HOMAG GROUP

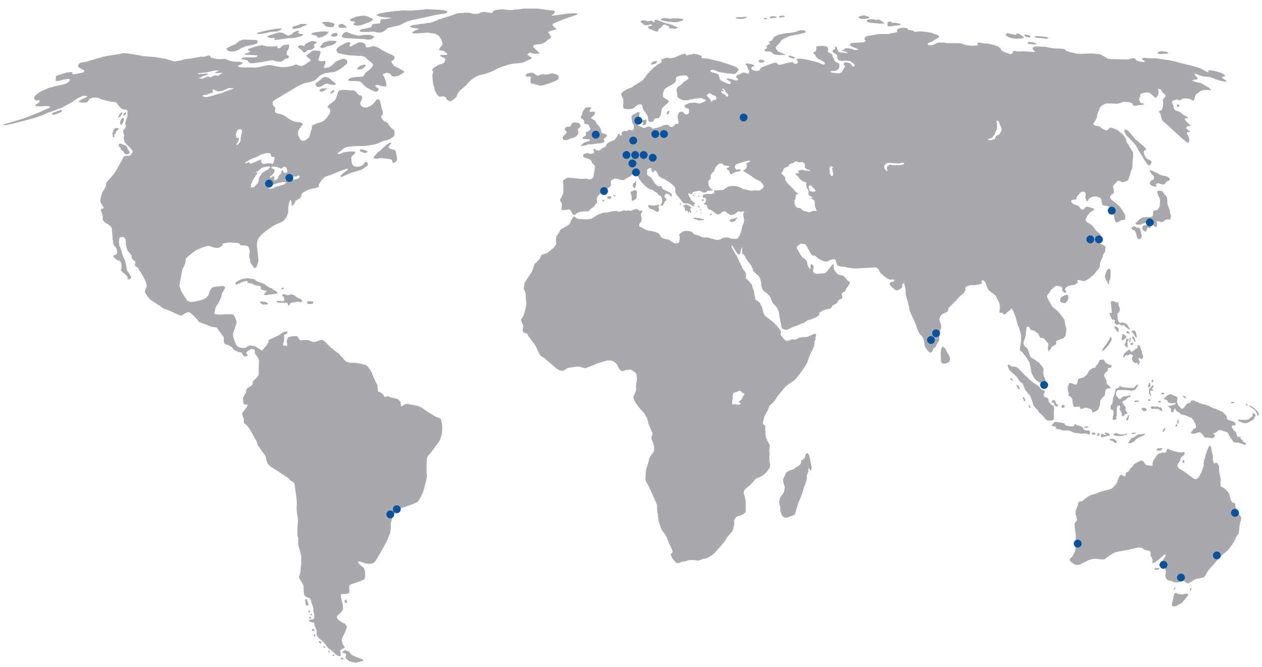
HOMAG Group AG
Annual Report
2013

HOMAG Group
Key Figures

FIGURES IN EUR MILLION	2010	2011	2012	2013
Total sales revenue	717.7	798.7	767.0	788.8
Germany	156.0	194.3	205.2	169.1
Other EU countries	255.9	235.4	238.1	261.8
Other European countries	91.8	154.7	103.1	114.1
North America	37.2	53.9	67.6	72.0
Central/South America	41.3	34.0	35.7	34.0
Asia/Pacific	132.5	124.0	114.0	134.0
Africa	3.0	2.4	3.3	3.8
operative EBITDA [1 2]	65.1	70.5	71.0	75.8
operative EBITDA [1 2] as % of sales revenue	9.1	8.8	9.3	9.6
EBIT [1]	32.0	20.8	38.4	41.6
EBIT [1] as % of sales revenue	4.5	2.6	5.0	5.3
EBT	14.4	6.4	24.3	30.9
EBT as % of sales revenue	2.0	0.8	3.2	3.9
Net profit/or loss				
after non-controlling interests	6.7	−4.7	12.7	18.4
Earnings per share [3] EUR	0.43	−0.30	0.81	1.17
ROCE [4] after taxes as %	8.6	10.5	10.4	11.3
HVA [5] as %	−1.0	0.9	0.8	1.1
Free cash flow [6]	42.2	9.3	−2.8	28.5
Equity as of the reporting date	170.0	161.7	165.8	177.7
Equity ratio as %	29.8	29.0	30.6	32.7
Net liabilities to banks	55.8	80.9	89.5	69.2
Net debt to EBITDA ratio [7]	0.9	1.1	1.3	0.9
Investments/capitalized intangible assets [8]	14.3	18.2	19.2	16.7
Investments in property, plant and equipment [8]	8.7	15.6	17.7	7.6
Amortization of intangible assets [8]	10.6	13.3	11.7	16.0
Depreciation of property, plant and equipment [8]	14.3	15.7	13.5	13.3
Employees, annual average	4,981	5,110	5,075	5,038
thereof trainees, annual average	388	368	343	334
Order intake [9]	541.0	574.8	575.8	605.0
Order backlog as of the reporting date [9]	149.3	158.6	179.7	197.6

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

HOMAG Group Worldwide



Production companies
- BARGSTEDT Handlingsysteme GmbH
- BENZ GmbH Werkzeugsysteme
- BRANDT Kantentechnik GmbH
- FRIZ Kaschiertechnik GmbH
- HOLZMA Plattenaufteiltechnik GmbH
- HOLZMA S. A.
- HOMAG Holzbearbeitungssysteme GmbH
- HOMAG Machinery Bangalore Pvt. Ltd.
- HOMAG Machinery (São Paulo) Ltda.
- HOMAG Machinery (Shanghai) Co. Ltd.
- HOMAG Machinery Środa Sp. z o.o.
- LIGMATECH Automationssysteme GmbH
- WEEKE Bohrsysteme GmbH
- WEEKE Inc.
- WEINMANN Holzbausystemtechnik GmbH

Sales and service companies
- Benz Inc.
- HOMAG Asia (PTE) Ltd.
- HOMAG Australia Pty. Ltd.
- HOMAG Austria Ges.mbH
- HOMAG Canada Inc.
- HOMAG Danmark A/S
- HOMAG España Maquinaria S.A.
- HOMAG eSOLUTION
- HOMAG Finance GmbH
- HOMAG France S.A.S.
- HOMAG GUS GmbH
- HOMAG Italia S.p.A.
- HOMAG India Pvt. Ltd.
- HOMAG Japan Co. Ltd.
- HOMAG Korea Co. Ltd.
- HOMAG Polska Sp.z o.o.
- HOMAG (Schweiz) AG
- HOMAG South America Ltda.
- HOMAG U.K. Ltd.
- HOMAG Vertrieb & Service GmbH
- SCHULER Consulting GmbH

- **New as of 2014**
  Stiles Machinery, Inc.

605

EUR million
Order Intake

—

789

EUR million
Group Sales Revenue

—

75.8

EUR million
Operative EBITDA

—

18.4

EUR million
Net Result

[H = p · i²]

HOMAG Group = People · Innovation Power²

—— The formula for the success of the HOMAG Group has been based for more than 50 years on the work of visionaries with innovative power. With passion and dedication, they have taken the Group to the summit. Today, the HOMAG Group is the global leader in the manufacture of plant and machinery for wood processing, with more than 5,000 employees and an estimated market share of 28 percent. Many groundbreaking developments have grown from our employees' ideas that have changed the world of wood processing and have made the HOMAG Group the global innovation and market leader in the industry.

On the HOMAG Group's high-tech plant and machinery, customers produce home and office furniture, kitchens, parquet and laminate flooring, windows, doors, stairs and also complete wooden house construction systems. The offering ranges from entry-level machines for cabinet shops to complete production lines for highly industrialized series production or even highly flexible production lines for the manufacture of individual furniture items. Add to this a comprehensive range of services that is perfectly tailored to all plant and machinery produced by the Group. The HOMAG Group sells its plant and machinery in more than 90 countries and is represented in all key and growing regions with sales and service companies as well as production facilities.

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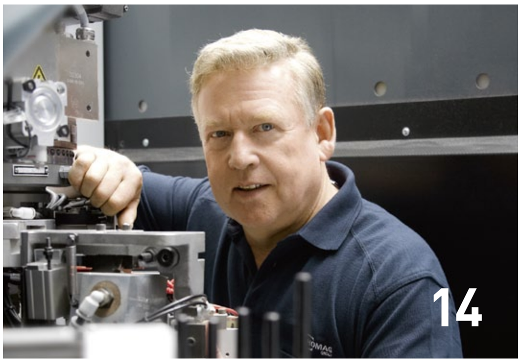
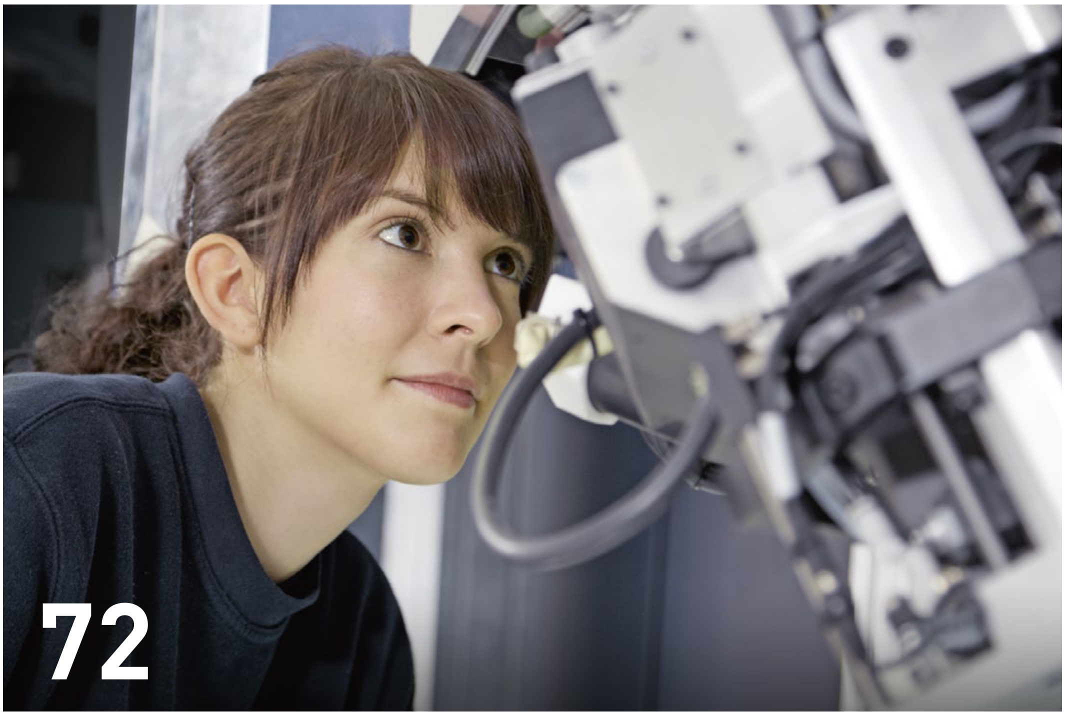




Message from the Management Board

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

Ladies and gentlemen,
dear shareholders,

In the 2013 reporting period we improved all key indicators on 2012 and in some cases exceeded our forecasts. We achieved this despite the challenging economic environment marked by stagnation in the German mechanical engineering sector and a decline in sales revenue in our industry segment. This meant that the 2013 fiscal year was a successful one for the HOMAG Group. First and foremost, we achieved what we set out to do and stated in our communications to you: profitable growth!

In particular, we like to recall the industry's leading trade fair, LIGNA, held in Hanover in May 2013. As the largest exhibitor, we again presented ourselves at this trade fair with a large number of innovations. The highlight there was our new, revolutionary operating interface power**Touch**, that can be used to operate our machinery as simply and intuitively as using a smartphone. Our customers expressed their enthusiasm already at the fair and it transpired over the course of the year that this new development is a complete success. Once again we have provided confirmation that our position of innovation and technology leader setting the trends in our industry is fully justified.

The fact that we succeeded in winning over customers with our innovations and our product line was also reflected in sales revenue rising by just under 3 percent, contrary to the trend in the industry (VDMA: fall of 3 percent). We even succeeded in increasing our order intake by over 5 percent in 2013. We were particularly successful in North America and eastern Europe but the Asian market that includes China also saw a good development. Specifically in growth markets, there is a growing need for ever more furniture which means demand for powerful plant and machinery.

In the past fiscal year we were particularly successful in improving our results of operations. We were able to raise all earnings indicators not only in comparison to 2012 but faster than sales revenue growth in 2013, thus boosting our earnings margins. Our operative EBITDA rose by just under 7 percent from EUR 71.0 million to EUR 75.8 million. At 45 percent, there was a much more significant increase in net profit for the year attributable to the shareholders to EUR 18.4 million in 2013, clearly exceeding our forecast of EUR 15 million. It is thus evident that the efficiency enhancement measures adopted are taking effect, that we are lowering our cost basis and that we have further improved our operating performance.

The good business development is also reflected in the equity ratio increasing by two percentage points. We were able to reduce our net liabilities to banks from EUR 89.5 million to EUR 69.2 million.

Naturally we wish you, our shareholders, to receive once again an appropriate share of the rewards of your Company's success. Together with the supervisory board, we will propose to the annual general meeting on June 3, 2014 a dividend payment of EUR 0.35 per share which is equivalent to an increase of 40 percent compared to the prior year.

The capital market also gave a positive assessment of our business development in 2013. In the reporting period, the price of the HOMAG share increased by over 66 percent to a five-year high, which means it developed significantly better than the SDAX, which rose by 29 percent.

We intend to further develop the HOMAG Group in the current fiscal year. We have already laid some foundations for this in the first weeks of the new year. The merger of our subsidiaries BARGSTEDT and LIGMATECH to form HOMAG Automation puts us in a position to bundle our strength in order to meet at a global level the strong growth in our customers' demand for handling, assembly, packaging and robotics products and services.

Similarly, we intend to make use of the great opportunities on the US market. We anticipate investments to catch up after the backlog of postponed investments in recent years. For this reason, we increased our existing minority holding in the voting shares of the leading US sales and service company Stiles Machinery, Inc., Grand Rapids to 100 percent on February 3, 2014. Stiles is the leading sales and service company in our industry in the US. This takeover now gives us direct access to the US market and will enable us to profit directly from the re-industrialization expected there, in which we wish to play an active role.

For 2014, economic and industry experts anticipate positive economic develop from which we intend to benefit.

We will convert how order intake is calculated in order to increase comparability with sales revenue. The merchandise of the production companies and the after-sales segment will be included in order intake from now on. According to this new calculation method, we achieved an order intake of EUR 734 million in 2013. In 2014, we intend to further increase this figure and achieve an order intake of between EUR 760 million and EUR 780 million. Under this new calculation, the acquisition of the sales company Stiles Machinery, Inc. completed at the beginning of the 2014 fiscal year will not give rise to any increase in order intake. With regard to the Group's sales revenue, we intend to generate between EUR 860 million and EUR 880 million in 2014. Sales revenue growth of a mid-single-digit percentage will result from the Stiles acquisition.

In 2014, we expect our operative EBITDA before employee profit participation expenses and before extraordinary expenses of between EUR 82 million and EUR 84 million and the Group to return a net profit for the year 2014 ranging between EUR 20 million and EUR 22 million. Full consolidation of Stiles, however, will not have any significant impact on operative EBITDA and the Group's net profit. We anticipate a positive contribution to earnings from the acquisition as of 2015.

We would like to use the opportunity provided by this annual report to not only present you figures but also the formula for the HOMAG Group's success developed over more than 50 years by visionaries with special innovative power. That is how we change markets, win over customers and shape the future. In a number of interviews and reports you will be able to read more on the inventive talent, the engineering skills and the high level of commitment of our employees.

We would like to express our thanks to all employees for their dedication in the fiscal year 2013. Their commitment was a decisive factor that enabled us to achieve these results. We would also like to thank our customers and our shareholders for the trust they place in us. And we would like to express our thanks to our suppliers and all other business partners for the constructive collaboration in the past fiscal year.

Schopfloch, March 2014
The management board

Markus Flik

DR. MARKUS FLIK

Harald Becker-Ehmck

HARALD BECKER-EHMCK

JÜRGEN KÖPPEL

Hans-Dieter Schumacher

HANS-DIETER SCHUMACHER

Report of the Supervisory Board

—— The supervisory board of HOMAG Group AG and its committees worked intensely in fiscal 2013 to fulfill all its duties as prescribed by law, the articles of incorporation and bylaws, the rules of procedure and the recommendations of the German Corporate Governance Code.

The supervisory board monitored the activities of the management board and advised it on a regular basis. The management board fulfilled its information duties and kept the supervisory board informed regularly, promptly and comprehensively on all transactions and issues of relevance to the Company in written and oral reports. The supervisory board was consulted directly and in a timely manner on all decisions of fundamental importance to the Company. The supervisory debated intensely and voted on all transactions that require the approval of the supervisory board whether by law or according to the articles of incorporation and bylaws.

Between meetings of the entire board, the chairman of the supervisory board and the management board, the CEO in particular, exchanged detailed information on a regular basis. The main topic of discussion was the current business development, the strategy, the planning, the risk position, risk management and compliance. The CEO informed the supervisory board immediately of all events of exceptional significance for the assessment of the Group’s situation and development.

There were no personnel changes on the management board or supervisory board in the fiscal year 2013.

—— Torsten Grede, Chairman of the supervisory board

Significant Matters on the Agenda

In the reporting year there were four scheduled meetings of the supervisory board. At all meetings, the management board reported in detail to the supervisory board on the current business development of the HOMAG Group, the financial position and the results of operations, market developments and further expectations and forecasts. The members of the management board further reported on the status of the HOMAG Group Action Program (HGAP) and the development of the project business and individual subsidiaries. Furthermore, the development of the areas of materials management and production, sales and service as well as research and development and various personnel-related topics were discussed. Moreover, the supervisory board was informed of the activities of the committees established by it at the start of each meeting.

With the exception of two meetings where one supervisory board member was excused, all twelve supervisory board members attended the supervisory board meetings in the past fiscal year. All members of the supervisory board disclose to the supervisory board any conflicts of interest that might arise. In the current fiscal year, there were no conflicts of interest.

Supervisory Board Meeting on March 21, 2013

At the supervisory board meeting of March 21, 2013, the management board reported on the fiscal year 2012 and the auditors of the financial statements reported on their audit and findings. Following an extensive discussion and examination, the annual and consolidated financial statements of HOMAG Group AG as of December 31, 2012 were approved with the auditor in attendance and the financial statements were thus ratified. The supervisory board further seconded the management board's recommendation for the appropriation of profit and discussed and approved the Corporate Governance Report and the supervisory board's report to the annual general meeting and the proposed resolutions for the agenda items for the annual general meeting. Among other things, the proposed resolution to the annual general meeting relating to an amendment to the articles of incorporation and bylaws and supervisory board remuneration were approved. The management board reported on the status of the audit by the Deutsche Prüfstelle für Rechnungslegung [German Financial Reporting Enforcement Panel]. In addition, the supervisory board set the parameters for the variable component of the management board's remuneration system for the new reference period from fiscal year 2013 onwards. The supervisory board also resolved to extend and amend the management board service agreement of Mr. Hans-Dieter Schumacher for the period from January 15, 2014 to January 14, 2017 and to appoint Mr. Schumacher to the management board for this period and to authorize the supervisory board chairman to conclude the new management board service agreement with Mr. Hans-Dieter Schumacher.

Supervisory Board Meeting on July 11, 2013

At the meeting on July 11, 2013, the management board reported on the business development according to segment and the ongoing development of the project business. In addition, the management board gave a presentation in detail of the measures to be taken to implement the medium-term planning for the period from 2014 to 2017. Based on the premise of a positive outcome of the due diligence review, the supervisory board voted to increase the holding of voting shares in the US sales and service company, Stiles, from 29.4 percent to 100 percent.

Supervisory Board Meeting on October 10, 2013

At the supervisory board meeting on October 10, 2013, the management board presented the results of the due diligence review for Stiles. Furthermore, the management board reported on the development of business by segment, the ongoing development of the project business and the current status of the refinement of the compliance system. The supervisory board also determined the relevant opening price for the LTI program for the 2013 to 2015 reference period.

Supervisory Board Meeting on December 12, 2013

At the supervisory board meeting on December 12, 2013, the management board informed the supervisory board of the status of the purchase agreement negotiations for the Stiles project and the personnel planning for the commercial area. The supervisory board approved the corporate planning for the period from 2014 to 2018 and the merger of the BARGSTEDT Handlingsysteme GmbH and LIGMATECH Automationssysteme GmbH subsidiaries to form HOMAG Automation GmbH. Additionally, addenda to the management board service agreements were concluded for all members of the management board for the purpose of introducing caps to management board remuneration. The supervisory board also approved the 2014 declaration of compliance with the German Corporate Governance Code that has to be issued each year pursuant to Sec. 161 AktG. The supervisory board also performed the efficiency audit in accordance with No. 5.6 of the Code.

Work Performed by the Supervisory Board's Committees

In the fiscal year 2013, the supervisory board had four committees: the audit committee, the personnel committee, the nomination committee and the mediation committee in accordance with Sec. 27 (3) MitbestG ["Mitbestimmungsgesetz": German Co-determination Act]. The committees are tasked with preparing upcoming topics and resolutions for supervisory board meetings. In certain cases the committees also exercise the decision-making authority transferred to them by the supervisory board – where legally permissible – or by law. The chairpersons of the committees reported on the work of their committees at the meetings of the full supervisory board.

Mediation and Nomination Committee

The mediation committee and the nomination committee had no need to act and were not convened in the fiscal year 2013.

Audit Committee

The audit committee held three meetings and three telephone conferences in the fiscal year 2013. At the first meeting, the consolidated and separate financial statements including the Group's management report and the management report of HOMAG Group AG as of December 31, 2012, the corporate governance report and the proposal for the appropriation of profits were discussed in the presence of the auditor of the financial statements. Also discussed was supervisory board's report to the annual general meeting as well as the agenda for the annual general meeting. At its other meetings, the audit committee focused its attention on all quarterly reports, the current earnings situation, the forecast for 2013 and the 2014 to 2018 budgeting. The status of the risk management system within the Group and in the areas of production and materials management and research and development and the status of the refinement of the compliance system were additionally discussed. The audit committee informed itself about measures in the field of after-sales. For example, the audit committee discussed the statement of financial position and the income statement of two sales and service entities. The priorities were also set for the audit of the separate and consolidated financial statements for 2013.

Personnel Committee

The personnel committee met three times in the fiscal year 2013. The topics discussed were the extension of the management board service agreement of Mr. Hans-Dieter Schumacher and the variable remuneration of the management board for the fiscal year 2012. In addition, the amendments to the management board's service agreements to match the new version of the German Corporate Governance Code were prepared for the passing of a resolution by the supervisory board. These amendments provide for the introduction of caps to management board remuneration.

Separate and Consolidated Financial Statements 2013

The supervisory board engaged Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, as auditor of the financial statements for the fiscal year 2013, who had been elected by the annual general meeting on May 28, 2013. The audit firm had previously presented a declaration of independence. The audit focus was placed on capitalized development work in light of the recognition of assets in connection with the ProFuture, **power**Control and power**Touch** projects and valuation of inventories.

The auditor audited the separate and consolidated financial statements for the fiscal year 2013 prepared by the management board together with the combined management report including the underlying accounting records, and rendered an unqualified audit opinion in each case. In addition, the auditor confirmed that the management board had an appropriate risk monitoring system in accordance with Sec 91 (2) AktG in place that is suitable for detecting at an early stage developments that might jeopardize the ability of the Company to continue as a going concern.

The separate and consolidated financial statements, together with the combined management report, the management board's proposal for the appropriation of profits and the auditor's audit report were made available to the members of the supervisory board in a timely manner. These documents were reviewed in detail by the audit committee at its meeting of March 14, 2014 and by the supervisory board at its meeting of March 20, 2014 and intensively explained. The auditor attended both meetings and reported on the key findings of the audit. The supervisory board monitored the independence of the auditor before and during the audit. After rendering the results of its audit, the supervisory board raised no objections and was in agreement with the auditor's audit findings. At its meeting of March 20, 2014, the supervisory board approved the separate and consolidated financial statements, together with the combined management report as of December 31, 2013, prepared by the management board, thus ratifying HOMAG Group AG's annual financial statements as of December 31, 2013. The supervisory board seconded the management board's proposal for the appropriation of the retained earnings for fiscal year 2013. According to this, it will be proposed to the annual general meeting of June 3, 2014 to pay out a dividend for fiscal year 2013 of EUR 0.35 per share from the retained earnings.

The supervisory board would like to thank the management board, the employee representatives and all the Company's employees worldwide for their great commitment and the shareholders for the confidence they place in the Company.

Schopfloch, March 2014
On behalf of the supervisory board

TORSTEN GREDE
Chairman of the supervisory board

The HOMAG Group AG Share

—— The HOMAG Group share price developed better in 2013 than the overall share market, rising by more than 66 percent. Our policy of active capital market communications is to provide all market participants at all times with transparent, fair, prompt and comprehensive information.

Development of Stock Markets

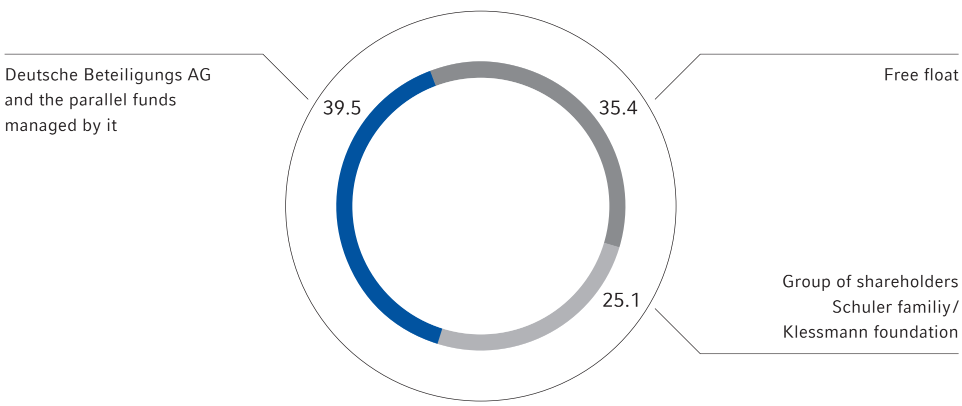
The stock markets developed very positively in 2013. One main reason for these developments was the expansionary monetary policy implemented by central banks, first and foremost by the US Fed and the Bank of Japan. And the European Central Bank also reduced its base rate twice in 2013. In addition, stock markets were driven by strong economic data from the US, stabilization in the euro-zone, accelerating growth in China and lively M&A activities.

The overall positive economic environment resulted in new all-time highs for a large number of share indices. For example, the DOW Jones Index returned a gain of more than 26 percent in 2013 and the Euro Stoxx 50 one of 18 percent. The DAX rose by more than 25 percent. MDAX and the TecDAX performed even better, each with gains of around 40 percent. The SDAX improved more than 29 percent in 2013.

The HOMAG Share in 2013

The HOMAG Group AG shares are listed on the Prime Standard of the Frankfurt stock exchange. 2013 was an excellent year for the HOMAG share. Our shares saw their first strong upward movement between the beginning of February and mid-March, when they rose from the 2012 closing price of EUR 11.46 to more than EUR 14. Prices then moved sideways until the end of August, when the stock price experienced steep gains, reaching its all-year high at EUR 19.31 and closing the year at EUR 19.06. This is equivalent to stock price gains of more than 66 percent in 2013 and a five-year high.

SHAREHOLDER STRUCTURE AS OF MARCH 14, 2014 [1] in %



1 Method of calculation according to Deutschen Börse AG

Development at the Beginning of 2014

At the beginning of 2014, the German stock markets repeated the positive developments seen in 2013 and continued to rise in the first two months of the year. The DAX and the MDAX each rose by just under 2 percent, the TecDAX managed to rise by 10 percent and the SDAX by 7 percent. Having outpaced the market in the prior year, the HOMAG share stabilized in the first two months of 2014 coming to stand at EUR 19.12 on February 28, 2014.

Annual General Meeting and Dividend

Some 300 shareholders took part in the annual general meeting of HOMAG Group AG in Freudenstadt on May 28, 2013 – representing just under 83 percent of the share capital. The shareholders present agreed to the proposal by the management and supervisory boards to distribute a dividend for fiscal 2012 of EUR 0.25. The annual general meeting also approved the amended remuneration of the supervisory board as well as a domination and profit and loss transfer agreement between HOMAG Group AG and BRANDT Kantentechnik GmbH. The management board and the supervisory board were exonerated. However, the shareholders present did not approve the creation of new authorized capital.

The management board and supervisory board propose to the annual general meeting for the fiscal year 2013 on June 3, 2014 that a dividend of EUR 0.35 should be distributed. This means that we increased the dividend by 40 percent in comparison to the prior year and propose distributing just under 30 percent of the net profit for the year attributable to the shareholders of the HOMAG Group. In this way, we are maintaining our dividend policy to date which provides for a distribution of approximately 30 percent of the net profit for the year and want to correspondingly share the net profit for the year with our shareholders.

Communication with the Capital Market

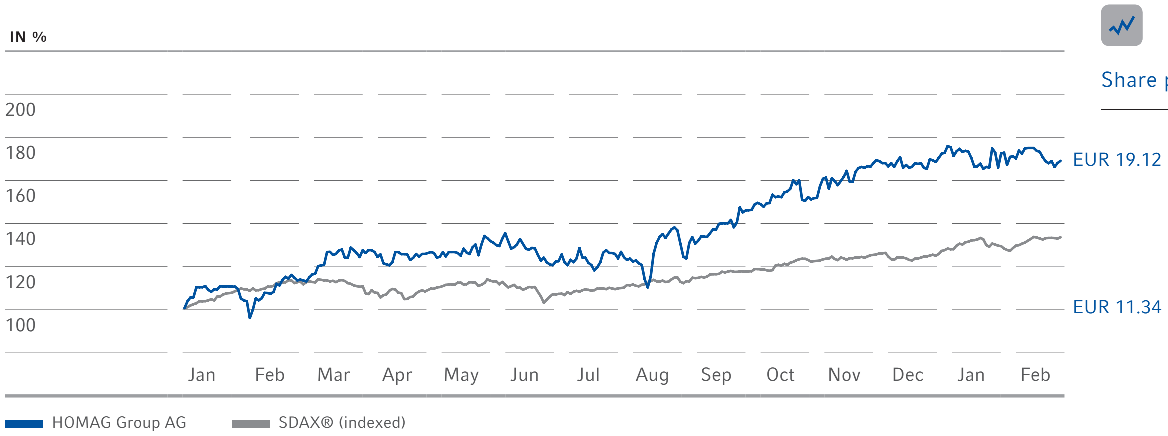
Once again in 2013, the objective of our active communication with the capital market was to provide a transparent presentation of the Company on the capital market by informing all market participants in an open, fair, timely and comprehensive manner on all events of significance for the Company. We consider investor relations work to be primarily the duty of the management board, which is why both the CEO Dr. Markus Flik and CFO Hans-Dieter Schumacher in particular are actively involved in this task.

We presented the HOMAG Group at six road shows, one each in Frankfurt, Zurich, Edinburgh, Paris and two in London as well as at the German Equity Forum in Frankfurt. In addition, an analyst conference was held in Frankfurt and an analysts' day in Schopfloch. We kept analysts up to date at all times over the whole year with three conference calls relating to our quarterly reports and further telephone calls. Likewise, we provided our investors with timely and in-depth information on all interesting developments in the HOMAG Group in a number of personal talks and phone calls.

Our website gives us a medium that we use to furnish private investors and other interested parties with all up-to-date information. We provided transparent communications once again in 2013 by means of our annual press briefing, two investor newsletters, nine press releases and several interviews given by our CEO, Dr. Markus Flik.

Development of the HOMAG Group AG Share Price in comparison to the SDAX

January 2, 2013 to February 28, 2014

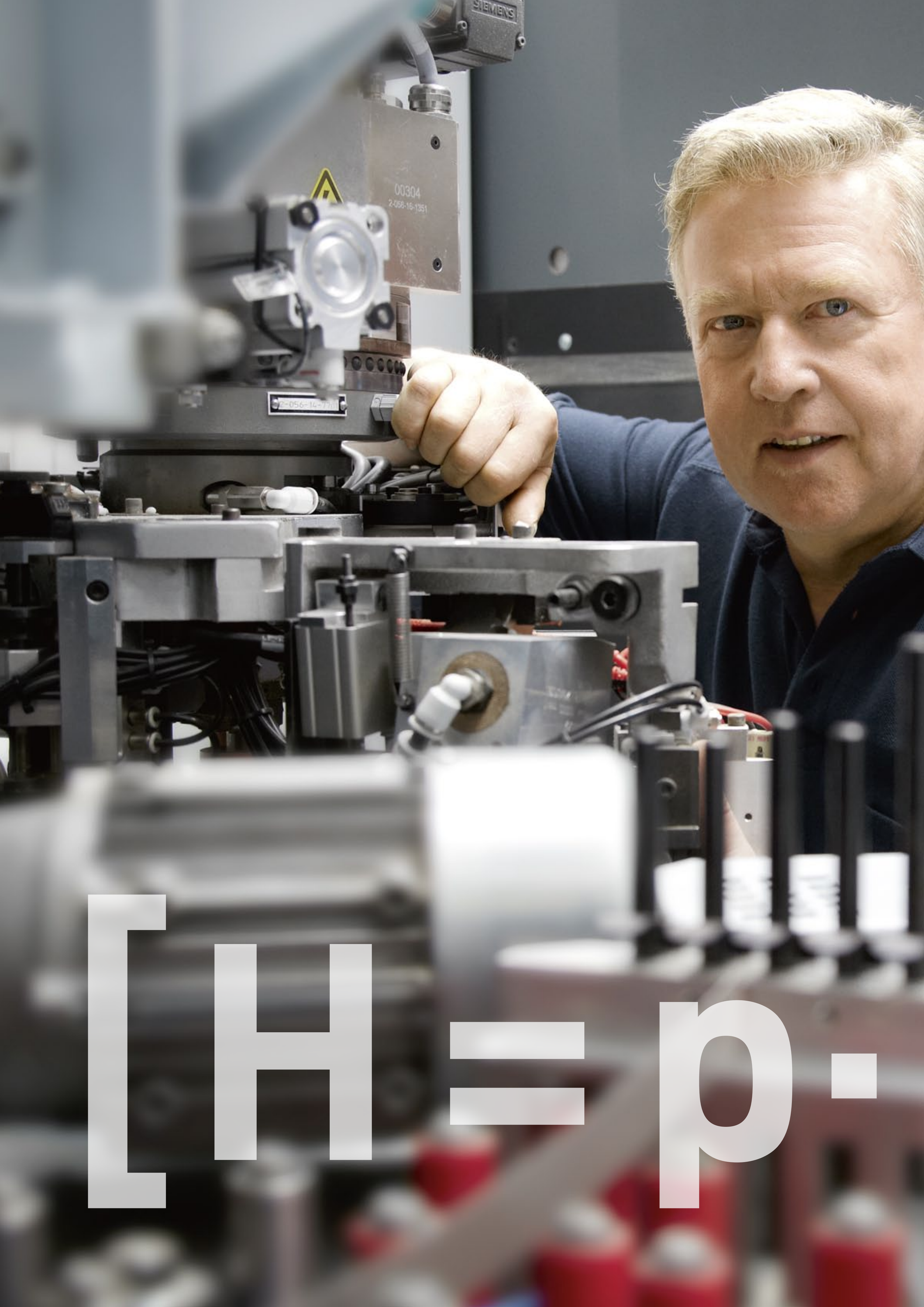


Share performance chart

Share Performance Indicators

ISIN code		DE0005297204
Stock exchange segment		Prime Standard
XETRA code		HG1
IPO	July 13, 2007	
Number of shares	no-par value ordinary bearer shares	15,688,000
Price high [1] 2013	December 23, 2013	EUR 19.20
Price low [1] 2013	January 31, 2013	EUR 10.82
Price [1] as at December 30, 2013		EUR 19.06
Earnings per share	FY 2013	EUR 1.17
Market capitalization (December 30, 2013)		EUR 299.0 million

1 XETRA closing quote


SIEMENS
00304
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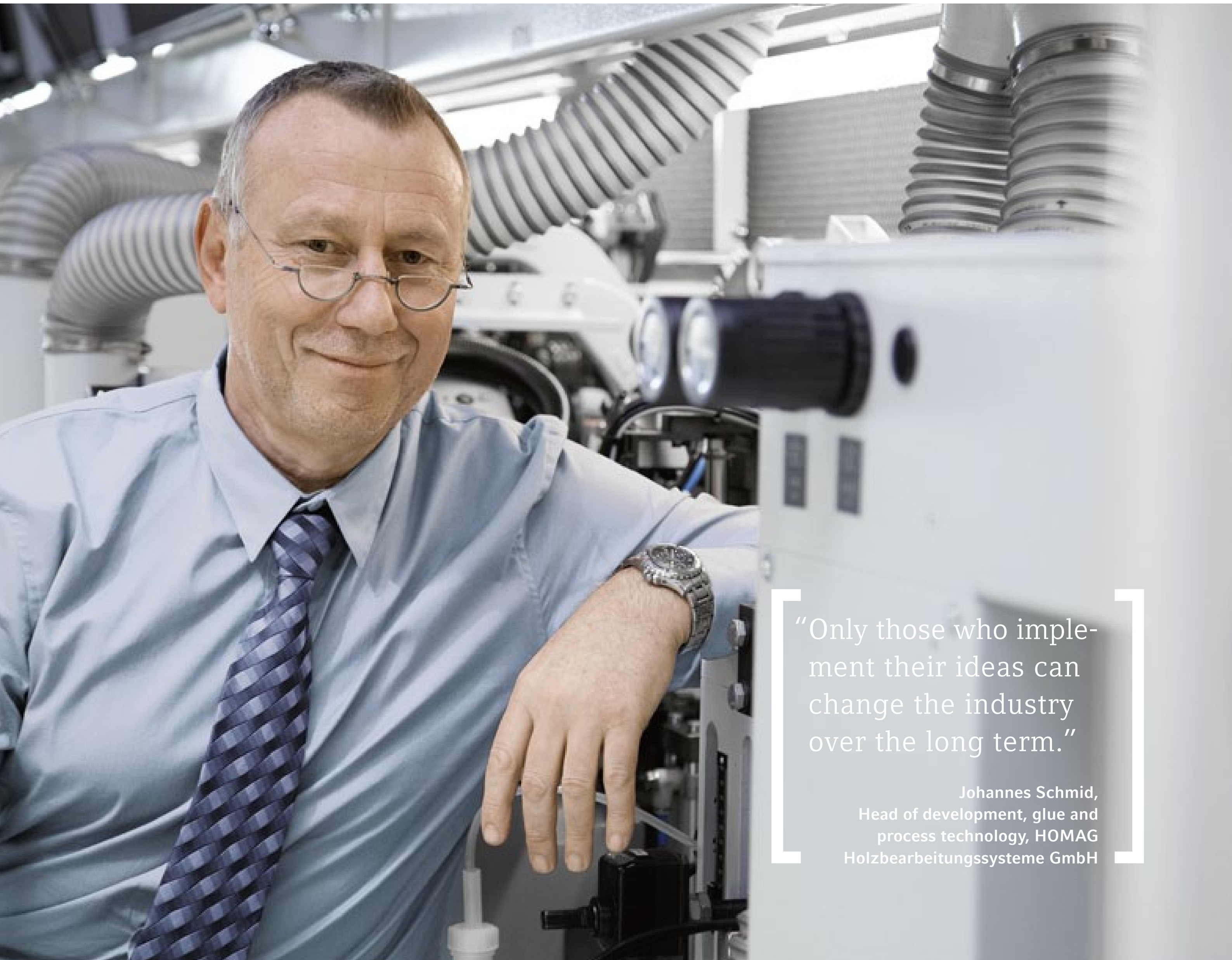
[H=p·

HOMAG Group = People · Innovation Power²

HOMAG as a trendsetter

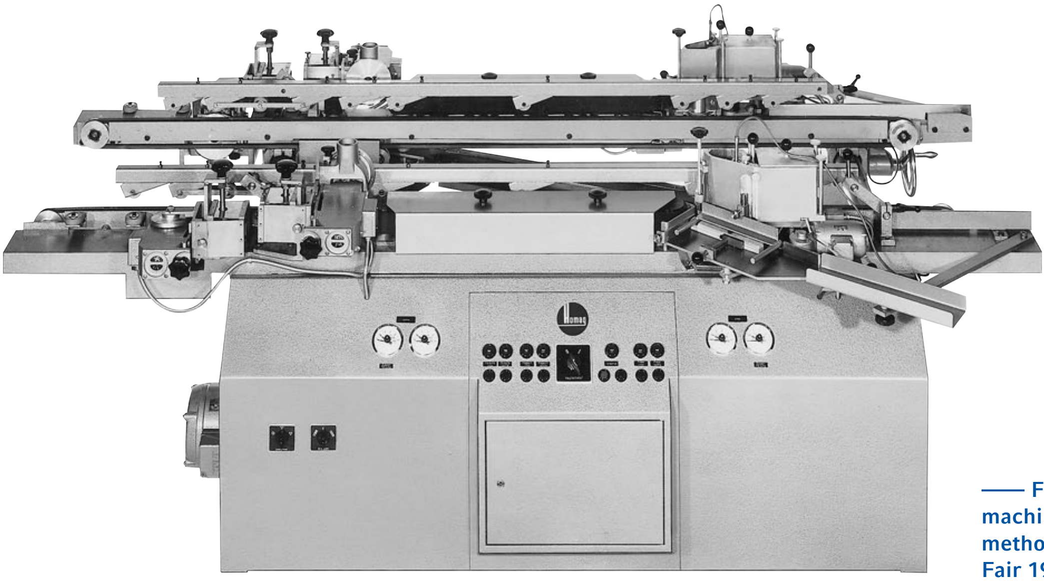
A pioneer in wood processing

—— Over more than 50 years of company history, the HOMAG Group has developed and realized numerous revolutionary ideas and established them on the market. As a result, today, the Group is the technology leader in its industry with worldwide operations. Thanks to the art of engineering and foresight, the Group has earned its position as world market leader.



