HOMAG GROUP

ANNUAL FINANCIAL STATEMENTS 2006

SECURING SUCCESS THROUGH **PARTNERSHIP**

Homag Group AG's management lays claim to being the world's leading manufacturer of machines and equipment for the woodworking industry. As a global player, we are present in around 60 countries and hold an estimated 23% share of the market for furniture manufacturing, the production of structural elements and timber frame house construction. We offer our customers perfectly aligned solutions, from the stand-alone machine through to complete production lines. A wide range of supporting services and specially tailored control software round off our unique portfolio.

Satisfied customers

Satisfied employees

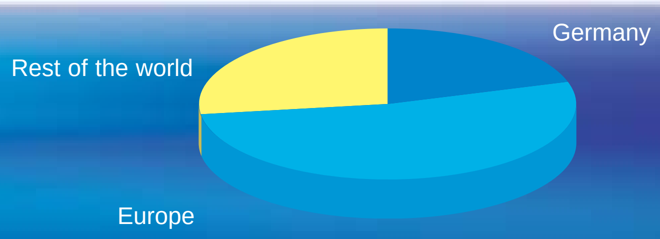
Satisfied investors

PHILOSOPHY

CONTENTS

Figures in EUR million

	2004 (HGB)	(without IMA)[1] 2004 (HGB)	2005 (IFRS)	2006 (IFRS)
Total sales revenue	691.8	597.9	613.5	736.5
Domestic sales revenue	190.6	161.3	126.6	149.2
Export sales revenue	501.2	436.6	486.9	587.3
of which Europe	330.0	282.1	299.7	387.3
North America	81.0	73.3	75.3	95.9
Asia	54.0	49.9	98.4 [2]	82.5 [2]
Export share as % of total sales revenue	72.4	73.0	79.4	79.7
EBITDA [3]	44.1	44.4	54.6	85.0
EBITDA as % of total operating performance	6.4	7.5	8.8	11.5
EBIT [3]	27.3	29.3	36.3	65.2
EBIT as % of total operating performance	4.0	4.9	5.8	8.8
EBT [3]	12.1	13.4	9.9	44.8
EBT as % of total operating performance	1.8	2.3	1.6	6.0
Investment in property, plant and equipment	13.1	12.7	15.6	31.0
Depreciation of property, plant and equipment	12.7	11.5	14.7	15.9



KEY GROUP FIGURES

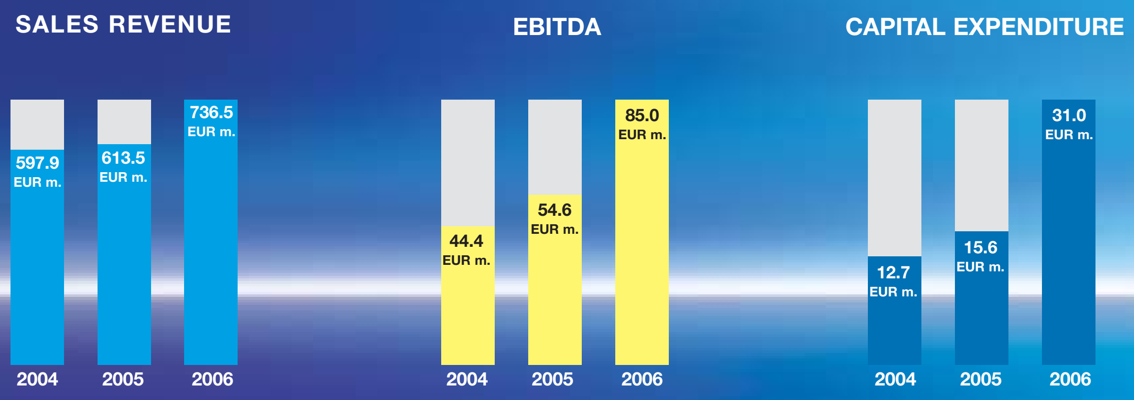
Figures in EUR million

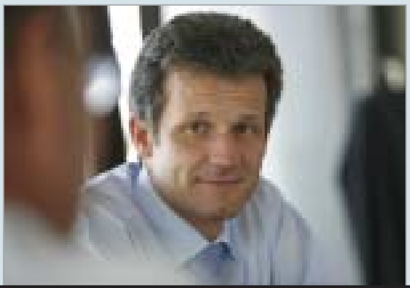
	2004 (HGB)	(without IMA)[1] 2004 (HGB)	2005 (IFRS)	2006 (IFRS)
Balance sheet total	445.0	397.9	423.1	483.7
Fixed assets	138.2	125.6	150.9	163.5
Current assets	282.1	249.8	247.4	298.0
Own funds [4]	131.2	122.0	126.6	144.4
Own funds ratio as %	29.5	30.7	29.9	29.9
Number of employees [5]	5.032	4.262	4.385	4.623
Of which trainees	436	359	341	346
Personnel expenses	231.5	194.4	205.2	223.8

[1] Adjusted for the main transactions of the IMA part division
[2] Asia/Pacific

[3] After deduction of "other taxes" before taking into account silent partners

[4] Equity plus silent partners, hidden contribution of participation rights and 50% of special item for investment grants
[5] Annual average





Dr. Joachim Brenk
(Spokesman)

Achim Gauß

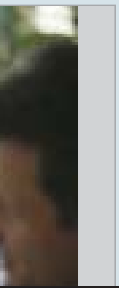
Andreas Hermann

Herbert Högemann

FOREWORD BY THE MANAGEMENT BOARD

Dear Sir or Madam,

HOMAG Group AG can look back on a highly successful business year in 2006. A year in which we have consistently used the positive economic climate to further extend our position as a leading supplier in the woodworking machinery sector. The mechanical engineering industry as a whole demonstrated healthy growth in Germany in 2006, and our woodworking machinery sector was no exception, making significant gains over the year.



Our aspiration of world market leadership makes it particularly important at such a phase not to simply grow in step with the market, but to proactively pursue additional sales. We achieved this aim in 2006 with a good degree of success. According to our estimate, we made greater gains than the market average and were consequently able to further increase our estimated market share, which is now around 23 per cent.

The growth achieved in the individual consolidated key figures provides impressive documentation of 2006 as an outstanding financial year.

Rolf Knoll

20 per cent increase in sales revenue, incoming orders up 21 per cent, and a 34 per cent increase in orders in hand at the end of the year. The development of our profit situation was disproportionately high, resulting in an improved pre-tax result (after deducting outlay for silent partnerships) compared to the previous year of around 140 per cent to EUR 44.1 million.

This dramatic increase in our operating result is naturally due primarily to good capacity utilization in all the group companies. However, additional positive effects were also generated by our “Project 2008” profit optimization program launched back at the end of 2005. The aim of this package of measures encompassing all the group companies is to further increase the competitive edge of our products and so to strengthen our consolidated financial and earning power. The “Project 2008” is a response – deliberately during a growth phase for the group – to the changing competitive environment in a market which has become far more hotly contested over recent years. High raw material prices and a strong euro have increased the pressure on profit margins and in a globalized world market have strengthened the competition by the addition of local suppliers.

Strong financial year 2006

Marked improvement in operating result

Income optimization program “Project 2008”

FOREWORD BY THE MANAGEMENT BOARD

To allow us to offer our products at locally affordable prices even in threshold countries, we now also produce entry level products directly on location in markets such as Poland, Asia or Latin America. We continued to pursue this strategy in 2006, with a substantial expansion to our factory in Poland. We view our producing locations abroad as a sensible addition to our domestic production plants, which continue to form the clear focus of our production activity. We intend things to stay this way in future, as evidenced for instance by our heavy investment within Germany. During the past financial year, for instance, we extended the production area of our subsidiaries WEEKE and WEINMANN, and also erected an 8,000 square metre new building at our Homag parent plant in Schopfloch.

Together with the positive business outlook, this investment has paved the way for an increase in our workforce. The number of employees throughout the group rose during the course of the year by just under 250 employees, bringing the total workforce of HOMAG Group to around 4,700 employees as of December 31, 2006. A good 150 of these new jobs were created in Germany.

Another important event in 2006 was a change of the majority situation at HOMAG Group AG. Deutsche

Heavy investment in Germany

Germany remains production focus

Around 250 new jobs created

Beteiligungs AG has held a share in HOMAG since 1997. Together with the private equity fund it manages, it has now acquired a further 39 per cent holding. In total, Deutsche Beteiligungs AG or the fund managed by it have held around 60.4 per cent of the shares since November 2006. The remaining 39.6 per cent are still held by the existing family shareholders. We consider that the acquisition of shares by this long-standing partner of HOMAG Group AG provides the optimum conditions for the continuation of our many years of successful development.

We entered the current financial year 2007 with well-filled order books and a promising high level of incoming orders. With the market portents continuing to point in a highly positive direction, we aim to achieve further growth in 2007 after an excellent financial year in 2006. Our objective is continued expansion of HOMAG Group's position in the world market. We are expecting positive impetus to be felt from the Ligna in Hanover, the woodworking sector's largest trade fair, which takes place in May. We are also expecting our optimization program "Project 2008", which we are consistently pursuing, to contribute towards further improvement of our operating result. To allow us to ideally serve our international markets, the continued expansion of our international sales and servicing network

DBAG acquires majority shareholding

Further growth planned for 2007

remains a further strategic aim.

At this juncture, we would like to express our sincere thanks to all our employees for their commitment and dedication. Without them the success achieved by HOMAG Group in the financial year 2006 would not have been possible.

Schopfloch, May 2007

The Management Board

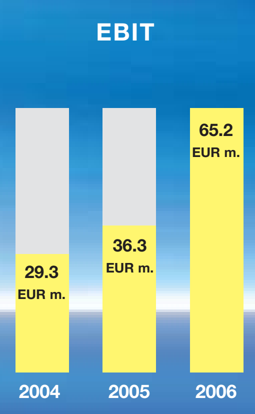
Dr. Joachim Brenk

Achim Gauß

Andreas Hermann

Herbert Högemann

Rolf Knoll



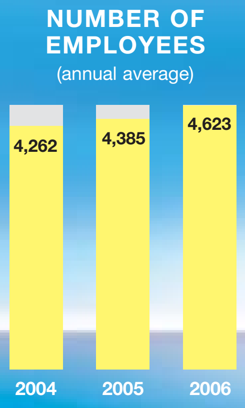
Perfect sanded surface finish
with sanding machines from BÜTFERING

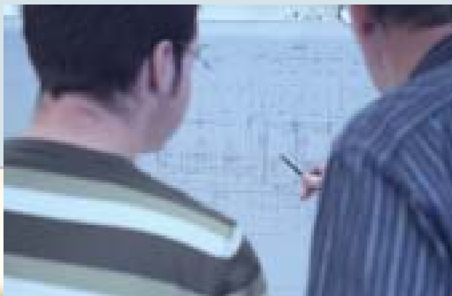
Drilling and dowel driving
with WEEKE machines

Perfect edges from
HOMAG and BRANDT

Employees as co-entrepreneurs

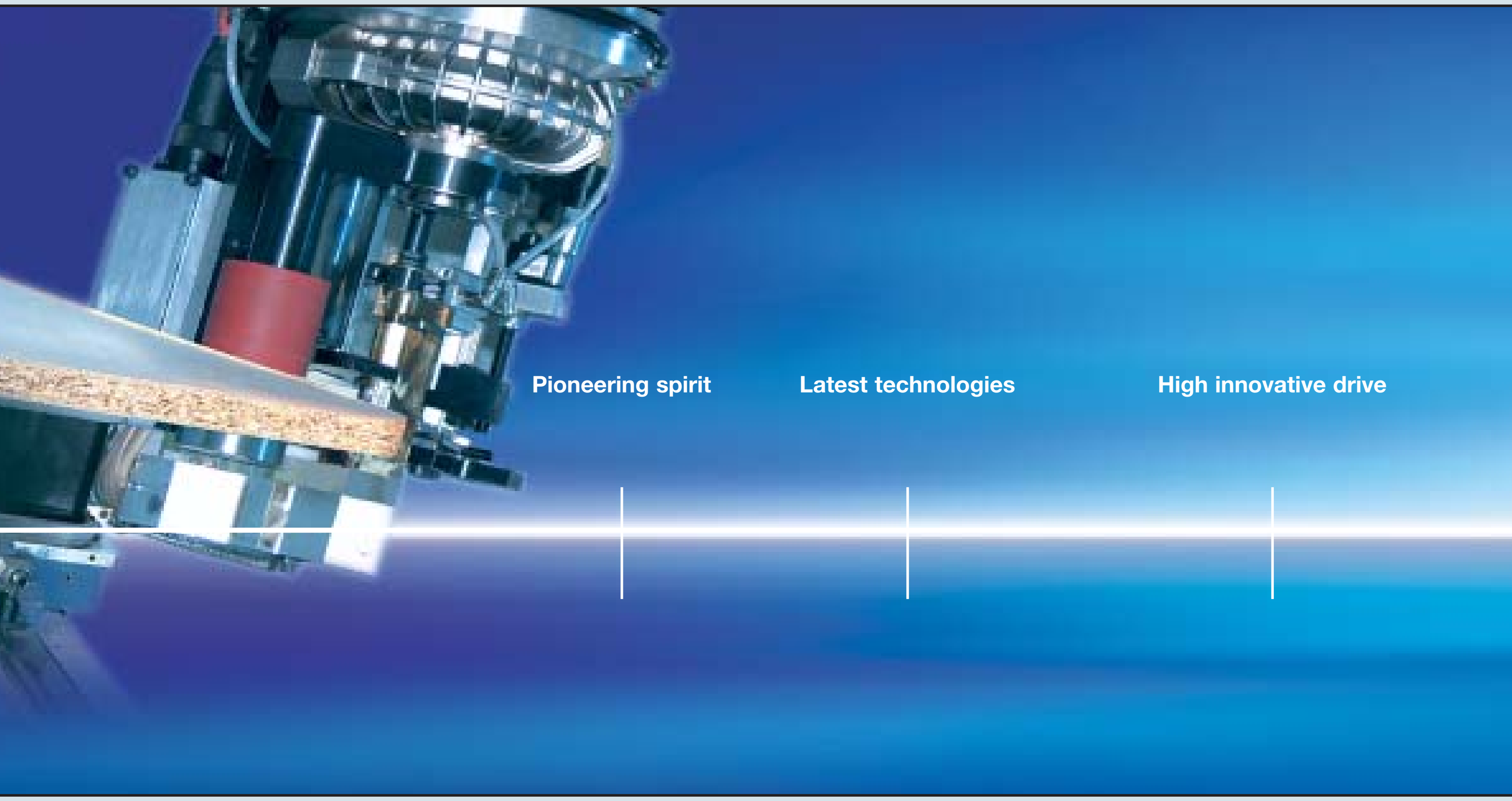
Active personnel development

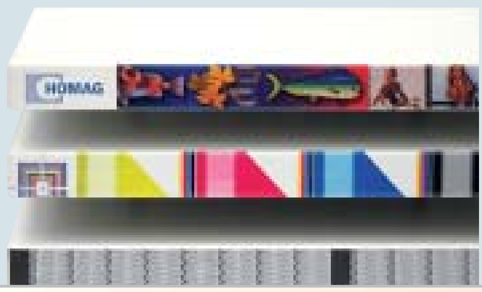




A policy of fair dealing and structures based on cooperative partnership have a long tradition at HOMAG Group AG. These guiding principles were firmly anchored in the corporate culture as long ago as the company's formation by its two founders.
They were not content to simply motivate their workforce by implementing a cooperative style of management. As long ago as 1974, the employees were offered the opportunity to participate in HOMAG AG and so become co-entrepreneurs. This is a success model which appeals: Today 99 per cent of all entitled employees hold an interest in HOMAG AG. The employee participation scheme has now been successfully established in several companies within the group, and is due to be extended in the medium term to additional group members.
Highly skilled specialist and management personnel who continue to undergo ongoing further training are the central success factor behind HOMAG Group AG. Many of the group companies have employed a high quota of trainees for many years. In addition, we work closely together with vocational academies and technical colleges, offer practical semesters and work placements, and in so doing we recruit our future management generation directly on location. By implementing selective further training measures and through a long-term personnel development program, we encourage the development of our workforce.
By introducing our own management trainee program, we are able to ensure that the majority of top management and specialist positions can be filled by young employees from our own ranks.

PEOPLE AT HOMAG


Pioneering spirit
Latest technologies
High innovative drive


HOMAG

HOMAG Group AG's claim to world leadership in the field of machines and plants for the woodworking industry is inextricably linked to our enormous innovative drive. A highly developed pioneering spirit and sophisticated, high-end developments distinguished the progress of the company right from its early days, when the rise of HOMAG AG was heralded by the invention of the world's first edge banding machine in 1962.

Today, we see our role as that of technological leader in our field, and are seen by others as a driving force and trendsetter, setting new standards and at the same time playing an instrumental role in setting the pace of innovation. We aim to maintain our lead, make use of proven technologies and aim to be the first to market with new developments. Our engineers register a new patent every two months, always with the same aim: to increase customer benefit and further sharpen the competitive edge for our customers.

The best example of innovative drive within HOMAG Group is currently the topic of lightweight construction. The new so-called honeycomb panels are significantly lighter in weight and in some cases cheaper than conventional panels. They are no longer made completely of wood, but have a soft core which makes stringent demands on the process technology used. We were very quick to take up this challenge by developing the necessary plant and machinery. Consequently our customers are already able to benefit from carefully considered, seamless solutions for all the processing steps involved in lightweight construction: from just-in-time production of the lightweight panels through perfect edge closure to innovative connection techniques.

