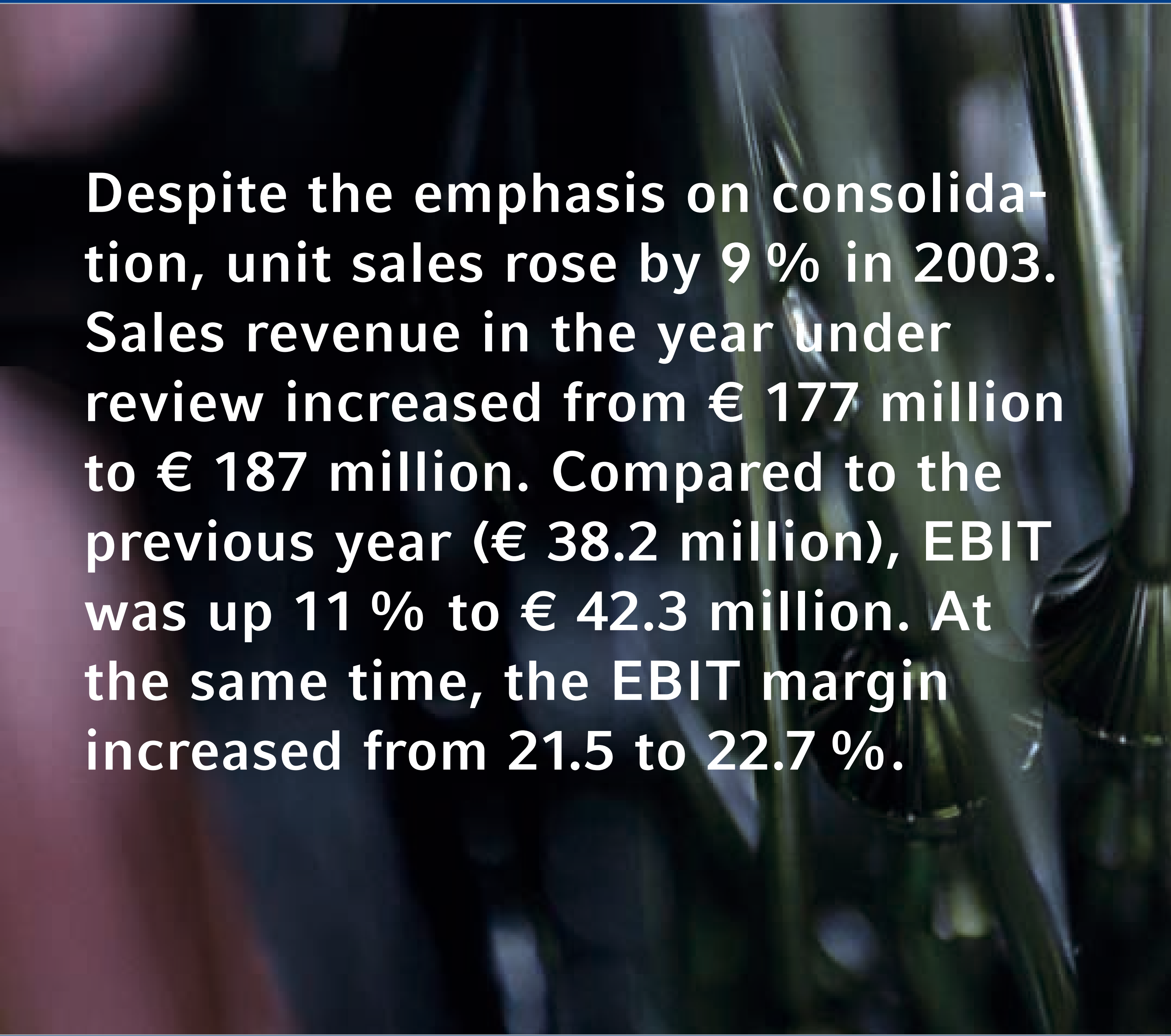
Annual Report 2003

Simple is Better

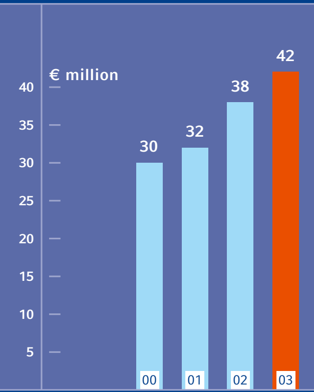


Despite the emphasis on consolidation, unit sales rose by 9 % in 2003. Sales revenue in the year under review increased from € 177 million to € 187 million. Compared to the previous year (€ 38.2 million), EBIT was up 11 % to € 42.3 million. At the same time, the EBIT margin increased from 21.5 to 22.7 %.

The Company at a Glance

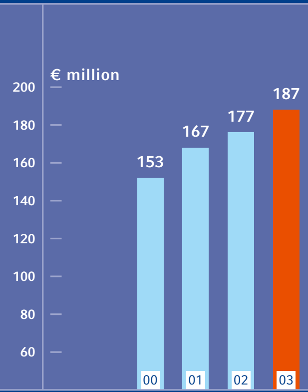
Figures in thousands of euros	2003	2002	Change
Sales	186,550	177,326	+ 5.2 %
Sales abroad in %	82 %	81 %	+ 1 %-pt.
Cost of sales	78,076	72,358	+ 7.9 %
as a percentage of sales	41.9 %	40.8 %	
Sales and service expenses	45,074	46,022	– 2.1 %
as a percentage of sales	24.2 %	26.0 %	
Research and development expenses	11,362	10,133	+12.1 %
as a percentage of sales	6.1%	5.7 %	
General administration expenses	10,705	9,485	+12.9 %
as a percentage of sales	5.7 %	5.3 %	
EBIT – earnings before interest and taxes	42,333	38,190	+10.8 %
as a percentage of sales	22.7 %	21.5 %	
EBT – earnings before taxes	42,597	38,356	+11.1 %
as a percentage of sales	22,8 %	21.6 %	
Group earnings	26,806	26,615	+ 0.7 %
as a percentage of sales	14.4 %	15.0 %	
per share in euros	2.36	2.34	
Cash flow from operating activities	29,787	31,899	– 6.6 %
per share in euros	2.62	2.81	
Balance sheet total	127,994	113,979	+12.3 %
Equity	90,585	78,929	+14.8 %
as a percentage of the balance sheet total	70,8 %	69.2 %	
ROCE – return on capital employed	42.3 %	42.3 %	0.0%-pt.
Working capital (without liquid funds)	37,034	33,602	+10.2 %
as a percentage of sales	19.9 %	18.9 %	
Employees (as an annual average)	679	669	+ 1.5 %
Sales per employee	274.7	265.1	+ 3.6 %

EBIT in millions of euros

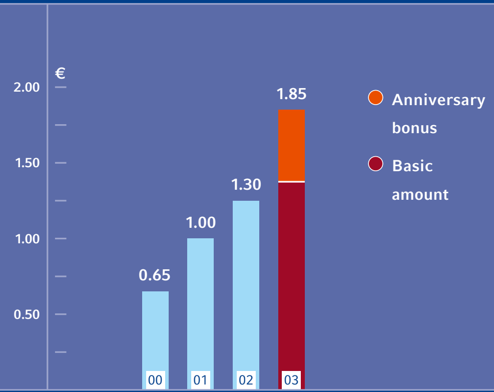


2000 excluding IPO expenses

Sales in millions of euros

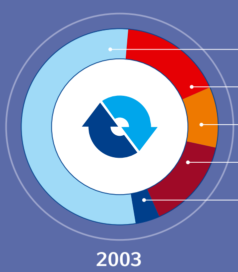


Cash dividend per share

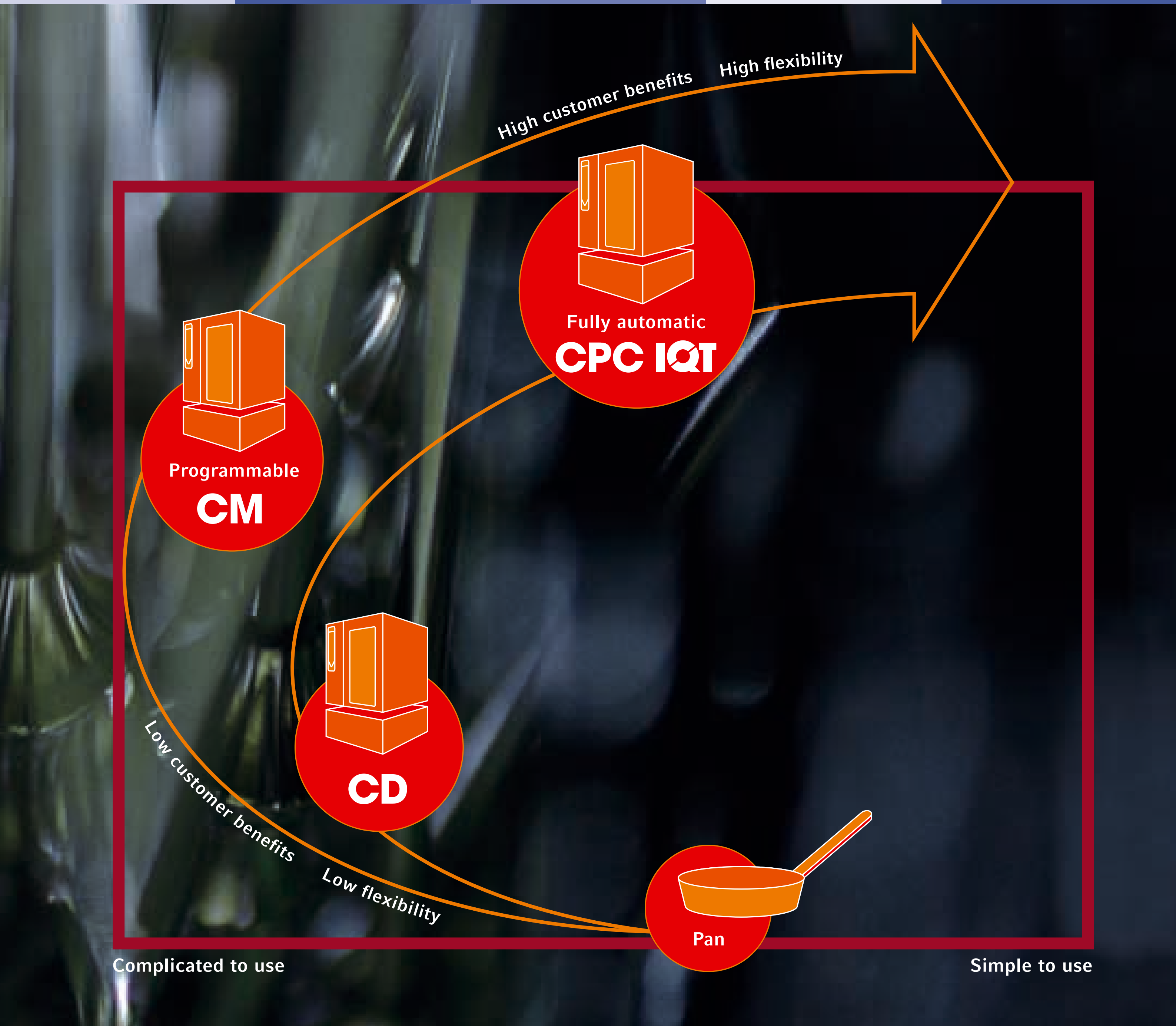


Figures for 2003 – subject to approval of the Shareholders' Meeting

Our technological edge, combined with the ever increasing efficiency and quality of delivering the unique message of RATIONAL benefits, has enabled us to increase our market share in 2003 from 47 to 49 %. Every second unit installed around the globe is now from RATIONAL.



Sales revenue by region (Customers' location)	2003 € million	2003 %	2002 %
Europe excluding Germany	101	54 %	56 %
Germany	33	18 %	19 %
Americas	18	10 %	10 %
Asia	28	15 %	12 %
Rest of the world	7	3 %	3 %



In general, cooking appliances in professional kitchens have become increasingly complicated to use as new functions and customer benefits have been added. The RATIONAL ClimaPlus Combi® turns this principle on its head for the first time. Thanks to its integrated intelligence, it offers superior customer benefits combined with ease of use.

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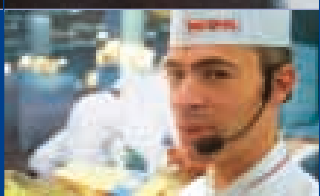
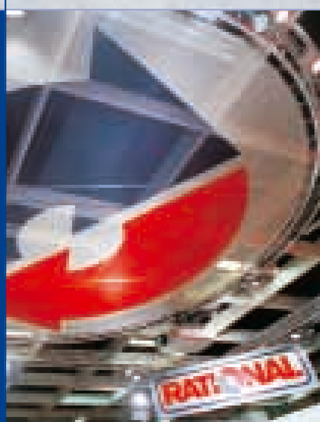




Simple is perfect

The RATIONAL corporate culture is simple

"Perfection is achieved, not when there is nothing more to add, but when there is nothing left to take away"
(Antoine de Saint-Exupéry)

Modern-day industrial companies often tend to over-regulate and break down working processes excessively. Individual employees are only responsible for a small constituent part. Consequently, their work becomes increasingly mundane while management becomes increasingly complex.

Simplicity requires not only clarity, decentralisation and self-contained work components but above all employees who act as entrepreneurs within the enterprise. Common sense and specialist skills are paramount in this respect – all of which adds up to simple management systems.

The RATIONAL organisation abandons the concept of work being organised on the basis of the extensive division of labour in favour of natural, clear, self-contained processes. Employees themselves assume responsibility for their tasks and take the necessary decisions.

Leadership is more than just management

Alongside functional and methodology skills, social skills are what really set RATIONAL managers apart. Formal methods and standardisation are in themselves not sufficient to provide effective leadership and management of human organisations.

Social skills allow you to connect with the employee's emotional side and leverage this relationship effectively. They also include giving staff the opportunity to 'find themselves'. A clear vision of what you aim to achieve together, coupled with the winning team's sporting ambition, provides the necessary logical framework.

Yet to develop these strengths fully requires enthusiastic **determination** every bit as much as this objective understanding. It is this enthusiastic **determination** that gives rise to the motivated, consistent **action** which will ensure objectives are achieved. Involving staff in the overall definition of what they do and setting out clearly the part they play is the key prerequisite.

Simplicity requires not only clarity, decentralisation and self-contained work components but above all employees who act as entrepreneurs within the enterprise.

Company quality is employee quality

No company in the world is better than its staff. RATIONAL managers see themselves as the first among equals. They help employees consistently to perform better.

RATIONAL managers behave like gardeners. They prepare the ground for the best possible personal and professional development of employees.

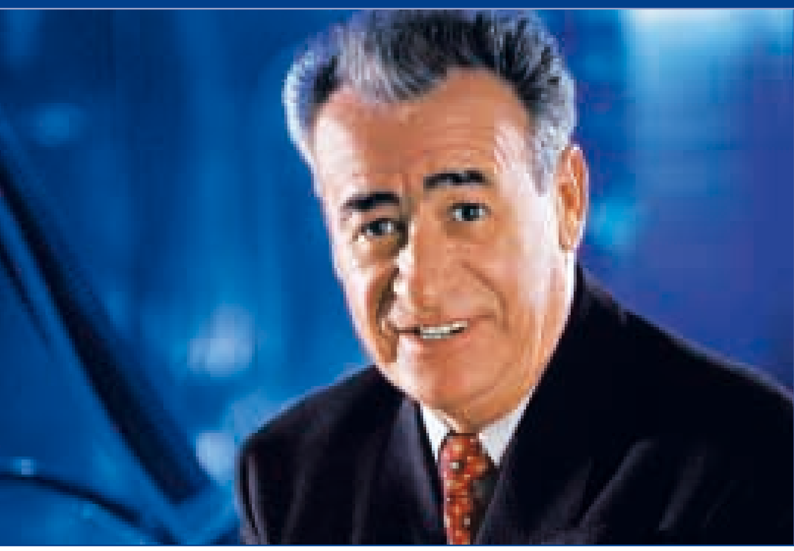
As employees continually improve, so management skills automatically improve in return. Good bosses and good employees go hand in hand.

Employee quality is 'infinite'

RATIONAL has exceptionally good employees. Our enduring success over many years bears impressive testimony to this fact. Every year we keep on fulfilling the sporting aspiration set out in our corporate principles:

"We are a top team playing in the champions' league."

This aspiration thrives in the globally competitive environment year after year – and so do we.



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 vast experience and guidance.

RATIONAL – on course for international growth

First signs of a sustained recovery in the global economy

Despite the positive forecasts from the economic pundits, the global economy remained generally sluggish in the first half of 2003.

However, developments in the last few months of the year pointed to a sustained improvement. The signs of an actual global recovery are becoming clearer all the time.

The US economy has already again posted two quarters of strong growth and is set to grow a good 5 percent in the second half of 2003. The growth rate of the Japanese economy also proved surprisingly buoyant in the second half of the year, with forecasts of 2.6 percent.

Europe in contrast was still struggling throughout 2003. Running at just 1.8 percent, the rate of growth remained virtually at the previous year's levels. Nonetheless, OECD leading indicators do show the first tentative signs of improvement for the eurozone.

Buoyant economies in the Far East

Asia – and particularly China – has over the past few years turned into the powerhouse of the global economy. Since China opened up its economy at the end of the seventies, year-on-year growth has averaged 7 percent.

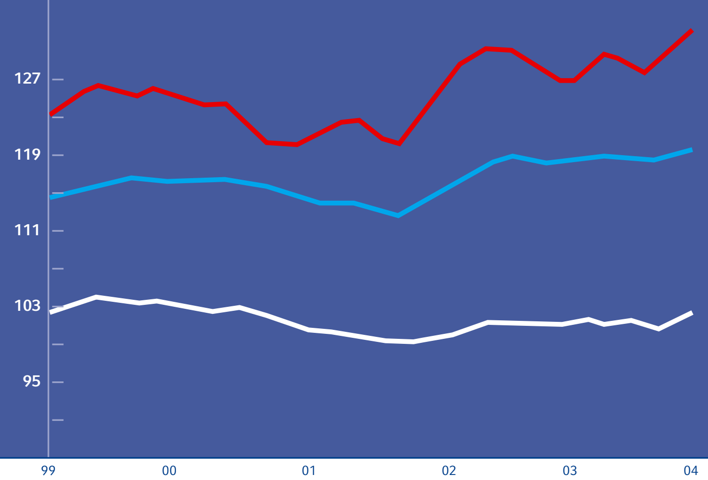
By 2011 China could replace Germany as the world's third largest economy and by 2015 is set to overtake the likes of Japan and the USA.

RATIONAL – 9 % unit growth despite consolidation

Given the uncertainty surrounding the economy as a whole, we also focused on consolidation in 2003 rather than global expansion. Thanks to this consolidation strategy, we again managed to hold administration and sales overheads in the reporting year at the level of the previous two years, even in absolute terms. The 9 percent unit growth in 2003 is therefore entirely down to increased efficiency in all our corporate divisions. Company quality has been increased correspondingly on a sustained basis.

Global economy

OECD leading indicators*

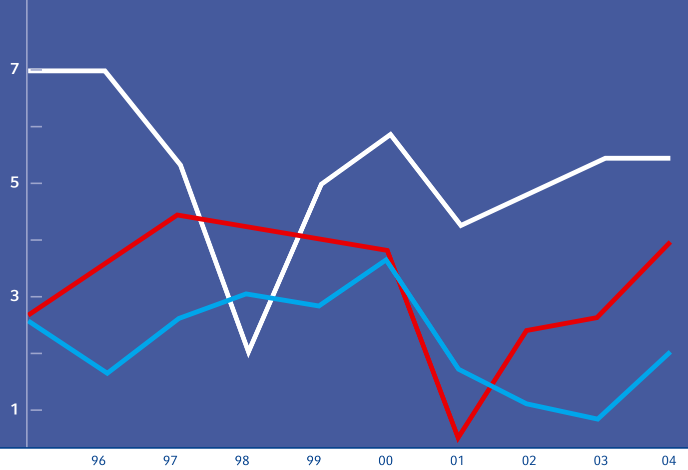


USA ○ Eurozone ○ Japan

* Indicator base, 1990 = 100; Source: OECD

Buoyant economies in the Far East

Economic growth in the key international regions
(Change vs. previous year in percent)



USA ○ EU ○ Asia

Forecast: Source: DekaBank, IMF

Sales in the year under review rose by € 9.2 million from € 177.3 million to € 186.6 million. The more restrained sales growth of 5.2 percent is due to the strength of the euro in relation to the major foreign currencies, in particular the US dollar, Japanese yen and pound sterling.

EBIT margin hits record levels at 23 %

Ongoing process optimisation and productivity increases in production led to a decrease in cost of sales per unit. The slight reduction in gross margin from prior years 59.2 percent to 58.1 percent is entirely due to negative currency impacts on the sales revenue line. Costs for sales, marketing and service were held even below the previous year's level, including in absolute terms.

