Annual Report 2002

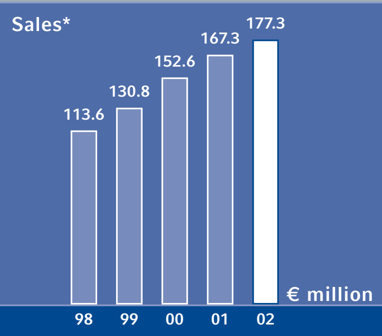
Security Through Quality

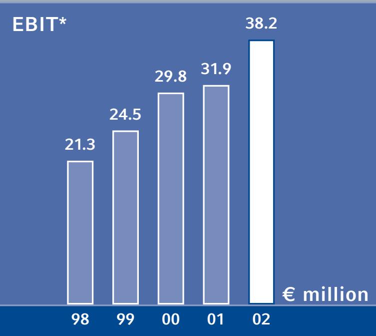
RATIONAL

Our overall performance in the reporting year 2002 once again confirms the dynamics behind our company's stable and continuous success.
Compared to the previous year, sales were up from € 167 million to € 177 million. At the same time, EBIT increased by 20 %, from € 32 million to € 38 million, yielding a gross operating margin of about 22 %.

The Company at a Glance

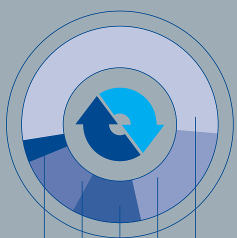
RATIONAL Group in thousands of euros	2000	2001	2002	Change
Sales	152,646	167,252	177,326	+ 6.0 %
Sales abroad in %	78%	80%	81%	+ 1% pt
Cost of sales	65,907	71,211	72,358	+ 1.6 %
as a percentage of sales	43.2%	42.6%	40.8%	
Sales and service expenses	39,998	46,182	46,022	– 0.3 %
as a percentage of sales	26.2%	27.6%	26.0%	
Research and development expenses	7,046	7,233	10,133	+ 40.1 %
as a percentage of sales	4.6%	4.3%	5.7%	
General administration expenses	9,461	11,070	9,485	– 14.3 %
as a percentage of sales	6.2%	6.6%	5.3%	
EBIT – earnings before interest and taxes	29,786	31,948	38,190	+ 19.5 %
as a percentage of sales	19.5%	19.1%	21.5%	
EBT – earnings before taxes	29,474	31,857	38,356	+ 20.4 %
as a percentage of sales	19.3%	19.0%	21.6%	
Group earnings	17,529	20,817	26,615	+ 27.9 %
as a percentage of sales	11.5%	12.4%	15.0%	
per share in euros	1.54	1.83	2.34	
Cash flow from operating activities	15,995	19,703	31,899	+ 61.9 %
per share in euros	1.41	1.73	2.81	
Balance sheet total	85,885	100,771	113,979	+ 13.1 %
Equity	50,913	64,374	78,929	+ 22.6 %
as a percentage of the balance sheet total	59.3%	63.9%	69.2%	
ROCE – return on capital employed	45.6%	40.0%	42.3%	+ 2.3 % pt
Working capital (without liquid funds)	31,128	34,814	33,602	– 3.5 %
as a percentage of sales	20.4%	20.8%	18.9%	
Employees (as an annual average)	604	660	669	+ 1.4 %
Sales per employee	252.7	253.4	265.1	+ 4.6 %

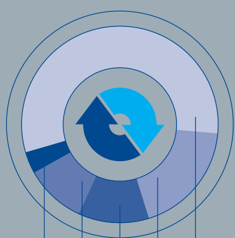




* 1998 and 1999 according to the German Commercial Code and since 2000 according to IAS

Today, RATIONAL technology is sold in over 85 countries around the world, yet only about 18 % of the world market has so far been utilised. RATIONAL is the world market leader by far. In 2002, we were able to expand our market share from 46 % to 47 %.



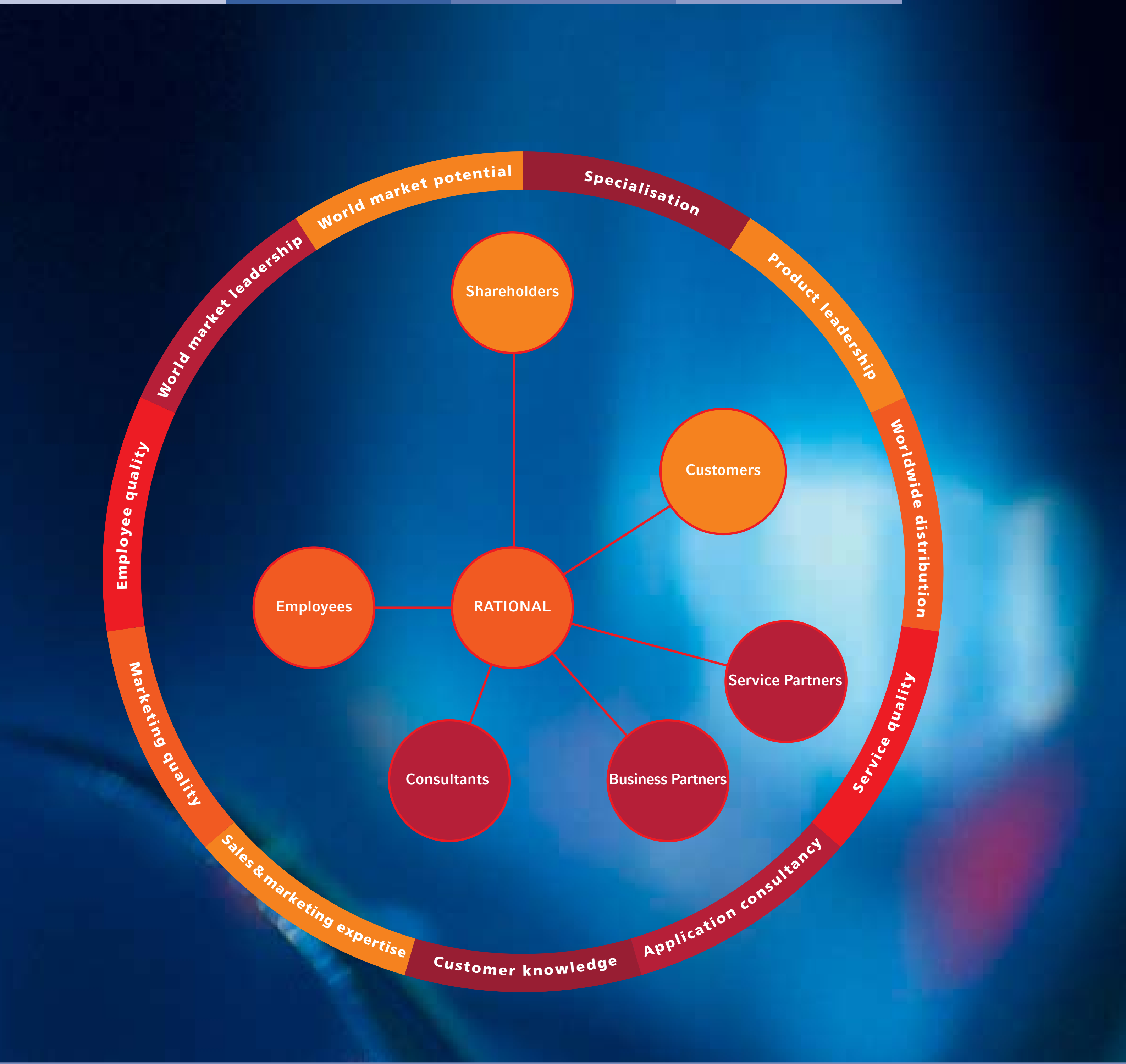


Sales revenue by region 2001

Rest of the world 3.7 %
Americas 10.8 %
Asia 11.5 %
Germany 20.1 %
Europe 53.9 %

2002

Rest of the world 3.6 %
Americas 10.0 %
Asia 11.7 %
Germany 18.8 %
Europe 55.9 %



Economically troubled times heighten insecurity and the risks for future development. That is when the wheat is separated from the chaff. Over the last 30 years, RATIONAL has established an ever closer global security network that guarantees stability even in times of crisis.

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Security Through Specialisation

A company's operating activities must serve society and offer sustainable benefits. If it fails to do that, it will sooner or later disappear from the market. Therefore, the best way to guarantee a company's successful long-term development is to concentrate all its resources on its products and services that satisfy a basic human need.

Specialisation as success factor

From the beginning, RATIONAL has concentrated on the basic human need of eating warm meals out. Our core expertise is the transfer of thermal energy to all kinds of food. Thus, we don't see ourselves first and foremost as a machine manufacturer, but as innovative problem-solvers for our customers all over the world.

Worldwide product and market leadership is the result of our specialisation. The growing company success creates room for additional new investments in ever greater customer benefits and product appeal.

Specialisation boosts innovative strength

We remain closely in touch with our customers – people all over the world who prepare food thermally in professional kitchens – and we know about their needs and wishes. This puts us in a better position than others to solve their problems and continuously improve their working world.

The operational world of our customers and the corresponding scientific environment is reflected in the structure of our research and development process. Our development team is staffed with physicists carrying out basic research, chefs and nutritionists carrying out application research, and, of course, mechanical engineers working in product development.

Specialisation adds to profile

Bundling all our resources into thermal food preparation leads to maximum problem-solving expertise, innovative power and thus increasing customer benefits.

At the same time, the RATIONAL brand is gaining both appeal and profile.

Worldwide product and market leadership is the result of our specialisation. The growing company success creates room for additional new investments in ever greater customer benefits and product appeal.

Siegfried Meister, born in 1938, studied electrical engineering. The founder of RATIONAL AG systematically developed the company into a worldwide operating enterprise offering professional kitchen technology. The entrepreneur guided the RATIONAL Group as Managing Director until it was turned into a public limited company. Since then, he has taken on a controlling function as Chairman of the Supervisory Board and assists the company in an active and committed way with his great experience and guidance.

RATIONAL – Successful Even in Economically Difficult Times

Like most other companies in Germany and around the world, RATIONAL did not have an easy year 2002. In the end, nothing remained of the atmosphere of a new start felt in the first few months. The mood among the population has rarely been as muted as it is today.

Overall economic development far behind all forecasts
Economically, the major industrial nations lagged far behind all forecasts and our own expectations as well. The picture was pervaded by a reluctance to invest, not only in the U.S. and Japan, but in the most important European countries, too – Germany in particular.

What triggered the clouding of sentiment was the continously disappointing performance of the world's stock markets that at the same time is an expression of deep, general insecurity. The situation was aggravated by accounting scandals that have now gripped not only the U.S. but Europe, too.

In 2002, against the backdrop of these negative economic conditions, we gave priority to consolidation and efficiency gains throughout the company ahead of further high investments towards our global expansion.

Dr. Günter Blaschke, born in 1949, gained his doctorate after studying business management at the University of Cologne in the industrial economics department. He began his professional career in 1978 working as Assistant Manager for Marketing at Procter & Gamble GmbH, Schwalbach. From 1981 to 1990, he managed marketing, product management and video product sales departments at 3M Germany and later at 3M Europe in Brussels. From 1990, Dr. Blaschke was alternately responsible for domestic and foreign sales, marketing, production and research & development at Joh. Vaillant GmbH & Co. KG, Remscheid. In March 1997, he moved to RATIONAL GmbH to take up his post as Managing Director. He has been the CEO since September 1999.

Substantial sales growth despite the crisis

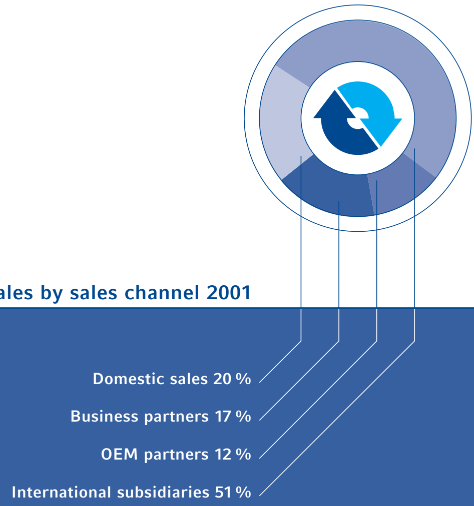
Our overall performance in the reporting year 2002 once again confirms the dynamics behind our company's stable and continuous success. Compared to the previous year, sales were up from € 167 million to € 177 million.

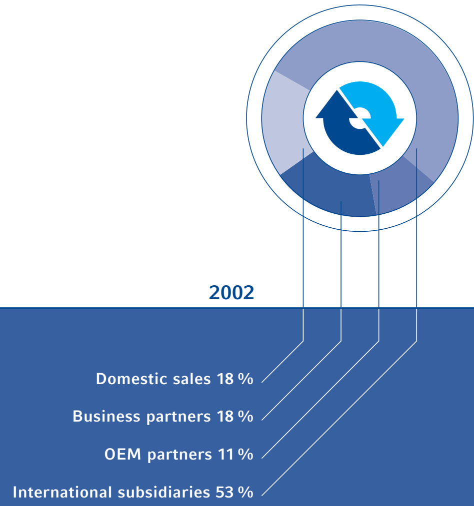
With a growth rate of 6 %, however, turnover development did not come up to our expectations. One-off effects, such as the successfully completed restructuring at our U.K. subsidiary, the disappointing seasonal trade at year-end in the German market rocked by crisis, and currency developments – in particular regarding the U.S. dollar and Japanese yen – had a negative impact on our growth.

Foreign subsidiaries grow by 13 %

In 2002, our strategy of opening up new markets with own subsidiaries turned out to be particularly successful once again. The growth rate of 13 % is an impressive endorsement of our global strategy of opening up those markets with the highest potential with own, highly specialised organisations, thus ensuring that they are stable and crisis-proof.

All international subsidiaries made a positive contribution to corporate growth in 2002. Thanks to their strong growth, their share of turnover is increasing every year and in 2002 already stood at 53 % (previous year: 51 %).





13 %

The growth rate of 13 % for our international subsidiaries is an impressive endorsement of our global strategy of opening up markets with the highest potential with own, highly specialised organisations, thus ensuring that they are stable and crisis-proof.

Attractive investment thanks to a high rationalisation effect

The basis for our growth in times of crisis is the high rationalisation benefit gained when using RATIONAL technology.

Moderate investment, combined with an extremely short payback period of 4 to 12 months on average, makes RATIONAL technology attractive even in difficult times. Our Japanese subsidiary confirmed this convincingly. Although the Japanese economy has been declining for some years, RATIONAL Japan bucked the trend with 20 % growth in local currency.

Record result in 2002: 28 % increase on previous year

Targeted efficiency increases, consolidation in sales and marketing process and consistent cost management led to a clearly over-proportional increase in results in 2002. The annual net profit increased by 28 %, from € 20.8 million to € 26.6 million, yielding a net operating margin of 15 % (previous year: 12 %).

World market leadership expanded further

In 2002, RATIONAL was once again able to use this growth to further expand its world market share to 47 % (previous year: 46 %). Our concentration of resources in those countries with the highest potential, RATIONAL's superior product technology and our globally unique sales and marketing process remained the key success factors in 2002.

47 %

In 2002, RATIONAL was once again able to increase its world market share to 47 % (previous year: 46 %).

Innovation ensures technological edge

In 2002, we completed our successful ClimaPlus Combi® line with additional innovations – CombiLink®, CombiFry® and AeroCat® – thus further enhancing our position as worldwide technology leader.

Worldwide networking with CombiLink®

CombiLink® is an intelligent network management system. It permits the kitchen manager to operate and monitor all linked ClimaPlus Combi®, not only in the kitchen he operates from, but remotely over long distances as well. All ClimaPlus Combi® can be operated and monitored remotely at a mouse-click.

At the same time, CombiLink® guarantees 100 % hygiene safety. Each cooking process is documented and stored, enabling the chef to show evidence of the perfectly hygienic cooking process at all times.

CombiFry®: Deep-frying without oil

The CombiFry® system enables the production of large quantities of top-quality, deep-fried food without oil in the ClimaPlus Combi®. For example, up to 200 portions of French fries can easily be fried fat-free within 15 minutes.

Scientific studies have shown that gentle cooking without oil is far healthier and results in a reduction in calories of up to 36 %. At the same time, costs can be cut by up to 70 %.

Put an end to unwanted odors with AeroCat®

The RATIONAL AeroCat® prevents unpleasant grilling and roasting smells during the cooking process and thereby sets new standards in modern kitchen technology. At the same time, it widens the range of use for the ClimaPlus Combi®, especially in emission-critical environments such as front cooking and shopping centers.

RATIONAL – Best in Class 2002

Cost reduction through productivity gains

The investments in manufacturing process optimisation made in 2001 as well as new technologies led to the anticipated large productivity gains in 2002. The spatial integration of quality inspection and the devices' packaging ready for dispatch at the production "islands" where they are assembled, coupled with investments in fully automatic, state-of-the-art laser and bending technology, have resulted in productivity increases of some 7 %.

The 200,000th RATIONAL Combi-Steamer

On April 17, 2002, the 200,000th RATIONAL Combi-Steamer was produced. This number is a proof of our customers' trust we take pride in. Our appliances are assembled within so-called assembly islands operating to the most up-to-date production methods. One employee assembles the entire appliance and, by adding his name to the type plate, he personally guarantees the quality of the appliance. The 200,000th combi-steamer was produced by Daniel Schäffler who works on Assembly Island 1.

Recognition through international awards

RATIONAL was the recipient of a total of seven national and international awards in 2002 for outstanding technology, services and financial communication.

Quality Prize 2002

RATIONAL was awarded the Bavarian Department of Trade and Industry's **Bavarian Quality Prize 2002** for its innovative achievements in the field of quality management and technical service.

The Best Factory

Competing for the Franco-German title of **The Best Factory – Industrial Excellence Award**, RATIONAL was singled out for praise for its excellent product development and outstanding quality management. The contest has been staged since 1995 by the scientific university in Vallendar near Koblenz and the Insead international management school in Fontainebleau and is publicised by the magazine WirtschaftsWoche. RATIONAL shared its second place with Heidelberger Druckmaschinen and Hewlett Packard.

7%

Manufacturing process optimisation and new technologies provided the means for a 7 % gain in productivity.

Best in Class 2002

Readers of America's leading trade publication Foodservice Equipment & Supplies voted RATIONAL the **Best in Class 2002** in the combi-steamer product area. At the same time, our ClimaPlus Combi® was awarded first prize as the most talked-about innovation in the industry.

In the strategically important U.S. market, these awards are an important sign of the growing recognition and impact of combi-steamer technology in general, and in particular of recognition of the RATIONAL brand.

Service Management Prize 2002

The German Customer Service Association awarded RATIONAL's technical service with the industry-wide **Service Management Prize 2002**. The award was presented for the company's innovative concept entitled "Realisation of an international RATIONAL service partner network – from service provider to service partner".

International Design Prize 2002

An Italian jury of experts at the trade fair in Genoa awarded RATIONAL the **International Design Prize 2002**.

Peter Wiedemann, born in 1959, joined RATIONAL GmbH as an engineer after studying mechanical engineering at the Technical University of Munich. From 1990 to 1993, he was Product Manager. Subsequently, he supported the development of the American subsidiary. Since January 1996, he has been responsible for the technical division. In September 1999, he was appointed to the Executive Board.