INNOVATION LEADER

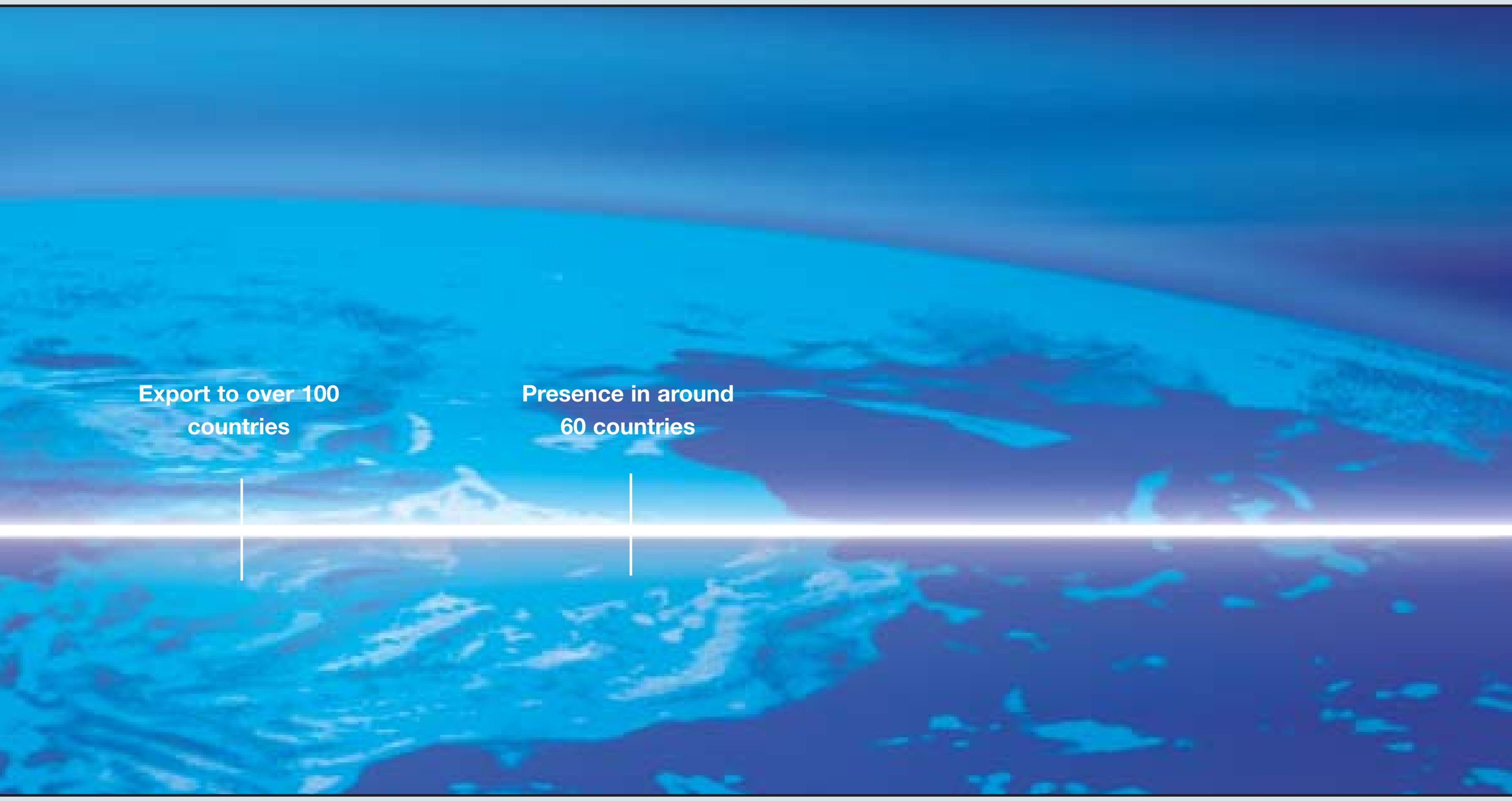
Estimated world market share of around 23 per cent

Export quota of 80 per cent

For HOMAG Group AG, globalization is not just a watchword but has been a reality implemented in practice for many decades. With an estimated world market share around 23 per cent we are in our opinion the clear market leader in our field. We think and act on a global scale and are represented in all the important international markets. We have a presence in around 60 countries with subsidiaries or sales partners. In 2006, we supplied our products to over 100 countries, with exports accounting for around 80 per cent of our sales.

There are good reasons why customers place their trust in the HOMAG Group all around the globe: We offer all our customers more than innovative plant and machinery – from the small-scale enterprise to the industrial corporation. We aim to be not just a supplier, but a long-term partner. We use our rich fund of expertise and experience to determine the requirements of our customers and to provide the optimum individual solution tailored to their specific needs.

Our range encompasses the right products for every step along the process chain of our customers. They are perfectly inter-coordinated and can be networked to create a complete production line if required. Their modular structure also allows them to be adapted to changed requirements and extended at any time. Our service teams working worldwide also ensure a high degree of machine availability and provide customers with competent advice and support.



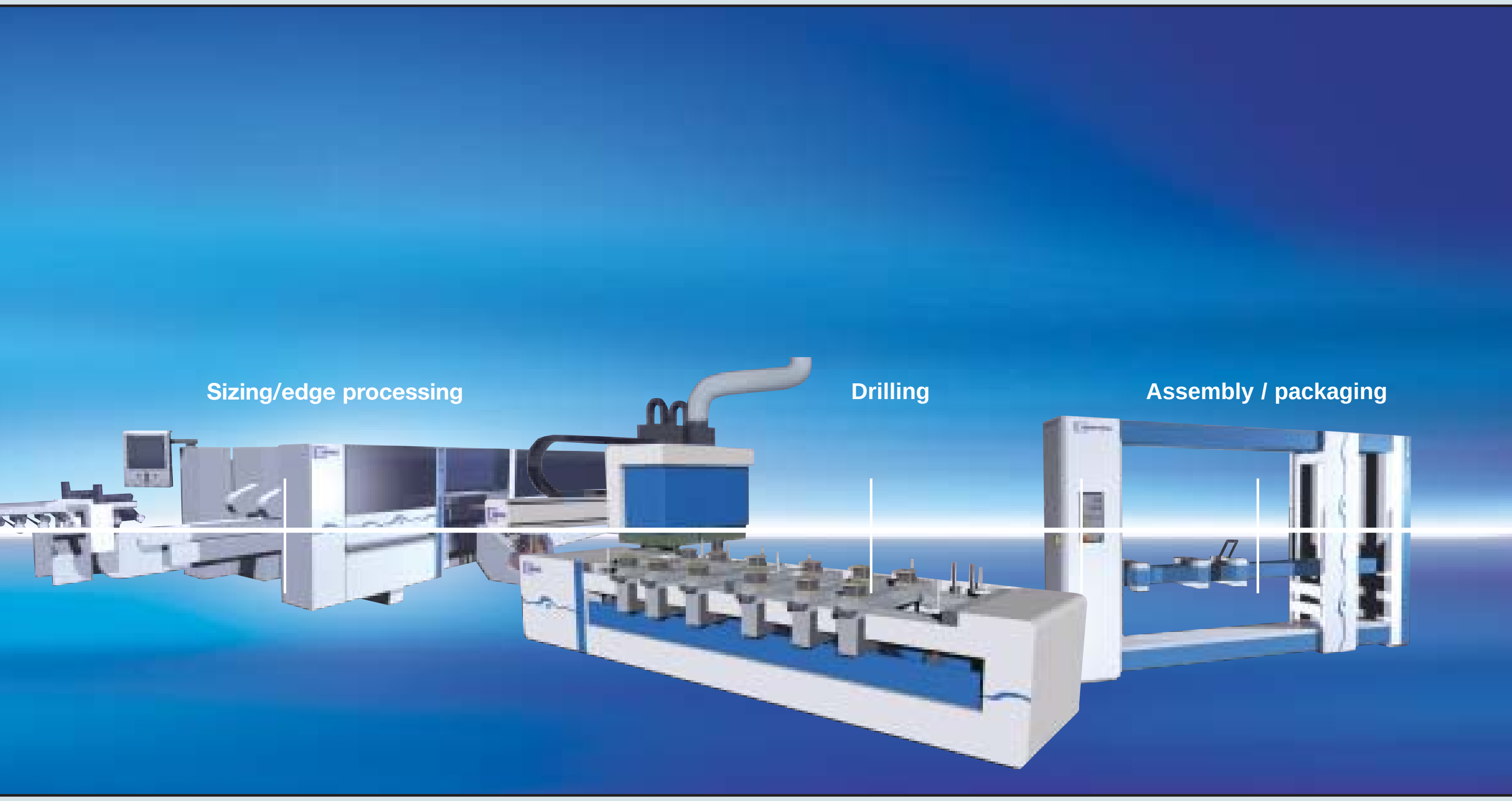
GLOBAL SOLUTIONS


Logistics
Sawing

We endeavour to achieve a fair, long term partnership with our customers. This philosophy plays an instrumental role with our manufacturing industry customers. Only a supplier which knows and understands its customers is in a position to engineer the optimum plant or production line to address their often highly complex requirements. It is crucial here for the individual wheels of the process to interact correctly, creating a seamlessly interlinked production process. Precisely this is one of the great strengths of the HOMAG Group.

Within our group there are specialists for each individual processing stage which – each company as an individual entity – help secure the competitive strength of our customers with highly modern, innovative plant and machinery. Working together under the umbrella of the HOMAG Group, these companies bond to create a homogenous unit whose plants and machines are ideally inter-coordinated and complement each other perfectly. This provides customers with the assurance of all the products and services they require from a single reliable source, including seamless control engineering and standardized software.

Alongside highly efficient machine technology for economical production, our customers also benefit from individual bespoke quotations individually tailored to address their requirements and preferences.



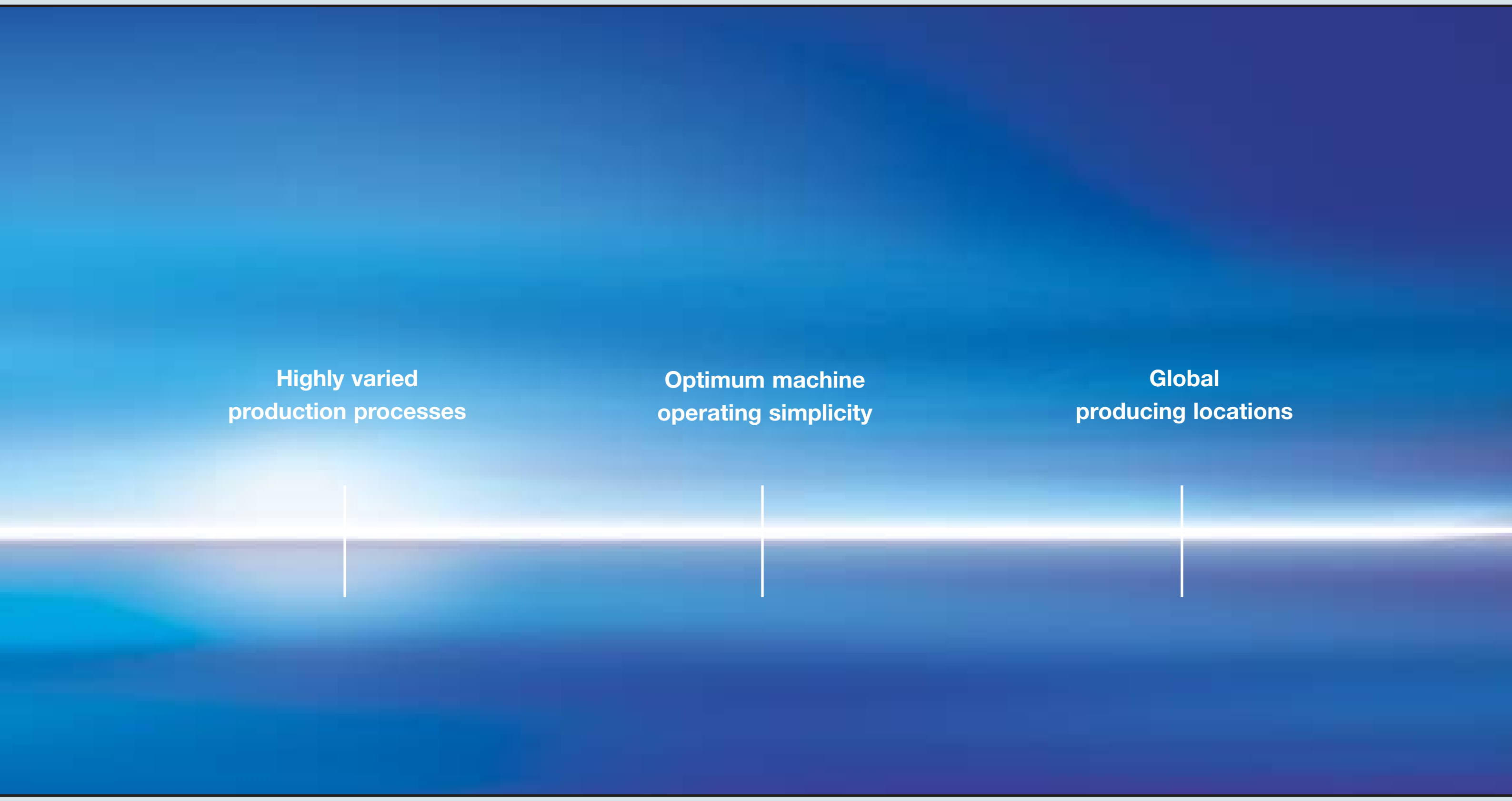
PARTNER TO **INDUSTRY**

Flexible production

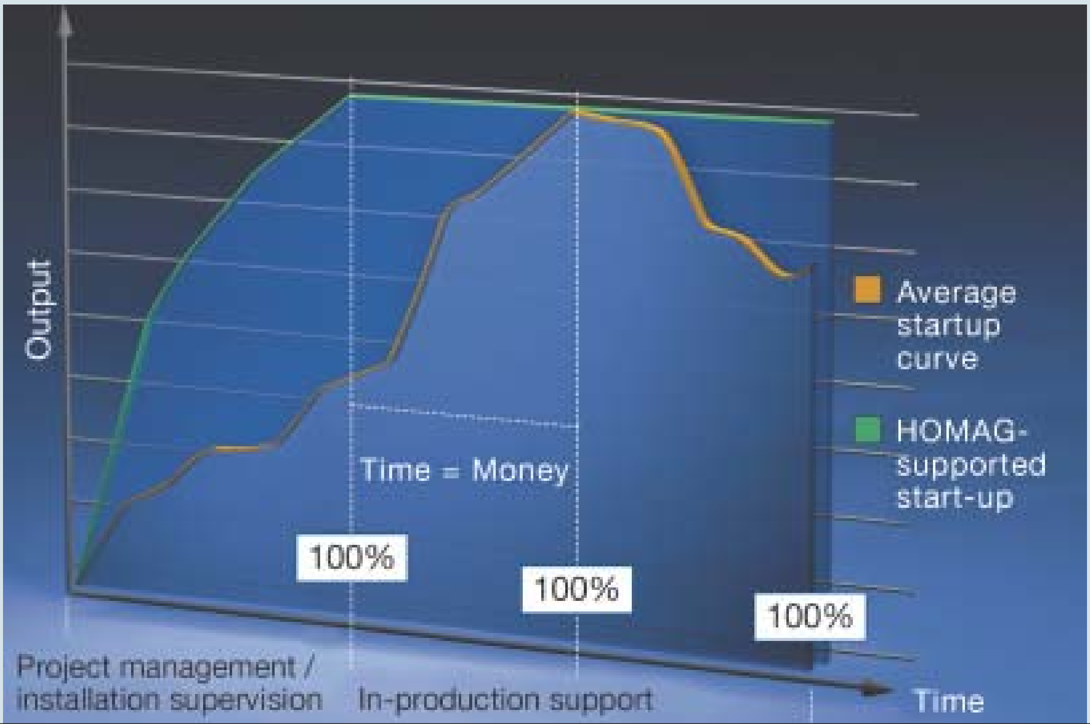
Right from the early days, the HOMAG Group clearly identified its position in the market place and defined its sphere of activity as a partner to the woodworking industry. However, within this sector, our operations are spread over a wide area. Alongside large-scale plants and complete production lines for mass production in large industrial enterprises, we also offer ideally tailored solutions for woodworking companies and for small and medium-sized enterprises.

Flexibility is top of the list of requirements. The every-day work schedule for woodworking shops generally comprises individually produced workpieces and highly varied production sequences. Our machines provide small-scale woodworking shops with the ideal work horses to address these stringent demands. An important aspect here is that all the machines produced by the HOMAG Group feature standardized operation and control, allowing machine operators to easily move intuitively from one work step to the next. And it goes without saying that we grow in step with our customers where required, providing them with support and the benefit of our rich fund of expertise on their way to becoming an industrial-scale producer.

In our role as partner to woodworking shops we are also active on a global scale: Our worldwide sales and service network has always been directed towards the specific needs of small and medium-sized enterprises. We now also produce directly in markets such as Poland, Asia or Latin America, allowing us to offer our standard machines at locally affordable prices in the emerging countries.



PARTNER TO **WOODWORKING SHOPS**



HOMAG lifeline | service

Customized software solutions

All-round machine intelligence

Complete service

presales

- Cataloguing requirements
- Plant concept finding
- Simulation technology

sales

- Financing and leasing advice
- Central assembly supervisor ensures fast availability
- Practical, machine-specific training

aftersales

- Production optimization
- Regular inspections and maintenance
- Teleservice, remote and video diagnosis
- Extensions and conversions

software

- Intuitive control engineering
- Customer-specific software solutions

As technology becomes more complex, today's needs extend beyond simply providing innovative and reliable plant and machinery to providing a complete, comprehensive back-up service package. Under the heading "lifeline | service" for many years we have addressed this need in the HOMAG Group with a comprehensive range of machine-independent advisory services and customized software solutions. We are now in a position to offer our customers an aftersales support and service package which is second to none in the industry and which allows us to provide backup for our products throughout their entire life cycle.

Even prior to the purchase stage, our experts provide support to customers in determining their requirements, designing and planning the integration of their plant into the existing production environment. The new simulation technology offered by our software specialist SCHULER business solutions allows even the most dynamic and complex production sequences to be simulated in advance, so enhancing planning reliability. During installation we ensure that a high level of productivity is achieved with a minimum delay and provide on-site training for operating staff.

Once the new plant is up and running, HOMAG lifeline | service ensures production optimization and continuous availability. Regular inspections and maintenance help prevent unplanned machine breakdown. Our teleservice with hotline, remote and video diagnosis, as well as optimum availability of spare parts all help keep the machines running smoothly.

Customers can put together their own individual service package tailored specifically to their needs from the comprehensive range of services on offer.

lifeline | service

SERVICES

Furnishing starts with the HOMAG Group

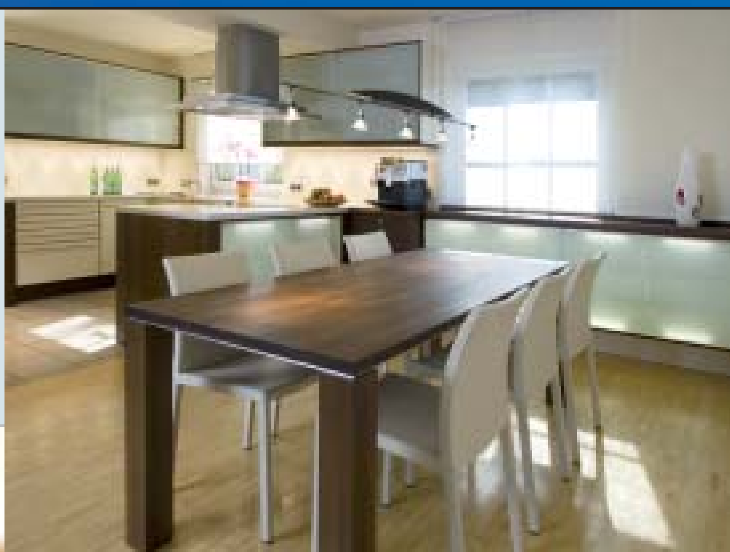
Some years ago, consumer behaviour began to undergo a radical change in the furniture sector. While furniture used to be purchased in many cases for life, today consumers generally expect to change their furniture more frequently depending on changing tastes, environments or fashions. This explains the trend towards flat-pack and panel-type furniture. Despite frequent combination with glass, plastic or aluminium, wood remains by far the most important material used.