EBIT of € 42.3 million was up 11 percent on the previous year (€ 38.2 million). At the same time, the EBIT margin rose from 21.5 to 22.7 percent.

World market share rises to 49 %

Our technological edge, combined with the ever increasing efficiency of delivering the unique message of RATIONAL benefits to prospective customers, has enabled us to keep increasing our market share significantly over the past few years. Consequently, RATIONAL's world market share also rose in the reporting period from 47 to 49 percent.

Every second unit installed around the globe is now from RATIONAL. This fact reflects the impressively high levels of customer acceptance and competitiveness of our products and services.

Strong growth in foreign subsidiaries

Our own subsidiaries allow us to turn prospects into new customers more effectively year after year. This success is built on the consistent implementation of the worldwide RATIONAL sales and marketing process. In 2003 our foreign subsidiaries again grew strongly at 10 percent in local currency and have made an important contribution to ensuring the stability of our business development.

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.

Breakthrough in Asia: 32 % sales growth

RATIONAL AG's business development was exceptionally successful in the strategically important Asian region. With sales up 32 percent, Asia was the fastest growing area within the RATIONAL Group in 2003 and has already become the second-largest sales market behind Europe. We have created an excellent basis to tap into significant future potential in this important economic area.

Our Japanese subsidiary has seen double-digit growth for a number of years despite the difficult economic climate. In 2003, it again made an above-average contribution to RATIONAL's success by posting a 19 percent increase in sales in local currency. Together with our Japanese OEM partner, we are also by far the market leader in Japan, with a 39 percent market share. This trend is evidence that RATIONAL technology is gaining momentum in the Japanese professional kitchen business.

Success in the Fast-Food-Business

China is one of the world's most important potential markets. In 2003, we managed to break through in the fast-food chain segment. Each of over a thousand Kentucky Fried Chicken (KFC) restaurants was fitted out with RATIONAL technology. RATIONAL's ability to stave off the competition was mainly due to its cooking competence. RATIONAL was the only company able to meet all KFC's special requirements for fully automated cooking processes for sensitive dishes. Flexible applications, a small footprint, great potential for productivity improvements and extremely simple operation have also made RATIONAL technology the choice of customers.

The daily increase in the number of KFC restaurants in China coupled with the opportunity to install several additional appliances in each existing restaurant will open up additional opportunities for growth in the future. The nationwide distribution of RATIONAL technology that is now in place has also had a positive knock-on effect on the future development of our Chinese professional kitchen business as a whole.

The RATIONAL benefits message as key success factor

The best product at the best price is of no use if prospective customers are not aware of our products. The global delivery of our unique benefits message year after year as we consistently improve the quality, and increase the frequency and reach of that message, is key to becoming more efficient at turning prospects into customers.

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.

In 2003, we increased direct customer contacts overall by 41 percent, and advertising and PR contacts by an impressive 107 percent. As such we have managed to bolster awareness of RATIONAL technology systematically worldwide and, in turn, create a solid base for short and medium-term growth.

RATIONAL company quality: Ranked No. 1 in Germany

RATIONAL received the 2003 GEO Award from renowned management consultants A.T. Kearney in conjunction with the business magazine 'Produktion'.

GEO stands for 'Global Excellence in Operations'. The award evaluates the entire supply chain management function as well as performance results in relation to customer satisfaction, quality, economics, agility and innovation.

In the opinion of the expert jury, RATIONAL received this award in particular on account of its excellent, enterprise-wide process organisation. The overall process, from product development through targeted customer acquisition and retention, to order-related production including the seamless integration of suppliers, was singled out for particular praise.

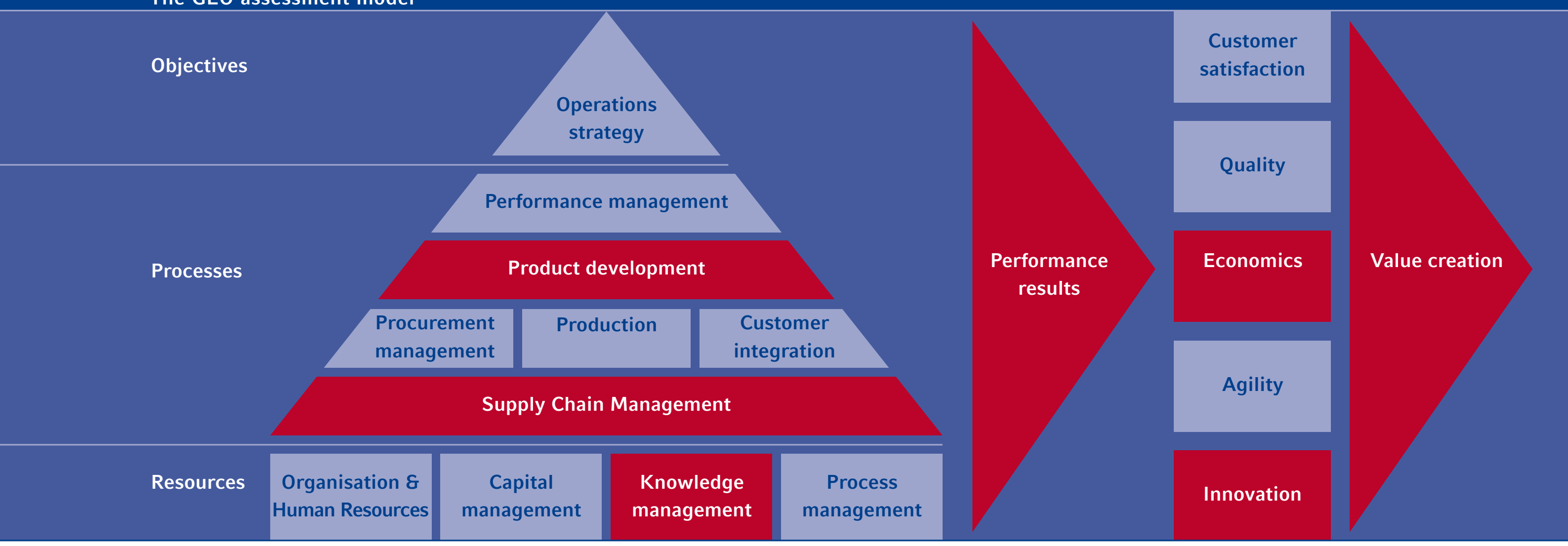
"This award shows that the proposition in the RATIONAL corporate principles: – We are a top team playing in the champions' league – is embraced in practice by staff and management as a whole", says the editor-in-chief of the business magazine 'Produktion'.

RATIONAL system suppliers – the hallmark of quality

As a company with little vertical integration, the quality and reliability of our suppliers is crucial. Following the principle of extending our production facilities outside the company, we have formed close partnerships with our system suppliers. The basis for our successful cooperation is provided by the following factors:

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

The GEO assessment model



Source: A.T. Kearney

Annual award for the best suppliers

The RATIONAL supplier evaluation system not only looks at product quality in greater detail but also considers the quality of cooperation with each supplier. As part of the 2003 supplier conference, five companies received special awards for their excellent services in 2002. This award is at the same time an incentive for all suppliers to improve continually and to compete along sporting lines.

Global process and system integration creates optimum transparency

In 2003, an efficient, globally standardised 'order to cash' process was developed and accordingly implemented for all foreign subsidiaries. This was the prerequisite for integrating all subsidiaries into our centralised IT system, and rendered all local customised systems superfluous. Information is now available at RATIONAL globally, based on exactly the same rules and in the same format.

Preventive auditing

Based on this information a new groundbreaking audit concept was developed in 2003. Apart from conventional auditing, key areas in this respect include prevention, uniform process and risk assessment and continuous benchmarking of all corporate processes both against each other and over time.

In relation to controlling, system integration now adds a complete new dimension to quality. Increased quality controlling of all global value drivers within the company along with the development of even more efficient early-warning systems are central to this process.

Top position under the best employers

Especially in economically difficult times, qualifications, creativity, involvement and the identification of all staff with the corporate goals are crucial to success. The general level of employee satisfaction largely determines how motivated employees are. To ascertain where we stand and compare the survey results on an industry-wide basis, we worked together with the Institut NFO/Infratest to complete this year’s employee survey.

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.

The key questions for the industry-wide comparison were:

- General satisfaction with working at RATIONAL,
- Recommending RATIONAL as an employer to friends and acquaintances,
- Willingness to re-apply to RATIONAL,
- Assessment of colleagues' commitment,
- Competitiveness of RATIONAL as a company overall.

“In a representative survey we calculated an average score of 60 points for Germany. 10 percent of the best companies in Germany achieve 76 points on average. RATIONAL scored 91. You can be proud of your company in every respect”, said Dr. Scharioth, Managing Director of NFO/Infratest.

RATIONAL is among the crème de la crème of German companies.

Positive Outlook for 2004

We are looking to 2004 with high expectations. The present moderate upturn is likely to continue in all the world's industrialised nations. 3 percent growth will mean the global economy is once again set to see a modest upturn.

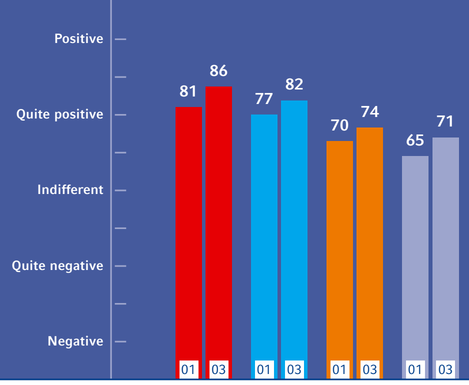
We expect to see strong economic growth particularly in the emerging nations such as China, Russia and Latin America. As far as major foreign currencies are concerned, we assume exchange rates will stabilise at around the current level.

Expansion of the global sales and marketing network

To date only around 20 percent of the global 2.5 million prospective customers have switched to state-of-the-art combi-steamer technology. In effect, 80 percent of the available market potential is currently still untapped. Therefore activities for 2004 will essentially focus on the consistent further expansion of our global sales and marketing network based on existing potential. Against this backdrop we are optimistic of seeing a double-digit increase in sales and earnings in 2004.

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

I enjoy working at RATIONAL.



- I enjoy working
- I have sufficient scope to work using my own initiative
- The attitude to work/work ethic in my (sub-)process is good
- Content and quality of teamwork

Investor Relations

RATIONAL – the jewel in the SDAX

Following the downturn in 2001 and 2002, the stock market as a whole again picked up sharply in 2003. All the German indices (DAX, MDAX, TecDAX and SDAX) posted considerable share price gains.

RATIONAL shares have once again lived up to expectations of being the jewel in the SDAX, with a share price increase of around 50 percent during the year under review. RATIONAL is also one of the few quoted stocks whose price has never fallen below the 2000 issue price of € 23.

In addition to the increase in the share price, the attractive dividend policy also speaks volumes for RATIONAL shares as a high-yield form of investment. The dividend proposal for 2003 made by the Executive Board and the Supervisory Board amounts to € 1.85 per share. It includes a special bonus of € 0.45 per share due to the 30th anniversary of the company.

Trend towards stable revenue and growth figures – Buy and Hold

This welcome development came on the back of increasing interest among institutional investors in stocks delivering strong, stable growth. These investors are mainly interested in a sustained, continual increase in value rather than short-term speculative gains.

In 2003, we also succeeded in recruiting other reputable investment houses to provide regular coverage of RATIONAL shares. The financial analysts are convinced of the company's prospects of success and, virtually without exception, recommend buying its shares.

Financial calendar 2004	
March 18, 2004	Balance Sheet Press Conference
March 18, 2004	DVFA Analysts' Conference
May 6, 2004	2004 1st Quarter Results
May 12, 2004	Shareholders' Meeting
August 5, 2004	2004 Half Year Results
November 11, 2004	2004 9-Month Results
November 2004	GMCC Frankfurt

Share key figures in euros	2003	2002
Consolidated earnings per share	2.36	2.34
Cash flow from current activities per share	2.62	2.81
Share price high	48.50	44.75
Share price low	25.32	27.00
Share price close	45.01	29.97
Market capitalisation (year-end)	€ 512 million	€ 341 million
Shares issued (year average)	11,370,000	11,370,000

Research Coverage 2004/03

CAI-CHEUVREUX	January	Outperform
Independent Research	November	Buy
HSBC Trinkaus & Burkhardt	November	Buy
Sal. Oppenheim	November	Outperform
Commerzbank AG	November	Hold
HypoVereinsbank AG	November	Outperform
LBBW	November	Buy
Berenberg Bank	October	Buy
Cazenove	August	Hold
Citigroup Smith Barney	July	Outperform
Dresdner Bank	June	Buy
KBC Peel Hunt	January	Buy

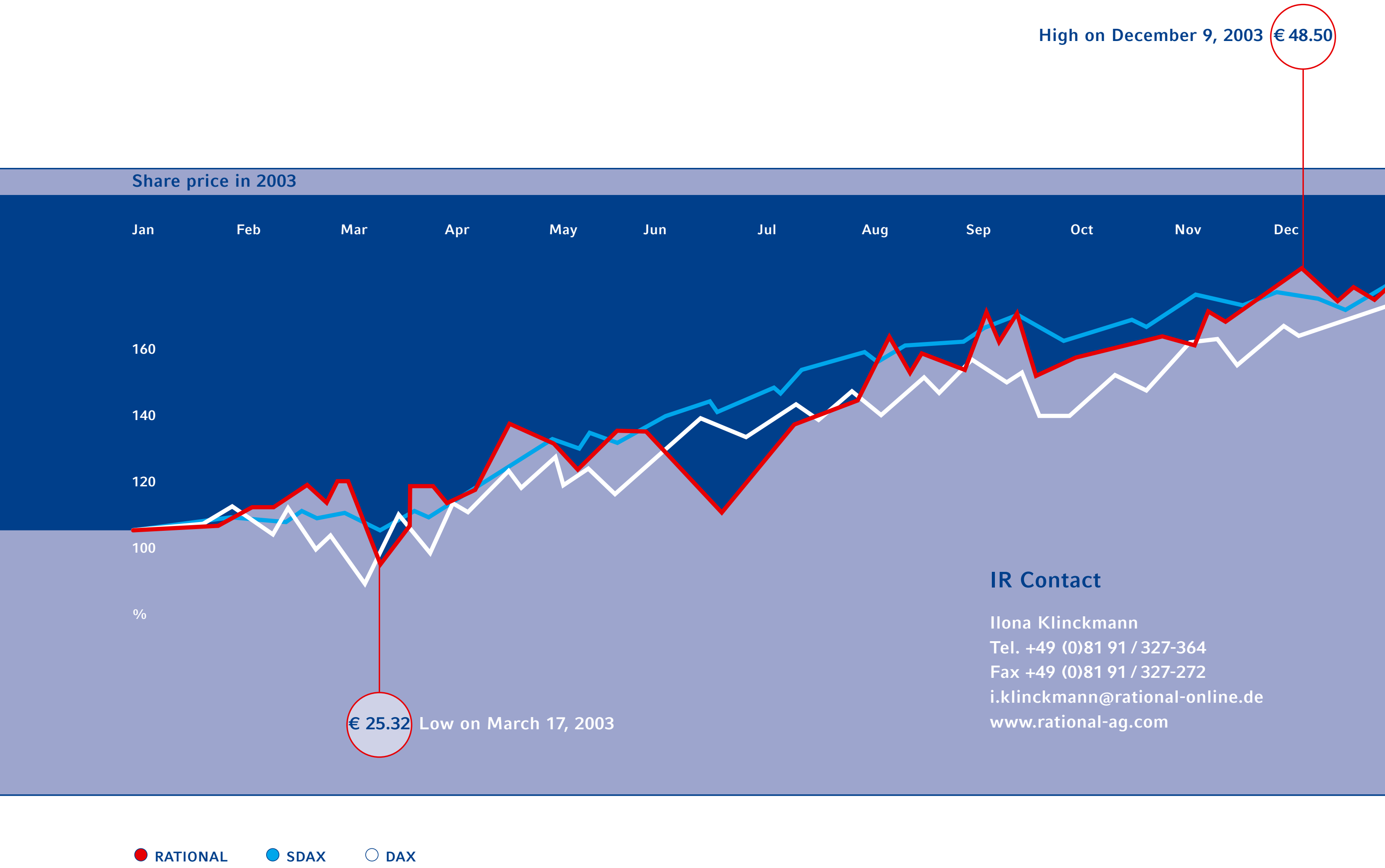
Company of the Year – 2nd place goes to RATIONAL

Professor Küting of the University of the Saarland conducts an annual analysis of quoted companies on behalf of the financial magazine FOCUS MONEY. Assessment criteria include earning power and the quality of information in their annual reports. In the SDAX category, RATIONAL obtained second place in 2003 as 'Company of the Year'. Among all the 155 analysed quoted companies spanning all sectors of the stock market, RATIONAL was ranked an excellent second place in terms of earning power.

Investor relations activities

A low free float and the associated relatively low liquidity always entail the risk of sudden share price fluctuations where larger transactions are involved. Targeted investor relations activities by the Executive Board lower this risk at RATIONAL.

International roadshows in Europe and the USA as well as attendance at numerous analysts' conferences have brought RATIONAL to the attention of more and more institutional investors. These investors are watching RATIONAL shares with increasing interest and form a growing pool of potential investors that are simply waiting for an opportunity to buy.



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Events 2003

Paris roadshow

January

Award conferred for the best improvement proposals (CIP)
In the 1st quarter of 2003 the best of 1,179 improvement proposals implemented were singled out for special praise. These cut costs by € 714,000.

February

Balance sheet press conference and DVFA conference

March

Major contract from Kentucky Fried Chicken (KFC)
More than 1,000 KFC restaurants in China will be fitted out with RATIONAL technology in 2003.

Edinburgh roadshow

April

London roadshow

Shareholders' Meeting 2003
At the Shareholders' Meeting of RATIONAL AG on May 7, 2003, management received broad-based approval of the shareholders present. All items on the agenda were unanimously adopted.

May

Supplier conference

Five companies were singled out in particular for excellent work in 2002 during the supplier conference held in May 2003.

Open Day
More than 5,000 visitors were shown around the RATIONAL production facilities in Landsberg on July 5 as part of the Open Day.

July

FOCUS MONEY – Company of the Year
Among the 155 analysed quoted companies spanning all sectors of the stock market, RATIONAL AG was ranked an excellent second place in terms of earning power.

Edinburgh roadshow

August

London roadshow

Representative office opened in Moscow
On September 3, RATIONAL opened a representative office in Moscow. The sales office allows the high-growth Russian market to be served in a more effective, targeted manner.

September

'Product Innovation of the Year 2003'
This award was conferred on RATIONAL for its ClimaPlus Combi® as the best innovation in the entire sector by the US magazine 'Foodservice Equipment & Supplies'.

October

November

GEO Award
RATIONAL wins the 'Global Excellence in Operations' (GEO) award from the business magazine 'Produktion' and management consultants A.T. Kearney.

German Mid Cap Conference of DVFA in Frankfurt
RATIONAL AG took part in the German Mid Cap Conference of the German Society of Investment Analysts and Asset Managers (DVFA).

November

Equity capital forum held by the Frankfurt stock exchange and KfW Mittelstandsbank
Under the motto 'Entrepreneurs meet investors', the Executive Board of RATIONAL AG took part in a panel discussion on the topic: 'RATIONAL – a Hidden Champion'.

Paris roadshow

December

Simple is Better

RATIONAL is specialised and has an integrated process organisation. There is absolutely no place for complexity, bureaucracy or mediocrity at RATIONAL. Absolute transparency, competition and predictability are the main-spring of our continuous development.

Simple overall strategic focus

Focus on a single target group

A key component in RATIONAL's success is the way it consistently focuses all resources on a single, clearly defined target group. Thanks to this focus we have the necessary freedom to maintain an intimate relationship with this target group and become part of their world. We know their desires and needs and hence are better placed than others to solve their problems and continuously improve their working environment.

Specialisation beats diversification

From the outset, 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. RATIONAL’s global image today is characterised by the chefs we employ. All members of RATIONAL’s sales staff are chefs. They speak the same language as our customers and can offer complete tailor-made solution concepts.

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 and electrical engineers working in product development.

Customer benefits as our overriding corporate goal

Our overriding corporate goal is to offer people all over the world who cook food in professional kitchens the best and largest range of benefits. Thanks to this clear corporate focus, we have managed to further increase customer benefits year after year. RATIONAL is becoming an ever more attractive partner for its customers as we continually extend this competitive lead. The company's increasing success creates scope for additional new investments in ever greater customer benefits and product appeal.

The overall strategic focus of the company is firmly linked to RATIONAL's guiding principles. Set out on a single page, the guiding principles are easy to understand and are clearly formulated.

Our guiding principles

RATIONAL
...because details make the difference

The RATIONAL company objective

We offer the people working in commercial kitchens the most beneficial solution to their cooking tasks.