Positive Outlook for 2003

SDAX Company of the Year

Financial magazine **FOCUS MONEY** voted RATIONAL the SDAX Company of the Year. Assessment criteria were listed companies' earnings power and the information quality of their annual reports. In terms of earning power, RATIONAL was ranked second out of all 205 top companies analysed.

Since 1997, economics magazine **Capital** has annually investigated the quality of financial reporting of top German and European listed companies. The basis for the evaluation is an exclusive survey of more than 1,500 analysts. The survey focuses in particular on topicality, credibility and quality of information. In the SDAX category, RATIONAL took third place.

28 %

The **annual net profit** increased by 28 %, from € 20.8 million to € 26.6 million, resulting in a net yield of 15 % (previous year: 12 %).

Further stable growth through focusing

In 2003, we do not anticipate any significant improvement in the overall economic situation and hence no tailwind. Thus, further consolidation and the concentration on the world's most promising markets – in particular, the U.S., Japan and the primary European markets – will be at the forefront of our activities. Moreover, in 2002, we also laid the foundations for future market successes in several emerging nations such as China and the Russian Federation.

Yet, despite RATIONAL's many years of success, only around 18 % of the world's 2.5 million potential customers have switched to modern combi-steamer technology. That means that 82 % of available market potential is currently still untapped. This will enable us to further strong growth in 2003.

Against this backdrop, we are optimistic that we will achieve excellent growth in both sales and results next year.

Employees as entrepreneurs within the company

Ambitious targets require extraordinary employees. Especially in economically difficult times, it is qualifications, creativity, involvement and the identification of all employees with the company goals that are decisive factors for success. It is one of RATIONAL's great strengths that our employees think and act as entrepreneurs within the company – there is no better starting position than that.

We would like to thank all our customers, partners, suppliers, shareholders and especially our employees for the confidence they have placed in our enterprise.

Erich Baumgärtner, born in 1954, studied business management at Rosenheim Technical College. From 1979 to 1987, he worked in various commercial functions at Messerschmitt-Bölkow-Blohm GmbH, Ottobrunn. His last position at the company was managing the tender department of the appliance division. In 1988, he moved to Digital Equipment GmbH, Munich, where, from 1996 on, he was responsible for commercial operations as Managing Director. In October 1998, he came to RATIONAL GmbH. Since December 1998, he has been responsible for commercial operations on the Executive Board of RATIONAL AG.

Growing Awareness for RATIONAL Shares

Shares in RATIONAL continued to fare well in 2002 in what was overall a very negative stock market environment. Valued at € 29.97 on December 30, 2002, the share was one of only a few in Germany that finished the year up on its issue price, in RATIONAL's case a gain of 30 % since its IPO in 2000.

More and more investors are showing an interest in the development of our company. Two investor-relations prizes – FOCUS MONEY's "SDAX Company of the Year" and Capital's "Quality of Financial Market Communications – 3rd Place in the SDAX" – have significantly raised the awareness of RATIONAL shares.

Substantial increase in research coverage

In 2002, we were able to convince further well-known investment companies to institute regular coverage of RATIONAL. Besides Citigroup, Sal. Oppenheim and Landesbank Baden-Württemberg, also HypoVereinsbank, KBC-Peel Hunt, HSBC Trinkaus & Burkhardt, Commerzbank, Cazenove, Independent Research and Berenberg Bank are now devoting regular research reports to RATIONAL. Following the trend towards safe, dividend-bearing growth stocks, these institutions have all recommended buying the RATIONAL share, without exception.

Financial calendar 2003

March	DFVA Conference
April	Roadshow
May	Shareholders' Meeting
May	Q1 Interim Report
August	Q2 Interim Report
September	Roadshow
November	Q3 Interim Report
December	German Mid Cap Conference

Share key figures in euros	2002	2001
Consolidated earnings per share	2.34	1.83
Cash flow from current activities per share	2.81	1.73
Dividend proposal	1.30	1.00
Share high	44.75	73.50
Share low	27.00	27.00
Share close	29.97	35.00
Market capitalisation (year-end)	€ 341 million	€ 398 million
Shares issued (year average)	11,370,000	11,369,500

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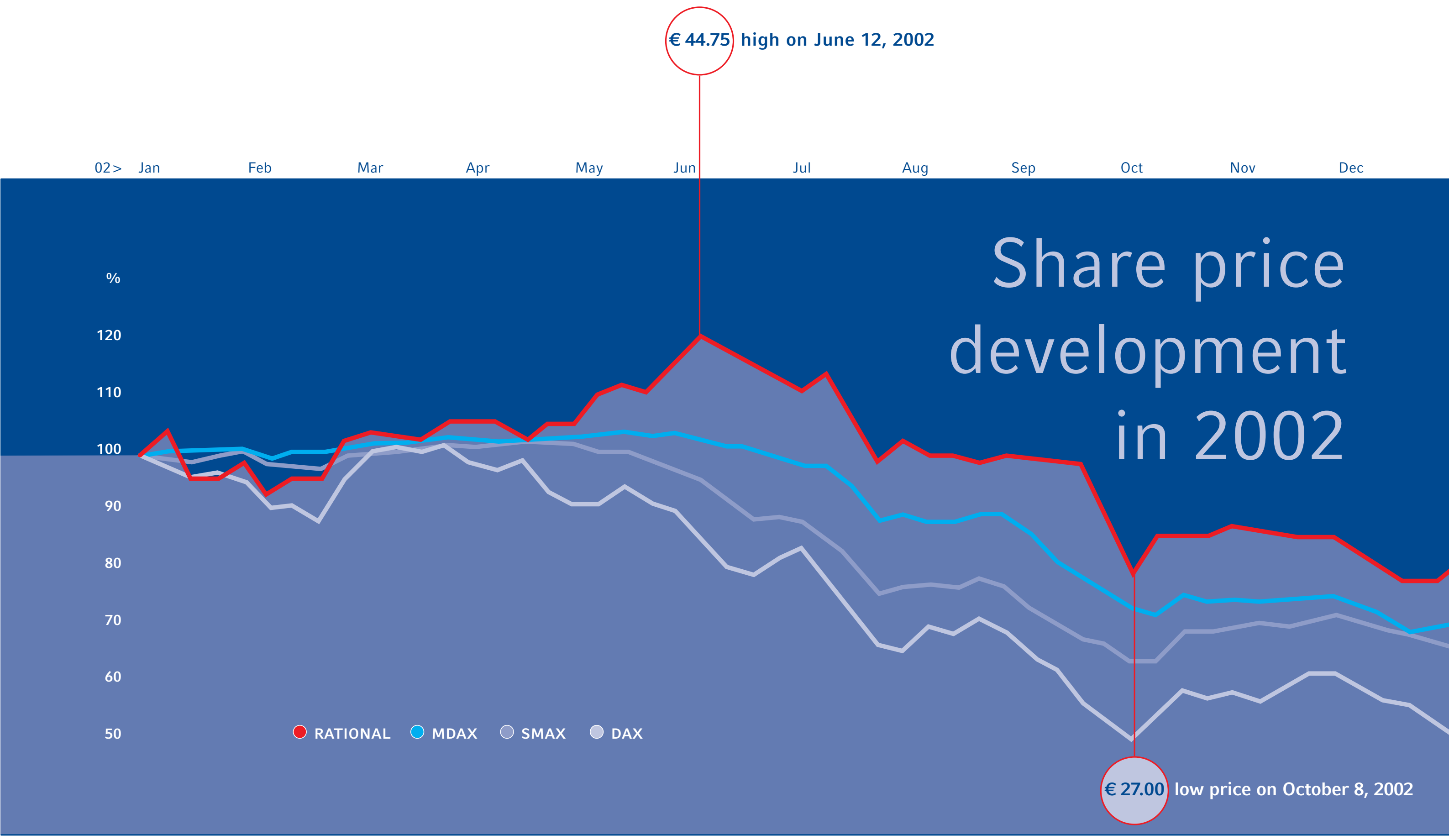
IR activities further intensified

In 2002, against the backdrop of generally negative stock market developments, we once again stepped up our investor relations activities. The management gave extensive presentations of the company at international roadshows in the U.S. and in Europe, at analysts' conferences in London, Frankfurt and Stuttgart, and in numerous press interviews.

RATIONAL in the Prime Standard

RATIONAL applied for membership of the Prime Standard on the German stock market and was admitted with effect from December 16, 2002. This means that RATIONAL's shares remain in the SDAX. This index will continue to support us in our endeavors to increase awareness of RATIONAL shares.



The Year 2002

February

Bavarian Quality Prize
The Bavarian Department of Trade and Industry conferred this award on RATIONAL for its innovative services in quality management.

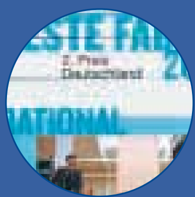
March

CombiFry®
CombiFry® is another innovative RATIONAL product. With its help, it is possible to produce large quantities of top-quality deep-fried dishes without oil in the ClimaPlus Combi® in no time at all. This method is healthier, produces far fewer calories and, in addition, leads to substantially lower costs.

Order from KFC (Kentucky Fried Chicken) in China
An important step towards opening up new markets in the Far East with new sales potential was made with the first order from Kentucky Fried Chicken (KFC) in China.

CombiLink®
CombiLink® is an intelligent network system that enables the chef to control and monitor his ClimaPlus Combi® both in the kitchen area as well as remotely over large distances.

The Best Factory 2002
Competing for the Franco-German title of "The Best Factory – Industrial Excellence Award 2002", RATIONAL was singled out for praise for its excellent product development and outstanding quality management.



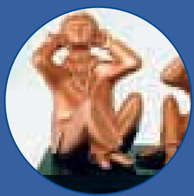
April

Company of the Year
In the competition staged by FOCUS MONEY, RATIONAL came first place in the SDAX category. Within the scope of this competition, the jury assessed criteria such as the information quality of companies' financial reports as well as earning power.

200,000th Combi-Steamer
The 200,000th Combi-Steamer was produced in April at Factory 2 in Landsberg.

Shareholders' Meeting
RATIONAL held its shareholders' meeting on May 8, attended by 400 visitors. Thanks to our excellent earnings situation, we were able to increase the dividend by 54 % to € 1.

Investor Relations Prize
This prize was awarded to RATIONAL AG by specialist magazine Capital for the quality of its financial-market communication. In the SDAX category, RATIONAL AG took third place.



May

AeroCat®
The RATIONAL AeroCat® prevents unpleasant grilling and roasting smells during the cooking process and sets new standards in modern kitchen technology.

September

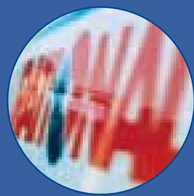
October

Best in Class in the U.S.
Readers of America's leading trade publication Foodservice Equipment & Supplies voted RATIONAL the "Best in Class" in the combi-steamer product area. At the same time, the RATIONAL ClimaPlus Combi® won first prize for the best innovation in the food service industry.

International Design Prize 2002
An Italian jury of experts at the trade fair in Genoa awarded RATIONAL the International Design Prize 2002.

November

Service Management Prize 2002
In November, the German Customer Service Association awarded RATIONAL's customer service with the industry-wide "Service Management Prize 2002". The company received the award for its pioneering global service partner network.



RATIONAL in the Prime Standard
On December 16, 2002, RATIONAL was admitted to the Prime Standard of the German Stock Exchange.

Certain to make the Right Decision

RATIONAL has established an ever closer global security network that guarantees stability even in times of crisis. Customers, business partners, consultants, service partners, suppliers, employees and shareholders can depend on it.

Security Through Company Quality

The RATIONAL security network

Economically troubled times heighten insecurity and the risks for future development. That is when the wheat is separated from the chaff. Over the last 30 years, RATIONAL has established an ever closer global security network that guarantees stability even in times of crisis. Customers, business partners, consultants, service partners, suppliers, employees and shareholders can depend on it.

The basis of this security network is the consistent orientation of the entire enterprise towards customer benefits. Specialisation, product leadership, global presence, perfect service quality, professional user consultation, as well as comprehensive customer knowledge, worldwide sales and marketing expertise and, above all, the high standard of our employees' qualifications are the pillars of our success and a reflection of RATIONAL's high level of entrepreneurial quality.

Security thanks to solution-finding expertise

Success is not a matter of chance, but the consequence of our strategic corporate orientation. The idea is and has always been to accurately define the target group, to link up closely with it and become part of its world.

Our overriding corporate goal is to offer this target group the best and largest range of benefits. Over the years, our consistent specialisation and the concentration of our resources on the central concerns of this target group has resulted in our company's continuously increasing orientation towards product application.

Innovative problem solving is at the forefront, not mechanical engineering. RATIONAL's global image today is marked by the chefs we employ.

That is what sets us apart from our competitors. All members of RATIONAL's sales staff are chefs. They speak the same language as our customers, are familiar with their individual requirements and can offer complete tailor-made solution concepts.

Because we know every last detail of our customers' needs, we are always in a position to solve their problems in the best way – better than other's.

Customer Security

Security through product leadership

RATIONAL is the product leader by far and our knowledge advantage is growing continuously. We promise our customers that

- RATIONAL appliances always feature the most up-to-date technologies that the market has to offer,
- RATIONAL products are made to the highest quality standards,
- RATIONAL products are reasonably priced.

Representative customer surveys give an impressive endorsement of RATIONAL's product leadership. Compared to our competitors, RATIONAL's strengths from the customer's point of view are above all its products' quality, durability, versatility and range of usage.

Further strengths are their long running times, permanent stability, ease of operation and reliability. Customers also assign above-average marks to the appliances' general handling.

Security through product quality

Production at RATIONAL is carried out in natural, transparent and self-contained processes on so-called "assembly islands". As entrepreneurs within the company, our employees are largely responsible for their own line of work and take their own decisions as circumstances arise. Each member of staff assembles a complete device based on the "one-piece flow" concept. By adding his or her name to the type plate, he or she personally guarantees the quality of the appliance.

RATIONAL's modern production and supply process has received many awards in recent years. In 1999, for example, RATIONAL was awarded the industry-wide "Factory of the Year" prize sponsored by the magazine Produktion and management consultancy A.T. Kearney.

In 2002, RATIONAL received the Bavarian Quality Prize. Together with Heidelberger Druckmaschinen and Hewlett Packard, RATIONAL came second in "The Best Factory 2002" competition.

Security through selected system suppliers

As a company with low manufacturing depth, the quality and reliability of our suppliers is very important. Hence, guided by the principle of the extended workbench, we work in close partnership with our system suppliers. The basis for our successful cooperation is provided especially by

- supplier certification,
- annual partner plans on raising quality and productivity,
- monthly reporting with quality indicators and
- regular audits.

The RATIONAL supplier evaluation system not only assesses product quality but also the quality of cooperation with our suppliers. Each year, the best suppliers are honored. The success of our suppliers and of RATIONAL itself are mutually conditional – cooperation is strategically oriented towards the long term.

Security of Purchase Decisions – Worldwide

Security through global presence

RATIONAL is by far the world market leader in its field. Our company has representatives in over 85 countries around the world, all equipped with the appropriate sales, marketing and service networks. This tight, global distribution network also makes us very attractive for international chain operators.

Our company's long and successful history gives these customers around the world the security of a long-term partnership.

Take IKEA, for example. IKEA outlets generally have a high customer frequency, offering a broad choice of meals at all times of the day. These can range from breakfast rolls to meatballs or salmon. Using RATIONAL appliances, all meals can be freshly produced in great variety and at a reasonable price. RATIONAL developed special cooking programs for IKEA that guarantee consistent quality, repeatable any number of times in whatever country the branch happens to be.

For international customers such as IKEA, security concerns are an important factor when it comes to making purchase decisions. Besides product and service quality, stability, financial strength, size, market penetration and international availability are key criteria. Today, RATIONAL technology is used in all IKEA branches around the world.

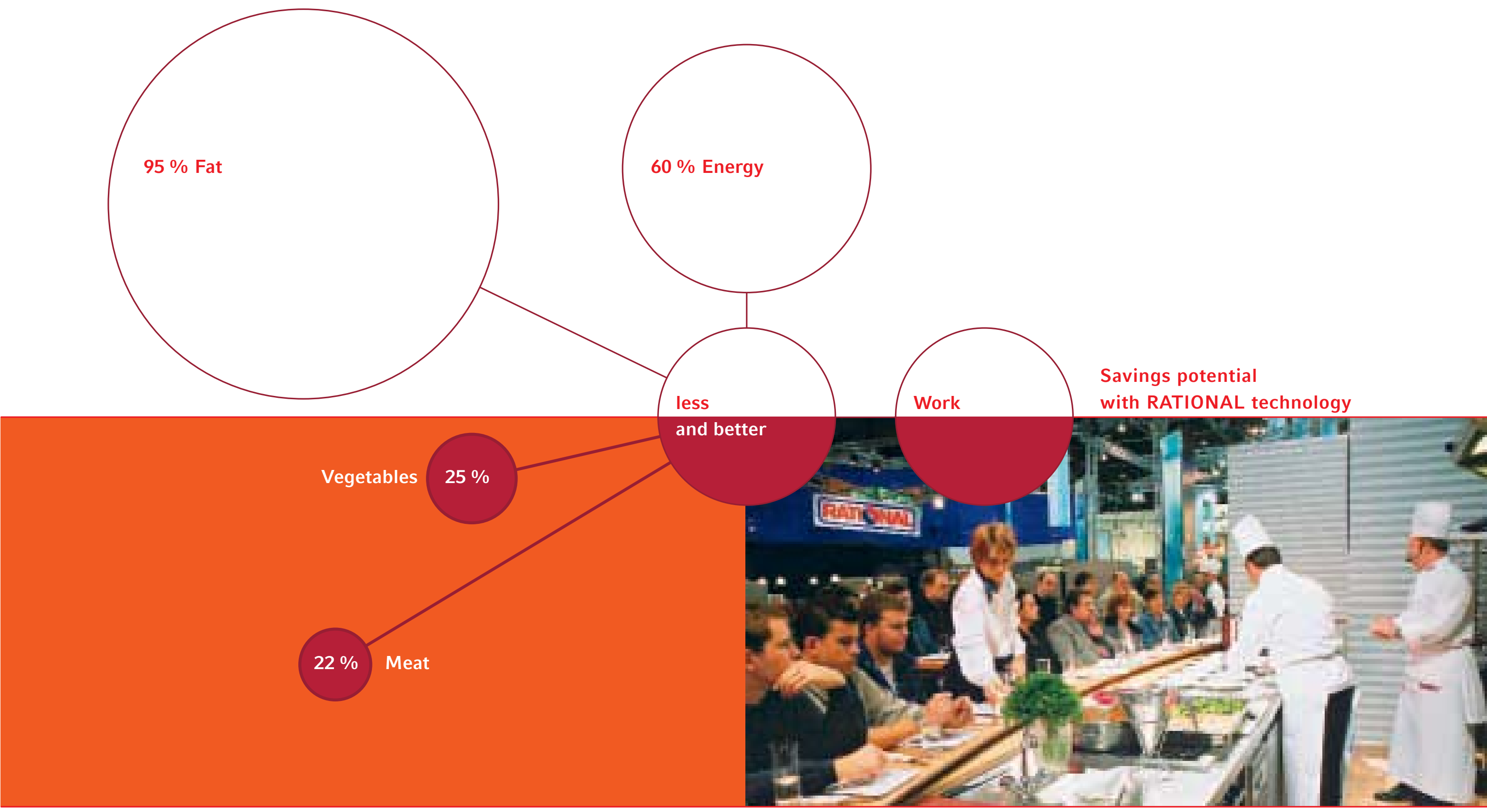
Stefan Enkel, head of service and restaurant manager at IKEA Cologne

Security before and after purchase

Customers can get to grips with RATIONAL technology even before they decide to buy. A close network of demonstration kitchens staging regular “Cooking Live Shows” make it easy for all potential customers to convince themselves of the products’ quality, range of uses, high returns and simplicity of use in a realistic setting before taking any decisions. Especially in times when efficiency improvements are imperative and cuts in investments the norm, RATIONAL’s strengths come fully into play. With average payback periods of 4 to 12 months, material savings of between 22 % and 95 %, and reduced workloads, customers can be certain they are making a safe purchase decision.