"Only those who implement their ideas can change the industry over the long term."

**Johannes Schmid,
Head of development, glue and process technology, HOMAG Holzbearbeitungssysteme GmbH**



First edge banding machine using the hot cold method (Hanover Trade Fair 1962).

Trade fair for industrial technology Hanover 1962: At a small trade fair stand a company from the Black Forest presented the world's first edge banding machine using the hot-cold technique. The technique, together with a new glue, is regarded as a revolution that won recognition worldwide and is still applied today in the same way. The company founders Gerhard Schuler and Eugen Hornberger along with their employees realized that they would change the market as a whole with this groundbreaking development. At the trade fair, customers immediately responded to this development with great enthusiasm and order intake reached unforeseeable dimensions. The cornerstone for the ascension to global market leader had been laid.

Always one step ahead

This inventive talent of the founders has been maintained in the HOMAG Group to this day. No one waits around here, but rather leads the way in order to be the first on the market. Constantly on the lookout for the perfect woodworking machines and technologies, the employees maintain a high pace of innovation. This includes the improvement of existing products through ongoing further developments as well as new developments.

The employees are also encouraged to try new approaches, think outside the box and realize their visions. The focus is always on the customer. Every idea and every development is evaluated according to customer benefit and advancement. For this reason, sales and development work closely together. This connects customer interaction and practical experience with the spirit of research and the art of engineering. This results in innovations that continue to set new standards and change the woodworking industry over the long term.

The HOMAG Group's ambition is to be the driving force in the industry. Anyone looking back at the over 50 year history of the company today with all of the developments it introduced can only come to one conclusion: The HOMAG Group lives up to its high standards.

2013 FIGURES

5

Patent applications per month

61

EUR million R & D expenses

786

R & D employees

—— For more information visit: www.youtube.com/homaggroup/powertouch

The new dimension in machine operation

Touch the innovation

—— The result looks extremely simple: Machines and complex production lines that are as intuitively easy to operate as a smartphone. The path to the revolutionary operating concept power**Touch** involved mastering some challenges, as project leader Franz Schneider reveals in an interview.

Mr. Schneider, power**Touch is establishing itself on the market but how did it all start?**
Franz Schneider: One of the major goals of the HOMAG Group is to involve the individual subsidiaries more closely in the field of research and development. Various projects were introduced along these lines in 2008 that addressed group-wide topics - for example standardizing construction parts, control systems and, of course, also machine operation.

What were the specifications for the new operating concept?
Franz Schneider: The primary aim was of course simplicity. The operation interface is the link between human and machine. At this level, it is determined whether all machine functions are being used to their full potential. For this reason, the operating interface should not present any obstacles, but rather should show in a simple, understandable manner, what the machine can do. Another important requirement was creating a uniform user interface for the entire HOMAG Group. This means that all machines, from smaller standard machines to interlinked large-scale production lines, can be operated with the same familiar look and feel.

How and when did your team come up with the idea to introduce operation using a touchscreen?
Franz Schneider: Of all reviewed interaction possibilities ranging from mouse and keyboard to haptic knobs similar to those used in cars or voice commands, our experience has shown that the touchscreen is the simplest and most natural operating interface. As these advantages were decisive for us, we swiftly decided on a touchscreen operating interface. In this context, we use the best technology, capacitive multi-touch technology, which is also used in most smartphones for example. This allows for the use of gesture controls such as swiping or zooming.

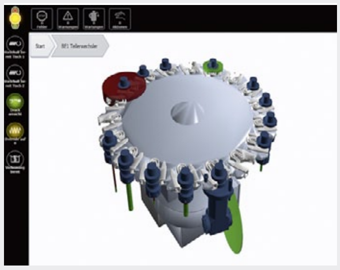
Did you have an image of what the end product would look like from the outset or did power**Touch change during the development process?**
Franz Schneider: We knew very quickly what direction we wanted to go in. This sort of lengthy, comprehensive project lives but requires a high degree of flexibility. Further developments in the technology environment were also an added factor in the development of power**Touch**. Smartphones with a touchscreen operating interface caught on. Tablet computers came onto the market and have been a huge success ever since. As a result, we now expect that most of the potential operators of our machines are familiar with the smartphone interface. At the start of this project that was not the case. Thanks to our iterative and agile approach to the project, we were able to integrate these trends seamlessly into the project.→

power**Touch**

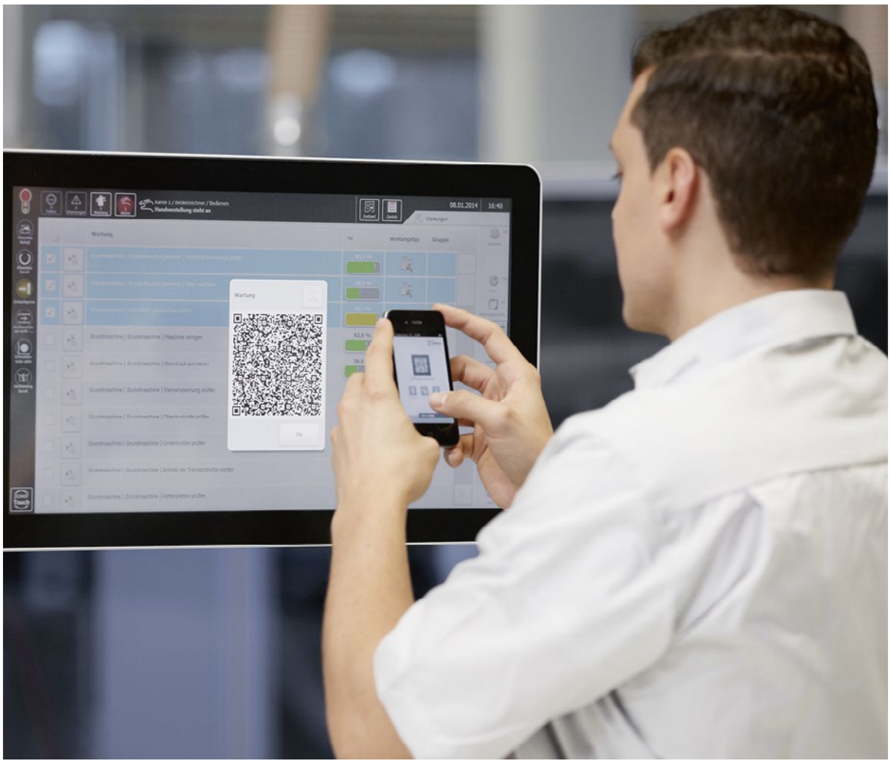
Easy, equal, ergonomic, evolutionary

power**Touch** is the new, intuitive operating interface from the HOMAG Group. At the focus of this operating concept is a large multi-touch monitor, which is used to control machine functions by direct touch contact – similar to the system we are familiar with from smartphones. Standardized control elements ensure that all HOMAG Group machines can be operated with the same familiar look and feel.

Modern software modules ensure that all relevant information on the machine status is available at a glance. Integrated help and assistance systems provide support to the operator and ensure a high level of production readiness and reliability.



Intuitive operation with 3D imaging (photo above); machine status immediately apparent via a traffic light assistant (photo below)



QR codes allow for the transmission of machine data, such as maintenance alerts, to smartphones ("digital memo")

What was the development process?
Franz Schneider: For this comprehensive and group-wide project we set up a twelve-member team of experienced software developers from HOMAG Group subsidiaries. All team members worked two weeks each month intensively on the project. Although this led to a longer project timeframe in development, it enabled an extremely fast rollout of the product throughout the Group. As power**Touch** experts, the team members were able to actively support all other employees in the conversion of the machines to the new operating interface.

Was it clear to you at the time that you were working on technology that would revolutionize the market?
Franz Schneider: Once we had decided on a touchscreen interface it became clear to us that we were working on something completely new, something that had previously not existed on the market and that would be a surprise to our customers. And as smartphones with the same technology grew in popularity, we were all the more sure that we were on the right track and that our new development would come at the perfect time.

As project leader for power**Touch, what are you especially proud of?**
Franz Schneider: Firstly, I am proud of the development team. Each individual member with a high level of personal commitment contributed so much and was able to achieve such an excellent result under such immense pressure. Secondly, I am proud that with power**Touch** we were able to create an operating interface that is fun to work with. When I hear from customers: "The operators almost come to blows over who gets to operate the machine next," then I know we have done virtually everything right. I am convinced that in a few years machines in nearly every industry will be operated in this way. And we at the HOMAG Group are once again trendsetters.

"A genuinely modern and intuitive operating concept with stunning graphics that can be understood quickly. It is a lot of fun to operate a machine in the same way as I operate my smartphone – simply swipe, scroll and zoom."

Peter Schuon, Managing Director of MS-SCHUON GmbH

powerTouch celebrates successful world premiere

New software inspires

—— At the industry's leading trade fair, LIGNA, the power**Touch** technology celebrated its world premiere in May 2013 – and quickly became the star of the trade fair. Visitors were fascinated and were keen to find out more about the forward-looking approach to machine operation.

The stage for a revolution like power**Touch** was set: The 20th LIGNA in Hanover impressively supported its position as the international leading trade fair in the world of woodworking. More than 90,000 trade visitors from 100 countries came to LIGNA. For five days, the center of the international woodworking industry was in Hanover. At the center of the metropolis of LIGNA: HOMAG City. Encompassing a total area of almost 7,000 square meters, the HOMAG Group was once again the largest exhibitor and a crowd-puller.The setting was perfect for the world premiere of the new power**Touch** technology. In total, more than 30 different machines equipped with the new operating concept were presented at the trade fair.

—— In the InnovationCenter, the HOMAG Group presented 20 highly innovative products in aggregate technology to a select audience of professionals.

The HOMAG Group establishes zero joint technology

Completely invisible

—— With **laser**Tec and **air**Tec, the engineers at the HOMAG Group have changed a seemingly firmly cemented fact. Thanks to new technologies, the assembly of edges and workpiece without a visible joint has been made possible. This is what the market was waiting for – more than 200 systems sold speaks for itself.

For decades it was the inevitable: If you connect a workpiece with an edge, a joint will be visible. This was also accepted in furniture production. The technical specialists at the HOMAG Group, however, did not; the engineers aimed to achieve the then impossible – an invisible edge joint. The solution has a name: **laser**Tec! At the LIGNA in 2009, the HOMAG Group presented a process that involved the joining of edge and workpiece using a laser beam. This reactivates a functional layer of the edging material, which is then directly extruded to the workpiece. The result is workpieces without visible joints between workpieces and edges in unmatched quality. The zero joint was born.

This quantum leap marked the start to a new era of furniture production. In addition to a perfect finish, **laser**Tec offers further advantages: This process means that the workpiece and processing units are less soiled, wastage amounts are reduced and the level of staff utilized and the productivity of the machines are significantly improved. Furthermore, the new edges have higher cohesion, higher heat and moisture resistance. →

THREE QUESTIONS TO ...

—— Ulrich Schmitz, managing director for sales, service and marketing at HOMAG Holzbearbeitungssysteme GmbH

How is laserTec being received by customers?
When we demonstrate the technology to customers directly on the machine and they then hold the processed workpiece in their hands for the first time, the reaction is always the same: Everyone is stunned and impressed that you really cannot see a transition to the edge. And everyone keeps asking us where this technology has been all that time!

What do customers report back to you about laserTec?
Most of them talk about a new world. Naturally, above all because of the perfect finish that **laser**Tec offers. And this not only relates to the glued joint. With **laser**Tec, greater attention is paid to the entire edging process which has resulted in a considerable improvement in the overall quality of the furniture produced. But not only that, but also the uncomplicated operation has also received praise.

How would you assess the sales success of this technology?
With this technology, we effectively discovered a need and optimally met customers' requirements. Since the premiere at LIGNA 2009 we have already sold more than 200 systems with **laser**Tec – and the trend is rising.

Thanks to the high process reliability, customers readily accepted the new technology which has firmly established itself on the market.[1]

Due to the fact that the quality standards in cabinet shops are just as high as in industrial production, the HOMAG Group has gone further and also offers the zero joint process to cabinet shops. **air**Tec is based on a special technique using compressed hot air that creates an invisible joint between the board and the edge. The development is tailored precisely to the needs of cabinet shops and requires a smaller investment for the same quality.

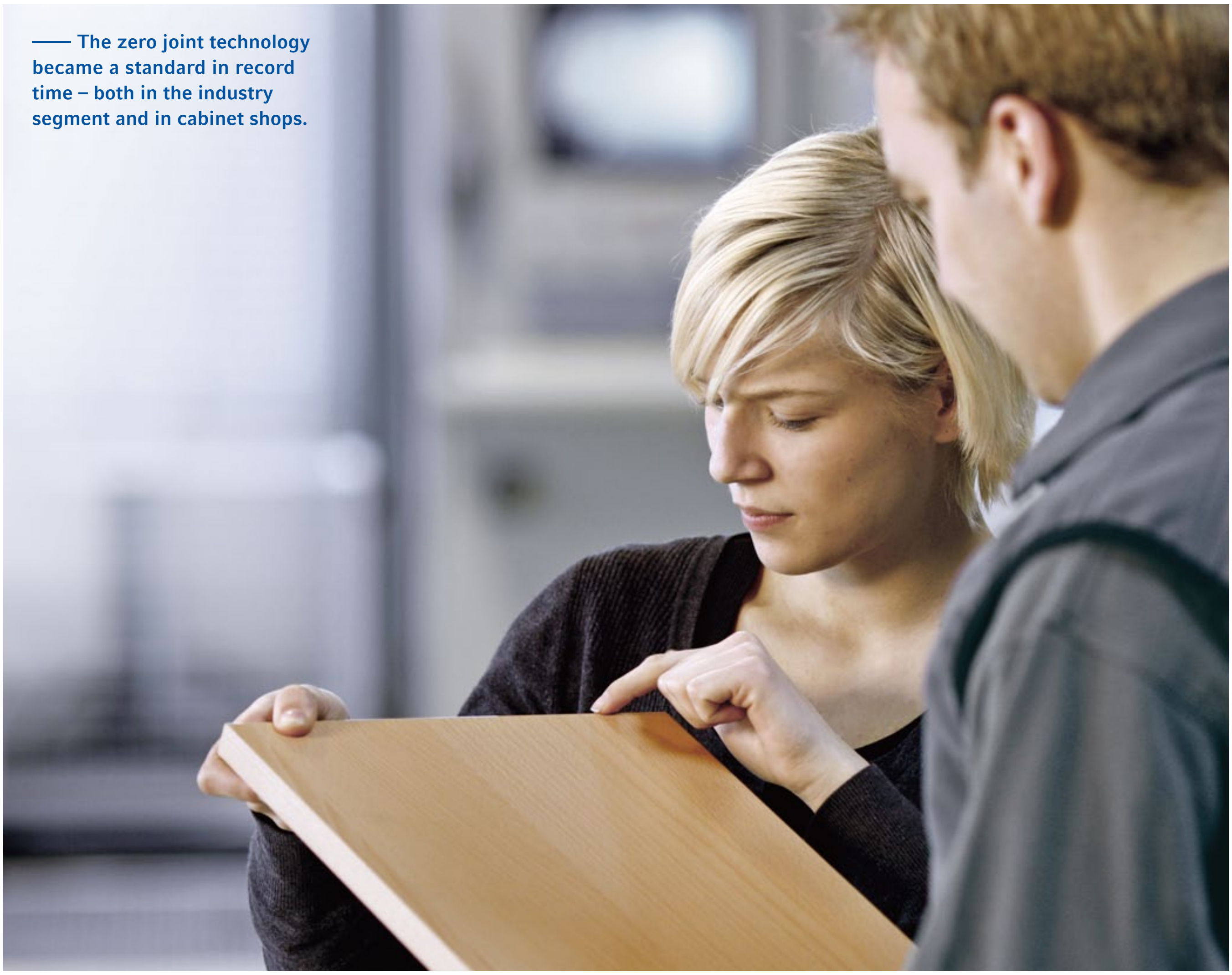
DIODE LASERS

HOMAG Group technology comes out on top

Along the way to the zero joint there were various approaches and numerous manufacturers attempted to come up with a solution. The fundamental principle was always the same: Edges that have a functional layer, which is reactivated to attach to the workpiece, are used. There are various possible approaches for this process, for example using plasma, CO_2 lasers or diode lasers.

After just five years on the market the outcome is clear: The process developed by the HOMAG Group with diode lasers came out on top and is now the decisive system on the market. In the determining factors of quality, costs and process reliability, the diode laser technology based **laser**Tec aggregate is the best overall package and meets all customer requirements.

1 In Germany, the **laser**Tec technique can be used only with the edge bands manufactured by the company Rehau for the time being.



Networked production

From an idea to a work of art

— The HOMAG Group conceived for the office furniture designer hali a unique end-to-end production line. This allows hali to produce 48 million potential variants in only 15 working days in each case.

The flexibility of a carpenter's workshop combined with the production performance of an industrial operation – that was the vision of Albert Nopp, the current managing director of hali Büromöbel, as he started to think about a completely new approach to production at the Austrian office furniture producer. Their machines and plants had seen better days, which meant there was an opportunity to start from scratch. The increasing individuality in office furniture was the greatest challenge. "Customers today want their needs met and millimeter precision solutions, without paying horrendous surcharges," explains Albert Nopp.

HOMAG Group accepts the challenge

In the search for a partner, those responsible at hali spoke with numerous manufacturers of wood processing machines and then decided on the HOMAG Group. "Here we found the greatest willingness to develop something that did not exist yet," recalls Nopp. "Meeting customer needs is our passion," confirms Dirk Müller, the project leader responsible for the subsidiary BARGSTEDT Handlingsysteme GmbH.

> "The only way to achieve this goal at hali was using networked production."
>
> **Dirk Müller,** BARGSTEDT Handlingsysteme GmbH

The demands placed on the new plant were enormous. A fully automated order, procurement and production process was required capable of producing more than 48 million product variants in a maximum of 15 days in order to fulfill any individual customer's request.

An additional goal was also to achieve a 30 percent improvement in capacity utilization with the same human resources.

In addition, contrary to other solutions using the batch size 1 concept, no workpiece labels were to be used. The result is one of the most modern furniture production lines in Europe, with which the HOMAG Group deployed its entire strength as systems provider.

"Thanks to the excellent cooperation with all group companies we were able to fulfill the complex requirements," Dirk Müller emphasizes. To achieve this, numerous innovations were necessary in both the products as well as the networking of the machines.

Bringing networked production to life
A highly dynamic panel storage system with a capacity of 4,000 panels has been put into action. Two saws are automatically fed from this storage system. Then a decoupling buffer unit with a capacity of about two hours' shift production ensures that all components are fed into the edge banding machine in an optimum sequence.

The components are then transferred to a parts store with five storage lanes and a storage stretch of 6.4 kilometers for 6,000 parts. This serves as the buffer stock and commissioning storage for the assembly lines. The process continues with two →

—— Completely networked production has significantly increased capacity utilization at hali.

directly coupled drilling lines with integrated trimming aggregates. Here is the first point where hali employees come into play again, they take the finished parts and sort them in the required sequence on the commissioning trolley.

Shortest retooling gap

One key factor in order to cope with the immense diversity of product variations is the quick and automatic retooling of the machines. The engineers at the HOMAG Group succeeded in limiting the retooling time of all aggregates to 1.5 seconds using a number of customer-specific developments, currently the world's narrowest workpiece gap.

Throughout the entire process, allocated identifiers that travel virtually with the panels, replace labels. "With these intelligent workpieces, "Industry 4.0," which everyone is talking about, has already become reality," explains Uwe Jonas, head of software engineering at the HOMAG Group. "Networked production is imperative for the smooth running of our highly complex large-scale systems and common practice. Our control system **power**Control, which is standardized throughout the Group, connects state-of-the-art hardware and software technology and ensures simple operation of the networked production line."

Disruption-free production

On April 2, 2013 all the work paid off: Albert Nopp's vision was brought to life. The new production line went into operation and was soon running smoothly. "In spite of the fact that the system is a highly dynamic one, it runs smoothly without a hitch," reports the managing director extremely pleased. "Everything we envisioned was put into practice."

hali's new line, which only requires three machine operators per shift, produces around 20,000 parts per week. And thanks to a lead time of 15 workdays, hali has a genuine advantage on the competition; lead times customary in the industry are around five to six weeks. In light of this achievement after several years of planning and implementation, Albert Nopp is confident that, "this is the batch size 1 production of the future." Albert Nopp and Dirk Müller have come to the same conclusion together: "We've succeeded in creating a work of art."

THE HALI PRODUCTION LINE

20,000

parts per week

48

million potential variants

15

days maximum lead time

One step ahead with the HOMAG Group

Factory of tomorrow

—— The HOMAG Group is a pioneer when it comes to “Industry 4.0” or networked production. Even today, their machines and plants fulfill many requirements of the factory of tomorrow. Nevertheless, the Company is developing continuously.

Made-to-order production should be possible at nearly the same cost of mass production. For this to succeed, all components in the production process such as machines, handling and storage systems and logistics have to communicate automatically with each another via sensors and networks. Specifically designed software endows the workpieces with the intelligence necessary to provide machines the information to process them. At the same time, companies will use the Internet to integrate their production sites into an end-to-end yet decentralized value added network and even be able to combine their resources with those of other companies. Cross-company value added networks will evolve in this connected world. The trend toward customized production has been particularly prominent in the furniture industry for some time now. Networked processes that allow economical batch size 1 manufacturing of furniture are the key to success. In order to maintain its technological edge, the HOMAG Group has initiated various cross-company research projects, which are expected to promote these topics.

ToolCloud project
In the future, individual tool information will be permanently available in the cloud in real time in the form of a digital tool identity card. This will allow both producers and users to access and analyze information on the running time and wear of the tools used over the tool’s complete life cycle. Thanks to these intelligent tools, the associated machine using the tool can identify exactly what the tool’s abilities are. This increases safety and human error is eliminated.

pICASSO project
Today, machine control systems are generally stand-alone units that can exchange statically configured information. In the future, control technology will be modular and be made available in a flexible manner via the cloud, which will, for instance, increase the processing power and simplify the transmission of updates.

“Networked machines and processes are already a reality with our highly complex production lines. In this way we provide viable and highly variable production solutions to our customers.”

Uwe Jonas, Head of software development at HOMAG Group

HOMAG Group is focused on the future

Living 2.0

— As innovation leader in the industry, the HOMAG Group already focuses today on the trends and developments of tomorrow. How will furniture requirements change in the next ten years? What technologies will be successful then in furniture manufacturing? The market leader takes a look at the future of lifestyles and the machinery, production lines and software systems required.

"In the future, homes will to an even greater extent become a place of retreat and rest. There, people want to feel cozy and safe and gather new strength for their fast, mobile and dynamic lives," explains Dr. Markus Flik, CEO of HOMAG Group. This trend towards "cocooning" is an important factor in the shift to living spaces as havens, which in turn also raises expectations on design and fittings. The current study "Zukunft des Wohnens" (The Future of Living) published by Zukunftinstitut (Institute for the Future) comes to this conclusion.

Diverse lifestyles

As a result, the expectations placed on furniture may shift in the future towards multi-functional furniture and that to some extent also provides structure to a room. Convertible furniture that adapts homes to the varying living needs may also be in demand. Moreover, people want to express their individuality and stand out from the crowd. "Changing lifestyles mean that furniture manufacturers will have to more closely tailor production to individual living needs," Flik emphasizes.

Unique furniture

The variety of models will grow considerably driven by the broad range of options available with regard to size, shape, choice of material, color and finish. This may even mean that customers will be able to design personalized pieces of furniture on the furniture manufacturer's website and order them online, as envisioned in the McKinsey & Company study "How technology can drive the next wave of mass customization". Lightweight construction will gain importance as a result, as light furniture not only preserves the regenerative resource wood, it also simplifies shipping of goods sold on the internet.

Both digital and additive production methods may be used by furniture manufacturers to produce these unique pieces of furniture. The HOMAG Group also expects the furniture manufacturer structure to change based on the new conditions. This means that in the future, the large industrial players will be able to and have to produce with a diversity of product variants unseen in the past. This also means that the automation in cabinet shops will increase significantly in order for them to be able to produce at industry-like costs.

Customized mass production

"The ability to economically produce individual designs in the smallest of batch sizes will become a decisive determinant of success," Dr. Flik is certain. "For the furniture industry the challenge lies in producing customized solutions without compromising the current high volume of orders. In order to ensure economical production, highly efficient batch size 1 manufacturing is essential."

This clearly outlines the requirements placed on the HOMAG Group as a supplier to furniture manufacturers. The market leader makes efficient production of a wide variety of sizes and shapes with distinct high-quality surfaces possible with its machinery and production lines as well as the related control system and software.

Smart machines

Flik can imagine a future that brings increasingly smart machines. Equipped with modern sensor systems, they will be able to see, feel and potentially even hear, empowering them to influence processes directly. "In the future, smart workpieces will be processed by smart machines and tools. This means that each workpiece will know which product it will later belong to and how it has to be processed as a result. And the machines and tools will in turn know how to execute these processing steps in the most efficient way possible," Flik is confident. As a consequence, production lines will themselves be able determine the sequence of processing in batch size 1 manufacturing in order to produce most unique variations as efficiently as possible.

Networked systems

In addition, both vertical and horizontal integration using standardized interfaces is expected to increase. Specifically, this may mean that machines, for instance, will order their own materials by accessing information from the cloud and production will be linked even closer to retail. Production lines will be controlled by completely modular manufacturing execution systems, which will be integrated into the customer's data environment. This is made possible, on the one hand, by the algorithmic evaluation of production data in order to optimize production processes. On the other, diagnostics of the harvested data could allow better analyses and forecasting of customer needs.

Dr. Markus Flik expects that "the complete networking of production processes, locations and entire companies might well become a reality." As with all changes that have emerged in the past, the HOMAG Group will be a driving force as innovation leader.

> "The ability to economically produce individual designs in the smallest of batch sizes will become a decisive determinant of success."
>
> Dr. Markus Flik, CEO

Combined Management Report

—— The "H" stands for the HOMAG Group, the innovation and global market leader for wood-processing plant and machinery.

Combined Management Report of HOMAG Group AG and the Group

Preliminary Remarks: The group management report of HOMAG Group AG for the fiscal year 2013 and the management report pertaining to the separate financial statements of HOMAG Group AG for the fiscal year 2013 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 is equally applicable to HOMAG Group AG's Group (in the following: "HOMAG Group") and the separate entity HOMAG Group AG (in the following "HOMAG Group AG"). A separate report on the separate results of HOMAG Group AG is contained in section 12 "Results of operations, net assets and financial position of HOMAG Group AG".

www.homag-group.com/investors

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 2013 can also be downloaded from the internet at **www.homag-group.com/investors**.

1. 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 28 percent, selling machines and rendering services 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 as regards the wide range of services focusing on our production plant and machinery together with the provision of appropriate software solutions.

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See glossary for more information.

Legal Structure

HOMAG Group AG is a holding company without own operating activities. Its main tasks as the parent company are to establish and monitor the implementation of the Group's strategy, to arrange group financing and to technically lead the production and sales companies in Germany and abroad. It holds inter alia a 100 percent interest in HOMAG Holzbearbeitungssysteme GmbH, which is the Group's largest company. As of December 31, 2013, the Group comprised inter alia 9 German and 6 foreign production entities as well as 21 sales and service entities (see also the group structure on page 178 and 179).

The following changes were made to the Group's structure in fiscal 2013:
– HOMAG Holzbearbeitungssysteme GmbH increased its share in WEINMANN Holzbausystemtechnik GmbH from 51 percent to 75.9 percent in February 2013.

Segment Structure

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

The Sales and 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

Additional information is presented on pages 51 to 53.

HOMAG Group AG is managed by the Group's management board, which has at least three members in accordance with the articles of incorporation and bylaws of HOMAG Group AG. In fiscal year 2013, the Group's management board at HOMAG Group AG had four members in total. The Group management board reports to the supervisory board on a regular basis. The supervisory board is equally balanced with six shareholder representatives and six employee representatives. In the fiscal year 2013, the management board and the supervisory board implemented practically 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 51 to 53 of this report and on the HOMAG Group's website.

Corporate Management

See glossary for more information.

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

Changes in Company Boards

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

2. Strategy and Objectives

In 2012, the HOMAG Group set a new group strategy that clearly defines financial targets for the fiscal year 2017.

Strategic key indicators and financial targets

	2012	2013	2017
Sales revenue	EUR 0.8 billion	EUR 0.8 billion	EUR 1 billion [1]
Operative EBITDA [2] margin	9.3 % of sales revenue	9.6 % of sales revenue	around 12 % of sales revenue
Equity ratio	30.6 %	32.7 %	40 %
Net debt to EBITDA [2] ratio (sustainable)	1.3	0.9	< 1.5

1 Without taking Stiles into account
2 Before employee participation expenses and before extraordinary expenses

The new strategy is based on four strategic points of focus reinforced with a comprehensive catalog of targeted measures.

Strategic points of focus

Growth	Regional Products/innovations Services
Value generation	HOMAG Group Action Program Materials cost reduction
Processes	HGPS [1] ProFuture [2]
Leadership/people	Leadership model Mission statement

1 HOMAG Group Production System
2 Group-wide large-scale IT project

The first strategic point of focus is “Growth” that is broken down into the three areas of “Regional”, “Products/Innovation” and “Services”. In order to realize regional growth, we are going to implement targeted measures worldwide, especially on the Asian, eastern European and American markets in order to participate in the respective market growth at least in proportion to our existing market growth. This includes for example the further expansion of our production plants outside of Germany and the strengthening of our global sales and service companies.

In the area of products/innovations, it is our aim to achieve a situation by 2017 where the greater part of relevant innovations in our industry each year is made at our Company. We expect this to give rise to significant sales revenue growth. In addition, we intend to significantly reduce the level of complexity of our product range within the Group by 2017 by introducing modular platforms, whereby we would like to improve our margins. In the service sector, we are focusing on key account managers, further increasing availability to 24/7 as well as optimizing the availability of replacement parts at a global level. This is intended to set us even further apart from our competitors and generate further added value for our customers.

The second strategic point of focus “Value generation” includes measures acting to improve margins, boost productivity and lower costs within the Group. To this end we launched a new version of the HOMAG Group Action Plan back in 2011, expanding it such that more than 500 individual measures from the fields of sales, development, production and service have been defined in a number of individual projects and are being implemented. The potential expected from the **HOMAG Group Action Program** of EUR 13 million for 2013 needed to achieve our planned targets was reached. We aim to further generate value through a group-wide purchasing project. In addition to a reduction in the costs of materials we plan to create a central purchasing organization in a precisely structured lead-buyer organization. The project lays the ideal foundation on which the follow-up project to optimize product costs is being built. This will allow the realization of further savings potential.

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See glossary for more information.

The targets of growth and value generation can only be realized if there are stable, tried-and-tested procedures and processes in place. The most important project in 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. In the reporting year, we successfully transitioned the first production company BRANDT Kantentechnik GmbH to the extended SAP ERP system.

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See glossary for more information.

The fourth strategic point of focus “Leadership/people” contains clearly defined measures relating to both leadership and employee development. Firstly, the objective is to refine leadership skills through basic and further training also involving young managers. With this, 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 use targeted employee development measures to train additional experts in order to preempt a potential shortage of specialists in the future. The compliance function is also being refined. As part of a compliance project, an anti-corruption guideline, a guideline on antitrust-compliant behavior and procedural instructions on cooperation with business partners are currently being prepared. It is expected that the Group guideline and the procedural instructions will enter into effect within the first half of 2014.

We already made a lot of progress and launched several initiatives in 2013 in order to reach the defined targets by the fiscal year 2017. This is reflected in the development in 2013 of our key indicators as defined in our strategy, all of which we have improved.

3. Economic Environment

Development of the Economy

Although the global economy markedly picked up speed over the year 2013, global gross domestic product once again saw a smaller rise (2.9 percent) than in the prior year (3.1 percent) according to statistics from the IfW ["Institut für Weltwirtschaft": Institute for the World Economy]. This is attributable to the only weak expansion of the global economy at the beginning of the year on account of uncertainties regarding US fiscal policy and the ongoing problems in the eurozone.