Our philosophy

1. We are specialists because we know that we can serve our well defined target group most effectively and clearly by concentrating all our efforts on an important, central need of this target group and solving their problems – better than others can – in an optimum manner.
2. **We are a winning team**
   We are a top team playing in the champions' league.
3. **We are product leaders**
   We promise our customers the best possible technology and quality at a reasonable price. We always fulfil this promise.
4. Growth, stability and profit are not objectives but outcomes. They improve all the more as our customer benefits improve.

Tasks and objectives in dealing with our customers (external and internal) and suppliers

1. We build up an intimate relationship with our target group. We know the desires and needs of our customers.
2. Our main task is to offer our customers the maximum benefits.
3. RATIONAL staff members are always frank, sincere and honest.
4. We offer our suppliers a long-term, reliable partnership. In return we expect loyalty, quality, commitment, flexibility and innovation.

Tasks and objectives of RATIONAL staff members

1. We respect our staff members as mature, self-motivated and responsible people – and we treat each other accordingly.
2. We expect from our staff members performance, commitment, a sense of responsibility and loyalty. Our staff members expect the same from us.
3. RATIONAL managers behave like gardeners: They prepare the ground for the best possible personal and professional development of our staff members.
4. RATIONAL managers are partners to their staff members:
   - they lay down clearly defined objectives
   - they prepare the ground for reaching those objectives
   - they review the achievement of targets with their staff members.

Success through process organisation

Integral tasks and clear responsibility

RATIONAL is organised in a practical manner along the entire customer order process. The enterprise-wide integrated process organisation is characterised by integral, natural, clear, self-contained tasks. Superfluous interfaces and conventional departments have been eliminated completely. Staff at RATIONAL know their objectives and tasks and, in turn, their contribution to the company's success. As entrepreneurs within the enterprise, they assume personal responsibility for a particular sub-process and take any necessary decisions themselves.

In effect, the RATIONAL process organisation abandons the concept of organising work on the basis of the extensive division of labour that is management-intensive by its very nature. All of which ensures we don't lose sight of the larger picture. At the same time, we leverage the know-how and training of our staff to the full. As a result, Germany has distinct advantages as a business location.

Self-contained tasks and clear responsibility. RATIONAL has an integrated process organisation.

Short innovation process

Efficiency is a key challenge, particularly in the research and development area. For this reason, research and development at RATIONAL follows a pre-set, binding innovation process. Consistently involving all players from the outset (simultaneous engineering) has enabled us to cut development times by up to 60 percent.

The integrated innovation process begins with basic research and right from the concept phase embraces aspects such as application research, customer service, marketing and production. The progress of the project is monitored against the five defined milestones of innovation release, implementation order, prototype release, marketing release and readiness for series production.

RATIONAL is by far the product leader in its field

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 provide 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 the quality, durability, versatility and range of uses of its products. Further strengths include their facility for continuous operation and their robustness, ease of use and reliability. Customers also assign above-average marks to the appliances' general handling.

Standardised global sales process

The success of RATIONAL products is not only attributable to excellent quality and technology but also to a modern sales organisation.

Our company has representatives in over 85 countries around the world with appropriate sales networks.

The RATIONAL sales process is described clearly, transparently and measurably, and is structured uniformly around the world. The customer order is the end result of the following process chain:

- Customer knowledge,
- Customer selection,
- Customer contact,
- Cooking Live,
- Follow-up,
- Order intake.

Worldwide networking and Customer Relationship Management

A global CRM (Customer Relationship Management) system documents the RATIONAL sales process and all customer-related activities. This transparency enables the activities and performance of all sales staff to be compared worldwide and systematically optimised based on the principle of 'Learning from the Best'. At the same time, a detailed customer history is put together.

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" makes it easy for all prospective customers to see for themselves the products' quality, applications, high returns and ease of use in a realistic setting before taking any decisions.

Customer retention through application consulting

Following the purchase, RATIONAL uses application consulting to highlight key features. Professional instruction immediately after installation is just as much a part of the package as ongoing user support via the Chef@Line.

Recipes from the world's cuisines archived in the RATIONAL recipe library are available to our customers at any time via the internet. With CombiLink®, the selected recipes can be loaded directly into the ClimaPlus Combi®'s memory, enabling, for example, a 'Chinese Week' to add extra appeal and variety to the menu.

Maximum flexibility in the production and supply process

RATIONAL has moved away from traditional assembly-line production based on the division of labour to flexible independent manufacturing islands. Each member of staff assembles a complete appliance based on the 'one-piece flow' concept. By adding their name to the type plate, staff personally guarantee the quality of an appliance.

Units are produced entirely on a customer order-related basis. Flexitime accounts mean staff can respond independently to fluctuations in new orders. In addition to working hours, the process team also plans materials requirements. Materials are sourced almost entirely under the kanban system.

Minimal inventories while maintaining a high degree of flexibility, continually improving productivity and quality are the upshot of this organisational form.

RATIONAL's state-of-the-art production and supply process has received many awards in recent years. RATIONAL won the industry-wide 'Factory of the Year 1999' award sponsored by the business magazine 'Produktion' and management consultants 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.

Management – simple, but not easy

Leadership is more than management. RATIONAL managers see themselves as the first among equals. They help employees consistently perform better. Good bosses and good employees go hand in hand.

Management is the key to success – simple, but not easy

Tight management and ambitious targets

Carefully selected, motivated staff, continual innovation in all corporate divisions as well as reliance on one's own strengths are the necessary prerequisites for the sustainable success of RATIONAL. The basic principles of RATIONAL management are set out simply and are implemented uniformly worldwide.

Management is our prime responsibility

The know-how and skills of our staff are our most important corporate asset. Based on our management culture, we continually develop our staff’s skills and, in turn, boost entrepreneurial quality.

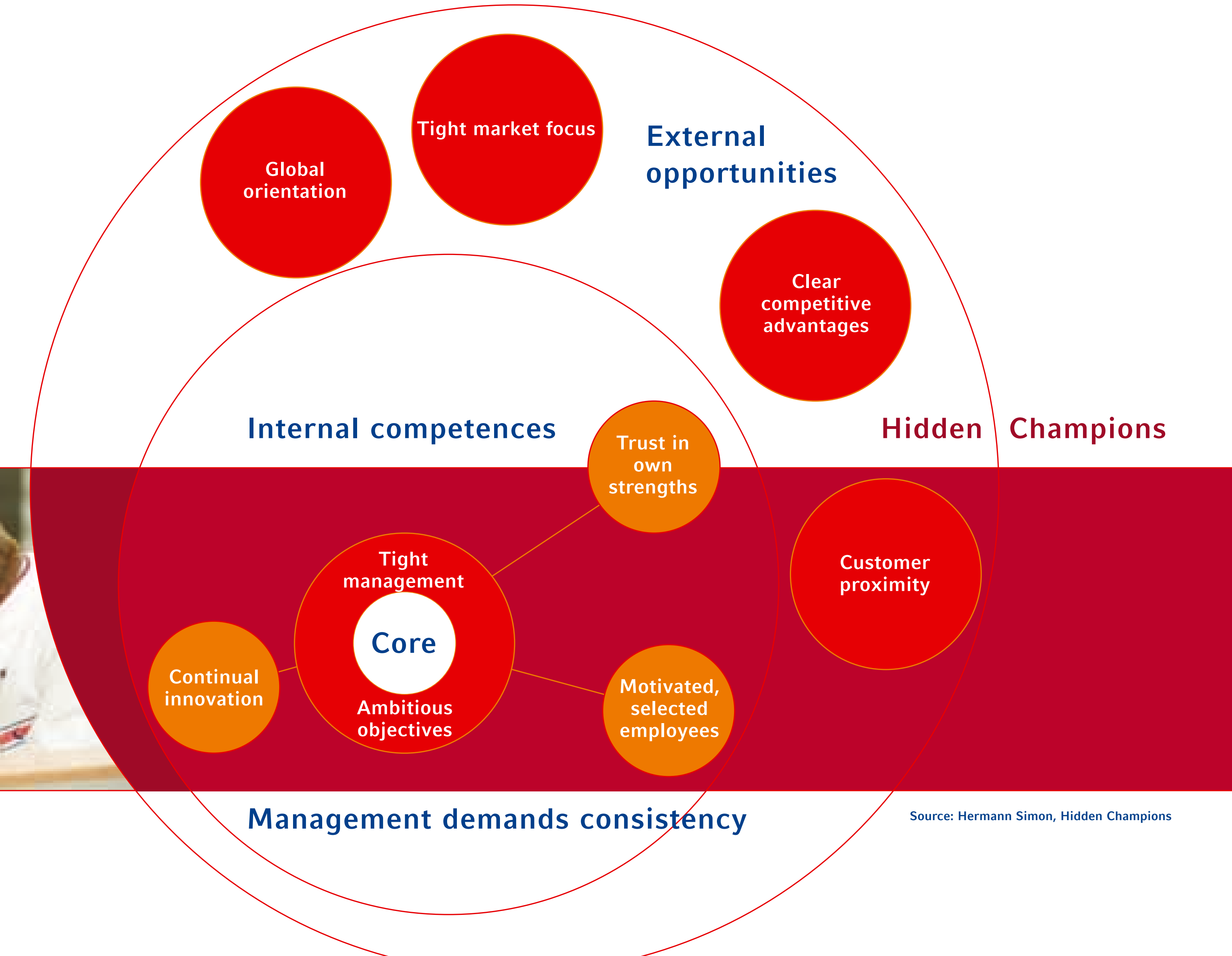
Innovation and creativity, identification and personal responsibility of our staff are decisive competitive factors. Management at RATIONAL therefore creates the conditions under which employees can develop these key skills. This is done on the basis of clear structures, delegating responsibility and targeted promotion of staff by encouraging them to think and act along holistic entrepreneurial lines.

Management requires trust

RATIONAL managers create a climate of openness and credibility in which trust can flourish. Mutual trust demands that RATIONAL managers can also accept and deal with criticism constructively. Trust is the bedrock on which our staff's readiness to identify and cooperate with the company is built. Mistakes are reduced significantly because staff are encouraged to think for themselves and act accordingly using their own initiative.

Management demands consistency

Delegation requires appropriate control. Recognition or constructive criticism follows. Criticism with no pointers on how to improve is unacceptable. Recognition and criticism are essential to the ongoing further development of staff and demand a consistent approach.



Source: Hermann Simon, Hidden Champions

Top position: RATIONAL under the 10 % of the best employers

Employee satisfaction – key to success

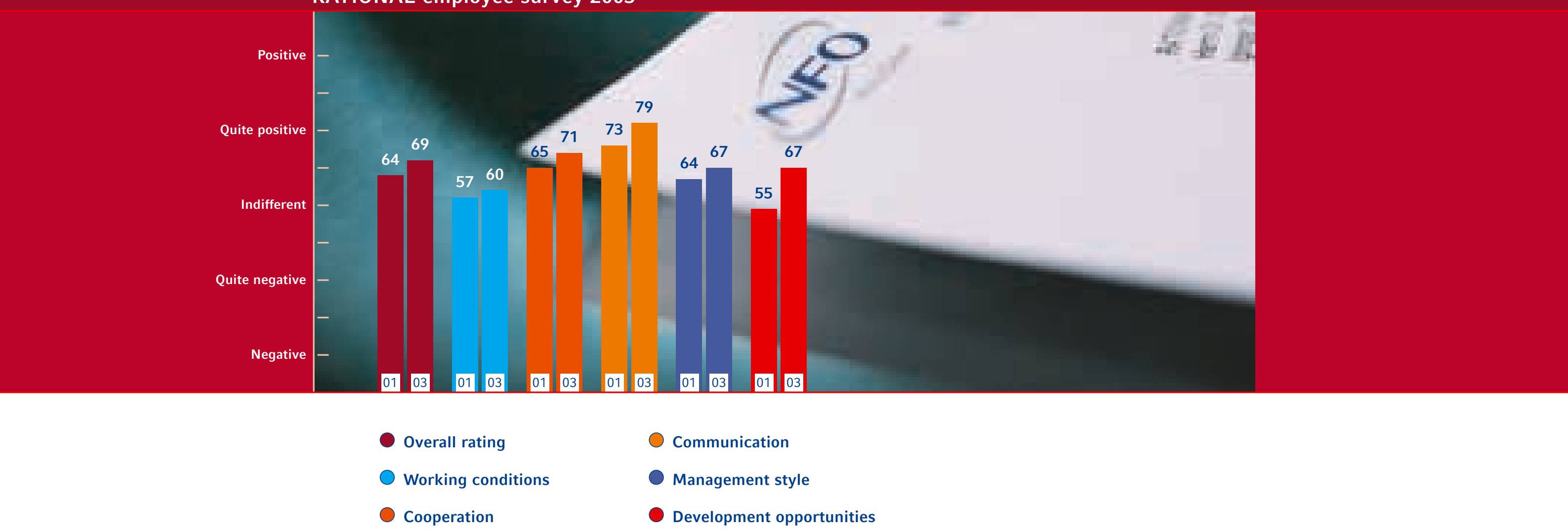
In October 2003 we again carried out an employee survey. The key areas for the survey focused on the organisation of work, working conditions, the form of cooperation, management approach and staff development opportunities. The results show clear improvements in all areas compared to the prior survey done in 2001.

I enjoy working at RATIONAL

RATIONAL employees work highly efficiently as entrepreneurs within the company. They take their own decisions on matters affecting their area of work. There is no room for pure decision-makers and staff personnel. Our integrated process organisation avoids useless interfaces and leads to self-contained areas of responsibility. In particular, this increases the identification of all employees with their tasks and the company as a whole.

Comments from the employee survey such as "I am proud to work for RATIONAL" or "RATIONAL is also a top-class employer" show that employee satisfaction at RATIONAL is as it should be and is one of the key success factors.

RATIONAL employee survey 2003



RATIONAL – top in Germany

To see where we stand and compare the survey results on an industry-wide basis, we worked together with the Institut NFO/Infratest to complete this year's employee survey. The key questions for industry-wide comparison were:

- General satisfaction with working at RATIONAL,
- Recommending RATIONAL as an employer to friends and acquaintances,
- Willingness to re-apply to RATIONAL,
- Assessment of colleagues' commitment,
- Competitiveness of RATIONAL as a company overall.

"In a representative survey we calculated an average score of 60 points for Germany. 10 percent of the best companies in Germany achieve 76 points on average. RATIONAL scored 91. You can be proud of your company in every respect", said Dr. Scharioth, Managing Director of NFO/Infratest.

RATIONAL is among the crème de la crème of German companies.

Simply more reliable

Excellent product technology and the tremendous world market potential still untapped also take the uncertainty out of RATIONAL's future success. This is a major benefit for our customers, partners, employees and shareholders.

Simple business model for higher security

The simple overall strategic focus of our company described above, coupled with the global positioning of our product technology and the tremendous untapped world market potential take the uncertainty out of RATIONAL's future success. This represents a major benefit for customers, partners, employees and shareholders.

Internationally successful

RATIONAL products are now sold in more than 85 countries around the world. RATIONAL technology has therefore proven its high levels of acceptance internationally. Many years of organic growth are impressive testimony to the company's undoubted international expertise in systematically acquiring new customers. Despite this success, only about 20 percent of international sales potential has been exploited. Major growth potential still exists in Europe, but particularly in America and Asia.

The international nature of our business cushions us against possible downturns in individual markets.

Big productivity improvements

RATIONAL technology brings big improvements in productivity for our customers. It pays for itself within 4 to 12 months. Even in economically difficult times, investments are still made in productivity improvements. This means our business is less dependent on economic cycles.

The RATIONAL share – a growth stock with earning power

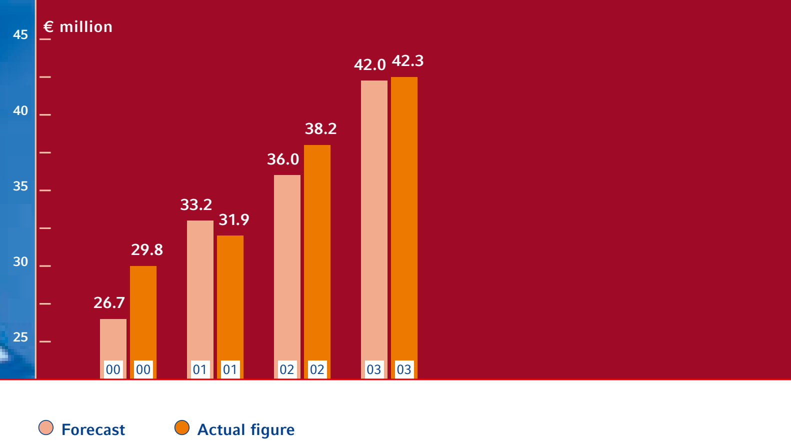
RATIONAL's high earning power is not the result of high selling prices but primarily the result of having efficient corporate structures and processes, a low level of complexity within the enterprise, and tremendous economies of scale enjoyed by the world market leader.

The low tie-up of funds and capital with continually rising earning power means cash flow grows annually. This enables us to finance growth from our own resources while at the same time distributing attractive dividends to our shareholders.

The planned business development will continually raise the value of RATIONAL as a company. Increasing business value is an ideal basis for a corresponding development in the price of RATIONAL shares. In addition to the increase in the share price, the attractive dividend policy also speaks volumes for RATIONAL shares as a high-yield form of investment.

The dividend proposal for 2003 made by the Executive Board and the Supervisory Board amounts to € 1.85 per share. It includes a special bonus of € 0.45 per share due to the 30th anniversary of the company.

EBIT: Forecast and actual figure



Corporate Governance

Background

The term Corporate Governance stands for responsible management and control of businesses, geared to long-term value creation. Efficient cooperation between Executive Board and Supervisory Board, consideration of shareholders' interests, openness and transparency in corporate communication are essential aspects of good Corporate Governance.

RATIONAL AG has always striven for corporate openness and transparency, and hence welcomes the German Corporate Governance Codex, published by the Government Commission on February 26, 2002 and most recently amended on May 21, 2003.

RATIONAL AG is an Aktiengesellschaft (public limited company) under German law, and hence is administered by an Executive Board and a Supervisory Board. On February 18, 2003 the Executive Board and Supervisory Board submitted the first declaration of compliance with the recommendations of the Government Commission on the German Corporate Governance Code pursuant to para. 161 of the German Stock Companies Act (Aktiengesetz).

Further to the amendments to the code decided by the Government Commission on the German Corporate Governance Code on May 21, 2003 we have updated the declaration of compliance.

Declaration of compliance by RATIONAL AG

The Executive Board and Supervisory Board of RATIONAL Aktiengesellschaft declare pursuant to section 161 German Stock Companies Act (Aktiengesetz):

RATIONAL Aktiengesellschaft complies with the recommendations of the Government Commission on the German Corporate Governance Code, with the exception of the divergences listed below:

Re 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 deduction should be agreed."

A Directors' & Officers' insurance policy has been taken out for the members of the Executive Board and Supervisory Board under the general property and liability insurance without any specific deduction for the insured parties.

Re 4.2.4 "Compensation of the members of the Management Board shall be reported in the Notes of the Consolidated Financial Statements subdivided according to fixed, performance-related and long-term incentive components. The figures shall be individualised."

With the exception of the individualised figures for Executive Board compensation, this provision is complied with in full.

Re 5.3 "Formation of committees"

Forming committees of the Supervisory Board to handle complex issues, such as an Audit Committee, is not appropriate for RATIONAL Aktiengesellschaft because the Supervisory Board of RATIONAL Aktiengesellschaft consists of only three members. Forming committees comprising fewer than three members of the Supervisory Board would not result in any further increase in the efficiency of the Supervisory Board.

Re 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 do not currently receive performance-related compensation, though there are plans to introduce this in future.

Landsberg, January 2004
RATIONAL Aktiengesellschaft

The Supervisory Board **The Executive Board**

Simply successful
Management Report

With EBIT running at € 42.3 million, the EBIT margin of 22.7 % has set a new record. High cash flow finances all necessary investments and still provides scope for an excellent dividend.

Note: The graphs, graphic elements and photos included in this annual report are not part of the unqualified opinion of the auditors regarding RATIONAL AG's financial statements.

Economic Report

Business environment

Weak economy in 2003

The expectation harboured at the start of 2003 that the global economy would see a sustained recovery across the board after a quick end to military hostilities in Iraq proved unfounded. The overall economic growth forecasts were overly optimistic. In turn, the reluctance on the part of government and individuals to invest, despite base rates hitting historic lows, did not generate the hoped-for momentum to upturn the economy in 2003.