Following the purchase, RATIONAL sets the scene with its application consulting. Professional instruction immediately after installation is just as much a part of the package as permanent user support via a hotline.

Recipes from the world’s cuisines archived in the RATIONAL recipe library are available for our customers at any time via the internet. With CombiLink®, the selected recipes can be loaded directly into the ClimaPlus Combi® memory. A “Chinese Week”, for example, is certain to bring extra appeal and variety to the bill of fare.



Certain to be the Right Partner

RATIONAL depends on business partners, consultants and service partners to tap the global markets. Our mutual strengths complement one another, multiply customer benefits and open new perspectives for all involved.

Security for Partners

Security for business partners

From the very start, RATIONAL has used business partners to facilitate global market development. Cooperation with RATIONAL is based on long-term partnership.

Partners benefit from the technological and market leadership, the products' quality and reliability, but also from the high level of brand recognition and high customer satisfaction and loyalty.

In return, RATIONAL benefits from its business partners' strength, in particular their customer bases, comprehensive range of services and their expertise in onsite planning, installation, operation and technical service.

In doing so, we use new unconventional marketing methods. Hörstke, a German company, for example, has created a series of seminars it calls "Think Pot" which act as a knowledge forum to solve specific operational problems. Participants are involved in rationalising work flows, efficiency gains in material and appliance usage, as well as market changes and intelligent investments as they become necessary. Here, the RATIONAL combi-steamer is in the vanguard of these developments.

The sum of all strengths multiplies customer benefits and opens up additional perspectives. The appeal and uniqueness of the RATIONAL ClimaPlus Combi® is put to good use by many business partners as the ideal platform from which to acquire new local customers. The special appeal of our "Cooking Live Shows" gives partners the opportunity to present their entire range of services to potential customers.

Satisfied Combi-Steamer customers also buy their other kitchen equipment from our partners later on. In this way, they develop into new, full range customers.

Dirk and Peter Hörstke, Hörstke Professional Kitchens/Equipment

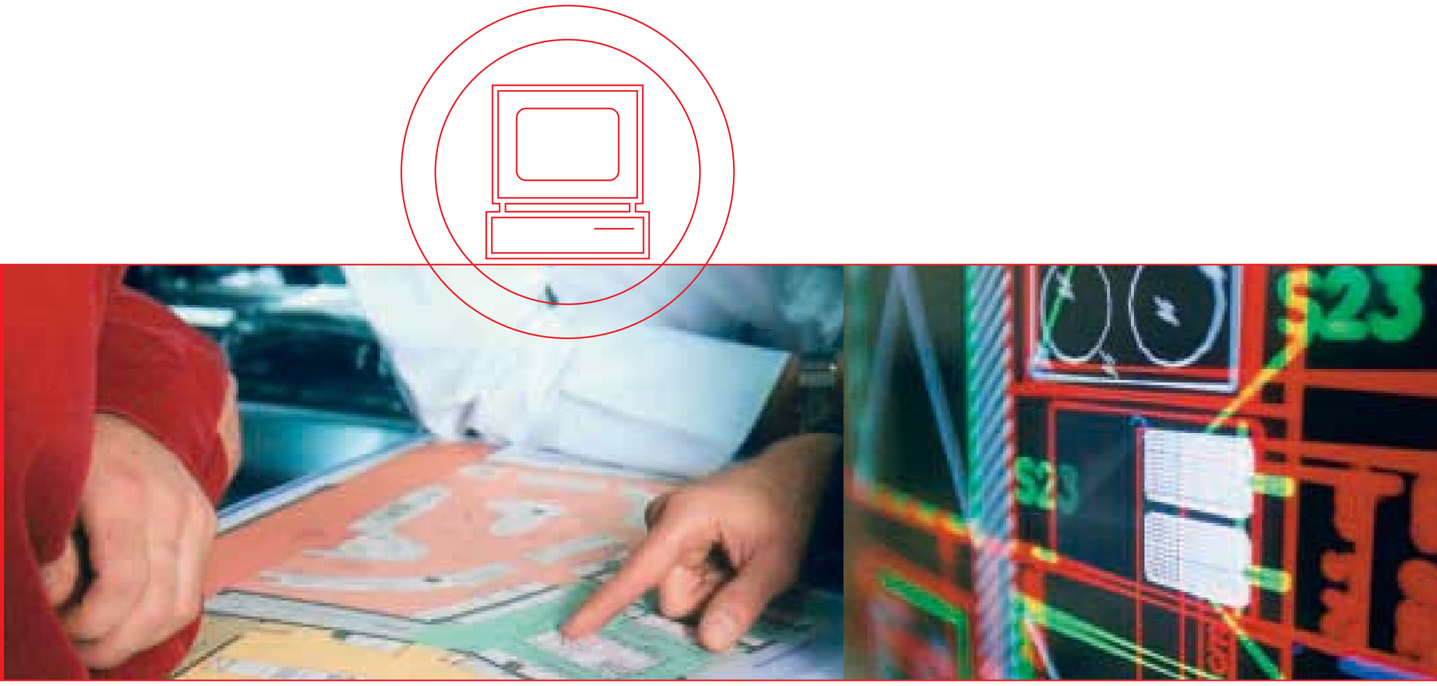
Security for consultants

Consultants are important, independent opinion-leaders and decision-makers in specifying technology for large kitchens in projects and calls for tenders. Thus, they simultaneously have a direct influence on the organisational and operational structures in kitchens. High quality and safety standards are applied when specifying appliances.

RATIONAL offers consultants the best technology and quality available on the market at a reasonable price. Professional support is also available.

We help our partners, from initial design right up to planning installation. Joint consultants' workshops have already successfully established themselves in many countries as the basis for the reciprocal transfer of expertise.

A close-knit, global service network with corresponding availability of spare parts guarantees the greatest degree of operating reliability following installation. High levels of customer satisfaction and the resulting active recommendations safeguard consultants' future business.



Security for Service Partners

The unique RATIONAL service partner concept has enabled us to break entirely new ground. It offers a blanket network of highly qualified service partners. At the forefront are permanent availability and accessibility, short reaction times, highly qualified employees and the necessary availability of spare parts.

Service partners – the right way

The customary differences between the factory's and the partner's technical services no longer apply due to the close cooperation. RATIONAL draws up a profile for every service partner which shows the areas where strengths and weaknesses lie.

RATIONAL service partners fulfil 80 % of their orders on the same day.

RATIONAL service partner Axel Münster, Münster GmbH

Once the deficits have been jointly eliminated, the service partner is certified. He receives exclusive rights to obtain orders, a special logo and especially intensive training. Direct access to all relevant technical information and data in the RATIONAL partner network data base guarantees speed and the very latest information.

Every RATIONAL service partner is audited once a year. On the basis of international customer satisfaction surveys, coaching and benchmarking, potential for improvement is continuously identified and put into effect.

RATIONAL service partners fulfil 80 % of their orders on the same day.

RATIONAL's CombiCheck® system enables our service partners to access the intelligent services using remote diagnosis and, in certain cases, online troubleshooting from their desks.

Service partner Axel Münster, owner of Münster GmbH in Niederkrüchten, on the RATIONAL service partner concept: "Thanks to the comprehensive certification as a RATIONAL service partner, we can show the customer that the services we offer comply with RATIONAL's standards. That is significantly more than can be offered by a company that may have sent just one technician for training.

RATIONAL provides us with optimal technical training and supports us in every conceivable way. Our improved services delight users of RATIONAL products and helps RATIONAL in its turn to extend its share of the market through recommendations."

The German Customer Service Association awarded RATIONAL the industry-wide "Service Management Prize 2002" for its innovative international service partner concept.

Security for Shareholders

By intensifying its IR activities, RATIONAL was also able to achieve significant gains in research coverage in the past year. All analysts are now predicting **upward price potential** and, without exception, recommend buying the share.

Security for Shareholders

RATIONAL grows organically

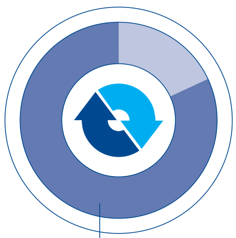
For the last 30 years, RATIONAL has only grown organically. That means we develop by our own efforts whilst at the same time achieving solid profitability. Because of the company structure we have a limited tie-up of funds and capital. In general, the business’s international character leads to reduced dependence on individual markets and thus limits the risks.

Despite many years of success, only around 18 % of the world market potential available today has been exploited. Large regional markets in Europe, the Americas and Asia are only beginning to be tapped. RATIONAL technology has a high rationalisation effect, paying for itself within an average period of 4 to 12 months. Even in economically difficult times, investments are still made in rationalisation. This means that our business is less dependent on economic cycles.

RATIONAL – a growth stock with earning power

Thanks to a low working capital coupled with high earning power, we have produced a steadily rising cash flow. This puts us in a position to finance our growth using our own resources while at the same time paying out attractive dividends to our shareholders. This makes RATIONAL a classic high-growth and high-yield stock par excellence.

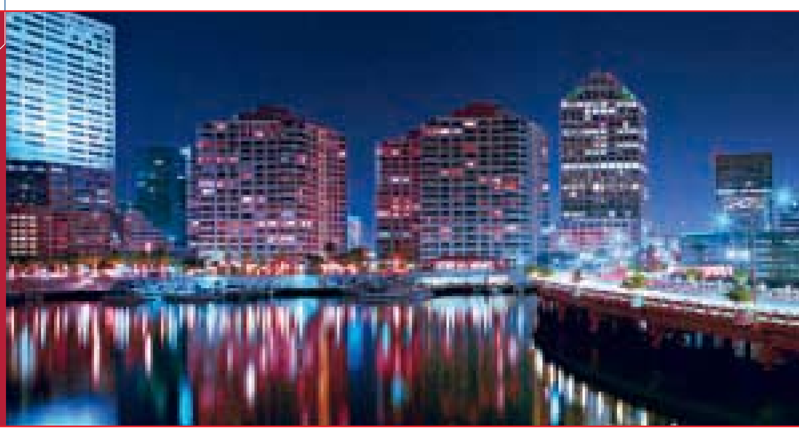
The positive business development being planned will continually raise the value of RATIONAL as a company. We expect that this will have a correspondingly positive effect on share price development in the future.



Sales potential

82 %

free market potential



RATIONAL in the press

With rising sales, solid profitability, an outstanding cash flow and continuing good share price performance, RATIONAL AG is proving its long-term success.

In times of general uncertainty, companies that are successful despite the crises are particularly in demand with the press as indicators of a positive mood.

'Handelsblatt', in its October 30, 2002 issue, for example, headlined its title page with: "Bores beat high-fliers – in March 2000 shares in RATIONAL AG were about as sexy as stew. Today they're storming the Neuer Markt." 'Börse online' reported on "tasty fare for shareholders"; 'Süddeutsche Zeitung' recommended "more than just hot air"; 'Going Public' analysed us as "ingredients for a successful recipe"; and 'Die Zeit' saw us as the "Powerhouse in all large kitchens".

RATIONAL seeks regular dialog with the press. Besides quarterly reports and roadshows, we are continuously meeting the press either in individual interviews or conferences. But the same applies here, too: the certainty and credibility of company announcements is the basis for a trusting relationship and a fair partnership.

Substantial Increase in Research Coverage

By intensifying its IR activities, RATIONAL was also able to achieve significant gains in research coverage in the past year. All analysts are now predicting upward price potential and, without exception, recommend buying the share.

The revenue and expense structure characterises RATIONAL AG as a highly profitable growth company. This top position will be further enhanced by our planned development.

RATIONAL – an attractive investment with low risk

The short-term evaluation factors alone suggest excellent potential for further development of the RATIONAL share price. At the same time, RATIONAL is extremely attractive as a dividend-bearing stock.

Because of the low volatility of results as well as the over-proportional, long-term growth prospects for our enterprise, the current share price represents an attractive investment opportunity with low risk for both value and growth investors.

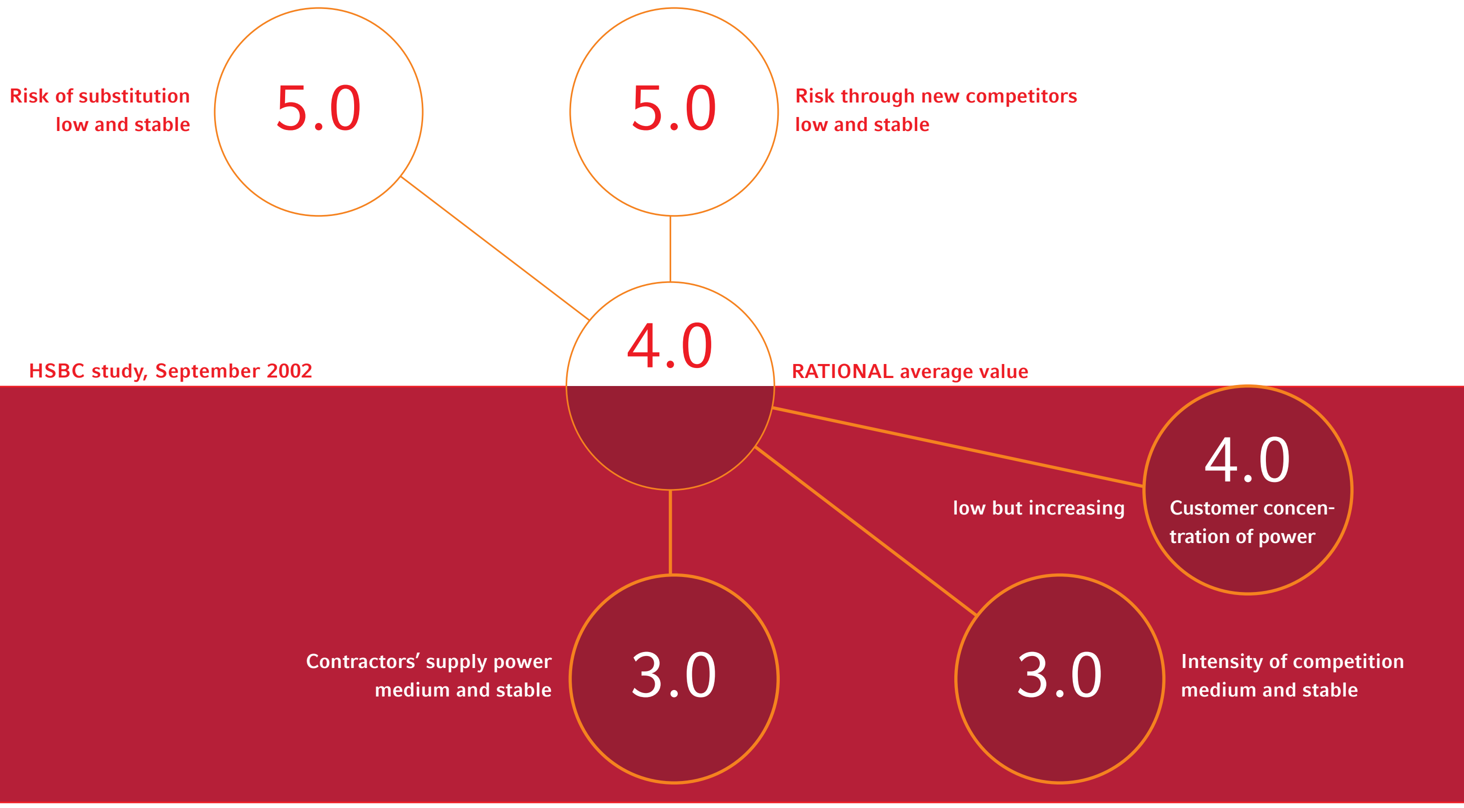
This was confirmed, among others, by the research study published in September 2002 by HSBC Trinkaus & Burkhardt KGaA.

RATIONAL in the Prime Standard

Within the scope of the reorganisation of German stock market indices, RATIONAL AG was admitted to the Prime Standard on December 16, 2002.

Thanks to excellent fundamental data and the high evaluation of RATIONAL shares derived from it, the company now occupies a leading place in the SDAX. With the upgrading of the SDAX that resulted from the reorganisation of the indices, the recognition value of RATIONAL shares will increase further in the future.

HSBC evaluation model
Evaluation range 1 to 5 (the higher the better)



HSBC study, September 2002

Corporate Governance

Background

The previous two years have made it abundantly clear that companies around the world have grossly neglected their duties in complying with basic rules and publishing corporate information. The resulting damage far exceeds the mere loss of shareholder and business partner assets. The mistrust in the attainment of ambitious company goals and thus positive price developments on financial markets has reached a sad climax.

The government commission for the German Corporate Governance Code reacted to the situation on February 26, 2002, by presenting its code of conduct for the management and supervision of German listed companies. Its aim is to structure the German corporate governance system in a transparent and understandable way, and to promote investor confidence in the monitoring and supervision of German listed companies.

Germany's Transparency and Publicity Act (TransPuG) has been in force since July 26, 2002, as the legal basis of the German Corporate Governance Code. The Transparency and Publicity Act has led to a new Art. 161 being incorporated into the Stock Companies Act that requires the management and supervisory boards of a listed company to detail whether the code has been or will be applied, and which, if any, of the code's recommendations are not being applied. In accordance with the transitional rules, this statement must be issued for the first time in 2002.

Since its founding, RATIONAL AG has nurtured an open and transparent corporate style and thus welcomes the German Corporate Governance Code. It is in the interests of both the company and Germany as a business location and will contribute to promoting confidence in the German economy in domestic and international investors.

Statement of compliance by RATIONAL AG

The Management Board and Supervisory Board of RATIONAL Aktiengesellschaft hereby declare according to Art. 161 Stock Companies Act (AktG), 15 EG AktG (first statement of compliance) that

RATIONAL Aktiengesellschaft complies with the recommendations of the government commission for the German Corporate Governance Code with the following exceptions:

Item 3.8: "If the company takes out a D&O (directors and officers' liability insurance) policy for the Management Board and Supervisory Board, a suitable deductible shall be agreed."

A D&O insurance policy exists for the members of the Management Board and the Supervisory Board. RATIONAL insures Directors & Officers' risk in its general property and liability insurance without a specified deductible on the total payable premium. A substantial deductible that must be equal because of the constitutional right to equality would affect the members of the Management Board and Supervisory Board in vastly differing ways depending on their private income and financial circumstances. In view of their similar duties, this cannot be considered fair. Thus, the D&O insurance does not include a deductible.

Item. 5.3.1: "Formation of committees"

The formation of committees by the Supervisory Board to deal with complex subject matters, for example, an audit committee, is not deemed proper by RATIONAL AG since the Supervisory Board of RATIONAL Aktiengesellschaft is made up of three members. The formation of committees that are composed of less than three members of the Supervisory Board would not lead to any further efficiency gains in the Supervisory Board.

Item 5.4.5 para. 2: "Members of the Supervisory Board shall receive fixed as well as performance-related compensation."