The rise in production in emerging economies slowed further in 2013, so that economic growth in those countries stood at 5.0 percent (prior year: 5.3 percent). In addition to the lack of demand from developed economies, this was also a consequence of domestic economic problems. With growth of 7.5 percent, according to IfW statistics, the rate of growth in China was still comparatively high, while India saw growth of 4.0 percent, Brazil of 2.0 percent and Russia only 1.5 percent. Both in Asia and Latin America, growth rates remained all in all below those seen in the prior year.

In industrialized countries, the development of the economy remained weak with a rise in gross domestic product of 1.1 percent. In this respect, the USA and Japan both grew by 1.6 percent, while the economy in the European Union stagnated. The eurozone economy threw off the fetters of recession in the course of the reporting year. As the recovery had not picked up impetus by the end of the year 2013, economic output contracted once more by 0.4 percent on account of the weak beginning to the year. Aside from in the countries in crisis – Italy, Spain, Greece and Portugal – gross domestic product also decreased in the Netherlands and Slovenia for example. Slight growth was seen in France, Belgium and Austria, and in other countries.

In Germany, the anticipated economic upswing had not yet begun by the end of 2013. Even if the mood indicators pointed to a very favorable outlook as of the second half of the year, foreign trade was very weak in the reporting year. According to the German Federal Statistical Office, Germany's gross domestic product rose by 0.4 percent in 2013.

Mechanical and Plant Engineering

The VDMA ["Verband Deutscher Maschinen- und Anlagenbau e. V.": German Engineering Federation] describes 2013 as a difficult year for the German mechanical engineering industry. Order intake – without taking into account price adjustments – decreased by 1 percent and sales revenue stagnated. German and foreign markets showed a very similar development.

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

Woodworking machinery can be divided into various product categories. HOMAG Group products belong to the plant and machinery for **secondary wood processing segment.** According to information from the industry association within the VDMA responsible for it, this segment reports an increase in order intake in 2013 – without taking into account price adjustments – of 5 percent. Sales revenue, by contrast, decreased by 3 percent. In this respect, Germany reported a double-digit fall in both order intake and sales revenue, while in all other countries seen together order intake increased significantly and sales revenue stagnated.

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See glossary for more information.

Development of Sales Markets

Among other things, we were able to achieve, in some cases considerable, growth in all regions apart from Central Europe on account of our global orientation and the global sales and service organization in fiscal 2013. The structural measures that we have consistently implemented in our sales and service organization showed corresponding positive effects. Our project business has also made an important contribution.

Growth in order intake in the Americas and eastern Europe regions were particularly high. We were able to participate significantly in the positive situation of the economy in the US market. Canada also saw an emphatic development with strong growth. Of the regions, Brazil alone fell short of our expectations. Our sales and service companies in Russia and Poland were also able to realize significant growth rates, which is partly attributable to the very good project business.

We recorded double-digit growth rates in the Asia / Pacific region, thanks in part to the positive contribution of our company in southeast Asia. Our order intake in the western Europe region also saw double-digit percentage growth. Even the Italian and Spanish markets developed positively in this regard.

As expected, central Europe was not able to repeat the record order intake seen in 2011 and 2012. This is almost certainly the result of the unusually high prior-year level on the German market, which was driven by our customers' increased investment in batch size one production lines in a short space of time.

In the BRIC countries, we are satisfied with the positive development in Russia and China; although Brazil and India were not able to match prior-year figures. Among other things, this was to a large extent due to significant exchange rate fluctuation. In spite of this, we were able to achieve nearly double-digit growth in the BRIC countries. This also confirms our strategic approach of wide-ranging, but yet intensive and sustainable market cultivation activities. This can also be seen in the significant double-digit growth rates in the MIST countries (Mexico, Indonesia, South Korea and Turkey).

Order Intake and Sales Revenue

Although the economy in the mechanical engineering industry in 2013 was rather moderate, we were able to increase all of the HOMAG Group's key figures compared to 2012. Our innovations made a significant contribution to this, some of which were unveiled at LIGNA, the industry's leading trade fair, held in Hanover in May 2013 and led to numerous orders. Our project business was again particularly successful. Especially in connection with complex production lines, the HOMAG Group's high level of competence is in demand and our customers worldwide count on our reliable expertise and our innovative power.

Our **order intake** figures only contain own machines without merchandise, spare parts and service. Thanks among other things to a good fourth quarter in 2013, we were able to increase the Group's order intake by 5.1 percent to EUR 605.0 million (prior year: EUR 575.8 million), thus achieving our forecast of surpassing the prior-year figure and exceeding our expectations. In addition to our broad portfolio of products, the basis for this is also intensive market cultivation activities. Our **order backlog** increased to EUR 197.6 million as of December 31, 2013 (prior year: EUR 179.7 million). This represents a 10 percent increase on the prior year and the highest year-end figure since the IPO in 2007.

Contrary to the trend in the industry (down 3.0 percent), we at the HOMAG Group generated in 2013 a 2.9 percent increase in **sales revenue** to EUR 788.8 million (prior year: EUR 767.0 million). Moreover, we increased our work in process and finished goods due to the high order backlog at the end of 2013, which is reflected in the increase in inventories of EUR 11.9 million (prior year: decrease of EUR 1.3 million) reported in the income statement. We reduced our own work capitalized to EUR 8.4 million compared to the prior year (prior year: EUR 11.2 million), meaning that our **total operating performance** of EUR 809.1 million (prior year: EUR 776.9 million) outpaced sales revenue growth.

Segment Sales Revenue

Sales revenue varied widely between segments in fiscal year 2013. Sales revenue in the Industry segment before consolidation of the segments increased to EUR 470.7 million (prior year: EUR 462.8 million). At EUR 200.5 million (prior year: EUR 199.8 million), the Cabinet Shops segment matched the good level of sales revenue from the prior year, while the Sales and Service segment increased slightly to EUR 262.9 million (prior year: EUR 260.0 million). Sales revenue in the Other segment increased to EUR 91.8 million (prior year: EUR 71.9 million), above all at our subsidiaries in Poland and China.

4. Results of Operations, Net Assets and Financial Position of the HOMAG Group

Results of Operations

We were able to increase all of our key earnings figures faster than the increase in sales revenue, thus improving our profit margins in the reporting year. We also exceeded our earnings forecasts and our net profit for the year was significantly above our expectations. This shows that we have been able to improve our operative and financial performance again this year.

Other operating income of EUR 16.4 million (prior year: EUR 20.4 million) includes in the past fiscal year EUR 1.5 million from the sale of property of the subsidiary FRIZ Kaschiertechnik GmbH. The decrease on the prior year stems from the income received from the sale of the metal grinding machines business unit of BÜTFERING Schleiftechnik GmbH to LISSMAC Maschinenbau GmbH as well as a property sale in India included in the prior-year figure. Moreover, exchange rate gains were lower than in the prior year.

Our **cost of materials** rose to EUR 342.0 million (prior year: EUR 330.2 million) primarily due to higher sales revenue. At 42.3 percent, the cost of materials ratio (defined as cost of materials to total operating performance) was at the prior-year level (42.5 percent).

Personnel expenses came to EUR 286.1 million in the fiscal year 2013 (prior year: EUR 281.3 million). This only slight overall rise in spite of the collectively bargained wage and salary increases at some German production companies of 3.4 percent in the second half of the year together with rapidly increasing salaries in emerging economies, for example in China stems from the lower headcount in Germany. Thanks to a further increase in our productivity, the personnel expenses ratio (defined as the ratio of personnel expenses to total operating performance) improved to 35.4 percent (prior year: 36.2 percent).

Amortization of intangible assets and depreciation of property, plant and equipment rose to EUR 31.4 million as expected (prior year: EUR 28.1 million) due to the EUR 4.3 million increase in amortization of intangible assets. This essentially relates to the start of use of the machine control system **power**Control and the machine interface system power**Touch** as well as the start of amortization of investments in the large-scale IT project ProFuture. The inventory management system was introduced at the first of seven production companies in the reporting year.

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Other operating expenses rose to EUR 124.4 million in the reporting year (prior year: EUR 119.3 million). This is due, among other things, to higher trade fair costs incurred in connection with the industry's leading trade fair, LIGNA, which is held every two years.

At EUR 7.0 million in 2013, **employee profit participation expenses** remained at the prior-year level (prior year: EUR 7.0 million), although the results at entities that have employee profit participation programs improved. This is due to the special effect in the prior-year figure of EUR 1.6 million that resulted from a sharp decline in the discount rate and, leading to a lower discounting effect.

In the reporting year, our **interest result** improved further by EUR 2.3 million compared to the prior year. This is primarily due to scheduled repayments also in connection with our **syndicated loan agreement** and to our successful cash pooling arrangement, which allows a central management of the cash balances of several subsidiaries. The **result from associates** nearly doubled to EUR 2.1 million (prior year: EUR 1.1 million) thanks to the excellent development at our sales companies in China and the US. In total, this results in a significantly improved **financial result** of EUR −3.8 million (prior year: EUR −7.1 million).

Our **tax expense ratio** fell to 38.3 percent (prior year: 49.9 percent). The restructuring measures already concluded had a positive effect in this context as it significantly reduced losses incurred at subsidiaries for which no deferred tax assets could be recognized. Positive effects also came from individual group entities that had returned slightly negative earnings before tax in the reporting year 2013.

Extraordinary expenses decreased slightly on the prior year and stood at EUR 3.8 million (prior year: EUR 4.5 million).

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See glossary for more information.

Earnings Indicators

We raised our **operative EBITDA before employee profit participation expenses and before extraordinary expenses** by 6.6 percent to EUR 75.8 million (prior year: EUR 71.0 million). As the increase outpaced the Group's sales revenue, the operative EBITDA margin improved further to 9.6 percent (prior year: 9.3 percent). **EBIT before employee profit participation expenses and after extraordinary expenses** climbed to EUR 41.6 million (prior year: EUR 38.4 million).

Due in part to our considerably improved financial result, **EBT after employee profit participation expenses and after extraordinary expenses** increased considerably by 27 percent to EUR 30.9 million (prior year: EUR 24.3 million). Owing to the further decrease in our tax expense ratio to 38.3 percent (prior year: 49.9 percent), the **net profit for the year after non-controlling interests** saw a substantial increase of 45.3 percent to EUR 18.4 million (prior year: EUR 12.7 million), resulting in **earnings per share** of EUR 1.17 (prior year: EUR 0.81).

We report the **return on capital employed** (ROCE) on the basis of adjusted EBIT, i.e., before employee profit participation and adjusted for extraordinary expenses. Due to the significantly higher adjusted EBIT and a lower amount of capital employed, the ROCE for 2013 before taxes reached 16.1 percent and substantially exceeded the prior-year level (prior year: 14.9 percent). The decrease in capital employed essentially stems from the decrease in property, plant and equipment and net working capital. The ROCE after taxes (tax expense ratio of 30 percent used for the calculation in both years) was also above the prior-year level at 11.3 percent for the full year (prior year: 10.4 percent). This means that we have once again earned more than our cost of capital.

Segment Results

The **operative EBITDA before employee profit participation expenses and before extraordinary expenses** in the Industry segment before consolidation increased year on year to EUR 54.5 million (prior year: EUR 52.1 million). Owing to the higher cost of materials and personnel expenses, the operative EBITDA in the Cabinet Shops segment decreased to EUR 11.4 million (prior year: EUR 13.0 million). The increase to EUR 11.5 million (prior year: EUR 8.8 million) in the Sales and Service segment stems from a higher sales revenue and lower personnel expenses. In the Other segment, sales revenue, and in turn EBITDA, improved in the past fiscal year to EUR 2.1 million (prior year: EUR −4.4 million).

The result of the Industry segment measured in terms of **EBT after employee profit participation expenses and after extraordinary expenses** increased to EUR 26.4 million (prior year: EUR 25.9 million). The improvement stems from lower restructuring and non-recurring expenses. Earnings before taxes for the Cabinet Shops segment decreased to EUR 4.4 million (prior year: EUR 4.8 million). The segment result in the Sales & Service segment increased significantly to EUR 8.3 million (prior year: EUR 4.4 million). In addition to the reduction of restructuring/non-recurring expenses, this is also due to improved earnings at associates. EBT in the Other segment also improved in the reporting year to EUR −8.6 million (prior year: EUR −12.2 million). This improvement relates to the improvement in the interest result in addition to the significant increase in sales revenue.

Net Assets

Our Group's **total assets** rose to EUR 543.9 million as of December 31, 2013 (prior year: EUR 541.0 million). On the **assets side**, **intangible assets** increased by EUR 2.3 million to EUR 72.1 million (prior year: EUR 69.8 million). This primarily stems from investments in the large-scale IT project ProFuture and the related transition of inventory management to the SAP ERP system, the Microsoft Office update as well as investments in the power**Touch** and **power**Control innovations. Our **property, plant and equipment** decreased by EUR 7.6 million to EUR 125.0 million (prior year: EUR 132.6 million), which is mainly attributable to changed amount of depreciation charged on property, plant and equipment. Thanks to the good earnings at Stiles Machinery, Inc. and HOMAG China Golden Field the **investments in associates** item rose by EUR 1.4 million to EUR 10.1 million (prior year: EUR 8.7 million). **Inventories** rose to EUR 133.5 million (prior year: EUR 128.0 million), due to the increase in work in process in particular. This is also due to the higher order backlog at year end compared to the prior year. Due to the fact that the volume of deliveries increased again in the fourth quarter of 2013, our current **trade receivables** rose to EUR 90.5 million (prior year: EUR 85.0 million).

The decrease in **non-current assets held for sale** to EUR 1.2 million (prior year: EUR 2.5 million) stems from the sale of land and buildings.

On the **equity and liabilities side**, the good net profit for the year was the main source of the increase in **equity** to EUR 177.7 million at the end of fiscal 2013 (prior year: EUR 165.8 million). This resulted in a considerable increase in the **equity attributable to equity holders** from EUR 157.7 million in the prior year to EUR 169.3 million. Our **equity ratio** (ratio of equity to total assets) rose to 32.7 percent as of December 31, 2013 (prior year: 30.6 percent).

Our **non-current financial liabilities** were reduced to EUR 64.0 million (prior year: EUR 71.7 million) on account of the scheduled repayment of EUR 2.5 million of tranche A of the syndicated loan agreement as well as the reclassification of EUR 5 million to current financial liabilities. **Current liabilities** decreased by EUR 11.7 million despite the reclassification to EUR 59.2 million (prior year: EUR 70.9 million). As part of tranche C (revolving working capital credit lines) of the syndicated loan agreement, we utilized EUR 10.0 million less as of the reporting date compared to the prior year. In addition, the amounts drawn under bilateral bank loans were reduced significantly in the Group compared to the prior year. **Prepayments received** increased on account of current large-scale projects for our customers to EUR 39.7 million (prior year: EUR 35.0 million). **Tax obligations** rose to EUR 9.2 million in the reporting year (prior year: EUR 6.5 million). This essentially relates to the improved results of operations in the Group, which had not been covered in full by the adjustments made to advanced tax payments as of the reporting date.

Financial Position

We were able to significantly reduce our **net liabilities to banks** to EUR 69.2 million as of December 31, 2013 (December 31, 2012: EUR 89.5 million). This was achieved thanks to our good operative business development in the past fiscal year as well as a lower investment volume, although there were also cash outflows for dividend payments as well as restructuring expenses that had an effect on liquidity.

The **operating cash flow** (cash flow from operating activities) rose significantly to EUR 46.5 million in fiscal 2013 (prior year: EUR 38.6 million). In addition to the considerable increase in EBT after employee profit participation expenses and after extraordinary expenses, this was mainly due to the higher amortization and depreciation. The cash flow from investing activities decreased to EUR −18.0 million (prior year: EUR −41.4 million), primarily due to the lower investment volume in property, plant and equipment and intangible assets, which was very high in the prior year. An additional reason for the decrease was the acquisition of the remaining shares in the subsidiary BRANDT Kantentechnik GmbH in the prior year. All in all, this gives rise to a significantly positive **free cash flow** (operating cash flow added to cash flow from investing activities) compared to fiscal 2012 of EUR 28.5 million (prior year: EUR −2.8 million); this underscores our ability to repay existing financial liabilities. **Cash flow from financing activities** rose to EUR −27.3 million (prior year: EUR −9.2 million). The increase is mainly attributable to the repayment of financial liabilities. **Cash and cash equivalents** stood at EUR 44.9 million as of December 31, 2013 (prior year: EUR 45.6 million).

Capital Expenditure

In 2013, we decreased our **capital expenditure on intangible assets and property, plant and equipment** (without leases) to EUR 24.3 million in the Group (prior year: EUR 37.0 million). Several construction measures which have since been concluded were included in the high prior-year figure. The focal points in 2013 were on the continued automation of warehouse logistics at HOMAG Holzbearbeitungssysteme GmbH, Group-wide Microsoft Office updates as well as investments in our enterprise software in connection with our large-scale IT project ProFuture. Capital expenditures include **capitalized development work** of EUR 7.6 million (prior year: EUR 9.9 million). As of December 31, 2013, the total value of our property, plant and equipment and intangible assets stood at EUR 197.0 million (prior year: EUR 202.4 million).

Overall Statement on the Economic Situation of the Group

In the opinion of the HOMAG Group's management board, fiscal 2013 was successful. The order intake and earnings forecasts were surpassed. Order intake rose by 5 percent and, contrary to the trend in the industry, the Group's sales revenue was increased by nearly 3 percent. The management board is particularly pleased with the development of the results of operations. 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. This led to (in some cases significant) increases across all earnings indicators compared to 2012. The significant increase in the net profit for the year attributable to the equity holders (up 45 percent) also strengthened the Group's equity basis. The good development of fiscal 2013 is also reflected in the net liabilities to banks, which were reduced considerably from nearly EUR 90 million to below EUR 70 million.

According to management, the HOMAG Group is on the right track with the implementation of the long-term strategy and the goals and measures defined therein following a successful reporting year. Profitable growth is expected to continue in the Group in the coming years.

5. Research and Development

General

In addition to new machines and production lines, the research and development (R&D) department develops corresponding software packages and service products 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. At LIGNA, the industry's leading trade fair, we presented more than 20 new processing units and numerous other innovations in 2013. Overall, the HOMAG Group presented new developments at more than 50 domestic and international trade fairs, including at LIGNA, which is only held every second year.

All development projects pursue a long-term product strategy. The HOMAG Group participates in a number of research projects in Germany and at EU level in order to identify new technologies and trends at an early stage. In this context, we cooperate with institutes, universities and industrial partners and also gain access in this way to the latest insights from the scientific community.

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 7.7 percent in the reporting year (prior year: 7.3 percent).

The R&D departments comprise a total of 786 research and development employees as of December 31, 2013 (prior year: 747 employees). The increase in this area is spread across various production companies in Germany and abroad.

Our innovative power is also reflected in the number of patent applications, which remained virtually identical at 60 in 2012 and 2013. New patents were filed in virtually all of our product areas of technology with a view to securing our technological edge. With a portfolio of currently 953 patents (prior year: 900 patents) we set ourselves clearly apart from our competitors.

The guiding principle of all new developments and refinements for cabinet shops as well as for the industry is the benefits to our customers. These are intended to increase their productivity with our innovations and set them apart from the competition in terms of design and quality, while meeting demands on sustainability as well as energy and material consumption. These three focal points form the basis of our product strategy.

Increasing Productivity

Firstly, shorter cycle times, e. g., greater performance in mass production contribute towards increasing productivity. Secondly, the focus is also on higher flexibility in customized production, i. e., batch size one manufacturing, with shorter retooling times. Thirdly, we can improve the productivity of our customers by optimally connecting all of our machines and production lines to our customers' planning and control systems and continuously improving how the production line is operated irrespective of the user interface.

We also presented a new generation of vertical drilling aggregates in the field of CNC technology in fiscal 2013. The vertical part guidance has a much lower space requirement. Moreover, it offers an extremely precise and considerably quicker processing of rows of holes. Automatic dowel driving in furniture assembly is also possible. On the whole, we further expanded our **moving gantry series** in the 2013 reporting year. This relatively fixed construction design provides our customers an improved processing quality and shorter cycle times.

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more information.

In the field of sawing technology, we developed a new additional processing unit that allows drilling and routing on a panel dividing saw. This allows fully automated production of ready-to-assemble elements. The saw is also equipped to be used in the area of façade and partition wall construction as well as in concrete formwork. We have developed robot cells for managing offcuts in order to optimize the consumption of materials.

A new software module in warehouse technology analyzes customers' inventories to ensure maximum added value. The software shows the customer which processes can be improved. The benefits include increased productivity as well as reduced production times.

At this year's LIGNA, the leading trade fair in the industry, the focus was on the new power**Touch** user interface concept based on a touch screen, which is unparalleled at present in the industry. The large-format multi-touch display allows simple, consistent and ergonomic control of the machines and production lines. HOMAG Group machines can now be operated like a smartphone. Combined with the **power**Control operation system, which is likewise used consistently across the Group, we made a great impact in the industry in the area of networked production in 2013 (Industry 4.0). This allows our customers to benefit from lower operating costs, greater efficiency and a future-proof system for many years.

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. It is therefore important that our customers have the highest possible level of flexibility with respect to the production of the most unique design variations.

In furniture, for example, grip handle profiles are increasingly in demand instead of door handles. Our newly developed **trimming aggregate** allows for fully automated profile trimming without a need for manual reworking and thus delivers improved processing quality.

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We have addressed the growing trend toward producing a variety of edge widths and radii with two newly developed multi-step aggregates for edge trimming and finish processing in throughfeed technology. The multi-step trimming aggregate and the multi-step scraper blade offer the option of processing different materials with a small number of aggregates – from PVC or melamine edges through to solid wood, veneer or high-gloss materials.

The trend towards furniture without visible joints continues to grow in all fields of furniture. High-quality production methods with our **laser**Tec and **air**Tec aggregates are the ideal solution in this context for our customers. With the refined **air**Tec aggregate, which uses compressed hot air to activate an adhesive layer on coextruded edges, we now also offer cabinet shop customers an ideal entry into zero joint applications.

Geared to customers in the Industry segment, we offer the option of an angular edge gluing functionality using a swivel aggregate integrated in the edge banding aggregate of **CNC processing centers**. This allows the application of glue on edges at any angle to all sides and on the same work piece, permitting complete processing of the latest furniture designs.

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See glossary for more information.

Sustainability

Sustainability in production, i.e., 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 to the fusion between performance and economy in the consumption of energy and materials and thereby ensuring that our technologies are future-proof.

For more than five years, we at the HOMAG Group have combined these measures enhancing sustainability into the eco**Plus** concept. This includes for example the energy-saving standby operation in our machines and production lines.

The **reac**Tec laminating technique, which is already established on the market, was transferred to profile wrapping machines for the first time in 2013. In this process, decor paper is pre-coated with adhesive in a separate machine and cut directly to the desired width. In the wrapping process, the adhesive is activated thermally and wrapped directly around the profile. This allows for considerable adhesive savings in the production process.

We presented a new machine for customized packaging designs for **batch size 1** production in the field of packaging technology. New software reduces waste in complex packaging designs, meaning less packing and filler material is needed and interim warehouse space can be saved.

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Additional promising development projects are currently being worked on, with which we will demonstrate our innovation power to customers in the coming years.

6. Sustainability

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 and are convinced that a balance can be struck between the economic, ecological and social factors. We remain committed to "sustainability through responsibility", including in our refined mission statement that we rolled out throughout the Group in the 2013 reporting year.

Ecological Responsibility

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In order to use every unit of material in wood processing, however small it may be, for a purpose we develop processes on an ongoing basis to avoid production waste and emissions as well as creating individual products for sustainable use. All product developments in the HOMAG Group in the area of sustainability are integrated in the "eco**Plus**" technology package. More information on this can be found in the Research and Development section. At the same time, the HOMAG Group is a partner of the VDMA's Blue Competence sustainability campaign that was presented in 2013 for the first time in an industry sector relevant to HOMAG. 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, the largest subsidiary will invest EUR 1.4 million in measures to reduce energy consumption at the Schopfloch location. In this respect, the energy concept centers on 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. This will make the current energy-intensive air conditioning system redundant. The annual savings in CO_2 emissions will come to 1,750 metric tons per annum.

Social Responsibility

As employer we take our responsibility towards our employees very seriously. Promoting young talents and the ongoing professional and personal development of our employees are a vital component of our corporate strategy. We also 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.

The HOMAG Group has consequently 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 2013, we donated to national and international charities the revenue generated from the sale of demonstration parts.

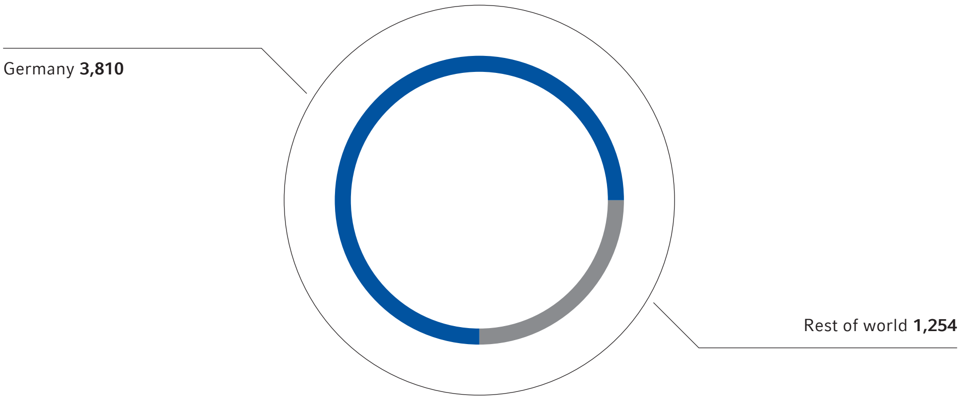
Sustainability means taking a long-term perspective and not benchmark business objectives against short-term growth. All in all, we see it as our duty in the Company to consider all economic, ecological and social aspects in our activities. By acting in a responsible manner, we thus do our best to counter in an effective way complex challenges and will continue to do so in the future.

7. Employees

The Group headcount increased slightly to 5,064 employees as of December 31, 2013 (prior year: 5,048 employees). Further implementation of the restructuring measures fully completed in the fiscal year at BÜTFERING, FRIZ and TORWEGGE reduced the number of employees in Germany. We increased headcount in other countries, especially in Poland but also in China and India in 2013. As of year end, the Group had 3,810 employees in Germany (prior year: 3,853 employees) and 1,254 employees in other countries (prior year: 1,195 employees). As we did not start building up headcount on account of good business developments until the second half of the year, the average number of employees in 2013 fell to 5,038 from 5,075 in 2012. At the end of 2013, the HOMAG Group employed 99 contract workers (prior year: 82 contract workers).

Average headcount in 2013 decreased in each case in the Industry segment at 2,609 employees (prior year: 2,676 employees), in the Cabinet Shops segment at 984 (prior year: 1,000 employees) and in the Sales & Service segment at 725 employees (prior year: 735 employees). The restructuring measures that came to a conclusion in 2013 exerted an effect here. In the “Other” segment we build up headcount mainly in growth regions, which means that 720 employees (prior year: 664 employees) were working in those regions on an annual average.

EMPLOYEES BY REGION AS OF DECEMBER 31, 2013



Employees 2009 – 2013

ANNUAL AVERAGE

2013	5,038
2012	5,075
2011	5,110
2010	4,981
2009	5,158

The HOMAG Group as Employer

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

The balance between work commitments and private life is an important basis for motivation and performance. For this reason, we offer various solutions within the HOMAG Group in order to meet the needs of employees and help them strike a work-life balance.

The HOMAG Group as Training Company

The high innovation power of our employees secures the continued existence of our Company. Over the long term, we will be impacted by demographic change, which is already visible in Germany. This means that recruiting qualified staff will constitute an ever greater challenge. This is why we in the Group consider securing the future generation of young qualified employees on a permanent basis to also be an important task. The HOMAG Group has therefore maintained a high ratio of trainees to total workforce. As of the reporting date, there were a total of 365 trainees (prior year: 366) in the Group, thereof 294 (prior year: 301) in technical and 71 (prior year: 65) in commercial positions. This corresponds to a ratio of trainees to total workforce of just over 9.6 percent (prior year: 9.5 percent) in Germany. A total of around 100 young people began their training at Group production entities in the reporting year (prior year: 105).

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

In order to spark school children's interest in training professions at the Company, subsidiaries of 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 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.

Employee Development

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 for personal development to employees. In addition to topics specific to their professions, employees are able to attend other language, IT and specialist courses.

Employees as Fellow Entrepreneurs

The Company introduced an employee participation scheme as long ago as in 1974. Employees thus bear entrepreneurial opportunities and risks in that they share in both the profit generated by the Company and also in any loss incurred. As a consequence, we expect to distribute EUR 3.9 million group-wide under the participation scheme to our employees for the past fiscal year 2013.

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

Composition of issued capital (No. 1): Issued capital of EUR 15,688,000.00 comprises 15,688,000 no-par value bearer shares 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): The shareholders Gerhard Schuler, Freudenstadt, Mareike Hengel, Freudenstadt, Silke Schuler-Gunkel, Freiburg, Dr. Anja Schuler, Zurich, and Erich und Hanna Klessmann Stiftung, Gütersloh, announced the conclusion of a vote pooling agreement on March 8, 2010. This vote pooling agreement contains limitations on both voting rights and the transfer of shares. The management board is not aware of any further restrictions, especially arising from agreements between shareholders, concerning voting rights or the transfer of shares.

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

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 share 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 three persons and that the appointment of deputy members of the management board is permitted. In accordance with Art. 5 (2) of the articles of incorporation and bylaws, the supervisory board determines the number of members of the management board, appoints them, concludes changes and terminates service contracts, as well as revokes appointments; it is also responsible for appointing the chairperson and the deputy chairperson of the management board.
b) **Amendments to the articles of incorporation and bylaws:** In accordance with Sec. 179 (1) AktG, the articles of incorporation and bylaws may only be amended by resolution of the annual general meeting. The supervisory board is authorized, however, to pass resolutions amending the wording of the articles of incorporation and bylaws in accordance with Art. 15 of the articles of incorporation and bylaws in conjunction with Sec. 179 (1) Sentence 2 AktG.

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 five trading days prior to the agreement with the third party. Subject to the approval of the supervisory board, the management board is also authorized to offer the treasury shares purchased under the authorization to third parties in the course of business combinations or for the purpose of acquiring entities, parts of entities or equity investments. Shareholders' subscription rights are thus precluded.

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

See glossary for more information.

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. However, compensation by the Company was agreed with Dr. Flik under a management board service agreement in the event of early termination of his management board duties due to a change of control. With regard to this agreement reference is made to the corresponding explanations on page 56 to 59 of the remuneration report.

Additional information is presented on pages 56 to 59.

9. 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 Company's corporate governance pursuant to No. 3.10 of the German Corporate Governance Code (GCGC).

9.1 Corporate Governance at 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 a focal point of our activities. Based on the requirements of this code, the following Declaration of Compliance was issued pursuant to Sec. 161 AktG.

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See glossary for more information.

Declaration of Compliance 2014

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

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 2013, in January 2013. For the period from the date of issue of the declaration of compliance 2013 to June 9, 2013, the following declaration pertains to the recommendations of the German Corporate Governance Code (hereinafter the "Code") in the version dated May 15, 2012, as published on June 15, 2012 in the Bundesanzeiger [German Federal Gazette] (hereinafter "2012 Version"). For the period as of June 10, 2013, the following declaration pertains to the recommendations of the Code in the version dated May 13, 2013, as published on June 10, 2013 in the Bundesanzeiger (hereinafter "2013 Version").

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 (2) Sentence 6 of the Code – Cap on amount of management board compensation

The amended version of the Code issued in 2013 introduced a new recommendation regarding the compensation of the management board. Pursuant to No. 4.2.3 (2) Sentence 6 of the Code, the amount of compensation must be capped, both overall and for variable compensation components.

The service contracts of the current members of the management board of Homag Group AG have until now already included the required caps on the amount of compensation with respect to the fixed compensation and the majority of the variable compensation components. The service contracts have until now not included a compensation cap only with respect to individual variable compensation components and the "overall compensation". Consequently, the recommendation in No. 4.2.3 (2) Sentence 6 of the Code ("2013 Version") has not been fully complied with since June 10, 2013.

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.

The supervisory board has taken the new recommendation of No. 4.2.3 (2) Sentence 6 of the Code as an opportunity to agree with the management board members corresponding compensation caps under addenda entered into on December 12, 2013 to the existing management board service contracts. As of December 12, 2013 and in future, the recommendations of No. 4.2.3 (2) Sentence 6 of the Code will therefore be complied with in full. The supervisory board and management board thus moved to comply with new recommendation of the Code as soon as it entered into effect.

2. No. 4.2.3 (4) Sentences 1 and 3 of the Code – Severance pay cap

In accordance with No. 4.2.3 (4) Sentence 1 of the Code, in concluding management board contracts, care must be taken to ensure that payments made to a management board member on premature termination of his/her contract, including fringe benefits, do not exceed the value of two years' compensation (severance pay cap) and compensate no more than the remaining term of the employment contract. The severance payment cap should be calculated on the basis of the total compensation for the past fiscal year (No. 4.2.3 (4) Sentence 3 of the Code).

In the management board service contract entered into with the CEO, Dr. Flik, the recommendations of No. 4.2.3 (4) Sentence 1 and 3 of the Code were not complied with as regards two points:

- If the appointment of Dr. Flik as member of the management board had been ended by mutual agreement prior to September 30, 2013, by him stepping down from the board at the instigation of the Company or having had the appointment revoked by the Company, Dr. Flik would have been entitled for the termination of the service contract and pursuant to the same severance pay that would not have exceeded two years' compensation, but would have exceeded the compensation for the remaining term of the contract.
- The service contract also deviates from the aforementioned recommendations of the Code to the extent that the severance pay cap is not calculated on the basis of the total compensation for the past fiscal year, but rather on the total compensation for the fiscal year in which the contract is terminated.

These deviations from the recommendations of the Code were 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 pay 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 pay in such an event. Dr. Flik's need for protection resulting from this special termination right led to the design of a severance pay cap that deviates from the recommendations of the Code.

3. 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 % of the severance payment cap (change of control compensation). As with the severance pay cap, the calculation of the change of control compensation should be primarily based on the total compensation for the past fiscal year.

The management board service contract of Dr. Flik deviates from this recommendation as the contract – as well as the calculation of the severance pay 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.

As explained above, 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. 2 above).

4. No. 5.4.6 (2) Sentence 2 of the Code – Supervisory board compensation

In No. 5.4.6 (2) Sentence 2, the Code recommends any performance-related compensation promised to members of the supervisory board be oriented toward sustainable growth of the enterprise. This recommendation was not complied with in the period up to June 4, 2013 as the performance-related components of the supervisory board compensation provided for in Art. 14 of the Company's articles of incorporation and bylaws (in the version applicable up to June 4, 2013) were calculated solely on the basis of one fiscal year rather than on a multiple-year measurement basis. However, the general meeting of May 28, 2013 passed a resolution to amend Art. 14 of the articles of incorporation and bylaws modifying the compensation of the supervisory board to a purely fixed compensation. The amendment of the articles of incorporation and bylaws was entered in the commercial register on June 4, 2013 and is effective for the first time for the supervisory board remuneration to be granted for fiscal year 2013. Since the entry of the amendment to the articles of incorporation and bylaws in the commercial register, the compensation of the supervisory board no longer deviates from the recommendation of No. 5.4.6 (2) Sentence 2 of the Code.

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 2014.

www.homag-group.com/investoren

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 develop the important topic of compliance, there are plans to pass and implement in the first half of 2014 an anti-corruption guideline, a guideline on antitrust-compliant conduct and instruction on how to cooperate with business partners. 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

There is a **code of conduct** in place applicable our foreign subsidiaries. This contains binding guidelines for the actions of the management board, middle management and all foreign employees of the HOMAG Group. Ethical business practice, fairness and responsible and legally compliant conduct are already both a duty and a matter of course for us and all of our employees. The code of conduct are nevertheless intended to support us in our daily activities. A corresponding code of conduct is to be issued for the German entities in the first half of 2014.

See glossary for more information.

Objectives Concerning the Supervisory Board's Composition

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

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

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

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

9.2 Management and Control Structure

The Supervisory Board

The supervisory board of HOMAG Group AG has twelve members and in accordance with the law on codetermination consists of an equal number of shareholder and employee representatives. The representatives of the shareholders are elected by the annual general meeting, the employee representatives by the employees. The term of office of the current supervisory board members ends upon conclusion of the ordinary annual general meeting in 2015.

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 budgeting 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 two votes in the case of another tie.

The supervisory board has set up a total of four 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. In addition the audit committee is tasked with awarding the audit engagement to the auditors elected by the annual general meeting.

Personnel committee:

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

Nomination committee:

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

Mediation committee:

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

Details of the composition of the supervisory board and the supervisory board's committees are provided on pages 145 and 146. With regard to the number of meetings of the supervisory board and its committees in fiscal 2013, reference is made to the disclosures in the report of the supervisory board on pages 7 to 10 of the annual report.

Additional information is presented on pages 145, 146 and 7 to 10.