Overall economic situation

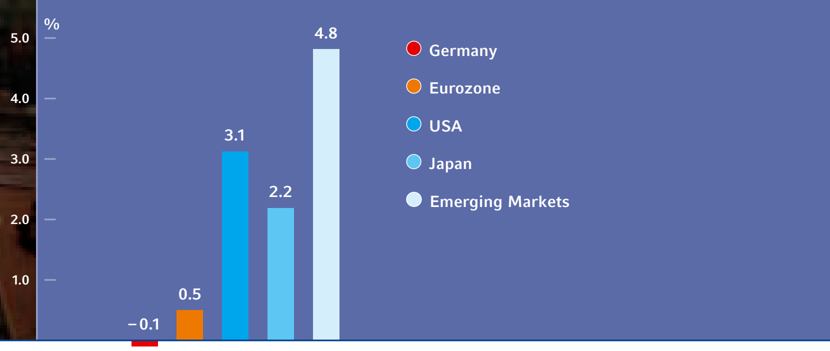
First signs of a sustained recovery

In the last few months of the year however, the situation has picked up on a sustained basis. The signs of an actual global recovery are becoming clearer all the time.

The gross domestic product (GDP) of the US economy again rose sharply in the third and fourth quarters of 2003 and should see 3.1 percent year-on-year growth. The Japanese economy also proved surprisingly buoyant in the second half of the year, with GDP set to rise 2.2 percent compared with the previous year.

Europe was still struggling throughout 2003. Running at just 0.5 percent, the rate of growth in the eurozone remained virtually at the previous year's level. Average annual investment for 2003 is expected to fall below even the 2000 level. Nonetheless, OECD leading indicators do show the first tentative signs of improvement. The assumption is that we will see a general increase in consumer demand coupled with an increasing willingness on the part of companies to invest, albeit a little further down the line.

2003 Development of GDP*



Source: Deutsche Bank Research, last revised February 6, 2004, http://www.db-rbf.de

*) The quoted figures for 2003 are based on actual values for the first three quarters and on a forecast for the fourth quarter.

Buoyant economies in Asia

Asia – and particularly China – has over the past few years turned into the powerhouse of the global economy. Since China opened up its economy at the end of the seventies, year-on-year growth has exceeded 7 percent. By 2011, China could overtake Germany as the world’s third-largest economy and by 2015 is set to overtake the likes of Japan and the USA.

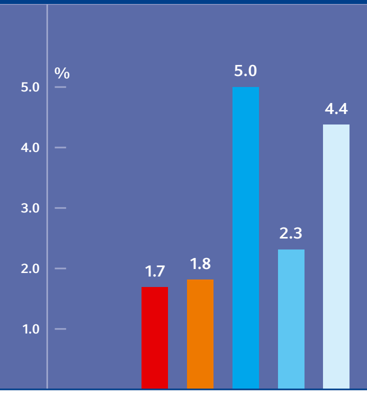
Industry situation

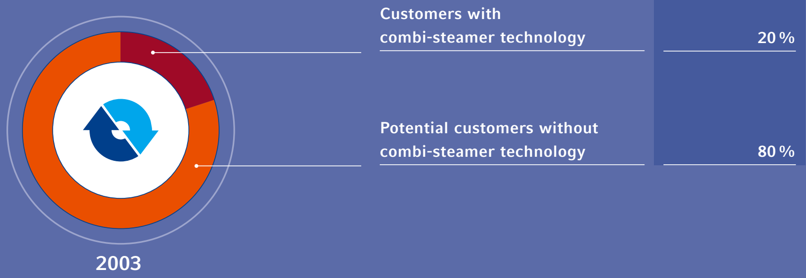
Major global sales potential

RATIONAL is the specialist in preparing food thermally in professional kitchens all over the world. With the invention of combi-steamer technology, RATIONAL has virtually created a new world market. The RATIONAL ClimaPlus Combi® not only replaces 30 to 50 percent of all traditional cooking appliances but at the same time opens up totally new opportunities for redesigning the cooking process.

According to RATIONAL's own internal market studies, global sales potential for combi-steamers takes in around 2.5 million kitchens with a need for one or more appliances. To date, only around 20 percent of kitchens use this state-of-the-art technology, leaving 80 percent of the market still untapped. Large regional markets are only now beginning to be penetrated. RATIONAL AG’s growth will therefore be determined in particular by our ability to turn prospects into new customers more efficiently.

Given the reluctance to invest, in particular in the government sector and in relation to construction spending, the sector has generally had to contend with a drop in sales. Against this backdrop, productivity improvements become the focus of investment. RATIONAL products lead to very large improvements in productivity and pay for themselves within an average period of 4 to 12 months. Consequently we have managed to grow despite the weak state of the economy.





Market share rises to 49 %

Company situation

Worldwide there are around 80 combi-steamer brands. Only a very few of these are significant internationally. RATIONAL is by far the market leader in this market.

Sales in units

Our technological advantage, combined with the continuously increasing efficiency of delivering the unique message of RATIONAL benefits to prospective customers, has enabled us to keep increasing our market share significantly over the past few years. Consequently, RATIONAL's world market share also rose in the period under review from 47 percent to 49 percent.

Virtually every second device that is installed somewhere around the globe is now from RATIONAL. This fact reflects the impressively high levels of customer acceptance and competitiveness of our products and services.

Growth despite consolidation

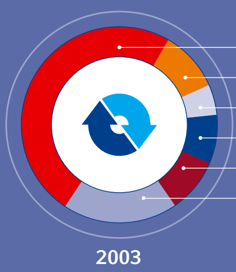
Given the uncertainty surrounding the economy as a whole, we also focused on consolidation in 2003 rather than global expansion. Thanks to this consolidation strategy for example sales and service expenses in the year under review fell well below absolute expenditure in the previous two years.

Sales

On the back of 9 percent sales growth in units, sales revenue has risen by 5 percent from € 177.3 million to € 186.6 million. The more restrained growth in sales revenue is the result of the strength of the euro against the US dollar, the pound sterling and the Japanese yen.

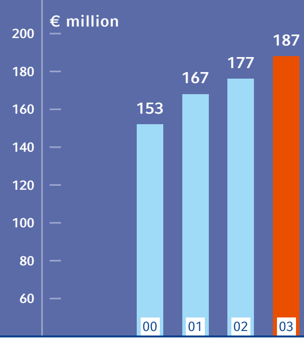
This sales growth is therefore entirely down to increased efficiency in sales and marketing. As a result, we have seen a further improvement in company quality.

Market shares for combi-steamers



Market shares for combi-steamers	2003
RATIONAL	49 %
Convotherm	10 %
Eloma	5 %
Zanussi	8 %
Lainox	9 %
Others	19 %

Sales revenue in millions of euros



Source: HKI industry statistics, RATIONAL market research

Buoyant economies in the Far East

RATIONAL AG's business development was exceptionally successful in the strategically important Asian region. With sales growth of 32 percent, Asia is the fastest growing area for RATIONAL AG in 2003 and has already become the second-largest sales market behind Europe. We have created an excellent basis to tap into significant future potential in this important economic area.

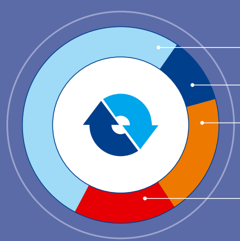
Our Japanese subsidiary has seen double-digit growth for a number of years despite the difficult economic climate and in 2003 made an above-average contribution to RATIONAL's success by posting a 19 percent increase in sales in local currency. Together with our Japanese OEM partner, we are also by far the market leader in Japan, with a 39 percent market share.

The overall trend in Asia is evidence that RATIONAL technology is gaining momentum in the Asian professional kitchen business.

Breakthrough in China

In 2003 we managed to break through in China in the fast-food chain segment. Each of over a thousand Kentucky Fried Chicken (KFC) restaurants was fitted out with RATIONAL technology. We managed to stave off the competition mainly due to our cooking competence. RATIONAL was the only company able to meet all KFC's special requirements for fully automated cooking processes for sensitive dishes. Flexible applications, small footprint, great potential for productivity improvements and extremely simple operation have also made RATIONAL technology the choice of customers.

The daily increase in the number of KFC restaurants in China, coupled with the opportunity to provide several appliances in each exiting restaurant, will open up additional opportunities for growth in the future. The nationwide distribution of RATIONAL technology that is now in place has also had a positive knock-on effect on the future development of our Chinese professional kitchen business as a whole.



2003

International subsidiaries	52 %	53 %
OEM-sales	11 %	11 %
Sales partners	20 %	18 %
Domestic sales	17 %	18 %

Big increase in earnings thanks to increasing company quality

Results of operations

We have seen evidence of RATIONAL AG's tremendous earning power precisely in the comparatively difficult economic climate over the past two years. As a result, additional consistent process optimisation and productivity increases in the year under review boosted earnings before interest and taxes (EBIT) by € 4.1 million or 11 percent to € 42.3 million compared to the previous year. Despite negative currency influences, the EBIT margin rose to 22.7 percent compared to 21.5 percent in the previous year.

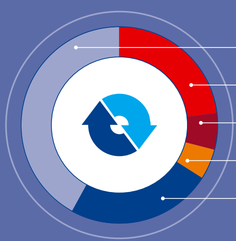
Expenses

Cost of sales per unit went down. Nonetheless, the gross margin in the reporting period was 58.1 percent, just slightly below the previous year's figure of 59.2 percent. This was essentially due to negative currency effects on sales revenue.

Compared to the previous year, costs for sales, marketing and service were reduced not just as a percentage of sales but in absolute terms too.

Research and development expenses have been increased as planned. Today RATIONAL is by far the product and technology leader in its field. As a specialist, innovation and technological know-how are crucial to the company's success.

By strengthening development activities, our existing technological advantage over the competition can be further extended. Thus, we are investing directly in our future success. In respect of administration expenses, one-time expenses for integrating all subsidiaries into the centralised IT system are included in 2003.



Earnings structure 2003 as a percentage of sales	2003	2002
Cost of sales	41.8 %	40.8 %
EBIT	22.7 %	21.5 %
R&D expenses	6.1 %	5.7 %
General administrative and miscellaneous expenses	5.2 %	6.0 %
Sales and service expenses	24.2 %	26.0 %

Financial Results

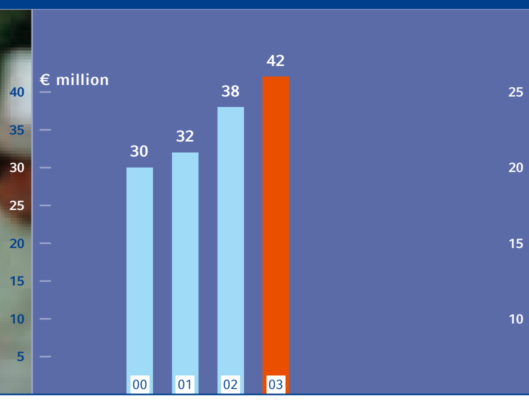
Financial income is € 264 thousand, in other words € 98 thousand up on the previous year (previous year: € 166 thousand). Interest income of € 877 thousand was essentially the result of related money-market funds and fixed-term deposits held during the course of the year. Interest expenses of € 613 thousand include € 474 thousand in interest resulting from accounting for leasing liabilities according to IAS 17.

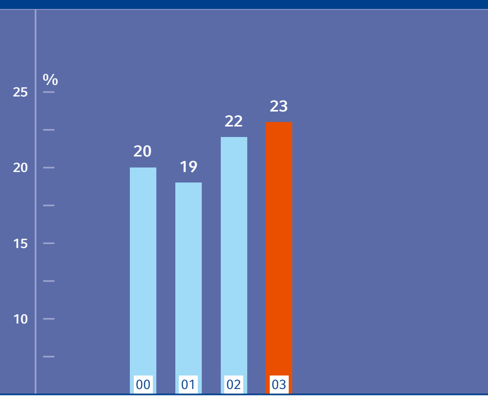
Taxes

Higher tax ratio in 2003

Taxes on income amounted to € 15.8 million in the year under review. The tax ratio of 30.6 percent rose to 37.1 percent of earnings before taxes year on year. This is due to a higher rate for trade income tax and higher corporation tax in the parent company as well as our fully using up existing credits from corporation tax for companies distributing profits according to para. 37 section 2 of the German Corporation Tax Law (Körperschaftsteuergesetz) in the previous year.

Group earnings at € 26.8 million are just above the previous year's figure of € 26.6 million and correspond to a net return on sales of 14.4 percent (previous year: 15.0 percent).





2000 excluding IPO expenses

High cash flow for investment and an attractive dividend

Cash Flow

The excellent earning power of RATIONAL AG, combined with the low capitalisation ratio of production and low working capital, has also had an excellent impact on cash flow in 2003.

In the year under review, cash flow from operations totalled € 29.8 million. This figure is just slightly below the previous year's figure (previous year: € 31.9 million), which was helped by the low tax ratio.

Investments

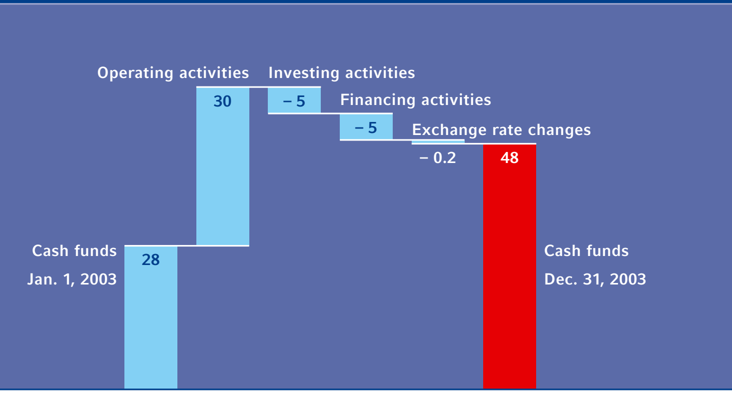
Investment of € 6.0 million (previous year: € 4.3 million) in modernising and extending our production facilities, in product development and IT systems was financed entirely from cash flow.

Cash flow from financing activities will essentially be determined by the dividend payment as well as from changes relating to fixed-term deposits. Given its capital structure, the company is currently operating almost completely without any debt.

The improved income situation and progress made in relation to working capital management in the subsidiaries have improved liquidity in the subsidiaries to such an extent that RATIONAL AG's loans to the subsidiaries to provide start-up finance have been repaid. The loans to the Italian and Canadian subsidiaries have been paid off completely. The subsidiary in the USA has paid an initial instalment of US$ 2.0 million.

Liquidity of RATIONAL in thousands of euros	2003	2002
Annual earnings	26,806	26,615
Cash flow from operating activities	29,787	31,899
Cash flow from investing activities	– 4,876	– 3,408
Cash flow from financing activities	– 5,057	– 25,230
thereof from the acquisition of long-term funds	13,000	– 13,000
Exchange rate changes	– 161	– 269
Change in cash funds	19,693	2,992

Cashflow 2003 in millions of euros



Solid balance sheet structure – low working capital with high equity ratio

Fixed assets

Fixed assets rose in the period under review to € 27.5 million (previous year: € 26.0 million). These include capitalised leasing objects with a book value of € 11.0 million.

Given the low capitalisation ratio of 21.5 percent (previous year: 22.8 percent), we have only a small amount of capital tied up long term and can respond flexibly to the particular market situation. The low capitalisation ratio is a direct consequence of our minimal vertical integration. We essentially only manufacture components ourselves that we can produce more cheaply or better than others. Nonetheless, we retain complete system know-how and have final assembly facilities that have received numerous awards.

Working capital

Working capital in the year under review rose from € 33.6 million in 2002 to € 37.0 million and represents 20 percent of sales (previous year: 19 percent). This increase is due mainly to the increased level of receivables caused by growth in the export markets. As a result of order-based production, we are able to maintain inventories at a low level.

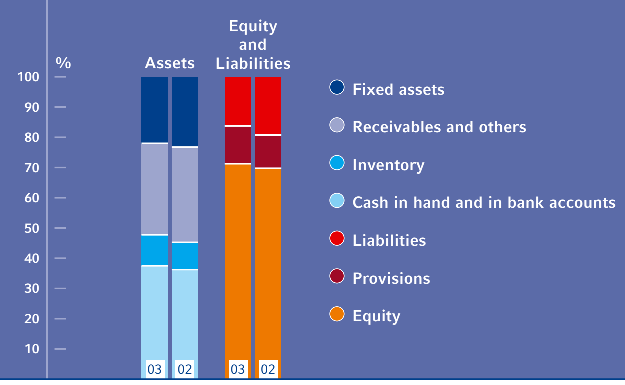
Our high liquidity enables us to use the full range of discount options. On average we cover liabilities after 13 days.

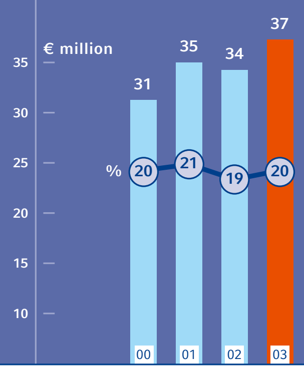
Equity

The equity ratio before paying out the dividend of € 1.85 per share is 71 percent in the year under review (previous year: 69 percent). If the dividend is paid out as proposed, equity will be reduced by € 21 million to € 70 million.

Provisions

Given the minimal risks associated with our business operation, provisions essentially include outstanding tax payments, invoices and accrued personnel costs for our staff in addition to warranty expenses.





Investing in future growth

Investment

In 2003 investment tended to focus on product development in particular. At the same time though, technological further development and restructuring of production as well as quality assurance were promoted. The company has also invested in expanding and modernising its IT infrastructure. As a result, all our subsidiaries were connected to the centralised IT system in Landsberg. The total investment was € 6.0 million (previous year: € 4.3 million). This investment was financed entirely from our own resources.

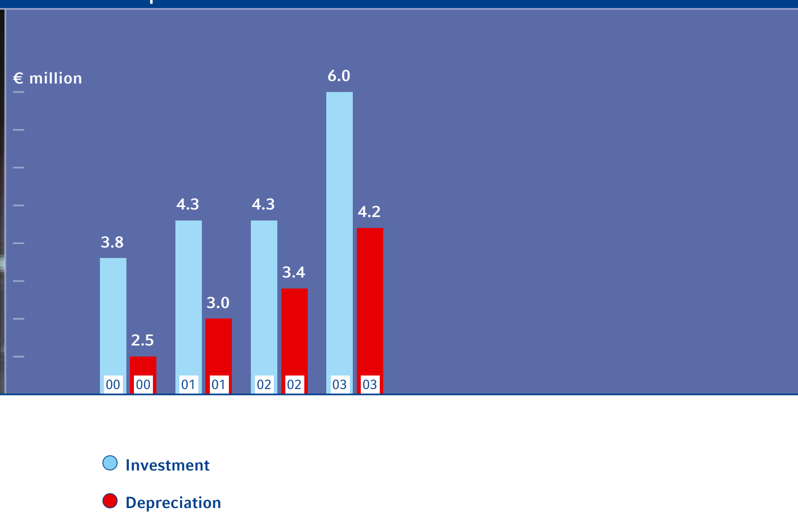
Optimisation thanks to central financing

Financing

The RATIONAL Group is basically financed centrally by the parent company. RATIONAL AG ensures that all subsidiaries have sufficient liquidity. The main ways of doing this are the provision of funds, in particular in the context of group financial transactions, by assigning existing working capital lines at banks or granting financial aid in the form of letters of comfort to credit facilities.

Excess liquidity in individual companies can be used for internal financing when other companies are in need of cash. Central financing also enables financial and capital investments to be optimised and permits a uniform approach in the financial and capital markets which is more influential in respect of the higher volumes.

Investment/Depreciation



This also strengthens RATIONAL AG's negotiating position with the banks, which has particular advantages as regards bank charges as well as net interest and financial income. At all key banks, the banks' internal rating for RATIONAL AG puts the company in the top third from A+ to AA.

All subsidiaries show a profit

Subsidiaries report

RATIONAL already has its own sales companies in the main markets. The French subsidiary, besides being responsible for sales in the French market, also has its own small production facility.

Although results of operations for individual subsidiaries were adversely affected by the strong euro, all subsidiaries posted a profit this financial year.

No new subsidiaries were established in the year under review. Efforts were concentrated on improving the quality of the existing companies. Favourable business trends in Russia meant that a sales office was opened in Moscow in September 2003.

Germany: Business stable despite the crisis

Germany

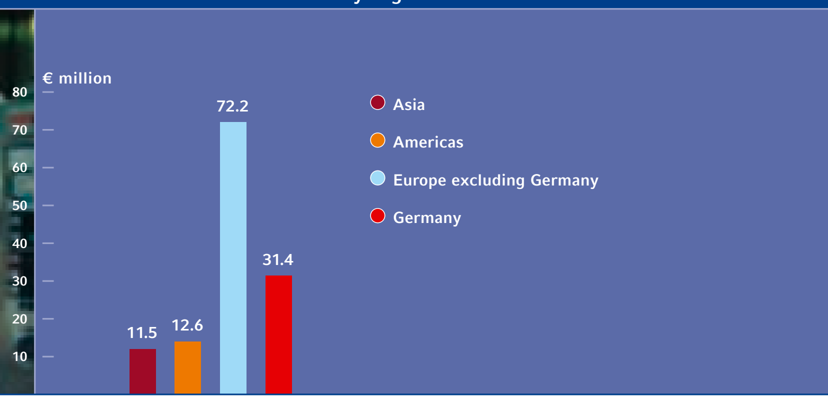
After some 30 years of successful marketing, the German market for combi-steamer technology has largely been tapped. In consequence, the commercial focus is increasingly on the replacement market. Communal catering and hence primarily the public sector accounts for some 50 percent of our total business in Germany. In contrast to previous years, increasingly tight budgets in this sector, and the associated cuts, have meant that no additional funds were available for investment. Nevertheless, in 2003 external sales were held close to last year's level (€ 31.4 million, compared to € 32.4 million last year).

