3.5 million on account of tax payments made.

Liabilities to banks were reduced by EUR 20.0 million to EUR 57.5 million in the reporting period (prior year: EUR 77.5 million). Short-term drawings totaling EUR 20 million from Tranche B (revolving working capital credit lines) were repaid in fiscal 2014.

In contrast, **liabilities to affiliates** rose significantly to EUR 80.4 million (prior year: EUR 55.8 million). The cash pooling arrangement contributed to this change with an increase of EUR 23.7 million.

All in all, **total assets** increased in the reporting year to EUR 268.6 million (prior year: EUR 243.0 million). The more marked increase in retained earnings in comparison to total assets meant that the equity ratio improved from 39.8 percent to 43.0 percent.

Ralph Heuwing

Harald Becker-Ehmck

Jürgen Köppel

Hans-Dieter Schumacher