The Management Board

Pursuant to the articles of incorporation and bylaws of HOMAG Group AG the management board comprises at least three 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.

The management board regularly informs the supervisory board in a timely manner and in detail on issues of relevance for the Company concerning strategy, planning, the development of business, the risk position, risk management and compliance. 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 2013 are provided on page 146.

Additional information is presented on page 146.

Annual General Meeting

The shareholders of HOMAG Group AG exercise their rights and cast their votes at the annual general meeting. Among other things, the annual general meeting adopts resolutions on profit appropriation, the exoneration of the management board and of the supervisory board and the election of the auditor. Amendments to the articles of incorporation and measures to increase or decrease capital, as well as the authorization to increase or decrease capital, are resolved by the annual general meeting. The shareholders have the opportunity to exercise their voting right at the annual general meeting in person or by 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 AktG and posted on our website (www.homag-group.com/hauptversammlung).

www.homag-group.com/hauptversammlung

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 2013.

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 61 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.

Additional information is presented on page 61 et seq.

Transparency

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

9.3 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 each supervisory board meeting, the chairman of the supervisory board receives an amount of three times of both the fixed remuneration and the attendance fee, the deputy one-and-a-half times these amounts.

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 attendance 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 2013:

FIGURES IN EUR K	Fixed remuneration	Attendance fees	Remuneration for committee work	**Total remuneration**
Torsten Grede, chairman	30	24	9	63
Reiner Neumeister, deputy chairman [1]	15	12	20	47
Ernst Esslinger [1]	10	8	0	18
Hans Fahr	10	8	4 [2]	22
Gerhard Federer	10	8	30	48
Dr. Horst Heidsieck	10	8	4 [2]	22
Carmen Hettich-Günther [1]	10	8	15	33
Dr. Dieter Japs	10	8	0	18
Thomas Keller	10	8	15	33
Hannelore Knowles [1]	10	8	5	23
Jochen Meyer [1]	10	8	5	23
Reinhard Seiler [1]	10	4	0	14
Total	**145**	**112**	**107**	**364**

1 Employee representative
2 Deviations due to rounding differences

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 of as well as the situation of the Company. They do not exceed the customary remuneration without special reason. The structure of remuneration also takes into consideration the long-term development of the Company. All components of remuneration must be appropriate, both individually and as a whole, and not encourage the taking of inappropriate risks.

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

All service agreements with the members of the management board comply with the GCGC. Exceptions from this as regards the recommendations concerning the compensation caps and change of control are detailed on page 51 et seq. of this report, which however only apply to the service agreement of the CEO.

In the event of a termination of a management board appointment by mutual agreement, a dismissal by the supervisory board of a management board member, or if a management board member steps down from the board at the instigation of the Company, the management board member concerned receives as settlement of remuneration including fringe benefits a compensation payment of two years' compensation, but no more than the amount of remuneration for the residual term of the agreement. Dr. Flik's management board service agreement contains clauses that could have potentially resulted in higher compensation under certain circumstances in the fiscal year 2013. Details of this can be found in the declaration of compliance inserted on page 51 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].

Additional information is presented on page 51 et seq.

Non-performance-related fixed remuneration

The non-performance-related fixed remuneration of the members of the management board consists of an annual fixed salary and fringe benefits. The annual salary is fixed for the term of the service agreements of the management board members and is paid out in twelve equal monthly installments. The fringe benefits consist of the value of the use of a company car that must be recognized for tax purposes and the payment of an insurance premium. 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).

See glossary for more information.

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

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

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

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

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

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

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

The remuneration of the management board members for the fiscal 2013 breaks down as follows:

	Fixed remuneration		Performance-related-remuneration (STI and bonuses)		Long-term incentives (LTI)		Benefits in kind		Total remuneration	
FIGURES IN EUR K	2012	2013	2012	2013 [1]	2012	2013	2012	2013	2012	2013
Dr. Markus Flik	555	558	95	171	264	383	10	10	924	1,122
Harald Becker-Ehmck	130	260	30	107	0	239	4	9	164	615
Jürgen Köppel	253	291	58	120	176	267	7	10	494	688
Hans-Dieter Schumacher	290	291	67	120	185	277	10	11	552	699
Achim Gauß	130	0	0	0	0	0	3	0	133	0
Herbert Högemann	195	0	33	0	10	0	9	0	247	0
Total	1,553	**1,400**	283	**518**	635	**1,166**	43	**40**	2,514	**3,124**

1 To be paid out after the 2014 annual general meeting for the fiscal year 2013.

Figures given for remuneration acting as a long-term incentive (LTI) are not actual values, but rather fair values on the date of granting calculated using financial modeling methods. Consequently, the full amount of the fair value of the third reference period is reported in 2013. The provision is recognized pro rata temporis. An expense of EUR 940 k was recognized accordingly in the financial statements (prior year: EUR 374 k). The liability pertaining to remuneration acting as a long-term incentive was valued at EUR 1,377 k as of December 31, 2013 (prior year: EUR 561 k) and breaks down as follows:

	2010 –2012	First reference period 2011–2013		Second reference period 2012–2014		Third reference period 2013–2015		Total	
FIGURES IN EUR K	2012	2012	2013	2012	2013	2012	2013	2012	2013
Dr. Markus Flik	0	84	141	88	268	0	129	172	538
Harald Becker-Ehmck	0	0	0	0	0	0	81	0	81
Jürgen Köppel	39	58	97	59	180	0	90	156	367
Hans-Dieter Schumacher	0	64	107	61	191	0	93	125	391
Herbert Högemann	35	20	0	3	0	0	0	58	0
Rolf Knoll	50	0	0	0	0	0	0	50	0
Total	124	226	**345**	211	**639**	0	**393**	561	**1,377**

An accrued liability of EUR 345 k was recognized for the LTI bonus for the first reference period 2011 to 2013. For the second reference period 2012 to 2014, the accrued liability rose to EUR 639 k for two thirds of the fair value of the LTI bonus. For the third reference period 2013 to 2015, an accrued liability of EUR 393 k was recognized for first third of the fair value of the LTI bonus.

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

10. Subsequent Events

In order to use the great growth opportunities in the areas of handling, assembly, packaging and robotics at a global level we are going to merge the two subsidiaries BARGSTEDT Handlingsysteme GmbH, Hemmoor, and LIGMATECH Automationssysteme GmbH, Lichtenberg, into HOMAG Automation GmbH. Both locations and the brands, which are well established in the industry, will be retained. The development capacities being freed up at both locations as a result of the move will be systematically deployed to achieve the growth planned in the fields of handling, packaging and assembly as well as the expanding project business. The project is to be implemented in steps by the end of 2014.

Effective February 3, 2014 we additionally increased our shareholding in the voting shares of the US sales and service company Stiles Machinery, Inc. from 29.4 to 100 percent. The shares were sold by Peter Kleinschmidt who is now retiring from active business. Stiles is the leading sales and service organization for machines and production lines for the woodworking industry in the US. With more than 290 employees, Stiles generated annual sales revenue of around USD 158 million in 2013. This takeover gives us direct access to the US market, which will enable us to profit directly from the re-industrialization expected there.

11. 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.

11.1 Risk Report

Risk Management System

The HOMAG Group's risk management system is essentially supported by the management accounting system. It includes project controlling, cost object controlling and detailed segment reporting. It is based on the establishment of objectives, which are monitored based on the monthly reporting by the individual business units. The risks to the Group or its subsidiaries subject to mandatory monitoring or reporting are regularly assessed and, in the event of unexpected developments, notified to the management board and supervisory board immediately. The risk inventory encompasses all relevant companies.

As part of our internal audit, all group entities are audited at intervals of three to five years. The audits are performed by auditing firms or suitably qualified companies appointed by HOMAG Group AG. This ensures that external specialists identify risks, assess internal processes and ultimately recognize potential for optimization. We audited two production companies and two sales companies in the 2013 reporting year. The management board and the audit committee are informed promptly about the findings of the internal audits. The reports are then analyzed and necessary measures are introduced by the management board member responsible for that portfolio. The audits performed in 2013 revealed that the individual companies operate in compliance with the relevant legal provisions.

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)

The 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 also the internal audit system insofar as this concerns itself with financial reporting.

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

The system of internal control and risk management designed to meet these requirements ensures that business events are correctly accounted for, prepared and appraised in the accounting records and transferred accordingly to the financial reporting. Adequate staffing and equipment, suitable software 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 function) ensure correct financial reporting. This ensures uniform accounting in accordance with the statutory requirements, the principles of proper accounting and the 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
- Sample financial reporting data are checked on a regular basis for completeness and accuracy. Suitable software is used to perform programmed plausibility checks
- Suitable controls are included in all processes relevant to the financial reporting (including the principle of dual control; analytical reviews). They are also regularly reviewed by the internal audit function
- On the basis of the reports prepared by the auditor of the financial statements and the internal audit function, the supervisory board, acting through its audit committee, reviews the proper functioning of the accounting-related system of internal control and risk management

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 three risk groups: operating risks, financial risks and compliance risks. The direction in which the arrow points shows whether the respective risk has risen slightly, remained unchanged or fallen slightly in the reporting year.

Operating Risks

Development of Operating Risks (Dec. 31, 2013/Dec. 31, 2012)

Macroeconomic Risks	Customer and Competitive Risks	Product and Development Risks	Procurement and Purchasing Risks	IT Risiks	Quality Risks	Risks from the Project Business
→	→	→	→	↗	→	→

↗ slight increase → unchanged ↘ slight decrease

Macroeconomic Risks

One of the main risks to the HOMAG Group is the development of the global economy. The willingness of our customers to invest falls significantly in difficult economic times, as was confirmed in the crisis year 2009. Although we are able to compensate for crises in individual regions through our global presence, a global crisis will have a negative effect even on our order situation. We counter this overall economic risk, which is unchanged in comparison to the prior year, by keeping our personnel capacities as flexible as possible and adjusting our production plan early to developments in order intake.

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. We minimize this risk by obtaining prepayments based on the stage of completion of projects, by applying our strict receivables management system and by taking out insurance on a case-by-case basis. Overall, this approach has rewarded us with a low proportion of bad debts compared to other companies in the industry. Customer risks at the end of 2013 remain at prior-year level.

Given that the market entry barriers in our industry are very high, we estimate that there is a comparatively low risk of new competitors encroaching on our technological lead. However, we cannot completely rule it out. 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 targeted product strategy, which takes both a long-term and a short-term perspective, 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. 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 development 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.

Procurement and Purchasing Risks

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

It is very difficult to predict how commodity 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. In 2013, we observed a trend of falling prices, although we expect slightly higher raw materials prices for 2014. For this reason, we counter the negative impact of commodity price increases to the extent possible by concluding master agreements with fixed prices and bundling demand within HOMAG Group. This allows us to profit from larger purchasing volumes. We launched a special purchasing project for this purpose in 2013. In addition, the further expansion of our international purchasing function is also designed to safeguard the necessary quality and to keep supply risks to a minimum in the long term.

IT Risks

The reliability and security of IT technology is of paramount importance for our Group. All in all, a rise in threats to data security can be seen worldwide. This increasingly applies both to the use of IT systems that support business processes and those that support external communication. The associated risks relate to data loss, corruption or misuse. In addition, there is a general risk of IT systems or software solutions failure. This could lead to delays in order processing and the supply chain, which may in turn have an impact on costs and sales revenue. In order to counter the existing risks, we continued to review, improve and further expand our IT security in 2013. To this end, we carry out IT security audits on a regular basis. We performed security tests at a total of five subsidiaries in 2013.

See glossary for more information.

In addition, we further centralized our malware protection within the Group. In this way, response times are optimized and administration is simplified. This was accompanied by updating the firewall technology. This includes the introduction of the **Intrusion Detection System** in further subsidiaries in order to reveal any external attacks within the network. In order to further improve data protection within the Group, we have continued implementing a two-factor authentication project that limits future access to systems based on a password combined with a hardware component.

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 machinery and production lines. In order to mitigate the risk of product liability and warranty claims we use a comprehensive total quality management system and a high degree of standardization. In the fiscal year 2013, we hired a head of quality management for the HOMAG Group to ensure the ongoing further refinement of our quality assurance systems throughout the Group. 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 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 may lead to the loss of important customers and/or a loss of confidence by market participants and thus have a significant impact on the net assets, financial position and results of operations of the HOMAG Group. In order to counter these risks, the Group has introduced detailed project management system, an exact 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.

Financial Risks

Development of Financial Risks (Dec. 31, 2013/Dec. 31, 2012)

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

↗ slight increase → unchanged ↘ slight decrease

Currency Risks

Currency risks can arise from our international activities, which can indirectly impact the Group's sales revenue and results of operations. Currency risks at year end remained unchanged compared to the prior-year level. To mitigate the risks from exchange rate fluctuations and keep our foreign currency positions at a low level, we try where possible to invoice transactions, even outside the eurozone, in euro. We use hedging instruments for the portion of sales revenue that we generate in foreign currencies. We also work with price indexing clauses in individual cases.

Liquidity and Financing Risks

We secured our liquidity by entering into a syndicated loan agreement in September 2012 with a term of four years that is contingent on us complying with certain covenants. In this context, we currently do not see any risks to compliance with the covenants agreed under this agreement. To protect ourselves against interest rate changes, a portion of our loans bear a fixed interest rate and we hedged another portion of our loans until 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.

Tax Risks

The consolidated financial statements of the HOMAG Group include significant amounts of tax assets recognized on unused tax losses. Firstly, the ability to use these unused tax losses depends on the actual occurrence of the planned future development of earnings. Secondly, in the event of a change in shareholder composition of more than 25 percent or similar transaction, it is possible that portions of these unused tax losses may be forfeited. In order to mitigate these risks, we apply a cautious accounting policy when recognizing assets.

On account of the current earnings situation, tax risks generally decreased towards the reporting date. 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 unconstitutionality issues relating to the interest limitation rule and a very promising non-appealable ruling by Berlin-Brandenburg Finance Court in this context dated October 13, 2011 which identifies very clearly these concerns. Furthermore, we ramped up our capacities in the area of tax within the Group in order to be even better able to exploit tax potential and to counter the increasing pressure exerted by the tax authorities to increase their tax revenue. In this respect, the HOMAG Group will remain an honest taxpayer but will decidedly stand up against any issues imposed by the tax authorities worldwide that would ultimately lead to double taxation and will insist on compliance with **OECD** taxation principles.

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See glossary for more information.

Personnel Risks

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

The risks in this area arise from not being able to meet personnel requirements quickly enough. This is especially true when specialist and leadership staff with the necessary qualifications cannot be hired in due time and this has negative implications for the Group. We counter these personnel risks 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. By combining these aspects of 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

Development of Compliance Risks (Dec. 31, 2013 / Dec. 31, 2012)

General Compliance Risks	Legal Risks
↘	↘

↗ slight increase → unchanged ↘ slight 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. In a first step, they serve to prevent violations that may damage the Company. The CFO is responsible for compliance topics at HOMAG Group AG. We have introduced at all foreign entities binding guidelines for actions by the management board, executives and our employees that take the form of a code of conduct.

With a view to further refining the compliance organization, we appointed a compliance officer in 2013, 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. As part of a current compliance project, an anti-corruption guideline, a guideline for anti-trust compliant conduct and procedural guidelines on how to cooperate with business partners are being prepared and will be rolled out throughout the Group. The compliance project is being implemented in cooperation with a reputable external consultant.

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.

Composition of 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.

AS %

Macroeconomic Risks	33.5
Customer and Competitive Risks	23.2
Product and Development Risks	6.0
Procurement and Purchasing Risks	6.6
IT Risks	0.9
Quality Risks	2.9
Risks from the Project Business	4.3
Currency Risks	3.7
Liquidity and Financing Risks	1.8
Tax Risks	2.3
Personnel Risks	1.4
Legal Risks	1.9

11.2 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 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 capture the opportunities.

Regional Growth

The increasing importance of emerging economies mainly arises from growing purchasing power in those countries. This is especially true of countries such as Mexico, Indonesia, South Korea and Turkey. They are counted as future growth regions for the HOMAG Group, alongside China, India and Brazil. We are already present in many up-and-coming markets with our own sales and service companies and will deploy our activities in a targeted manner with a view to generating additional orders.

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

We also see potential for regional growth in China, eastern Europe and the Americas. The acquisition of the subsidiary, Stiles Machinery, Inc., as an example further expands our position on the North American market and, in particular, significantly reinforces our sales and service organization with a view to winning further market share.

Product-specific Growth

We consider the entire market for wood-processing machinery to be a growth market. We see an increasing trend in our industry at a global level toward greater individuality and diversity of options. Smart batch size one production lines and a higher level of automation of individual machines will be of great importance in future, for this reason. In this respect, the topic of networked production, and the associated software and control software, will significantly increase in importance. We see one special opportunity in quicker implementation of this market requirement by covering the entire process chain within the field of wood processing. 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.

The area of flat-pack furniture is also gaining in importance. Firstly, flat-pack furniture may not exceed given weight ranges. Secondly, it has to be easily and quickly assembled. In addition to the anticipated increase in demand for intelligent fastening systems, it will be primarily lightweight construction that will be more at the center of attention in the future. This aspect is also of great importance when it comes to increased use of the internet as a channel of distribution in the furniture business.

We also see further opportunities in the field of service, because our customers are placing increasing importance on excellent service quality as a means of preventing protracted production stoppages. In comparison to competitors, we have the most closely meshed global service network in our industry.

Value Generation

Once again in 2013, we implemented a wide range of sustainable measures to boost efficiency within our Group. This includes the purchasing project that, for example, will free up further potential within the Group by bundling purchasing volume. A newly launched project to optimize product costs is also intended to bring about new more favorably priced solutions for new product developments from now on. Likewise, 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. All in all, the HOMAG Group Action Program defines more than 500 measures being implemented in separate projects that will serve to boost productivity within the Group.

11.3 Overall Assessment of the Risk and Opportunities Situation of the Group

The assessment of the overall risk situation is performed by consolidating all material individual risks. There are no known risks that could jeopardize the Group's ability 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.

In light of all the opportunities we see for the future of the Group we intend to achieve our financial targets by 2017.

11.4 Forecast Report

Forecast for the Development of the Industry

Following the rather weak year 2013, the VDMA has greater hopes for 2014, forecasting an increase in machinery production in the region of 3 percent. In this context, business in Germany is expected to show an even higher rate of growth in 2014. With regard to exports, the VDMA anticipates a return to modest growth in business with other eurozone countries. For the wood processing machines segment, the competent industry association similarly anticipates low single-digit growth.

Forecast for HOMAG Group

Additional information is presented on page 61 et seq.

Even if the situation has improved in the eurozone, there is a certain level of uncertainty on how some countries will develop in future. At a global level, there remains the possibility that generally 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 proviso that the global economy will see positive developments, as forecast by experts in the field and, in particular, that there are no major disruptions to the global economy. The development of the HOMAG Group over the next few years will also be impacted by the factors named in the Risk and Opportunities Report (see page 61 et seq.).

Subject to these conditions, we anticipate market growth for 2014, from which we intend to benefit, although we expect the competitive situation to remain tense. We anticipate positive developments in the Americas, Asia and eastern Europe regions, and specifically the USA, China and Russia within those regions. In general, we assume that growth markets will generally display more dynamic growth than industrialized countries, with the exception of the US, where we expect strong growth. On account of our strong presence worldwide, we are able to balance out regional fluctuations in demand. We continue to see positive trends in our service business, which is why we continue to expand our service structures.

We consider the general move towards more automation and the increasing trend towards individualization of furniture, even in industrial production, as providing positive stimuli for our project business. Specifically in central Europe, we anticipate healthy demand for our products also from our customers in the cabinet shop segment and from small and medium-sized enterprises. Once again in 2014, we are going to present our innovations and achievements at numerous trade fairs, such as Holz-Handwerk held in Nuremberg in March or the Xylexpo held in Milan in May.

	2013		2014
	Guidance	Achieved	Guidance
Order intake[1]	above EUR 576 million	EUR 605 million	EUR 760–780 million
Sales Revenue	about EUR 800 million	EUR 789 million	EUR 860–880 million
Operative EBITDA[2]	around EUR 75 million	EUR 76 million	EUR 82–84 million
Net Result	around EUR 15 million	EUR 18 million	EUR 20–22 million

1 2013: Order intake only includes own machines without merchandise, spare parts and service;
2014: Order intake includes own machines incl. spare parts of the production companies and after-sales segment

2 EBITDA before expenses from employee participation and before restructuring/non-recurring expenses

We will convert how order intake is calculated in order to increase comparability with sales revenue. The merchandise of the production companies and the after-sales segment will be included in order intake from now on. According to this new calculation method, we achieved an **order intake** of EUR 734 million in 2013. In 2014, we intend to further increase this figure and achieve an order intake of between EUR 760 million and EUR 780 million. Under this new calculation, the acquisition of the sales company Stiles Machinery, Inc. completed at the beginning of the 2014 fiscal year will not give rise to any increase in order intake.

With regard to the **Group's sales revenue**, we intend to generate between EUR 860 million and EUR 880 million in 2014. Sales revenue growth of a mid-single-digit percentage will result from the Stiles acquisition.

In 2014, we expect our **operative EBITDA before employee profit participation expenses and before extraordinary expenses** of between EUR 82 million and EUR 84 million and the Group to return a **net profit for the year** 2014 ranging between EUR 20 million and EUR 22 million. Full consolidation of Stiles, however, will not have any significant impact on operative EBITDA and the Group's net profit, as the additional contribution to earnings and the consolidation and purchase price allocation effects together with the incidental acquisition costs at Stiles are expected to roughly balance each other out. We anticipate a positive contribution to earnings from the acquisition as of 2015.

The full takeover of Stiles will significantly raise the **headcount** in the Group in 2014. We intend to build up our workforce primarily in the growth markets, while in Germany we will maintain similar staffing levels to 2013.

In 2014, we will ramp up our **capital expenditure** by about 10 percent in comparison to the prior year. Of this, the greater part of the increase will relate to capital expenditure on property, plant and equipment. This will be mainly due to implementation of the energy concept at the Group's largest subsidiary and to planned investments at production facilities in Poland. Another focal point of investment in 2014 will remain our large-scale IT project ProFuture.

For HOMAG Group AG as a separate entity, we anticipate for 2014 a **profit for the year** at the same level as the prior year, bearing in mind that 2013 included a special effect relating to the reversal of an impairment loss recognized on the carrying amount of the investment in the subsidiary WEEKE Bohrsysteme GmbH. In addition, it should be noted that HOMAG Group AG is unique in that it does not have any operating activities.

12. Results of Operations, Net Assets and Financial Position of HOMAG Group AG

Results of Operations

The **result from ordinary activities** of HOMAG Group AG improved from EUR 12.8 million to EUR 23.4 million, a rise of 83 percent. There was a significant increase in **income from profit and loss transfer agreements** to EUR 29.4 million (prior year: EUR 19.4 million). This is firstly due to the profit and loss transfer agreement with BRANDT Kantentechnik GmbH that was approved by resolution of the annual general meeting in 2013 and concluded with retroactive effect as of January 1, 2013. Secondly, this rise was due to the improved results of operations at HOMAG Holzbearbeitungssysteme GmbH, where there is also a profit and loss transfer agreement in place. Positive effects in the reporting year also came from the good development of HOLZMA Plattenaufteiltechnik GmbH and LIGMATECH Automationssysteme GmbH, both of which have profit and loss transfer agreements in place with HOMAG Holzbearbeitungssysteme GmbH. Furthermore, the prior year figure was dragged down by losses incurred by the subsidiary FRIZ Kaschiertechnik GmbH. The profit and loss transfer agreement in place at that time was terminated as of December 31, 2012.

Other operating income fell slightly to EUR 13.3 million (prior year: EUR 14.5 million). This is partly due to the cross-charging of expenses incurred centrally at HOMAG Group AG, which were higher in the prior year. Once again in 2013, further cost allocations were made for specialist departments, which are integrated into HOMAG Group AG and perform services on behalf of subsidiaries.

Personnel expenses increased to EUR 6.8 million. (prior year: EUR 6.1 million). In total, as of the reporting date 2013, HOMAG Group AG had a total of 34 **employees** (excluding management board members) (prior year: 30 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 10.5 million in the reporting year, roughly at the prior-year level. In 2013, this figure includes the costs for the LIGNA trade fair and higher costs from cross-charging and allocation of expenses within the Group. In contrast, legal and consulting fees fell, as did incidental borrowing costs, as the costs for the syndicated loan were included in the prior year.

Income from equity investments increased from EUR 1.3 million to EUR 2.6 million on account of higher distributions from subsidiaries. The **interest result** fell from EUR −3.4 million to EUR −2.8 million. This was due to the higher interest received from affiliates and the lower level of interest expenses in connection with intercompany loans and the cash-pooling arrangement.

Income taxes come to EUR −4.3 million (prior year: EUR −3.5 million). The increase stems partly from the higher result from ordinary activities compared to the prior year and partly from the utilization of unused corporate income tax losses in 2012. In contrast, the effective tax rate fell. This is due, on the one hand, to higher income from equity investments, which is to a great extent tax exempt. On the other, interest carryforwards under the interest limitation rule were utilized on account of a lower level of interest expenses while EBITDA for tax purposes rose.

All in all, HOMAG Group AG reports **net income for the year** 2013 of EUR 19.1 million (prior year: EUR 9.0 million). The **retained earnings** from 2012 of EUR 30.7 million were carried forward following the dividend payment of EUR 3.9 million.

Net Assets and Financial Position

On the **assets side, non-current assets** saw only a minor rise from EUR 167.9 million to EUR 170.9 million. This change is mainly the result of the increase in the carrying amount of the investment in WEEKE Bohrsysteme GmbH following the reversal of an impairment loss.

In contrast, **current assets** rose significantly by a total of EUR 32 million to EUR 72.0 million (prior year: EUR 40.0 million). **Receivables from affiliates** increased by EUR 29.1 million to EUR 54.4 million in the reporting period (prior year: EUR 25.3 million), mainly on account of the profit and loss transfer agreements. The increase stems from an intercompany loan, the newly concluded domination and profit and loss transfer agreement with BRANDT Kantentechnik GmbH as well as receivables of EUR 7.1 million (prior year: EUR 2.1 million) resulting from the cash pooling arrangement.

The bank balances increased as of December 31, 2013 to EUR 15.4 million (prior year: EUR 13.4 million).

On the **equity and liabilities side, tax provisions** increased from EUR 5.1 million to EUR 8.4 million, primarily on account of the anticipated income tax payments for the reporting year.

Liabilities to banks fell by EUR 12.5 million in the reporting period to a total of EUR 77.5 million (prior year: EUR 90 million) as a result of scheduled repayment of EUR 2.5 million. Furthermore, short-term drawings totaling EUR 10 million from Tranche C (revolving working capital credit lines) were repaid as of December 31, 2013.

In contrast, **liabilities to affiliates** rose significantly to EUR 55.8 million (prior year: EUR 28.1 million). The cash pooling arrangement contributed to this change with an increase of EUR 25.8 million.

All in all, **total assets** increased in the reporting year to EUR 243.0 million (prior year: EUR 207.9 million). The more marked increase in retained earnings in comparison to total assets meant that the equity ratio improved from 39.2 percent to 39.8 percent.

Consolidated Financial Statements

— The “p” stands for people with vision. Their great inventiveness and their high level of dedication are the HOMAG Group’s greatest capital.

Consolidated Financial Statements

± Consolidated income statement

FIGURES IN EUR K	Note/Page	2013	2012
Sales revenue	5.1/100	**788,825**	**766,951**
Increase or decrease in inventories of finished goods and work in process		11,870	−1,272
Own work capitalized	5.2/100	8,369	11,189
		20,239	9,917
Total operating performance		**809,064**	**776,868**
Other operating income	5.3/101	16,421	20,373
		825,485	**797,241**
Cost of materials	5.4/101	341,970	330,153
Personnel expenses before employee participation	5.5/101	286,141	281,332
Amortization of intangible assets	5.7/103	16,003	11,732
Depreciation of property, plant and equipment	5.8/104	15,372	16,374
Other operating expenses	5.9/104	124,387	119,250
		783,873	**758,841**
Operating result before employee participation		**41,612**	**38,400**
Expenses from employee participation	5.5/101	6,966	7,030
Net operating profit/loss		**34,646**	**31,370**
Profit/loss from associates	5.10/104	2,145	1,136
Interest income	5.13/105	2,230	2,762
Interest expenses	5.13/105	8,161	10,978
Earnings before taxes		**30,860**	**24,290**
Income taxes	5.14/105	−11,820	−12,111
Net profit/loss for the year		**19,040**	**12,179**
Profit/loss attributable to non-controlling interests	5.16/107	614	−501
Profit/loss attributable to owners of Homag Group AG	5.17/107	18,426	12,680
Earnings per share attributable to owners of Homag Group AG in EUR (basic and diluted)		1.17	0.81

Consolidated statement of comprehensive income

FIGURES IN EUR K	2013	2012
Group net profit/loss for the year	**19,040**	**12,179**
Currency effects	−3,454	266
thereof share of associates included using the equity method	−370	−25
Gains and losses from cash flow hedges	−78	0
Taxes attributable to gains and losses from cash flow hedges	22	0
Other income and expenses that can be reclassified to the income statement under certain conditions in future periods	**−3,510**	**266**
Actuarial gains and losses	−177	−327
Income tax on other comprehensive income	23	83
Other income and expenses that cannot be reclassified to the income statement in future periods	**−154**	**−244**
Other comprehensive income	−3,664	22
Total comprehensive income	**15,376**	**12,201**
Total comprehensive income attributable to non-controlling interests	563	−466
Total comprehensive income attributable to owners of Homag Group AG	14,813	12,667

Consolidated statement of financial position as of December 31, 2013

FIGURES IN EUR K	Note / Page	Dec. 31, 2013	Dec. 31, 2012
Assets			
Non-current assets			
I. Intangible assets	6.1 / 108 6.2 / 112	72,074	69,793
II. Property, plant and equipment	6.1 / 108 6.3 / 113	124,961	132,594
III. Investments in associates	6.4 / 115	10,143	8,732
IV. Other financial assets		494	501
V. Receivables and other assets			
Trade receivables	6.6 / 116	1,261	1,538
Other financial assets	6.8 / 118	732	1,136
Other assets and prepaid expenses	6.9 / 118	55	73
Income tax receivables	6.10 / 118	1,353	1,750
VI. Deferred taxes	5.14 / 105	9,006	12,056
		220,079	**228,173**
Current assets			
I. Inventories	6.5 / 116	133,509	127,967
II. Receivables and other assets			
Trade receivables	6.6 / 116	90,512	84,959
Receivables from long-term construction contracts	6.7 / 117	21,538	23,231
Receivables due from associates	6.6 / 116	15,393	13,792
Other financial assets	6.8 / 118	8,327	8,271
Other assets and prepaid expenses	6.9 / 118	5,852	4,751
Income tax receivables	6.10 / 118	2,543	1,811
III. Cash and cash equivalents	6.11 / 119	44,939	45,557
		322,613	**310,339**
IV. Non-current assets held for sale	6.12 / 119	1,245	2,505
		323,858	**312,844**
Total assets		**543,937**	**541,017**

FIGURES IN EUR K	Note/Page	Dec. 31, 2013	Dec. 31, 2012
Equity and liabilities			
Equity			
I. Issued capital	6.13.1/119	15,688	15,688
II. Capital reserves	6.13.2/119	32,976	32,976
III. Revenue reserves	6.13.3/119	102,170	96,361
IV. Net profit/loss for the year	6.13.4/119	18,426	12,680
Equity attributable to owners		169,260	157,705
V. Non-controlling interests	6.13.5/120	8,391	8,056
		177,651	**165,761**
Non-current liabilities and provisions			
I. Non-current financial liabilities	6.14/120	64,003	71,698
II. Other non-current liabilities		9,222	9,606
III. Pensions and other post employment benefits	6.16/121	2,923	3,368
IV. Obligations from employee participation	6.17/124	13,275	13,133
V. Other non-current provisions	6.18/125	5,107	5,088
VI. Deferred taxes	5.14/105	13,135	12,900
		107,665	**115,793**
Current liabilities and provisions			
I. Current financial liabilities	6.14/120	59,228	70,894
II. Trade payables		61,155	60,936
III. Prepayments		39,689	34,956
IV. Liabilities from long-term construction contracts	6.7/117	2,408	3,316
V. Liabilities to associates		4,493	2,714
VI. Other financial liabilities		156	7
VII. Other current liabilities and deferred income		66,329	65,496
VIII. Tax liabilities		9,219	6,463
IX. Pensions and other post employment benefits	6.16/121	74	72
X. Other current provisions	6.18/125	15,870	14,609
		258,621	**259,463**
Total liabilities		**366,286**	**375,256**
Total equity and liabilities		**543,937**	**541,017**

Consolidated cash flow statement

FIGURES IN EUR K	Note/Page	2013	2012
1. Cash flow from operating activities			
Profit or loss before taxes		**30,860**	**24,290**
Income tax paid (–)		−6,114	−4,198
Interest result	5.13/105	5,931	8,216
Interest paid (–)		−7,157	−12,088
Interest received (+)		2,184	2,713
Write-downs (+)/write-ups (–) of non-current assets (netted)	5.7/103 5.8/104	31,375	28,106
Increase (+)/decrease (–) in provisions		291	−754
Other non-cash expenses (+)/income (–)		0	−1
Share of profit (–) or loss (+) of associates	5.10/104	−2,145	−1,136
Dividends from associates		364	255
Gain (–)/loss (+) on disposal of non-current assets		−1,835	−980
Increase (–)/decrease (+) in inventories, trade receivables and other assets		−18,723	9,534
Increase (+)/decrease (–) in trade payables and other liabilities		11,440	−15,361
Cash flow from operating activities		**46,471**	**38,596**
2. Cash flow from investing activities			
Cash received (+) from disposals of property, plant and equipment		3,200	3,074
Cash paid (–) for investments in property, plant and equipment	6.1/108	−7,601	−17,738
Cash received (+) from disposal of intangible assets		2,316	1
Cash paid (–) for investments in intangible assets		−15,912	−19,220
Cash received (+) from disposal of financial assets		24	0
Cash paid (–) for the acquisition of non-controlling interests		0	−7,528
Cash paid (–) for investments in financial assets		0	11
Cash flow from investing activities		**−17,973**	**−41,400**

Consolidated cash flow statement

FIGURES IN EUR K	Note/Page	2013	2012
3. Cash flow from financing activities			
Dividends	5.18/107	–3,922	0
Cash paid (–) to non-controlling interests		0	–255
Cash received (+) from equity contributions		305	0
Cash received (+) from the issue of (financial) liabilities		3,705	112,930
Cash repayment (–) of bonds and (financial) liabilities		–27,385	–121,854
Cash flow from financing activities		**–27,297**	**–9,179**
4. Cash and cash equivalents at the end of the period			
Change in cash and cash equivalents (subtotal 1–3)		1,201	–11,983
Effect of currency translation adjustments and change in scope of consolidation on cash and cash equivalents		–1,819	1,071
Cash and cash equivalents at the beginning of the period		**45,557**	**56,469**
Cash and cash equivalents at the end of the period [1]		**44,939**	**45,557**

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

Consolidated statement of changes in equity

FIGURES IN EUR K	Issued capital	Capital reserve
Jan. 1, 2012	15,688	32,976
Other changes		
Dividends paid		
Changes from non-controlling interests		
Transactions with owners		
Reclassification to revenue reserves		
Net result for the year		
Other income and expense		
Total comprehensive income		
Dec. 31, 2012	15,688	32,976
Jan. 1, 2013	15,688	32,976
Other changes		
Capital increase by holders of non-controlling interests		
Dividends paid		
Changes from non-controlling interests		
Transactions with owners		
Reclassification to revenue reserves		
Net result for the year		
Other income and expense		
Total comprehensive income		
Dec. 31, 2013	15,688	32,976

Revenue reserves						
Revenue reserves	Other comprehensive income	Translation reserve	Group profit	Equity before non-controlling interests	Non-controlling interests	Total
95,275	−134	6,062	−4,718	145,149	16,505	161,654
−309				−309	−1	−310
				0	−255	−255
198				198	−7,727	−7,529
198				198	−7,982	−7,784
−4,718			4,718	0	0	0
			12,680	12,680	−501	12,179
	−243	230		−13	35	22
	−243	230	12,680	12,667	−466	12,201
90,446	−377	6,292	12,680	157,705	8,056	165,761
90,446	−377	6,292	12,680	157,705	8,056	165,761
157				157	−26	131
				0	305	305
−3,922				−3,922	0	−3,922
507				507	−507	0
−3,415				−3,415	−507	−3,922
12,680			−12,680	0	0	0
			18,426	18,426	614	19,040
	−210	−3,403		−3,613	−51	−3,664
	−210	−3,403	18,426	14,813	563	15,376
99,868	−587	2,889	18,426	169,260	8,391	177,651

Notes to the Consolidated Financial Statements for Fiscal Year 2013

1. General

1.1 Application of Accounting Requirements

The consolidated financial statements of Homag Group AG (Homag Group) as of December 31, 2013 were prepared in accordance with the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) and the interpretations of the IFRS Interpretations Committee (IFRIC) as adopted by the EU and applicable as of the reporting date. The supplementary provisions of Sec. 315a HGB ["Handelsgesetzbuch": German Commercial Code] were also complied with.