Growth market panel furniture

Office, kitchen, living room

Complete solutions from HOMAG

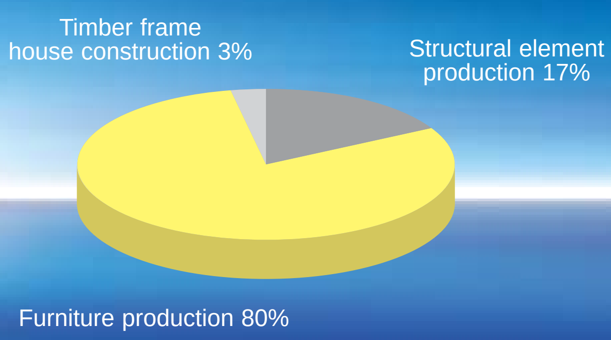
On-going new developments



With ever more frequently changing collections, the furniture industry was quick to adjust to the new circumstances. Demand for wood-based material panels has markedly increased, most recently with a growing trend for lightweight construction: The panels are no longer made completely of wood, but have a core made of a much lighter material such as cardboard or insulating materials.
In the growth market of panel processing production, the furniture industry has an efficient partner behind it with HOMAG Group, which is able to offer just the right solution to cope with these changing requirements. Whether office, kitchen or living room furniture, our range of machines and plants covers every conceivable production process required: From panel dividing and sanding the surface coating through sizing and edge processing as well as drilling through to assembly and packaging. We are equally at home supplying machines for smaller-scale operations as high-performance plants for mass production. Plus convenient, easy-to-use control engineering, competent advice and top-class servicing covering every aspect of our plants and machines.

We never stop searching for new, even more efficient and more economical solutions aimed at securing success for our customers. We do this by improving existing plants and processes or by developing whole new techniques. This allows our customers to benefit already from seamless, innovative processes, for instance in the field of modern lightweight construction, and so to cash in on the wide-reaching benefits of this new technology right from the beginning.

SHARE OF SALES REVENUE 2006



FURNITURE PRODUCTION SALES MARKET

tilo GmbH, www.tilo.com

Feeling at home with wood

For a number of years now, parquet and laminate flooring has gained increasing market share as a floor covering in houses and apartments. The trend towards the increased use of wood in the living area has good reasons: Positive impact on the room climate combined with pleasant feel and atmosphere and an appealing look. Parquet and laminate flooring create a sophisticated furnishing culture, engender warmth and are also extremely durable, hardwearing and hygienic.

Wood as a design element

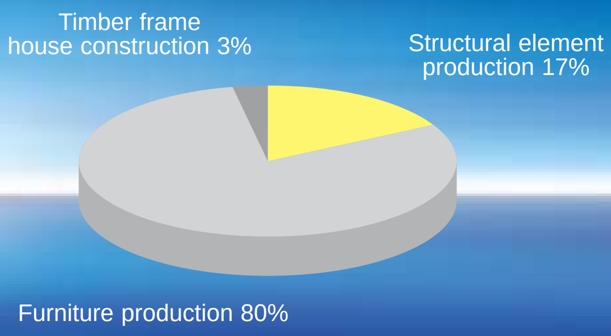
Top quality and precision

Low-cost production processes

Structural elements in wood such as wall and ceiling panelling or staircases and doors have also enjoyed steady growth rates over many years. Added to this is the increased sale of wooden structural elements through DIY markets. Wood as a renewable natural material offers a range of other benefits alongside its feel-good factor: It has highly positive ecological properties and its processing uses only a small amount of primary energy.

Manufacturers of wooden structural elements meet this rising demand with ever more high-performance, efficient plant and machinery. HOMAG Group has a wide range of modern machines and production lines on offer for the streamlined production of structural elements to address every conceivable demand. They are designed to permit low-cost, efficient production processes coupled with maximum precision and quality no matter what the batch size – from raw panel cutting through to professional palletizing and packaging of the end products.

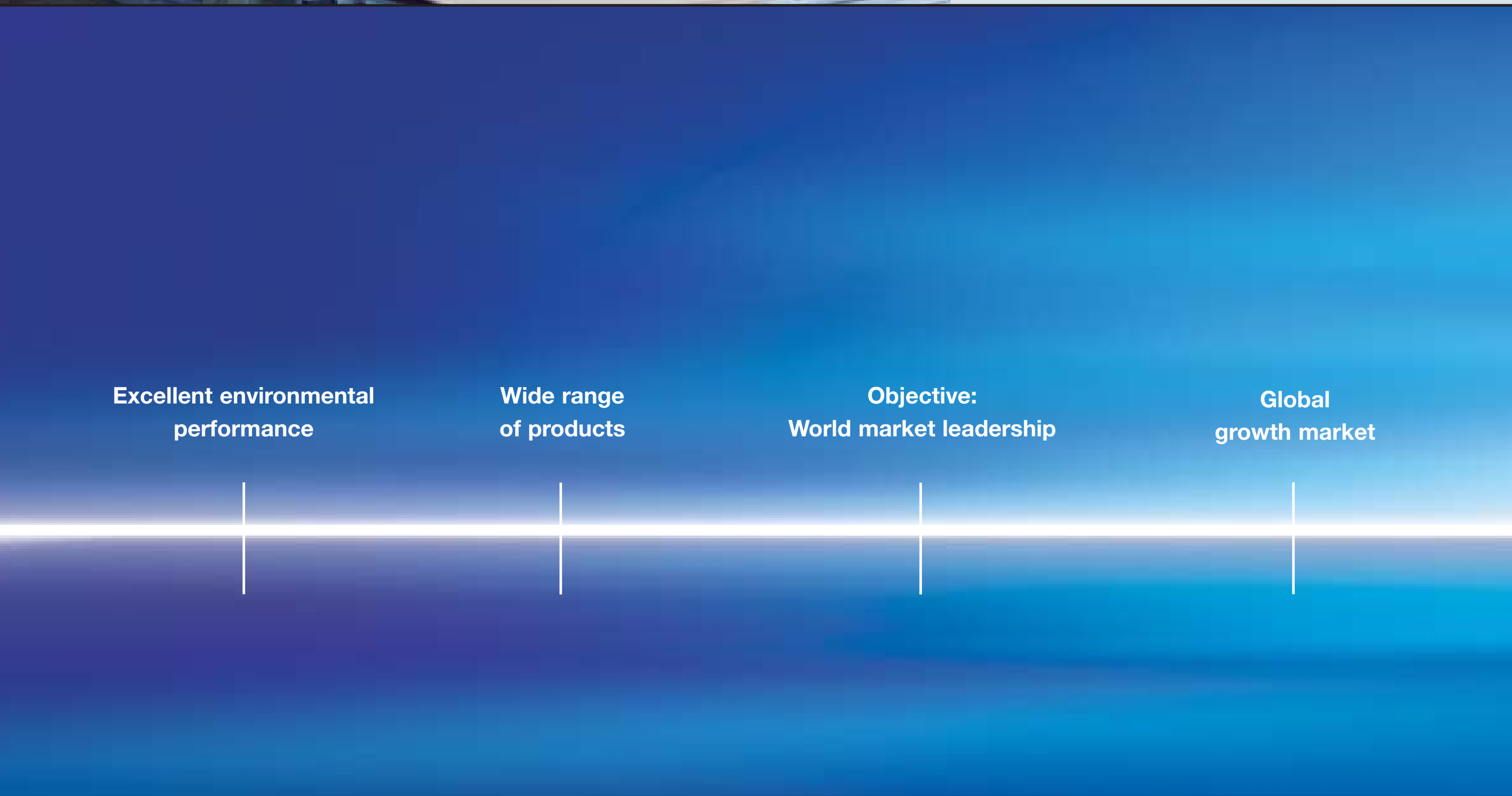
SHARE OF SALES REVENUE 2006



STRUCTURAL ELEMENT PRODUCTION SALES MARKET

Building with timber

There is a good reason why timber frame house construction looks back on such a long tradition: Timber creates a pleasant living atmosphere and at the same time provides all the attributes required of a modern building material. The excellent ecological credentials of conventionally built and prefabricated timber frame houses are nothing if not impressive: No other material is capable of being produced and processed with such a low energy input and minimal environmental impact. Thanks to the multiple-layer structure, prefabricated timber frame

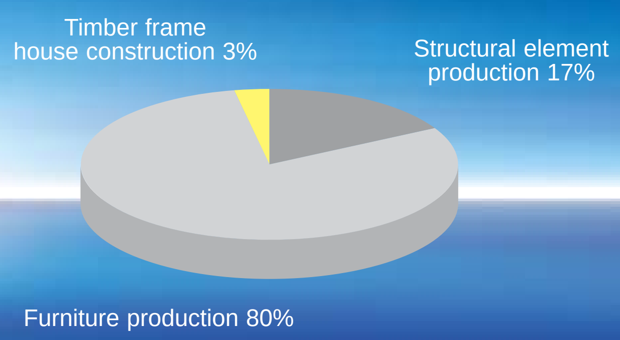


homes also offer excellent heat insulation values and as verified energy saving homes provide the ideal backdrop for environmentally responsible, low-cost living. Due to their modular design, modern prefabricated timber frame homes are anything but uniform, offering wide scope for different variants and individual design. The customer-specific solutions offered by WEINMANN help provide this broad diversity. The timber frame house construction specialist of HOMAG Group offers a broad spectrum of technically matured products including assembly tables and turnover stations for carpentry workshops and fully automatic production plants for the timber frame house industry.

In the global high-growth timber frame house construction market, we consider WEINMANN to be extremely well positioned as the European market leader. Between 2005 and 2006 alone, we succeeded in increasing our sales revenue in what is still a very young business sector from EUR 12.4 million by 91 per cent to EUR 23.6 million. Our aim is to achieve world market leadership through further expansion of our international activities. Already today, over 80 per cent of our order volume comes from abroad.

We anticipate particularly high potential for growth in the USA. Here, although almost 70 per cent of houses are made of timber, industrial production has so far lagged way behind the technical possibilities available today.

SHARE OF SALES REVENUE 2006



TIMBER FRAME CONSTRUCTION SALES MARKET

During the fiscal year 2006, the supervisory board of HOMAG Group AG performed the duties incumbent upon it as required by the law and the Articles of Association, monitoring the work of the management board and providing support and advice. The management board informed the supervisory board comprehensively about business developments and the financial situation of the company promptly and at regular intervals. The strategic orientation was discussed with the supervisory board. The supervisory board was directly involved in all decisions of a fundamental nature for the company.

During the fiscal year 2006, the supervisory board met on a total of four occasions. Underlying issues apart from on-going business development were the changes in the management board, the project to change over to the IFRS accounting rules, the topics and outcomes covered by the Strategy Conference 2006 and redemption financing in connection with IMA Klessmann GmbH. The supervisory board also dealt with the topic of the changed shareholder structure following the

Gerhard Schuler (Chairman)	Torsten Grede (Chairman)	Franz Hipp (Deputy Chairman)[1)]	Dr. Jochen Berninghaus
Chairman of the supervisory board of HOMAG Holzbearbeitungssysteme AG, Schopfloch (until March 19, 2007, since this date honorary Chairman)	Member of the management board of Deutsche Beteiligungs AG, Frankfurt am Main (since March 19, 2007)	Technical assistant at HOMAG Holzbearbeitungssysteme AG, Schopfloch	Lawyer, Dortmund (since July 17, 2006)

takeover of additional shares by Deutsche Beteiligungs AG and the internal “Project 2008”, an optimization program to further enhance the competitive strength of our own products and so ensure continuous improvement of financial and earning power in the group.

The IMA committee was reformed during the fiscal year 2006. This committee convened for a meeting to deal with redemption financing in connection with IMA Klessmann GmbH and IMA Meinert GmbH. The balance sheet committee met three times. Among the topics discussed were the consolidated financial statements for 2005, the status of financing and covenants and planning through to the year 2009. The personnel committee met twice to examine subjects including the choice of successor to board chairman Albrecht Wössner. The chairman of the supervisory board also maintained close and regular contact with the management board outside of meetings and ensured that he was informed in detail of all major business transactions.

The following changes took place in the HOMAG Group AG management board: Achim Gauß, already board chairman of HOMAG Holzbearbeitungssysteme AG, succeeded Kurt Kalmbach as the director of research and development on February 23, 2006. Previous board spokesman Klaus M. Bukenberger also retired from the management board on March 31, 2006. His division of finance, human resources and organization was taken over on April 1, 2006 by Andreas Hermann. Dr. Joachim Brenk has been the new board spokesman since April 1, 2006.

Klaus M. Bukenberger	Ernst Esslinger [1]	Karl Frey [1]	Wilhelm Freiherr von Haller
Corporate Governance Consulting, Stuttgart (since April 10, 2006)	Authorized signatory at HOMAG Holzbearbeitungssysteme AG, Schopfloch (since May 14, 2007)	Technical assistant at HOMAG Holzbearbeitungssysteme AG, Schopfloch (until March 31, 2007)	Director of Deutsche Bank AG, Stuttgart

[1] Employee representative

REPORT OF THE SUPERVISORY BOARD

Herbert Högemann took charge of the production, materials management and quality management division at the beginning of the new year from Albrecht Wößner. The supervisory board wishes to thank Mr Kalmbach, Mr Bukenberger and Mr Wößner for their many years, in some cases decades, of committed work on the management board.

Supervisory board members resigning in 2006 were Dr. Kathrin Piazolo and Dr. Bernhard E. Kallup and in March 2007 also Ingrid Hornberger-Hiller, Gerhard Schuler and Karl Frey.

The supervisory board was joined in 2006 by Klaus M. Bukenberger and Dr. Jochen Berninghaus, in March 2007 by Torsten Grede and Ralf Hengel and in May 2007 by Ernst Esslinger. Torsten Grede was elected chairman of the supervisory board on March 19, 2007. Company founder Gerhard Schuler was unanimously elected by the AGM on the same day as honorary chairman of the supervisory board. The supervisory board wishes to thank Mrs Hornberger-Hiller, Mrs Dr. Piazolo, Mr Schuler, Dr. Kallup and Mr Frey for their valuable work in committee.

The auditors elected by the AGM, Ernst & Young AG Wirtschaftsprüfungsgesellschaft Stuerberatungsgesellschaft, Stuttgart, audited the consolidated financial statements and the group management report for the fiscal year 2006 including the accounts and issued an unqualified opinion. The annual financial statements documents and the audit report were made available to all members of the supervisory board in good time. The documents were reviewed in detail by the supervisory board and discussed in depth at the balance sheet meeting on May 25, 2007.

Ralf Hengel
Head of IT at Schlott GmbH, Freudenstadt (since March 19, 2007)

Ingrid Hornberger-Hiller
Lawyer, Tübingen (until March 19, 2007)

Dr. Ing. Bernhard E. Kallup
Chairman of the management board at Sedus Stoll AG, Waldshut-Tiengen (until March 31, 2006)

Hannelore Knowles [1)]
Chairman of the consolidated works council of HOMAG Group AG, Schopfloch

Reinhard Löffler
Businessman, Weil der Stadt

The auditor also took part in the balance sheet committee meeting of the supervisory board, submitted a report of essential aspects of the audit and was available to provide any more far reaching information. As its own review produced no objections, the supervisory board endorsed the results of the audit. The consolidated financial statements drawn up by the management board and the group management report of HOMAG Group AG as of December 31, 2006 were consequently approved and endorsed by the supervisory board.

The supervisory board wishes to express its gratitude and recognition to the members of the management board and all the staff for their hard work and dedication.
Their motivation has taken HOMAG Group another important step forward.

Schopfloch, May 2007

Torsten Grede
Chairman of the supervisory board
(since March 19, 2007)

Jochen Meyer [1)]
Chairman of the works council at WEEKE Bohrsysteme GmbH, Herzebrock-Clarholz

Reiner Neumeister [1)]
1st Authorized representative of IG–Metall, Freudenstadt

Dr. Kathrin Piazolo
Lawyer, Villingen-Schwenningen (from February 23, 2006 to July 17, 2006)

Reinhard Seiler [1)]
1st Authorized representative of IG-Metall, Detmold

[1)] Employee representative

REPORT OF THE SUPERVISORY BOARD

Cut to size on a
HOLZMA panel dividing saw


Produced on plants from HOMAG
Production cells for windows and staircases from HOMAG

1. Business and framework conditions

1.1 Economy and market

The expectations and forecasts published at the beginning of 2006 for economic development over the year were largely proven correct or even exceeded, with a 2.9% rise in the gross domestic product in the industrial nations. The Asian, Central and Eastern European and USA markets once again registered above-average gains. The euro zone also demonstrated a healthy growth rate of 2.7%, while a growth rate of 2.5% reflected a certain dynamic tendency also in the German economy.

This overall highly positive economic backdrop has a knock-on benefit in terms of a revival of investment interest by the manufacturing industry. After an interruption of the upward tendency in 2005, we succeeded in achieving an around 18% increase in incoming orders in the woodworking machinery sector of relevance to our company in the financial year 2006. Consequently the world market of relevance for us has now returned to the level achieved in 2000. Overall, the management estimates a worldwide market volume for woodworking machinery in 2006 of around EUR 11.6 billion, whereby the market of specific relevance to the HOMAG Group as a whole may be estimated at around EUR 3 billion.

HOMAG Group‘s main competitors are Biesse Group and SCM Group, both domiciled in Italy. Around 50% of the market volume for woodworking machinery is covered by smaller enterprises. Homag AG customers include all reputable national and international furniture and material manufacturers and their suppliers. Machines from the HOMAG Group are also to be found in operation in a large number of medium-sized joinery and woodworking shops.

1.2 Development of sales revenue in 2006

Against the backdrop of these highly positive market conditions, HOMAG Group AG succeeded in increasing its sales revenues by around 20% to EUR 736 million (prior year EUR 613 million). In terms of orders received, an increase of around 21% was achieved over the prior year, lying slightly above the industry average for our market segment. As a result, HOMAG Group AG succeeded in further improving its market position.

While during the year under review no growth impetus was registered from Asia, the market situation in the core markets of Western Europe, America and Germany was highly stable. High growth rates were registered in Eastern Europe.

A particularly gratifying development is that the increase in sales revenue was achieved throughout HOMAG Group AG without any significant concessions in terms of sales prices. Although the discount rate has deteriorated slightly, this was offset by the price increases implemented in 2006.

1.3 Research and development

HOMAG Group AG lays claim to being the technological and market leader in the process chain segments supplied by the Group. The various companies within the Group are in a position to develop the entire product range along the process chain to a high degree of standardization. This places HOMAG Group AG in a position to offer its customers sophisticated production facilities complying to a high technical standard. During 2006, both the CNC stationary range and the throughfeed technology division were vitalized and expanded as a result of new products and innovations but also through successful standardization programs.

The structure of the new product range for drilling, hardware mounting and assembly technology has provoked a highly positive response. In this sector particularly, two-figure growth rates are planned for 2007. As a result of extensive developments in the fields of panel production, sanding technology, profile wrapping and lamination technology, the Group profited from the market trend towards “new materials and surfaces“.

Growing demand in the field of material flow and logistics was addressed by a number of innovative new developments in the field of transport, handling, storage and intermediate storage. This development was underpinned by extension of the product portfolio in the field of networked production, IT engineering and expansion of the company`s core competence in the machine-oriented software sector.

With a view to expanding its market leadership and penetration, standard machine sales account for a high proportion of HOMAG Group business. Developments in the stationary machine range, for example, with the Venture series, standardization of the entry level throughfeed machine series KDN and KAL, but also standardization of new product ranges (KDN 200 and KAL210) had an instrumental role to play here. The pressure beam saw range also performed extremely well. By consistently further developing the pressure beam saw product portfolio to take on the role of full range supplier, we succeeded in further extending our market share.
Our endeavours throughout the group to construct machines for future regions in local production workshops on the basis of our HOMAG Machinery strategy also proved successful.

Innovative new developments were forthcoming in all other sectors throughout the group. HOMAG Group AG presented a wide selection of new developments and innovations at the Ligna 2007, encompassing solutions in a number of sectors such as Printline, high-performance units, sawing technology, surface technology for throughfeed and wide-ranging developments for lightweight construction, countertop production, timber frame house construction, and increasingly also products designed to extend / improve the service-aftersales business, such as software products, e-parts, production control technology, simulation etc..