The members of the Supervisory Board of RATIONAL Aktiengesellschaft currently receive no performance-related compensation. As shareholders in RATIONAL Aktiengesellschaft, two of the three members are considerably involved in the company from which can be deduced that the Supervisory Board is already strongly performance-oriented.

Landsberg am Lech, February 18, 2003
RATIONAL Aktiengesellschaft

The Supervisory Board
The Executive Board

Liquidity on a high – operating cash flow improved by 61.9 % in 2002.

You can be sure.
Management Report

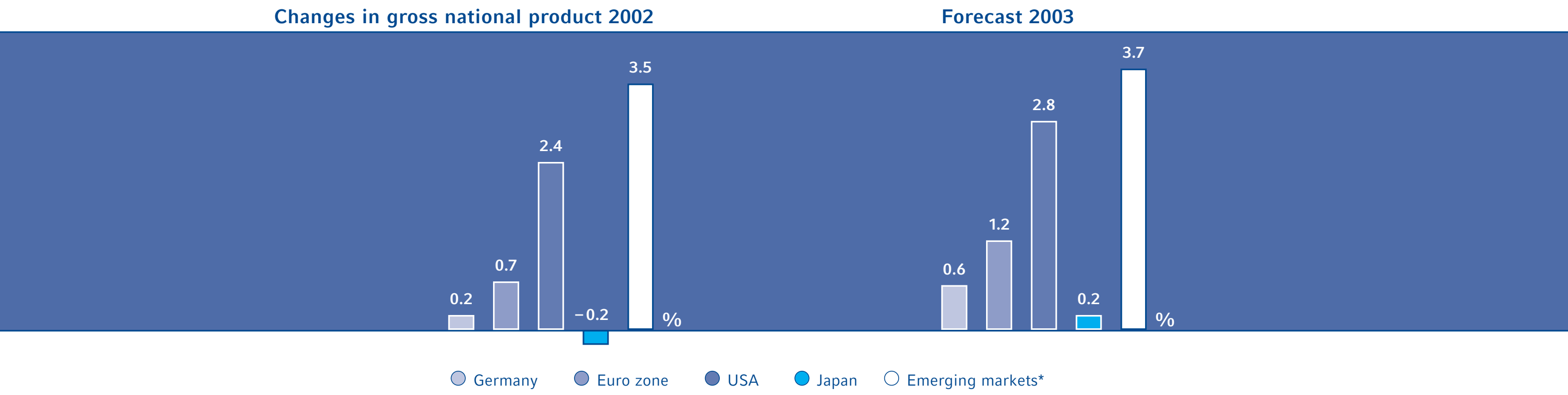
Insecurity shapes world economic climate

The sense of break-up that characterised the economy in the first months of 2002 was reversed in the course of the year to become quite the opposite. Economic growth in the major industrialised nations has lagged well behind all forecasts. This applies not only to the United States and Japan but also to major European countries, especially Germany. With a growth rate of between 1 % and 1.5 %, the global economy overall has once again fallen back to the critical level of the early 1990s. Falling exchange rates, above all for the U.S. dollar, the Japanese yen and the British pound in relation to the euro, put more pressure on the export industry in 2002.

Another reason for the gloomy outlook has been the persistent weakness of the stock market, which is at the same time a reflection of how deeply this sense of insecurity generally cuts. This negative trend was underscored by the financial reporting scandals involving not only the United States, but also Europe. Against the backdrop of this negative global financial climate, we made it a priority in 2002 to consolidate and increase efficiency in all of our corporate divisions, ahead of any further high investments in international expansion.

RATIONAL – on track for growth, even in times of crisis

The development of RATIONAL in the 2002 reporting year once again confirmed our company's stable and continuing momentum for success even in economically difficult times. Sales rose from € 167.3 million in the previous year to € 177.3 million. With a growth rate of 6.0 %, however, sales volume was below our expectations. Causes for this were, in particular, the considerably worse economic climate, the low seasonal business in the fourth quarter in a Germany rocked by crises, and management problems in the U.K., which we have since successfully solved. Moreover, the rising rate of the euro in relation to the U.S. dollar, the pound and the yen during the reporting year cost us 1.2 percentage points in sales growth.



*Europe and Africa (Source: Deutsche Bank, Frankfurt research bureau: January 16, 2003)

International subsidiaries grow by 13.1 %

Even in 2002, we were particularly successful in opening up new markets with our international subsidiaries. The growth rate of 13.1 % was striking confirmation of the success of our global strategy – to capture the markets with the strongest potential by means of our own, highly specialised organizations in a crisis-proof and stable manner.

The international subsidiaries are growing at a better rate and are far less vulnerable to economic conditions than the partner business. Their contribution to total sales continues to increase and improves our long-term growth perspective.

Global market leadership continues to expand

In 2002, RATIONAL increased its market share to 47 % (previous year: 46 %), extending it further. The concentration of our resources on the countries with the greatest potential worldwide, RATIONAL's superior product technology, and the only sales and marketing process of its kind in the world were once again critical success factors.

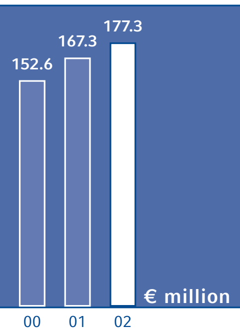
Record earnings in 2002 – group earnings grow by 27.9 %

Targeted measures to improve efficiency, consolidation in the sales divisions and consistent cost management led to a distinctly overproportionate rise in operating results during 2002. The EBIT increased by 19.5 %, from € 31.9 million to € 38.2 million. Even though in addition to negative currency trends, the costs of deconsolidating the subsidiaries in Argentina and South Korea had a negative impact on earnings amounting to € – 0.7 million (previous year: € – 0.5 million), it was possible to increase 2002 earnings before taxes by 20.4 % before taxes to € 38.4 million (previous year: € 31.9 million). The gross earnings margin was 21.6 % (previous year: 19.0 %). The tax ratio dropped considerably from the previous year to 30.6 % (previous year: 34.7 %). This was mainly due to allowable credits from corporation income tax and more favorable tax situations in several international subsidiaries. The group earnings after taxes were € 26.6 million (previous year: € 20.8 million) and thus 27.9 % more than in the previous year. Earnings per share equal € 2.34, up from € 1.83 in the previous year.

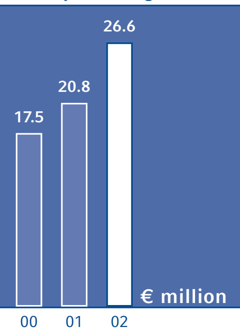
Cash dividends rise by 30 %

If duly approved in the general meeting of shareholders, a cash dividend of € 1.30 (previous year: € 1.00) per share will be paid out. This corresponds to a total sum of € 14.8 million (previous year: € 11.4 million), or 56 % (previous year: 55 %) of the annual group earnings.

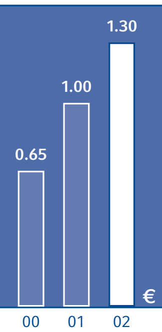
Sales



Group earnings



Cash dividends per share



Germany – sales at a high

After about 30 years of successful marketing, the market for combi-steamer technology in Germany has, for the most part, already been captured. For this reason, the business in Germany is being impacted more and more by the demand for replacements.

Institutional customers, and hence particularly the public sector, account for about 50 % of our overall business. Unlike in past years, no additional resources were available specifically in this area, owing to increasingly difficult financial situations and associated year-end budget cuts. This had a negative impact on the usual seasonal business in the fourth quarter. In spite of everything, we were able to maintain 2002 sales in Germany at the previous year’s level and thereby gain a 2 % market share.

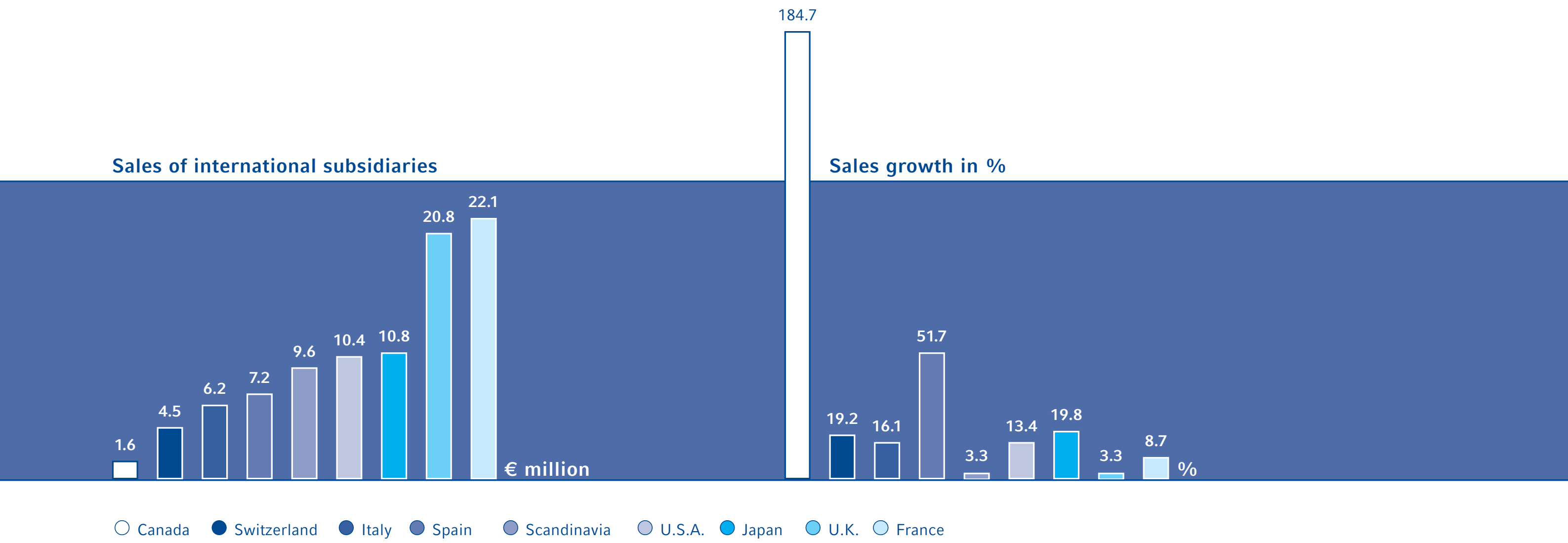
Europe without Germany – growth against the trend

In spite of the difficult economic conditions, the European subsidiaries increased sales by 10.5 % (previous year: 21 %), from € 63.7 million to € 70.4 million. With a growth rate of 3.3 % in the national currency (previous year: 17 %) growth in our **U.K.** sales were below our expectations. The reason for this was a change in management. The problems have been dealt with and the subsidiary is growing again according to plan; it saw significant growth once again in the fourth quarter. It was, however, not possible to recoup the deficit that had accumulated in the course of the year.

Despite the relatively weak economic situation and a pronounced reluctance on the part of public-sector clients to invest, RATIONAL was able to continue on its growth path in **France** even in 2002. Sales increased by 8.7 % (previous year: 11.9 %), while annual profit rose overproportionately by 22.9 % (previous year: 22.6 %).

Scandinavia was burdened with one-time additional costs relating to a change in management. The change has now been successfully completed and the subsidiary is once again on track for earnings growth.

In **Italy** this year, necessary infrastructure measures were undertaken. While the sales organisation was expanded and aimed at achieving future growth, the move to new offices led to extra one-off costs. These measures equip us ideally for continuing to improve earnings in the future.



In **Spain,** business was impacted less by the economy than in many other European countries. There, we succeeded in increasing our 2002 sales from € 4.8 million to € 7.2 million, achieving a 51.7 % growth rate. The Spanish subsidiary, which was only founded in 2000, thus made the highest contribution of all to growth in the group.

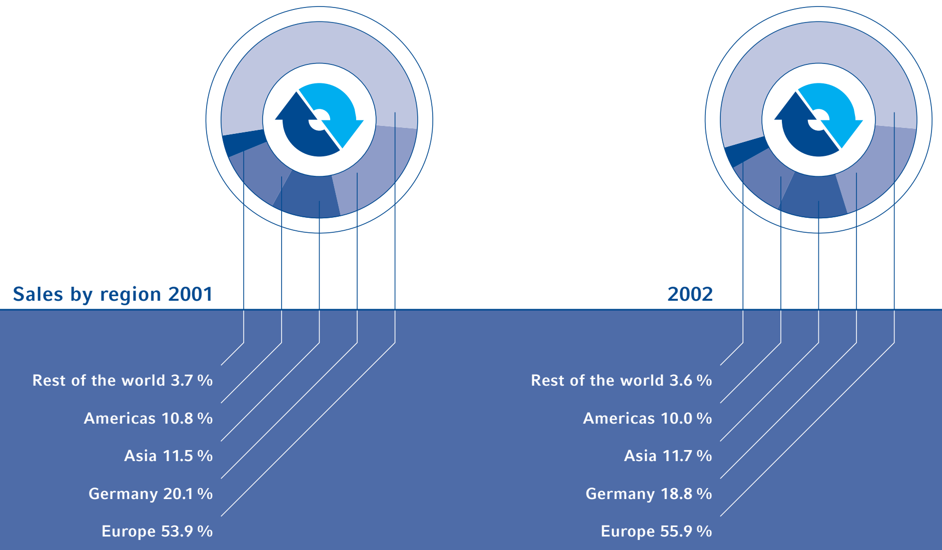
Americas – the focused strategy is key to success

In the **U.S.A.** in 2002, we even more deliberately continued to focus, as in 2001, on only a few states with strong potential. In the focus areas, which already represent two-thirds of our overall business, our sales rose by 36 %. This concentration significantly improved the earnings situation of the company. But we also took into account the fact that we would not grow outside the focus areas.

The consolidation of the company is now finished for the most part. With new management and an improved organisation, the foundation has been laid for successful development in 2003. Overall, after adjusting for the exchange rate, we were able to increase sales by 13 % (previous year: 15 %) during the reporting year.

Canada has a sales potential that is similar to that of Spain. Following the management change in 2001 and a clear focus, we made a breakthrough in opening up the market in 2002. After adjustment for the exchange rate, the net growth of 185 % (previous year: 55 %) makes Canada the relative growth champion of 2002.

In **Argentina**, the sale of the subsidiary, begun in 2001, was completed in 2002.



Asia – high growth despite recession

After the U.S.A., the Japanese market for us has the highest sales potential in the world. In spite of persistent negative economic trends in the country, we were able to increase sales in local currency by 20 % (previous year: 15 %). Thanks to the improvements made to the organisational and procedural set-up of the back-office, costs were considerably reduced in comparison to the previous year. This also sustainably improved the earnings situation in **Japan**.

As part of continued focus and concentration, the subsidiary in South Korea was transferred during the reporting year to a partner. This guarantees that investments already made in setting up the sales and service organisation in **South Korea** will continue to be actively utilised in the future.

Success in new markets

We made much progress in 2002 in the important emerging nations of China and the Russian Federation. Together with Kentucky Fried Chicken (KFC), we established a successful chain in China and Taiwan, and in this way considerably increased familiarity with the combi-steamer technology in the Asian market.

We were similarly successful in the countries of the Russian Federation, laying the foundations for positive future development.

Partner business also sees positive growth

Besides supplying the subsidiaries, the activities of the parent company also include distribution through partners. Direct supply to OEMs and business partners makes up the external sales in this segment. Growth in this business segment was very varied in 2002. High growth rates in Eastern Europe and China are offset by the drop in business in Latin America and the Mediterranean region. In the overall partner area, sales increased by 5.3 % (previous year: 0.8 %) from € 49.2 million to € 51.8 million.

Liquidity of the RATIONAL Group in thousands of euros	2000	2001	2002
Annual profit	17,529	20,817	26,615
Cash flow from operating activities	15,995	19,703	31,899
Cash flow from investment activities	– 3,443	– 4,142	– 3,408
Cash flow from financing activities	5,019	– 8,596	– 25,230
of which, from the acquisition of long-term funds	—	—	– 13,000
Exchange rate changes	– 159	296	– 269
Change in cash funds	17,412	7,261	2,992

Earnings structure improves significantly – 22 % EBIT margin

The earnings structure of the RATIONAL group has improved considerably, mainly due to productivity increases in manufacturing and improved efficiency in sales.

The investments made in process optimisation and new manufacturing technologies in 2001 led to the anticipated significant advance in productivity during the reporting year. In particular, the physical integration of quality assurance and ready-to-ship packaging of devices into the respective manufacturing units, along with the investment in cutting-edge, fully automated laser and bending technology, enabled productivity to increase by about 7 %.

Cost of sales stands at € 72.4 million (previous year: € 71.2 million), representing 40.8 % (previous year: 42.6 %) of sales. Targeted improvements to efficiency reduced the sales and service expenses, which amount to € 46.0 million (previous year: € 46.2 million). General administrative expenses of € 9.5 million (previous year: € 11.1 million) are also lower than the previous year. Miscellaneous operating income and expenses net out at miscellaneous operating costs of € 1.1 million for the reporting year, following a net miscellaneous operating income of € 0.4 million in the previous year. Research and development expenses rose as planned. They amount to € 10.1 million (previous year: € 7.2 million) for the reporting year.

Liquidity better than ever

Cash flow from operating activities improved in 2002 by 61.9 %, thus in huge overproportion to the growth in sales and earnings. Low resources due to purely order-related production, minimal operating stocks on the basis of the KANBAN process, along with further improvement to receivables management, are leading to low utilsation of working capital relative to sales, thereby enabling the positive cash flow development.

Earnings structure as percentage of sales 2001 | 2002

2001	2002
Cost of sales 42.6 %	Cost of sales 40.8 %
Sales and service expenses 27.6 %	Sales and service expenses 26.0 %
Research and development expenses 4.3 %	Research and development expenses 5.7 %
Gen. administrative expenses and miscellaneous 6.4 %	Gen. administrative expenses and miscellaneous 6.0 %
Earnings before interest and tax (EBIT) 19.1 %	Earnings before interest and tax (EBIT) 21.5 %

Investments in profitable growth

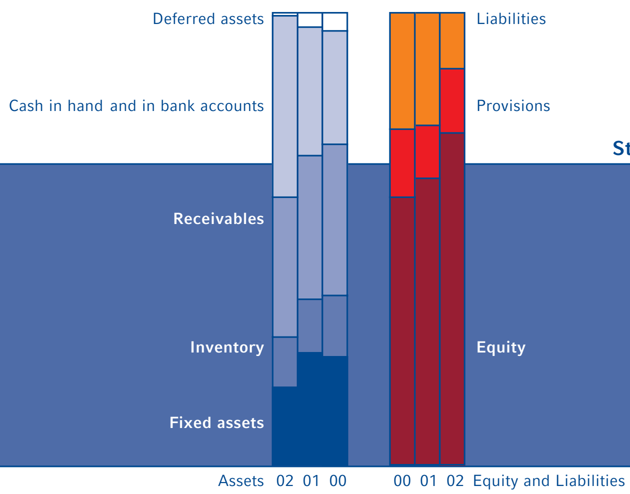
Investments in 2002 focused on the areas of product development, further technological development of manufacturing and quality assurance processes, and targeted expansion of the global service network. In addition, the company invested in the extension and modernisation of its IT infrastructure. Total investments amounted to € 4.3 million (previous year: € 8.5 million).

Solid balance sheet structure – basis for continued success

Fixed assets during the reporting period stood at the previous year's level of € 26.0 million (previous year: € 25.7 million).