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

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

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

1.2 Company Information

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

1.3 Date of Authorization for Issue of Financial Statements

On March 12, 2014, the management board of Homag Group AG released the 2013 consolidated financial statements and the 2013 combined management report for distribution to the supervisory board.

2. Basis of Preparation

2.1 Basis of Consolidation

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

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

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

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

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

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

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

2.2 Acquisition of Non-controlling Interests

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

2.3 Foreign Currency Translation

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

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

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

	Closing rate		Average rate	
EUR 1	Dec. 31, 2012	Dec. 31, 2013	2012	2013
US dollar	1.31830	1.37670	1.28608	1.32826
Pound sterling	0.81540	0.83310	0.81149	0.84928
Australian dollar	1.27120	1.53960	1.24225	1.37749
Canadian dollar	1.31140	1.46360	1.28587	1.36852
Danish krone	7.45990	7.45990	7.44406	7.45823
Japanese yen	113.61110	144.51220	102.66442	129.65861
Swiss franc	1.20720	1.22670	1.20548	1.23091
Chinese yuan	8.21170	8.33140	8.12766	8.23188
Brazilian real	2.69530	3.25190	2.51383	2.87401
Indian rupee	72.22310	85.22460	69.09407	72.22310

3. Consolidated Group

In addition to Homag Group AG, the consolidated financial statements include 15 (prior year: 16) entities with registered offices in Germany and 23 (prior year: 23) entities with registered offices abroad at which Homag Group AG exercises uniform control either directly or indirectly. The list of shareholdings of Homag Group AG is presented in note 9.

3.1 Associates

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

3.2 Changes in the Consolidated Group

In February 2013, the shareholding in Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen, was increased from 51 percent to 75.9 percent.

On account of this change in the consolidated group, non-controlling interests decreased by EUR 507 k.

In the reporting year, Homag Finance GmbH, was retroactively merged into Homag Vertriebs-Beteiligungs GmbH as of January 1, 2013. The transferee was renamed Homag Finance GmbH in accordance with Sec. 18 UmwG [“Umwandlungsgesetz”: German Law of Reorganizations].

4. Accounting Policies

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

4.1 Changes in Accounting Policies

The following IFRS standards and interpretations became operative in the fiscal year 2013:

Amendment to IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
Amendment to IFRS 1	Government Loans
Amendment to IFRS 7	Disclosures: Offsetting of Financial Assets and Financial Liabilities
IFRS 13	Fair Value Measurement
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
Amendment to IAS 12	Deferred Tax: Recovery of Underlying Assets
IAS 19	Employee Benefits (revised 2011)
Improvements to IFRSs (2009–2011)	
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
As the Group is not a first-time adopter, this amendment had no effect on its net assets, financial position or results of operations.

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

Amendment to IFRS 7 – Disclosures: Offsetting of Financial Assets and Financial Liabilities
The amendment did not have any effects on the accounting policies used by the Group, although it will require additional disclosures.

IFRS 13 – Fair Value Measurement
The Group only has a minor amount of assets that are measured at fair value. As a result, this standard had no material effects on the Group's net assets, financial position and results of operations. Additional disclosures are necessary.

Amendments to IAS 1 – Presentation of Components of Other Comprehensive Income
The amendment affects presentation only and has no impact on the Group's net assets, financial position and results of operations.

Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets
The amendment of the standard did not have any material effects on the Group's net assets, financial position or results of operations.

IAS 19 – Employee Benefits (as revised in 2011)
These amendments had no material effect on the Group's net assets, financial position or results of operations. The Group had already elected not to apply the corridor method in the past and it only has a small amount of plan assets. However, this led to changes in connection with collective bargaining wage agreements which affected a company's provisions for phased retirement. First-time adoption of the new requirements in the fiscal year did not lead to any material effects in the Group.

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

– IFRS 1 – The amendment of the standard did not have any effect on the Group's net assets, financial position and result of operations as the Group is not a first-time adopter.
– IAS 1 – With this amendment, the IASB clarifies that entities that make retrospective restatements (e.g., when correcting errors or applying new standards) or make reclassifications pursuant to IAS 8 must present a third balance sheet as of the beginning of the preceding period if the changes have a material effect on the presentation of net assets, financial position and results of operations. The amendment did not have any effects on the Group's net assets, financial position or results of operations.
– IAS 16 – The amendment did not have any effect on the Group's net assets, financial position and result of operations as the Group does not have any assets that fall within the scope of this amendment.
– IAS 32 – Income taxes relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction are accounted for in accordance with IAS 12 Income Taxes. As a result, the income tax consequences relating to dividend payments are recorded in the income statements and those relating to transactions costs (issue or redemption of equity instruments) in equity. The amendment did not have any effects on the Group's net assets, financial position or results of operations.
– IAS 34 – Under this amendment, segment assets and liabilities in interim financial statements only have to be disclosed if there has been a material change in the amounts reported compared to the prior financial statements and such changes are regularly provided to the chief operating decision maker. The Group does not apply the amendment as it wishes to voluntarily continue providing the information to the users of its financial statements.

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

The following standards have been endorsed by the EU and issued. Application was not yet mandatory for the fiscal year 2013. The Group did not early adopt these standards.

IFRS 10	Consolidated Financial Statement
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IAS 27	Separate Financial Statements (revised 2011)
Amendment to IFRS 10, IFRS 12 and IAS 27	Investment Entities
IAS 28	Investments in Associates and Joint Ventures (revised 2011)
Amendment to IAS 32	Offsetting of Financial Assets and Financial Liabilities
IAS 36	Recoverable Amount Disclosures for Non-financial Assets
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting

IFRS 10 – Consolidated Financial Statements

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

IFRS 11 – Joint Arrangements

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

IFRS 12 – Disclosures of Interests in Other Entities

IFRS 12 was issued in May 2011 and will become effective for the first time in fiscal years beginning on or after January 1, 2014. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. As the new standard defines additional disclosure requirements, the notes to the consolidated financial statements on these entities will be more detailed.

IAS 27 – Separate Financial Statements (revised 2011)

The amendment of the standard will not have any effects on the Group's net assets, financial position or results of operations.

Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities

The amendment has no effects on the Group's net assets, financial position and result of operations as the Group is not an investment entity and does not hold interests in any investment entities.

IAS 28 – Investments in Associates and Joint Ventures (revised 2011)

The amendment, under which the equity method is additionally applicable to joint ventures, has no effect on the Group's net assets, financial position and result of operations as it does not hold any interests in joint ventures.

Amendment to IAS 32 – Offsetting of Financial Assets and Financial Liabilities

The amendment has no effects on the accounting policies used by the Group, although it will require additional disclosures.

IAS 36 – Recoverable Amount Disclosures for Non-financial Assets

The amendment to IAS 36 was issued in May 2013 and became effective for fiscal years beginning on or after January 1, 2014. The amendment is intended to eliminate undesired repercussions of the disclosure requirements resulting from the introduction of IFRS 13. The amendment also requires disclosures on the recoverable amount for assets or cash-generating units on which an impairment loss was recognized or reversed in the reporting period. The amendment is applicable retrospectively. Early adoption is not permitted. The amendment has no effects on the accounting policies used by the Group, although it will require additional disclosures.

IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

The amendments to IAS 39 and IFRS 9 were published in June 2013 and will become effective for the first time in fiscal years beginning on or after January 1, 2014. The amendment permits under certain circumstances the continuation of hedge accounting when derivatives designated as hedging instruments are transferred to a central clearing agency as a consequence of laws or regulations (novation). The amendment is applicable retrospectively. Early adoption is permitted. The amendment of the standard will not have any effects on the net assets, financial position or results of operations.

The IASB and the IFRIC have published the standards and interpretations listed below, the adoption of which was not yet mandatory for the fiscal year 2013. These standards have not yet been endorsed by the EU and have not been applied by the Group.

IFRS 9	Financial instruments: Classification and Measurement
IFRS 9	Financial Instruments: Hedge Accounting
Amendments to IAS 19	Employee contributions
Improvements to IFRSs (2010–2012)	
Improvements to IFRSs (2011–2013)	
IFRIC 21	Levies

IFRS 9 – Financial Instruments: Classification and Measurement

The amendment of the standard will not have any material effects on the Group's net assets, financial position or results of operations.

IFRS 9 – Financial Instruments: Hedge Accounting

The amendment of the standard will not have any material effects on the Group's net assets, financial position or results of operations.

Amendments to IAS 19 – Employee Contributions

The amendment of this standard will not have any effects on the Group's net assets, financial position and results of operations as no contributions from employees or third parties to the pension plan are recorded as a reduction of service cost in the Group.

Improvements to IFRSs (2010–2012)

The omnibus of improvements was issued in December 2013 and becomes effective for the most part for fiscal years beginning on or after July 1, 2014. It encompasses the following amendments:

- IFRS 2 – The amendment will not have any effect on the Group's net assets, financial position and result of operations as no effects result from the amended definition.
- IFRS 3 – The amendment clarifies the classification and measurement of a contingent consideration in the context of business combinations. Whether a contingent consideration is a liability or an equity instrument is assessed only on the basis of the requirements of IAS 32.11. The amendment of the standard will be taken into account for future business combinations.
- IFRS 8 – Segment reporting is not affected by the disclosures on the aggregation of business segments and the reconciliation of the totals of the reportable segments' assets to the entity's assets.
- IFRS 13 – Clarification of the amendment to IFRS 9 with respect the measurement of short-term receivables and payables as a result of the issue of IFRS 13 has no material effect on the net assets, financial position and results of operations of the Group.
- IAS 16/IAS 38 – The amendment will not have a material effect on the Group's net assets, financial position and results of operations as the Group mainly uses the cost model for recognition and measurement.
- IAS 24 – With this amendment, the IASB clarifies that entities that provide key planning, management and controlling services to another entity qualify as a related party within the meaning of IAS 24. It also provides relief for disclosures relating to management services. The amendment will be taken into account when a group company renders such services for a third party in the future.

Improvements to IFRSs (2011–2013)

The omnibus of improvements was issued in December 2013 and becomes effective for fiscal years beginning on or after January 1, 2014. It encompasses the following amendments:

- IFRS 1 – The amendment of the standard will not have any effect on the Group's net assets, financial position and result of operations as the Group is not a first-time adopter.
- IFRS 3 – Clarification that the formation of joint arrangements is excluded from the scope of IFRS 3 has not effect on the Group's net assets, financial position and results of operations.
- IFRS 13 – Clarification on the scope of the exception for measurement on a portfolio basis pursuant to IFRS 13.48 et seq has no effect on the Group's net assets, financial position and results of operations.
- IAS 40 – Clarification on the scope of IFRS 3 and IAS 40 for the classification of property as investment property or as owner-occupied property has no effect on the net assets, financial position and results of operations of the Group.

IFRIC 21 Levies

The interpretation was issued in May 2013 and defines when a levy payable to public authorities should be initially recognized. The amendment will be taken into account if the Group has any such transactions in the future.

4.2 Accounting Policies for Selected Items

4.2.1 Goodwill

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

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

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

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

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

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

The impairment tests are performed on the defined (groups of) CGUs in accordance with the provisions of IAS 36 using the discounted cash flow method based on the values in use, which correspond to the recoverable amount. Data from business planning was used for this purpose. The calculation of the present value of future cash flows is based on significant assumptions, particularly with respect to future sales prices, sales quantities and costs. The plan is based on the detailed planning period up to fiscal 2018. The cash flow for 2018 was projected for the period following the detailed planning period, assuming an increase in working capital as well as in the intangible assets and property, plant and equipment for 2017 in line with the growth mark-up of 1 percent.

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

4.2.2 Internally Generated Intangible Assets

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

Investment in our enterprise software as part of our large-scale IT project and in our machine control technology **power**Control and the machine interface system power**Touch** was capitalized.

Amortization is generally charged over an expected useful life of five years using the straight-line method. It is charged from the date on which economic use of the asset begins, i.e., generally upon the start of production.

4.2.3 Other Intangible Assets

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

4.2.4 Property, Plant and Equipment

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

Depreciation is generally based on the following useful lives:

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

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

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

4.2.5 Government Grants

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

4.2.6 Finance Leases and Operating Leases

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

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

4.2.7 Financial Instruments

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

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

IAS 39 distinguishes between the following categories of financial instruments:

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

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

Loans and receivables originated by the Company that are not held for trading are classified as "Other financial assets" and measured at their amortized cost (less impairment losses) using the effective interest method.

Non-derivative financial instruments that do not satisfy the criteria for classification in another category are classified as "Available-for-sale financial assets."

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

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

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

Apart from loans and receivables, the Homag Group has financial instruments held for trading in the form of derivatives without a hedging relationship and derivatives as part of an effective hedge. The Group had not recognized any financial assets or liabilities at fair value through profit loss as of December 31, 2013 or December 31, 2012.

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

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

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

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

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

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

Impairment of Financial Assets

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

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

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

4.2.8 Inventories

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

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

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

4.2.9 Long-term Construction Contracts

Construction contracts that satisfy the criteria of IAS 11 are accounted for using the **percentage of completion (PoC) method**. As a result, the criteria of IAS 11 are satisfied within the HOMAG Group whenever customer-specific contracts have a lower degree of standardization. This can be assumed, for instance, whenever a significant amount of material expenses are incurred for made-to-order contracts. The stage of completion to be recognized is calculated per contract, generally using the cost-to-cost method. The corresponding profit on the construction contract is recognized on the basis of the percentage of completion calculated in this way. These contracts are recognized under receivables or liabilities from long-term construction. If the work in process exceeds the prepayments, construction contracts are reported on the asset side under receivables from long-term construction. If the balance is negative after deducting the prepayment, the item is reported under liabilities from long-term construction. If the total costs are expected to exceed total income, the expected losses are expensed immediately. If the profit on the construction contract cannot be determined reliably, revenue is only recognized to the extent of the contract costs incurred.

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See glossary for more information.

4.2.10 Receivables and Other Assets

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

4.2.11 Deferred Taxes

Deferred taxes are set up in accordance with IAS 12 on all temporary differences between the carrying amounts in the consolidated statement of financial position and the tax base of the assets and liabilities (liability method) as well as for unused tax losses, provided they are capable of being used in the next five years based on current business planning and have no history of loss. Deferred tax assets for accounting and measurement differences as well as for unused tax losses are only recorded to the extent that it is sufficiently probable that these differences will lead to realization of the corresponding benefit in the future. Deferred taxes are determined on the basis of the tax rates that apply or that are expected to apply based on the current or expected legislation in the individual countries at the time of realization. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities can only be offset against each other provided that they relate to taxes levied by the same taxation authority.

4.2.12 Non-current Assets Held for Sale

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

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

4.2.13 Pensions and Other Post-employment Benefits

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

Actuarial gains and losses are recognized outside profit or loss in the period in which they occur under other comprehensive income. Service cost is disclosed under personnel expenses and interest expenses under the corresponding item in the income statement.

In the case of the defined contribution plans, the Homag Group has no additional obligation other than payment of contributions to the insurance companies or other special purpose funds.

4.2.14 Obligations from Employee Profit Participation

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

Employees that acquire silent participations are entitled to participate in the profits of the Company as recognized in the financial statements prepared according to commercial law. This profit participation is partly used to repay the loan granted, and the remaining amount is paid out to the participating employee. Loss allocations reduce future profit allocations. Employee benefits in connection with the silent participation program qualify as employee benefits within the meaning of IAS 19. If profit allocable to an employee is paid out directly, this is treated as a short-term employee benefit. If the profit allocable to the employee is used to repay the loan used to finance the silent participation, the Company recognizes another long-term employee benefit, which matures upon termination of the silent participation. This is generally the case when the employee leaves the Company.

The present value of the obligations from employee profit participation is determined by taking account of biometric data based on actuarial principles.

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

4.2.15 Share-based Payments

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

The cost of cash-settled transactions is measured initially at fair value at the grant date using an option price model (for details, reference is made to Note 5.6 “Total remuneration of the supervisory board and management board and the supervisory board”. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date with changes in fair value recognized in the income statement.

4.2.16 Other Provisions

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

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

4.2.17 Liabilities

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

4.2.18 Borrowing Costs

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

4.2.19 Revenue Recognition

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

Sale of Goods

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

Long-term Construction Contracts

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

Interest Income

Interest income is recognized when interest accrues

4.2.20 Assumptions and Estimates

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

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

Development Costs

Development costs are capitalized in accordance with the accounting policy explained in the section "Accounting Policies". Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. The carrying amount of capitalized development costs came to EUR 26,713 k as of December 31, 2013 (prior year: EUR 28,556 k).

Goodwill

The Group tests goodwill for impairment at least once a year. This requires an estimation of the value in use of the CGUs to which the goodwill is allocated. Estimating a value in use requires management to make an estimate of the expected future cash flows from the CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2013 was EUR 14,240 k (prior year: EUR 14,240 k). We refer to note 6.2 for further information.

Receivables

In the course of determining specific bad debt allowances, receivables that could potentially be impaired are assessed and an impairment loss recognized if needed. Impairments of doubtful debts are largely based on estimates and judgments of individual receivables which take into account the credit standing and payment arrears of individual customers as well as current economic developments and historical experience of default.

Deferred Tax Assets

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

Non-current Assets Held for Sale

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

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

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

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

Pensions and Other Post-employment Benefits

The cost of providing post-employment benefits under defined benefit plans is determined using actuarial calculations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on plan assets, mortality rates and future pension increases. As these plans are of a long-term nature, such estimates are highly uncertain. As of December 31, 2013, the provision for pensions and other post-employment benefits amounted to EUR 2,997 k (prior year: EUR 3,440 k). We refer to note 6.16 for further information.

Employee Profit Participation

The obligations from employee profit participation are determined using actuarial calculations. The actuarial valuation involves making assumptions about discount rates and expected retirement age of employees. The liabilities from employee profit participation as of December 31, 2013 amounted to EUR 13,275 k (prior year: EUR 13,133 k). We refer to note 6.17 for further information.

Accrued Liabilities and Provisions

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

Share-based Payments

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

4.2.21 Cash Flow Statement

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

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

FIGURES IN EUR K	2012	2013
Cash on hand	120	75
Checks	38	79
Bank balances	45,399	44,785
	45,557	**44,939**

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

5. Notes to individual Income Statement Icons

5.1 Sales Revenue

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

FIGURES IN EUR K	2012	2013
Germany	**205,152**	**169,134**
Other EU countries	238,118	261,822
Rest of Europe	103,116	114,171
North America	67,534	71,959
Central/South America	35,678	33,983
Asia/Pacific	114,046	133,940
Africa	3,307	3,816
Other countries	**561,799**	**619,691**
Total	**766,951**	**788,825**

The location of the customer is used to determine allocation to the regions.

Sales revenue contains the amounts charged to customers for goods and services – less any sales deductions and discounts.

Under long-term construction contracts, sales revenue of EUR 279,651 k (prior year: EUR 253,904 k) was recorded from customized construction contracts in the reporting year using the percentage of completion method.

5.2 Own Work Capitalized

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

5.3 Other Operating Income

Other operating income comprises the following:

FIGURES IN EUR K	2012	2013
Exchange rate gains	4,360	3,158
Income from private car usage	2,386	2,527
Income from cost allocations to third parties	2,149	2,474
Gains on disposal of non-current assets	2,076	2,188
Income from the reversal of specific bad debt allowances	1,698	1,513
Income from cost reimbursements	826	1,019
Canteen revenues	657	636
Commission received	755	575
Other income	5,466	2,331
	20,373	**16,421**

5.4 Cost of Materials

FIGURES IN EUR K	2012	2013
Cost of raw materials, consumables and supplies and purchased goods	304,858	322,632
Cost of purchased services	25,295	19,338
	330,153	**341,970**

5.5 Personnel Expenses and Number of Employees

FIGURES IN EUR K	2012	2013
Wages and salaries	237,693	241,957
Social security, pension and other benefit costs	43,639	44,184
thereof pension benefits	17,389	16,959
	281,332	**286,141**

Personnel expenses include refunds from the Federal Employment Agency in Germany of EUR 68 k (prior period: EUR 137 k). These refunds are for government-subsidized reduced working hours as well as for social security expenses for various German production companies borne by the employer.

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

FIGURES IN EUR K	2012	2013
Result from employee participation	7,030	6,966

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

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

	Total 2012	Germany	Outside Germany	Total 2013
Wage earners	2,052	1,627	365	**1,992**
Salaried employees	2,680	1,830	882	**2,712**
Trainees	343	330	4	**334**
	5,075	**3,787**	**1,251**	**5,038**

5.6 Total remuneration of the Supervisory Board and Management Board

Total Remuneration of the Supervisory Board

The remuneration of the supervisory board members in fiscal 2013 amounted to EUR 364 k (prior year: EUR 426 k). This did not contain a performance-based remuneration component (prior year: EUR 45 k). As in the prior year, all remuneration is current.

Total Remuneration of the Management Board

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

FIGURES IN EUR K	2012	2013
Current remuneration	1,879	1,958
Long-term-incentives (LTI)	374	940
	2,253	**2,898**

Since a positive value-added – the basic requirement – was satisfied for the short-term incentive (STI), a performance-based component of EUR 518 k will be paid out under this program for 2013 following the 2014 annual general meeting. In the reporting year, EUR 283 k was paid for 2012. The STI is capped at 150 percent of the actual fixed annual remuneration paid out in the fiscal year in question and is reached with a HVA (HOMAG Value Added) of 4 percent.

The expense of EUR 940 k recognized in total in profit or loss in fiscal year 2013 in connection with share-based payments (prior year: EUR 374 k) relates exclusively to cash-settled share-based payment transactions within the meaning of IFRS 2.30 et seq.

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

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

The share appreciation rights have a contractual term from 2011 through 2013 for the first reference period, from 2012 through 2014 for the second reference period and from 2013 through 2015 for the third reference period. The fair value of the share appreciation rights is determined as at the date of issue using a binominal model and taking into account the conditions under which the instruments were granted. The expenses for the benefits received or the debt to settle these benefits are recognized over the vesting period. The liability is remeasured at each reporting date and on the grant date, with changes in fair value recognized in the income statement.

The following tables present the parameters underlying the measurement of share appreciation rights for the fiscal year ended December 31, 2013:

FIRST REFERENCE PERIOD 2011 THROUGH 2013	2012
Dividend yield (%)	1.81
Expected volatility (%)	50.00
Risk-free interest rate (%)	0.33
Expiry of options	Dec. 31, 2013
Relevant opening price (EUR)	15.46

SECOND REFERENCE PERIOD 2012 THROUGH 2014	2012	2013
Dividend yield (%)	2.33	2.51
Expected volatility (%)	50.00	32.00
Risk-free interest rate (%)	0.38	0.13
Expiry of options	Dec. 31, 2014	Dec. 31, 2014
Relevant opening price (EUR)	10.06	10.06

THIRD REFERENCE PERIOD 2013 THROUGH 2015	2013
Dividend yield (%)	2.80
Expected volatility (%)	34.00
Risk-free interest rate (%)	0.24
Expiry of options	Dec. 31, 2015
Relevant opening price (EUR)	12.96

The remuneration of the member of the management board for fiscal year 2013 in accordance with HGB amounted to EUR 3,124 k (prior year: EUR 2,514 k). This includes a performance-based remuneration component of EUR 1,684 k (prior year: EUR 918 k), of which EUR 1,166 k pertained to long-term incentives (LTI) (prior year: EUR 635 k). Figures given for the LTI are not actual values, but rather fair values on the date of granting calculated using financial modeling methods. The share-based payments relate exclusively to cash-settled share-based payment transactions, meaning the volume disclosures is not of consequence. As regards the disclosures pursuant to Sec. 314 No. 6a Sentences 5 to 8 HGB, we refer to the combined management report of Homag Group AG and the Group (Note 9.3 “Remuneration Report”).

Remuneration of Former Board Members

Pension provisions of EUR 662 k (prior year: EUR 644 k) were set up for former members of the management board of IMA AG, which was merged into Homag Group AG in 1999. The pension payments made amounted to EUR 60 k in the past fiscal year (prior year: EUR 58 k).

5.7 Amortization of Intangible Assets

FIGURES IN EUR K	2012	2013
Scheduled amortization of intangible assets	11,732	15,624
Impairment charges on intangible assets	0	379
	11,732	16,003

5.8 Depreciation of Property, Plant and Equipment

FIGURES IN EUR K	2012	2013
Scheduled depreciation of property, plant and equipment	16,260	15,357
Impairment charges on property, plant and equipment	114	15
	16,374	15,372

5.9 Other Operating Expenses

Other operating expenses comprise the following:

FIGURES IN EUR K	2012	2013
Travel expenses and entertainment	17,625	17,648
Sales commission, special direct selling costs	11,329	13,741
Transportation expenses	11,383	11,346
Legal expenses and consulting fees, license fees and patent costs	7,884	8,201
Rental and lease expenses	9,531	8,483
Advertising and trade fair expenses	7,279	8,319
Maintenance	8,219	7,689
Exchange rate losses	5,339	5,961
Incidental personnel expenses	3,163	4,503
Office supplies, postage and telecommunication costs	4,672	4,350
Expenses from money transactions	2,433	1,588
Bad debt allowances for trade receivables	3,369	1,461
Insurance costs	1,280	1,369
Other taxes	1,769	1,137
Construction costs	1,050	955
Donations, fees, dues and contributions	858	931
Cleaning costs	971	899
Bad debts	314	660
Losses on disposal of non-current assets	1,096	353
Sundry other expenses	19,686	24,793
	119,250	124,387

5.10 Profit / Loss from Associates

The profit/loss from investments measured using the equity method is attributable to Stiles Machinery Inc., Grand Rapids, USA (EUR 951 k; prior year: EUR 394 k) as well as Homag China Golden Field Ltd., Hong Kong, China (EUR 1,194 k; prior year: EUR 742 k).

5.11 No Disclosure

5.12 No Disclosure

5.13 Interest Income / Interest Expenses

FIGURES IN EUR K	2012	2013
Interest income on loans granted and other receivables	579	645
Other interest and similar income	2,183	1,585
Total interest income of all financial receivables which were not recognized by the Company for mark-to-market measurement	**2,762**	**2,230**
Interest income	**2,762**	**2,230**
Interest expenses from		
liabilities to banks	–7,383	–5,654
unwinding of the discount on profit participation rights	–24	0
obligations from finance leases	–306	–259
Interest expenses from unwinding the discount on transaction costs	–1,711	–762
Other interest and similar expenses	–1,053	–905
Total interest expenses of all financial liabilities which were not recognized by the Company for mark-to-market measurement	**–10,477**	**–7,580**
Interest expenses from unwinding the discount on provisions	–478	–408
Interest expenses from derivative financial instruments	–23	–173
Interest expenses	**–10,978**	**–8,161**
Net interest	**–8,216**	**–5,931**

5.14 Taxes on Income and Deferred Taxes

Tax Expense

Income tax expenses are classified by origin as follows:

FIGURES IN EUR K	2012	2013
Current taxes	9,036	8,535
Deferred taxes		
from temporary measurement differences	364	92
form unused tax losses carried forward	2,711	3,193
	12,111	**11,820**

The tax expense was reduced by EUR 478 k on account of utilization of unused tax losses on which no tax assets had previously been recognized (prior year: EUR 0 k).

The tax expense based on the earnings before taxes of EUR 30,860 k (prior year: EUR 24,290 k) and on the applicable consolidated tax rate for the Homag Group entities in Germany of 28.075 percent (prior year: a theoretical tax rate of 28.075 percent) is reconciled to the current tax expense as follows:

FIGURES IN EUR K	2012	2013
Theoretical tax expense (–) / income (+)	–6,819	–8,664
Differences due to the tax rate	353	271
Tax reductions (+) / tax increases (–) due to tax-free income or non-deductible expenses	–1,062	–220
Change in write-downs on deferred taxes recognized on unused tax losses and on temporary measurement differences	–3,747	–2,402
Other differences	–836	–805
Income taxes (current tax expense (–) / income (+))	**–12,111**	**–11,820**

Other differences partly result from the tax income for prior years amounting to EUR 18 k (prior year: tax expense of EUR 933 k).

Deferred taxes were not recognized on the profits of EUR 47,706 k (prior year: EUR 49,199 k) retained by subsidiaries since it is planned to use these profits to secure and expand the volume of business at these entities.

The deferred taxes recognized without effect on profit or loss amount to EUR 177 k (prior year: EUR 133 k). These deferred taxes recognized without effect on profit or loss are reported in the statement of comprehensive income and relate exclusively to deferred taxes recognized on actuarial gains and losses.

Deferred Tax Assets and Liabilities

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

	Deferred tax assets		Deferred tax liabilities	
FIGURES IN EUR K	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013
Intangible assets and property, plant and equipment	893	829	13,836	13,086
Inventories	3,567	3,303	1,497	2,127
Current receivables and other assets	2,186	1,669	987	826
Other assets	389	605	363	111
Non-current financial liabilities	915	1,511	532	449
Non-current liabilities and provisions	4,165	4,503	60	14
Sundry current liabilities and deferred income	6,695	5,485	309	152
Other current provisions	333	450	3,963	4,818
Other liabilities	2,254	3,091	10,622	10,727
	21,397	**21,446**	**32,169**	**32,310**
Netting	−19,269	−19,175	−19,269	−19,175
Deferred taxes from temporary measurement differences	2,128	2,271	12,900	13,135
Deferred taxes on unused tax losses	9,928	6,735	—	—
	12,056	**9,006**	**12,900**	**13,135**

Valuation allowances on the carrying amount of the deferred tax assets are recorded if realization of the expected benefits from the deferred taxes is not sufficiently probable. The estimate made can be subject to change over time, which can then lead to a write-up in subsequent periods. The change in write-downs on the carrying amount of unused tax losses had a EUR 1,959 k effect on the tax expense (prior year: EUR 3,694 k). The change in write-downs on the temporary differences had a EUR 443 k effect on the tax expense (prior year: EUR 53 k).

As of December 31, 2013, the existing unused tax losses on which deferred tax assets were recognized were for corporate income tax (EUR 21,401 k; prior year: EUR 29,490 k), for trade tax (EUR 20,182 k; prior year: EUR 26,701 k) and on foreign unused tax losses (EUR 2,514 k; prior year: EUR 6,509 k). There were unused tax losses on which no tax assets were recognized because they could not be utilized for corporate income tax (EUR 49,685 k; prior year: EUR 44,737 k), for trade tax (EUR 45,878 k; prior year: EUR 43,030 k) and for foreign taxes (EUR 23,139 k; prior year: EUR 22,436 k).

The unused tax losses can be carried forward for an indefinite period. Of the total amount of unused tax losses abroad of EUR 25,654 k, a partial amount of EUR 22,113 k can be carried forward for an indefinite period. Unused tax losses of EUR 428 k expire in the next two to five years. An amount of EUR 3,113 k expires in more than five years.

5.15 No Disclosure

5.16 No Disclosure

5.17 Earnings per Share

The basic earnings per share is determined pursuant to IAS 33 by dividing the profit attributable to the shareholders of Homag Group AG by the weighted average number of shares outstanding. Earnings per share after non-controlling interests came to EUR 18,426 k (prior year: EUR 12,680 k) and led to earnings per share of EUR 1.17 (prior year: EUR 0.81). There is no difference between diluted and basic earnings.

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

	2012	2013
Profit/loss attributable to the owners of Homag Group AG for the calculation of earnings in EUR k	12,680	18,426
Earnings per share in EUR	0.81	1.17
Earnings per share pursuant to IAS 33 in EUR	**0.81**	**1.17**
Weighted average number of shares (basis for the calculation of earnings per share)	15,688,000	15,688,000

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

5.18 Dividends Paid and Proposed

In 2013, a dividend of EUR 3,922,000.00 was paid for fiscal 2012.

A proposal will be submitted to the annual general meeting on June 3, 2014 to appropriate the retained earnings of EUR 45,807,890.30 disclosed in the financial statements of Homag Group AG as of December 31, 2013 as follows:

- Distribution of a dividend of EUR 0.35 per participating no-par value share for the 15,688,000 participating no-par value shares, or EUR 5,490,800 in total
- Carry forward of EUR 40,317,090.30 to new account

FIGURES IN EUR K	2012	2013
Dividend distribution	3,922	5,491
Retained earnings carried forward	26,744	40,317
	30,666	**45,808**

FIGURES IN EUR	2012	2013
Dividend per participating no-par value share	0.25	0.35 [1]

1 Proposed

6. Notes to the Statement of Financial Position

6.1 Intangible Assets / Property, Plant and Equipment

Changes in the non-current assets of the of the Homag Group 2013

FIGURES IN EUR K	Acquisition and production cost					
	As of Jan. 1, 2013	Currency differences	Additions	Disposals	Reclassi-fications	As of Dec. 31, 2013
I. Intangible assets						
1. Industrial rights	53,385	−113	7,757	−1,314	4,699	64,414
thereof leases	2,237	0	3,539	1	95	5,872
2. Goodwill	16,855	0	0	0	0	16,855
3. Internally generated intangible assets	52,307	0	7,622	−1,991	976	58,914
4. Prepayments	14,140	0	4,743	−1,132	−5,675	12,076
	136,687	**−113**	**20,122**	**−4,437**	**0**	**152,259**
II. Property, plant and equipment						
1. Land, land rights and buildings	165,160	−921	2,267	−2,954	198	163,750
thereof leases	4,000	0	0	0	0	4,000
2. Technical equipment and machines	76,698	−304	754	−2,193	63	75,018
thereof leases	15,329	−3	0	0	0	15,326
3. Other equipment, furniture and fixtures	78,023	−723	5,484	−6,194	50	76,640
thereof leases	8,107	−33	1,496	−1,941	0	7,629
4. Prepayments and assets under construction	441	0	435	0	−311	565
	320,322	**−1,948**	**8,940**	**−11,341**	**0**	**315,973**
	457,009	**−2,061**	**29,062**	**−15,778**	**0**	**468,232**

1 Includes impairment losses of EUR 310 k.
2 Includes impairment losses of EUR 69 k.
3 Includes impairment losses of EUR 15 k.

Amortization and depreciation					Carrying amount
As of Jan. 1, 2013	Currency differences	Additions	Disposals	As of Dec. 31, 2013	As of Dec. 31, 2013
40,528	−194	7,400[1]	−1,314	46,420	17,994
2,237	0	796	0	3,033	2,839
2,615	0	0	0	2,615	14,240
23,751	0	8,603[2]	−1,204	31,150	27,764
0	0	0	0	0	12,076
66,894	**−194**	**16,003**	**−2,518**	**80,185**	**72,074**
78,426	−315	4,767[3]	−2,950	79,928	83,822
389	0	111	0	500	3,500
52,711	−161	4,508	−2,076	54,982	20,036
9,931	−2	881	0	10,810	4,516
56,591	−502	6,097	−6,084	56,102	20,538
6,362	−12	1,055	−1,926	5,479	2,150
0	0	0	0	0	565
187,728	**−978**	**15,372**	**−11,110**	**191,012**	**124,961**
254,622	**−1,172**	**31,375**	**−13,628**	**271,197**	**197,035**

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

FIGURES IN EUR K	Acquisition and production cost					
	As of Jan. 1, 2012	Currency differences	Additions	Disposals	Reclassi-fications	As of Dec. 31, 2012
I. Intangible rights						
1. Industrial assets	51,893	13	2,561	−2,213	1,131	53,385
thereof leases	2,237	0	0	0	0	2,237
2. Goodwill	16,855	0	0	0	0	16,855
3. Internally generated intangible assets	42,855	0	9,922	−470	0	52,307
4. Prepayments	8,567	−1	6,710	−5	−1,131	14,140
	120,170	**12**	**19,193**	**−2,688**	**0**	**136,687**
II. Property, plant and equipment						
1. Land, land rights and buildings	162,980	63	6,611	−7,380[1]	2,886	165,160
thereof leases	4,000	0	0	0	0	4,000
2. Technical equipment and machines	75,866	−141	2,980	−5,803	3,796	76,698
thereof leases	16,133	19	31	−854	0	15,329
3. Other equipment, furniture and fixtures	78,055	40	6,865	−7,145	208	78,023
thereof leases	8,038	15	410	−356	0	8,107
4. Prepayments and assets under construction	5,944	3	1,491	−107	−6,890	441
	322,845	**−35**	**17,947**	**−20,435**	**0**	**320,322**
	443,015	**−23**	**37,140**	**−23,123**	**0**	**457,009**

1 Thereof EUR 5,695 k reclassification to the line item "Non-current assets held for sale"

2 Thereof EUR 3,192 k reclassification to the line item "Non-current assets held for sale"

3 Includes impairment losses of EUR 104 k.

4 Includes impairment losses of EUR 10 k.

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

6.2 Intangible Assets

Intangible assets broken down by region developed as follows:

FIGURES IN EUR K	Dec. 31, 2012	Dec. 31, 2013
Germany	**65,189**	**67,350**
Other EU countries	1,262	1,332
Rest of Europe	1,466	1,494
North America	299	333
Central/South America	294	308
Asia/Pacific	1,283	1,257
Other countries	**4,604**	**4,724**
Total	**69,793**	**72,074**

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

In the reporting year, impairment losses of EUR 379 k were charged on intangible assets (prior year: EUR 0 k).