Further expansion in Europe

Europe

Despite the difficult underlying economic conditions, the European subsidiaries managed to increase external sales in local currency by 6 percent. Negative currency effects due to the strength of the euro, in particular against the pound sterling, reduced the growth rate in euros to 3 percent.

Sales revenues of subsidiaries by region



Successful focusing strategy in North America

Americas

North America is by far the biggest potential sales market for RATIONAL technology. Though market penetration is relatively low at less than 10 percent, there are already sure signs of customers' growing acceptance of this new technology of the future.

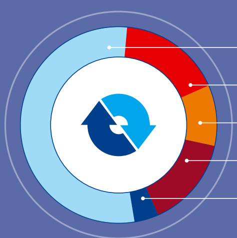
Our systematic market development strategy is initially concentrating on the areas of greatest potential. This focus accelerates market penetration at the same time as ensuring an economic cost structure.

With 25 percent growth in local currency, this strategy has been impressively vindicated even in a difficult year such as 2003.

Maximum acceptance of RATIONAL technology in Japan

Asia

The success in Japan once again underlines the fact that even in economically difficult times growth is possible with RATIONAL technology. With sales growth of 19 percent our Japanese subsidiary is already one of our largest foreign subsidiaries. Optimisation of organisational structures and processes has once more further improved the subsidiary's earnings structure.



2003

Europe excluding Germany	101	54 %	56 %
Germany	33	18 %	19 %
Americas	18	10 %	10 %
Asia	28	15 %	12 %
Rest of the world	7	3 %	3 %

50 % rise in the price of RATIONAL shares

Share price development

RATIONAL shareholders benefit from price gains and attractive dividends. Following the negative trend in 2001 and 2002 the whole stock market environment improved significantly in 2003. All the German indices (DAX, MDAX, TecDAX and SDAX) experienced considerable gains.

RATIONAL shares once again did justice to their exceptional position as the jewel in the SDAX, and posted price gains of around 50 percent in the year under review. This makes RATIONAL one of the few shares whose price has never fallen below its issue price of € 23 in 2000.

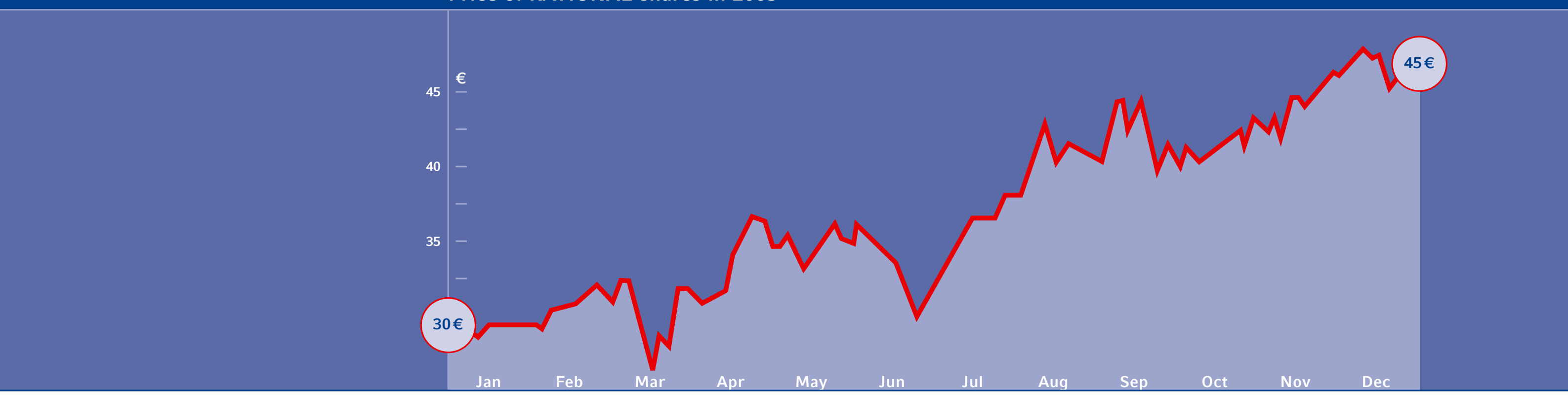
The price gains for RATIONAL shares were primarily due to many institutional investors' increasing interest in high-yielding, stable growth shares.

Dividend

Besides the rise in price, the attractive dividend is also evidence that RATIONAL shares are a high-yield investment. The dividend for 2002 of € 1.30 per share, distributed in 2003, not only represented an excellent return on capital, but a doubling of the absolute amount of dividend since the initial public offering (IPO) in 2000.

With the appropriate approval from the shareholders' meeting, a cash dividend of € 1.85 (previous year: € 1.30) per share is being distributed for 2003. This is equivalent to a total distribution of € 21.0 million (previous year: € 14.8 million) or 78 percent (previous year: 56 percent) of the RATIONAL Group's earnings.

Price of RATIONAL shares in 2003



Source: HSBC-Trinkaus & Burkhardt

Another "Company of the Year" award for continuity and earning power

Investor Relations

Professor Küting of the University of the Saarland conducts an annual analysis of quoted companies on behalf of the financial magazine FOCUS MONEY. Assessment criteria include earning power and the quality of information in the annual reports. In the SDAX category, RATIONAL obtained an excellent second place in 2003 as 'Company of the Year'.

Among all the 155 analysed quoted companies spanning all sectors of the stock market, as in the year before, RATIONAL was ranked an excellent second place in terms of earning power.

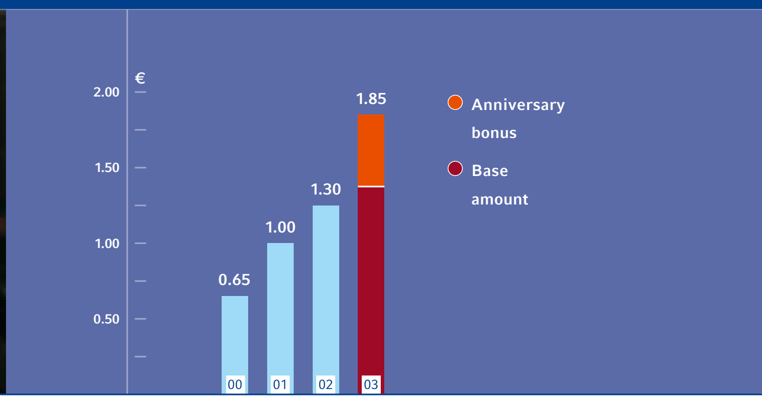
Open information policy convinces investors and analysts

A low free float and the associated relatively low liquidity always entail the risk of sudden share price fluctuations where larger transactions are involved. Targeted investor relations activities by the Executive Board minimise this risk at RATIONAL.

Roadshows

International roadshows in Europe and the USA as well as attendance at numerous analysts' conferences have brought RATIONAL to the attention of more and more institutional investors. These investors are watching RATIONAL shares with increasing interest and form a growing pool of potential investors that are simply waiting for an opportunity to buy. Wild share price fluctuations can be prevented in this way even where larger transactions are involved.

In 2003, we also succeeded in recruiting other reputable investment houses to provide regular coverage of RATIONAL shares. The financial analysts are convinced of the company's prospects of success and, virtually without exception, recommend buying the share.



Figures for 2003 – subject to approval of the Shareholders' Meeting

RATIONAL suppliers – the hallmark of quality

Procurement

RATIONAL's purchasing volume amounted to € 87 million in 2003 (previous year: € 75 million).

As a company with little vertical integration, the quality and reliability of our suppliers is crucial. Following the principle of extending our production facilities outside the company, we have formed close partnerships with our system suppliers.
The basis for our successful cooperation is provided by the following factors:

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

RATIONAL's supplier assessment system evaluates product quality in greater detail, but also considers the quality of cooperation with our suppliers.

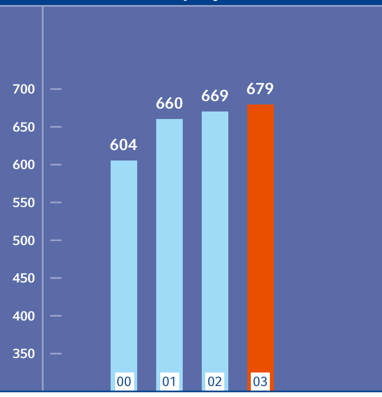
In 2003, as part of the annual supplier conference, five companies received special awards for excellent service. The aspects assessed were logistics, quality, price and costs, technology and innovation, cooperation and environmental awareness.

Skilled and motivated employees as a factor in success

Human Resources

Ambitious targets call for extraordinary employees. Especially in economically difficult times, qualifications, creativity and involvement of staff in Germany and elsewhere are crucial factors for success. RATIONAL employees work highly efficiently as entrepreneurs within the company. They take their own decisions on matters affecting their area of work. There is no room for pure decision-makers and staff personnel. The integrated process organisation avoids unnecessary interfaces and hence permits holistic, self-contained areas of responsibility.

Number of employees



Maximum employee satisfaction

In an employee survey conducted in October 2003 we worked together with the Institut NFO/Infratest to ascertain where we stand and to compare the survey results on an industry-wide basis.

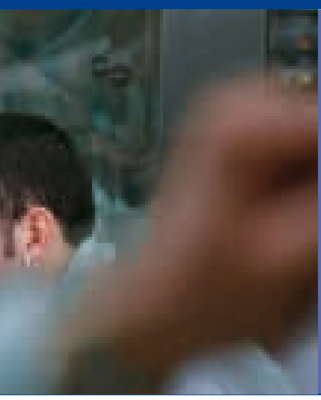
The key areas were:

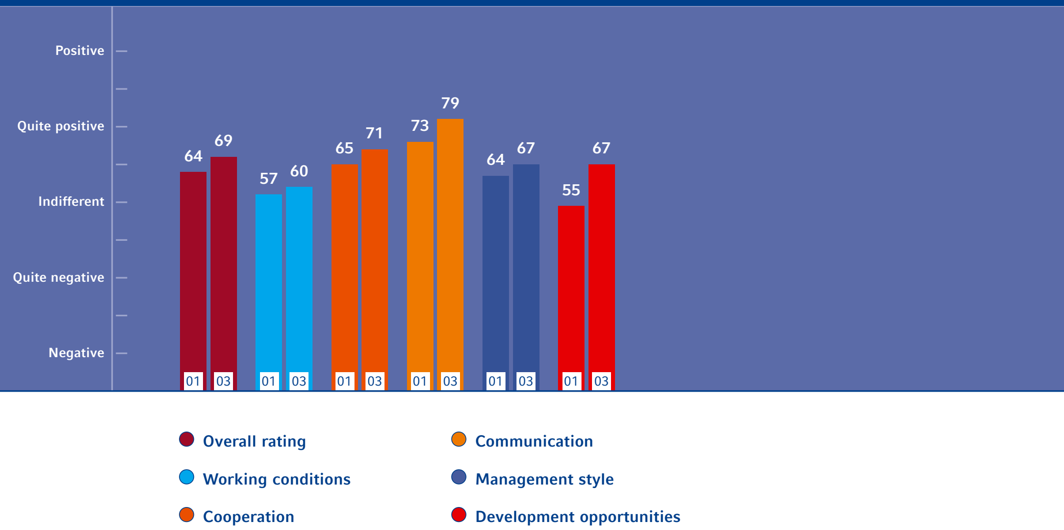
- general satisfaction with working at RATIONAL,
- recommending RATIONAL as an employer to friends and acquaintances,
- willingness to re-apply to RATIONAL,
- assessment of colleagues' commitment and
- competitiveness of RATIONAL as a company overall.

RATIONAL belongs to the crème de la crème of German companies

“In a representative survey we calculated an average score of 60 points for Germany. 10 per-cent of the best companies in Germany achieve 76 points on average. RATIONAL scored 91. You can be proud of your company in every respect”, said Dr Scharioth, Managing Director of NFO/Infratest.

On an annual average, the RATIONAL group employed 679 people in 2003 (previous year: 669), 188 of whom were outside Germany (previous year: 187). On the balance sheet date 689 people were employed (previous year: 656).





Sustainability

Responsible use of resources

All RATIONAL AG's activities are geared to offering maximum benefits to those who cook food in commercial kitchens. This goal so to speak defines the high demands we ourselves place on the quality and reliability of our products and which we can only achieve through high levels of performance, commitment and above all personal responsibility on the part of everyone involved in a process – from the supplier through to technical customer service.

It is precisely the responsible use of resources which is given a high priority in this connection. All RATIONAL AG innovations are based on the environmentally compatible and careful use of raw and other materials. This goes for product development just as much as for when our units are used subsequently by customers.

For many years we have worked proactively and constructively with regional environmental authorities. Thanks to low-impact production and exemplary environmental protection measures, the legal limits and standards are met with ease in all areas.

The personal responsibility of our employees as entrepreneurs in the company and the way they identify with the company are encouraged by regular meetings to agree targets and provide feedback, internal and external development measures and numerous company events and benefits in addition to salary.

The "RATIONAL-Career-Development-Programme", in which highly promising employees are trained and developed in a range of specialisms, was set up to foster internal management and leadership skills.

Administration and organisation

Fewer interfaces in administration

In 2003, an efficient, globally standardised 'order to cash' process was developed and accordingly implemented for all foreign subsidiaries. This was the prerequisite for integrating all subsidiaries into our centralised IT system, and rendered all local customised systems superfluous. Information is now available at RATIONAL globally, based on exactly the same rules and in the same format.

New preventive audit concept

In 2003 a groundbreaking audit concept was developed on the basis of international networking. Apart from conventional auditing, key areas in this respect include prevention, uniform process and risk assessment and continuous benchmarking of all corporate procedures both against each other and over time.

In relation to corporate controlling, system integration thus adds a wholly new dimension to quality. Increased quality controlling of all global value drivers within the company along with the development of even more efficient early-warning systems are central to this process.

Risk Report

Keeping risks within calculable limits at RATIONAL

Strategic corporate management, awareness of responsibility and entrepreneurial actions call for opportunities and the associated risks to be given due consideration. So entrepreneurial action invariably goes hand in hand with effective and efficient risk management. Early identification and assessment of risks and the awareness of how to deal with them is one of the key tasks of the management.

Risk management

We have integrated risk management into the existing corporate management tools, and have put unambiguous organisational arrangements in place by setting up a separate and independent internal audit. This enables us to identify a large number of potential risks early on and to counter them accordingly. The early warning system itself is being continuously improved.

Economic conditions

RATIONAL demonstrated in the past financial year that even under difficult economic conditions it is possible to expand whilst maintaining profits. Given this background, we consider the risk that could arise from a possible deterioration in basic economic conditions for the company as very restricted.

Corporate risks from the standpoint of management were identified in a risk inventory in the year under review. Possible individual risks included:

- the currency risk,
- risks in connection with product quality,
- risks in connection with personnel development and management conduct.

Foreign currencies

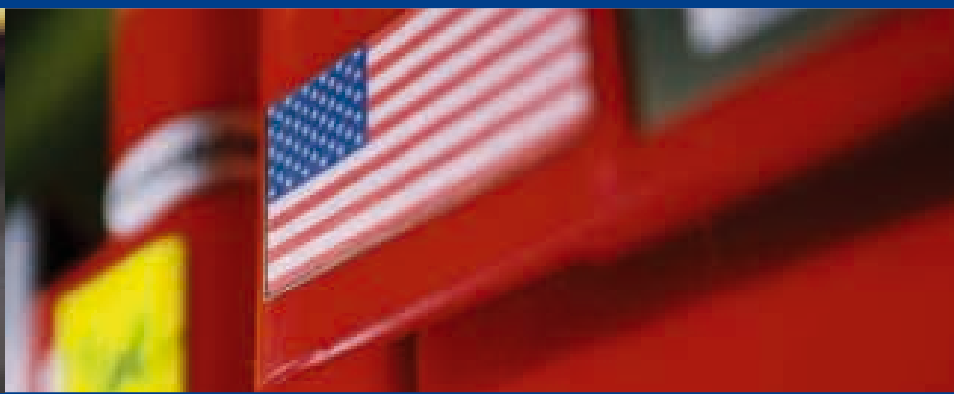
Since in the year under review 32.1 percent (previous year: 32.6 percent) of our total sales were made in foreign currencies outside the eurozone, short-term rate fluctuations of the euro could have a negative effect on the company's earnings position. However, because of the large number of markets served the risk is spread widely. What is more, the remaining risks are cushioned by corresponding hedging operations.

Product quality

Product quality once again improved significantly in 2003. The clear reduction in warranty costs and the decreasing level of customer service incidents per unit sold are evidence of this.

Personnel

For every company, personnel development and management conduct represent not just a risk but also an opportunity. The results of the 2003 employee survey show that the areas of development opportunities and management are assessed very positively by employees at RATIONAL.



Outlook

Supplementary report

No events of any significance for assessing the net assets, financial position and results of operations of RATIONAL AG occurred after the close of the financial year.

Positive outlook for 2004

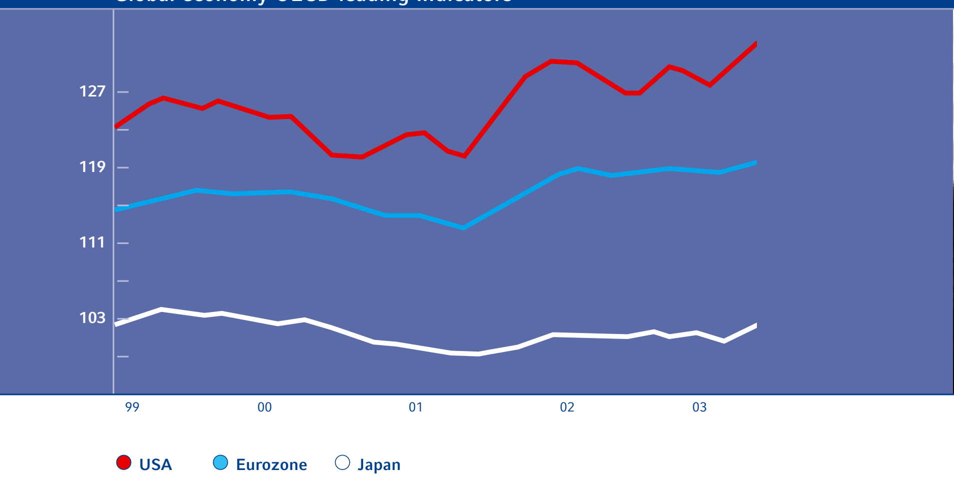
We are looking to 2004 with high expectations. The present moderate upturn is likely to continue in all the world's major industrialised nations.

With 3 percent growth global economy is once again set to see a modest upturn. We expect to see strong economic growth particularly in the dynamic emerging nations such as China, Russia and Latin America. As far as major foreign currencies are concerned, we assume exchange rates will stabilise at around the current level.

Negative effects from environmental disasters and epidemics, such as the bird flu currently raging in Asia, are difficult to assess, but in the past have only had minor significance for the development of our business.

The business was developing according to plan in January 2004. Sales revenues and earnings before interest and taxes (EBIT) were well above the comparable figures for the previous year.

Global economy OECD leading indicators*



* Indicator base, 1990 = 100; Source: OECD

Growth in 2004 thanks to targeted sales expansion

Our uniquely high investment in research and development, with special emphasis on appliance technology, application research, intelligent appliances and ease of use are the guarantee of our competitive edge and technology lead for the future.

Since to date only around 20 percent of the 2.5 million prospective customers around the globe have switched to state-of-the-art combi-steamer technology, in effect 80 percent of the available market potential is still untapped.