As an investment in the future, HOMAG Group AG has stepped up its patent activities substantially. Through its newly established pre-development and research coordination department, the company is involved in a large number of national and international research projects with a view to securing not only its own technological capability but also that of the entire mechanical engineering sector.

1.4 Development and structure of the group

By the financial year 2005, the group had already largely completed the restructuring process initiated at the end of 2003 with the sale of IMA Klessmann GmbH and its subsidiaries in October 2005. Since this time there have been no major changes to the structure of the group.

Changes undertaken in the group included firstly the conclusion of a profit and loss transfer agreement between WEEKE Bohrsysteme GmbH and HOMAG Holzbearbeitungssysteme AG in December 2006. The worldwide marketing network was also further extended with two additional participations, Homag India Private Ltd. in Bangalore/India, and OOO “Homag Russia“ in Moscow/Russia, as a subsidiary of Homag GUS GmbH. Since the year 2006, the holding company Homag Vertriebs-Beteiligungs GmbH has also held a 100% share in Homag (Schweiz) AG, Bachenbülach/Switzerland.

1.5 Workforce

The number of employees on a yearly average throughout the whole group rose from 4385 to 4623 as a result of the positive growth. This meant an increase in the size of the workforce by 238. With a total of 346 employees in training positions, the trainee quota was approx. 7.5%. During the past financial year, considerable efforts have also been invested in the field of staff qualification and training. Qualification of our workforce is instrumental to maintaining and increasing our competitive advantage. To the best of our knowledge, the monetary investment in training and education for staff lay well above the average for the sector during the financial year.

During the financial year 2006, we also launched a project designed to facilitate the introduction of a framework for reforming collective wage agreements. We plan to introduce this new remuneration system during the course of 2008/2009 in different members of the HOMAG Group within Germany.

2. Net assets, financial situation and results of operations

2.1 Results of operations

Thanks to good market conditions and a significant increase in sales revenues as well as extensive measures in the design and material management functions throughout the group and by no small means to the Project 2008 profit-enhancement program, the company succeeded in raising the operating profit before profit participation from EUR 36.3 million to EUR 65.2 million. With the gross profit margin more or less stable, this was possible due to the reduction in the ratio of personnel costs and other operating expenses to total operating performance.

The reduction of the consolidated ratio of personnel costs from 33.0 to 30.2% made a major contribution towards this improved result. This key indicator reflects our increased production efficiency throughout the entire group. Reduction of the ratio of costs for other operating expenses by almost one percentage point is due to a more favorable distribution of fixed costs.

In a year-on-year comparison, the financial result deteriorated marginally due to compounding of the variable interest rate which had become necessary on issued rights of participation. After taking into consideration income from associates and write-downs of financial assets, the financial and investment results were EUR -13.6 million (prior year EUR -12.4 million).

The pre-tax result has more than doubled in a year-on-year comparison, at EUR 44.1 million as against EUR 18.3 million in the prior year. After deducting the result from discontinued business divisions, which was influenced both during the prior year and in 2006 by the sale of the IMA Group, this leaves an EBT figure of EUR 37.3 million (prior year EUR 4.2 million). After deduction of taxes, the profit for the year is EUR 22.2 million (prior year: loss of EUR 1.9 million).

On the basis of silent partnerships concluded within the Group, dividends distributed to silent partners amounted to EUR 7.5 million (EUR 5.6 million in the prior year). In accordance with IFRS, these dividends are shown under operating expenses. Leaving the dividends to silent partners out of account, a profit for the year of EUR 29.7 million was returned (prior year EUR 3.8 million).

In terms of EBIT and EBITDA prior to the distribution of dividends under the employee participation scheme, the year 2006 saw the highest absolute consolidated result recorded in the company‘s history.

2.2 Capital expenditure / depreciation

The financial year 2006 saw an above-average level of investment within HOMAG Group AG, with the emphasis on construction work in Schopfloch, St. Johann, Herzebrock and Sroda/Poland, in order to create the necessary conditions for expanding capacity.

Overall, including finance lease arrangements, a total of EUR 36.8 million were invested, which is well in excess of the depreciation for the financial year.

Property, plant and equipment including intangible assets amounted as at December 31, 2006 to a total of EUR 156.2 million (prior year EUR 143.6 million). Intangible assets included EUR 1.7 million in capitalized development costs. As the conditions for recording the costs linked to the individual development projects were only created during the course of 2006, it has not yet been possible to capitalize the actually accrued development costs due to the absence of a reliable method of cost determination. The valuation for capitalized development costs shown in the balance sheet consequently reflects only a small proportion of the intangible assets actually existing in the form of internal developments within the Group.

Write-downs amounted to EUR 19.8 million. Necessary replacement investment, in particular in IT hardware equipment and the vehicle fleet, was made in part by means of off balance sheet lease agreements.

2.3 Net assets and financial situation

As at December 31, 2006 the balance sheet total of EUR 423.1 million had increased substantially to EUR 483.7 million. Alongside the increase in non-current assets, this is due primarily to the EUR 22.3 million rise in trade receivables, whereby this increase corresponds approximately to the rise in sales revenue. Short-term loans to former associates contributed to the increase in other assets.

This increase in assets is financed mainly by a rise of approx. EUR 12.2 million in financial liabilities – primarily in short-term overdrafts – and by a marked increase in accrued liabilities.

The cash flow from continuing operations from the normal course of business is positive to the tune of EUR 37.2 million. The flow of funds from the normal course of business was sufficient to finance the outflow of payments resulting from the comprehensive investment program of EUR 28.5 million. The financial liabilities attributable to the financing division arising from continuing operations have increased by EUR 3.9 million.

Despite the extended balance sheet, the company succeeded in marginally improving its equity ratio from 21.1% to 21.5%. Taking into account capital payable in consideration of participation rights and obligations arising from the employee participation scheme, an equity quota of 29.9% (prior year 29.9%) results. Equity, participation rights and obligations from the employee participation scheme consequently cover the majority of non-current assets.

To safeguard the liquidity of HOMAG Group AG, the promise of short, medium and long-term financing has been agreed with a bank syndicate. A portion of the financing comes to an end in July 2007 and plans are in place to conclude a further medium-financing agreement with a bank syndicate. With this move, the management aims to agree a set of conditions and security concept which reflect the positive development of the group.

3. Report of subsequent events

Mr Albrecht Wößner, director of production/materials management, retired on December 31, 2006. Mr Herbert Högemann has been the new director of the production/materials management division since January 1, 2007.

The loan granted in the context of the sale of the IMA Group to IMA Group companies was paid as agreed on March 30, 2007 at the level of the liability shown in the consolidated financial statements as of December 31, 2006 plus interest. In addition, HOMAG Group AG was released on March 30, 2007 from any co-liability for liabilities and promissory notes or bonds used by the IMA Group companies.

The composition of HOMAG Group AG supervisory board changed as of March 19, 2007. In the course of changes taking place in HOMAG Group AG shareholder structure, Mr Gerhard Schuler was elected honorary chairman of HOMAG Group AG supervisory board and has consequently stepped down from the supervisory board. Ms Ingrid Hornberger-Hiller has also stepped down from the supervisory board. The new chairman of the supervisory board since this time has been Mr Torsten Grede (Deutsche Beteiligungs AG). Mr Ralf Hengel (Schlott AG) has also been appointed as a further member of the supervisory board.

4. Risk report

As an internationally active group, the business activities of HOMAG Group AG are exposed to a wide variety of risks. The willingness to take calculated risks is inherent to any involvement in entrepreneurial activity. In order to identify, avoid or minimize risks which could place the existence of the company in jeopardy at an early juncture, we have implemented a largely controlling-based risk management policy throughout the group. This is based on the specification of objectives which can be derived from the multiple-year planning. Within the framework of a monthly reporting system, developments in individual sectors are monitored.

Alongside financial and economic data, so-called score-card key indicators are prescribed within the framework of our multiple-year planning for non-financial data, and adherence to these is monitored by controlling. This entails the analysis of data in areas such as market penetration, workforce satisfaction and the scope of quality costs and innovative strength.

In 2006, with a view to improving this risk management instrument, we extended our controlling and reporting system by making improvements particularly in the advance and retrospective cost estimation of projects with the software SAP CO.

The management board and supervisory board of the parent company are regularly informed of the economic development of the group and its subsidiaries. Any unforeseen developments are reported immediately.

A comprehensive due diligence study performed at the end of 2006 within the framework of the shareholder changeover at HOMAG Group AG in the major members of HOMAG Group revealed no extraordinary risks for our group in the areas covered by the study.

As a company active in the capital goods sector, we are highly dependent upon economic developments in our target markets. A weak economy in which companies are hesitant to invest impacts on the sales situation of our enterprise and the equity investments. However, the existence of a worldwide sales and servicing network allows us to restrict our dependence on individual markets.

Customer risks

An increasing proportion of sales revenues generated in the group originates with key accounts. We counter what is in principle a latent bad debt risk by the agreement of down-payments in keeping with the progress of production. In addition, in individual cases credit risk insurance policies have been concluded within the group. Our historical bad debt quota indicates that the measures undertaken are suitable to effectively limit the credit risk to outstanding debts.

Product and development risks

As a company laying claim to technological and market leadership, we endeavour to recognize new developments taking place in our sector at an early juncture. Our wide product range, intensive customer relations and high entry hurdles for new competitors are important aspects in the minimization of existing risks. These are determined in our sector by the innovative strength of the company. At the same time, we view these aspects as an opportunity for our group to continue to confirm and expand its dominating position in the marketplace.

In order to minimize the economic risks inherent in new developments, process cycles are stipulated throughout the group. Alongside the consistent recording of costs incurred by the new development, these measures also encompass a mandatory early estimation of the market opportunities for the development in question.

Exchange rate risks

As an internationally active group, changing currency exchange rates can have a direct negative impact on the sales revenue and income situation. As a substantial proportion of our sales revenue is generated in Europe, and we invoice predominantly also outside the Euro zone in Euro, no appreciable material risks resulting directly from exchange rates may be said to exist.

Quality risks

Complex machine plants encompass a high inherent quality risk. This is offset by a high degree of standardization within the individual plant components.

We are actively countering the risks arising from product liability and warranty claims with the planned introduction of TQM (Total Quality Management). In addition, the majority of our production plants are certified to DIN ISO 9000. We aim to further maintain the high standard of our quality assurance systems by competing on an annual basis for the German quality award, the Ludwig-Erhard-prize.

Liquidity and financing risks

At the time of going to print, sufficient liquidity exists within HOMAG Group AG, and also adequate financial leeway commensurate with our business volume. From today's perspective, no risks consequently exist in respect of financing or other risks which could place the continuation of the company in jeopardy. Due provision has been made in the annual financial statements for risks not placing the company's continued existence in jeopardy.

5. Forecast report

According to research institute forecasts, another satisfactory year may be expected for the economy in 2007, with the main impetus for growth expected from the Asian and Central European regions. A highly stable development for the whole of the economy is also anticipated for North America and Western Europe, although the expected growth is likely to be on a par with 2006. There is no clear consensus of available expert opinion as to whether or not a crisis looming on the US real estate market will impact negatively on the USA economy. However the possibility exists that the real estate crisis will be detrimental to demand for woodworking machines used in sectors relating to the building industry (e.g. timber frame construction, flooring plants). From our point of view, the high raw material prices and the strong euro are likely to encumber sales opportunities outside the euro zone in 2007.

HOMAG Group AG entered the 2007 financial year with orders in hand of around EUR 190 million. This value represents a rise of more than 30% over the comparative figure in the prior year. Orders received during the first two months of 2007 were also significantly ahead of target. We are consequently anticipating a good start for the first two quarters of 2007 and an increase both in terms of operational performance and earnings compared to the prior year.

We consider our main consumer markets to be in a stable situation, although we are not anticipating growth rates on a scale comparable to those of 2006. Overall, we are anticipating a slight improvement in our sales situation in 2007 in the markets of relevance to us in the machine and spare parts segment, and a slight increase in sales revenue over the prior year. We are expecting positive impetus to be felt from the 2007 Ligna in Hanover in May, the woodworking sector's largest trade fair, which takes place bi-annually.

Our aim is to increase the operating result slightly in 2007 over 2006 by means of improved distribution of fixed costs. Unplanned cost burdens could occur in particular if the employee representatives opted to depart from the course of modest wage and salary increases adopted over recent years during the course of the impending round of collective bargaining.

Against the backdrop of the construction work performed at HOMAG Group AG in 2006, planned investment for the group will be below that of the prior year and will apply in the main to replacement and modernization investment for production plant and machinery, and investment in software.

The monthly figures available for the month of January 2007 show a positive monthly result for the first time in the recent history of the group. This indicator and the current positive incoming order situation have prompted us to look forward with modest optimism to our prospects for the year 2007.

Our most important objective remains the consistent expansion of our worldwide sales and servicing organization, with the aim of extending our market share relative to our competitors. To this end, we intend to continue to implement the actions outlined in our “Project 2008” in order to further enhance our competitive strength and so improve the group‘s financial and earning power.

Schopfloch, March 30, 2007

- The Management Board -

HOMAG Group AG, Schopfloch

Consolidated Income Statement for the Year Ended December 31, 2006

EUR k		Note	2006	2005
Sales revenue			**736,459**	**613,458**
	Increase or decrease in finished goods and work in process	1	2,575	8,770
	Own work capitalized	2	2,210	322
			4,785	9,092
Total operating performance			**741,244**	**622,550**
	Other operating income	3	12,808	12,557
			754,052	**635,107**
	Cost of materials	4	340,483	282,194
	Personnel expenses before employee profit participation	5,6	223,764	205,196
	Amortization of intangible assets	7	3,914	3,536
	Depreciation of property, plant and equipment	8	15,885	14,701
	Other operating expenses	9	104,773	93,166
			688,819	**598,793**
Operating result before employee profit participation			**65,233**	**36,314**
	Expenses from employee profit participation	5	7,496	5,628
Operating profit			**57,737**	**30,686**

		Note	2006	2005
	Investment result in associated companies	10	525	380
	Interest income	13	2,482	2,193
	Interest expenses	13	16,620	14,972
Earnings before taxes			**44,124**	**18,287**
	Income taxes	14	15,116	6,100
Result of continuing operations			**29,008**	**12,187**
	Operating result from discontinued operations		0	-6,397
	Gain/loss on disposal from discontinued operations	15	-6,796	-7,650
Result from discontinued operations			**-6,796**	**-14,047**
Profit/loss for the year			**22,212**	**-1,860**
	Attributable to minority interests		2,045	1,147
	Attributable to equity holders of HOMAG Group AG		20,167	-3,007

HOMAG Group AG, Schopfloch

Consolidated Balance Sheet as of December 31, 2006

ASSETS EUR k		Note	Dec. 31, 2006	Dec. 31, 2005
NON-CURRENT ASSETS				
I.	Intangible assets	16,17	17,401	15,714
II.	Property, plant and equipment	16,18	138,790	127,898
III.	Investments in associates	19	6,450	6,649
IV.	Other financial assets		811	662
V.	Sundry financial assets	21	3,681	3,827
VI.	Income tax receivables	21	3,259	0
VII.	Deferred taxes	14	20,337	23,287
			190,729	**178,037**
CURRENT ASSETS				
I.	Inventories	20	100,770	93,881
II.	Receivables and other assets			
	- Trade receivables	21	119,573	97,297
	- Receivables from construction contracts	21,22	19,518	13,562
	- Receivables from entities accounted for at equity	21	8,076	8,712
	- Other assets and prepaid expenses	21	27,494	15,624
III.	Cash and cash equivalents	23	17,506	16,020
			292,937	**245,096**
TOTAL ASSETS			**483,666**	**423,133**

EQUITY AND LIABILITIES EUR k	Note	Dec. 31, 2006	Dec. 31, 2005
EQUITY			
I. Issued capital	25	14,561	14,561
II. Retained earnings	26	58,611	67,547
III. Group profit for the year	27	20,167	-3,007
IV. Minority interests	28	10,659	10,081
		103,998	**89,182**
NON-CURRENT PROVISIONS AND LIABILITIES			
I. Non-current financial liabilities	30	80,079	115,338
II. Sundry non-current liabilities	29	3,970	10,635
III. Obligations for pensions and similar obligations	32	2,578	2,799
IV. Obligations from employee profit participation	33	8,966	8,147
V. Other non-current provisions	34	2,857	221
VI. Deferred taxes	14	13,294	12,468
		111,744	**149,608**
CURRENT LIABILITIES AND PROVISIONS			
I. Current financial liabilities	30	93,473	46,054
II. Trade payables		54,809	45,543
III. Prepayments received		28,922	23,193
IV. Liabilities from construction contracts	22	1,265	0
V. Liabilities to associates		1,589	882
VI. Sundry current liabilities and deferred income	29	68,656	48,723
VII Tax liabilities		6,557	4,781
VIII. Other current provisions	34	12,653	15,167
		267,924	**184,343**
TOTAL LIABILITIES		**379,668**	**333,951**
TOTAL EQUITY AND LIABILITIES		**483,666**	**423,133**

HOMAG Group AG, Schopfloch

Consolidated Cash Flow Statement for Fiscal Year 2006

	EUR k	2006	2005
1.	**Cash flow from operating activities**		
	Profit or loss for the period before taxation and net interest (continuing operations)	**58,262**	**31,066**
	Income tax paid (-)	-16,564	-5,209
	Interest paid (-)	-12,790	-13,378
	Interest received (+)	2,482	2,193
	Write-downs (+)/write-ups (-) of non-current assets (netted)	19,779	18,050
	Increase (+)/decrease (–) in provisions	1,344	550
	Other non-cash expenses (+)/income (–)	3,685	-4,383
	Share of net profit of associate	-491	-338
	Gain (–)/loss (+) on disposals of non-current assets	527	-160
	Increase (-)/decrease (+) in inventories, trade receivables and other assets	-49,443	14,029
	Increase (+)/decrease (–) in trade payables and other liabilities	30,362	-4,786
	Cash flow from operating activities, **continuing** operations	**37,153**	**37,634**
	Cash flow from operating activities, **discontinued** operations	-7,400	-9,035
	Cash flow from operating activities	**29,753**	**28,599**
2.	**Cash flow from investing activities**		
	Cash received (+) from disposals of property, plant and equipment	2,941	2,841
	Cash paid (–) for investments in property, plant and equipment	-25,597	-11,227
	Cash received (+) from disposals of intangible assets	159	190
	Cash paid (–) for investments in intangible assets	-5,763	-3,514
	Cash received (+) from disposals of financial assets	38	405
	Cash paid (-) for investments in financial assets	-313	-44
	Cash flow from investing activities	**-28,535**	**-11,349**

3.	**Cash flow from financing activities**		
	Dividends	-2,912	
	Cash paid (-) to minority interests	-680	-1,204
	Cash received (+) from profit participation rights	0	5,000
	Cash received (+) from the issue of (financial) liabilities	70,009	1,874
	Cash repayment (-) of bonds and (financial) liabilities	-66,129	-17,108
	Cash paid (-) for the acquisition of minority interests	-522	-2,620
	Cash flow from financing activities, **continuing** operations	**-234**	**-14,058**
	Cash flow from financing activities, **discontinued** operations	0	-852
	Cash flow from operating activities	**-234**	**-14,910**
4.	**Cash and cash equivalents the end of the period**		
	Net increase (decrease) in cash and cash equivalents (subtotal 1 - 3)	984	2,340
	Net foreign exchange rate related changes in cash and cash equivalents	502	-23
	Cash and cash equivalents at the beginning of the period	**16,020**	**13,703**
	Cash and cash equivalents the end of the period	**17,506**	**16,020**
	Cash and cash equivalents the end of the period *	**17,506**	**16,020**