The inventory has a value of € 11.3 million (previous year: € 11.8 million). It proved possible to continue reducing it from the previous year's level. That yields an inventory turnover factor of 15.7 in relation to sales (previous year: 14.2). Cash in hand and in bank accounts rose from € 27.7 million to € 41.0 million. Tax accruals amount to € 3.3 million following € 2.3 million in the previous year. Equity before payment of dividends rose by € 14.5 million to € 78.9 million (previous year: € 64.4 million), yielding an equity ratio of 69 % (previous year: 64 %). Return on capital employed amounts to 42.3 % (previous year: 40.0 %).

If dividends are paid out as planned, equity capital will be reduced by € 14.8 million to € 64.1 million. The equity ratio after distribution is then 65 %.



Structure of the balance sheet

Research and development – technological leadership extended

With 56 employees, RATIONAL's development team is one of the largest and, in our opinion, best qualified in the industry. During the reporting year, € 10.1 million (previous year: € 7.2 million) or 5.7 % (previous year: 4.3 %) of sales were spent on research and development. These costs are necessary investments in the future, for the protection and further extension of our technological lead.

One specific indication of the high quality of our development is the "Industrial Excellence Award" presented to us in 2002 in recognition of RATIONAL's outstanding product development and quality management. This competition is run by the scientific university in Vallendar near Koblenz and INSEAD management school in Fontainebleau, and publicised by the magazine WirtschaftsWoche. Together with Heidelberger Druckmaschinen and Hewlett Packard, RATIONAL took second place in the competition.

Innovations for greater benefit to the client

On launching the CombiLink®, CombiFry® and AeroCat® innovations in 2002, we completed our successful ClimaPlus Combi® line and further bolstered our position as the world leader in this technology.

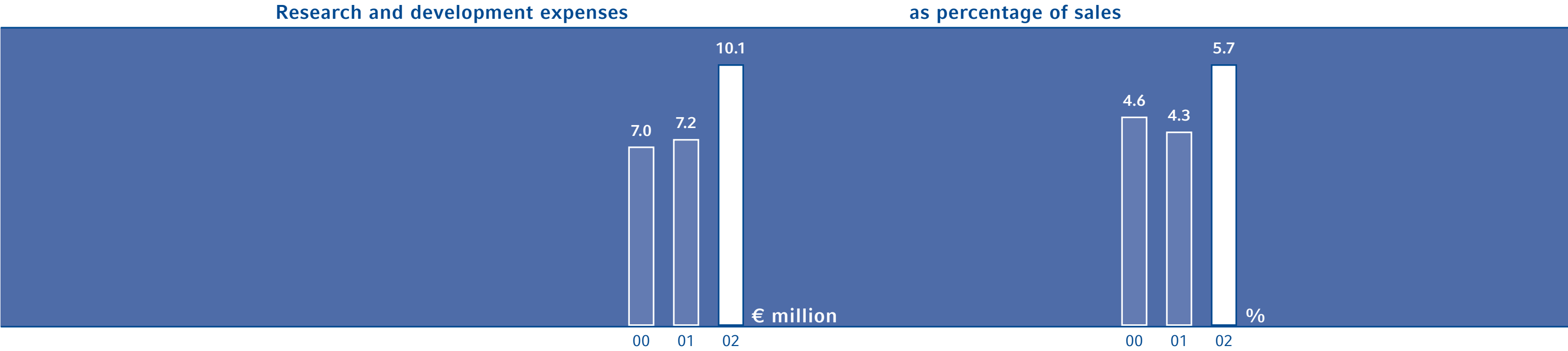
CombiLink® is an intelligent management system. It allows the chef to centrally control and monitor all networked ClimaPlus Combi® appliances, not only within the kitchen, but also from great distances. All the devices are monitored and remotely controlled at a mouse-click. CombiLink® also guarantees 100 % hygiene safety. All cooking processes are precisely recorded and saved to the archive. It is therefore possible to show evidence of the perfectly hygienic cooking process at all times.

The **CombiFry®** system allows large quantities of fried products to be produced in the ClimaPlus Combi® without oil and ensuring the highest quality. For example, it allows 200 portions of french fries to be fried without fat within 15 minutes. Scientific studies show that the gentle, fat-free frying process is significantly healthier and can reduce the calorie content by 36 %. At the same time, cost savings of up to 70 % can be achieved.

The **AeroCat®** prevents unpleasent grilling and roasting smells during the cooking process. RATIONAL has thus set yet another standard for modern kitchen technology. This also enables us to develop additional options for the use of the ClimaPlus Combi®, in particular in areas where emissions are critical, as in "front cooking" (cooking in front of the guests) and in shopping centers.

Research and development expenses

as percentage of sales



Numerous awards for technology and financial communication

RATIONAL was given a total of 7 national and international awards in 2002, for outstanding technology, services and financial communication.

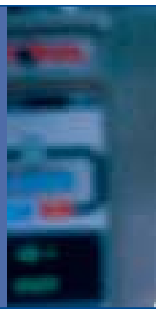
Quality of suppliers – a key success factor

RATIONAL AG’s procurement volume came to € 73 million in 2002 (previous year: € 71 million). As a company with minimal manufacturing depth, we attribute particular importance to the quality and reliability of our suppliers. We are increasingly working with selected systems suppliers that meet the highest quality standards. The introduction of key quality figures, the initiation of partnership plans and a specially developed supplier rating system have led to a clear improvement in the quality of cooperation. Here too, long-term partnerships are the key to success.

Staff – entrepreneurs in the enterprise

Ambitious goals call for extraordinary employees. Particularly in difficult economic times, employees’ qualifications, creativity and dedication are crucial to success both domestically and abroad. The staff at RATIONAL are highly efficient in their work, like entrepreneurs within the enterprise. They make the decisions needed for their line of work themselves. There are no management levels or bodies devoted purely to decision-making. This integrated process organisation avoids unnecessary interfaces and thus allows for complete, self-contained areas of responsibility.

As of December 31, 2002, the RATIONAL group employed a staff of 656 – following 678 in the previous year – 176 of whom work abroad (previous year: 205 employees).



The share – research coverage considerably expanded

The RATIONAL share again maintained its position well in 2002, in what was generally a very negative market climate. At € 29.97 on December 30, 2002, it was one of the very few German shares to finish 30 % above the 2000 issue price. More and more investors are now showing an increasing interest in the direction that our company is taking. Two investor relations awards – FOCUS MONEY's "SDAX Company of the Year" and CAPITAL's "Quality of Financial Market Communications – 3rd place in the SDAX" – also considerably increased public recognition of the RATIONAL share. In 2002, we succeeded in recruiting other renowned investment companies for regular coverage of the RATIONAL share. In addition to Citigroup, Sal. Oppenheim and Landesbank Baden-Württemberg, HypoVereinsbank, HSBC Trinkaus & Burkhardt, Commerzbank, Cazenove, Independent Research, KBC-Peel Hunt and Berenberg Bank are now also writing regular research reports about RATIONAL. Following the trend for high-dividend growth stocks, these institutions have all recommended buying the RATIONAL share, without exception.

Against the background of the overall negative trends on the stock markets in 2002, we have pursued our investor relations activities even more intensively. The Executive Board presented the company in great detail at international roadshows in the U.S.A. and in Europe, at analysts' conferences in London, Frankfurt and Stuttgart and in numerous media interviews.

RATIONAL applied for admittance to the Prime Standard of the German Stock Exchange, and has been admitted as of January 1, 2003. The RATIONAL share therefore remains in the SDAX.

Research Coverage 2002

Berenberg Bank	Accumulate	December
Sal. Oppenheim	Outperform	November
LBBW	Buy	November
Cazenove	Buy	September
HSBC Trinkaus & Burkhardt	Add	September
Commerzbank AG	Accumulate to buy	August
HypoVereinsbank AG	Outperform	June
Citigroup	2M-Outperform, medium risk	June
Independent Research	Top recommendation, overweigh	April

Risk report

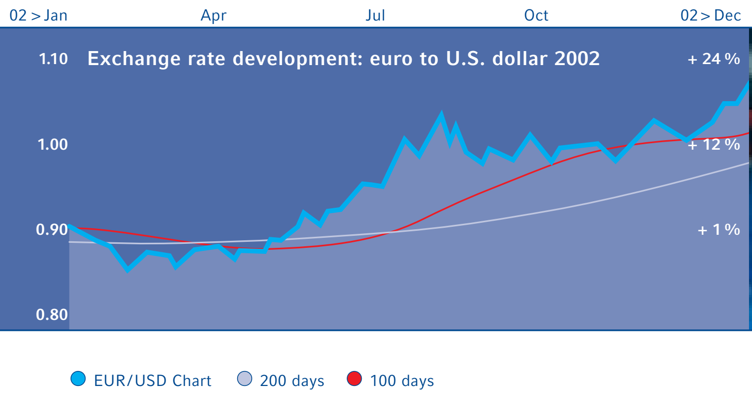
Strategic corporate management, a sense of responsibility and entrepreneurial action require the accurate assessment of any opportunities and of the risks associated with them. Consequently, entrepreneurial action is necessarily linked to an effective and efficient risk management policy. We have both integrated risk management into the existing tools of management, and also clearly set out responsibilities. This will enable us to become increasingly better at identifying potential risks in good time. However, only those effects can be identified that lie within RATIONAL's scope of influence and powers of observation. There is no guarantee that all risks can be eliminated.

In the past financial year, RATIONAL has been able to demonstrate that even in difficult economic circumstances, it is possible to expand and still remain profitable. Against this backdrop, we consider the risk that could arise for RATIONAL from any further deterioration of the economic conditions to be limited.

The greatest single risk is currently that we will not succeed in opening up important sales markets at the projected pace. However, thanks to the minimal level of investment required and relatively flexible cost structures, we can react to this at short notice.

32.6 % (previous year: 32.9 %) of total consolidated sales has been transacted in foreign currencies outside the euro zone. Price fluctuations occurring over the short term may therefore have a negative impact on the company's earnings. Owing to the multitude of markets already covered, however, there is a broad risk distribution. In addition to which, the remaining risks are being reduced by means of exchange hedging transactions.

The operating risk associated with the concentration of production at one location is being reduced through allocation of production to two physically separate manufacturing sites. Because of the high equity capital provision and good cash flow development, the short- and mid-term liquidity risk is estimated to be very small.



Special events

No events that would be of particular significance for the assessment of the net assets, the financial position and the results of operations of the RATIONAL AG and the RATIONAL Group have occurred since the close of the financial year.

Outlook

For 2003, we do not anticipate any significant changes in the state of the overall economy and thus do not expect any economic boost. The uncertainty over the future of the global economy is considerably augmented by the threat of war against Iraq and the associated rise in oil prices. Therefore, we will continue to concentrate on consolidating and improving the quality of all our operational processes. In terms of marketing, we will focus on the markets with the strongest potential throughout the world, above all the U.S.A. and Japan, and the most important markets in Europe, but also the future growth markets of China and the Russian Federation.

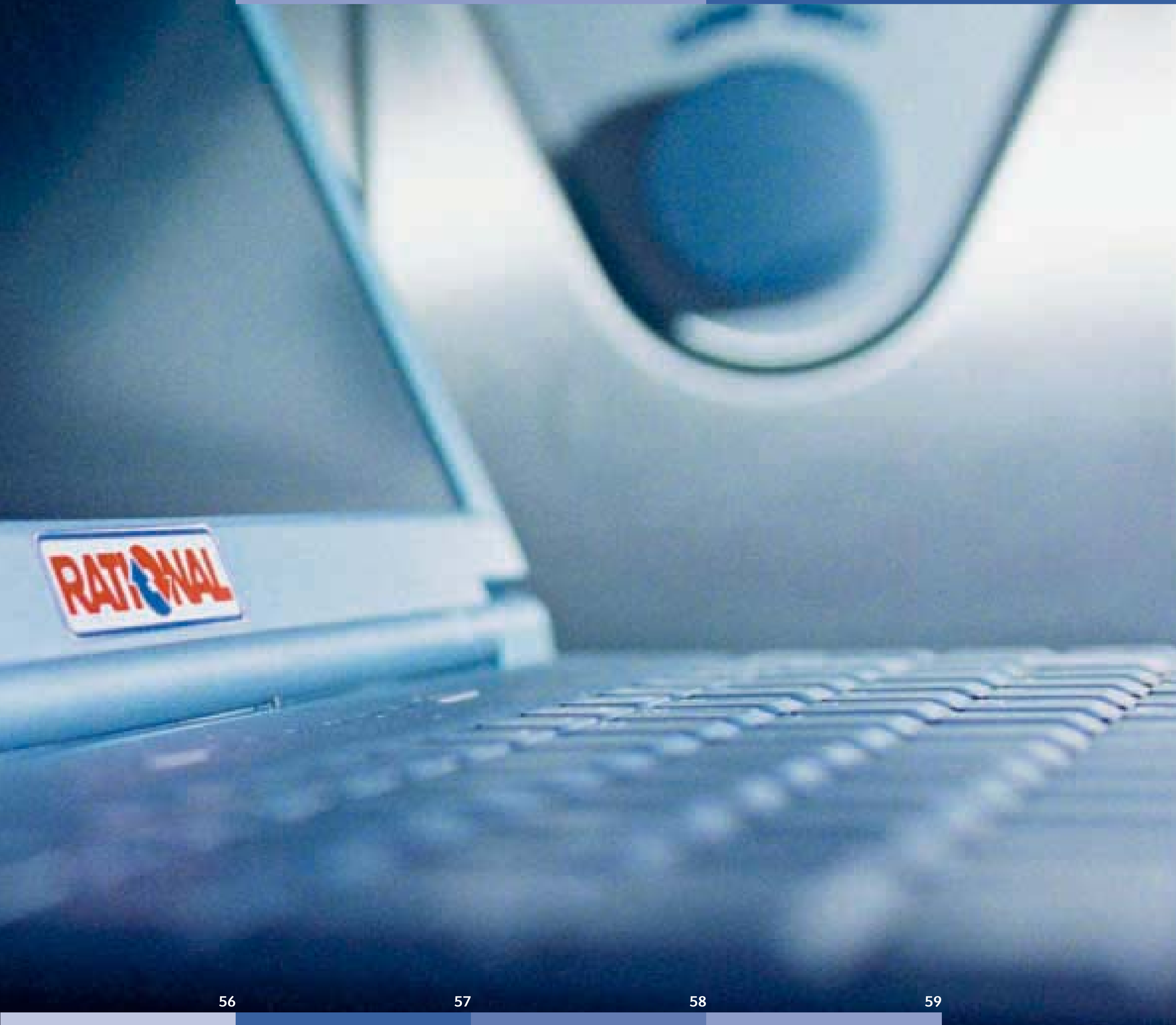
Despite RATIONAL's many years of success, until now only a small portion of potential clients use combi-steamer technology. About 80 % of the potential market available worldwide has yet to be captured. This gives us the opportunity to continue to grow by our own efforts in future. In view of this situation, we are optimistic that we will be able to increase both sales and earnings considerably in 2003.

We thank all clients, partners, shareholders and particularly our employees for their confidence in our company.

Landsberg am Lech, February 19, 2003

The Executive Board

Financial Statements



The Executive Board of RATIONAL AG is responsible for preparing the consolidated financial statements and for the information included in the consolidated management report.

Reporting is carried out according to the rules of the International Accounting Standards Committee. The consolidated management report has been prepared in compliance with the regulations of the German Commercial Code (HGB).

By carrying out group-wide reporting according to standard guidelines, using reliable software, selecting and training qualified personnel, and by regular checks of our internal auditing, we ensure an accurate picture of how business has progressed throughout the group and, thus, a reliable basis for the consolidated financial statements and the management report.

A risk management system that contains a number of effective internal control and monitoring systems makes it possible for the Executive Board to recognize financial risks, such as changes in the economic development of the group, at an early stage and to initiate appropriate countermeasures.

The financial statements of the parent company are not included in the consolidated annual report. They are displayed at the business premises of RATIONAL AG in Landsberg am Lech for inspection and can also be requested at any time.

In accordance with the resolution of the shareholders' meeting, the Supervisory Board has appointed Allrevision Dornhof Kloss und Partner GmbH as an independent auditor to audit the consolidated financial statements. Together with the auditors, the Supervisory Board will discuss the consolidated financial statements, including the consolidated management report and the audit report, in detail at its balance sheet meeting. The result of this audit can be found in the report by the Supervisory Board.

Landsberg am Lech, February 19, 2003

RATIONAL AG

Dr. Günter Blaschke	Erich Baumgärtner	Peter Wiedemann
Chief Executive Officer	Chief Financial Officer	Chief Technical Officer

We have audited the consolidated financial statements, comprising the balance sheet, the income statement, statement of changes in shareholders' equity, cash flow statement as well as the notes to the financial statements, prepared by the Company RATIONAL Aktiengesellschaft for the business year from January 1 to December 31, 2002. The preparation and the content of the consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on whether the consolidated financial statements are in accordance with International Accounting Standards (IAS) based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing requirements and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the business year in accordance with IAS.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1 to December 31, 2002, has not led to any reservations. In our opinion, the group management report together with the other disclosures in the consolidated financial statements on the whole provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2002, satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law.