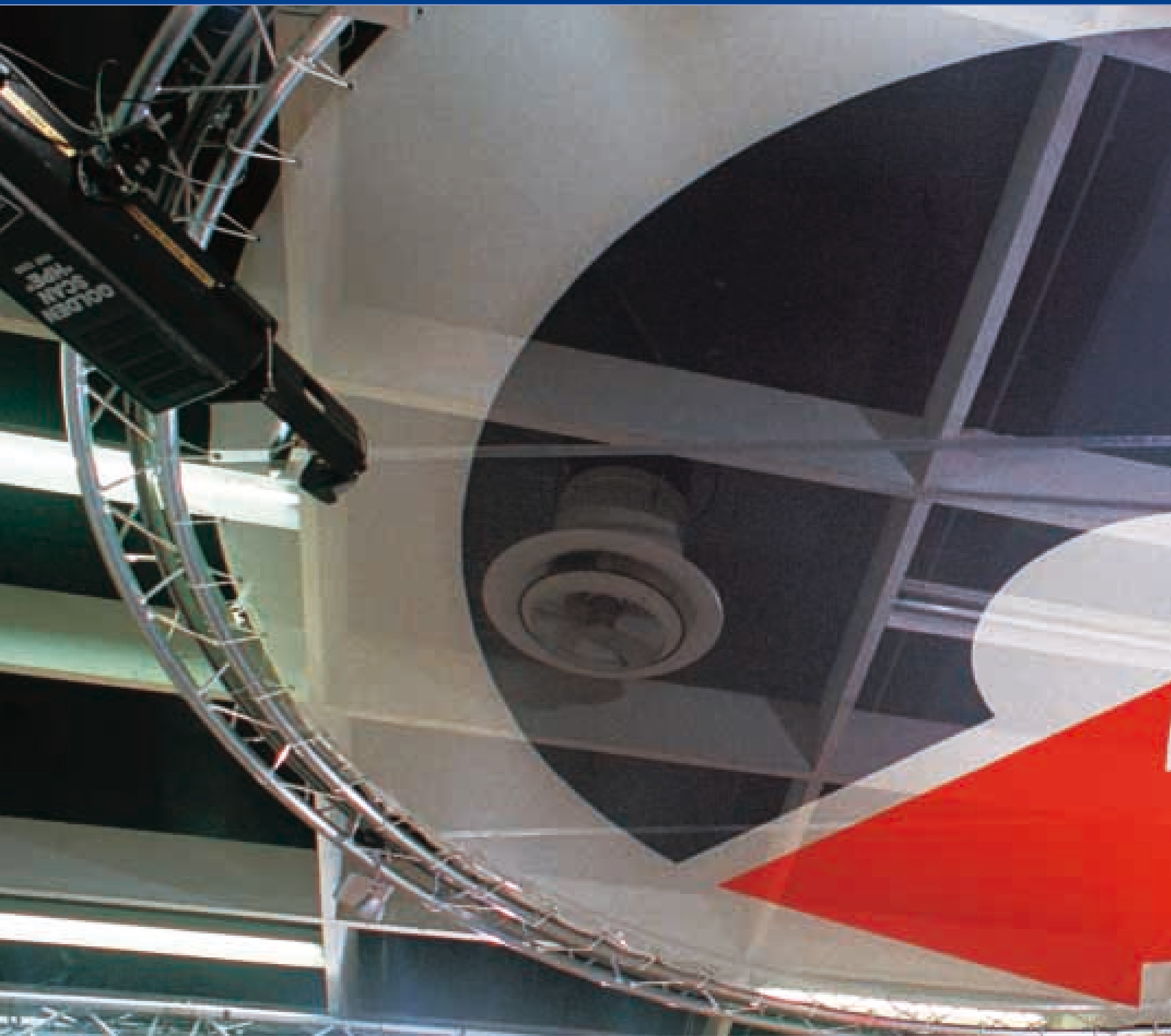
Therefore activities for 2004 will essentially focus on the consistent further expansion of our global sales and marketing network.

Against this backdrop we are optimistic of seeing a double-digit increase in sales and earnings in 2004.

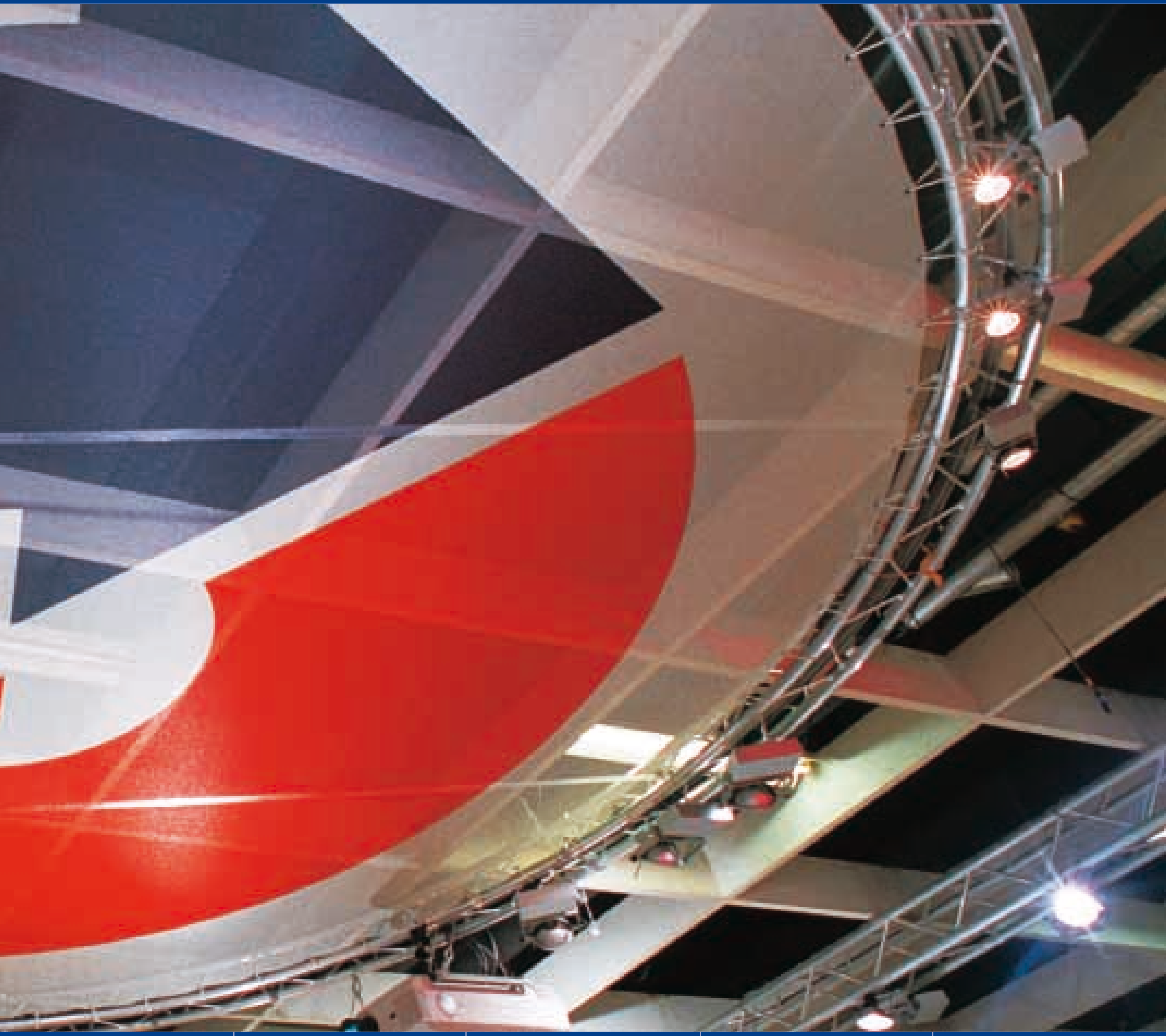
We should like to thank all our customers, partners, shareholders and especially our employees for the confidence they have placed in our enterprise.

Landsberg am Lech, February 18, 2004

The Executive Board



Financial Statements



Report by the Supervisory Board of RATIONAL AG on the financial year 2003

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 and supervised the company's management. The Supervisory Board was directly involved in all decisions of fundamental importance for the company.

The Executive Board provided the Supervisory Board with comprehensive monthly written reports on all relevant questions of corporate planning, the strategic development of the company, the course of business and the situation of the group.

Deviations in the course of business from the set plans and targets were discussed in detail. The company's strategic direction was aligned with the Supervisory Board. All business transactions of importance for the company were extensively discussed within the Supervisory Board on the basis of the reports of the Executive Board.

In the course of 2003, five ordinary meetings of the entire Supervisory Board were held in addition to numerous individual discussions. In addition, the Members of the Supervisory Board regularly consulted each other and took necessary decisions. The Supervisory Board was also informed in detail between its meetings of projects and plans of particular significance for the company or of those requiring urgent action.

Central topics of the consultations were product development, price positioning of RATIONAL products in the relevant sales markets and further expansion of the worldwide sales network. The RATIONAL management strategy of developing clear medium- and long-term corporate targets was discussed in detail and further developed.

In the context of corporate planning for the financial year 2003, in-depth discussions were held on the planned measures to enhance the group's value.

By way of the resolution passed at the shareholders' meeting on May 7, 2003 and the subsequent order of the Supervisory Board the annual financial statements for the financial year from January 1 to December 31, 2003, prepared in accordance with the regulations laid down in the German Commercial Code (Handelsgesetzbuch), and the company's management report were audited by the company's auditor, Allrevision Dornhof Kloss und Partner GmbH Wirtschaftsprüfungsgesellschaft, Munich. The auditor granted an unqualified auditor's opinion.

The prerequisites of para. 292a of the German Commercial Code (Handelsgesetzbuch) for exemption from the obligation to prepare consolidated financial statements according to the German Commercial Code have been met, and thus the consolidated financial statements were instead prepared according to IAS/IFRS.

These were prepared in euros and supplemented by a consolidated management report and further notes required by para. 292a of the German Commercial Code. The auditor granted an unqualified opinion on the consolidated financial statements according to IAS/IFRS and the consolidated management report.

The financial statements and auditor's reports 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 26, 2004. The auditors participated in consultations on the company's financial statements and the consolidated financial statements. They reported on the results of the audit and were available to supply the Supervisory Board with additional information.

Following its own audit of and consultation on the company's financial statements, the consolidated financial statements, the company's management report and the consolidated management report, the Supervisory Board agreed to the result of the auditor's examination and approved the company's financial statements and the consolidated financial statements. The company's annual financial statements for 2003, including the management report, are thereby adopted in accordance with para. 172 section 1 German Stock Companies Act (Aktiengesetz).
The Supervisory Board concurs with the proposal of the Executive Board to distribute from the total of € 45,110,497.72 retained earnings the amount of € 1.85 per dividend-bearing share to shareholders, and to carry forward the remainder to new account. The dividend amount of € 1.85 per share includes an anniversary bonus of € 0.45 per share on the occasion of the 30th anniversary of the company.
The Supervisory Board would like to thank the Members of the Executive Board and the company's management for their constructive cooperation and outstanding achievements in the financial year 2003. Our particular thanks go to all employees for their high level of commitment, which once again was the critical success factor in 2003.

Landsberg am Lech, February 26, 2004

Siegfried Meister
Chairman of the Supervisory Board

Report by the Executive Board

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 Board. The consolidated management report has been prepared in compliance with the regulations of the German Commercial Code (Handelsgesetzbuch).

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 recognise financial risks and changes in the economic development of the companies 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 18, 2004

RATIONAL AG
The Executive Board

Auditors' Report

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, 2003.

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/International Financial Reporting Standards (IAS/IFRS) 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/IFRS.

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, 2003, 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, 2003, 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, 2004

Allrevision Dornhof Kloss und Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Maerz	Voshagen
public auditor	public auditor

Income Statement RATIONAL Group

Thousands of euros	2003	2002	Note / Page
Sales	186,550	177,326	01 / 79
Cost of sales	–78,076	–72,358	03 / 80
Gross profit	**108,474**	104,968	
Sales and service expenses	–45,074	–46,022	04 / 80
Research and development expenses	–11,362	–10,133	05 / 80
General administration expenses	–10,705	–9,485	06 / 80
Other operating income	5,178	4,312	07 / 81
Other operating expenses	–4,178	–5,450	08 / 81
Earnings before interest and taxes (EBIT)	**42,333**	38,190	
Financial results	264	166	09 / 82
Earnings from ordinary activities	**42,597**	38,356	
Taxes on income	–15,791	–11,741	10 / 82
Group earnings	**26,806**	26,615	
Retained earnings brought forward	**24,105**	11,426	
Retained earnings	**50,911**	38,041	
Average number of shares	11,370,000	11,370,000	
Earnings per share in euros relating to the consolidated results and the number of shares	2.36	2.34	11 / 83

Balance Sheet RATIONAL Group Assets

Thousands of euros	Dec. 31, 2003	Dec. 31, 2002	Note I Page
Intangible assets	1,433	1,861	13 I 84
Property, plant and equipment	25,881	23,883	14,15 I 84,85
Financial assets	218	218	16 I 85
Fixed assets	**27,532**	25,962	
Inventories	12,768	11,291	17 I 85
Trade receivables	32,687	30,854	18 I 85
Other assets	3,458	2,305	19 I 86
Securities	2,000	—	20 I 86
Cash in hand and cash in bank accounts	47,699	41,006	21 I 87
Current assets	**98,612**	85,456	
Deferred tax assets	**1,389**	2,100	
Prepaid expenses	**461**	461	22 I 87
Balance sheet total	**127,994**	113,979	

Balance Sheet RATIONAL Group Equity and liabilities

Thousands of euros	Dec. 31, 2003	Dec. 31, 2002	Note I Page
Subscribed capital	11,370	11,370	23 I 88
Capital reserve	27,790	29,004	24 I 88
Revenue reserves	514	514	25 I 88
Retained earnings	50,911	38,041	
Equity	**90,585**	78,929	
Provisions for pensions	533	507	26 I 88
Provisions for taxation	6,782	3,338	27 I 89
Other provisions	9,387	9,202	28 I 89
Accruals	**16,702**	13,047	
Liabilities to banks	2,399	2,872	29 I 90
Trade accounts payable	4,550	4,845	
Other liabilities	13,537	14,016	30 I 90
Liabilities	**20,486**	21,733	
Deferred income	**221**	270	31 I 91
Balance sheet total	**127,994**	113,979	

Cash Flow Statement RATIONAL Group

Thousands of euros	2003	2002
Cash flow from operating activities		
Earnings from ordinary activities	42,597	38,356
Depreciation on fixed assets	4,169	3,434
Net results from disposal of fixed assets	73	308
Non-realised foreign currency result	– 537	– 260
Interest income	– 877	– 817
Interest expenses	613	661
Operating results before changes in working capital	46,038	41,682
Changes in		
Inventories	– 1,477	491
Trade accounts receivable and other assets	– 2,483	– 707
Accruals	211	440
Trade accounts payable and other liabilities	429	746
Cash generated from current business activities	42,718	42,652
Interest paid	– 589	– 661
Taxes paid on income	–12,342	–10,092
Net cash generated from operating activities	**29,787**	31,899
Cash flow from investing activities		
Investing in intangible assets and tangible assets	– 6,002	– 4,274
Net results from disposal of fixed assets	45	111
Interest received	949	687
Granted credit and loans	– 46	– 250
Repayment of granted credit and loans	178	318
Net cash used for investing activities	**– 4,876**	– 3,408
Cash flow from financing activities		
Dividends	–14,781	–11,370
Payments within the scope of financing lease agreements	– 1,276	– 1,119
Repayment of bank liabilities	—	– 2,613
Uptake of long-term bank liabilities	—	2,872
Release/Purchase of long-term funds	13,000	–13,000
Purchase of securities	– 2,000	—
Net cash used for financing activities	**– 5,057**	–25,230
Net increase in cash	**19,854**	3,261
Changes in cash from exchange rate changes	– 161	– 269
Change in cash funds	**19,693**	2,992
Cash on January 1	**28,006**	25,014
Cash on December 31	**47,699**	28,006

Statement of Changes in Equity RATIONAL Group

Thousands of euros	Subscribed capital	Capital reserve	thereof non-realised	Revenue reserves	Retained earnings	Total
Balance on Jan. 1, 2002	**11,370**	**28,849**	**– 1,620**	**514**	**23,641**	**64,374**
Dividends	—	—		—	– 11,370	– 11,370
Group earnings	—	—		—	26,615	26,615
Differences from currency conversion	—	155		—	—	155
Other changes not affecting operating results	—	—		—	– 845	– 845
Balance on Dec. 31, 2002	**11,370**	**29,004**	**– 1,620**	**514**	**38,041**	**78,929**
Dividends	—	—		—	– 14,781	– 14,781
Group earnings	—	—		—	26,806	26,806
Differences from currency conversion	—	– 81		—	—	– 81
Other changes not affecting operating results	—	– 1,133	– 1,133	—	845	– 288
Balance on Dec. 31, 2003	**11,370**	**27,790**	**– 2,753**	**514**	**50,911**	**90,585**

Contents

Description and explanation of business activities

The business activities of RATIONAL AG include the development, manufacture and sale of professional cooking appliances, so-called combi-steamers, for industrial kitchens. Twenty-five different combi-steamers are on offer in three different product lines (CPC, CM and CD). Our appliances and accessories are sold worldwide, via a network which includes both our own domestic and foreign subsidiaries and independent business partners.

The company's shares have been admitted to the Prime Standard of the German Stock Exchange in Frankfurt, and are traded on the organised market in the SDAX segment.

Fundamental accounting principles

The group financial statements of RATIONAL AG for the financial year 2003 (giving last year's figures) were prepared in compliance with the International Accounting Standards (IAS) respectively the International Financial Reporting Standards (IFRS) adopted and published by the International Accounting Standards Board (IASB) and the interpretation by the Standing Interpretations Committee (SIC) respectively the International Financial Reporting Interpretations Committee (IFRIC). All the effective standards for the financial year 2003 were taken into account, with the result that a true and fair view of the RATIONAL group's net assets, financial position and results of operations has been given.
Accounting and valuation methods that comply with the German Commercial Code but not with IFRS/IAS or IFRIC/SIC have not been used.
The present group financial statements contain the following accounting and valuation methods that differ from the German Commercial Code:

Deferred taxes

Recognition of deferred taxes is based on the balance sheet oriented liabilities method in compliance with IAS 12. Among other things, deferred tax claims from carried-over tax losses are capitalised.

Provisions for pensions

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

Currency conversion

Currency receivables and liabilities are converted at the current rate on the balance sheet date and the resulting differences are always shown as affecting net income, in accordance with IAS 21. Where translation differences result from the conversion of long-term loan receivables, these are recorded net of tax within equity capital not affecting net income, as well as being reported separately in the statement of changes in equity capital.

Financial investments held-to-maturity

Financial investments classified as “financial investments held-to-maturity” are valued at acquisition cost carried forward.

Derivative financial instruments

Derivative financial instruments are recorded, in accordance with IAS 39, on the balance sheet date at current market value, provided this can be reliably determined. The resulting value changes are treated as affecting net income.

Leasing

Leasing assets and leasing liabilities are accounted for in accordance with IAS 17. In the case of financing leasing agreements this results, in accordance with the relevant allocation criteria of IAS 17, in capitalisation of the asset value in property, plant and equipment and in the leasing liability being shown under other liabilities.

Tax calculation

According to IAS 12, valuation of the tax reduction connected with a dividend payout may only take place in the year in which the dividend is approved.

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

The financial year of RATIONAL AG and all included subsidiaries corresponds to the calendar year. The functional currency is the euro. For the sake of clarity, 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 dates when 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. Any residual difference after this offset is reported as goodwill. Both the silent reserves thus retransferred and reported goodwill are finally depreciated/amortised according to their expected useful lives, using the straight-line method.
Non-consolidated subsidiaries are recorded at acquisition cost or lower applicable value.
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 required by IAS 12 are carried out on the basis of temporary differences from consolidation measures.
The consolidation methods remain unchanged from those used last 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. Assets and debts are consequently converted at the middle exchange 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 within equity capital as “differences from the currency conversion”, not affecting net income.

The following table shows the most important exchange rates in relation to the euro used in the annual financial statements of the RATIONAL group:

1 euro =	Annual average exchange rate 2003	2002	Exchange rate on balance sheet date 2003	2002
GBP – Pound sterling	0.6928	0.6293	0.7045	0.6503
JPY – Japanese yen	131.62	118.15	133.65	124.19
USD – US dollar	1.1407	0.9506	1.2505	1.0416
SEK – Swedish krona	9.1326	9.1356	9.0750	9.1494
CHF – Swiss franc	1.5231	1.4659	1.5605	1.4527
CAD – Canadian dollar	1.5869	1.4901	1.6380	1.6393

For the presentation of the effects of foreign currency development on the group's income and expenses, please refer to the Notes to the Income Statement **02**.

Consolidated companies

The consolidated financial statements of RATIONAL AG relate to two domestic and nine foreign subsidiaries in addition to the parent company, RATIONAL AG.