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

HOMAG Group AG, Schopfloch

Consolidated Statement of Changes in Equity for the Year Ended December 31, 2006

EUR k	Issued capital	Capital reserve	Revenue reserves
December 31, 2004	**29,122**	**17,541**	**32,173**
Capital reduction	-14,561	-17,541	32,102
Acquisitions of minority interests			-820
Total income and expense for the year recognized directly in equity			0
Dividends paid			
Other changes			-35
Group result for the year			
December 31, 2005	**14,561**	**0**	**63,420**
Acquisitions of minority interests			-357
Total income and expense for the year recognized directly in equity			0
Dividends paid			-2,912
Reclassification prior-year earnings			-3,007
Other changes			-45
Group result for the year			
December 31, 2006	**14,561**	**0**	**57,099**

Statement of Recognized Income and Expense for the Year 2006

EUR k	2006	2005
Actuarial gains and losses	105	-17
Deferred taxes on actuarial losses	-40	8
Currency effects	-2,809	4,461
Income and expense recorded directly in equity	**-2,744**	**4,452**
Net profit/loss of the Group for the year	22,212	-1,859
Recognized income and expense	**19,468**	**2,593**
Minority interests	1,917	1,471
Shares of shareholders of the parent company	17,551	1,122

Revenue reserves					
Other comprehensive income	**Translation reserve**	**Group result**	**Equity before minority interests**	**Minority interests**	**Total**
0	**0**	**0**	**78,836**	**18,354**	**97,190**
			0		0
			-820	-9,294	-10,114
-9	4,137		4,128	324	4,452
			0	-1,080	-1,080
			-35	630	595
		-3,007	-3,007	1,147	-1,860
-9	**4,137**	**-3,007**	**79,102**	**10,081**	**89,183**
			-357	-765	-1,122
54	-2,670		-2,616	-128	-2,744
			-2,912	-599	-3,511
		3,007	0		0
0			-45	25	-20
		20,167	20,167	2,045	22,212
45	**1,467**	**20,167**	**93,339**	**10,659**	**103,998**

GENERAL

Application of Requirements

The consolidated financial statements of HOMAG Group AG (HOMAG Group) as of December 31, 2006 were prepared in accordance with the International Financial Reporting Standards (IFRS) and the International Accounting Standards (IAS) of the International Accounting Standards Board (IASB), the interpretations of the Standing Interpretation Committee (SIC) and of the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the EU and applicable as of the balance sheet date. The supplementary provisions of Sec. 315a [“Handelsgesetzbuch”: German Commercial Code] were also complied with.

The opening balance sheet as of January 1, 2005 was prepared pursuant to IFRS 1 “First-Time Adoption of International Financial Reporting Standards”.

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

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

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

All those standards (IFRS/IAS) and interpretations (IFRICs) subject to mandatory application for fiscal year 2006 were observed. The following standards or interpretations which were not subject to mandatory adoption and that were not taken into account when preparing the consolidated financial statements, have already been published by the IASB:

IAS 1 “Presentation of Financial Statements”:
The amendment of IAS 1 requires information to be disclosed in the financial statements that enables users of the financial statements to evaluate the entity’s objectives, policies and processes for managing capital. The amendments of IAS 1 are mandatory for the first time for fiscal years beginning on or after January 1, 2007.

IFRS 7 "Financial Instruments: Disclosures":
The changes due to this new standard are mainly intended to summarize, revise and extend the previous disclosure requirements for accounting for financial instruments. IFRS 7 is mandatory for fiscal years beginning on or after January 1, 2007.

IFRS 8 "Operating Segments":
Under IFRS 8, the risk and reward approach of IAS 14 is replaced by the management approach with regard to the identification of segments.

IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies":
This interpretation addresses questions relating to IAS 29 when hyperinflation is identified for the first time in the economy of the reporting entity's functional currency. The interpretation is mandatory for the first time for fiscal years beginning on or after March 1, 2006.

IFRIC 8 "Scope of IFRS 2":
In IFRIC 8 the IASB comments on the scope of IFRS 2 "Share-based Payment", which is applicable for transactions under which a company receives goods or services as compensation for a share-based payment. IFRIC 8 is mandatory for the first time for fiscal years beginning on or after May 1, 2006.

IFRIC 9 "Reassessment of Embedded Derivatives":
IFRIC 9 addresses the question whether a contract needs to be analyzed only when it is entered into or also during its entire term to determine whether it contains an embedded derivative that should be separated in accordance with IAS 39. This interpretation is applicable for the first time for fiscal years beginning on or after June 1, 2006.

IFRIC 10 "Interim Financial Reporting and Impairment"

IFRIC 11 "IFRS 2 Group and Treasury Share Transactions"

IFRIC 12 "Service Concession Arrangements"

At present, it is not expected that IFRIC 11 and 12 will affect the future consolidated financial statements of the HOMAG Group.

The group does not expect any significant effect on net assets, financial position and results of operations from first-time adoption of the above standards or interpretations in the future.

The figures for the prior year have also been calculated according to the same standards and interpretations.

Company Information

Company name and legal form:
HOMAG Group AG (parent company and ultimate parent of the Group)

Registered offices:
Schopfloch (Germany)

Address:
Homagstrasse 3 - 5, 72296 Schopfloch

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

Date of Authorisation for Issue of Financial Statements

On April 18, 2007, the management board of HOMAG Group AG released the 2006 consolidated financial statements and the 2006 group management report for distribution to the supervisory board.

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 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 equity of the subsidiaries at the date of acquisition. The net assets are generally valued at the fair value on the date of purchase of all identifiable assets, liabilities and contingent liabilities. Any remaining debit differences 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 against profit and loss. If there are any indications of impairment, an additional impairment test supplementary to the annual test is performed and in the event of an impairment the goodwill is again written down against profit or loss. See pages 61 et seq. and 68 et seq. of these notes to the consolidated financial statements 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 the reassessment. Any excess remaining after the reassessment is recognized immediately in profit or loss.

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

The equity method is used when a significant influence may be exercised on the business policy of the associate, but the criteria to qualify as a subsidiary or a joint venture are not in place. Any difference between pro rata equity and the acquisition cost of the equity investment as at the date of acquisition is treated 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 HGB accounting treatment of capital consolidation was retained pursuant to the accounting option of IFRS 1. In accordance with the general provisions of IFRS, assets and liabilities were determined as at the date of the IFRS opening balance sheet. All differences between the HGB closing balance sheet and the IFRS opening balance sheet were offset against the group's revenue reserves. Effects from the conversion of accounting to IFRS are explained in greater detail on pages 71 et seq. of these notes.

As regards the accounting treatment of business combinations in the consolidated financial statements pursuant HGB, some debit differences were not recognized as goodwill but were instead offset against equity. Some credit differences were recognized as a separate item under equity. The HGB treatment of all differences resulting from business combinations prior to January 1, 2005 was retained pursuant to the accounting option allowed in IFRS 1.

Acquisitions of Minority Interests

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

CONSOLIDATED GROUP

In addition to HOMAG Group AG, the consolidated financial statements include 16 entities with registered offices in Germany and 21 entities with registered offices abroad (prior year: 19) at which HOMAG Group AG exercises uniform control, either directly or indirectly. The list of shareholdings of the HOMAG Group AG is given in a separate list in accordance with Sec. 313 (4) HGB, that will be published in the electronic Bundesanzeiger [German Federal Gazette] together with the consolidated financial statements.

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.

Discontinued Operations

IFRS 5 regulates the presentation of assets held for sale and discontinued operations.
Based on the preconditions of IFRS 5, the IMA Klessmann GmbH group, which was sold, was classified as discontinued operations in the year concerned. The sale took effect on October 31, 2005. See page 86 et seq. of these notes to the consolidated financial statements as regards the net profit or loss from discontinued operations pursuant to IFRS.

FOREIGN CURRENCY TRANSLATION

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

Any translation differences arising in the balance sheet or income statement from exchange rate differences are also recognized directly in equity.

When preparing the opening balance sheet as of January 1, 2005, the option was used to recognize the full amount of translation differences under revenue reserves pursuant to IFRS 1.22. The cumulative translation differences were thus deemed to be zero.

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

	Closing rate		Average rate	
EUR 1	**Dec. 31, 2006**	**Dec. 31, 2005**	**2006**	**2005**
US dollar	1.32027	1.18445	1.25622	1.24539
Pound sterling	0.67431	0.68842	0.68205	0.68421
Australian dollar	1.67467	1.62315	1.66798	1.63324
Canadian dollar	1.53994	1.38109	1.42496	1.50991
Danish krone	7.45787	7.46092	7.45963	7.45434
Japanese yen	157.199	139.593	146.09592	136.90129
Swiss francs	1.60965	1.55851	1.57331	1.54842
Chinese CNY	10.32121	9.56251	10.02488	10.21971

ACCOUNTING POLICIES

Goodwill

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

- represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the group's primary or the group's secondary reporting format determined in accordance with IAS 14 "Segment Reporting".

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 in this circumstance 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 is compared to the recoverable amount. The recoverable amount of the CGU is the higher of the fair value less costs to sell and the value in use. The impairment test is performed once a year.

Within the HOMAG Group, the following CGUs were defined across the process chain:

- Sawing
- Surface
- Sizing & edge processing
- Drilling & hardware mounting
- Assembly / handling / packaging and house construction

The impairment tests are performed on the defined cash-generating units 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 2009. For the period following the detailed planning period, the average of the three planning periods was projected without growth adjustments.

A uniform interest rate for the group is used to discount cash flow. If necessary, this is adjusted for differences in the base interest rates of the individual currencies. A pre-tax interest rate of 13.4% was used in the year under review.

The main items of goodwill and the underlying assumptions of the impairment tests performed are explained on pages 68 et seq. and 92 of these notes to the consolidated financial statements.

Internally Generated Intangible Assets

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

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

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).

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.

Systematic depreciation is generally based on the following useful lives:

	Years
Real estate	15-33
Other systems, technical equipment and machines	8-12
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 cash-generating unit to which the asset belongs. To determine the estimated cash flow of each cash-generating unit, basic assumptions have to be made. These include assumptions regarding financial planning and the interest rates used for discounting.

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

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

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

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

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

IAS 39 distinguishes between the following categories of financial instruments:

- Financial assets at fair value through profit or loss
- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets

At present, the HOMAG Group primarily has financial instruments in the categories “financial assets at fair value through profit or loss” and “loans and receivables”.

The market value of the first category is the price obtainable on the market, i.e. the price for which the financial instrument could be exchanged between knowledgeable, willing parties in an arm’s length transaction. Unrealized gains and losses are recorded with an effect on income.

Loans and receivables originated by the entity and not held for trading are classified as “loans and receivables” and are measured at amortized cost. The effective interest method is used to measure loans and receivables that are due in more than one year.

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.

Within the HOMAG Group, all derivative financial instruments are allocated as held for sale to “financial assets at fair value through profit or loss” and recognized at market values as of the balance sheet date. The market values are calculated using standardized actuarial methods (mark-to-market method) or quoted market prices. Gains and losses from the change in the market values of derivative financial instruments are immediately posted to profit or loss.

Inventories

Purchased materials and supplies and merchandise are stated at the lower of cost and net realizable value. Work in progress and finished goods are stated at the lower of cost or net realizable value (net realizable value = estimated selling price in the ordinary course of business). In addition to directly allocable costs, they include a proportionate share of production-related overheads. This also includes production-related depreciation, a proportionate amount of production-related administrative expenses as well as pro rata welfare costs (production-based full cost approach). Costs of conversion are determined on the basis of normal capacity.

Borrowing costs are not capitalized.

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

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

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

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

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

Actuarial gains and losses are recognized outside profit or loss in the period in which they occur under total income and expenses for the year recognized directly in equity. Current service cost and interest expenses are disclosed under personnel expenses.

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

In accordance with IFRS 1.20, the pension provisions in the IFRS opening balance sheet as of January 1, 2005 were recognized at the actuarial present value.

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

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

The present value of the obligations from employee profit participation is determined by taking account of historical fluctuation rates and biometric data based on actuarial principles.
Expenses from employee profit participation are disclosed separately on the income statement.

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

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

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

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

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, rebates and VAT are not taken into account. The following specific recognition criteria must also be met before revenue is recognized:

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

Long-term construction contracts
Sales revenue from long-term construction contacts is recognized pursuant to IAS 11 based on the percentage of completion.

Interest income
Interest income is recognized as interest accrues.

Assumptions and Estimates
Estimates and assumptions have to be made in the consolidated financial statements that have effects 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 recognized in income pursuant to IAS 8, as and when better information is available.

Development Costs
Development costs are capitalized in accordance with the accounting policy explained above in the section "Accounting Policies". Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. As of December 31, 2006, the best estimate of the carrying amount of capitalized development costs was EUR 1,749 k (2005: EUR 0 k).

Impairment of Goodwill
The group determines at least on an annual basis whether goodwill is impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2006 was EUR 5,992 k (2005: EUR 5,992 k). See also pages 92 of these notes to the consolidated financial statements.

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. The carrying amount of recognized tax losses as of December 31, 2006 was EUR 75,068 k (2005: EUR 94,322 k) while unrecognized tax loss carryforwards came to EUR 102,028 k (2005: EUR 104,922 k). In the case of German entities, unused tax losses on corporate income tax and trade tax are aggregated. See also page 84 et seq. of these notes to the consolidated financial statements.

Pensions and Similar Obligations
The cost of providing post-employment benefits under defined benefit plans is determined using actuarial calculations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. As of December 31, 2006, the provision for pensions and similar obligations amounted to EUR 2,578 k (2005: EUR 2,799 k). See also page 102 et seq. of these notes to the consolidated financial statements.

Employee Profit Participation
The obligations from defined benefit plans are determined using actuarial calculations. The actuarial valuation involves making assumptions about discount rates, expected retirement age, mortality rates and expected employee turnover. The liabilities from employee profit participation as of December 31, 2006 amounted to EUR 8,966 k (2005: EUR 8,147 k). See also page 105 of these notes to the consolidated financial statements.

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

The cash and cash equivalents presented in the cash flow statement contain cash and cash equivalents shown in the balance sheet, i.e. cash in hand, checks and bank balances. Cash and cash equivalents are not subject to any restrictions or encumbrances.

Discontinued Operations
A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

In accordance with IFRS 5, non-current assets and disposal groups are disclosed separately in the balance sheet if they are available for immediate sale in their present condition and their sale is highly probable. These assets are recognized at the lower of fair value less costs to sell and their carrying amount. The liabilities directly associated with these assets are disclosed separately under equity and liabilities.

The profit or loss from discontinued operations must be disclosed separately in the income statement.

EFFECTS OF FIRST-TIME APPLICATION OF IFRS

Reconciliation of the financial statements as of December 31, 2005 from HGB to IFRS

		ASSETS		
	Amounts in EUR k	**HGB**	**Adjustments**	**IFRS**
	Non-current assets	**151,622**	**26,415**	**178,037**
A	Intangible assets	12,798	2,916	15,714
A	Property, plant and equipment	105,411	22,487	127,898
	Investments in associates	6,700	-51	6,649
A	Other financial assets	2,170	-1,508	662
B	Sundry financial assets (non-current)	0	3,827	3,827
J	Deferred taxes	24,543	-1,256	23,287
	Current assets	**237,646**	**7,450**	**245,096**
C	Inventories	80,845	13,036	93,881
D	Receivables from construction contracts	0	13,562	13,562
E	Other receivables and other assets	142,312	-20,679	121,633
F	Cash and cash equivalents	14,489	1,531	16,020
	Total ASSETS	**389,268**	**33,865**	**423,133**

		EQUITY AND LIABILITIES		
		HGB	Adjustments	IFRS
	Equity	**107,607**	**-18,425**	**89,182**
	Issued capital	14,561	0	14,561
	Revenue reserves	1,456	66,091	67,547
	Net profit of the group for the year	43,577	-46,584	-3,007
G	Minority interests	18,572	-8,491	10,081
G	Difference from capital consolidation	17	-17	0
G	Special item for investment grants for non-current assets	1,107	-1,107	0
G	Silent shareholders	28,317	-28,317	0
H	**Hidden contribution of participation rights**	**30,000**	**-30,000**	**0**
	Non-current liabilities and provisions	**88,137**	**61,471**	**149,608**
H	Non-current financial liabilities	82,476	32,862	115,338
G	Other non-current liabilities	946	9,689	10,635
	Obligations for pensions and similar obligations	2,727	72	2,799
I	Obligations from employee profit participation	0	8,147	8,147
J	Other provisions	0	221	221
K	Deferred taxes	1,988	10,480	12,468
	Current liabilities and provisions	**163,524**	**20,819**	**184,343**
	Current financial liabilities	39,480	6,574	46,054
	Trade payables	44,093	1,450	45,543
L	Prepayments received	0	23,193	23,193
	Liabilities to affiliates	782	-782	0
	Liabilities to associates	882	0	882
J	Sundry current liabilities and deferred income	34,570	14,153	48,723
	Provisions	5,019	-238	4,781
J	Other provisions	38,698	-23,531	15,167
	Total EQUITY AND LIABILITIES	**389,268**	**33,865**	**423,133**

Application of IFRS resulted in differences in the consolidated balance sheet and consolidated income statement compared to HGB. The main differences are explained below:

A. Intangible Assets / Property, Plant and Equipment / Other Financial Assets

Under IFRS, the useful lives of depreciable non-current assets are generally longer than under HGB, leading to corresponding adjustments in the non-current assets of the Group. A further significant difference compared to the HGB financial statements is the recognition of finance leases, the majority of which relate to technical equipment and machines. This results in income statement adjustments concerning depreciation and other operating expenses.

Pursuant to HGB, claims for employer‘s pension liability insurance are disclosed as "other loans" under other financial assets. Under IFRS, these must be taken into account as plan assets in the measurement of pension obligations.

B. Other Financial Assets (Non-Current)

Under IFRS, assets must be disclosed according to their maturities.

C. Inventories

In accordance with HGB, prepayments received of EUR 31.8 million were deducted from inventories. This treatment is not permitted under IFRS. This was counter-balanced by the requirement under IAS 11 to recognize sales revenue from work in progress relating to long-term construction contracts using the percentage of completion method. Where these contracts as of the balance sheet date have a debit balance after deducting prepayments received from realizable sales revenue, a disclosure is made under receivable from long-term construction contracts.

D. Receivables from Long-Term Construction Contracts

This item is the balance between realizable sales revenue from long-term construction contracts less prepayments received. Under HGB, sales revenue can only be recognized once the contract is completed in full.

E. Other Receivables and Other Assets

In the consolidated financial statements pursuant to HGB, both specific and general bad debt allowances were recognized on receivables. General bad debt allowances are not permitted under IFRS. The resulting adjustments had an impact on other operating expenses.

The receivables from employee profit participation of EUR 16.0 million, which are disclosed separately under HGB, are accounted for on the equity and liabilities side of the balance sheet under IFRS when measuring the obligations from employee profit participation.