Munich, February 20, 2003

Allrevision Dornhof Kloss und Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Maerz	Voshagen
Wirtschaftsprüfer	Wirtschaftsprüfer

thousands of euros	Note	Page	2002	2001
Sales	1	72	177,326	167,252
Cost of sales	2	72	– 72,358	– 71,211
Gross profit			**104,968**	**96,041**
Sales and service expenses	3	72	– 46,022	– 46,182
Research and development expenses	4	72	– 10,133	– 7,233
General administration expenses	5	72	– 9,485	– 11,070
Other operating income	6	73	4,312	1,939
Other operating expenses	7	73	– 5,450	– 1,547
Earnings before interest and taxes (EBIT)			**38,190**	**31,948**
Financial results	8	74	166	– 91
Earnings from ordinary activities			**38,356**	**31,857**
Taxes on income	9	74	– 11,741	– 11,040
Group earnings			**26,615**	**20,817**
Retained earnings brought forward			**11,426**	**2,824**
Retained earnings			**38,041**	**23,641**
Average number of shares			11,370,000	11,369,500
Earnings per share in euros relating to the consolidated results and the number of shares	10	75	2.34	1.83

Assets in thousands of euros	Note	Page	2002	2001
Intangible assets	12	76	1,861	2,308
Property, plant and equipment	13 14	77	23,883	23,176
Financial assets	15	77	218	218
Fixed assets			**25,962**	**25,702**
Inventories	16	78	11,291	11,782
Trade receivables	17	78	30,854	29,811
Other assets	18	78	2,305	2,494
Cash in hand and cash in bank accounts	19	78	41,006	27,693
Current assets			**85,456**	**71,780**
Deferred tax assets	9	74	**2,100**	**2,743**
Prepaid expenses	20	78	**461**	**546**
Balance sheet total			**113,979**	**100,771**

Equity and liabilities in thousands of euros	Note	Page	2002	2001
Subscribed capital	21	79	11,370	11,370
Capital reserve	22	79	29,004	28,849
Revenue reserves	23	79	514	514
Retained earnings			38,041	23,641
Equity			**78,929**	**64,374**
Provision for pensions	24	79	507	479
Provisions for taxation	25	80	3,338	2,332
Other provisions	26	80	9,202	8,791
Accruals			**13,047**	**11,602**
Liabilities to banks	27	81	2,872	5,292
Trade accounts payable			4,845	4,375
Other liabilities	28	81	14,016	14,809
Liabilities			**21,733**	**24,476**
Deferred income	29	82	**270**	**319**
Balance sheet total			**113,979**	**100,771**

thousands of euros	2002	2001
Cash flow from operating activities		
Earnings from ordinary activities	38,356	31,857
Depreciation on fixed assets	3,434	3,041
Net results from disposal of fixed assets	308	– 3
Non-realized foreign currency result	– 260	– 358
Interest income	– 817	– 708
Interest expenses	661	799
Operating results before changes in working capital	41,682	34,628
Changes in		
Inventories	491	– 776
Trade accounts receivable and other assets	– 707	– 2,984
Accruals	440	507
Trade accounts payable and other liabilities	746	606
Cash generated from current business activities	42,652	31,981
Interest paid	– 661	– 799
Tax on income paid	– 10,092	– 11,479
Net cash generated from operating activities	**31,899**	**19,703**
Cash flow from investment activities		
Investments in intangible assets and tangible assets	– 4,274	– 4,335
Net results from disposal of fixed assets	111	65
Interest received	687	708
Granted credit and loans	– 250	– 668
Repayment of granted credit and loans	318	88
Net cash used for investment activities	**– 3,408**	**– 4,142**
Cash flow from financing activities		
Dividends	– 11,370	– 7,390
Payments within the scope of financing lease agreements	– 1,119	– 867
Repayment of bank liabilities	– 2,613	– 457
Uptake of long-term bank liabilities	2,872	0
Purchase of long-term funds	– 13,000	0
Income from the sale of own shares	0	118
Net cash used for financing activities	**– 25,230**	**– 8,596**
Net increase in cash	**3,261**	**6,965**
Changes in cash from exchange rate changes	– 269	296
Change in cash funds	**2,992**	**7,261**
Cash on January 1	**25,014**	**17,753**
Cash on December 31	28,006	25,014

The cash flow statement is explained in note 30 on page 83.

thousands of euros	Subscribed capital	Capital reserve	Revenue reserves	Retained earnings	Total
Balance on January 1, 2001	11,370	28,815	514	10,214	50,913
Dividends	—	—	—	– 7,390	– 7,390
Group earnings	—	—	—	20,817	20,817
Sale of own shares	—	92	—	—	92
Differences from currency conversion	—	– 58	—	—	– 58
Balance on December 31, 2001	11,370	28,849	514	23,641	64,374
Dividends		—	—	– 11,370	– 11,370
Group earnings	—	—	—	26,615	26,615
Other changes not affecting operating results	—	—	—	– 845	– 845
Differences from currency conversion	—	155	—	—	155
Balance on December 31, 2002	11,370	29,004	514	38,041	78,929

Description and explanation of business activities

The business activities of RATIONAL AG comprise the development, manufacturing and sale of combi-steamers for industrial kitchens. 25 different combi-steamer models are on offer in three different product lines (CPC, CD and CM). The worldwide sale of devices is partly operated via our own domestic and foreign subsidiaries as well as via independent business partners.

The company shares are registered on the organised market at the Frankfurt Stock Exchange in the SMAX market segment. As of January 1, 2003, the company is admitted to the Prime Standard on the organised market at the Frankfurt Stock Exchange.

Fundamental accounting principles

The group financial statements of RATIONAL AG for the financial year of 2002 (stating the previous year's figures) have been prepared in compliance with the International Accounting Standards (IAS), adopted and published by the International Accounting Standards Committee (IASC), and their interpretation through the Standing Interpretations Committee (SIC). All effective standards for the financial year of 2002 have been taken into account and give a true and fair view of the RATIONAL group's net assets, financial position and results of operations.

Accounting and valuation methods according to the German Commercial Code that do not comply with the IAS or SIC have not been used.

The group financial statements on hand contain the following accounting and valuation methods that differ from German trading law:

Own shares

Clearing of our own shares in the financial year 2001 against equity capital and clearing of income from the sale of our own shares against equity capital on an after-tax basis according to SIC 16.

Deferred tax assets

Recognition of deferred tax assets on accumulated tax losses brought forward according to the balance sheet oriented liabilities method in compliance with IAS 12. Deferred tax claims from carried-over tax losses are capitalised.

Provisions for pensions

Provisions for pensions are evaluated according to the projected unit credit method taking into account the corridor rule in compliance with IAS 19.

Other provisions

The formation of other provisions is applied in accordance with IAS 37 in so far as the likelihood of them being utilised is under 50 %.

Currency conversion

Conversion of currency receivables and liabilities takes places at the rate on the balance sheet date and the resulting differences as affecting net income are depicted according to IAS 21. In so far as translation differences result from the conversion of long-term loan receivables, these are recorded on a net of taxes basis not affecting net income within the equity capital and are reported separately in the development of equity capital.

Derivative financial instruments

The accounting of derivative financial instruments is rendered at the current market value on the balance sheet date according to IAS 39 provided that it can be reliably determined. The resulting value changes are treated as affecting net income.

IPO costs

Offsetting of the IPO costs against equity on an after-tax basis according to SIC 17.

Leasing

Accounting of leasing assets and leasing liabilities is rendered according to IAS 17. This results in capitalisation of the asset value in the case of property, plant and equipment, whilst, in the case of financing leasing agreements, the remaining liability is shown under other liabilities according to the relevant allocation criteria of IAS 17.

Tax calculation

Valuation of the tax reduction connected with a dividend payout takes place only in the year in which the dividend vote is on the table according to IAS 12.

The prerequisites of § 292a of the German Commercial Code (HGB) for exemption from the obligation to prepare group financial statements according to the German Commercial Code have been met. The assessment of these prerequisites is based on the German Accounting Standard No. 1 (DRS 1) published by the German Standardization Council.

The financial year of RATIONAL AG and all included subsidiaries corresponds to the calendar year. The functional currency is the euro. To make things clearer, the figures in the group financial statements are given in thousands of euros.

Consolidation methods

In addition to the parent company, all major domestic and foreign subsidiaries have been included in the group financial statements of RATIONAL AG.

Capital consolidation (initial consolidation) is carried out on the date when the individual subsidiaries are acquired or founded. The acquisition values of participations are offset against the equity capital apportionable to them on the date they are first included in the group financial statements (book value method). If applicable, the remaining differences are allocated to the assets and liabilities in so far as their present applicable value exceeds the book value on the date of the initial consolidation. A residual difference after this offset is reported as goodwill. The silent reserves thus retransferred and reported goodwill are finally depreciated by the straight-line method according to their expected useful lives.

Accounting of non-consolidated subsidiaries is made at acquisition costs or lower applicable values.

The effects of group-internal business transactions are eliminated.
Receivables and liabilities between the included companies are consolidated, inter-company profits in the inventories are eliminated and group-internal income is offset against the corresponding expenses. The tax accruals and deferrals necessary according to IAS 12 are carried out on the basis of temporary differences from consolidation measures.

The consolidation methods remain unchanged from those used in the previous year.

Foreign currency conversion

The financial statements of the foreign subsidiaries are converted into euros according to the concept of functional currency. The respective national currency serves as the functional currency in this case. Asset values and debts are consequently converted at the foreign currency rates on the balance sheet date and the items in the income statement at the annual average rates. The portions of equity capital to be included in the capital consolidation and the retained profits or accumulated losses brought forward are converted at historic rates. Should differences arise in the balance sheet, they are recorded as not affecting net income as "differences from the currency conversion" and are balanced within the equity capital with the capital reserves and are reported separately in the development of equity capital.
The most important exchange rates for us have developed as follows in relation to the euro:

	Exchange rate on balance sheet date		Annual average exchange rate	
thousands of euros	2002	2001	2002	2001
GBP	0.6503	0.6095	0.6293	0.6193
USD	1.0416	0.8830	0.9506	0.8910
CAD	1.6393	1.4100	1.4901	1.3832
JPY	124.19	115.80	118.15	108.72
SEK	9.1494	9.3400	9.1356	9.2833
CHF	1.4527	1.4800	1.4659	1.5083

Consolidated companies

The consolidated companies comprise two domestic and nine foreign subsidiaries, besides RATIONAL AG. With effect from May 31, 2002, the subsidiaries in South Korea and Argentina left the consolidated companies and were deconsolidated at this date. The principal effects of the deconsolidation are explained at greater length in the relevant notes (cf. notes 6 and 7 on page 73).

Name and registered office of companies belonging to the RATIONAL Group	% capital shares and % voting shares
Domestic	
LechMetall Landsberg GmbH, Landsberg am Lech	100.0
RATIONAL Großküchentechnik GmbH, Landsberg am Lech	100.0
Europe	
RATIONAL Skandinavia AB, Lund, Sweden	100.0
RATIONAL UK Limited, Luton, U.K.	100.0
FRIMA S.A., Wittenheim, France	99.9
RATIONAL Schweiz AG, Oftringen, Switzerland	100.0
RATIONAL Iberica Cooking Systems, S.L., Barcelona, Spain	100.0
RATIONAL Italia S.R.L., Marcon, Italy	100.0
America	
RATIONAL Cooking Systems Inc., Schaumburg, U.S.	100.0
RATIONAL Canada Inc., Vaughan/Toronto, Canada	100.0
RATIONAL Argentina S.A., Buenos Aires, Argentina (until May 31, 2002)	100.0
Asia	
RATIONAL Japan KK, Tokyo, Japan	100.0
RATIONAL Korea Co., Ltd., Seoul, S. Korea (until May 31, 2002)	100.0

In addition, RATIONAL AG holds 98 % of the shares and voting rights in MEIKU Vermögensverwaltung GmbH, Landsberg, which for its part has a stake as a sole limited partner in TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG.

We have decided not to include MEIKU Vermögensverwaltung GmbH and the financially inactive subsidiary of FRIMA S.A., Topinox Sarl, Nantes, France, in the consolidated companies as they are only of minor importance for the group's net assets, financial and earnings position. Both participations must be valued at their acquisition costs or lower applicable values. MEIKU Vermögensverwaltung GmbH posted annual net profits of € 18 thousand and equity capital of € 62 thousand on its balance sheet date of April 30, 2002.

Accounting and valuation methods

Intangible assets

Acquired, intangible assets are capitalised at acquisition costs and are depreciated using the straight-line method over 3 to 5 years.

Goodwill from the capital consolidation and other corporate acquisitions are systematically depreciated over their expected useful life using the straight-line method. The expected useful lives are between 5 and 15 years and reflect expectations regarding utilisation of the market position and the technological advantage gained through corporate acquisitions.

Property, plant and equipment

Tangible fixed assets are valued at acquisition or manufacturing costs, reduced by scheduled depreciation. The manufacturing costs comprise all directly imputed costs and appropriate parts of production-related overheads. Financing costs are not reported. Depreciation is carried out on the basis of the economic useful life of the items. Depreciations based solely on tax regulations have not been reported.

The administrative buildings and production facilities are depreciated using the straight-line method over a period of between 25 and 50 years.

The remaining tangible assets are chiefly depreciated by the declining balance method at rates of between 20 and 30 %. Full depreciation is applied to new tangible assets in the first 6 months of the financial year, half the rate to assets in the second half of the year. Low-value fixed assets are depreciated in full in the year of investment.

Finance leasing

Since a group bears all principal property-related risks and opportunities connected with the leasing object, should beneficial ownership of leasing items according to IAS 17 be allocated to a group as a lessee, the leasing item is capitalised on the date when the contract is concluded at the cash value of the leasing instalments. The depreciation methods and useful lives correspond to those of comparable purchased asset values.

Financial assets

Financial assets are shown at acquisition costs or the lower applicable value on the balance sheet date, in so far as the value reduction is expected to be permanent.

Inventories

Raw materials, supplies and trade goods are valued at acquisition costs. The lowest value principle with the FIFO procedure in concert with the weighted average price is brought into play for establishing the acquisition costs.

Unfinished and finished products are valued at manufacturing costs. The cost of sales contains acquisition costs and all costs directly chargeable to the production process as well as appropriate parts of manufacturing-related overheads. Financing costs have not been allowed for.

Accounts receivables and other assets

Accounts receivables and other assets are disclosed at the nominal values. In the case of accounts receivables, recognisable risks are taken into account by individual value adjustments or the general credit risk through lumpsum individual value adjustments. The reported book values of the monetary asset values recorded in these items correspond to their respective market values.

Accounts receivable valued in foreign currency are converted using the middle rate on the balance sheet date.

Financial assets

All financial assets in the current assets are reported, initially with their acquisition costs, on the day of account, i.e., the point in time when the claim arose or the economic interest was transferred. Standard purchases are balanced according to the method of balancing on the day of trading.

The applicable time value for all categories of financial asset is the value on the markets relevant to RATIONAL AG, especially the decisive conditions of the banks for over-the-counter transactions. All changes to the applicable time value of financial asset are recorded in the periodic results.

Default risk and capital value of financial instruments

The book value of the cash in bank accounts, accounts receivable and other assets reported under the current assets mainly corresponds to the capital value because of the short maturity of these items.

Derivative financial instruments

The derivative financial instruments are valued on the balance sheet date at market values and the resulting valuation advantages or disadvantages in the balance sheet are recorded as other assets or other liabilities and the market value changes in the income statement are included in the other operating income or expenses.

Cash in hand and cash in bank accounts

The cash in bank accounts is valued at the nominal value. Cash in foreign currency is converted at the middle rate on the balance sheet date.

Deferred tax assets

Deferred tax assets are formed, according to IAS 12, for valuation differences between, on the one hand, the commercial and tax balance sheets of the individual companies and, on the other hand, the group financial statements. Tax losses brought forward are also capitalised, in so far as they are likely to be used in the future, in the amount of the future deferred tax refund claim. The domestic tax rate forming the basis of the calculation of deferred tax was approx. 36 % in 2002 and 2001. The deferred tax rates of foreign subsidiaries were between 18 and 42 %.

IAS 12 in the version revised in 2000 envisages that the corporation tax credit balances connected with a dividend payout must only be recorded in the year in which the dividend resolution is presented.

Provisions

Valuation of the provision for pensions is based on the projected unit credit method for performance-oriented pension schemes stipulated according to IAS 19.

Provision for taxation and other provisions are formed, in so far as an obligation to third parties resulting from a past event exists, when utilisation is likely in the future and the extent of the utilisation can be reliably estimated. The valuation of the provisions is scrutinised on each balance sheet date.

Liabilities

Liabilities from financing leasing agreements are reported on the date when the agreements are concluded at the cash value of the leasing instalments. The other liabilities are valued at the amount repayable. Liabilities valued in foreign currency are converted on the balance sheet date at the middle rate.

Income and expense realisation

Sales are realised when the service is rendered or when the risks are transferred to the customer. Operating expenses are recorded as affecting net income when the service is utilised or on the date it is originated. Provisions for warranty are formed on an individual basis or when the corresponding sales are realised. Interest income and expenses are adjusted periodically on an accrual basis. Incurred research and development costs are immediately allowed for as profit-reducing items after they arise. Financing costs are recorded as expenditure in the period they are incurred.

Use of estimates and assumptions

Preparation of the financial statements requires estimates and assumptions which may influence the stated amounts for assets, liabilities and financial obligations on the balance sheet date as well as the income and expenditure in the year under review. The actual developments may differ from the estimates and assumptions made. The principle of the "true and fair view" is unreservedly preserved when using estimates.

1 Sales

Sales are distributed as follows across the regions, according to the customer location:

thousands of euros	2002		2001	
Germany	33,264	19 %	33,577	20 %
Europe (excluding Germany)	99,183	56 %	90,191	54 %
America	17,650	10 %	18,071	11 %
Asia	20,792	12 %	19,185	11 %
Rest of the world *)	6,437	3 %	6,228	4 %
Total	**177,326**	**100%**	**167,252**	**100 %**

*) Australia, New Zealand, Middle East, Africa

In the German brand business, the previous year's levels were once again achieved in 2002 while the domestic OEM business contracted slightly. In the Americas, the subsidiaries in the United States and Canada have witnessed particularly successful growth. Severe reverses in Latin America negatively affected development.

2 Cost of sales

Cost of sales are calculated on the basis of the individual costs for materials and production, the overheads for materials and production and from the wear and tear of the fixed assets.

3 Sales and service expenses

The sales and service expenses include the costs of sales organisation, shipping, marketing, application consultancy and customer service.

4 Research and development expenses

The main part of research and development activities is allocated to projects that deal with continuous application research and, increasingly, with the development of new products to safeguard the company's success in the future. Research and development is carried out at RATIONAL at the Landsberg location and at the French subsidiary. Besides personnel costs representing around 40 % of total research and development costs, expenses arise from trial and test runs, patents, external research contracts and running costs.

5 General administration expenses

Expenses for central services and administration, such as personnel, data processing, accounting and parts of strategic purchasing are included in administration costs.

6 Other operating income

thousands of euros	2002	2001
Exchange gains	3,015	880
Income from value adjustments and depreciation on accounts receivable	380	35
Income from the release of provisions	375	573
Insurance recoveries	144	106
Rental	119	126
Income from asset retirements	34	178
Other (each < € 100 thousand)	245	41
Total	**4,312**	**1,939**

The exchange gains from foreign currency items are primarily composed of income from fluctuations in exchange rate between the date of origin and the date of payment as well as exchange gains from the valuation at the balance sheet date.

In order to increase transparency, from financial year 2002, all currency results are reported unbalanced. This explains the steep rise in exchange gains.

The exchange gains are primarily composed of income from the valuation of forward exchange transactions, forex options as well as income from the valuation of foreign currency positions in U.S. dollars, British pound and Japanese yen.

In addition, the exchange gains include € 597 thousand resulting from the deconsolidation of the Argentinean subsidiary.

Income from the release of provisions is composed of provisions from previous years which were not completely utilised. Expenditure arising from insufficiently set up provisions from previous years is allocated to the primary expenditure types.

7 Other operating expenses

thousands of euros	2002	2001
Exchange losses	3,080	1,228
Depreciation and value ajustments on accounts receivable	2,035	114
Other (each < € 100 thousand)	335	205
Total	**5,450**	**1,547**

The exchange losses from foreign currency items are primarily composed of expenditure from exchange rate fluctuations between the date of origin and the date of payment as well as exchange losses from the valuation at the balance sheet date.

In order to increase transparency, from financial year 2002, all currency results are reported unbalanced. This also explains the steep rise in exchange losses.

The exchange losses are primarily composed of losses from the valuation of foreign currency positions in U.S. dollars, British pound and Japanese yen, as well as the effects of consolidation from these currencies.

The high increase in depreciations and value adjustments on accounts receivable is primarily attributable to the depreciation of accounts receivable against the former subsidiaries in Argentina (€ 1,214 thousand) and South Korea (€ 130 thousand).

8 Financial results

thousands of euros	2002	2001
Income from partnerships	10	—
Other interest and similar income	817	708
Interest and similar expenses	– 661	– 799
Total	**166**	**– 91**

The income from partnerships affects the dividend payout from MEIKU Vermögensverwaltung GmbH.

The interest expenses chiefly comprise the percentage of interest occurring as part of the capitalisation of leasing buildings according to IAS 17.