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

In total, EUR 18,386 k was invested in the project, of which the amount of EUR 5,350 k pertains to 2013. Unchanged on the prior year, the useful life is still five years. The rest of the capital expenditure for ProFuture is reported in prepayments made.

Goodwill

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

FIGURES IN EUR K	Dec. 31, 2012	Dec. 31, 2013
CGUs/groups of CGUs		
Homag Holzbearbeitungssysteme GmbH	10,290	10,290
HOLZMA Plattenaufteiltechnik GmbH	23	23
Bargstedt Handlingsysteme GmbH	115	115
Sales Europe	2,634	2,634
Sales Americas	266	266
Sales Asia/Pacific	912	912
Total	**14,240**	**14,240**

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

The WACC pre-tax discount rates underlying the impairment tests performed as of the reporting date December 31, 2013 are presented in the following table:

DETAILED PLANNING PERIOD %	Dec. 31, 2012 2013–2017	Dec. 31, 2013 2014–2018
CGUs/groups of CGUs		
Homag Holzbearbeitungsssysteme GmbH	9.56	9.06
HOLZMA Plattenaufteiltechnik GmbH	9.66	9.15
Bargstedt Handlingsysteme GmbH	9.56	9.12
Sales Europe	9.48	8.87
Sales Americas	9.96	9.46
Sales Asia/Pacific	9.46	8.79

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

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

Internally Developed Software and Other Development Costs

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

In the fiscal year 2013, expensed research and development costs totaled EUR 20,719 k (prior year: EUR 22,404 k).

6.3 Property, Plant and Equipment

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

FIGURES IN EUR K	Dec. 31, 2012	Dec. 31, 2013
Germany	**94,200**	**89,178**
Other EU countries	15,946	14,955
Rest of Europe	5,341	5,277
North America	2,183	1,894
Central/South America	2,149	2,145
Asia/Pacific	12,775	11,512
Other countries	**38,394**	**35,783**
Total	**132,594**	**124,961**

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

In the reporting period, impairment losses within the meaning of IAS 36 amounting to EUR 15 k (prior year: EUR 114 k) were charged on property, plant and equipment.

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

FIGURES IN EUR K	Carrying amount Dec. 31, 2012	Carrying amount Dec. 31, 2013
Intangible assets	0	2,839
Land, land rights and buildings	3,611	3,500
Technical equipment and machines	5,398	4,516
Other equipment, furniture and fixtures	1,745	2,150
	10,754	**13,005**

The underlying interest rates of the agreements vary depending on the date on which the agreements were concluded between 2.80 percent and 7.99 percent p. a. The payments due in the future from finance lease arrangements, the corresponding interest components and the present value of future lease payments, which are accounted for under financial liabilities accordingly, are shown in the table below:

FIGURES IN EUR K	Dec. 31, 2012 Total	Due in less than 1 year	Due in between 1 and 5 years	Due in more than 5 years	Dec. 31, 2013 Total
Minimum lease payments	8,324	3,544	5,136	1,116	9,796
Discount amounts	759	284	304	104	692
Present values	**7,565**	**3,260**	**4,832**	**1,012**	**9,104**

Some agreements include purchase options.

Obligations from Rent and Lease Agreements (Operating Leases)

The terms to maturity of minimum lease payments under non-cancelable operating leases and rent agreements are as follows:

FIGURES IN EUR K	Dec. 31, 2012	Dec. 31, 2013
Due in less than 1 year	5,149	5,060
Due in between 1 and 5 years	10,569	10,693
Due in more than 5 years	580	1,284
	16,298	**17,037**

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

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

FIGURES IN EUR K	2012	2013
Minimum lease payments	9,086	8,483

Government Grants

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

FIGURES IN EUR K	Acquisition and production cost			Amortization and depreciation				Carrying amount
	As of Jan. 1, 2013	Disposals	As of Dec. 31, 2013	As of Jan. 1, 2013	Additions	Disposals	As of Dec. 31, 2013	As of Dec. 31, 2013
II. Property, plant and equipment								
1. Land, land rights and buildings	1,111	0	1,111	438	42	0	480	631
2. Technical equipment and machines	36	66	−30	46	−4	67	−25	−5
	1,147	**66**	**1,081**	**484**	**38**	**67**	**455**	**626**

FIGURES IN EUR K	Acquisition and production cost			Amortization and depreciation				Carrying amount
	As of Jan. 1, 2012	Disposals	As of Dec. 31, 2012	As of Jan. 1, 2012	Additions	Disposals	As of Dec. 31, 2012	As of Dec. 31, 2012
II. Property, plant and equipment								
1. Land, land rights and buildings	1,111	0	1,111	397	41	0	438	673
2. Technical equipment and machines	275	−239	36	275	9	−238	46	−10
3. Other equipment, furniture and fixtures	4	−7	−3	4	0	−7	−3	0
	1,390	**−246**	**1,144**	**676**	**50**	**−245**	**481**	**663**

6.4 Investments in Associates and Other Investments

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

FIGURES IN EUR K	Dec. 31, 2012	Dec. 31, 2013
Total assets	23,821	29,106
Total liabilities	17,750	21,045
Equity	**6,071**	**8,061**

FIGURES IN EUR K	2012	2013
Total sales revenue	49,361	64,601
Profit/loss for the year	1,136	2,145

6.5 Inventories

FIGURES IN EUR K	Dec. 31, 2012	Dec. 31, 2013
Raw materials, consumables and supplies	51,594	47,192
Work in process	18,381	29,644
Finished goods, merchandise	55,838	53,995
Prepayments	2,154	2,678
	127,967	**133,509**

Valuation allowances of EUR 419 k (prior year: EUR 1,177 k) were recognized on inventories through profit or loss in 2013. Inventories carried at fair value less costs to sell, i.e., on which impairment losses have been charged, amount to EUR 65,049 k (prior year: EUR 55,762 k). An amount of EUR 97,076 k (prior year: EUR 94,357 k) was pledged as collateral on loans in the reporting period.

6.6 Receivables and Other Assets

	Dec. 31, 2012			Dec. 31, 2013		
		Due in			Due in	
FIGURES IN EUR K	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Trade receivables	86,497	84,959	1,538	91,773	90,512	1,261
Receivables from long-term construction contracts	23,231	23,231	0	21,538	21,538	0
Receivables from associates	13,792	13,792	0	15,393	15,393	0
Other financial assets	9,407	8,271	1,136	9,059	8,327	732
Other assets and prepaid expenses	4,824	4,751	73	5,907	5,852	55
Income tax receivables	3,561	1,811	1,750	3,896	2,543	1,353
	141,312	**136,815**	**4,497**	**147,566**	**144,165**	**3,401**

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

Trade receivables totaling EUR 5,634 k (prior year: EUR 7,185 k) were sold under factoring agreements.

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

FIGURES IN EUR K	2012	2013
As of January 1	**13,803**	**12,602**
Exchange rate effects	−39	−258
Charge for the year	−2,833	−3,882
Unused amounts written off	−1,698	−1,513
Increase in impairments recognized in profit or loss	3,369	1,461
As of December 31	**12,602**	**8,410**

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

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

FIGURES IN EUR K	2012	2013
Bad debt expenses on trade receivables	–314	–660
Income from the receipt of payments on trade receivables that had been written off	28	33

All changes in bad debt allowances, expenses from writing off bad debts and income from receivables that had been written off are recognized in other operating income or other operating expenses.

The maturity profile of trade receivables from third parties and associates as well as receivables from long-term construction contracts is presented in the following table:

FIGURES IN EUR K	Dec. 31, 2012	Dec. 31, 2013
Receivables neither past due nor impaired	80,164	87,084
Receivables past due but not impaired		
less than 90 days	27,102	27,471
90 to 179 days	4,722	4,162
180 to 365 days	6,073	3,158
1 year or more	3,000	3,666
Total receivables past due but not impaired	**40,897**	**38,457**
Impaired receivables	15,061	11,573
Trade receivables, gross	**136,122**	**137,114**
Impairment losses	–12,602	–8,410
Net amount/carrying amount of trade receivables	**123,520**	**128,704**

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

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

6.7 Long-term Construction Contracts

In the receivables from long-term construction contracts, the sales revenue recognizable in accordance with the percentage of completion is offset against the prepayments received for each contract. As of the reporting date, contract costs incurred for long-term construction contracts and profits disclosed of EUR 41,844 k (prior year: EUR 45,151 k) were offset against prepayments received of EUR 22,714 k (prior year: EUR 25,236 k). This resulted in receivables of EUR 21,538 k (prior year: EUR 23,231 k) and liabilities of EUR 2,408 k (prior year: EUR 3,316 k).

6.8 Other Financial Assets

Other financial assets break down as follows:

	Dec. 31, 2012			Dec. 31, 2013		
		Thereof due in			Thereof due in	
FIGURES IN EUR K	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Other non-derivative financial assets						
Loans extended	545	0	545	244	80	164
Receivables from factoring agreements	346	346	0	563	563	0
Sundry	8,504	7,913	591	8,205	7,637	568
Derivative financial assets	12	12	0	47	47	0
	9,407	**8,271**	**1,136**	**9,059**	**8,327**	**732**

The derivative financial assets concern receivables from derivative currency and interest transactions totaling EUR 47 k (prior year: EUR 12 k).

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

The fair value hierarchy is presented in Note 7.1.1.

6.9 Other Assets and Prepaid Expenses

Other assets and prepaid expenses break down as follows:

	Dec. 31, 2012			Dec. 31, 2013		
		Thereof due in			Thereof due in	
FIGURES IN EUR K	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Excise duties claims	2,687	2,687	0	4,301	4,301	0
Prepaid expenses	2,137	2,064	73	1,606	1,551	55
	4,824	**4,751**	**73**	**5,907**	**5,852**	**55**

6.10 Income Tax Receivables

	Dec. 31, 2012			Dec. 31, 2013		
		Thereof due in			Thereof due in	
FIGURES IN EUR K	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Income tax claims	**3,561**	1,811	1,750	**3,896**	2,543	1,353

The income tax receivables primarily concern corporate income tax credits that will flow to the Group in the years 2014 through 2017 as well as receivables from current income taxes.

6.11 Cash and Cash Equivalents

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

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

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

6.12 Non-current Assets Held for Sale

The non-current assets held for sale as of the reporting date pertain to land and buildings of a company from the Industry segment, which is subject to the requirements of IFRS 5. The sale is scheduled to be completed within a year. As the fair value less costs to sell of all assets exceeded their carrying amount, it was not necessary to recognize an impairment loss.

A gain of EUR 2.1 million was generated from the disposal of land and buildings classified in the prior year as “non-current assets held for sale”. This is reported in other operating income.

6.13 Equity

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

6.13.1 Issued Capital

As of December 31, 2013, the issued capital amounted to EUR 15,688 k (prior year: EUR 15,688 k). It has been fully paid in and is split into 15,688,000 no-par value bearer shares with an imputed value of EUR 1 each.

6.13.2 Capital Reserves

As of December 31, 2013, the capital reserve amounted to EUR 32,976 k (prior year: EUR 32,976 k).

6.13.3 Revenue Reserves

The revenue reserves of EUR 102,170 k (prior year: EUR 96,361 k) contain the profits generated in the past by the companies included in the consolidated financial statements, to the extent that they were not distributed. Some goodwill resulting from business combinations before January 1, 2005 was also offset against the revenue reserves. The credit differences from business combinations that arose in the course of the preparation of the opening IFRS statement of financial position and the currency differences reclassified as of January 1, 2005 are also disclosed here.

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

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

6.13.4 Group Profit / Loss for the Year

This item contains the profit or loss of the period.

6.13.5 Non-controlling Interests

Non-controlling interests contain the parts of equity attributable to the minority shareholders. Non-controlling interests are determined using imputed shareholdings, taking indirect shareholdings into account. Non-controlling interests increased from EUR 8,056 k in 2012 to EUR 8,391 k in 2013.

6.14 Financial Liabilities

	Dec. 31, 2012			Dec. 31, 2013		
		Thereof due in			Thereof due in	
FIGURES IN EUR K	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Liabilities to banks	135,027	68,628[1]	66,399	114,127	55,968[1]	58,159
Lease liabilities	7,565	2,266	5,299	9,104	3,260	5,844
	142,592	**70,894**	**71,698**	**123,231**	**59,228**	**64,003**

1 An amount of EUR 35,500 k relating to the existing syndicated loan agreement is reported under current liabilities (prior year: EUR 45,000 k). This does not necessarily lead to a cash outflow in the short term, as these amounts drawn can be prolonged at any time during the four-year term of the syndicated loan agreement.

Liabilities to banks break down as follows:

	Dec. 31, 2012				Dec. 31, 2013			
	Currency	Carrying amount EUR k	No. of months until maturity	Effective interest rate %	Currency	Carrying amount EUR k	No. of months until maturity	Effective interest rate %
Several loans	EUR	13,805	up to 95	3.30–5.90	EUR	10,642	up to 83	3.44–5.90
Loan	DKK	426	69	1.60	DKK	354	57	1.61
Syndicated loan A from 2012	EUR	57,187	45	2.39	EUR	55,373	33	2.74
Syndicated loan C from 2012	EUR	45,000	3[1]	2.49	EUR	35,500	3[1]	2.78–2.84
Overdraft facility/syndicated loan from 2012	EUR	1,928	3[1]	4.63–4.75	EUR	226	3[1]	3.28
Overdraft facility/euro loan	Various	16,681	—	1.73–7.75	Various	12,032	—	1.15–7.75
		135,027				**114,127**		

1 An amount of EUR 35,500 k relating to the existing syndicated loan agreement is reported under current liabilities (prior year: EUR 45,000 k). This does not necessarily lead to a cash outflow in the short term, as these amounts drawn can be prolonged at any time during the four-year term of the syndicated loan agreement.

The syndicated loan and the overdraft facility are subject to variable interest arrangements. The Group's liquidity is secured until September 2016 under a syndicated loan agreement that is contingent on the observance of certain covenants. Collateral has been pledged for liabilities to banks. For further details, please refer to note 7.3.

The fair values of financial liabilities are presented in table 7.1.

6.15 No Disclosure

6.16 Pensions and Other Post-employment Benefits

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

In the Homag Group, the German companies in particular incur expenses for defined contribution plans in the form of contributions to the statutory pension insurance. On a small scale, there are also agreements with employees about the company financing of post-employment benefits in the form of direct insurance. In fiscal 2013, expenses for defined contribution plans in the Homag Group totaled EUR 16,959 k (prior year: EUR 17,389 k).

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

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

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

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

The pension provisions concern obligations from future and current post-employment benefits to current and former employees of the Homag Group as well as their surviving dependants. Only the German companies have such obligations. One foreign Group company has obligations to pay termination benefits. In our estimation there are no special risks pertaining to the pension plan that could burden the Company.

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

AS %	Dec. 31, 2012	Dec. 31, 2013
Discount rate	3.9	3.4
Rate of pension increase	2.0	2.0

Changes in defined benefit obligations and the fair value of plan assets in 2013:

		Pension costs recognized in profit or loss				
FIGURES IN EUR K	Jan. 1, 2013	Current service cost	Interest expense	Return on plan assets	Subtotal recognized in the profit or loss for the period	Benefits paid
Present value of defined benefit obligation	−4,666	−94	−169	0	−263	947
Fair value of plan assets	1,226	0	0	46	46	110
Defined benefit liability	**−3,440**	**−94**	**−169**	**46**	**−217**	**837**

Changes in defined benefit obligations and the fair value of plan assets in 2012:

		Pension costs recognized in profit or loss				
FIGURES IN EUR K	Jan. 1, 2012	Current service cost	Interest expense	Return on plan assets	Subtotal recognized in the profit or loss for the period	Benefits paid
Present value of defined benefit obligation	−4,937	−159	−211	0	−370	413
Fair value of plan assets	1,601	0	0	49	49	110
Defined benefit liability	**−3,336**	**−159**	**−211**	**49**	**−321**	**303**

	Remeasurement gains/losses (–) recognized in other comprehensive income			
	Actuarial gains and losses from changes in financial assumptions	Experience adjustments	Subtotal included in other comprehensive income	Dec. 31, 2013
	−161	−42	−203	−4,185
	0	26	26	1,188
	−161	**−16**	**−177**	**−2,997**

	Remeasurement gains/losses (–) recognized in other comprehensive income				
	Actuarial gains and losses from changes in financial assumptions	Experience adjustments	Subtotal included in other comprehensive income	Plan settlement	Dec. 31, 2012
	−315	−38	−353	580	−4,666
	0	26	26	−340	1,226
	−315	**−12**	**−327**	**240**	**−3,440**

Current service cost is reported under personnel expenses, while the interest expense and expected returns on plan assets are reported on a net basis in the financial result.

Only one company has plan assets in the form of employer's pension liability insurance. Of the pension obligations, a total of EUR 2,091 k (prior year: EUR 3,144 k) relates to obligations not covered by plan assets.

A quantitative sensitivity analysis of key assumptions as of December 31, 2013 is presented in the following:

	Discount rate		Future pension increases	
FIGURES IN EUR K	0.5 % increase	0.5 % decrease	0.25 % increase	0.25 % decrease
Effect on defined benefit obligation	–189	214	52	–50

The following amounts are expected to be paid out in the coming years to settle defined benefit obligations:

FIGURES IN EUR K	2012	2013
Within the next 12 months	284	283
Between 1 and 5 years	1,136	1,136
Between 5 and 10 years	1,790	1,994

At the end of the reporting period, the average term of defined benefit obligations came to 9 years (prior year: 9 years).

6.17 Obligations from Employee Profit Participation

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

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

AS %	Dec. 31, 2012	Dec. 31, 2013
Discount factor	3.90	3.80

6.18 Other Provisions

	Dec. 31, 2012			Dec. 31, 2013		
		Thereof due in			Thereof due in	
FIGURES IN EUR K	Total	less than 1 year	more than 1 year	Total	less than 1 year	more than 1 year
Personnel-related provisions	5,777	1,315	4,462	5,468	826	4,642
Provisions for production and sales	11,821	11,821	0	13,195	13,195	0
Sundry other provisions	2,099	1,473	626	2,314	1,849	465
Other provisions	**19,697**	**14,609**	**5,088**	**20,977**	**15,870**	**5,107**

The provisions relating to production and sales mainly contain provisions for warranty risks.

The personnel provisions mainly contain obligations for long-service bonuses.

Other provisions developed as follows:

FIGURES IN EUR K	As of Jan. 1, 2013	Translation difference	Utilized	Reversed	Increased	As of Dec. 31, 2013
Personnel-related provisions	6,153 [1]	−20	−1,532	−127	994	5,468
Provisions for production and sales	11,821	−35	−7,833	−502	9,744	13,195
Sundry other provisions	2,099	−16	−254	−137	622	2,314
Other provisions	**20,073**	**−71**	**−9,619**	**−766**	**11,360**	**20,977**

1 This prior-year figure was restated due to the adoption of the revised version of IAS 19.

The expenses resulting from the unwinding of the discount on provisions came to EUR 239 k in the fiscal year (prior year: EUR 267 k).

7. Other Explanations

7.1 Financial Instruments

Book values, carrying amounts and fair values by measurement category

FIGURES IN EUR K	Book value Dec. 31, 2013	Carrying amount in statement of financial position IAS 39					
		Amortized cost	Acquisi-tion cost	Fair value	Carrying amount according to IAS 11	Carrying amount according to IAS 17	Fair value Dec. 31, 2013
Assets							
Cash and cash equivalents	44,939	44,939					44,939
Trade receivables	91,773	91,773					91,773
Receivables from associates	15,393	15,393					15,393
Receivables from long-term construction contracts	21,538				21,538		21,538
Other financial assets	494		494				—
Other non-derivative financial assets	9,012	9,012					9,012
Derivative financial assets							
Derivatives without hedging relationship	47			47			47
Equity and liabilities							
Trade payables	65,648	65,648					65,648
Liabilities from long-term construction contracts	2,408				2,408		2,408
Financial liabilities							
Liabilities to banks	114,127	114,127					114,560
Lease liabilities	9,104					9,104	9,680
Derivative financial liabilities							
Derivatives without hedging relationship	79			79			79
Derivatives with hedging relationship	77			77			77
Thereof combined according to measurement categories in accordance with IAS 39							
Loans and receivables	161,117	161,117					161,117
Held-for-sale financial assets	494		494				—
Financial assets held for trading	47			47			47
Financial liabilities measured at amortized cost	179,775	179,775					180,208
Financial liabilities held for trading	79			79			79

FIGURES IN EUR K	Book value Dec. 31, 2012	Carrying amount in statement of financial position IAS 39: Amortized cost	Acquisition cost	Fair value	Carrying amount according to IAS 11	Carrying amount according to IAS 17	Fair value Dec. 31, 2012
Assets							
Cash and cash equivalents	45,557	45,557					45,557
Trade receivables	86,497	86,497					86,497
Receivables from associates	13,792	13,792					13,792
Receivables from long-term construction contracts	23,231				23,231		23,231
Other financial assets	501		501				—
Other non-derivative financial assets	9,395	9,395					9,395
Derivative financial assets							
Derivatives without hedging relationship	12			12			12
Equity and liabilities							
Trade payables	63,650	63,650					63,650
Liabilities from long-term construction contracts	3,316				3,316		3,316
Financial liabilities							
Liabilities to banks	135,027	135,027					135,677
Lease liabilities	7,565					7,565	7,674
Derivative financial liabilities							
Derivatives without hedging relationship	7			7			7
Thereof combined according to measurement categories in accordance with IAS 39							
Loans and receivables	155,241	155,241					155,241
Held-for-sale financial assets	501		501				—
Financial assets held for trading	12			12			12
Financial liabilities measured at amortized cost	198,677	198,677					199,327
Financial liabilities held for trading	7			7			7

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

Available-for-sale financial assets relate exclusively to equity instruments for which a quoted price on an active market is not available. Consequently, their fair value cannot be measured reliably. This concerns strategic investments for which there is no intent to sell at present.

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

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

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

7.1.1 Fair Value Hierarchy

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

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

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

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

Financial assets at fair value through profit or loss:

	Dec. 31, 2012				Dec. 31, 2013			
FIGURES IN EUR K	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivatives without hedging relationship	12	0	12	0	47	0	47	0
Derivatives with hedging relationship	0	0	0	0	0	0	0	0
	12	**0**	**12**	**0**	**47**	**0**	**47**	**0**

Assets that are not measured at fair value, but for which a fair value is reported:

	Dec. 31, 2012				Dec. 31, 2013			
FIGURES IN EUR K	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	45,557	45,557	0	0	44,939	44,939	0	0
Trade receivables	86,497	0	86,497	0	91,773	0	91,773	0
Receivables from associates	13,792	0	13,792	0	15,393	0	15,393	0
Receivables from long-term construction contracts	23,231	0	23,231	0	21,538	0	21,538	0
Other primary financial assets	9,395	0	9,395	0	9,012	0	9,012	0
	178,472	**45,557**	**132,915**	**0**	**182,655**	**44,939**	**137,716**	**0**

Financial liabilities at fair value through profit or loss:

	Dec. 31, 2012				Dec. 31, 2013			
FIGURES IN EUR K	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Derivatives without hedging relationship	7	0	7	0	79	0	79	0
Derivatives with hedging relationship	0	0	0	0	77	0	77	0
	7	**0**	**7**	**0**	**156**	**0**	**156**	**0**

Liabilities that are not measured at fair value, but for which a fair value is reported:

	Dec. 31, 2012				Dec. 31, 2013			
FIGURES IN EUR K	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Trade payables	63,650	0	63,650	0	65,648	0	65,648	0
Liabilities from long-term construction contracts	3,316	0	3,316	0	2,408	0	2,408	0
Liabilities to banks	135,677	0	135,677	0	114,560	0	114,560	0
Lease liabilities	7,674	0	7,674	0	9,680	0	9,680	0
	210,317	**0**	**210,317**	**0**	**192,296**	**0**	**192,296**	**0**

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

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

FIGURES IN EUR K	2012	2013
Derivatives without hedge relationship	12	42

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

FIGURES IN EUR K	2012	2013
Derivatives without hedge relationship	–7	–71

Gains and losses from measuring derivatives without a hedging relationship at fair value are presented either under other operating income/expenses or in the financial result.

7.1.2 Net Gains or Net Losses

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

FIGURES IN EUR K	2012	2013
Financial assets and financial liabilities at fair value through profit and loss	–18	–29
Loans and receivables	–1,957	–574
Financial liabilities at amortized cost	–384	–2,983

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

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

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

In fiscal 2013, the sum of the positive market values of derivative financial instruments recognized in profit or loss came to EUR 47 k (prior year: EUR 12 k), while the sum of their negative market values came to EUR 79 k (prior year: EUR 7 k).

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

7.2 Financial Risk Management Objectives and Policies

General Information on Financial Risks

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

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

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

Credit Risk

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

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

The Group is not exposed to significant credit risk from any individual contractual party or group of contractual parties with similar characteristics. There are no liquid funds past due or impaired at present due to default.

The maximum credit risk from financial assets (including derivatives with positive market value) is equivalent to the carrying amounts recognized in the statement of financial position. As of December 31, 2013, the maximum risk of default is equivalent to the financial assets described in the table “Book values, carrying amounts and fair values by measurement category” totaling EUR 183,196 k (prior year: EUR 178,985 k). The Group has not issued any financial guarantees that could increase its credit risk exposure.

Liquidity Risk

Liquidity risk describes the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group continually monitors the risk of being faced with a shortage of funds. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, loans and finance lease agreements. The Group controls its liquidity by maintaining sufficient cash and cash equivalents and lines of credits at banks in addition to cash inflows from operating activities. In addition, the main group entities have access to liquid funds via a syndicated loan agreement in place between Homag Group AG and a syndicate of banks. This syndicated loan agreement has a term of four years and is tied to compliance with agreed covenants. From the syndicated loan agreement and bilateral agreements entered into between the group entities and banks, the Group had undrawn lines of credit (bank deposits are deducted from the amounts drawn in some cases) of EUR 127,141 k as of December 31, 2013 (prior year: EUR 110,978 k). Of this amount, EUR 30,000 k is earmarked for the financing of acquisitions and the purchase of non-controlling interests in subsidiaries.

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

	Estimated cash flows in the year/years				Carrying amount
FIGURES IN EUR K	2014	2015	2016–2018	2019 et seq.	Dec. 31, 2013
Trade payables	65,648	0	0	0	65,648
Liabilities from long-term construction contracts	2,408	0	0	0	2,408
Financial liabilities					
Liabilities to banks	57,849[1]	9,688	52,684	2,470	114,127
Lease liabilities	3,544	3,200	1,936	1,116	9,104
Derivative financial liabilities					
Derivatives without hedging relationship	79	0	0	0	79
Derivatives with hedging relationship	149	136	85	0	77

1 An amount of EUR 35,500 k relating to the existing syndicated loan agreement is reported under current liabilities. This does not necessarily lead to a cash outflow in the short term, as these amounts drawn can be prolonged at any time during the four-year term of the syndicated loan agreement.

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

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

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

	Cash flows expected in the year/years				Carrying amount
FIGURES IN EUR K	2014	2015	2016–2018	2019 et seq.	Dec. 31, 2013
Inflows	5,372	0	0	0	
Outflows	–5,451	0	0	0	
Net	–79	0	0	0	79

	Cash flows expected in the year/years				Carrying amount
FIGURES IN EUR K	2013	2014	2015–2017	2018 et seq.	Dec. 31, 2012
Inflows	2,671	0	0	0	
Outflows	–2,678	0	0	0	
Net	–7	0	0	0	7

Financial Market Risks

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

Currency Risk

Exposure to currency risks stems from the Group's global orientation and the resulting cash flows in different currencies subject to exchange rate fluctuations. These primarily relate to the US dollar to euro and the Chinese yuan to euro exchange rates.

Some 21 percent (prior year: 19 percent) of the Group's sales revenue is generated in currencies other than the euro. Currency risks for sales revenue generated in volatile currencies are hedged close to the market at the respective sales companies, rather than centrally. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

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

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

	Effect on earnings before taxes	
FIGURES IN EUR K	2012	2013
Appreciation of EUR against other currencies +10 %	–1,682	–2,494
Depreciation of EUR against other currencies –10 %	1,374	2,040

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

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

FIGURES IN EUR K	Effect on earnings before taxes 2013
10 % appreciation of the EUR against the Polish zloty	−60
10 % appreciation of the EUR against the US dollar	−467
10 % appreciation of the EUR against the Australian dollar	−223
10 % appreciation of the EUR against the South Korean won	−153
10 % appreciation of the EUR against the Singapore dollar	53
10 % appreciation of the EUR against the Swiss franc	−120
10 % appreciation of the EUR against the Japanese yen	−219
10 % depreciation of the EUR against the Chinese yuan	−770
10 % appreciation of the EUR against the pound sterling	−43
10 % appreciation of the EUR against the Thai baht	39
10 % appreciation of the EUR against the Russian ruble	−52
10 % appreciation of the EUR against the Canadian dollar	−162
10 % appreciation of the EUR against the Brazilian real	−317
Total	**−2,494**

FIGURES IN EUR K	Effect on earnings before taxes 2013
10 % depreciation of the EUR against the Polish zloty	49
10 % depreciation of the EUR against the US dollar	382
10 % depreciation of the EUR against the Australian dollar	182
10 % depreciation of the EUR against the South Korean won	125
10 % depreciation of the EUR against the Singapore dollar	−43
10 % depreciation of the EUR against the Swiss franc	98
10 % depreciation of the EUR against the Japanese yen	179
10 % depreciation of the EUR against the Chinese yuan	630
10 % depreciation of the EUR against the pound sterling	35
10 % depreciation of the EUR against the Thai baht	−32
10 % depreciation of the EUR against the Russian ruble	43
10 % depreciation of the EUR against the Canadian dollar	133
10 % depreciation of the EUR against the Brazilian real	259
Total	**2,040**

FIGURES IN EUR K	Effect on earnings before taxes 2012
10 % appreciation of the EUR against the Polish zloty	−78
10 % appreciation of the EUR against the US dollar	−301
10 % appreciation of the EUR against the Australian dollar	−152
10 % appreciation of the EUR against the South Korean won	−123
10 % appreciation of the EUR against the Singapore dollar	128
10 % appreciation of the EUR against the Swiss franc	−70
10 % appreciation of the EUR against the Japanese yen	−389
10 % appreciation of the EUR against the Danish krone	32
10 % appreciation of the EUR against the pound sterling	−30
10 % appreciation of the EUR against the Thai baht	35
10 % appreciation of the EUR against the Taiwanese dollar	−59
10 % appreciation of the EUR against the Russian ruble	45
10 % appreciation of the EUR against the Canadian dollar	−168
10 % appreciation of the EUR against the Malaysian ringgit	11
10 % appreciation of the EUR against the Brazilian real	−563
Total	**−1,682**

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

Interest Rate Risk

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

In 2013, Homag Group AG entered into interest rate swaps for existing loans of originally EUR 60,000 k drawn under the syndicated loan agreement concluded in 2012 (as of the reporting date: EUR 57,500 k). The changes in cash flows from the hedged transactions resulting from changes in the Euribor rate are offset by changes in cash flows (offsetting payments) from the interest rate swap. The aim of the hedging measures is to transform the variable-rate financial liabilities into fixed-interest financial liabilities and thus to hedge the risks in the cash flow from the financial liabilities. Credit risks are not hedged.

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

Start	End	Nominal volume EUR k	Reference interest rate
Mar. 4, 2013	Sep. 6, 2016	14,375	3-month Euribor
Mar. 4, 2013	Sep. 6, 2016	19,167	3-month Euribor
Mar. 4, 2013	Sep. 6, 2016	19,167	3-month Euribor
Mar. 4, 2013	Sep. 6, 2016	4,791	3-month Euribor
Total		**57,500**	

Repayments of EUR 2,500 k are made every six months.

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

As of December 31, 2013, 18.5 percent of the financial liabilities entered into were subject to fixed rates of interest (prior year: 15.3 percent). The year-on-year increase stems from the increase in lease liabilities and the decrease in overdraft liabilities.

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

	2012		**2013**	
Change in interest rate in base points	+100	–100	+100	–100
Effect on Group earnings before taxes (EUR k)	–1,319	1,186	–861	708

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

Derivative Financial Instruments

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

	2012		2013	
FIGURES IN EUR K	Nominal value	Fair value	Nominal value	Fair value
Currency hedges with a term of less than 1 year	3,073	5	7,468	−32
Currency hedges with a term of between 1 and 5 years	0	0	0	0
Currency hedges with a term of more than 5 years	0	0	0	0
Total currency-related transactions	**3,073**	**5**	**7,468**	**−32**
Interest hedges with a term of less than 1 year	80,000	0	0	0
Interest hedges with a term of between 1 and 5 years	0	0	57,500	−77
Interest hedges with a term of more than 5 years	0	0	0	0
Total interest-related transactions	**80,000**	**0**	**57,500**	**−77**
Total derivatives	**83,073**	**5**	**64,968**	**−109**

The currency hedges solely relate to EUR.

Capital Management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies and methods as of December 31, 2012 and December 31, 2013.

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

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

7.3 Contingent Liabilities

The Group provided the following collateral:

FIGURES IN EUR K	Dec. 31, 2012	Dec. 31, 2013
Group-owned land and buildings	59,252	57,674
Group-owned technical equipment and machines	12,260	10,265
Group-owned other equipment, furniture and fixtures	11,472	10,852
Inventories	94,357	97,076
Trade receivables	79,268	71,617
	256,609	**247,484**

The syndicated loan agreement is secured by a blanket assignment of receivables from goods and services supplied and work contracts.

In addition, obligations of the Group from finance lease agreements (cf. 6.3) are secured by rights of the lessors on the leased assets. The leased assets are recognized at a carrying amount of EUR 13,005 k (prior year: EUR 10,754 k).

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

FIGURES IN EUR K	2012	2013
Liabilities from guarantees	105	110
Liabilities from warranty agreements/ take-back obligations under lease agreements	1,357	829
Litigation risks	57	21
Guarantees to fulfill contractual obligations	30,826	32,763
Other obligations	7,236	3,599
	39,581	**37,322**

Litigation Risks

A German production company set up a provision of EUR 455 k for risks concerning legal proceedings with a customer. Management aims to settle out of court.

In addition, a provision of EUR 578 k is recorded at a foreign sales company to provide for litigation risks with public authorities.

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

7.4 Segment Reporting

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

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

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

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

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

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

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

Segment reporting

FIGURES IN EUR K	Industry 2012	Industry 2013	Cabinet Shops 2012	Cabinet Shops 2013	Sales & Services 2012	Sales & Services 2013
Third-party sales	318,322	305,563	89,250	88,569	257,873	259,576
Sales with group companies from other segments	104,977	114,233	89,658	83,347	2,039	3,182
Sales with investments recognized at equity	39,467	50,932	20,919	28,560	49	100
Total sales revenue	**462,766**	**470,728**	**199,827**	**200,476**	**259,961**	**262,858**
Cost of materials	−213,080	−220,609	−111,373	−113,461	−189,375	−191,087
Personnel expenses	−161,407	−162,511	−55,104	−57,320	−41,478	−40,714
EBITDA [1]	**52,138**	**54,530**	**13,004**	**11,435**	**8,762**	**11,456**
Non-recurring expenses [2]	−1,361	−775	−510	−75	−2,305	−1,483
Depreciation of property, plant and equipment and amortization of intangible assets	−18,473 [3]	−20,484 [4]	−5,284	−6,086	−2,143	−2,133
Result from employee participation	−5,418	−6,044	−1,551	−501	−432	−364
Share in result of associates	394	950	0	0	742	1,195
Interest result	−1,368	−1,749	−820	−388	−255	−410
Segment result [6]	**25,912**	**26,428**	**4,839**	**4,385**	**4,369**	**8,261**
Assets						
Investments in associates	5,279	6,001	0	0	3,453	4,142
Capital expenditure [7]	21,156	17,720	6,393	4,321	5,798	1,004
Segment assets	**332,936**	**361,801**	**121,233**	**124,993**	**153,941**	**155,103**
Segment liabilities	**196,753**	**226,124**	**49,523**	**57,155**	**92,994**	**89,788**
Employees [8]	**2,676**	**2,609**	**1,000**	**984**	**735**	**725**

1 Operative EBITDA before result from employee profit participation and before restructuring/non-recurrent expenses.
2 Included in personnel expenses and other operating expenses.
3 Includes impairment losses of EUR 4,116 k.
4 Includes impairment losses of EUR 379 k.
5 Includes impairment losses of EUR 15 k.
6 The segment result corresponds to earnings before tax.
7 Capital expenditure relates to additions to property, plant and equipment and intangible assets without leasing.
8 Average headcount for the year.