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, UK	100.0
FRIMA S.A., Wittenheim, France	99.9
RATIONAL Schweiz AG, Balsthal, Switzerland	100.0
RATIONAL Iberica Cooking Systems, S.L., Barcelona, Spain	100.0
RATIONAL Italia S.R.L., Marcon, Italy	100.0
Americas	
RATIONAL Cooking Systems Inc., Schaumburg, USA	100.0
RATIONAL Canada Inc., Vaughan/Toronto, Canada	100.0
Asia	
RATIONAL Japan KK, Tokyo, Japan	100.0

In addition, RATIONAL AG holds 98 percent 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 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 position and results of operations. Both participations are valued at acquisition cost or lower applicable value.
By resolution of its shareholders on June 26, 2003, MEIKU Vermögensverwaltung GmbH changed the date on which its financial year starts from April 30, to January 1, in line with the calendar year. As at balance sheet date on December 31, 2003 MEIKU Vermögensverwaltung GmbH posted annual net profits of € 61 thousand and equity capital of € 113 thousand.

Accounting and valuation methods

Intangible assets

Acquired intangible assets are capitalised at acquisition cost and are amortised over three to five years using the straight-line method.
Goodwill from capital consolidation and other corporate acquisitions is systematically amortised over its expected useful life in each case, using the straight-line method. Expected useful life is between 5 and 15 years and reflects expectations regarding utilisation of market position and the technological advantage gained through corporate acquisitions.

Property, plant and equipment

Tangible fixed assets are valued at acquisition cost or production cost less depreciation. Production cost includes all directly imputed costs and appropriate portions of production-related overheads. Financing costs are not included. Depreciation is calculated on the basis of the useful economic life of the items. Depreciation based solely on tax regulations is not shown.
The administration buildings and production facilities are depreciated over a period of between 25 and 50 years using the straight-line method.
The remaining tangible assets are mainly depreciated by the declining balance method at rates of between 20 and 30 percent. Full depreciation is applied to new tangible assets in the first half of the financial year, and half the rate to assets in the second half of the year. Low-value fixed assets are depreciated in full in the year of acquisition or production.

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 the contract is concluded, at the present value of the leasing instalments. The depreciation methods and useful lives correspond to those of comparable purchased assets.

Financial assets

Financial assets are shown at acquisition cost 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, consumables, supplies and trade goods are valued at acquisition cost. The lowest value principle in line with the FIFO procedure, in conjunction with the weighted average price, is used to determine the acquisition cost.
Work in progress and finished products are valued at production cost. It includes acquisition cost and all costs directly chargeable to the production process, as well as appropriate portions of manufacturing-related overheads.
Financing costs have not been allowed for.

Accounts receivable and other assets

Accounts receivable and other assets are disclosed at nominal value. In the case of accounts receivable, both any individual risks identified and the overall credit risk are accounted for by value adjustments. The book values shown for these monetary asset items correspond to their respective market values.
Accounts receivable valued in foreign currency are converted using the middle exchange rate on the balance sheet date.

Financial assets

All financial assets in current assets are recorded, initially at acquisition cost, on the account date, i.e. the date on which the claim arose or the economic interest was transferred. Standard purchases are recorded using the value on the day of trading. If financial assets are carried to maturity, they are recorded at acquisition cost carried forward.
The applicable fair value for all categories of financial assets is the value on the markets relevant to RATIONAL AG; any conditions imposed by banks for over-the-counter transactions are especially important here. All changes in the applicable fair value of financial assets are recorded in the current results.

Default risk and present value of financial instruments

Due to the short maturity of these items, the book value of the cash in bank accounts, accounts receivable and other assets reported under current assets corresponds in most cases to the present value.

Derivative financial instruments

Derivative financial instruments are valued on the balance sheet date at market value while 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 bank accounts

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

Deferred tax assets

Deferred tax assets are created, 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 utilised in the future, in the amount of the future deferred tax refund claim. The domestic tax rate forming the basis for calculating deferred tax was approximately 38 percent in 2003 and approximately 36 percent in 2002. The deferred tax rates of foreign subsidiaries were between 26 percent and 42 percent.
Also, according to the version of IAS 12 revised in 2000, corporation tax credit balances in connection with dividend payouts must only be recorded in the year in which the dividend is approved in each case.

Provisions

The valuation of provisions for pensions is based on the projected unit credit method stipulated in IAS 19 for performance-oriented pension schemes.
Provisions for taxation and other provisions are created, in so far as an obligation to third parties resulting from a past event exists, if their utilisation is likely in the future and the extent of their utilisation can be reliably estimated. The valuation of the provisions is reviewed each balance sheet date.

Liabilities

Liabilities from financing leasing agreements are reported on the date the agreements are concluded, at the present value of the leasing instalments. Other liabilities are valued at the amount repayable. Liabilities valued in foreign currency are converted at the middle exchange rate on the balance sheet date.

Realisation of income and expense

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 created on an individual basis or when the corresponding sales are realised. Interest income and expenses are adjusted periodically on an accrual basis. Research and development costs are allowed for as profit-reducing items immediately they are incurred. Financing costs are recorded as expenditure in the period they are incurred.

Use of estimates and assumptions

In the preparation of financial statements, estimates and assumptions are required which may influence the amounts stated for assets, liabilities and financial obligations on the balance sheet date, as well as income and expenses for 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 allowed when using estimates.

Notes to the Income Statement

01 | Sales

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

Thousands of euros	2003		2002	
Germany	32,961	18 %	33,264	19 %
Europe (excluding Germany)	100,770	54 %	99,183	56 %
Americas	18,302	10 %	17,650	10 %
Asia	27,480	15 %	20,792	12 %
Rest of the world *)	7,037	3 %	6,437	3 %
Total	**186,550**	**100%**	177,326	100%

*) Australia, New Zealand, Near/Middle East, Africa

The regions shown correspond to the segments in segment reporting.
In Germany, brand business matched last year’s levels, whilst OEM business decreased slightly. Our subsidiaries in Canada and the US delivered strong growth in foreign currency earnings, although the strength of the euro against both the US and Canadian dollars had a negative impact on growth in the American market. The Latin American market, looked after centrally by the parent company in Landsberg again since 2002, has shown steady growth in 2003.
With growth at 32 percent and a 15 percent share of sales, Asia was the growth driver of 2003. The good performance of our subsidiary in Japan and the major order from the restaurant chain Kentucky Fried Chicken (KFC) in China have secured substantial market shares for us there, with further potential for growth.
Sales abroad of 82 percent of sales following 81 percent in the previous year show importance of our international sales subsidiaries and are proof of their successful development.

02 | Foreign currency development

The most important exchange rates for RATIONAL developed as follows in relation to the euro:

	Annual average exchange rate			Exchange rate on balance sheet date		
1 euro =	**2003**	2002	versus PY*	**2003**	2002	versus PY*
GBP – Pound sterling	0.6928	0.6293	– 9.2 %	0.7045	0.6503	– 7.7 %
JPY – Japanese yen	131.62	118.15	–10.2 %	133.65	124.19	– 7.1 %
USD – US dollar	1.1407	0.9506	–16.7 %	1.2505	1.0416	–16.7 %
SEK – Swedish krona	9.1326	9.1356	0.0 %	9.0750	9.1494	+ 0.8 %
CHF – Swiss franc	1.5231	1.4659	– 3.8 %	1.5605	1.4527	– 6.9 %
CAD – Canadian dollar	1.5869	1.4901	– 6.1 %	1.6380	1.6393	+ 0.1 %

*) Change in value of foreign currency in relation to the euro compared to previous year (PY)

32.1 percent respectively € 59.9 million of the RATIONAL group’s sales was in foreign currency (previous year: 32.6 percent respectively € 57.8 million); 10.6 percent of this was in pounds sterling, 6.2 percent in Japanese yen, 6.0 percent in Swedish kronor and 5.4 percent in US dollars.

The slight drop in the proportion of earnings in foreign currency was due partly to the large KFC order, which was processed by the AG in euros, but also to the drop in value of foreign currencies compared to the previous year.
This has had a distinctly negative impact on the RATIONAL group's sales growth, which was down by € –5,660 thousand, equivalent to a loss in growth of 3.2 percentage points. The significant drop in value of both the Japanese yen and the US dollar by –10.2 percent respectively –16.7 percent on average compared to last year accounted for a € –3,311 thousand loss in group sales. The combined growth in sales in euros of the Japanese and US subsidiaries was therefore only 1.8 percent, although in national currency terms it was 17.4 percent.
The negative impact of the strong euro on group earnings before interest and taxes (EBIT) was lessened somewhat in absolute terms by operating costs in the subsidiaries, as well as the positive balance of all exchange gains and losses. Nonetheless, the negative impact still amounted to € –3,844 thousand, which means EBIT increased by only 10.8 percent, whereas if rates had remained constant, we would have seen an increase of 20.9 percent.

03 | Cost of sales

Cost of sales is calculated on the basis of individual costs for materials and production, overheads for materials and production and wear and tear on fixed assets.
The gross margin for the past financial year is below that for the previous year. This is due partly to the negative effect of currency fluctuations on sales revenues while cost of sales is originated in euros, and partly to a slight change in product mix caused by the Kentucky Fried Chicken order.

04 | Sales and service expenses

Sales and service expenses are made up of sales organisation and shipping costs, as well as costs for marketing, application consultancy and technical customer service.
This financial year, process optimisation and cost management were given precedence over further increase in sales and marketing processes, with the result that this year's sales and service expenses are down on last year's, both as a percentage of sales and in absolute terms. The increased investment in the further enhancement of the sales organisation, started at the end of 2003, will be continued in 2004.

05 | Research and development expenses

Research and development activities largely consist of projects involving application research and the development of new products to safeguard the company's success in the future.
Some of RATIONAL's research and development activities are based within our French subsidiary, but most projects are run by the parent company at its Landsberg site.
Development costs rose compared to the previous year. Personnel costs (just on 40 percent of development costs) and running costs have remained constant, but expenses related to external research contracts, trials and test runs, and particularly to patents and industrial property rights, have risen. Moreover, depreciation for investments made in this field have increased.

06 | General administration expenses

Administration expenses include expenses for central services and administration, such as personnel, data processing and accounting, as well as parts of strategic purchasing.
In the interests of improving data integrity and transparency, the operating systems of all our subsidiaries have been replaced over the course of the year by the SAP/R3 system software used within the parent company. The cost of converting these systems internationally and integrating them into the central system is reflected in administration expenses.

07 | Other operating income

Other operating income is primarily generated within the parent company, and can be broken down as follows:

Thousands of euros	2003	2002
Exchange gains	3,850	3,015
Income from the release of provisions	349	375
Income from value adjustments and depreciation on accounts receivable	243	380
Insurance recoveries	194	144
Rental income	114	119
Income from asset retirements	37	34
Other (< € 100 thousand in each case)	391	245
Total	**5,178**	4,312

Exchange gains from foreign currency positions are primarily composed of income from fluctuations in the exchange rate between the date of origin and the date of payment, as well as exchange gains from the valuation on the balance sheet date. The exchange gains mainly include income from the valuation of forward exchange transactions and forex options, as well as income from the valuation of foreign currency positions in US dollars, pounds sterling and Japanese yen. Income from the release of provisions is composed of provisions from previous years that were not fully utilised. Expenses arising from insufficient provisions being created in previous years is allocated to the primary expenditure types.

08 | Other operating expenses

Thousands of euros	2003	2002
Exchange losses	3,800	3,080
Depreciation and value adjustments on accounts receivable	262	2,035
Other (< € 100 thousand in each case)	116	335
Total	**4,178**	5,450

Exchange losses from foreign currency positions are primarily composed of expenses from exchange rate fluctuations between the date of origin and the date of payment, as well as exchange losses from the valuation on the balance sheet date. Exchange gains are shown under other operating income. The rise compared to the previous year is due to negative exchange rate fluctuations between the date of origin and the date of payment of foreign currency items and to much greater losses, compared to the previous year, from valuations on the balance sheet date.

The previous year's high figure for depreciation and value adjustments on accounts receivable is mainly due to depreciation on receivables from former subsidiaries in Argentina (previous year: € 1,214 thousand) and Korea (previous year: € 130 thousand). The figure for the year under review was not affected by such kinds of special effects.

09 I Financial results

Thousands of euros	2003	2002
Income from partnerships	—	10
Other interest and similar income	877	817
Interest and similar expenses	– 613	– 661
Total	**264**	166

The interest income shown includes income from the bond shown under "Securities", from currency market-based funds held during the financial year, deposits with next-day maturity and fixed-term deposits and a small proportion of cash in current accounts.
Interest expenses are mainly comprised of the accumulated interest of € 474 thousand shown as leasing liabilities in accordance with IAS 17. The remaining interest expenses are comprised of interest on tax arrears and interest on liabilities to banks.
The income from partnerships of € 10 thousand for the previous year related to the dividend payout from MEIKU Vermögensverwaltung GmbH.

10 I Taxes on income

The following table shows a transition from the expected to the actual reported tax expenses. Average tax rates of approximately 38 percent for 2003 and approximately 36 percent for 2002 were used to calculate expected tax expenses in relation to earnings from ordinary activities; the rate includes corporation tax including the solidarity surcharge and trade income tax. The deferred tax items for the years 2003 and 2002 were also valued in the same way, using average tax rates of approximately 38 percent and 36 percent respectively.

Thousands of euros	2003	2002
Expected income tax	16,140	13,801
Corporation tax credit/reduction	—	– 1,799
Non tax-deductible amortisation of goodwill and released silent reserves from capital consolidation	122	139
Profit/loss incurred by subsidiaries not resulting in a tax liablity from the creation/reversal of deferred taxes	—	– 204
Variations in local tax rates in the subsidiaries	– 203	– 232
Tax refunds from previous years	– 203	—
Effects from tax rate changes on deferred tax calculation	– 84	—
Non tax-deductible expenses and other deductible amounts	19	36
Reported income tax	**15,791**	11,741

Deferred tax assets of € 1,389 thousand and € 2,100 thousand were shown in financial years 2003 and 2002 respectively, which led to deferred tax expenses of € 711 thousand in 2003 and € 1,117 thousand in 2002. In 2003, deferred tax assets of € 662 thousand (previous year: € 474 thousand) are shown; they do not affect income, having been created via equity capital.
The tax accruals and deferrals in 2003 and 2002 are attributable to the following:

	Deferred tax assets		Effect on net income
Thousands of euros	**2003**	2002	**2003**
Elimination of intercompany profits	1,714	1,605	109
Tax losses brought forward	464	915	– 451
Currency conversion	– 462	– 554	92
Hedging transactions	– 409	– 208	– 201
Finance leasing	8	116	– 108
Debt consolidation	5	100	– 95
Provisions for pensions	29	26	3
Other	40	100	– 60
Total	**1,389**	2,100	**– 711**

Settlement of the capitalised deferred tax refund claims of € 888 thousand (previous year: € 1,043 thousand) is expected to take less than a year. The reported amounts of € 501 thousand (previous year: € 1,057 thousand) are long term. The short term deferred taxes are apportionable to RATIONAL AG and result from temporary differences between the commercial balance sheet 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 of the subsidiaries that have been carried forward. Where tax deferrals and accruals with the same term of maturity exist within a company, a balance is shown for these items.

11 | Earnings per share

Earnings per share are calculated in accordance with IAS 33 by dividing group earnings by the weighted average number of shares outstanding during the financial year. Based on an average number of shares of 11,370,000, earnings per share for the financial year 2003 are € 2.36, as against € 2.34 the previous year. In 2003, earnings per share were strongly influenced by an increased tax ratio of 37.1 percent compared to 30.6 percent the previous year.

12 | Dividend per share

The dividend proposed to the shareholders' meeting by the Supervisory Board and the Executive Board for the 2003 financial year will be € 21,034,500, or € 1.85 per share, to be paid from RATIONAL AG's retained earnings. The dividend paid out in the previous year was € 14,781 thousand, or € 1.30 per share. Subject to the appropriate approval from the shareholders' meeting, this means an increase in dividend of 42 percent over the previous year, and 185 percent over the dividend paid out in 2000, the year of the initial public offering (IPO).

Notes to the Balance Sheet – Assets

13 | Intangible assets

Thousands of euros	Industrial & similar rights	Goodwill	Total
Acquisition costs			
Balance at January 1, 2003	14,328	6,048	20,376
Translation differences	—	—	—
Additions	297	—	297
Disposals	– 13,030	—	– 13,030
Transfers	—	—	—
Balance at December 31, 2003	1,595	6,048	7,643
Amortisation			
Balance at January 1, 2003	13,762	4,753	18,515
Currency differences	—	—	—
Additions	311	414	725
Disposals	– 13,030	—	– 13,030
Transfers	—	—	—
Balance at December 31, 2003	1,043	5,167	6,210
Book values			
Balance at December 31, 2003	552	881	1,433
Balance at December 31, 2002	566	1,295	1,861

14 | Tangible assets

Thousands of euros	Land and buildings	Technical equipment & machinery	Operating & office equipment	Payments on account	Total
Acquisition costs					
Balance at January 1, 2003	25,518	1,320	10,690	2,001	39,529
Currency differences	– 17	—	– 322	—	– 339
Additions	30	3,560	1,457	658	5,705
Disposals	—	– 93	– 424	– 87	– 604
Transfers	1,120	1,913	– 1,120	– 1,913	—
Balance at Dec. 31, 2003	26,651	6,700	10,281	659	44,291
Depreciation					
Balance at January 1, 2003	7,923	1,038	6,685	—	15,646
Currency differences	– 13	—	– 181	—	– 194
Additions	921	849	1,674	—	3,444
Disposals	—	– 92	– 394	—	– 486
Transfers	935	—	– 935	—	—
Balance at Dec. 31, 2003	9,766	1,795	6,849	—	18,410
Book values					
Balance at Dec. 31, 2003	16,885	4,905	3,432	659	25,881
Balance at Dec. 31, 2002	17,595	282	4,005	2,001	23,883

The depreciations and amortisations shown were allocated to each functional area in the income statement according to their origin.

15 | 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 according to IAS 17, and are thus allocated as finance leasing.
The book value of this leased property and buildings amounts to € 11.0 million (previous year: € 11.6 million). The accumulated depreciation on these leased assets amounts to € 2.4 million (previous year: € 2.0 million).

16 | Financial assets

The financial assets of € 218 thousand shown represent the book value of the investment in MEIKU Vermögensverwaltung GmbH. The investment of our French subsidiary, Frima S.A., in Topinox Sarl, the value of which was originally € 30 thousand, has already been fully amortised. The original acquisition costs of these investments total € 2,725 thousand, and the accumulated partial depreciation to the lower going-concern value made necessary by the distribution of dividends amounts to € 2,507 thousand. The current market value of the investment in MEIKU Vermögensverwaltung GmbH corresponds to the book value shown of € 218 thousand.

17 | Inventories

Thousands of euros	2003	2002
Raw materials, consumables and supplies	4,940	4,635
Work in progress	1,235	866
Finished goods and goods for resale	6,593	5,790
Total	**12,768**	11,291

The raw materials, consumables and supplies and work in progress shown relate mainly to inventory items of RATIONAL AG as the producing parent company, and a small proportion relates to production inventories of the French subsidiary.

18 | Trade receivables

Thousands of euros	2003	2002
Trade receivables at nominal value	33,288	31,519
Write-downs for doubtful accounts receivable	– 601	– 665
Total	**32,687**	30,854

At balance sheet date, 75 percent of the trade receivables were insured against risk of default through credit sale insurance (previous year: 75 percent).
All the receivables shown have terms of less than one year. In the previous year, receivables worth € 181 thousand had terms of more than a year.

19 | Other assets

Thousands of euros	2003	2002
Fair value of derivative financial instruments	1,174	582
Corporation tax refund claims	773	—
Value-added tax refund claims	869	830
Deposits	233	108
Receivables from travel expense advances	98	81
Interest receivable	58	130
Loans	6	138
Factoring deposit	—	115
Other (< € 50 thousand in each case)	247	321
Total	**3,458**	2,305

The corporation tax refund claims for the year 2003 mainly relate to refunds of advance corporation tax payments, but also to tax relief on development costs in the French subsidiary.
The total value of items with remaining terms of more than one year is € 122 thousand (previous year: € 136 thousand).

20 | Securities

RATIONAL buys securities in order to invest its liquid funds. Investments are made according to a written investment strategy, and always in consultation with the Executive Board.
The item shown at balance sheet date relates to a so-called "range bond with cancellation rights". This is a public mortgage bond rated Aa3 (Moody's) and AAA (S&P). The bond matures on May 26, 2008, provided the issuer does not exercise its cancellation right prior to maturity.
In financial year 2003, the interest rate of the bond was 4.5 percent p.a.
According to IAS 39, this bond falls into the "financial investment held to maturity" category, and according to Paragraph 69, this category of financial asset is valued at acquisition cost carried forward.

21 | Cash in hand and cash in bank accounts

During the financial year, RATIONAL invested the major portion of its liquid funds in currency market-based growth funds. The average yield on these funds for 2003 was between 2.1 percent and 2.4 percent p.a. Where shares in growth funds were sold before the end of the financial year the gains on those funds were realised and posted as interest income. At the end of the year, liquid funds were primarily invested in the form of fixed-term deposits with terms of less than 3 months.