9 Taxes on income

The following table shows a transition from the expected to the actual reported tax expenses. An average tax rate of approx. 36 % for 2002 and 2001 is used to ascertain expected tax expenses for the results from ordinary business activities. The tax rate comprises the corporation tax including solidarity surcharge and business tax. The deferred tax items for the years 2002 and 2001 have also been valued uniformly at an average tax rate of around 36 %.

thousands of euros	2002	2001
Expected income tax	13,801	11,462
Corporation tax credit/reduction	– 1,799	– 1,114
Non tax-deductible depreciation on goodwill and released silent reserves from capital consolidation	139	139
Profit/loss incurred by subsidiaries that have not led to a tax burden/relief through the formation/liquidation of deferred taxes	– 204	184
Variations in local tax rates in the subsidiaries	– 232	– 168
Effects of the external tax audit for previous years	—	469
Non tax-deductible expenses and other deductible amounts	36	68
Reported income and income tax expenditure	**11,741**	**11,040**

According to IAS 12 in the revised version from 2000, dividend payments based on corporation tax reductions and credit balances are first taken into account in the year of the resolution for the appropriation of profits or on the date dividends are paid out.

Deferred tax assets of € 2,100 thousand and € 2,743 thousand were formed in the financial years 2002 and 2001, which led to deferred tax expenses of € 1,117 thousand in 2002 and in 2001 to deferred tax expenses of € 658 thousand. Deferred tax assets of € 474 thousand were formed in 2002 and taken directly to equity capital.
The tax accruals and deferrals in 2002 and 2001 are attributable to the following facts:

	Deferred tax assets		Effect on net income
thousands of euros	2002	2001	2002
Elimination of intercompany profits	1,605	1,996	– 391
Tax losses brought forward	915	1,679	– 764
Currency conversion	– 554	– 394	– 160
Hedging transactions	– 208	42	– 250
Finance leasing	116	187	– 71
Debt consolidation	100	– 765	391
Provision for pensions	26	23	3
Other	100	– 25	125
	2,100	**2,743**	**– 1,117**

Settlement of the capitalised deferred tax refund claims of € 1,043 thousand (previous year: € 854 thousand) is expected to take less than a year. The reported amounts of € 1,057 thousand (previous year: € 1,889 thousand) have a long-term character. The short-term deferred taxes are apportionable to RATIONAL AG and result from temporary differences between the commercial balance and the tax balance sheet, as well as from consolidation measures, whilst the long-term deferred taxes are mainly based on the accumulated tax losses carried forward from the subsidiaries. In so far as tax deferrals and accruals exist with the same term of maturity in a company, a balance will be shown for these items.

10 Earnings per share

The earnings per share are determined according to IAS 33 by dividing the group results by the average weighted number of outstanding shares during the fiscal year. Based on the average number of shares of 11,370,000, the earnings per share for the business year 2002 come to € 2.34 (previous year: € 1.83). Due to the stock of 2,000 own shares in the company held from July 2000 to April 2001, the average number of shares for 2001 comes to 11,369,500 for 2001 and 11,370,000 for 2002. No shares were outstanding on December 31, 2002 or 2001 that might dilute the results per share.

11 Dividend per share

A dividend of € 14,781,000 was proposed for the financial year 2002, corresponding to a dividend per share of € 1.30. The cash dividend in the previous year was 11,370,000 or € 1.00 per share. With the appropriate approval from the shareholders' meeting, this means an increase in the dividend of 30 % compared to the previous year.

12 Intangible assets

thousands of euros	Industrial and similar rights	Goodwill	Total
Acquisition costs			
Balance at January 1, 2002	14,101	6,048	20,149
Translation differences	—	—	—
Additions	276	—	276
Disposals	– 49	—	– 49
Transfers	—	—	—
Balance at December 31, 2002	14,328	6,048	20,376
Depreciation and amortisation			
Balance at January 1, 2002	13,567	4,274	17,841
Translation differences	—	—	—
Additions	240	479	719
Disposals	– 45	—	– 45
Transfers	—	—	—
Balance at December 31, 2002	13,762	4,753	18,515
Book values			
Balance at December 31, 2002	566	1,295	1,861
Balance at December 31, 2001	534	1,774	2,308

The depreciations and amortisations disclosed were allocated to each functional area according to origin in the profit and loss statement.

13 Tangible assets

thousands of euros	Land and buildings	Technical equipment and machinery	Operating and office equipment	Payments on account	Total
Acquisition costs					
Balance at January 1, 2002	26,361	1,501	9,965	161	37,988
Translation differences	—	—	– 331	—	– 331
Additions	251	86	1,660	2,001	3,998
Disposals	—	– 267	– 1,711	– 147	– 2,125
Transfers	– 1,093	—	1,107	– 14	—
Balance at December 31, 2002	25,519	1,320	10,690	2,001	39,530
Depreciation and amortisation					
Balance at January 1, 2002	7,909	1,195	5,708	—	14,812
Translation differences	—	—	– 171	—	– 171
Additions	868	61	1,787	—	2,716
Disposals	—	– 218	– 1,492	—	– 1,710
Transfers	– 853	—	853	—	—
Balance at December 31, 2002	7,924	1,038	6,685	—	15,647
Book values					
Balance at December 31, 2002	17,595	282	4,005	2,001	23,883
Balance at December 31, 2001	18,452	306	4,257	161	23,176

The depreciations and amortisations disclosed were allocated to each functional area according to origin in the profit and loss statement.

14 Finance leasing

Tangible fixed assets also include leased property and buildings that, because of the terms of the underlying leasing contracts, are considered to be the economic but not the legal property of the company, in accordance with IAS 17, and are thus allocated as finance leasing.

The book value of these leased assets amounts to € 11.6 million (previous year: € 12.1 million). The accumulated amortisation on these leased assets totaled 2.0 million (previous year: € 1.5 million).

15 Financial assets

The financial assets disclosed relate to the book value of the investment in MEIKU Vermögensverwaltung GmbH. The original acquisition costs total € 2,725 thousand, the accumulated partial amortisation to the lower going-concern value made necessary by the distribution of dividends amount to € 2.507 thousand. It should be assumed that the market value of the shareholding will equal the book value of € 218 thousand.

16 Inventories

thousands of euros	2002	2001
Raw materials, consumables and supplies	4,635	4,913
Work in progress	866	844
Finished goods	5,790	6,025
Total	**11,291**	**11,782**

17 Trade receivables

thousands of euros	2002	2001
Trade receivables at nominal value	31,519	30,524
Write-downs for doubtful accounts receivable	– 665	– 713
Total	**30,854**	**29,811**

Of these accounts receivable, € 181 thousand (previous year: € 637 thousand) have a term of more than one year. A 75 % annual average of accounts receivable were insured against risk of default by a credit sale insurance.

18 Other assets

thousands of euros	2002	2001
Value-added tax refund claims	830	1,161
Present value of derivative financial instruments	582	327
Financing advance	138	138
Interest receivable	130	—
Factoring deposit	115	117
Deposits	108	211
Receivables from travel expense advances	81	77
Other (each < € 50 thousand)	321	463
Total	**2,305**	**2,494**

€ 136 thousand (previous year: € 152 thousand) have a remaining term of more than one year.

19 Cash in hand and cash in bank accounts

Short-term deposits were in accounts in various euro-zone banks at the balance sheet date bearing interest of between 2.73 and 3.26 % (previous year: 3.30 and 3.88 %). GBP deposits with next-day maturity bearing interest of 2.5 % were invested. No bank credits have been pledged for loans or approved credit lines.

20 Prepaid expenses

The prepaid expenses in the consolidated balance sheet contain exclusively amounts for expenses to be allocated to the subsequent year. Expenses resulted primarily from exhibitions, marketing activities and rents as well as insurance benefits. All prepaid expenses have a remaining term of less than one year.

21 Subscribed capital

On December 31, 2002, the share capital of RATIONAL AG amounted to € 11,370,000 and was composed of 11,370,000 ordinary registered shares at no-par value issued in the name of the bearer.

Under the terms of § 4 (2) and (3) of the Articles of Association and with the consent of the Supervisory Board, the Executive Board is authorised to raise the company's share capital in the period until January 1, 2005 by issuing new registered shares to an amount up to € 4,215 thousand (approved capital I) and up to € 1,100 thousand (approved capital II).

The conditional capital amounts to € 200 thousand and applies to option rights held by members of the Executive Board of up to 200,000 shares. The conditional increase of capital stock is dependent on the use made of the option rights issued by their owners (cf. note 39 on page 91).

22 Capital reserve

The capital reserve, which primarily arose from the premium from the share issuance, is composed moreover of expense and earnings positions not affecting net income amounting to € –1,620 thousand (previous year: € –1,620 thousand) that primarily resulted from the costs of the IPO not affecting net income in previous years. Included in this figure are tax benefits not affecting net income of € 1,645 thousand (previous year: € 1,645 thousand).

In addition, the capital reserve contains differences from currency translation not affecting net income amounting to € –393 thousand (previous year: € –548 thousand).

23 Revenue reserves

The legal reserve accrued from previous years in accordance with § 150 of the shareholders law has been disclosed.

24 Provisions for pensions

Entitlements to the RATIONAL AG employee pension scheme exist for one former managing director and a former company secretary. The employee pension scheme is financed exclusively by pension provisions which amounted to € 507 thousand in the fiscal year 2002 (previous year: € 479 thousand). The approved payments are calculated actuarially using the projected unit credit method in accordance with IAS 19.

In calculating pension provisions and the ensuing pension costs, the 10 % corridor method is used which means that any profits or losses over a 10 % threshold are distributed evenly over the average remaining length of service.
The calculations are based on the following assumptions:

- rate of interest: 6.00 % (previous year: 6.25 %)
- pensions trend: 1.25 % (previous year: 1.25 %)

The calculations were based on K. Heubeck's 1998 mortality tables.

During 2002 and 2001, provisions for pensions developed as follows:

thousands of euros	2002	2001
Balance at January 1	479	702
Additions	28	27
Curtailment gain	—	– 250
Balance at December 31	507	479

The item "curtailment gain" in the previous year applies to the withdrawal of previously granted entitlements to a member of the Executive Board and a member of the Management Team (cf. note 40 on page 91).

The costs of the provisions for pensions contained in the profit and loss statement for fiscal year 2002 is composed of the accumulation of expected pension obligations in the amount of € 28 thousand. Provisions for pensions totaling 27 € thousand were accumulated in the previous year.

25 Provisions for taxes

thousands of euros	Balance at Jan. 1, 2002	Translation differences 2002	Use 2002	Additions 2002	Balance at Dec. 31, 2002
Income and earnings tax	2,332	– 30	– 1,521	2,557	3,338

The provisions for taxes are composed exclusively of short-term provisions with terms of less than one year.

26 Other provisions

thousands of euros	Balance at Jan. 1, 2002	Translation differences 2002	Use 2002	Additions 2002	Balance at Dec. 31, 2002
Personnel	4,054	– 16	– 2,641	2,697	4,094
Warranty	1,490	0	– 7	628	2,111
Outstanding invoices	1,002	– 40	– 940	1,070	1,092
Consulting and acquisition costs	983	– 50	– 432	452	953
Trader bonuses	657	– 73	– 515	324	393
Other	605	– 1	– 462	417	559
Total	**8,791**	**– 180**	**– 4,997**	**5,588**	**9,202**

The individual provisions are composed exclusively of short-term provisions with terms of less than one year.

In business year 2002, provisions totaling € 375 thousand (previous year: € 573 thousand) were released to net income. The corresponding income is included in the other operating income.

27 Liabilities to banks

The liabilities to banks item of € 2,872 thousand represents a short-term dollar loan of $ 3,000 thousand from Dresdner Bank raised in 2002 with a remaining term of less than a year. The loan is subject to interest at a rate of 2.82 %. Exchange gains of € 184 thousand result from the valuation of the loan at the lower rate of the balance sheet date and are included in the other operating income.
The previous year's liabilities to banks of € 5,292 thousand have been completely paid off.

28 Other liabilities

thousands of euros	2002	2001
Liabilities from finance leasing agreements	8,129	9,248
Value-added tax liabilities	1,627	1,466
Liabilities from annual reimbursement to business partners	1,934	1,750
Liabilities from income and church taxes	938	1,092
Income tax liabilities	26	134
Liabilities from wages, salaries and social security contributions	1,214	493
Liabilities due to affiliated companies	0	55
Present value of derivative financial instruments	5	445
Other (items < € 100 thousand)	143	126
Total	**14,016**	**14,809**

Liabilities to social insurance institutions on the balance sheet date of December 31, 2002 amounted to € 1,169 thousand (previous year: € 287 thousand). The sharp increase can be traced back to the fact that, in contrast to 2002, the social insurance contributions for December 2001 were already paid by the parent company in 2001.

With the exception of liabilities relating to finance leasing agreements, the remaining liabilities are due at short notice. The due dates of liabilities resulting from finance leasing agreements are listed in the following table:

	Total	up to one year	Total	up to one year
in thousands of euros	2002	2002	2001	2001
a) until 2007; 6,45 %	3,283	677	3,910	635
b) until 2007; 4,93 %	259	55	311	53
c) until 2008; Pibor 3 months + 1.50 %	865	132	989	124
d) until 2011; 6,65 %	3,221	289	3,491	270
e) until 2011; 6,05 %	501	49	547	46
Total	**8,129**	**1,202**	**9,248**	**1,128**

For the finance leasing agreements under a), b), d) and e) in the above table, both interest and leasing rates are fixed during the entire term and are distributed evenly over the period of the leasing agreements. There are neither options to extend these terms nor restrictions placed upon them. It was agreed contractually that lessee loans were to be concluded for each that would attain the fixed sale value (option to buy in RATIONAL AG's favor) by the maturity of (Pibor 3 months + 1.5 %) with the option of converting to a fixed rate of interest (OAT +1.8 %). At maturity, the lessor may purchase the leased object for € 0.15. The contract is not subject to restrictions.

Liabilities from finance leasing will become due in the amount of € 1,202 thousand in the following year, € 5,021 thousand in the second of fifth subsequent years, and € 1,906 thousand from the sixth consecutive year.

The following lease payments will become due:

thousands of euros	2003	2004 – 2007	from 2008
Cash values	1,620	5,006	1,391
Discounts	61	1,096	745
Leasing payments	1,681	6,102	2,136

29 Deferred income

The deferred income position contains accrued book profits amounting to € 270 thousand (previous year: € 319 thousand) arising from finance leasing transactions in previous years that will be carried to profit and loss statement at expiry in accordance with IAS 17.

30 Cash flow statement

The cash flow statement shows the development of cash and cash equivalents of the RATIONAL Group during the year under review. The cash flow statement is structured in accordance with IAS 7 according to the operating activity to which the cash inflow relates, and investing and financing activities. Investing and financing activities which did not result in a change in cash are not included in this cash flow statement in accordance with IAS 7.

The purchase of long-term deposits of € 13.0 million (previous year: € 0 million) was made in three tranches of € 3.0 million, € 7.0 million and € 3.0 million bearing interest of between 3.00 and 3.26 %. € 10.0 million has a remaining term until April 2003, € 3.0 million are invested until the beginning of August 2003.

The cash and cash equivalents include cash balances, bank balances that have a remaining term of three months or less and short-term, payable-at-call liabilities to banks.

The bank balances include cash subject to restraints on disposal. The restraints on disposal apply to an amount of € 18 thousand (previous year: € 177 thousand).

thousands of euros	2002	2001
Cash in hand and cash in bank accounts	28,006	27,693
Short-term payable liabilities to banks	0	– 2,679
Liquid funds as at December 31	28,006	25,014

31 Contingent liabilities

On the one hand, contingent liabilities represent possible obligations whose actual existence must first be confirmed by the occurrence of one or several uncertain future events which cannot be entirely influenced by the company. On the other hand, they include existing obligations which will probably not result in an outflow of assets or whose outflow of assets cannot be reliably quantified.

In the RATIONAL GROUP, the relevant provisions cover warranties and obligations arising from legal costs.

Moreover, there are bill commitments totaling € 1,566 thousand in the group (previous year: € 1,278 thousand).

32 Number of employees and personnel costs

The RATIONAL Group employed on average 669 members of staff in fiscal year 2002 in the following operational areas:

Production	253
Sales and Marketing	181
Technical Customer Service	93
Research and Development	56
Administration	86
Average number of staff 2002	669
of which abroad	187

The number of employees at the balance sheet date of December 31, 2002 was 656 and was thus 22 down on the same date the previous year. These figures do not include inactive contracts, trainees and the Executive Board.

Personnel costs in 2002 amounted to € 42,036 thousand compared to € 40,391 thousand in the previous year.

thousands of euros	2002	2001
Salaries and wages	35,544	34,261
Social security contributions	6,492	6,130
Total	**42,036**	**40,391**

Social security contributions include costs for pensions amounting to € 270 thousand compared to € 288 thousand in the previous year.

33 Derivative financial instruments

Derivative financial instruments are employed solely to secure against foreign exchange fluctuations between the euro and other currencies, interest rate fluctuations on the international currency and capital markets and to exploit interest rate variations between different countries.

Hedging policy is authorised and monitored by the Executive Board. The corresponding financial transactions are traded solely and centrally by the parent company and concluded solely with contracting parties of first-rate creditworthiness. The trading of individually planned hedges is only possible with the express consent of a member of the Executive Board.

Foreign exchange risks

The foreign exchange risks apply to future net profits in foreign currency via the subsidiaries of the RATIONAL Group. The underlying transactions are carried to the planned exchange-related moneys received by the subsidiaries after the deduction of costs and other expenses relating to each subsidiary. As a rule, up to 50 % of the currency risk is hedged for a period of up to 12 months. Currency options and currency futures are employed for hedging purposes.

Derivative financial instruments for currency hedging

Futures trading as well as currency options were taken into account on the balance sheet date. In the case of the currency futures, so-called zero-cost options were entered into that represent the combination of a simultaneous purchase and sale of the same currency. A zero-cost option means that the premium payable is the same as the premium resulting from the option sale. Zero-cost options both with and without bandwidth were used.

The zero-cost options with bandwidth combine the purchase of put options with the sale of call options at a different base price but with identical volumes of put options and call options.

With zero-cost options without bandwidth, the purchase of put options is combined with the sale of half the volume of call options at the same base price.

Valuation of financial instruments for currency hedging

Hedging trades are carried or accrued on the trading day at the buy or sell price. Capitalization is made under other assets, whilst liabilities are shown under other liabilities.

The valuation on the balance sheet date is based on the market value. The market value of currency futures is determined based on the forward exchange rates. In the case of currency options, the market value is the value that could have been achieved in trading between willing and independent contractual parties from the sale of the rights and/or obligations associated with the financial instrument under current market conditions. In determining the market value, compensation effects arising from the underlying transactions are not taken into account.

Changes in the market value were carried to the current period result. On an option being exercised or expiring, the balanced sum is carried to the operating result as a translation difference. The sum required to settle put options amounted to € 36 thousand (previous year: € 113 thousand) on the balance sheet date, the current value required to settle call options amounted to € –5 thousand (previous year: € –445 thousand). At the end of the year, the sum required to settle open currency futures transactions was € 20 thousand (previous year: € 0 thousand).

Financial instruments to hedge against interest rates incl. valuation

Interest-currency swaps to a reference value of € 3,586 thousand (previous year: € 4,090 thousand) with terms of several years were used to exploit interest rate variations between various countries. This involved converting a fixed interest and redemption obligation in one currency into a fixed interest and redemption obligation in another currency. Interest and redemption payments are made from the income earned in the other currency through the subsidiary's economic activities in the particular country. The conditions relating to swaps are designed in such a way that no premium is due at the conclusion of the deal.