There are also differences in the disclosures due to the separate presentation of non-current receivables.

F. Cash and Cash Equivalents

Apart from foreign exchange effects, the increase in cash and cash equivalents is attributable to the fact that there was a financial instrument in transit, which was included in cash and cash equivalents under IFRS, but disclosed under trade receivables pursuant to HGB.

G. Equity

The contribution of the employee profit participation qualifies as debt capital under IFRS, resulting in a reduction of EUR 28.3 million in equity.

This change in equity is counter-balanced in particular by the increase in the carrying amount of non-current assets due to their longer useful lives compared to HGB and by the effect of sales revenue recognition from long-term construction contracts pursuant to the percentage of completion. The table below presents an overview of the effects of IFRS conversion on group equity at the date of conversion:

	EUR k		Equity before minority interests	Minority interests	**Total**
	Group equity January 1, 2005	**HGB**	**89,047**	**17,498**	**106,545**
A	Different useful lives of non-current assets and leases		16,374		16,374
	Deferred taxes		-9,768		-9,768
B	General bad debt allowance		2,437		2,437
	Change in provisions		-749		-749
H	Different measurement of financial liabilities		3,123		3,123
D	Long-term construction contracts		4,394		4,394
I	Employee profit participation		-23,665		-23,665
	Other adjustments		-2,357	856	-1,501
	Group equity January 1, 2005	**IFRS**	**78,836**	**18,354**	**97,190**

The decrease in the carrying amount of minority interests is due to the fact that minority interests, for which HOMAG Group AG had arranged an option entitling it to acquire the minority interests at a later date, were consolidated as at the date on which the option was arranged pursuant to IFRS. This also resulted in a purchase price liability of approx. EUR 7.5 million, which is included under other non-current liabilities.

H. Profit Participation Rights / Financial Liabilities

Under IFRS, profit participation rights are disclosed under financial liabilities. Compensation for profit participation rights is disclosed in the interest result under IFRS, while under HGB this was reported as a separate item of the income statement below the result from ordinary activities.

In addition, the transaction costs were taken into account in the measurement of financial liabilities under IFRS. Under HGB, these are expensed as incurred, while under IFRS they are expensed over the term of the corresponding financial liabilities.

I. Obligations from Employee Profit Participation

This item comprises the obligation to employees with silent participations in the Group. See also page 67 of these notes to the consolidated financial statements for more information on this legal arrangement.

J. Liabilities / Provisions

The provisions set up pursuant to HGB are reviewed based on the recognition criteria of IAS 37 and disclosed as provisions and accruals in the balance sheet or as contingent liabilities in the notes to the consolidated financial statements. The change in provisions is reflected in other operating expenses.

Pension provisions have been accounted for based on actuarial measurement methods in compliance with IFRS requirements. Resulting measurement differences are primarily due to the lower discount rate used under IFRS.

K. Deferred Taxes

In the IFRS consolidated financial statements, deferred taxes are calculated both on temporary differences as well as unused tax losses. Changes compared to the HGB financial statements concern the deferred taxes determined based on different recognition and measurement criteria for HGB and IFRS values. The net difference compared to the HGB consolidated financial statements amounts to EUR 9 million (deferred tax liability).

L. Prepayments Received

The disclosure concerns prepayments received for construction contracts for which sales revenue is recognized based on the completed contract method of IAS 18. Under HGB, these prepayments are deducted from the values of the machines in progress or the raw materials procured.

M. RECONCILIATION OF THE INCOME STATEMENT FROM HGB TO IFRS FOR 2005

	EUR k	HGB	Change	IFRS
a	Total operating performance	628,206	-5,656	622,550
b	Other operating income	15,632	-3,075	12,557
		643,838	**-8,731**	**635,107**
	Cost of materials	284,328	-2,134	282,194
c	Personnel expenses before employee profit participation	206,439	-1,243	205,196
d	Amortization, depreciation and write-downs	15,332	2,905	18,237
e	Other operating expenses	102,369	-9,203	93,166
		608,468	-9,675	598,793
	Operating result before employee profit participation	**35,370**	**944**	**36,314**
f	Expenses from employee profit participation	5,987	-359	5,628
	Operating result	29,383	1,303	30,686
g	**Financial result**	-10,352	-2,047	-12,399
	Earnings before taxes	19,031	-744	18,287
h	Income taxes	8,055	-1,955	6,100
	Result of continuing operations	**10,976**	**1,211**	**12,187**
	Result from discontinued operations / extraordinary result	**-13,131**	**-916**	**-14,047**
	Net profit for the year	**-2,155**	**295**	**-1,860**
	Net profit attributable to minority interests	2,289	-1,142	1,147
	Net profit attributable to equity holders of HOMAG Group AG	-4,444	1,437	-3,007

a. Total Operating Performance

The decrease in total operating performance is attributable to the recognition of sales revenue from long-term construction contracts based on the percentage of completion. The reduction is also partly due to the fact that, under IAS 18, sales revenue from the delivery of goods may only be recognized after the assembly work has been completed. Under HGB, some of the sales revenue for such deliveries could be recognized following preliminary acceptance by the customer.

b. Other Operating Income
The decrease mainly stems from the netting of income from the reversal of provisions for the corresponding expense categories as well as income incurred under HGB from the reversal of valuation allowances.

c. Personnel Expenses
Under HGB, personnel expenses from personnel cuts were disclosed under extraordinary expenses. Under IFRS, these are reported under personnel expenses.

d. Amortization, Depreciation and Write-Downs
Longer useful lives and the classification of lease agreements as finance leases lead to different depreciation charges in the IFRS financial statements.

e. Other Operating Expenses
Apart from the netting of income from the reversal of provisions, other operating expenses are lower mainly on account of the classification of lease agreements as finance leases under IFRS.

f. Expenses from Employee Profit Participation
Under IFRS, the discounting of the share of the employee profit participation which becomes due when the employee leaves the Company results in a lower expense.

g. Financial Result
The financial result is poorer under IFRS, mainly due to the unwinding of the discount for finance leases. Moreover, the transaction costs incurred in connection with loans obtained are released to profit or loss over the term of the loan under IFRS. The item also includes the unwinding of the discount for liabilities not subject to interest.

h. Taxes
The lower tax expense pursuant to IFRS is essentially attributable to the fact that tax expense from the discontinued operations is disclosed in the corresponding special item, while under HGB it is included under tax expenses.

N. Effects of First-Time Application of IFRS on the Cash Flow Statement

A comparison of the cash flow of the HOMAG Group for 2005 pursuant to HGB and IFRS is presented below:

in EUR k	HGB	Change	IFRS
Cash flow from operating activities	24,096	4,503	28,599
Cash flow from investing activities	-15,927	4,578	-11,349
Cash flow from financing activities	-4,652	-10,258	-14,910
Cash and cash equivalents	14,489	1,531	16,020

With regard to the cash flow from operating activities, the recognition of lease payments for lease agreements classified as finance leases under IFRS leads to a corresponding decrease in cash out flow. In addition, cash of EUR 1.6 million in transit as of December 31, 2005 was recognized under receivables in the HGB financial statements. Under IFRS, this transaction is disclosed under cash and cash equivalents.

Cash flow from investing activities includes payments made for the acquisition of minority interests under HGB. Under IFRS, the cash outflow is included in cash flow from financing activities.

Cash flow from financing activities is primarily affected by the payments made for the acquisition of minority interests as well as finance lease payments made, which were recognized in this item pursuant to IFRS.

EXPLANATIONS TO THE CONSOLIDATED INCOME STATEMENT

The income statement focuses on the presentation of the continuing operations remaining after the disposal of discontinued operations. The corresponding procedure was used for the discontinued operations, the result of which was disclosed as a line item of the income statement and explained on page 86 et seq. of these notes to the consolidated financial statements.

1 SALES REVENUE

Sales revenue contains the amounts charged to customers for goods and services – less any sales deductions and discounts.
Under long-term construction contracts, sales revenue of EUR 266.3 million (prior year: EUR 205.3 million) was recorded from customized construction contracts in the reporting year using the percentage of completion method.

Sales revenue by region

in EUR k	2006	2005
Germany	149,147	126,622
Other EU countries	305,475	249,799
Other European countries	81,833	49,935
North America	95,854	75,281
South America	15,120	9,269
Asia/Pacific	82,515	98,422
Africa	6,515	4,130
	736,459	**613,458**

Sales revenue by product

in EUR k	2006	2005
Sawing	107,587	75,145
Surface	33,458	33,597
Sizing & edge processing	349,355	325,153
Drilling & hardware mounting	116,523	87,891
Assembly / handling / packaging	61,062	41,639
Timber frame house construction	23,606	12,367
Merchandise	44,868	37,666
	736,459	**613,458**

2 OWN WORK CAPITALIZED

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

3 OTHER OPERATING INCOME

Other operating income comprises the following:

in EUR k	2006	2005
Income from the reversal of provisions	331	190
Income from cost allocations	1,955	1,211
Rent and lease income	280	107
Exchange rate gains	2,374	2,138
Income from the disposal of non-current assets	382	483
Income from the reversal of specific bad debt allowances	2,582	2,242
Income from cost reimbursements	394	567
Income from private use of motor vehicles	1,305	1,042
Income from the derecognition of liabilities	824	648
Canteen sales proceeds	462	426
Income on bad debts	76	254
Commissions	288	363
Other income	1,555	2,886
	12,808	**12,557**

4 COST OF MATERIALS

in EUR k	2006	2005
Cost of raw materials, consumables and supplies and of purchased merchandise	320,445	265,067
Cost of purchased services	20,038	17,127
	340,483	**282,194**

5 PERSONNEL EXPENSES AND HEADCOUNT

in EUR k	2006	2005
Wages and salaries	187,031	170,903
Social security, pension and other benefit costs	36,733	34,293
(of which old-age pensions)	(15,217)	(14,069)
	223,764	**205,196**

in EUR k	2006	2005
Expenses from employee profit participation	7,496	5,628
	7,496	**5,628**

The annual-average number of employees in the HOMAG Group (excluding discontinued operations) was:

	Germany	Abroad	Total 2006	Total 2006
Wage earners	1,735	320	2,055	1,931
Salaried employees	1,609	613	2,222	2,113
Trainees	343	3	346	341
	3,687	**936**	**4,623**	**4,385**

6 TOTAL REMUNERATION OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

The members of the management board are listed on page 111, the supervisory board members on page 110.

In the year under review, HOMAG Group AG paid short-term benefits of EUR 242 k (prior year: EUR 462 k) to the members of the management board and total remuneration of EUR 170 k (prior year: EUR 181 k) to the supervisory board as compensation for their work. In total, the members of the management board and the supervisory board received short-term benefits of EUR 2,004 k (prior year: EUR 1,825 k) and EUR 486 k (prior year: EUR 515 k) respectively from HOMAG Group AG and subsidiaries. There are no pensions obligations to the members of the management board or the supervisory board.

With regard to other relationships between the HOMAG Group and the members of the management board and the supervisory board, we refer to page 108 et seq. of these notes to the consolidated financial statements.

7 AMORTIZATION OF INTANGIBLE ASSETS

in EUR k	**2006**	**2005**
Amortization of intangible assets on a systematic basis	3,914	3,536
	3,914	**3,536**

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

8 DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

EUR k	2006	2005
Depreciation of property, plant and equipment on a systematic basis	15,885	14,701
	15,885	**14,701**

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

9 OTHER OPERATING EXPENSES

Other operating expenses comprise the following:

in EUR k	2006	2005
Sales commissions	11,954	12,013
Advertising and trade fair costs	9,025	9,249
Office supplies, postage and telecommunications costs	5,257	4,708
Legal and consulting costs, license expenses and patent costs	6,830	6,148
Travel and entertainment costs	15,614	13,831
Rent and lease expenses	9,511	9,016
Other taxes	840	749
Bad debt allowances	2,934	2,763
Transport costs	10,230	9,574
Maintenance costs	6,642	4,949
Insurance costs	1,420	1,598
Exchange rate losses	2,376	1,820
Losses on the disposal of non-current assets	909	322
Donations, fees, dues, contributions	721	738
Other expenses	17,620	12,913
	104,773	**90,391**

10 PROFIT/LOSS FROM ASSOCIATES

The profit/loss from equity investments is attributable to Machinery Inc., Grand Rapids, USA (EUR 0.3 million; prior year: EUR 0.2 million) as well as Homag China Golden Field Ltd., Hong Kong, China (EUR 0.2 million; prior year: EUR 0.2 million).

11 FREE

12 FREE

13 INTEREST INCOME / INTEREST EXPENSES

in EUR k	2006	2005
Interest and similar income	2,482	2,193
Interest income	**2,482**	**2,193**
Interest paid and adjustment of liabilities for the unwinding of the discount	16,620	14,972
Interest expenses	**16,620**	**14,972**
TOTAL	**-14,138**	**-12,779**

Interest expenses include unwinding charges of EUR 3,185 k (prior year: EUR 990 k).

14 INCOME TAXES / DEFERRED TAXES

Tax Expense

Income tax expenses are classified by origin as follows:

in EUR k	2006	2005
Current taxes	11,848	9,034
Deferred taxes		
from temporary measurement differences	20	-2,934
on unused tax losses	3,248	0
	15,116	**6,100**

The tax expense based on the earnings before taxes of EUR 37.3 million (prior year: EUR 4.2 million) and on the applicable tax rate for the HOMAG Group entities in Germany of 38% (prior year: 38%) is reconciled to the current tax expense as follows:

in EUR k	2006	2005
Theoretical tax expense	-14,185	-1,612
Differences due to the tax rate	765	286
Effects from the disposal of business units	-2,723	-3,292
Tax increases (+) / tax decreases due to tax-free income and non-deductible expenses	-2,208	-1,403
Change in valuation allowances of deferred taxes	835	-249
Recognized corporate income tax credits	3,259	0
Other differences	-859	170
Income taxes (current tax expenses)	**-15,116**	**-6,100**

The current income taxes include taxes of EUR 3.3 million (prior year: EUR 0.0 million) for prior years that primarily relate to the corporate income tax credits recognized. These tax credits, which will become due for pay out in 2008, were discounted.

Deferred Tax Assets and Liabilities

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

	Deferred tax assets		Deferred tax liabilities	
in EUR k	**Dec. 31, 2006**	**Dec. 31, 2005**	**Dec. 31, 2006**	**Dec. 31, 2005**
Non-current assets	1,537	1,630	10,666	7,773
Current assets	15,535	4,723	8,314	3,059
Non-current liabilities	5,586	701	2,891	1,381
Current liabilities	3,113	1,513	12,584	4,628
	25,771	**8,567**	**34,455**	**16,841**
Deferred taxes on temporary measurement differences	25,771	8,567	34,455	16,841
Deferred taxes on unused tax losses	15,727	19,093		
Netted	-21,161	-4,373	-21,161	-4,373
	20,337	**23,287**	**13,294**	**12,468**

Write-downs on the carrying amount of deferred tax assets are recorded if realization of the expected benefits from the deferred taxes is not sufficiently probable. The estimate made can be subject to change over time, which can then lead to a write-up in subsequent periods. The change in write-downs on the carrying amount of unused tax losses results in a tax expense of EUR 0.8 million (prior year: EUR 0 million).

Unused tax losses amount to EUR 102.0 million as of December 31, 2006 (prior year: EUR 104.9 million). In the case of German entities, unused tax losses on corporate income tax and trade tax are aggregated.

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

15 RESULT FROM DISCONTINUED OPERATIONS

The result from discontinued operations amounts EUR -6.8 million (prior year: EUR -14.0 million).

The table below presents the composition of the current share of the result from discontinued operations:

in EUR k	2006	2005
Sales revenue		84,277
Change in inventories		6,244
Total operating performance		**90,521**
Other operating income		1,173
Cost of materials		-48,117
Personnel expenses		-32,060
Amortization of intangible assets and depreciation of property, plant and equipment		-1,470
Other operating expenses		-15,274
Operating result		**-5,227**
Finance result		-1,185
Earnings before tax		**-6,412**
Income tax		15
Operating result from discontinued operations		**-6,397**
Disposal result recognized	-6,796	-6,259
Tax effect from disposal result		-1,391
Disposal result	**-6,796**	**-7,650**
Result from discontinued operations	**-6,796**	**-14,047**

The discontinued operations pertain to activities of the IMA group entities. The Group spun off these operations as of October 31, 2005. The IMA entities were sold for a notional sales price of EUR 1.00. A loss was recorded on the disposal since the assets transferred exceeded the corresponding liabilities as at the date of the disposal.

In 2006, the HOMAG Group concluded an additional agreement with the IMA entities (i.e. their owner) in order to completely release the Group from the secondary liability for the liabilities of the IMA entities. Additional expenses of EUR 6.8 million were incurred as a result.