Other		Total segments		Consolidation		Group	
2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**
17,282	23,729	682,727	677,437	0	0	682,727	677,437
30,828	36,241	227,502	237,003	−227,502	−237,003	0	0
23,789	31,796	84,224	111,388	0	0	84,224	111,388
71,899	**91,766**	**994,453**	**1,025,828**	**−227,502**	**−237,003**	**766,951**	**788,825**
−45,346	−54,179	−559,174	−579,336	229,021	237,366	−330,153	−341,970
−23,343	−25,596	−281,332	−286,141	0	0	−281,332	−286,141
−4,408	**−2,061**	**69,496**	**75,360**	**1,553**	**402**	**71,049**	**75,762**
−367	−442	−4,543	−2,775	0	0	−4,543	−2,775
−2,206	−2,672	−28,106 [5]	−31,375	0	0	−28,106	−31,375
371	−57	−7,030	−6,966	0	0	−7,030	−6,966
0	0	1,136	2,145	0	0	1,136	2,145
−5,613	−3,384	−8,056	−5,931	−160	0	−8,216	−5,931
−12,223	**−8,616**	**22,897**	**30,458**	**1,393**	**402**	**24,290**	**30,860**
0	0	8,732	10,143	0	0	8,732	10,143
3,642	1,268	36,989	24,313	0	0	36,989	24,313
265,808	**299,695**	**873,918**	**941,592**	**−332,901**	**−397,655**	**541,017**	**543,937**
159,946	**174,167**	**499,216**	**547,234**	**−123,960**	**−180,948**	**375,256**	**366,286**
664	**720**	**5,075**	**5,038**	**0**	**0**	**5,075**	**5,038**

Sales revenue in the Other segment rose by EUR 19,867 k (up 27.6 percent). This increase is primarily attributable to an increase in sales revenue at Homag Machinery Shanghai Co. Ltd., Homag Machinery Środa Sp.z o. o., Weinmann Holzbausystemtechnik GmbH and Homag Machinery Bangalore Pvt. Ltd. In this context, Homag Machinery Shanghai Co. Ltd. generated the largest absolute increase (up EUR 8,222 k), while Homag Machinery Bangalore Pvt. Ltd. reported the largest percentage increase (up 144 percent). Sales revenue in the Industry segment rose by EUR 7,962 k (up 1.7 percent). This increase is primarily attributable to higher sales revenue at Homag Holzbearbeitungssysteme GmbH (up 5.9 percent) and HOLZMA Plattenaufteiltechnik GmbH (up 8.3 percent). Sales revenue growth was also generated in the Sales & Service segment (up EUR 2,897 k) and Cabinet Shops segment (up EUR 649 k). The largest sales revenue increases in these segments were reported by Homag Italia S. p. A. (EUR 11,144 k; up 61.4 percent) and Weeke North America, Inc. (EUR 1,534 k; up 50.8 percent).

Operative EBITDA before employee participation expenses and before restructuring expenses developed favorably for the most part across all segments. In the Sales & Service segment, operative EBITDA increased by EUR 2,694 k (up 30.7 percent), while the Other segment reported an increase of EUR 2,347 k (up 46.8 percent) and the Industry segment saw operative EBITDA improve by EUR 2,342 k (up 4.6 percent). Operative EBITDA in the Cabinet Shops segment decreased by EUR 1,569 k (down 12.1 percent). In the Sales & Service segment, Homag South America Ltda. (up EUR 2,002 k or 67.9 percent) and Homag Italia S. p. A. (up EUR 363.7 percent) reported the largest improvement in earnings. Looking at the Other segment, the largest improvements in earnings were seen at Weinmann Holzbausystemtechnik GmbH (up EUR 2,210 k or 117.6 percent) and Homag Machinery Shanghai Co. Ltd. (up EUR 1,109 k or 51.6 percent). In the Industry segment, Homag Holzbearbeitungssysteme GmbH generated the largest improvement in earnings (up EUR 3,486 k or 10.2 percent). Looking at the Cabinet Shops segment, earnings at Brandt Kantentechnik GmbH decreased by EUR 742 k (down 15.5 percent).

7.5 Fees and Services Provided by the Group Auditors

In accordance with German law, the group auditors are proposed by the supervisory board and elected by the annual general meeting. Once the group auditors have been elected, the supervisory board engages them, approves the conditions and scope of the audit of the financial statements as well as all audit fees, and monitors the independence of the group auditors. In 2012 and 2013, the annual general meeting elected Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Stuttgart, as the group auditors for the fiscal years 2012 and 2013.

The table below presents all of the fees invoiced by the group auditor for the last two fiscal years in the following categories: (1) statutory audit, i. e., fees in connection with the statutory audit performed by the auditor in accordance with the articles of incorporation and bylaws or regulatory requirements invoiced in the fiscal years in question; (2) other assurance work, i. e., fees for attestation and related services closely tied to the audit of the financial statements and not disclosed in the statutory audit item; (3) tax advisory services, i. e., fees for professional services to ensure compliance with tax provisions, tax advice and tax planning; and (4) other services, i. e., all other products and services not included under the items statutory audit, other assurance work or tax advisory services. This primarily relates to support for the internal audit and advisory services in connection with the new syndicated loan agreement. All amounts in the table blow are net of VAT.

FIGURES IN EUR K	2012	2013
Statutory audit	698	712
Other assurance services	3	2
Tax advisory services	354	241
Other services	427	216
	1,482	**1,171**

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

7.6 Subsequent Events

The two subsidiaries Bargstedt Handlingsysteme GmbH, Hemmoor, and Ligmatech Automationssysteme GmbH, Lichtenberg, are to be merged into a new company – Homag Automation GmbH – in fiscal year 2014. Both locations and the brands, which are well established in the industry, will be retained.

Effective February 3, 2014, the share of voting rights in the US sales and service company Stiles Machinery Inc. was increased from 29.4 percent to 100 percent. Stiles is the leading sales and service organization for machines and production lines for the US woodworking industry. With more than 290 employees, Stiles generated annual sales revenue of around USD 158 million in 2013, Purchase accounting of the business combination is not yet complete, such that further disclosures are not yet possible.

7.7 Related Parties

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

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

In the fiscal year 2013, the Homag Group is affected by the disclosure requirements of IAS 24 solely with respect to business relationships with associates, members of the management board and the supervisory board as well as shareholders that hold more than 20 percent of the shares in the parent company, Homag Group AG.

The total remuneration of the employee representatives on the supervisory board – comprising wages, salaries, benefits in kind and profit distributions in connection with employee profit participation schemes – amounted to EUR 364 k in the reporting year (prior year: EUR 426 k). Moreover, there are liabilities from employee profit participation of EUR 90 k (prior year: EUR 86 k) attributable to members of the supervisory board.

A consulting agreement was concluded in 1999 with the former chairman of the supervisory board and current honorary chairman of the supervisory board of Homag Holzbearbeitungssysteme GmbH. This agreement was cancelled effective March 31, 2012. The follow-up agreement entered into effect on April 1, 2012. In the fiscal year, he received remuneration of EUR 30 k in connection with the consulting agreement (prior year: EUR 38 k). As honorary chairman of the supervisory board, Mr. Gerhard Schuler receives remuneration commensurate with the remuneration of the members of the supervisory board of EUR 10 k (prior year: EUR 13 k).

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

	Services and supplies rendered by the Group for related parties		Services and supplies received by the Group from related parties	
FIGURES IN EUR K	2012	2013	2012	2013
Associates	84,293	111,565	4,518	6,018

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

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

7.8 Corporate Governance

A declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG was issued by the management board and the supervisory board in January 2014. An up-to-date version is made permanently available to shareholders on Homag Group AG's homepage at www.homag-group.de.

8. Company Boards

8.1 Supervisory Board

Membership in statutory supervisory boards (1) and other comparable German and foreign control bodies of entities (2) that do not belong to the Homag Group (as of December 31, 2013)		
Torsten Grede, Frankfurt am Main Chairman of the supervisory board Member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main, until March 26, 2013 Since March 26, 2013, spokesperson of the management board of Deutsche Beteiligungs AG, Frankfurt am Main	(2)	– Clyde Bergemann Power Group, Inc., Delaware, USA
Reiner Neumeister[1], Wildberg Deputy chairman of the supervisory board Main representative and managing director of IG-Metall trade union, Freudenstadt and main representative and managing director of IG-Metall trade union, Villingen-Schwenningen	(1)	– Bauknecht Hausgeräte GmbH, Stuttgart (deputy chairman), until April 30, 2013
Ernst Esslinger[1], Alpirsbach Head of IT engineering at Homag Holzbearbeitungssysteme GmbH, Schopfloch		
Dipl.-Ing. Hans Fahr, Munich Business consultant	(1) (2)	– Sumida AG, Obernzell (Chairman) – Oechsler AG, Ansbach – König Metall GmbH, Gaggenau – Vollack Management Holding GmbH, Karlsruhe – BOA Luxembourg Investment S. a. r.l, Luxembourg, Luxembourg
Gerhard Federer, Offenburg CEO of Schunk GmbH, Heuchelheim, until October 31, 2013	(1) (2)	– SÜDVERS Holding GmbH & Co. KG, Au – Schunk Iberica S.A., Pinto, Spain, until October 17, 2013 – XYCARB Ceramics B.V., Helmond, Netherlands – Commerzbank AG, Regional Advisory Committee (central Germany), Frankfurt am Main – Hoffmann & Co. Elektrokohle AG, Bad Goissern, Austria, until October 29, 2013 – Schunk Wien Gesellschaft mbH, Vienna, Austria, until October 29, 2013
Dr. Horst Heidsieck, Büdingen Managing partner of Value Consult Management- und Unternehmensberatungsgesellschaft mbH, Büdingen and managing partner of DOMINO GmbH, Büdingen	(1)	– Coperion GmbH, Stuttgart (chairman), until June 28, 2013 – Mansfelder Kupfer und Messing GmbH, Hettstedt (chairman), since July 22, 2013
Carmen Hettich-Günther[1], Rottenburg Strategic sourcing employee and chair of the works' council of Homag Holzbearbeitungssysteme GmbH, Schopfloch		
Dr. Dieter Japs, Reichenberg Consulting engineer	(2)	– Leitz GmbH & Co. KG, Oberkochen – Vollert Anlagenbau GmbH, Weinsberg
Thomas Keller, Freiburg Regional manager for Württemberg at Deutsche Bank AG, Stuttgart, until June 30, 2013 Since July 1, 2013, Managing Director and Regional Director at Privat- und Firmenkundenbank Württemberg and spokesperson for Stuttgart of Deutsche Bank AG, Stuttgart	(1) (2)	– GEZE GmbH, Leonberg – Deutsche Clubholding GmbH, Frankfurt am Main – Gühring oHG, Albstadt – Cronimet Holding GmbH, Karlsruhe – Baden-Württembergische Wertpapierbörse, Stuttgart – Vereinigung Baden-Württembergische Wertpapierbörse e.V., Stuttgart
Hannelore Knowles[1], Calw Chair of the Group's works' council of Homag Group AG, Schopfloch and chair of the works' council of HOLZMA Plattenaufteiltechnik GmbH, Calw-Holzbronn		
Jochen Meyer[1], Herzebrock-Clarholz Deputy chairman of the group works' council of Homag Group AG, Schopfloch and chairman of the group works' council of Weeke Bohrsysteme GmbH, Herzebrock-Clarholz		
Reinhard Seiler[1], Lemgo Main representative of IG-Metall trade union, Detmold	(1)	– Dorma Holding GmbH & Co. KGaA, Ennepetal

1 Employee representative

Supervisory Board Committees

Audit committee	Gerhard Federer (chairman) Carmen Hettich-Günther[1] Reiner Neumeister[1] Thomas Keller
Personnel committee	Torsten Grede (chairman) Hannelore Knowles[1] Jochen Meyer[1] Reiner Neumeister[1] Hans Fahr Dr. Horst Heidsieck
Nomination committee	Torsten Grede (chairman) Hans Fahr Dr. Dieter Japs
Mediation committee pursuant to Sec. 27 (3) MitbestG [“Mitbestimmungsgesetz”: German Codetermination Act]	Torsten Grede (chairman) Jochen Meyer[1] Reiner Neumeister[1] Dr. Horst Heidsieck

1 Employee representative

8.2 Management Board

Membership in statutory supervisory boards
(1) and other comparable German and foreign control bodies of entities
(2) that do not belong to the Homag Group (as of December 31, 2013)

Dr.-Ing./U. Cal. Markus Flik, Stuttgart/Freudenstadt Chairman and board member for corporate development, research and development	(1) (2)	– Benteler International AG, Salzburg, Austria – Anand Automotive Systems Limited, New Delhi, India until December 31, 2013 – TRUMPF GmbH+Co. KG and Berthold Leibinger GmbH, Ditzingen, since January 1, 2013
Harald Becker-Ehmck, Nagold Board member for production, procurement, quality management and affiliates		
Jürgen Köppel, Beckum Board member for service, marketing		
Hans-Dieter Schumacher, Tuttlingen CFO and board member for IT, personnel	(2)	– Commerzbank AG, Regionalbeirat Südwest, Frankfurt am Main

9. List of Shareholdings

GERMANY	Status	Currency	Issued capital Dec. 31, 2013	Share in capital % Dec. 31, 2013
Direct shareholdings:				
Homag Holzbearbeitungssysteme GmbH, Schopfloch	(fc)	EUR	30,000,000.00	100.00
SCHULER Consulting GmbH, Pfalzgrafenweiler	(fc)	EUR	5,150,000.00	100.00 [1]
Torwegge Holzbearbeitungsmaschinen GmbH, Löhne	(fc)	EUR	1,600,000.00	100.00 [2]
HOLZMA Plattenaufteiltechnik GmbH, Holzbronn	(fc)	EUR	5,600,000.00	100.00 [3]
Brandt Kantentechnik GmbH, Lemgo	(fc)	EUR	4,000,000.00	100.00
Weeke Bohrsysteme GmbH, Herzebrock	(fc)	EUR	17,550,000.00	100.00
BENZ GmbH Werkzeugsysteme, Haslach	(fc)	EUR	25,000.00	51.00
Homag eSolution GmbH, Schopfloch	(fc)	EUR	50,000.00	51.00
Indirect shareholdings:				
Homag Finance GmbH, Schopfloch	(fc)	EUR	7,200,000.00	100.00
Ligmatech Automationssysteme GmbH, Lichtenberg	(fc)	EUR	6,650,000.00	100.00
Friz Kaschiertechnik GmbH, Weinsberg	(fc)	EUR	2,400,000.00	100.00
Bargstedt Handlingsysteme GmbH, Hemmoor	(fc)	EUR	5,133,000.00	100.00
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	(fc)	EUR	1,000,000.00	75.90
Homag GUS GmbH, Schopfloch	(fc)	EUR	100,000.00	100.00
Homag India GmbH, Schopfloch	(nc)	EUR	400,000.00	100.00
Homag Vertrieb & Service GmbH, Schopfloch	(fc)	EUR	300,000.00	100.00
Hüllhorst GmbH, Barntrup	(nc)	EUR	255,645.94	100.00
Futura GmbH, Schopfloch	(nc)	EUR	25,000.00	100.00

1 Thereof 94.00 % held by Homag Holzbearbeitungssysteme GmbH and 6.00 % by Homag Group AG.
2 Thereof 39.95 % held by Homag Holzbearbeitungssysteme GmbH and 60.05 % by Homag Group AG.
3 Thereof 54.46 % held by Homag Holzbearbeitungssysteme GmbH and 45.54 % by Homag Group AG.
(fc) Fully consolidated
(nc) Not consolidated

INTERNATIONAL	Status	Currency	Issued capital Dec. 31, 2013	Share in capital % Dec. 31, 2013
Direct shareholdings:				
Homag Machinery Bangalore Pvt. Ltd., Bangalore/India	(fc)	INR (EUR	130,000,000.00 1,525,381.17	100.00[1]
Homag Machinery Środa Sp. z o.o., Środa/Poland	(fc)	PLN (EUR	6,001,000.00 1,445,745.40	100.00
Indirect shareholdings:				
Holzma Plattenaufteiltechnik S.A., Unipersonal L´Ametlla del Valles/Spain	(fc)	EUR	2,047,748.40	100.00
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo/Brazil	(fc)	BRL (EUR	6,812,180.00 2,094,830.71	100.00
Homag Machinery (Shanghai) Co. Ltd., Shanghai/China	(fc)	CNY (EUR	70,715,635.06 8,487,845.39	81.25
Homag Austria Gesellschaft mbH, Oberhofen am Irrsee/Austria	(fc)	EUR	370,000.00	100.00
Homag Italia S.p.A., Giussano/Italy	(fc)	EUR	1,100,000.00	100.00
Homag France S.A.S., Schiltigheim/France	(fc)	EUR	1,500,000.00	100.00
Homag Asia (PTE) Ltd., Singapore/Singapore	(fc)	SGD (EUR	100,000.00 57,497.70	100.00
Homag Canada Inc., Mississauga, Ontario/Canada	(fc)	CAD (EUR	4,367,800.00 2,984,285.32	100.00
Homag Polska Sp. z o.o., Środa/Poland	(fc)	PLN (EUR	1,050,000.00 252,963.28	100.00
Homag Japan Co. Ltd., Osaka/Japan	(fc)	JPY (EUR	206,000,000.00 1,425,485.18	100.00
Homag Danmark A/S, Galten/Denmark	(fc)	DKK (EUR	1,970,000.00 264,078.61	100.00
Homag U.K. Ltd., Castle Donington/England	(fc)	GBP (EUR	2,716,778.00 3,261,046.69	100.00
Homag Korea Co. Ltd., Seoul/Korea	(fc)	KRW (EUR	320,970,000.00 220,906.27	54.55
Holzma Tech GmbH, Assenovgrad/Bulgaria	(nc)	BGN (EUR	370,000.00 189,161.55	100.00[2]
Stiles Machinery Inc., Grand Rapids/USA	(e)	USD (EUR	19,749.00 14,345.17	29.40[2]
Weeke North America Inc., Grand Rapids/USA	(fc)	USD (EUR	20,000.00 14,527.49	81.00

1 Thereof 99.99 % held by Homag Group AG and 0.01 % by Homag Holzbearbeitungssysteme GmbH.
2 Figures from fiscal year from January 1 to December 31, 2012.
(fc) Fully consolidated
(nc) Not consolidated
(e) Consolidated at equity

	Status	Currency	Issued capital Dec. 31, 2013	Share in capital % Dec. 31, 2013
Homag España Maquinaria S. A., Montmeló / Spain	(fc)	EUR	1,211,300.00	100.00
Homag China Golden Field Ltd., Hong Kong / China	(e)	HKD (EUR	27,000,000.00 2,529,202.93	25.00
Homag South America Ltda., São Paulo / Brazil	(fc)	BRL (EUR	16,260,031.00 5,000,163.29	100.00
Homag Australia Pty. Ltd., Sydney / Australia	(fc)	AUD (EUR	7,209,158.62 4,682,488.06	100.00
Homag (Schweiz) AG, Bachenbülach / Switzerland	(fc)	CHF (EUR	200,000.00 163,039.05	100.00
OOO "FAYZ-Homag GUS", Taschkent / Uzbekistan	(nc)	USD (EUR	174,000.00 126,389.19	33.00
OOO "Homag Russland", Moskau / Russia	(fc)	RUB (EUR	357,215.00 7,892.82	100.00
Homag India Private Ltd., Bangalore / India	(fc)	INR (EUR	312,511,010.00 3,666,910.84	99.90
HA Malaysia SDN Bhd, Kuala Lumpur / Malaysia	(fc)	MYR (EUR	250,000.00 55,304.84	100.00
HA (Thailand) Co. Ltd., Bangkok / Thailand	(fc)	THB (EUR	2,000,000.00 44,230.47	100.00
BENZ INCORPORATED, Charlotte / USA	(fc)	USD (EUR	100.00 72.64	100.00 [1]

1 Exactly calculated share in capital: 51.00 %
(fc) Fully consolidated
(nc) Not consolidated
(e) Consolidated at equity

10. Other Notes

Pursuant to Sec. 264 (3) HGB, the following companies are exempted from the duty to publish their financial statements: Brandt Kantentechnik GmbH, Lemgo, Ligmatech Automationssysteme GmbH, Lichtenberg, HOLZMA Plattenaufteiltechnik GmbH, Calw, and Homag Holzbearbeitungssysteme GmbH, Schopfloch.

Declaration of the Legal Representatives (Group)

Declaration of the Legal Representatives

Declaration Pursuant to Sec. 297 (2) Sentence 4 HGB and Sec. 315 (1) Sentence 6 HGB ["Handelsgesetzbuch": German Commercial Code]

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

Schopfloch, March 14, 2014
Homag Group AG

The management board

DR. MARKUS FLIK

HARALD BECKER-EHMCK

JÜRGEN KÖPPEL

HANS-DIETER SCHUMACHER

Audit Opinion on the Consolidated Financial Statements (Group)

Translation of the German audit opinion concerning the audit of the consolidated financial statements and combined management report prepared in German.

Audit Opinion

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

"We have audited the consolidated financial statements prepared by Homag Group AG, Schopfloch, comprising the income statement, the statement of comprehensive income, the statement of financial position, the cash flow statement, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report, which has been combined with the management report of Homag Group AG, for the fiscal year from January 1 to December 31, 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

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

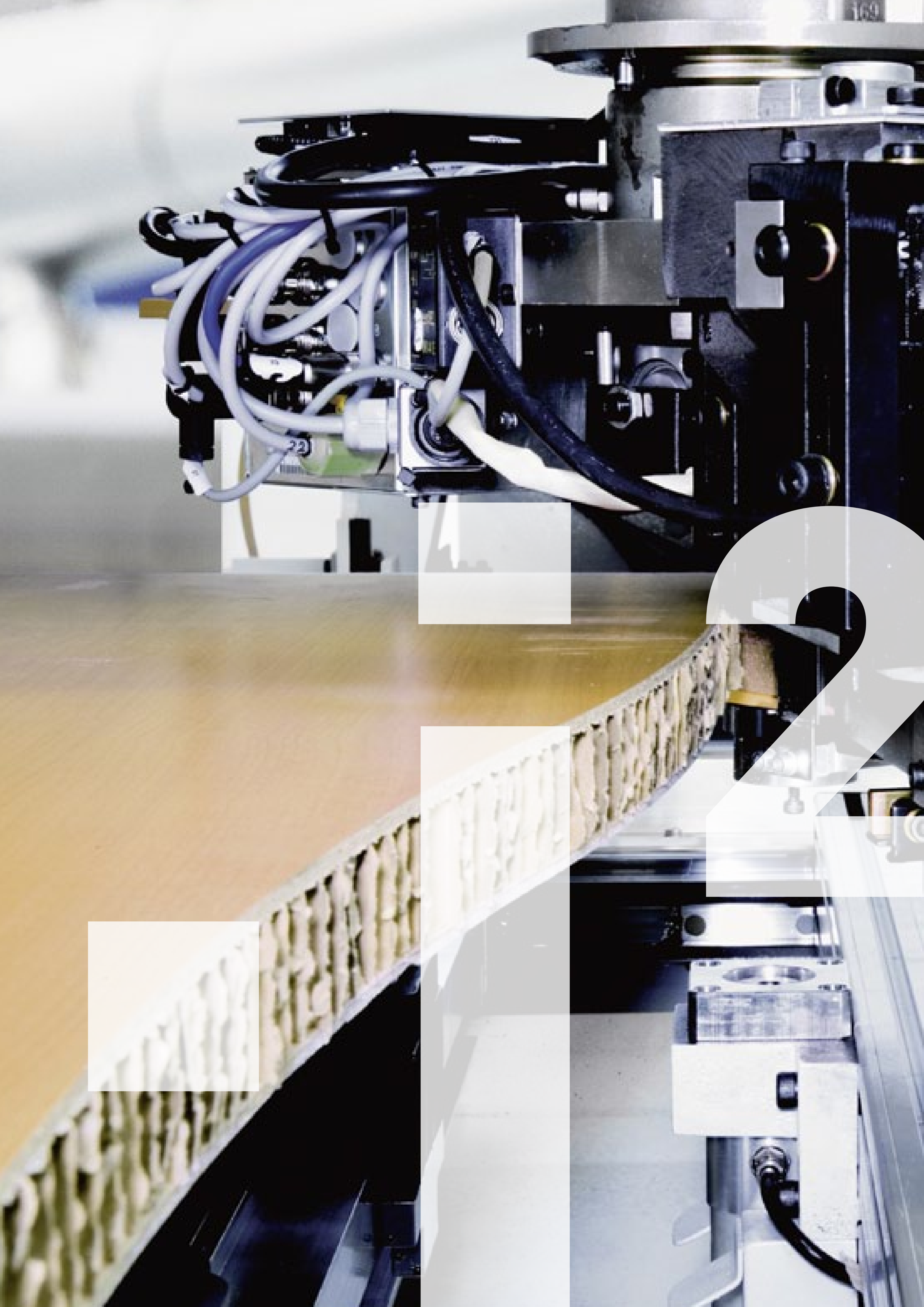
Our audit has not led to any reservations.

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

Stuttgart, March 14, 2014
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

BLESCH
Wirtschaftsprüfer
[German Public Auditor]

VÖGELE
Wirtschaftsprüferin
[German Public Auditor]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Financial Statements (AG)

—— The "i" stands for the enormous innovative power within the HOMAG Group that allows it to radically change the wood-working industry time after time.

Financial Statements (AG)

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Income statement

FIGURES IN EUR	2013	2012
Other operating income	13,299,276.09	14,517,340.29
Personnel expenses		
Wages and salaries	−6,379,480.37	−5,722,319.54
Social security, pension and other benefit costs	−437,696.53	−348,131.51
Amortization of intangible assets and depreciation of property, plant and equipment	−167,287.56	−160,865.08
Other operating expenses	−10,632,937.14	−11,139,065.14
	−4,318,125.51	**−2,853,040.98**
Income from equity investments	2,563,000.00	1,288,000.00
Income from profit and loss transfer agreement	29,415,422.44	19,393,786.14
Other interest and similar income	778,250.87	493,687.96
Write-downs on financial assets	−1,500,000.00	−1,681,300.00
Interest and similar expenses	−3,567,316.87	−3,873,237.17
Profit from ordinary activities	**23,371,230.93**	**12,767,895.95**
Extraordinary expenses	−22,991.00	−22,991.00
Extraordinary result	**−22,991.00**	**−22,991.00**
Income taxes	−4,302,611.72	−3,497,804.44
Other taxes	18,265.96	−218,565.65
Net income for the year	**19,063,894.17**	**9,028,534.86**
Profit brought forward from prior year	26,743,996.13	21,637,461.27
Retained earnings	**45,807,890.30**	**30,665,996.13**

Balance sheet as of December 31, 2013

FIGURES IN EUR	Dec. 31, 2013	Dec. 31, 2012
ASSETS		
A. Fixed assets		
I. Intangible assets		
1. Purchased industrial and similar rights	286,212.00	442,343.00
II. Property, plant and equipment		
1. Furniture and fixtures	35,038.00	18,699.00
III. Financial assets		
1. Shares in affiliates	170,606,500.23	167,393,279.79
2. Equity investments	1.00	1.00
	170,606,501.23	167,393,280.79
	170,606,501.23	**167,854,322.79**
B. Current assets		
I. Receivables and other assets		
1. Trade receivables	5,614.70	39,854.73
2. Receivables from affiliates	54,438,916.22	25,294,904.14
3. Receivables from indirect investees and investors	0.00	75,595.53
4. Other assets	2,141,125.31	1,266,917.02
	56,585,656.23	26,677,271.42
II. Bank balances	15,420,389.64	13,356,691.58
	72,006,045.87	**40,033,963.00**
C. Prepaid expenses	**77,920.00**	**46,547.86**
Total assets	**243,011,717.10**	**207,934,833.65**

FIGURES IN EUR	Dec. 31, 2013	Dec. 31, 2012
EQUITY AND LIABILITIES		
A. Equity		
I. Issued capital	15,688,000.00	15,688,000.00
II. Capital reserves	33,799,650.00	33,799,650.00
III. Revenue reserves		
Other revenue reserves	1,456,134.50	1,456,134.50
IV. Retained earnings	45,807,890.30	30,665,996.13
	96,751,674.80	**81,609,780.63**
B. Provisions		
1. Pension provisions	572,354.00	546,614.00
2. Tax provisions	8,435,108.39	5,058,191.35
3. Other provisions	3,205,540.32	2,110,708.79
	12,213,002.71	**7,715,514.14**
C. Liabilities		
1. Liabilities to banks	77,500,000.00	90,000,000.00
2. Trade payables	287,176.72	296,828.30
3. Liabilities to affiliates	55,807,804.84	28,127,671.43
4. Liabilities to indirect investees and investors	2,030.00	580.00
5. Other liabilities	445,028.03	174,459.15
	134,042,039.59	**118,599,538.88**
D. Deferred income	**5,000.00**	**10,000.00**
Total equity and liabilities	**243,011,717.10**	**207,934,833.65**

Notes to the Financial Statements for Fiscal Year 2013

General Information

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

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

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

Accounting Policies

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

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

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

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

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

Receivables and other assets are always stated at their nominal value.

Pension provisions are determined using the projected unit credit method and the 2005 G mortality tables. Discounting was calculated using the mean market interest rate of 4.89 percent (prior year: 5.05 percent) for a remaining term of 15 years in accordance with the RückAbzinsV ["Rückstellungsabzinsungsverordnung": German Ordinance on the Discounting of Provisions]. Expected pension increases were again taken into account at 2.0 percent.

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

Tax provisions and **other provisions** account for all uncertain liabilities and potential losses from pending transactions. They are recorded at the settlement amount deemed necessary according to prudent business judgment. Provisions due in more than one year are discounted.

Liabilities are stated at the settlement amount.

To determine **deferred taxes** arising due to timing or temporary differences between the carrying amounts of assets, liabilities, prepaid expenses and deferred income in the statutory accounts and their tax carrying amounts or due to tax loss carryforwards, the resulting tax burden and relief are valued using the company-specific tax rates at the time the differences reverse; these amounts are not discounted. Deferred tax assets and deferred tax liabilities are determined and subsequently offset against each other. The option to recognize deferred tax assets was not exercised. Deferred taxes were calculated using a tax rate of 28.3 percent.

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

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

Notes to the Balance Sheet

Fixed Assets

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

Statement of Changes in Fixed Assets

	Acquisition and production cost			
FIGURES IN EUR	Jan. 1, 2013	Additions	Disposals	Dec. 31, 2013
I. Intangible assets				
1. Purchased industrial and similar rights	780,658.41	0.00	0.00	780,658.41
II. Property, plant and equipment				
1. Furniture and fixtures	26,345.44	27,495.56	0.00	53,841.00
III. Financial assets				
1. Shares in affiliates	185,297,333.28	713,220.44	0.00	186,010,553.72
2. Equity investments	4,274,310.74	0.00	0.00	4,274,310.74
	189,571,644.02	713,220.44	0.00	190,284,864.46
	190,378,647.87	**740,716.00**	**0.00**	**191,119,363.87**

	Accumulated amortization, depreciation and write-downs					Carrying amounts	
	Jan. 1, 2013	Additions	Disposals	Write-ups	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013
	338,315.41	156,131.00	0.00	0.00	494,446.41	442,343.00	286,212.00
	7,646.44	11,156.56	0.00	0.00	18,803.00	18,699.00	35,038.00
	17,904,053.49	1,500,000.00	0.00	4,000,000.00	15,404,053.49	167,393,279.79	170,606,500.23
	4,274,309.74	0.00	0.00	0.00	4,274,309.74	1.00	1.00
	22,178,363.23	1,500,000.00	0.00	4,000,000.00	19,678,363.23	167,393,280.79	170,606,501.23
	22,524,325.08	**1,667,287.56**	**0.00**	**4,000,000.00**	**20,191,612.64**	**167,854,322.79**	**170,927,751.23**

Financial assets

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

INFORMATION ON SHAREHOLDINGS	Currency	Issued capital Dec. 31, 2013	Share in capital % Dec. 31, 2013	Equity EUR k Dec. 31, 2013	Net profit EUR k 2013
GERMANY					
Direct shareholdings:					
Homag Holzbearbeitungssysteme GmbH, Schopfloch	EUR	30,000,000.00	100.00	82,284	PLTA
SCHULER Consulting GmbH, Pfalzgrafenweiler	EUR	5,150,000.00	100.00[1]	392	53
Torwegge Holzbearbeitungsmaschinen GmbH, Löhne	EUR	1,600,000.00	100.00[2]	−356	545
HOLZMA Plattenaufteiltechnik GmbH, Holzbronn	EUR	5,600,000.00	100.00[3]	20,130	PLTA
Brandt Kantentechnik GmbH, Lemgo	EUR	4,000,000.00	100.00	19,602	PLTA
Weeke Bohrsysteme GmbH, Herzebrock	EUR	17,550,000.00	100.00	30,407	1,594
BENZ GmbH Werkzeugsysteme, Haslach	EUR	25,000.00	51.00	5,925	1,006
Homag eSolution GmbH, Schopfloch	EUR	50,000.00	51.00	784	144
Indirect shareholdings:					
Homag Finance GmbH, Schopfloch	EUR	7,200,000.00	100.00	34,907	2,093
Ligmatech Automationssysteme GmbH, Lichtenberg	EUR	6,650,000.00	100.00	6,850	PLTA
Friz Kaschiertechnik GmbH, Weinsberg	EUR	2,400,000.00	100.00	3,050	2,129
Bargstedt Handlingsysteme GmbH, Hemmoor	EUR	5,133,000.00	100.00	8,638	555
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	EUR	1,000,000.00	75.90	2,803	−771
Homag GUS GmbH, Schopfloch	EUR	100,000.00	100.00	2,100	PLTA
Homag India GmbH, Schopfloch	EUR	400,000.00	100.00	1[4]	−1[4]
Homag Vertrieb & Service GmbH, Schopfloch	EUR	300,000.00	100.00	1,137	−114
Hüllhorst GmbH, Barntrup	EUR	255,645.94	100.00	264[4]	3[4]
Futura GmbH, Schopfloch	EUR	25,000.00	100.00	25	0

1 Thereof 94.00 % held by Homag Holzbearbeitungssysteme GmbH and 6.00 % by Homag Group AG.
2 Thereof 39.95 % held by Homag Holzbearbeitungssysteme GmbH and 60.05 % by Homag Group AG.
3 Thereof 54.46 % held by Homag Holzbearbeitungssysteme GmbH and 45.54 % by Homag Group AG.
4 Figures from fiscal year from January 1 to December 31, 2012.
PLTA Profit and loss transfer agreement with Homag Group AG or Homag Holzbearbeitungssysteme GmbH or Homag Finance GmbH

INFORMATION ON SHAREHOLDINGS	Currency	Issued capital Dec. 31, 2013	Share in capital % Dec. 31, 2013	Equity EUR k Dec. 31, 2013	Net profit EUR k 2013
INTERNATIONAL					
Direct shareholdings:					
Homag Machinery Bangalore Pvt. Ltd., Bangalore/India	INR (EUR	130,000,000.00 1,525,381.17	100.00[1]	54,139 635	−43.428 −558)
Homag Machinery Środa Sp. z o.o., Środa/Poland	PLN (EUR	6,001,000.00 1,445,745.40	100.00	20,628 4,970	5.945 1.416)
Indirect shareholdings:					
Holzma Plattenaufteiltechnik S.A., Unipersonal L'Ametlla del Valles/Spain	EUR	2,047,748.40	100.00	4,041	1.304
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo/Brazil	BRL (EUR	6,812,180.00 2,094,830.71	100.00	9,285 2,855	114 40)
Homag Machinery (Shanghai) Co. Ltd., Shanghai/China	CNY (EUR	70,715,635.06 8,487,845.39	81.25	124,772 14,976	12.503 1.519)
Homag Austria Gesellschaft mbH, Oberhofen am Irrsee/Austria	EUR	370,000.00	100.00	855	12
Homag Italia S.p.A., Giussano/Italy	EUR	1,100,000.00	100.00	1,198	−409
Homag France S.A.S., Schiltigheim/France	EUR	1,500,000.00	100.00	4,629	1.673
Homag Asia (PTE) Ltd., Singapore/Singapore	SGD (EUR	100,000.00 57,497.70	100.00	3,432 1,973	305 183)
Homag Canada Inc.,GmbH, Mississauga, Ontario/Canada	CAD (EUR	4,367,800.00 2,984,285.32	100.00	7,792 5,324	711 520)
Homag Polska Sp. z o.o., Środa/Poland	PLN (EUR	1,050,000.00 252,963.28	100.00	9,116 2,196	3.885 925)
Homag Japan Co. Ltd., Osaka/Japan	JPY (EUR	206,000,000.00 1,425,485.18	100.00	604,796 4,185	110.999 856)
Homag Danmark A/S, Galten/Denmark	DKK (EUR	1,970,000.00 264,078.61	100.00	10,030 1,345	2.402 322)
Homag U.K. Ltd., Castle Donington/England	GBP (EUR	2,716,778.00 3,261,046.69	100.00	1,642 1,971	133 157)
Homag Korea Co. Ltd., Seoul/Korea	KRW (EUR	320,970,000.00 220,906.27	54.55	1,416,279 975	304.709 209)
Holzma Tech GmbH, Assenovgrad/Bulgaria	BGN (EUR	370,000.00 189,161.55	100.00	1,304 667	158[2] 81)
Stiles Machinery Inc., Grand Rapids/USA	USD (EUR	19,749.00 14,345.17	29.40	17,781 12,916	1.318[2] 992)
Weeke North America Inc., Grand Rapids/USA	USD (EUR	20,000.00 14,527.49	81.00	−248 −180	−131 −99)

1 Thereof 99.99 % held by Homag Group AG and 0.01 % by Homag Holzbearbeitungssysteme GmbH.
2 Figures from fiscal year from January 1 to December 31, 2012.