The valuation of swaps at the balance sheet date is at the market value representing the value that could have been achieved by the sale in trading between willing and independent contracting parties of the rights and obligations associated with it under current market conditions. Changes in value and the interest payments and income resulting from swaps are carried to net income. At the balance sheet date, the present value payable on swaps amounted to € 526 thousand (previous year: € 214 thousand).

34 Other financial obligations

Besides the provisions, liabilities and contingent liabilities, other financial liabilities worth € 5,805 thousand existed as of December 31, 2002 of which € 3,994 thousand will become due within the next 12 months. These are primarily composed of future payments resulting from long-term rental, transport and leasing agreements.

The leasing agreements, treated in accordance with IAS 17 as operative leases, apply to the long-term use of production facilities. The terms of the agreements run for up to 66 months and are subject to fixed lease rates evenly distributed over the terms of the agreements. These are non-terminable agreements which contain continuation clauses applicable at the end of the agreed leasing term. Insurance against loss or destruction of the objects leased is generally covered by policies issued by the RATIONAL Group. The leasing agreements contain no restrictions such as relating to dividends, additional debts or further contractual relationships.

Future minimum lease payments for operative leases will amount to € 1,275 thousand in the next twelve months and € 1,448 thousand in 2004–2007. There are no obligations beyond the 5-year period given.

In addition, € 101 thousand are payable to former employees for agreed restraints on competition.

35 Credit risks

The majority of claims against customers arise because of goods deliveries. Security cover is generally provided by credit sale insurance. Alternatively, depending on the type and the amount of the claim, security cover against credit risks is provided by a security deposit or prepayment, by a credit inquiry or by requesting the credit history of the previous business relationship in order to prevent bad debt losses.

Recognisable risks are met by appropriate allocation of value adjustments on accounts receivable.

COFACE is under contract to act as insurer against credit risks for RATIONAL AG and the majority of our subsidiaries. In order that RATIONAL AG's export customers in non-OECD countries are also protected against political risks, the whole turnover policy (APG) of the export credit guarantee is chiefly used. Claims against the public sector remain uninsured.

Credit risk from derivative financial instruments is primarily limited to risks relating to business relationships of RATIONAL Group subsidiaries. The loss of a contractual partner of a subsidiary has no considerable impact on the credit risk of the RATIONAL Group.

36 Segment reporting

The company's activities are focused on one business segment: the development, production and marketing of devices used in the thermal preparation of food in industrial kitchens. It does not currently engage in any further, significant independent product lines. For this reason, the primary and only reporting format for the segments is organised geographically.

Under segments, RATIONAL summarises the subsidiaries based on their various geographical regions in accordance with the stipulations in IAS 14.13 governing the structure according to the location of assets. We distinguish between the following five segments:

- German subsidiary,
- subsidiaries in Europe, excl. Germany,
- subsidiaries in the Americas,
- subsidiaries in Asia, and
- the activities of the parent company, whereby RATIONAL AG and LechMetall are summarised together.

In Europe excl. Germany these are the subsidiaries in the U.K., France, Italy, Switzerland, Spain (for sales in Portugal and Spain) and in Sweden (for sales in Scandinavia and the Baltic States).

The segment Americas comprises the companies in the U.S., Canada and Argentina. The Argentinean subsidiary was sold on May 31, 2002 and since then is no longer included in the consolidated companies.

Japan and South Korea form the Asia segment. On May 31, 2002, the South Korean subsidiary was transferred to a partner and since then is no longer included in the consolidated companies.

The parent company's activities involve the development, production and delivery of products to the subsidiaries on an intercompany basis. Moreover, the parent company supplies both partners in foreign markets that are not assigned to any one subsidiary and OEM customers around the world.

This segmental division reflects the company's management structure and represents the risk and earnings structures of our business.

The German sales organization and customer service was hived off from the AG to the newly founded German subsidiary in January 2001 and has operated in this new structure since April 2001. When viewing the segment report, it should be taken into account that the previous year represents a short business year in operative terms for the German subsidiary. For reasons of administrative simplicity, the investments for the German sales and customer service business are made by the AG. Within the framework of cost apportionment, assistance provided by the AG and depreciation is contained in the segment expenditure of the German subsidiary and thus taken into account in the segment result.

Segment sales contain both sales with third parties and inter-company sales between group companies across the segments. As a matter of principle, sales and proceeds arising from internal relationships are priced at the same level as those with third parties. The write-downs for the segments disclosed relate to intangible and tangible assets. No other significant non-cash expenses requiring disclosure according to IAS 14.61 occurred in either 2002 or the previous year.

Operating assets comprises all assets with the exception of securities and liquid funds. The reconciliation column reflects, firstly, the effects of consolidation and, secondly, the amounts resulting from the variant definition of the contents of segmental positions in comparison to the related group positions.

The additional subdivision of sales according to customer location as required by IAS 14.71 is disclosed in note 1 on page 72.

2002 thousands of euros	Activities of the subsidiaries in: Germany	Europe excl. Germany	Americas	Asia	Activities of the parent company	Total segments	Transi-tion	Group
External sales	32,384	70,384	11,697	11,074	51,787	**177,326**	—	**177,326**
Previous year	+ 37 %	+ 11 %	+ 5 %	+ 5 %	– 11 %	+ 6 %		+ 6 %
Share	18 %	40 %	7 %	6 %	29 %	100 %		100 %
Intercompany sales	1,153	3	477	0	83,557	**85,190**	—	**85,190**
Segment sales	33,537	70,387	12,174	11,074	135,344	**262,516**	—	**262,516**
Compared to previous year	+ 29 %	+ 10 %	+ 9 %	+ 5 %	+ 5 %	+ 9 %		
Segment expenses	33,258	65,563	10,912	10,622	103,930	**224,285**		
Segment result	279	4,824	1,262	452	31,414	**38,231**	– 41	**38,190**
Previous year	+ 308	– 403	+ 1,672	+ 976	+ 4,621	+ 7,174		+ 6,242
Segment assets	2,572	24,116	6,165	5,514	52,126	**90,493**	23,486	**113,979**
Segment liabilities	2,779	18,080	8,600	6,428	22,462	**58,349**	– 23,299	**35,050**
Segment investments	0	729	70	37	3,438	**4,274**	0	**4,274**
Segment depreciation and amortisation	0	403	284	60	2,687	**3,434**	0	**3,434**
Employees as at Dec. 31, 2002	50	129	24	18	435	**656**		

2001 thousands of euros	Activities of the subsidiaries in: Germany	Europe excl. Germany	Americas	Asia	Activities of the parent company	Total segments	Transi-tion	Group
External sales	23,717	63,662	11,156	10,572	58,145	**167,252**	—	**167,252**
Share	14 %	38 %	7 %	6 %	35 %	100 %		100 %
Intercompany sales	2,282	52	0	0	71,212	**73,546**	—	**73,546**
Segment sales	25,999	63,713	11,156	10,572	129,357	**240,798**	—	**240,798**
Segment expenditure	26,029	58,486	11,566	11,096	102,564	**209,741**		
Segment result	– 29	5,227	– 410	– 524	26,793	**31,057**	891	**31,948**
Segment assets	2,813	22,180	6,705	6,816	52,438	**90,952**	9,819	**100,771**
Segment liabilities	2,988	16,525	11,458	5,296	18,875	**55,142**	– 18,745	**36,397**
Segment investments	0	759	828	93	6,798	**8,477**	0	**8,477**
Segment depreciation and amortisation	0	433	458	80	2,070	**3,041**	0	**3,041**
Employees as at Dec. 31, 2001	54	134	33	29	428	**678**		

37 Legal disputes

In the course of its normal business activities, the Group is involved in a series of smaller court actions and claims concerning the recovery of lost receivables, assumed infringement of patents by competitors and opposition proceedings before the patent office (own and patents owned by third parties).

38 Supervisory and Executive Board

The composition of the Supervisory Board did not change in 2002. The Members of the Supervisory Board are:

- Mr. Siegfried Meister, merchant, Chairman,
- Mr. Walter Kurtz, technician, Deputy Chairman,
- Mr. Roland Poczka, merchant, Board Member.

The total remuneration of the Supervisory Board for each of the fiscal years 2002 and 2001 amounted to € 138 thousand.

As of December 31, 2002, the Members of the Supervisory Board hold a total of 8,200,455 shares (previous year: 8,308,285 shares) in RATIONAL AG, of which Mr. Siegfried Meister holds 7,312,931 shares (previous year: 7,314,581 shares).

In addition, Mr. Siegfried Meister and Mr. Walter Kurtz each hold 1 % of the authorised capital of MEIKU Vermögensverwaltung GmbH.

Besides his membership of the RATIONAL AG Supervisory Board, Mr. Roland Poczka holds a further supervisory board post at Winkler und Dünnebier Aktiengesellschaft in Neuwied.

The composition of the Executive Board did not change in 2002. The Members of the Executive Board are:

- Dr. Günter Blaschke, graduate merchant, Chief Executive Officer,
- Mr. Erich Baumgärtner, graduate business economist, Chief Financial Officer,
- Mr. Peter Wiedemann, graduate engineer, Chief Technical Officer.

The total remuneration of the Members of the Executive Board for the performance of their tasks in the parent company and its subsidiaries amounted to € 1,909 thousand.

This sum includes a performance-related salary component of € 445 thousand and a cash settlement of € 593 thousand relating to the stock option plan (cf. note 39 on page 91). The total remuneration of the Members of the Executive Board amounted to € 1,193 thousand in 2001.

As of December 31, 2002, the Members of the Executive Board hold a total of 9,158 shares in RATIONAL AG (previous year: 9,065 shares).

Furthermore, there are no further significant business relationships to affiliated persons or companies requiring disclosure.

39 Stock option plans

On February 3, 2000, the company resolved to implement a stock option plan for the duration of 5 years altogether, which is at present limited to the Members of the Executive Board and grants the option to buy a maximum of 200,000 shares in RATIONAL AG representing an accounting share of € 200 thousand in the share capital (cf. note 21 on page 79). The options are not transferable.
The beneficiaries of option rights are entitled to receive in place of each option right

- an option share in declared conditional capital or
- a no-par value share in the company from its available stock which, because of the separate authorisation necessary at the time that the option right is exercised, is remunerated with a fixed issue value per share or
- a cash payment of 100 % of the value of one RATIONAL share from which the share-issuance amount per share is deducted. The value of a RATIONAL share will correspond to the average closing market price of the common shares of the company on the Frankfurt Stock Exchange on the last 5 trading days prior to the first exercise during the authorisation period, but no higher than the closing price on the Frankfurt Stock Exchange on the day each option is exercised.

The relevant option rights are subdivided into annual tranches. The first tranche of a maximum 34,500 shares was authorised by the Supervisory Board on February 16, 2000. The waiting period is 2 years and the first tranche is exercisable for a period of 3 years. The exercise of option rights was linked to the attainment of RATIONAL share price targets subsequent to the expiry of the waiting period. The Supervisory Board has resolved that after deduction of the fixed share issuance amount, a cash payment equivalent to 100 % of the value of a common share of the company may be drawn on each option right. A cash settlement of € 593 thousand was paid from the first tranche of the stock option plan to the Executive Board in May 2002 (cf. note 38 on page 90).

This means that options totaling a maximum of 165,500 shares remain in the RATIONAL AG stock option plan. These option rights have yet to be issued.

40 Provisions for pensions for the management

A contributory pension plan for the Executive Board and other members of the management, through an external, insured relief fund was implemented in 2001. In 2002, the contributory pension plan withdrew € 242 thousand.

41 Statement on the German Corporate Governance Code

The Executive Board and the Supervisory Board have issued a statement detailing which recommendations of the government commission for the German Corporate Governance Code have been and will be complied with. The statement of compliance has been made permanently available to the shareholders.

42 Subsequent events

There were no events of any significance after the balance sheet date affecting the net assets, financial and earnings position of RATIONAL AG and the RATIONAL Group.

In the year under review, the Supervisory Board performed the tasks laid down for it by law and the Articles of Association. It regularly consulted the Executive Board on the company's policy and supervised the company's management. The Supervisory Board was closely involved in all questions of fundamental importance for the company. Thanks to comprehensive monthly written reports from the Executive Board on all relevant questions of company planning and strategic development, the Supervisory Board was informed at all times of the current business situation of the company, including the risk situation and risk management. Deviations in the course of business from published plans and targets were discussed individually. The company's strategic orientation was agreed with the Supervisory Board. All business transactions of importance for the company were discussed by the Supervisory Board on the basis of the Executive Board's reports.

In the course of 2002, four meetings of the entire Supervisory Board were held in addition to numerous individual discussions. In addition, the Members of the Supervisory Board consulted each other by telephone and formulated the necessary resolutions. The Supervisory Board was also informed in detail of projects and plans of particular significance for the company or of those requiring urgent action between its meetings, for which – where applicable – its approval was sought.

Central topics of regular consultations were the further development of the group's sales, earnings and activities, as well as the further development of the subsidiaries. The topic of marketing management was discussed in detail and developed further with the Supervisory Board.

The marketing strategy and in particular the sales focus are not only concentrated on opening up new markets through group subsidiaries, but also on intensive cooperation with existing marketing partners and the establishment of new ones.

In the context of corporate planning for the financial year 2002, in-depth discussions were held on the planned measures to enhance the group's value.

Mr. Peter Wiedemann was appointed Chief Technical Officer for a further five years. By way of the resolution passed at the shareholders' meeting on May 8, 2002, and the subsequent order of the Supervisory Board, the annual financial statements for the fiscal year from January 1 to December 31, 2002, prepared in accordance with the regulations laid down in the German Commercial Code (HGB), and the management report were audited by Allrevision Dornhof Kloss und Partner GmbH Wirtschaftsprüfungsgesellschaft, Munich. The auditor granted an unqualified auditors' opinion.

The prerequisites of § 292a of the German Commercial Code (HGB) for exemption from the obligation to prepare group financial statements according to the German Commercial Code having been met, the group financial statements were instead prepared according to IAS. They are presented in euros and supplemented by a group management report and further notes in compliance with the regulations contained in § 292a of the German Commercial Code. The auditor granted unreserved approval to the group financial statements submitted in compliance with IAS and the group management report.

A focus of the audit was the risk early warning system. The auditor determined in summary that the Executive Board has satisfied the measures required by § 91 para. 2 AktG (German Public Companies Act) and that RATIONAL's risk early warning system is fundamentally suited to recognizing early developments endangering the company's future existence.

The financial statements and auditors' report were distributed to all Supervisory Board Members in good time and were the subject of intensive deliberations at the meeting of the Supervisory Board held on February 20, 2003. The auditors participated in consultations on the financial statements and the group financial statements. They reported on the fundamental results of the audit and were available to supply the Supervisory Board with additional information.

Following the final result of its own audit of the financial statements, the group financial statement, the management report and the group management report, the Supervisory Board approved the result of the audit carried out by the auditor and concurred with the financial statements and the group financial statements. The annual financial statements for 2002 are thereby adopted in accordance with § 172 para. 1 AktG (German Public Companies Act).

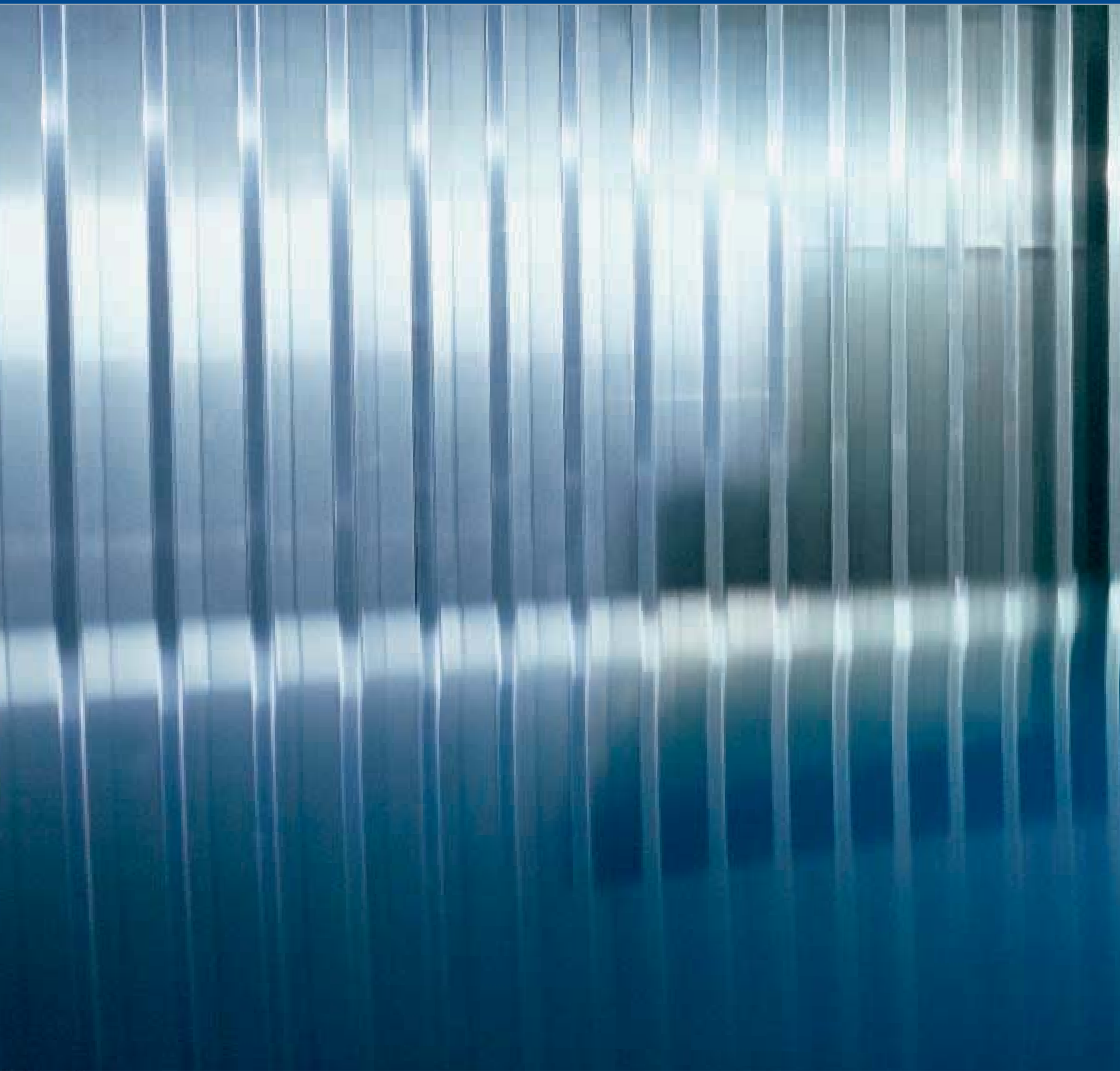
The Supervisory Board concurs with the proposal of the Executive Board to distribute from the total € 35,859,682.07 unappropriated retained profits the amount of € 1.30 per dividend-bearing share to shareholders, and to carry forward the remainder to new account.

The Supervisory Board would like to thank the Members of the Executive Board and the company's management for their constructive participation and achievements in fiscal year 2002. Our particular thanks go to all employees for their high level of commitment, which once again was the critical factor ensuring success in 2002.

Landsberg am Lech, February 20, 2003

Siegfried Meister
Chairman of the Supervisory Board

Responsible : RATIONAL Aktiengesellschaft
Conception and design: FIRST RABBIT GmbH, Cologne



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