NOTES TO THE CONSOLIDATED BALANCE SHEET

16 INTANGIBLE ASSETS / PROPERTY PLANT AND EQUIPMENT

Changes in the non-current assets of the of the HOMAG Group 2006

EUR k		HISTORICAL COST					
NON-CURRENT ASSETS		**As of Jan. 1, 2006**	**Translation differences**	**Additions**	**Disposals**	**Reclas-sifications**	**As of Dec. 31, 2006**
I.	**Intangible assets**						
1.	Industrial rights	27,424	-10	3,224	851	525	30,311[1]
	- of which leases	*2,237*	*0*	*0*	*0*	*0*	*2,237*
2.	Goodwill	6,565	0	0	0	0	6,565
3.	Internally generated intangible assets	0	0	1,864	0	0	1,864
4.	Payments on account	641	0	676	0	-525	792
		34,630	**-10**	**5,763**[1]	**851**	**0**	**39,532**[1]
II.	**Property, plant and equipment**						
1.	Land, land rights and buildings	131,849	-590	11,522	176	357	142,961[1]
	- of which leases	*0*	*0*	*0*	*0*	*0*	*0*
2.	Technical equipment and machines	61,604	-278	10,373	5,420	1,170	67,449
	- of which leases	*11,026*	*0*	*5,364*	*2,754*	*0*	*13,635*[1]
3.	Other equipment, furniture and fixtures	56,168	-186	6,514	4,268	-627	57,602[1]
	- of which leases	*3,923*	*-3*	*48*	*0*	*0*	*3,968*
4.	Payments on account and assets under construction	1,295	0	2,604	227	-901	2,771
		250,916	**-1,055**	**31,013**	**10,090**[1]	**0**[1]	**270,783**
		285,546	**-1,065**	**36,776**[1]	**10,942**	**0**[1]	**310,315**[1]

[1] Rounding differences

	AMORTIZATION, DEPRECIATION AND WRITE DOWNS						CARRYING AMOUNTS	
	As of Jan. 1, 2006	Translation differences	Additions	Disposals	Reclas-sifications	As of Dec. 31, 2006	As of Dec. 31, 2006	As of Dec. 31, 2005
	18,343	-7	3,791	692	0	17,647[1]	8,876[1]	9,081[1]
	792	*0*	*280*	*0*	*0*	*793*	*1,165*	*1,445*
	573	0	1	0	0	573	5,992	5,992
	0	0	123	0	0	0	1,741	0
	0	0	0	0	0	0	792	641
	18,916[1]	**-7**	**3,914**	**692**	**0**	**18,221[1]**	**17,401[1]**	**15,714[1]**
	49,678	-79	4,204	142	21	53,682	89,279[1]	82,171
	0	*0*	*0*	*0*	*0*	*0*	*0*	*0*
	35,558	-98	5,372	2,544	453	38,741[1]	28,708[1]	26,046
	1,783	*0*	*1,399*	*433*	*0*	*2,749*	*10,886[1]*	*9,243*
	37,781	-112	6,309	3,934	-474	39,570[1]	18,032[1]	18,387
	1,955	*-1*	*1,249*	*0*	*0*	*3,203*	*765*	*1,968*
	0	0	0	0	0	0	2,771	1,295
	123,018[1]	**-289**	**15,885**	**6,620**	**0**	**131,993**	**138,790**	**127,898[1]**
	141,933[1]	**-296**	**19,799**	**7,312[1]**	**0**	**154,124**	**156,191[1]**	**143,613[1]**

Changes in the non-current assets of the of the HOMAG Group 2005

EUR k		HISTORICAL COST [2]						
		As of Jan 1, 2005	Translation differences	Additions	Disposals	Reclassifications	Write-ups	As of Dec. 31, 2005
NON-CURRENT ASSETS								
I.	**Intangible assets**							
1.	Industrial rights	27,570	32	2,885	4,060	984	12	27,424[1]
	- of which leases	*2,248*	*0*	*0*	*7*	*-4*	*0*	*2,237*
2.	Goodwill	6,542	0	23	0	0	0	6,565
3.	Internally generated intangible assets	0	0	0	0	0	0	0
4.	Payments on account	1,002	0	594	0	-954	0	641[1]
		35,114	**32**	**3,502**	**4,060**	**31**[1]	**12**	**34,630**
II.	**Property, plant and equipment**							
1.	Land, land rights and buildings	127,421	1,299	2,977	410	535	26	131,849[1]
	- of which leases	*0*	*0*	*0*	*0*	*0*	*0*	*0*
2.	Technical equipment and machines	61,358	593	5,638	7,115	1,129	0	61,604[1]
	- of which leases	*10,620*	*1*	*3,011*	*2,060*	*-545*	*0*	*11,026*[1]
3.	Other equipment, fixtures and fittings	55,400	383	6,050	5,472	-269	76	56,168
	- of which leases	*2,413*	*8*	*1,503*	*0*	*0*	*0*	*3,923*[1]
4.	Payments on account and assets under construction	1,764	48	974	64	-1,427	0	1,295
		245,943	**2,323**	**15,639**	**13,060**[1]	**-31**[1]	**102**	**250,916**[1]
		281,057	**2,354**[1]	**19,141**	**17,121**	**0**[1]	**115**[1]	**285,546**[1]

[1] Rounding difference [2] Figures excluding IMA subgroup

	AMORTIZATION, DEPRECIATION AND WRITE-DOWNS [2]							CARRYING AMOUNTS[2]	
	As of Jan. 1, 2005	Translation differences	Additions	Disposals	Reclas-sifications	Write-ups	As of Dec. 31, 2005	As of Dec. 31, 2005	As of Dec. 31, 2004
	18,637	16	3,536	3,870	11	12	18,342	9,081	8,933
	516	*0*	*282*	*4*	*-2*	*0*	*792*	*1,445*	*1,732*
	573	0	0	0	0	0	573	5,992	5,969
	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	641[1]	1,002
	19,210	**16**	**3,536**	**3,870**	**11**	**12**	**18,916**[1]	**15,714**[1]	**15,904**
	45,664	202	4,086	297	-1	26	49,678[1]	82,171[1]	81,757
	0	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
	35,220	304	4,750	4,909	192	0	35,558	26,046	26,138
	1,204	*0*	*966*	*388*	*0*	*0*	*1,783*[1]	*9,243*[1]	*9,416*
	37,073	246	5,865	5,278	-201	76	37,781	18,387	18,327
	754	*2*	*1,199*	*0*	*0*	*0*	*1,955*	*1,968*[1]	*1,659*
	0	0	0	0	0	0	0	1,295[1]	1,764
	117,957	**752**	**14,701**[1]	**10,484**	**-11**[1]	**102**	**123,018**[1]	**127,898**[1]	**127,986**
	137,167	**769**[1]	**18,236**	**14,353**[1]	**0**[1]	**115**[1]	**141,933**[1]	**143,613**[1]	**143,890**

17 INTANGIBLE ASSETS

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

Goodwill

The disclosed goodwill of EUR 6.0 million (prior year: EUR 6.0 million) breaks down into cash-generating units (CGUs) as follows:

CGU / in EUR k	Dec. 31, 2006	Dec. 31, 2005
Sizing and edge processing	3,827	3,827
Drilling and hardware mounting	1,116	1,116
Sawing and panel division	644	644
Transport and handling, assembly and packaging	405	405
	5,992	**5,992**

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

No impairment losses were recognized on goodwill.

Internally Generated Software and Other Product Development Costs

Capitalized development expenditure concern projects for new machines in the area of control technology involving several production entities of the Group. Since it was not possible to implement the preconditions for determining the development costs in the Group before the beginning of 2006, additional development expenditure was not capitalized because it could not be determined reliably.

Research and development costs included in expenses totaled EUR 22.2 million (prior year: EUR 23.1 million).

18 PROPERTY, PLANT AND EQUIPMENT

The classification of the items of property, plant and equipment condensed in the balance sheet and their development in the reporting year are presented in the statement of changes in non-current assets. The focus of capital expenditure is detailed in the management report. Grants and subsidies of EUR 0.1 million (prior year: EUR 0.8 million) were deducted from the cost of property, plant and equipment in the fiscal year. Grants and subsidies, both in the current fiscal year and in the past fiscal year, mainly relate to investment grants in former East Germany.

In the year under review, no impairment losses within the meaning of IAS 36 were recognized on property, plant and equipment. Property, plant and equipment is capitalized as follows in connection with lease agreements with the entities of the HOMAG Group as lessees:

in EUR k	Carrying amount Dec. 31, 2006	Carrying amount Dec. 31, 2005
Intangible assets	1,165	1,445
Technical equipment and machines	10,886	9,243
Other equipment, fixtures and fittings	766	1,968
	12,817	**12,656**

The agreements have remaining terms of between one and five years. The underlying interest rates of the agreements vary depending on the date on which the agreements were concluded between 2.1% and 8.1% p.a. The payments due in the future from finance lease arrangements, the corresponding interest components and the present value of future lease payments, which are accounted for under other liabilities accordingly, are shown in the table below:

in EUR k	Due in up to 1 year	Due in 1 to 5 years	Due in more than 5 years	Dec. 31, 2006 Total	Dec. 31, 2005 Total
Minimum lease payments	5,553	6,944	0	12,497	12,789
Discount charges	633	482	0	1,115	1,232
Present value	4,920	6,462	0	11,382	11,557

Some agreements include purchase options.

Obligations from Rent and Lease Agreements (Operating Leases)

in EUR k	Dec. 31, 2006	Dec. 31, 2005
Due within 1 year	6,591	5,856
Due in 1 to 5 years	7,947	7,235
Due in more than 5 years	4,071	0
	18,609	**13,091**

Government Grants

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

EUR k	HISTORICAL COST			
	As of Jan. 1, 2006	Additions	Disposals	As of Dec. 31, 2006
NON-CURRENT ASSETS				
I. Intangible assets				
1. Industrial rights	64	0	0	64
	64	**0**	**0**	**64**
II. Property, plant and equipment				
1. Land, land rights and buildings	1,097	30	0	1,127
2. Technical equipment and machines	737	7	0	744
3. Other equipment, furniture and fittings	536	7	32	511
	2,370	**44**	**32**	**2,382**
	2,434	**44**	**32**	**2,446**

EUR k	AMORTIZATION, DEPRECIATION AND WRITE-DOWNS					
	As of Jan. 1, 2006	Additions	Disposals	As of Dec. 31, 2006	As of Dec. 31, 2006	As of Dec. 31, 2005
NON-CURRENT ASSETS						
I. Intangible assets						
1. Industrial rights	34	11	0	5	19	30
	34	**11**	**0**	**45**	**19**	**30**
II. Property, plant and equipment						
1. Land, land rights and buildings	148	42	0	190	937	949
2. Technical equipment and machines	375	93	0	468	276	362
3. Other equipment, furniture and fittings	326	85	32	379	132	210
	849	**220**	**32**	**1,037**	**1,345**	**1,521**
	883	**231**	**32**	**1,082**	**1,364**	**1,551**

19 INVESTMENTS IN ASSOCIATES AND OTHER FINANCIAL ASSETS

The following table provides an overview of the financial information of associates consolidated at equity.

in EUR k	Dec. 31, 2006	Dec. 31, 2005
Balance sheet total	23,197	19,985
Total liabilities	16,747	13,336
Equity	**6,450**	**6,649**
Total sales revenues	40,276	37,643
Net profit for the year	525	380

20 INVENTORIES

in EUR k	Dec. 31, 2006	Dec. 31, 2005
Raw materials and supplies	45,553	41,623
Work in progress	13,918	13,786
Finished goods, merchandise	38,237	36,836
Payments on account	3,062	1,636
	100,770	**93,881**

Valuation allowances of EUR 2.1 million (prior year: EUR 1.0 million) were recognized on inventories with effect on profit or loss.

21 RECEIVABLES AND OTHER ASSETS

in EUR k	Dec. 31, 2006		Dec. 31, 2005	
	Due in		Due in	
	up to 1 year	more than 1 year	up to 1 year	more than 1 year
Trade receivables	119,573	0	97,297	0
Receivables from construction contracts	19,518	0	13,562	0
Receivables from associates	8,076	0	8,712	0
Income tax receivables	0	3,259	0	0
Other assets	27,494	3,681	15,624	3,827
	174,661	**6,940**	**135,195**	**3,827**

Non-current corporate income tax receivables concern the corporate income tax credits recognized.

Other assets include receivables from derivative currency and interest transactions totaling EUR 0.3 million (prior year: EUR 0.03 million). Receivables of EUR 6.8 million (prior year: EUR 0 million) from operations that were discontinued in the prior year are also included.

The bad debt allowances included in receivables amount to EUR 17.8 million (prior year: EUR 8.7 million).

22 LONG-TERM CONSTRUCTION CONTRACTS

In the receivables from long-term construction contracts, the sales revenue recognizable in accordance with the percentage of completion is offset against the prepayments received for each contract. As of the balance sheet date, contract costs incurred for long-term construction contracts and profits disclosed of EUR 32.4 million (prior year: EUR 21.7 million) were offset against prepayments received of EUR 14.2 million (prior year: EUR 8.1 million). This resulted in receivables of EUR 19.5 million (prior year: EUR 13.6 million) and liabilities of EUR 1.3 million (prior year: EUR 0.0 million).

23 CASH AND CASH EQUIVALENTS

Bank deposits payable on demand are reported in the item as well as checks and cash. In the HOMAG Group bank balances are held solely at banks with excellent credit ratings. Also, cash deposits are distributed amongst several banks in order to spread the risk.

24 EQUITY

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

25 ISSUED CAPITAL

Issued capital is unchanged at EUR 14,561,345 is fully paid in and divided into 14,561,345 no par value registered shares with an imputed value of EUR 1 each.

By resolution of the annual general meeting on June 20, 2002, the management board of HOMAG Group AG was authorized, subject to the approval of the supervisory board, to raise the share capital of HOMAG Group AG in the period until May 31, 2007 once or several times up to a total of EUR 14,561,339.00 by issuing no par registered shares in exchange for cash and/or contribution in kind. No use was made of this authorization in fiscal 2006.

26 REVENUE RESERVES

The revenue reserves of EUR 58.6 million (prior year: EUR 67.5 million) contain the profits generated in the past by the companies included in the consolidated financial statements, to the extent that they were not distributed. Goodwill resulting from business combinations before January 1, 2005 was also offset against the revenue reserves. The credit differences from business combinations that arose in the course of the preparation of the IFRS opening balance sheet, which had been disclosed as a separate item in equity in accordance with HGB until December 31, 2004, are also disclosed here as well as currency differences reclassified as of January 1, 2005.

Differences resulting from the purchase of minority interests are also shown in the 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 as well as actuarial gains and losses from the valuation of pensions and other post employment benefits less tax effects.

27 GROUP PROFIT OR LOSS

This item contains the profit or loss of the period.

28 MINORITY INTERESTS

Minority interests contain the parts of equity attributable to the minority shareholders.

29 LIABILITIES SCHEDULE

2006	Due in			Dec. 31, 2006
in EUR k	up to 1 year	1 to 5 years	> 5 years	Total
Liabilities to banks	91,964	26,762	11,993	130,719
Participating capital		26,164	5,286	31,450
Lease liabilities	1,509	9,874		11,383
Financial liabilities	**93,473**	**62,800**	**17,279**	**173,552**
Liabilities from construction contracts	1,265			1,265
Prepayments received	28,922			28,922
Trade payables	54,809	194		55,003
Liabilities to associates	1,589			1,589
Other liabilities and deferred income				
- Outstanding supplier invoices	2,333			2,333
- Commissions	1,699			1,699
- Contractual penalties	956			956
Other liabilities				
- Liabilities from transaction taxes	1,089			1,089
- Personnel obligations	10,307			10,307
- Market values of currency and interest derivatives	831			831
- Deferred income	639			639
- Other	50,801	2,498	1,278	54,577
Other liabilities and deferred income	**155,240**	**2,692**	**1,278**	**159,210**
Total liabilities	**248,713**	**65,492**	**18,557**	**332,762**

2005	Due in			Dec. 31, 2005
in EUR k	up to 1 year	1 to 5 years	> 5 years	Total
Liabilities to banks	45,208	60,316	15,040	120,564
Participating capital			29,271	29,271
Lease liabilities	846	10,711		11,557
Financial liabilities	**46,054**	**71,027**	**17,279**	**161,392**
Prepayments received	23,193			23,193
Trade payables	45,543			45,543
Liabilities to associates	882			882
Accruals				
- Outstanding invoices	1,463			1,463
- Commissions	1,816			1,816
- Contractual penalties	509			509
Other liabilities				
- Liabilities from transaction taxes	607			607
- Personnel obligations	7,046			7,046
- Market values of currency and interest derivatives	765			765
- Deferred income	323			323
- Other	36,194	9,357	1,278	46,829
Other liabilities and deferred income	118,341	9,357	1,278	128,976
Total liabilities	**164,395**	**80,384**	**18,557**	**290,368**

30 FINANCIAL LIABILITIES

The liabilities to banks of entities in the HOMAG Group are secured by collateral provided in the form of land charges, assignments of receivables, collateral assignment and other forms of security totaling EUR 129.6 million (prior year: EUR 118.9 million).

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

Liabilities to banks break down as follows:

	Dec. 31, 2006				Dec. 31, 2005			
	Currency	**Carrying amounts in EUR k**	**Term to maturity in years**	**Effective interest in %**	**Currency**	**Carrying amounts in EUR k**	**Term to maturity in years**	**Effective interest in %**
Syndicated loan	EUR	18,000	6.0	5.136	EUR	21,000	7.0	5.136
Several loans	EUR	23,492	up to 19	3.03-6.55	EUR	20,757	up to 20	3.03-6.55
Loan	PLN	1,250	5.0	4.91		--	--	--
Loan	GBP	1,040	5.0	7.0	GBP	958	6.0	7.0
Loan	DKK	774	12.0	5.479	DKK	825	13.0	5.479
Syndicated loan	EUR	37,500	0.5	4.97	EUR	42,500	1.5	4.97
Syndicated loan	EUR	14,000	0.5	5.5	EUR	--	--	--
Current portion of syndicated loan	EUR	15,669	0.5	6.75-7.0	EUR	14,278	1.5	6.75-7.0
Euro loans (syndicated loan)	EUR	9,899	0.5	4.9-5.1	EUR	14,295	1.5	4.9-5.1
Overdrafts	various	9,095	--	6.75-7.5	various	5,952	--	6.5-7.5
		130,719				**120,564**		

Variable interest arrangements have been made for the syndicated loans and overdraft facilities. The market value of financial liabilities essentially corresponds to their carrying amount.

31 FREE

32 OBLIGATIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

In the case of the defined contribution plans, the entities have no obligations other than payment of contributions to insurance firms or other special purpose funds. In the HOMAG Group, the domestic companies incur expenses for defined contribution plans in the form of contributions to the statutory pension insurance.
On a small scale there, there are also agreements with employees about the company financing of post employment benefits in the form of direct insurance. In fiscal 2006, expenses for defined contribution plans in the HOMAG Group totaled EUR 15.2 million (prior year: EUR 14.1 million).

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

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

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

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

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

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

	Dec. 31, 2006	Dec. 31, 2005
Discount factor	4.1% - 4.5%	4.0% - 4.25%
Salary trend	2.0% - 7.5%	2.0% - 7.5%
Expected return on plan assets	4.0%	3.5% - 4.0%
Pensions trend	1.75%	1.75%

The expense for pensions and similar obligations is comprised as follows:

in EUR k	2006	2005
Current service cost	174	144
Interest expense	179	188
Expected return on plan assets	-68	-70
Recognized actuarial gains (-) / losses (+)	-105	18
	180	**280**
Actual return on plan assets	**73**	**74**

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

in EUR k	2006	2005
Defined benefit obligation	4,435	4,687
Fair value of plan assets	-1,857	-1,888
Obligation remaining as of December 31	**2,578**	**2,799**

Of the pension obligations, a total of EUR 1,628 k (prior year: EUR 1,756 k) relates to obligations for which there are no plan assets.

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

in EUR k	2006	2005
Defined benefit obligation as of January 1	4,687	4,594
Interest expense	179	188
Current service cost	174	144
Benefits paid	-505	-261
Actuarial gains (-) / losses (+)	-100	22
Defined benefit obligation as of December 31	**4,435**	**4,687**

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

in EUR k	2006	2005
Fair value of plan assets as of January 1	1,888	1,918
Expected return	68	70
Employer contributions	5	5
Benefits paid	-109	-109
Actuarial gains (+) / losses (-)	5	4
Fair value of plan assets as of December 31	**1,857**	**1,888**

In most cases, the plan assets are insurance policies.

In the reporting year, cumulated actuarial gains and losses came to EUR 87 k (prior year: EUR -18 k).

33 OBLIGATIONS FROM EMPLOYEE PROFIT PARTICIPATION

For explanations on the principles underlying the silent participation of employees, reference is made to the comments on page 67 of the notes.

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

	Employee profit participation	
	Dec. 31, 2006	Dec. 31, 2005
Discount factor	4.50%	4.25%
Variance	0.06%-4.02%	1.0%-1.8%

34 OTHER ACCRUALS

in EUR k	Dec. 31, 2006		Dec. 31, 2005	
		of which due up to 1 year		of which due up to 1 year
Provisions relating to personnel	4,326	2,728	3,792	2,892
Provisions relating to production and sales	9,881	9,834	10,369	10,369
Other provisions	1,303	92	1,227	1,906
Sundry provisions	**15,510**	**12,653**	**15,388**	**15,167**

The provisions relating to production and sales mainly contain provisions for potential losses from pending transactions and warranty risks.
The personnel provisions mainly contain obligation for phased retirement arrangements and long-service bonuses.