INFORMATION ON SHAREHOLDINGS	Currency	Issued capital Dec. 31, 2013	Share in capital % Dec. 31, 2013	Equity EUR k Dec. 31, 2013	Net profit EUR k 2013
INTERNATIONAL					
Indirect shareholdings:					
Homag España Maquinaria S. A., Montmeló/Spain	EUR	1,211,300.00	100.00	95	−200
Homag China Golden Field Ltd., Hongkong/China	HKD (EUR	27,000,000.00 2,529,202.93	25.00	146,567 13,730	39.437 [1] 3.825)
Homag South America Ltda., São Paulo/Brazil	BRL (EUR	16,260,031.00 5,000,163.29	100.00	−3,277 −1,008	−3.803 −1.323)
Homag Australia Pty. Ltd., Sydney/Australia	AUD (EUR	7,209,158.62 4,682,488.06	100.00	2,200 1,429	−890 −646)
Homag (Schweiz) AG, Bachenbülach/Switzerland	CHF (EUR	200,000.00 163,039.05	100.00	7,864 6,411	2.053 1.668)
OOO "FAYZ-Homag GUS", Taschkent/Uzbekistan	USD (EUR	174,000.00 126,389.19	33.00	— [3] — [3]	— [3] —) [3]
OOO "Homag Russland", Moskau/Russia	RUB (EUR	357,215.00 7,892.82	100.00	27,842 615	21 0)
Homag India Private Ltd., Bangalore/India	INR (EUR	312,511,010.00 3,666,910.84	99.90	31,277 367	−15.525 −199)
HA Malaysia SDN Bhd, Kuala Lumpur/Malaysia	MYR (EUR	250,000.00 55,304.84	100.00	−1,116 −247	225 54)
HA (Thailand) Co. Ltd., Bangkok/Thailand	THB (EUR	2,000,000.00 44,230.47	100.00	1,997 44	2.516 61)
Benz Incorporated, Charlotte/USA	USD (EUR	100.00 72.64	100.00 [2]	141 102	103 78)

1 Figures from fiscal year from January 1 to December 31, 2012.
2 Exactly calculated share in capital: 51.00 %.
3 Not available

Receivables and Other Assets

FIGURES IN EUR K	Dec. 31, 2012	Dec. 31, 2013
Trade receivables	40	6
thereof due in more than one year	0	0
Receivables from affiliates	25,295	54,439
thereof due in more than one year	0	0
Receivables from indirect investees and investors	76	0
thereof due in more than one year	0	0
Other assets	1,267	2,141
thereof due in more than one year	734	576
	26,678	**56,586**

Of the receivables from affiliates, an amount of EUR 1,581 k (prior year: EUR 1,765 k) relates to trade and EUR 23,442 k (prior year: EUR 3,756 k) to loans (including cash pooling).

Deferred Taxes

Deferred taxes were calculated using a tax rate of 28.3 percent. Deferred tax assets mainly stem from accounting differences in other provisions. These were netted against the significantly lower deferred tax liabilities from accounting differences in fixed assets. The excess of deferred tax assets was not recognized.

Issued Capital

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

Capital Reserves

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

Revenue Reserves

The revenue reserves of Homag Group AG, Schopfloch, remained unchanged at EUR 1,456 k as of the reporting date.

Retained Earnings

FIGURES IN EUR K	
Carried forward January 1, 2013	30,666
Profit distribution	−3,922
	26,744
Net income for 2013	19,064
December 31, 2013	**45,808**

Pension Provisions

The pension provisions pertain to three individual contractual commitments to former members of the management board of IMA AG which was merged into Homag Group AG in 1999. The pension payments paid in the reporting year for these former board members come to EUR 60 k (prior year: EUR 58 k).

The deficit to be eliminated by recognizing provisions in future periods pursuant to Art. 67 (2) EGHGB amounts to EUR 23 k.

Other Provisions

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

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

Liabilities

	Due in			Total	
EUR K	less than 1 year	1 to 5 years	more than 5 years	Dec. 31, 2012	Dec. 31, 2013
1. Liabilities to banks (prior year)	25,000 (32,500)	52,500 (57,500)	0 (0)	(90,000)	77,500
2. Trade payables (prior year)	287 (297)	0 (0)	0 (0)	(297)	287
3. Liabilities to affiliates (prior year)	55,808 (28,128)	0 (0)	0 (0)	(28,128)	55,808
4. Liabilities to other investees and investors (prior year)	2 (1)	0 (0)	0 (0)	(1)	2
5. Other liabilities (prior year)	445 (174)	0 (0)	0 (0)	(174)	445
thereof for taxes (prior year)	215 (112)	0 (0)	0 (0)	(112)	215
thereof for social security (prior year)	1 (1)	0 (0)	0 (0)	(1)	1

As regards the amounts accrued in connection with the syndicated loan agreement (EUR 77,500 k; prior year EUR 90,000 k) and the related collateral we refer to the disclosures made under contingent liabilities.

Of the liabilities to affiliates, EUR 1,114 k (prior year: EUR 406 k) relates to trade payables and EUR 52,833 k (prior year: EUR 26,926 k) to liabilities in connection with cash pooling and loans.

Contingent Liabilities

EUR K	Dec. 31, 2012	Dec. 31, 2013
From guarantees	45,033	37,147
thereof for liabilities to affiliates	45,033	37,147
From warranties	3,408	4,359
thereof in favor of affiliates	3,408	4,359
	48,441	**41,506**

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

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

– Guarantee.

The funds drawn under the syndicated loan agreement amount to EUR 77,500 k and are reported under liabilities to banks. In addition, affiliates had drawn a total of EUR 21,858 k under the syndicated loan agreement as of the reporting date.

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

Other Financial Obligations

There are also other financial obligations from leases amounting to EUR 232 k. The lease agreements expire between 2014 and 2016.

Derivative Financial Instruments and Hedges

Interest-related transactions pertain to interest rate swaps with a nominal value of EUR 57,500 k in total.

The interest rate risk on a variable-interest (3-month EURIBOR) bank liability of originally EUR 60,000 k was hedged (December 31, 2013: EUR 57,500 k). Micro hedges were formed.

Hedging instrument	End date	Nominal value (EUR k)	Fair value (EUR k)
Interest swap	2016	14,375	–18
Interest swap	2016	19,167	–38
Interest swap	2016	19,167	–15
Interest swap	2016	4,791	–6
Total		**57,500**	**–77**

Fair values were determined using the mark-to-market method. None of the items have a carrying amount owing to their designation to hedges. The risk volume hedged came to EUR 77 k as of the reporting date. The assessment of the effectiveness of hedges was based on the critical-terms-match method. This means that the critical contractual terms and conditions (and in turn the determinants of the value) of the hedged item and hedging instrument match in each case (nominal value, variable interest rate, interest adjustment and payment terms, term, expiry date).

Notes to the Income Statement

Other Operating Income

Other operating income contains income relating to other periods from the release of provisions amounting to EUR 80 k (prior year: EUR 321 k) and other items relating to other periods of EUR 338 k (prior year: EUR 7 k). Also included are write-ups to the equity investment Weeke Bohrsysteme GmbH, Herzebrock-Clarholz amounting to EUR 4,000 k (prior year: EUR 4,000 k).

Personnel Expenses

Pension expenses totaled EUR 29 k (prior year: EUR 5 k) and relate to three beneficiaries.

Income from Investments and Profit and Loss Transfer Agreements

All items pertain to affiliates.

Write-downs on Financial Assets

This concerns extraordinary write-downs.

Interest Result

Interest income of EUR 727 k (prior year: EUR 294 k) was received from affiliates, while interest expenses of EUR 134 k (prior year: EUR 514 k) were attributable to affiliates. The interest expenses in connection with reversing the discount on pension provisions amount to EUR 35 k (prior year: EUR 34 k).

Extraordinary Expenses

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

Pursuant to Art. 67 (1) EGHGB, the difference between the previous GAAP and BilMoG accounting treatment is determined at the start of the reporting year. The difference has to be accrued by at least 1/15 (distribution amount) per year and by December 31, 2024 at the latest. The distribution amount is expensed over five years at EUR 23 k per annum under "Extraordinary expenses" pursuant to Art. 67 (7) EGHGB.

Other Notes

Members of the Supervisory Board

Supervisory Board	Membership in statutory supervisory boards (1) and other comparable domestic and foreign control bodies of entities (2) that do not belong to the HOMAG Group (as of December 31, 2013)	
Torsten Grede, Frankfurt am Main Chairman of the supervisory board Member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main, until March 26, 2013 Since March 26, 2013, spokesperson of the management board of Deutsche Beteiligungs AG, Frankfurt am Main	(2)	– Clyde Bergemann Power Group, Inc., Delaware, USA
Reiner Neumeister[1], Wildberg Deputy chairman of the supervisory board Main representative and managing director of the Freudenstadt branch of the IG-Metall trade union, Freudenstadt and main representative and managing director of the Villingen-Schwenningen branch of the IG-Metall trade union, Villingen-Schwenningen	(1)	– Bauknecht Hausgeräte GmbH, Stuttgart (deputy chairman), until April 30, 2013
Ernst Esslinger[1], Alpirsbach Head of IT engineering at Homag Holzbearbeitungssysteme GmbH, Schopfloch		
Dipl.-Ing. Hans Fahr, Munich Business consultant	(1) (2)	– Sumida AG, Obernzell (Chairman) – Oechsler AG, Ansbach – König Metall GmbH, Gaggenau – Vollack Management Holding GmbH, Karlsruhe – BOA Luxembourg Investment S. a. r. l, Luxembourg, Luxembourg
Gerhard Federer, Offenburg CEO of Schunk GmbH, Heuchelheim, until October 31, 2013	(1) (2)	– SÜDVERS Holding GmbH & Co. KG, Au – Schunk Iberica S. A., Pinto, Spain, until October 17, 2013 – XYCARB Ceramics B. V., Helmond, Netherlands – Commerzbank AG, Regional Advisory Committee (central Germany), Frankfurt am Main – Hoffmann & Co. Elektrokohle AG, Bad Goissern, Austria, until October 29, 2013 – Schunk Wien Gesellschaft mbH, Vienna, Austria, until October 29, 2013
Dr. Horst Heidsieck, Büdingen Managing partner of Value Consult Management- und Unternehmensberatungsgesellschaft mbH, Büdingen and managing partner of DOMINO GmbH, Büdingen	(1)	– Coperion GmbH, Stuttgart (chairman), until June 28, 2013 – Mansfelder Kupfer und Messing GmbH, Hettstedt (chairman), since July 22, 2013
Carmen Hettich-Günther[1], Rottenburg Strategic sourcing employee and chair of the works' council of Homag Holzbearbeitungssysteme GmbH, Schopfloch		
Dr. Dieter Japs, Reichenberg Consulting engineer	(2)	– Leitz GmbH & Co. KG, Oberkochen – Vollert Anlagenbau GmbH, Weinsberg
Thomas Keller, Freiburg Regional manager for Württemberg at Deutsche Bank AG, Stuttgart, until June 30, 2013 Since July 1, 2013, Managing Director and Regional Director at Privat- und Firmenkundenbank Württemberg and spokesperson for Stuttgart of Deutsche Bank AG, Stuttgart	(1) (2)	– GEZE GmbH, Leonberg – Deutsche Clubholding GmbH, Frankfurt am Main – Gühring oHG, Albstadt – Cronimet Holding GmbH, Karlsruhe – Baden-Württembergische Wertpapierbörse, Stuttgart – Vereinigung Baden-Württembergische Wertpapierbörse e. V., Stuttgart
Hannelore Knowles[1], Calw Chair of the Group's works' council of Homag Group AG, Schopfloch and chair of the works' council of HOLZMA Plattenaufteiltechnik GmbH, Calw-Holzbronn		
Jochen Meyer[1], Herzebrock-Clarholz Deputy chairman of the group works' council of Homag Group AG, Schopfloch and chairman of the group works' council of Weeke Bohrsysteme GmbH, Herzebrock-Clarholz		
Reinhard Seiler[1], Lemgo Main representative of IG-Metall trade union, Detmold	(1)	– Dorma Holding GmbH & Co. KGaA, Ennepetal

1 Employee representative

Supervisory Board Committees

Audit committee	Gerhard Federer (chairman) Carmen Hettich-Günther [1] Reiner Neumeister [1] Thomas Keller
Personnel committee	Torsten Grede (chairman) Hannelore Knowles [1] Jochen Meyer [1] Reiner Neumeister [1] Hans Fahr Dr. Horst Heidsieck
Nomination committee	Torsten Grede (chairman) Hans Fahr Dr. Dieter Japs
Mediation committee pursuant to Sec. 27 (3) MitbestG ["Mitbestimmungsgesetz": German Codetermination Act]	Torsten Grede (chairman) Jochen Meyer [1] Reiner Neumeister [1] Dr. Horst Heidsieck

1 Employee representative

Members of the Management Board

Management board member	Membership in statutory supervisory boards (1) and other comparable domestic and foreign control bodies of entities (2) that do not belong to the HOMAG Group (as of December 31, 2013)	
Dr.-Ing./U. Cal. Markus Flik Stuttgart/Freudenstadt Chairman and board member for corporate development, research and development	(1) (2)	– Benteler International AG, Salzburg, Austria – Anand Automotive Systems Limited, New Delhi, India, since December 31, 2013 – TRUMPF GmbH+Co.KG and Berthold Leibinger GmbH, Ditzingen, since January 1, 2013
Harald Becker-Ehmck, Nagold Board member for production, procurement, quality management and affiliates		
Jürgen Köppel, Beckum Board member for sales, service and marketing		
Hans-Dieter Schumacher, Tuttlingen CFO and board member for IT, personnel	(2)	– Commerzbank AG, Regional Advisory Committee (south-west Germany), Frankfurt am Main

Total remuneration of management and supervisory board members

The remuneration of the member of the management board for fiscal year 2013 amounted to EUR 3,124 k (prior year: EUR 2,514 k). This includes a performance-based remuneration component of EUR 1,684 k (prior year: EUR 918 k), of which EUR 1,166 k pertained to long-term incentives (LTI) (prior year: EUR 635 k). Figures given for the LTI are not actual values, but rather fair values on the date of granting calculated using financial modeling methods. The share-based payments relate exclusively to cash-settled share-based payment transactions, meaning the volume disclosures are not relevant. As regards the disclosures pursuant to Sec. 285 No. 9a Sentences 5 to 8 HGB, we refer to the combined management report of Homag Group AG and the Group.

The remuneration of the supervisory board members in fiscal 2013 amounted to EUR 364 k (prior year: EUR 426 k). This contains performance-based remuneration of EUR 0 k (prior year: EUR 45 k). As in the prior year, all remuneration is current.

Headcount

Annual average headcount:

	Number
Salaried employees	31
Management board members	4
Total	35

Group Relationships

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

Declaration of Compliance with the German Corporate Governance Code

A declaration of compliance with the German Corporate Governance Code pursuant to Sec. 161 AktG was issued by the management board and the supervisory board in January 2014. An up-to-date version is made permanently available to shareholders on Homag Group AG's homepage at www.homag-group.com.

Audit Fees

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

Notifications Subject to Mandatory Disclosure

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

- Deutsche Beteiligungs AG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1) WpHG:
  - We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50 % and amounted to 30.54 % on that date (4,790,846 voting rights).
  - As of July 17, 2007, pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 3.68 % of voting rights (577,888 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3 % or less.
  - Pursuant to Sec. 22 (2) Sentence 1 No. 1 WpHG, a further total of 15.17 % of voting rights (2,379,874 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3 % or more:

    DBG Advisors IV GmbH & Co. KG;
    DBG Advisors V GmbH & Co. KG.
- DBG Advisors V GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1) WpHG:
  - We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50 % and amounted to 30.54 % on that date (4,790,846 voting rights).

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

    DBAG Fund V International GmbH & Co. KG.
  - As of July 17, 2007, pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, a total of 4.50 % of voting rights (705,235 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3 % or less.
  - As of July 17, 2007, pursuant to Sec. 22 (2) WpHG, a total of 20.95 % further voting rights (3,286,875 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3 % or more:

    DBG Advisors IV GmbH & Co. KG;
    Deutsche Beteiligungs AG.
- DBG Advisors IV GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1) WpHG:
  - We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50 % and amounted to 30.54 % on that date (4,790,846 voting rights).
  - Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 3.89 % of voting rights (610,206 voting rights) are attributed to us via DBAG Fund IV GmbH & Co. KG.
  - As of July 17, 2007, pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, a total of 1.69 % of voting rights (265,697 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3 % or less.
  - As of July 17, 2007, pursuant to Sec. 22 (2) WpHG, a total of 24.96 % further voting rights (3,914,943 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3 % or more:

    DBG Advisors V GmbH & Co. KG;
    Deutsche Beteiligungs AG.
- DBG Investment Team GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1) WpHG:
  - We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50 % and amounted to 30.54 % on that date (4,790,846 voting rights).
  - Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 5.58 % of voting rights (875,903 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3 % or more:

    DBG Advisors IV GmbH & Co. KG;
    DBAG Fund IV GmbH & Co. KG;
    DBAG Fund IV International GmbH & Co. KG.
  - As of July 17, 2007, pursuant to Sec. 22 (2) WpHG, a total of 24.96 % further voting rights (3,914,943 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3 % or more:

    DBG Advisors V GmbH & Co. KG;
    Deutsche Beteiligungs AG.
- DBG Advisors V Verwaltungs GmbH, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1) WpHG:
  - We hereby give notice, pursuant to Sec. 21 (1) WpHG, that on July 17, 2007 our voting interest in Homag Group AG fell below the threshold of 50 % and amounted to 30.54 % on that date (4,790,846 voting rights).
  - Pursuant to Sec. 22 (1) Sentence 1 No. 1 WpHG, 5.58 % of voting rights (875,903 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3 % or more:

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

  - As of July 17, 2007, pursuant to Sec. 22 (2) WpHG, a total of 24.96 % further voting rights (3,914,943 voting rights) are attributed to us via the following companies that we control and whose share in Homag Group AG is 3 % or more:
    DBG Advisors V GmbH & Co. KG;
    Deutsche Beteiligungs AG.
- DBAG Fund V International GmbH & Co. KG, Frankfurt am Main, Germany, informed us of the following pursuant to Sec. 21 (1a) and (1) WpHG:
  - In accordance with Sec. 21 (1a) WpHG, 9.76 % of all voting rights (corresponding to 1,531,316 voting rights) in HOMAG Group AG were allocable to DBAG Fund V International GmbH & Co. KG as of July 12, 2007.
- On February 4, 2008, Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of January 30, 2008 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, exceeded the threshold of 5 % and now amounts to 5.65 % (886,095 voting rights).
- On March 31, 2008, BWInvest, Baden-Württembergische Investmentgesellschaft mbH, Stuttgart, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of March 27, 2008 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, for all of its separate trust assets exceeded the threshold of 5 % and now amounts to 5.44 % (852,958 voting rights). Of those, 5.04 % (791,458 shares) are allocable pursuant to Sec. 22 (1) Sentence 1 No. 6 WpHG.
- On December 14, 2010, Gerhard Schuler, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of December 9, 2010 his voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 25 % of the voting rights and amounted to 25.000019 % on that date (3,922,003 voting rights).
  - 14.67 % of the voting rights (2,300,959 voting rights) are allocable to Gerhard Schuler pursuant to Sec. 22 (2) WpHG.
  - Voting rights from the following shareholders whose share in voting rights in Homag Group AG amounts to 3 % or more respectively are allocable to Gerhard Schuler:
    Mareike Hengel,
    Dr. Anja Schuler,
    Silke Schuler-Gunkel,
    Erich und Hanna Klessmann Stiftung.
- On December 14, 2010, Mareike Hengel, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of December 9, 2010 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 25 % of the voting rights and amounted to 25.000019 % on that date (3,922,003 voting rights).
  - 21.70 % of the voting rights (3,404,834 voting rights) are allocable to Mareike Hengel pursuant to Sec. 22 (2) WpHG.
  - Voting rights from the following shareholders whose share in voting rights in Homag Group AG amounts to 3 % or more respectively are allocable to Mareike Hengel:
    Gerhard Schuler,
    Dr. Anja Schuler,
    Silke Schuler-Gunkel,
    Erich und Hanna Klessmann Stiftung.
- On December 14, 2010, Dr. Anja Schuler, Switzerland, informed us pursuant to Sec. 21 (1) WpHG that as of December 9, 2010 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 25 % of the voting rights and amounted to 25.000019 % on that date (3,922,003 voting rights).
  - 21.70 % of the voting rights (3,404,834 voting rights) are allocable to Dr. Anja Schuler pursuant to Sec. 22 (2) WpHG.
  - Voting rights from the following shareholders whose share in voting rights in Homag Group AG amounts to 3 % or more respectively are allocable to Dr. Anja Schuler:
    Gerhard Schuler,
    Mareike Hengel,
    Silke Schuler-Gunkel,
    Erich und Hanna Klessmann Stiftung.

- On December 14, 2010, Silke Schuler-Gunkel, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of December 9, 2010 her voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 25 % of the voting rights and amounted to 25.000019 % on that date (3,922,003 voting rights).
  - 21.70 % of the voting rights (3,404,834 voting rights) are allocable to Silke Schuler-Gunkel pursuant to Sec. 22 (2) WpHG.
  - Voting rights from the following shareholders whose share in voting rights in Homag Group AG amounts to 3 % or more respectively are allocable to Silke Schuler-Gunkel:
    Gerhard Schuler,
    Mareike Hengel,
    Dr. Anja Schuler,
    Erich und Hanna Klessmann Stiftung.
- On December 14, 2010, the Erich und Hanna Klessmann Stiftung, Gütersloh, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of December 9, 2010 its voting interest in Homag Group AG, Schopfloch, Germany, ISIN: DE0005297204, WKN: 529720, exceeded the threshold of 25 % of the voting rights and amounted to 25.000019 % on that date (3,922,003 voting rights).
  - 20.22 % of the voting rights (equivalent to 3,172,551 voting rights) are allocable to Erich und Hanna Klessmann Stiftung pursuant to Sec. 22 (2) WpHG.
  - Voting rights from the following shareholders whose share in voting rights in Homag Group AG amounts to 3 % or more respectively are allocable to Erich und Hanna Klessmann Stiftung:
    Gerhard Schuler,
    Mareike Hengel,
    Dr. Anja Schuler,
    Silke Schuler-Gunkel.
- On December 3, 2012, DBAG Fund IV GmbH & Co. KG, Frankfurt am Main, Germany, informed us pursuant to Sec. 21 (1) WpHG that as of December 3, 2012 its voting interest granted on the basis of shares in Homag Group AG, Schopfloch, Germany, ISIN: DE 0005297204, WKN: 529720, exceeded the threshold of 5 % of the voting rights and amounted to 5.04 % on that date (789,940 voting rights).

Declaration of the Legal Representatives (AG)

Declaration of the Legal Representatives

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

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

Schopfloch, March 14, 2014
Homag Group AG

The management board

DR. MARKUS FLIK | **HARALD BECKER-EHMCK**

JÜRGEN KÖPPEL | **HANS-DIETER SCHUMACHER**

Audit Opinion on the Annual Financial Statements (AG)

Translation of the German audit opinion concerning the audit of the financial statements and combined management report prepared in German.

Audit Opinion

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

"We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report, which has been combined with the group management report, of Homag Group AG, Schopfloch, for the fiscal year from January 1 to December 31, 2013. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation and bylaws are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart, March 14, 2014
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

BLESCH
Wirtschaftsprüfer
[German Public Auditor]

VÖGELE
Wirtschaftsprüferin
[German Public Auditor]

Review

Q1

Order intake of EUR 182.3 million

Sales revenue of EUR 176.7 million

Op. EBITDA of EUR 13.4 million

Net profit for the period of EUR 1.8 million

Share as of March 28, 2013 = EUR 14.40

Preparations for the industry's leading trade fair worldwide, LIGNA; agreement regarding restructuring at the subsidiary FRIZ Kaschiertechnik GmbH

Q2

Order intake of EUR 148.6 million

Sales revenue of EUR 195.3 million

Op. EBITDA of EUR 13.7 million

Net profit for the period of EUR 2.2 million

Share as of June 28, 2013 = EUR 13.79

Again the largest exhibitor at LIGNA; annual general meeting resolves to pay out dividend of EUR 0.25 per share; Group's refined mission statement is published

Q3

Order intake of EUR 142.0 million

Sales revenue of EUR 202.9 million

Op. EBITDA of EUR 24.5 million

Net profit for the period of EUR 6.6 million

Share as of September 30, 2013 = EUR 16.53

The international audience is enthusiastic at several in-house trade fairs; Productive deployment of the SAP-ERP system at our subsidiary BRANDT Kaschiertechnik GmbH

Q4

Order intake of EUR 132.1 million

Sales revenue of EUR 213.9 million

Op. EBITDA of EUR 24.2 million

Net profit for the period of EUR 7.8 million

Share as of December 30, 2013 = EUR 19.06

HOMAG to invest EUR 1.4 million in a new energy concept at the Schopfloch site; share increases by about 15 percent – or by as much as 66 percent over the full year

Glossary

Technology

App
An app (abbreviation for application) is an application program for smartphones.

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

Cloud
Part of a user's IT landscape is leased as a service from an outside provider, generally at a different geographical location. The applications and data are no longer located at the company's computing center but in a (metaphorical) cloud.

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

CO_2 laser/carbon dioxide lasers
The light of a laser is generated with an energy efficiency of 10 percent. The laser beam is focused on the surface of the workpiece and provides the necessary energy there for cutting. Carbon dioxide is used as the laser medium.

Diode lasers
With an energy efficiency of 40 percent, laser light is generated that is directed through fiber optic cable to the place where the edge is being glued on.

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

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

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

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

Industry 4.0
This term describes the factory of the future, which is understood to be a smart factory marked by changeability and resource efficiency as well as the integration of customers and business partners into business and value added processes.

Intrusion Detection System (IDS)
System for the detection of attacks to computer systems and/or networks. To this end, the IDS system detects and logs all suspicious movements on the network.

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

Batch size 1 manufacturing
Production of products with tailored specifications in batch sizes of one.

powerControl technology
This is the HOMAG Group's new control system, consisting of a combination of hardware and software that can be put together from a modular system of predefined building blocks. This system makes it possible to configure customized machines in addition to series machines.

powerTouch technology
New intuitive machine operating system. The centerpiece is a multi-touch monitor. Machines throughout the Group can be operated with the same look and feel by directly touching the surface capacitive touchscreen.

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

Finance

Change of control
Contractual clause in service and employment agreements of the members of the management board and middle management granting them a special right to terminate their contract and a previously agreed compensation payment in the event of change of control.

Corporate Governance
Legal and constructive regulations for the responsible governance and supervision of a company. The German Corporate Governance Code contains excerpts of the legal provisions as well as recommendations (“should” provisions) and suggestions (“can” provisions).

Authorized capital
Amount of capital that the annual general meeting of a stock corporation has authorized in advance for the purpose of executing any capital increases in exchange for contributions either in cash and/or in kind by three-quarter majority resolution.

HOMAG Group Action Program (HGAP)
The objective of the HGAP is to improve cross-location and cross-functional cooperation in the HOMAG Group and to translate these improvements into cost advantages. This program brings together a wide variety of measures across all operating companies that are being implemented locally but coordinated centrally by the specialist departments.

HOMAG Value Added (HVA)
HVA is a percentage metric determined from the return on capital employed (ROCE) less the weighted average cost of capital (WACC). It is used as a calculation basis for determining the variable remuneration of the supervisory and management boards.

Syndicated loan agreement
The loan agreement concluded in September 2012 by the HOMAG Group with a syndicate of banks led by Commerzbank, Deutsche Bank and UniCredit. The new agreement has a term of four years and secures the Group’s liquidity with a volume of EUR 210 million.

Long-term incentive (LTI)
Long-term variable remuneration component for members of the management and supervisory boards. It is performance-based and linked to various parameters.

OECD
The Organization for Economic Cooperation and Development is an international organization that promotes market economics. It provides the forum for a standing intergovernmental conference enabling an intense exchange of views of current economic and monetary policy issues affecting all participants and contributing to improved coordination of national economic policy measures.

Percentage-of-completion (PoC) method
Under the PoC method, the contribution to results (sales revenue and earnings) from large-scale plant and machinery is recognized based on the stage of production as of the cut-off date.

ProFuture
Major IT project of the HOMAG Group that is divided into several subprojects and encompasses the end-to-end reengineering of the complete order handling process in connection with the modernization of the IT systems.

ROCE
Return on Capital Employed (ROCE) is defined as earnings before interest and taxes (EBIT) before employee profit participation expenses and before extraordinary expenses as a percentage of capital employed.

Secondary wood processing
Segment of the woodworking machines industry in which the HOMAG Group operates. It concerns secondary processing of wood, as opposed to primary processing, which includes the manufacture of machines for sawmills for instance.

Short-term incentive (STI)
Short-term variable remuneration component for members of the management and supervisory boards. It is performance-based and linked to various parameters.

Code of Conduct
The code of conduct contains binding guidelines for the actions of the management board, middle management and all employees of the Homag Group.

Net debt ratio
The net debt to EBITDA ratio is a measure of financial stability and is defined as the ratio of net liabilities to banks to operative EBITDA.

WACC
Weighted average cost of capital is calculated as the weighted average cost of equity and debt capital. It is calculated as the weighted mean cost of capital.

Company Structure Homag Group

—— as of December 31, 2013

Homag Group AG

100 %

Homag Holzbearbeitungssysteme GmbH

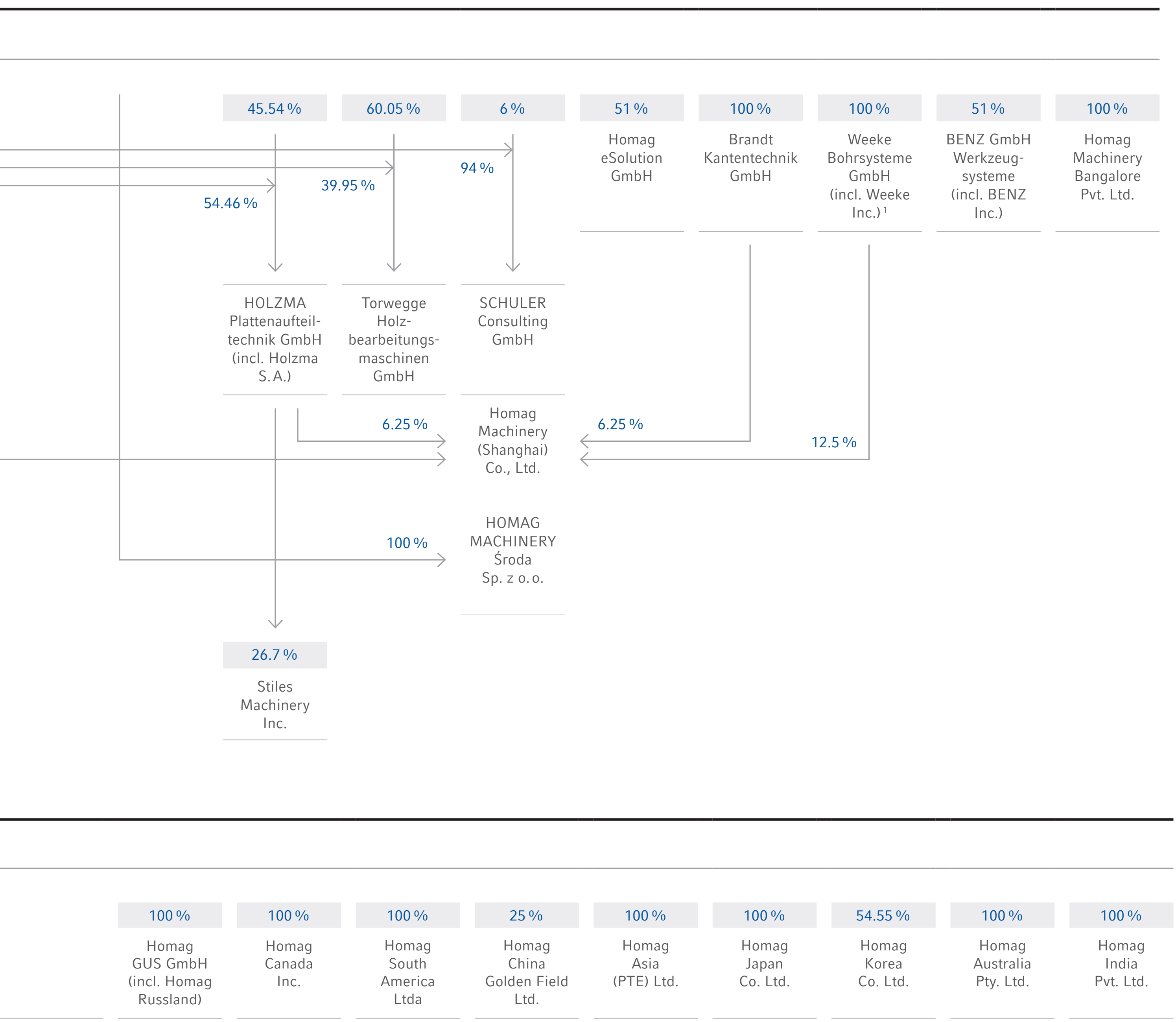
100 %	100 %	100 %	100 %	75.9 %	100 %
	Friz Kaschiertechnik GmbH	Ligmatech Automationssysteme GmbH	Bargstedt Handlingsysteme GmbH	Weinmann Holzbausystemtechnik GmbH	HOMAG MACHINERY (São Paulo) Ltda.

56.25 %

Homag Finance GmbH

100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Homag Vertrieb & Service GmbH	Homag Austria Ges. mbH	Homag (Schweiz) AG	Homag France S. A. S.	Homag Italia S. p.A	Homag España Maquinaria S. A.	Homag Danmark A/S	Homag U. K. Ltd.	Homag Polska Sp. z o. o.

1 Shares are partly held by Weeke Bohrsysteme GmbH (51 %), Homag Holzbearbeitungssysteme GmbH (30 %) and Stiles Machinery, Inc. (19 %).


45.54 %
60.05 %
6 %
51 %
Homag eSolution GmbH
100 %
Brandt Kantentechnik GmbH
100 %
Weeke Bohrsysteme GmbH (incl. Weeke Inc.)[1]
51 %
BENZ GmbH Werkzeug-systeme (incl. BENZ Inc.)
100 %
Homag Machinery Bangalore Pvt. Ltd.
94 %
39.95 %
54.46 %
HOLZMA Plattenaufteil-technik GmbH (incl. Holzma S.A.)
Torwegge Holz-bearbeitungs-maschinen GmbH
SCHULER Consulting GmbH
6.25 %
6.25 %
12.5 %
Homag Machinery (Shanghai) Co., Ltd.
100 %
HOMAG MACHINERY Środa Sp. z o.o.
26.7 %
Stiles Machinery Inc.
100 %
Homag GUS GmbH (incl. Homag Russland)
100 %
Homag Canada Inc.
100 %
Homag South America Ltda
25 %
Homag China Golden Field Ltd.
100 %
Homag Asia (PTE) Ltd.
100 %
Homag Japan Co. Ltd.
54.55 %
Homag Korea Co. Ltd.
100 %
Homag Australia Pty. Ltd.
100 %
Homag India Pvt. Ltd.

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Financial calendar

March 27, 2014	Press conference on the financial results in Stuttgart
March 27, 2014	Analysts' conference in Frankfurt am Main
May 13, 2014	Three-months report 2014
June 3, 2014	Annual general meeting in Freudenstadt
August 14, 2014	Six-months report 2014
November 13, 2014	Nine-months report 2014

DISCLAIMER

Service: Our annual reports as well as other up-to-the-minute information about HOMAG Group AG can be downloaded from the internet at: www.homag-group.com

Future-Oriented Statements: This annual report contains certain statements relating to the future. Futureoriented statements are all those statements that do not pertain to historical facts and events or expressions pertaining to the future such as "believes", "estimates", "assumes", "forecasts", "intend", "may", "will", "should" or similar expressions. Such future-oriented statements are subject to risks and uncertainty since they relate to future events and are based on current assumptions of the Company, which may not occur in the future or may not occur in the anticipated form. The Company points out that such future-oriented statements do not guarantee the future; actual results including the financial position and the profitability of the HOMAG Group AG as well as the development of economic and regulatory framework conditions may deviate significantly (and prove unfavorable) from what is expressly or implicitly assumed or described in these statements. Even if the actual results of the HOMAG Group AG including the financial position and profitability as well as the economic and regulatory framework conditions should coincide with the future-oriented statements in this annual report, it cannot be guaranteed that the same will hold true in the future.

Other Information: This annual report is published in German and in English. In case of doubt, the German version shall prevail. Minor differences may arise from use of amounts and percentages rounded to the nearest whole number. Any places in the text where only the masculine form has been used refer to both genders.

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