Other provisions developed as follows:

in EUR k	As of Jan. 1, 2006	Currency adjustment	Utilization	Reversal	Addition	As of Dec. 31, 2006
Provisions relating to personnel	3,792	-5	450	33	2,233	5,537
Provisions relating to production and sales	10,369	-13	6,804	1,279	7,608	9,881
Other provisions	1,227	-1	315	896	77	92
Sundry provisions	15,388	-19	7,569	2,208	9,918	15,510

OTHER NOTES

FINANCIAL INSTRUMENTS

The fair values derivative financial instruments are disclosed under other assets or other current liabilities. In fiscal 2006, the sum of the positive market values of derivative financial instruments came to EUR 0.3 million (prior year: EUR 0.03 million), while the sum of their negative values came to EUR 0.8 million (prior year: EUR 0.8 million).

	2006		2005	
in EUR k	**Nominal value**	**Fair value**	**Nominal value**	**Fair value**
Currency hedges due in up to 1 year	10,375	-15	6,257	-10
Currency hedge due in between 1 and 5 years	3,000	-91	3,000	-70
Currency hedges due in more than 5 years	0	0	3,592	-22
TOTAL CURRENCY TRANSACTIONS	**13,375**	**-106**	**12,849**	**-102**
Interest hedges due in up to 1 year	6,000	-31	8,045	-183
Interest hedges due in between 1 and 5 years	13,771	-3	13,921	-182
Interest hedges due in more than 5 years	29,000	-381	24,000	-265
TOTAL INTEREST TRANSACTIONS	**48,771**	**-415**	**45,966**	**-630**
Total derivatives	**62,146**	**-521**	**58,815**	**-732**

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 transactions planned in the future, for which hedging instruments with short terms to maturity (< one year) are used to hedge against their respective exchange rate risks. Within the HOMAG Group, derivative financial instruments are only used to hedge against currency, interest and fair value risks from the operating business or reduce the resulting financing requirements. The HOMAG Group records the changes in fair value of all derivative financial instruments in the reporting period. The fair values of derivative financial instruments are disclosed under "other assets and prepaid expense" and "other liabilities and deferred income".

CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

in EUR k	2006	2005
Notes payable	15,334	14,970
Liabilities from guarantees	3,420	15,035
Liabilities from warranty agreements / repurchase commitments from lease agreements	7,196	5,458
Litigation risks	3,728	2,317
Other obligations	2,112	0,0
	31,790	**37,780**

The guarantees mainly result from agreements for credit lines which when used for loans extended to group companies or former affiliated companies (the IMA group) result in secondary liability. As of December 31, 2006, there was also secondary liability from guarantees used at credit insurers by companies in the IMA group of EUR 11.4 million (prior year: EUR 9.5 million).

Litigation Risks

At one foreign sales company there are litigation risks from a pending legal dispute with a customer of EUR 3.7 million. The customer has claimed a purchase price refund of EUR 0.9 million and lost profits and other damages of EUR 2.8 million. Management is of the opinion that the claim is not substantiated and the Company will defend its position as best it can. When the lawsuit, for which no provisions have been set up, will end is not known.

At another foreign sales company, a customer has also claimed a reverse transaction for a purchase agreement from the year 2003 and damages of around EUR 1 million. Here too, management takes the position that the claim is unfounded.

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

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 associated companies 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 entities. 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 2006, the HOMAG Group is affected by the disclosure requirements of IAS 24 solely with respect to business relationships with associates, members of the management board and the supervisory board as well as shareholders that hold more than 20% of the shares in the parent company HOMAG Group AG. Where the latter are natural persons, these are also members of the supervisory board of HOMAG Group AG.

Comments on the remuneration of the members of the management board and the supervisory board are presented on page 81 of these notes to the consolidated financial statements.

There are loan receivables from a shareholder/supervisory board member amounting to EUR 1,644 k (prior year: EUR 1,644 k). This resulted in interest income of EUR 80 k (prior year: EUR 80 k). There are liabilities from employee profit participation of EUR 151 k (prior year: EUR 140 k) attributable to members of the supervisory board.

A consulting agreement was concluded in 1999 with the chairman of the supervisory board. The corresponding annual remuneration comes to EUR 61 k. Another supervisory board member provided legal counsel services in 2006 of EUR 146 k for entities in the HOMAG Group.

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

	Goods and services sold by the Group to related parties		**Goods and services purchased by the Group from related parties**	
EUR k	**2006**	**2005**	**2006**	**2005**
Associates	**89,027**	**66,640**	**2,235**	**2,078**

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

SUBSEQUENT EVENTS

With the exception of the following points, there were no significant events after the balance sheet date.

As agreed, the loan granted in connection with the sale of the IMA Group to group companies of IMA was repaid as of March 30, 2007 by an amount equivalent to the receivables disclosed in the financial statements of HOMAG Group AG as of December 31, 2006 plus interest. Moreover, HOMAG Group AG was released as of March 30, 2007 from all secondary liability for liabilities and bank guarantees of the IMA group companies.

Schopfloch, April 18, 2007
HOMAG Group AG

The Management Board

EXECUTIVE BODIES

SUPERVISORY BOARD

Gerhard Schuler (Chairman), Freudenstadt, chairman of the supervisory board of HOMAG Holzbearbeitungssysteme AG, Schopfloch

Franz Hipp [1], (Deputy Chairman) Horb-Dettingen, technical assistant at HOMAG Holzbearbeitungssysteme AG, Schopfloch

Reiner Neumeister [1], Freudenstadt, main representative of IG - Metall trade union Freudenstadt

Karl Frey [1], Schopfloch, technical assistant at HOMAG Holzbearbeitungssysteme AG, Schopfloch

Hannelore Knowles [1], Calw - Holzbronn, chair of the group works council of HOMAG Group AG

Wilhelm Freiherr von Haller, Stuttgart, Director of Deutsche Bank AG, Stuttgart

Ingrid Hornberger-Hiller, Tübingen, lawyer

Dr. Ing. Bernhard E. Kallup, Waldshut - Tiengen, chairman of Sedus Stoll AG, Waldshut - Tiengen (until March 31, 2006)

Reinhard Löffler, Weil der Stadt, businessman

Klaus M. Bukenberger, Schenkenzell, Corporate Governance Consulting, Stuttgart (since April 10, 2006)

Jochen Meyer [1], Herzebrock - Clarholz, chairman of the works council of WEEKE Bohrsysteme GmbH, Herzebrock - Clarholz

Reinhard Seiler [1], Detmold, main representative of IG - Metall trade union Detmold

Dr. Kathrin Piazolo, Villingen - Schwenningen, lawyer (from February 23, 2006 to July 17, 2006)

Dr. Jochen Berninghaus, Dortmund, lawyer (since July 17, 2006)

[1] Employee representatives

MANAGEMENT BOARD

Klaus M. Bukenberger (Spokesman), Schenkenzell, spokesman of the management board of HOMAG Holzbearbeitungssysteme AG, Schopfloch (until March 31, 2006)

Dr. Joachim Brenk (Spokesman since April 1, 2006), Loßburg, member of the management board of HOMAG Holzbearbeitungssysteme AG, Schopfloch

Rolf Knoll, Dettingen an der Erms, member of the management board of HOMAG Holzbearbeitungssysteme AG, Schopfloch

Albrecht Wößner, Dornstetten-Hallwangen, member of the management board of HOMAG Holzbearbeitungssysteme AG, Schopfloch (until December 31, 2006)

Andreas Hermann, Dornstetten-Aach, member of the management board of HOMAG Holzbearbeitungssysteme AG, Schopfloch (since April 1, 2006)

Achim Gauß, Dornstetten-Hallwangen, member of the management board of HOMAG Holzbearbeitungssysteme AG, Schopfloch (since February 23, 2006)

Major participations	Status	Currency	Issued capital Dec. 31, 2006	Capital share Dec. 31, 2006 %	P&L TA
Germany					
Direct equity investments					
Homag Holzbearbeitungssysteme AG, Schopfloch	(fc)	EUR	30,000,000.00	100.00	X
Schuler Business Solutions AG, Pfalzgrafenweiler	(fc)	EUR	5,150,000.00	100.00	
Torwegge Holzbearbeitungsmaschinen, GmbH, Löhne [1]	(fc)	EUR	1,600,000.00	100.00	
Holzma Plattenaufteiltechnik GmbH, Holzbronn [2]	(fc)	EUR	5,600,000.00	100.00	
Brandt Kantentechnik GmbH, Lemgo	(fc)	EUR	4,000,000.00	70.00	
MAW Montagetechnik GmbH, Herford	(fc)	EUR	17,300,000.00	97.00	
Indirect equity investments					
Homag Vertriebs-Beteiligungs GmbH, Schopfloch	(fc)	EUR	7,200,000.00	100.00	
Ligmatech Automationssysteme GmbH, Lichtenberg	(fc)	EUR	6,650,000.00	95.23	
Weeke Bohrsysteme GmbH, Herzebrock	(fc)	EUR	9,300,000.00	100.00	X
Friz Kaschiertechnik GmbH, Weinsberg	(fc)	EUR	2,400,000.00	100.00	
Bargstedt Handlingsysteme GmbH, Hemmoor	(fc)	EUR	5,133,000.00	100.00	
Bütfering Schleiftechnik GmbH, Beckum	(fc)	EUR	370,000.00	51.00	
Weinmann Holzbausystemtechnik GmbH, St. Johann-Lonsingen	(fc)	EUR	1,000,000.00	51.00	
Homag GUS GmbH, Schopfloch	(fc)	EUR	100,000.00	100.00	
Homag Leasing GmbH, Schopfloch	(fc)	EUR	100,000.00	100.00	
Homag Vertrieb & Service GmbH, Schopfloch	(fc)	EUR	300,000.00	100.00	

Major participations	Status	Currency	Issued capital Dec. 31, 2006	Capital share Dec. 31, 2006 %	P&L TA
Other countries					
Indirect equity investments					
Homag Machinery Sroda Sp. z o.o., Sroda, Poland	(fc)	PLN (EUR)	3,145,000.00 (815,502.06)	100.00	
Holzma Plattenaufteiltechnik S.A. Unipersonal L'Ametlla del Valles, Spain	(fc)	EUR	2,047,748.00	100.00	
Homag Machinery (São Paulo) Maquinas Especias para Madeira Ltda., São Paulo, Brazil	(fc)	BRL (EUR)	16,192,675.00 (5,735,168.59)	100.00	
Homag Machinery (Shanghai) Co. Ltd., Shanghai, China	(fc)	CNY (EUR)	70,715,635.00 (6,851,486.89)	81.75	
Homag Austria Gesellschaft mbH, Salzburg, Austria	(fc)	EUR	370,000.00	100.00	
Homag Italia S.p.A., Monza, Italy	(fc)	EUR	1,100,000.00	100.00	
Homag France S.A., Schiltigheim, France	(fc)	EUR	1,500,000.00	100.00	

Major participations	Status	Currency	Issued capital Dec. 31, 2006	Capital share Dec. 31, 2006 %	P&L TA
Other countries					
Indirect equity investments					
Homag Asia (PTE) Ltd., Singapore, Singapore	(fc)	SGD (EUR)	100,000.00 (49,357.12)	100.00	
Homag Canada Inc., Mississauga, Ontario, Canada	(fc)	CAD (EUR)	4,367,800.00 (2,836,344.27)	100.00	
Homag Polska Sp. z o.o., Sroda, Poland	(fc)	PLN (EUR)	1,050,000.00 (272,266.19)	100.00	
Homag Japan Co. Ltd., Osaka, Japan	(fc)	JPY (EUR)	156,000,000.00 (992,372.73	100.00	
Homag Danmark A/S, Galten, Denmark	(fc)	DKK (EUR)	1,970,000.00 (264,150,49)	100.00	
Homag U.K. Ltd., Castle Donington, United Kingdom	(fc)	GBP (EUR)	2,716,778.00 (4,028,974.80)	100.00	
Schuler Business Solutions S.L., Cullera, Spain	(fc)	EUR	301,000.00	100.00	
Homag Korea Co. Ltd., Seoul, Korea	(fc)	KRW (EUR)	320,970,000.00 (258,765.39)	54.55	
Stiles Machinery Inc., Grand Rapids, USA	(e)	USD (EUR)	25,806.00 (19,546.00)	22.00	
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 (2,630,005.05)	25.00	
Homag South America Ltda., São Paulo, Brazil	(fc)	BRL (EUR)	2,014,531.00 (713,512.43)	100.00	
Homag Australia Pty. Ltd., Sydney, Australia	(fc)	AUD (EUR)	5,309,159.00 (3,170,271.76)	100.00	
Homag (Schweiz) AG, Bachenbülach, Switzerland	(fc)	CHF (EUR)	200,000.00 (124,250.61)	100.00	
OOO ”Homag Russland“ Moscow, Russian Federation	(fc)	RUB (EUR)	357,215.00 (10,275.42)	99.00	
Homag India Privat Ltd., Bangalore, India	(fc)	INR (EUR)	50,300,000.00 (863,514.72)	99.90	

(fc)	fully consolidated
(e)	consolidated at equity
1)	of which 39.95% held by HOMAG Holzbearbeitungssysteme AG and 60.05% by HOMAG Group AG
2)	of which 19.90% indirectly
P&L TA	Domination and profit and loss transfer agreement with HOMAG Group AG or HOMAG Holzbearbeitungssysteme AG

ANNUAL FINANCIAL STATEMENTS **2006**

AUDITORS' REPORT

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

We have audited the consolidated financial statements prepared by Homag Group AG, Schopfloch, comprising the income statement, the balance sheet, cash flow statement, statement of changes in equity, the statement of recognized income and expense and notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2006. 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 generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (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 to be 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, 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, April 18, 2007

Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Müller-Marqués Berger	Lein
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

ANNUAL FINANCIAL STATEMENTS **2006**

Brought into shape by a
processing centre from HOMAG

Imprint

Publisher:
HOMAG Group AG
Homagstrasse 3-5
72296 Schopfloch
Germany
Tel.: +49 7443 13-0
Fax: +49 7443 13-2300
E-mail: info@homag-group.com
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Concept and design:
Werb'Office R. & F. Müller GmbH,
73765 Neuhausen

Text:
kommag - Agentur für
Kommunikation, Stuttgart

Printing:
GZD Grafisches Zentrum
Drucktechnik, Ditzingen

Picture credits:
Page 12/13: Kettnaker Möbel-Manufaktur, Dürmentingen, www.kettnaker.de
Page 26: Möbel und Raum GmbH, Michelstadt, www.moebelundraum.de
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Homag Group

100%

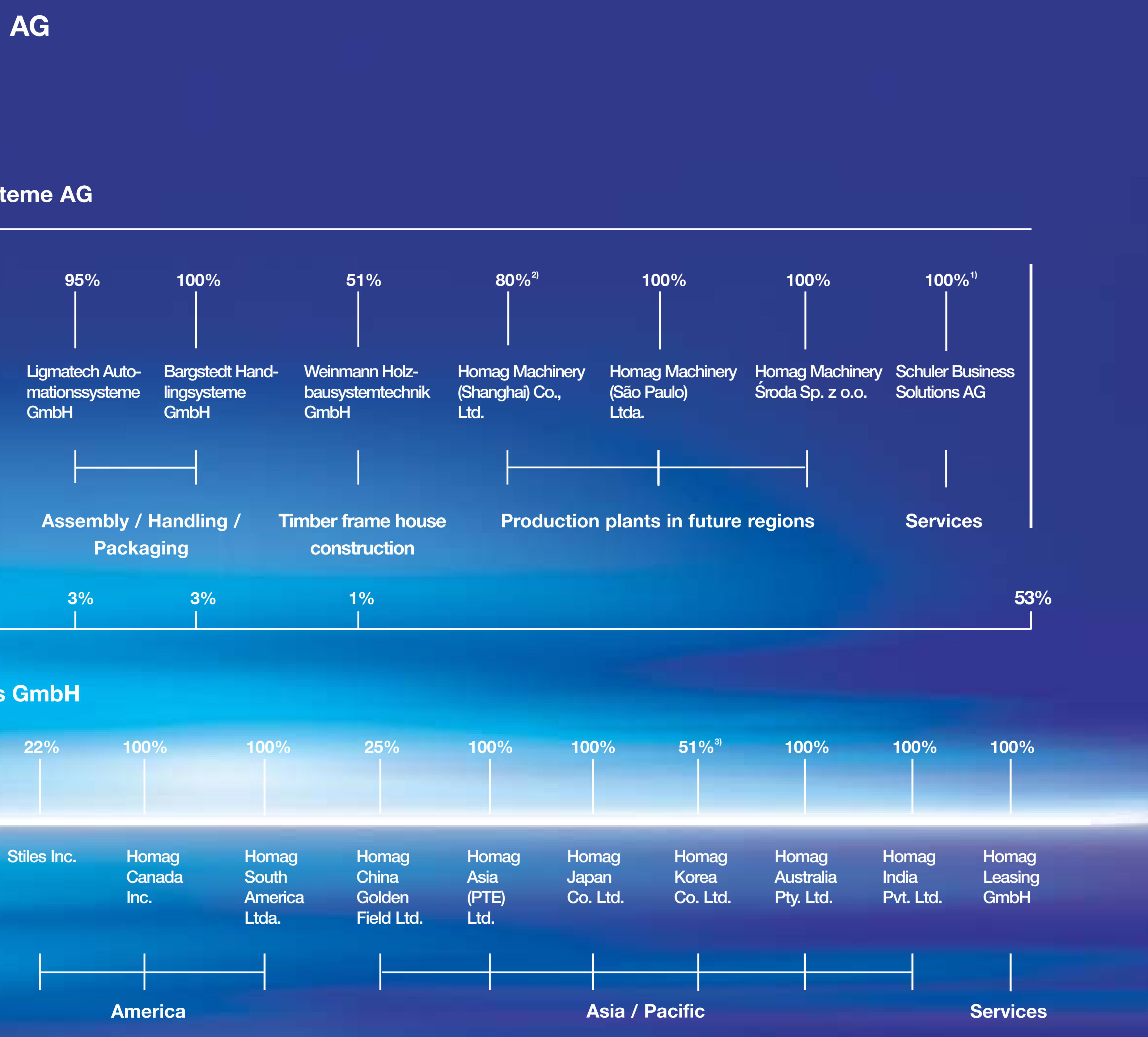
Homag Holzbearbeitungssys

Sawing	Surface		Sizing & edge processing		Drilling & hardware mounting	
100%[1]	100%	51%	70%[1]	100%[1]	100%	97%[1]
Holzma Plattenaufteiltechnik GmbH (incl. Holzma S.A.U.)	Friz Kaschiertechnik GmbH	Bütfering Schleiftechnik GmbH	Brandt Kantentechnik GmbH	Torwegge Holzbearbeitungsmaschinen GmbH	Weeke Bohrsysteme GmbH	MAW Montagetechnik GmbH
12%	3%	2%	10%	1%	12%	

Homag Vertriebs-Beteiligungs

Central Europe			Western Europe					Eastern Europe	
100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Homag Vertrieb & Service GmbH	Homag Austria Ges. mbH	Homag (Schweiz) AG	Homag France S.A.	Homag Italia S.p.A	Homag España Maquinaria S.A.	Homag Danmark A/S	Homag U.K. Ltd.	Homag Polska Sp. z o.o.	Homag GUS GmbH (incl. OOO "Homag Russland")

[1] Shares are held partially or wholly by Homag Group AG
[2] Share in Homag Machinery (Shanghai) Co., Ltd. temporarily increased to 81.25%
[3] Share in Homag Korea Co. Ltd. temporarily increased to 54.55%
* Simplified view



GROUP **STRUCTURE***

www.homag-group.com