At balance sheet date, the fixed-term deposits and deposits in euros with next-day maturity were invested in various banks. Their interest rates vary between 1.98 percent and 2.41 percent p.a. (previous year: between 2.73 percent and 3.26 percent p.a.). Cash held in foreign currencies is valued at the applicable rate at balance sheet date.

Thousands of euros	Currency	2003	2002
Fixed-term deposits with remaining terms of less than 3 months	EUR	36,000	28,000
Cash including deposits with next-day maturity	EUR	8,879	9,623
Cash including deposits with next-day maturity	USD	607	1,133
Cash including deposits with next-day maturity	JPY	838	530
Cash including deposits with next-day maturity	GBP	394	445
Cash including deposits with next-day maturity	SEK	661	973
Cash including deposits with next-day maturity	CHF	209	142
Cash including deposits with next-day maturity	CAD	76	125
Cash deposits	CNY	4	18
Cash deposits	RUB	7	0
Cash in hand	various	24	17
Total		**47,699**	41,006

22 | Prepaid expenses

Prepaid expenses only include amounts for expenses to be allocated to the following year. The expenses shown relate primarily to exhibitions, marketing activities and rents, as well as insurance benefits. All the items of prepaid expenses have remaining terms of less than one year.

Notes to the Balance Sheet – Equity and Liabilities

23 | Subscribed capital

The company's share capital as at January 1, 2000 comprised 2,008,800 restricted no-par value shares issued in the name of the bearer, the original value of which was DM 10.044 million, and which was converted to euros on February 3, 2000. At the same time, the company's share capital was raised to € 10 million from corporate funds, and re-apportioned into 10,000,000 shares. At the time of the initial public offering there was a further capital increase of € 1,370 thousand (1,370,000 shares).

RATIONAL AG's share capital as at December 31, 2003 amounted to € 11,370,000 and consisted of 11,370,000 ordinary registered shares at no-par value issued in the name of the bearer, with a theoretical value of € 1. Under the terms of para. 4 sections 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 to January 1, 2005 by issuing new registered shares up to an amount of € 4,215 thousand (approved capital I) and € 1,100 thousand (approved capital II).

Conditional capital amounts to € 200 thousand and relates to option rights held by members of the Executive Board to purchase up to 200,000 shares. The conditional capital increase is dependent on the extent to which the option rights issued are utilised by their bearers (cf. Note **41 |**).

24 | Capital reserve

The capital reserve, which mainly represents the premium from the initial public offering, also includes income and expense items not affecting income, totalling € –2,753 thousand (previous year: € –1,620 thousand). They mostly result from the costs of the initial public offering (IPO) not being posted as affecting net income in previous years, but also from a loan to the US subsidiary not affecting net income. Included in this figure are tax benefits not affecting net income of € 2,307 thousand (previous year: € 1,645 thousand).

Also included are differences from currency translation not affecting net income which amount to € –474 thousand (previous year: € –393 thousand).

25 | Revenue reserves

Statutory reserves accrued from previous years are shown, in compliance with para. 150 of the German Stock Companies Act (Aktiengesetz).

26 | Provisions for pensions

Entitlements to the RATIONAL AG employee pension scheme exist for one former managing director and one former company secretary. The employee pension scheme is financed exclusively by pension provisions which in financial year 2003 amounted to € 533 thousand (previous year: € 507 thousand). The committed payments are calculated annually, in accordance with IAS 19, using the actuarial projected unit credit method.

The 10 percent corridor method is used to calculate pension provisions and the resulting pension costs, which means that any profits or losses over a 10 percent threshold are distributed evenly over the average remaining length of service.

The calculations are based on the following assumptions:

- Rate of interest: 5.50 percent (previous year: 6.00 percent)
- Pensions trend: 1.00 percent (previous year: 1.25 percent)

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

Pension provision development was as follows:

Thousands of euros	2003	2002
Balance at January 1	507	479
Additions	26	28
Releases	—	—
Balance at December 31	**533**	507

The cost of the provisions for pensions contained in the income statement for financial year 2003 is composed of the accumulation of expected pension obligations in the amount of € 26 thousand. Provisions for pensions totalling € 28 thousand were accumulated last year.

27 | Provisions for taxes

Thousands of euros	Balance at Jan. 1, 2003	Translation differences	Use	Additions	Balance at Dec. 31, 2003
Taxes on income	3,338	– 45	– 2,974	6,463	6,782

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

28 | Other provisions

Thousands of euros	Balance at Jan. 1, 2003	Translation differences	Use	Additions	Balance at Dec. 31, 2003
Personnel	4,094	– 42	– 3,804	3,890	4,138
Warranty	2,111	– 4	– 607	100	1,600
Outstanding invoices	1,092	– 36	– 1,051	1,523	1,528
Consulting and audit fees	953	– 3	– 869	738	819
Dealer bonuses	393	– 38	– 357	1,090	1,088
Other	559	1	– 432	86	214
Total	**9,202**	**– 122**	**– 7,120**	**7,427**	**9,387**

The item "Other" relates to totals of individual provisions of less than € 50 thousand each. All items listed as other provisions have terms of less than one year.

29 | Liabilities to banks

Liabilities to banks as at balance sheet date on December 31, 2003 totalled € 2,399 thousand. These relate to liabilities of a loan of US dollar 3 million taken out in 2002. The interest rate on this loan was originally pegged for one year, an arrangement that was extended for six months in August 2003. The interest rate, which was 2.82 percent until August 2003, has now dropped to 2.25 percent. The exchange gain of € 473 thousand (previous year: € 184 thousand) resulting from the valuation of the loan at the lower rate at balance sheet date is included in other operating income.

30 | Other liabilities

Thousands of euros	2003	2002
Liabilities from finance leasing agreements	6,853	8,129
Value-added tax liabilities	1,143	1,627
Liabilities to business partners	2,448	1,934
Liabilities from PAYE and church taxes	1,194	938
Income tax liabilities	11	26
Liabilities from wages, salaries and social security contributions	1,374	1,214
Liabilities due to affiliated companies	76	0
Fair value of derivative financial instruments	68	5
Other items (< € 100 thousand in each case)	370	143
Total	**13,537**	14,016

With the exception of liabilities relating to finance leasing agreements, the remaining liabilities have terms of less than one year. The liabilities to affiliated companies relate to MEIKU Vermögensverwaltung GmbH.
The due dates of liabilities resulting from finance leasing agreements are listed in the following table:

	Total	Remaining term up to1 year	Total	Remaining term up to1 year
Thousands of euros	2003	2003	2002	2002
Term; interest				
a) to 2007; 6.45 %	2,597	722	3,283	677
b) to 2007; 4.93 %	204	58	259	55
c) to 2008; Pibor 3 months +1.50 %	734	139	865	132
d) to 2011; 6.65 %	2,932	308	3,221	289
e) to 2011; 6.05 %	386	41	501	49
Total	**6,853**	**1,268**	8,129	1,202

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 terms 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 taken out for each that would attain the fixed sale value (option to buy in RATIONAL AG's favour) of the leased objects by the maturity of the leasing agreements.

Finance leasing agreement c) has a variable interest rate (Pibor 3 months +1.5 percent), with the option of converting to a fixed rate of interest (OAT +1.8 percent). At maturity, the lessor may purchase the leased object for € 0.15. This contract is also not subject to restrictions.

Under the terms of the finance leasing agreements, the following leasing payments will become due in subsequent periods:

Thousands of euros	2004	2005 – 2008	from 2009
Present values	1,603	4,176	933
Discounts	60	892	467
Leasing payments	1,663	5,068	1,400

31 | Deferred income

Deferred income relates to accrued book profits amounting to € 221 thousand (previous year: € 270 thousand) from a sale and lease-back transaction in the French subsidiary that will be carried in the income statement over the terms of the relevant leasing agreements, in accordance with IAS 17. € 172 thousand of which have terms of more than one year.

Notes to the Cash Flow Statement

32 | Cash flow statement

The cash flow statement shows the development of cash and cash flow equivalents of the RATIONAL group during the year under review. In accordance with IAS 7, the cash flow statement shows separately the cash flow from operating activities, representing the cash inflow from the current operating business activity, as well as investing and financing activities. Also in accordance with IAS 7, investing and financing activities which did not result in a change in cash are not included in this cash flow statement.

The long-term funds, totalling € 13.0 million, that were acquired the previous year were redeemed in the year under review. The acquisition of securities relates to a range bond with cancellation rights (cf. Note **20 |**), and it has a remaining term of over three months. The cash and cash equivalents shown comprise items of cash in hand and cash in bank accounts with remaining terms of up to three months.

Cash in bank accounts includes cash subject to restraints on disposal. The restraints are in connection with an amount of € 4 thousand (previous year: € 18 thousand). No bank balances have been pledged for loans or approved credit lines. The item liquid funds as at December 31, 2003 relates exclusively to cash in hand and cash in bank accounts totalling € 47,699 thousand (previous year: € 28,006 thousand).

Other Notes

33 | Contingent liabilities

Contingent liabilities include not only possible obligations whose actual existence must first be confirmed by the occurrence of one or more uncertain future events which cannot be influenced exclusively by the company, but also 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, this only applies to warranties and obligations relating to process costs, and these are covered by provisions totalling € 1,729 thousand (previous year: € 2,261 thousand). All related proceedings are initiated by RATIONAL.
Note **28 |** contains an overview of other provisions.
Finally, bill commitments of € 1,303 thousand (previous year: € 1,566 thousand) exist in relation to the Japanese subsidiary.

34 | Employees and personnel costs

During the financial year 2003, the average number of people employed by the RATIONAL Group was 679 (the figure for the previous year having been 669). Employee distribution amongst the various operational areas is as follows:

	2003	**%**	2002	%
Production	257	38 %	253	38 %
Marketing, Sales and Service	182	27 %	181	27 %
Technical Customer Service	95	14 %	93	14 %
Research and Development	58	8 %	56	8 %
Administration	87	13 %	86	13 %
Average number of employees	**679**		669	
of which abroad	188	28 %	187	28 %

As at balance sheet date on December 31, 2003, the number of employees was 689, the number at balance sheet date the previous year having been 656. At the end of 2003 the number of employees in the areas of sales field staff and sales back-office was increased.
Personnel costs in 2003 amounted to € 43,569 thousand (previous year: € 42,036 thousand).

Thousands of euros	**2003**	2002
Salaries and wages	36,668	35,544
Social security contributions	6,901	6,492
Total	**43,569**	42,036

35 | Derivative financial instruments

RATIONAL uses derivative financial instruments to secure against foreign exchange fluctuations between the euro and other currencies and against interest rate fluctuations on the international money and capital markets, and to exploit interest rate variations between different countries. RATIONAL AG will only consider banks with excellent credit ratings (A1 as the minimum) as contractual partners for these transactions.
Derivative financial instruments and the substantial financial risks associated with them are only managed centrally at the parent company. RATIONAL employs these financial instruments exclusively to hedge financial risks, and not for trading purposes.
Written corporate principles have been drawn up to this effect. In addition to this, policy on all hedging transactions involving financial derivatives is decided in close cooperation with the Executive Board, with each transaction being subject to the “dual control” principle. An internal monthly reporting system ensures that all trading is monitored.

Raw materials price risks

In its production process, RATIONAL uses high-quality stainless steel that contains between 8 percent and 9 percent nickel as the alloying constituent. Fluctuations in the price of nickel on the raw materials market are reflected in the so-called alloy surcharge that is added to the cost price of stainless steel. Changes in the price at which we purchase raw materials can affect cost of sales and reduce our margins. This effect is normally less than 5 percent of the margin. As RATIONAL views this risk as acceptable, it does not make use of commodity futures or commodity options in order to hedge planned purchases.

Foreign exchange risks

The foreign exchange risks apply to future cash flows in foreign currency of the subsidiaries of the RATIONAL group. The underlying transactions in each currency are carried in the planned exchange-related moneys received by the subsidiaries after the deduction of costs in the same currency and other expenses relating to each subsidiary. As a rule, up to 50 percent of the planned currency exposure in each case is hedged for a period of up to twelve months. Currency options and currency futures are employed for hedging purposes.
The currency options concluded were so-called zero cost options, the combination consisting of the purchase and simultaneous sale of the same currency. With zero cost options, the premium to be paid when one component of the option is purchased is compensated for by the gain on the premium when the other component of the option is sold. Zero cost options both with and without range were used.
Zero cost options with range combine the purchase of a put option with the sale of a call option, the base prices of which are different; however, the volumes of the put option and the call option are the same.
Zero cost options without range combine the purchase of a put option with the sale of a call option where the base price is the same for both.
Most of the currency derivative deals concluded mature within the next twelve months, with the exception of a few with terms of up to three years.

Interest rate derivatives

Interest-currency swaps with terms of several years are used to exploit interest rate variations between various countries. This involves 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 commercial activities in the respective country. The conditions relating to swaps are designed in such a way that no premium is due at the conclusion of the contract.

Valuation of derivative financial instruments

Hedging transactions are carried or accrued on the trading day at the buy or sell price. They are capitalised under other assets, and where they represent liabilities they are shown under other liabilities. They are valued at market value as at balance sheet date.
The market value of currency futures is calculated using the middle spot rate applicable as at balance sheet date, taking account of the time premiums or discounts that apply for the remaining term of the individual contracts compared to the forward exchange rate at the time each contract was concluded.
With currency options and swaps, the market value is the value that could have been achieved under current market conditions in trading between willing and independent contractual parties from the sale of the rights or obligations of a financial instrument (fair value). Any compensatory effects from underlying transactions are not taken into account when determining the market value.
Changes in market value are accounted for in the current period result. When an option is exercised or expires, the amount initially shown is carried in the operating result as a translation difference.
The following table shows the market value of the derivative financial instruments, by category and currency, as at December 31, 2003 and 2002:

		Positive market value (assets)		Negative market value (liabilities)	
Thousands of euros	Currency	**2003**	2002	**2003**	2002
Derivative financial instruments					
Forward exchange contracts	CHF	312	11	—	—
Forward exchange contracts	JPY	—	9	—	—
Currency options	USD	69	36	5	4
Currency options	GBP	33	—	37	—
Currency options	JPY	10	—	26	1
Interest rate/currency swaps	JPY	750	526	—	—
Total		**1,174**	582	**68**	5

36 | Other financial obligations

As at December 31, 2003, in addition to provisions, liabilities and contingent liabilities, other financial liabilities amounted to € 6,792 thousand, of which € 2,996 thousand will become due within the next twelve months. These primarily represent future payments resulting from development, 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 relating to, for example, dividends, additional debts or further leasing agreements.

Future minimum lease payments for operative leases will amount to € 1,481 thousand over the next twelve months, and for the years 2005 to 2008, € 1,627 thousand. There are no obligations beyond the five-year period given.

In addition, € 433 thousand is payable to former employees for agreed restraints on competition.

37 | Credit risks

The majority of claims against customers arise in connection with deliveries of goods. Security cover is generally provided by credit sale insurance. Of all the trade receivables shown at the end of 2003 that will become due with one year, 75 percent are secured through credit sale insurance. Under the terms of our agreements, the insurance not only covers the risk of customer insolvency but also so-called protracted default (non-payment situation covered by insurance). In such cases, 85 percent to 90 percent of the claim in default is settled through the credit sale insurance.

COFACE is contracted to the whole of the RATIONAL group worldwide as insurer for credit sale insurance. RATIONAL AG generally uses Euler Hermes Kreditversicherungs-AG’s so-called Hermes export credit guarantee with regard to export customers in non-OECD countries in order to insure against political risks in these countries as well. Claims against the public sector remain uninsured.

No uninsured claims exist against customers that individually account for more than 1 percent of total receivables volume.

As alternatives to credit sale insurance, and depending on the type and amount of the claim, security cover against default can be provided by security deposits, clean credits from banks, prepayments or credit checks, or by referring to payment behaviour documented in connection with RATIONAL’s previous business relationships with individual customers.

Identifiable risks are accounted for by making appropriate value adjustments in accounts receivable.

Credit risk from derivative financial instruments is primarily limited to risks relating to business relationships between RATIONAL AG and its sales subsidiaries within the RATIONAL Group. The default of a contractual partner thus has no appreciable impact on the credit risk of the RATIONAL Group.

38 | Segment reporting

The company's activities are focused on one business segment: the development, production and sale of appliances used in the thermal preparation of food in industrial kitchens. It does not currently carry any other significant independent product lines that would be reported internally. For this reason, the primary and only segment reporting format is geographical.
For segment reporting purposes, RATIONAL therefore summarises its subsidiaries on the basis of their various geographical regions, in accordance with the stipulations of IAS 14.13 governing the apportionment of assets by location. We distinguish between the following five segments: a) German subsidiary, b) subsidiaries in Europe, excluding Germany,
c) subsidiaries in the Americas, d) subsidiaries in Asia and e) the activities of the parent company, whereby RATIONAL AG and LechMetall, both of whose registered offices are in Landsberg am Lech, Germany, are summarised together.
In Europe excluding Germany these are the subsidiaries in the UK, France, Italy, Switzerland, Spain (for sales in Portugal and Spain) and in Sweden (for sales in Scandinavia and the Baltic States). The Americas segment includes the activities of our subsidiaries in the US and Canada. Until its sale on May 31, 2002 our subsidiary in Argentina still comprised part of this segment, but is no longer part of the consolidated companies.
RATIONAL's subsidiary in Japan represents the Asia segment in 2003. Until its transfer to a partner on May 31, 2002 our subsidiary in South Korea still comprised part of this segment, but since then is no longer part of the consolidated group.
The parent company's activities involve the development, production and delivery of products to the subsidiaries on an inter-company basis. Moreover, the parent company supplies both partners in foreign markets that are not covered by separate subsidiaries and OEM customers around the world.
LechMetall Landsberg GmbH, whose registered office is in Landsberg am Lech, Germany, is the owner of the property on which Factory I stands. RATIONAL AG is currently its only business partner and pays LechMetall ground rent for the leased land and buildings, plus an annual operating fee of 15 percent of LechMetall's authorised capital.
This segment division reflects the company's management structure and also represents the risk and earnings structures of our business worldwide.

For reasons of administrative simplicity, RATIONAL AG makes investments for the German sales and customer service business included under the German subsidiary (RATIONAL Großküchentechnik GmbH). Support provided by the AG is included in the segment expenses of the German subsidiary as part of the AG's cost apportionment, including depreciation, and is thus taken into account in the segment result.
Segment sales includes 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.
Segment depreciation and amortisation relates to intangible and tangible assets. No other significant non-cash expenses requiring disclosure in accordance with IAS 14.61 occurred in either 2003 or the previous year.
Segment assets include all assets, with the exception of liquid funds and any deferred tax assets. The reconciliation column reflects, firstly, the effects of consolidation and, secondly, the amounts resulting from the variant definition of the contents of segment items compared to the related group items.
An additional breakdown of sales by customer location as required by IAS 14.71 can be found in Note **01** | (Sales).

2003 Thousands of euros	Actvities of the subsidiaries in: Germany	Europe excl. Germany	Americas	Asia	Activities of the parent company	Total for segments	Reconcil.	Group
External sales	31,440	72,202	12,552	11,548	58,808	**186,550**	—	**186,550**
vs. previous year	− 3 %	+ 3 %	+ 7 %	+ 4 %	+ 14 %	+ 5 %		+ 5 %
share	17 %	39 %	7 %	6 %	31 %	100 %		100 %
Inter-company sales	1,043	0	0	0	88,583	**89,626**	—	**89,626**
Segment sales	32,483	72,202	12,552	11,548	147,391	**276,176**	—	**276,176**
vs. previous year	− 3 %	+ 3 %	+ 3 %	+ 4 %	+ 9 %	+ 5 %		+ 5 %
Segment expenses	32,400	68,668	11,552	11,192	109,891	**233,703**		
Segment result	83	3,534	1,000	356	37,500	**42,473**	− 140	**42,333**
vs. previous year	− 196	− 1,290	− 262	− 96	+ 6,086	+ 4,242		+ 4,143
Segment assets	2,793	27,315	4,673	4,947	62,082	**101,810**	26,184	**127,994**
Segment liabilities	2,947	19,151	5,911	5,640	24,524	**58,173**	− 20,764	**37,409**
Segment investments	0	419	135	82	5,366	**6,002**	0	**6,002**
Segment depreciation and amortisation	0	415	222	69	3,463	**4,169**	0	**4,169**
Employees as at Dec. 31, 2003	51	135	26	26	451	**689**		
vs. previous year	+ 1	+ 6	+ 2	+ 8	+ 16	+ 33		

2002 Thousands of euros	Actvities of the subsidiaries in: Germany	Europe excl. Germany	Americas	Asia	Activities of the parent company	Total for segments	Reconcil.	Group
External sales	32,384	70,384	11,697	11,074	51,787	**177,326**	—	**177,326**
share	18%	40 %	7 %	6 %	29 %	100 %		100 %
Inter-company 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**
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**
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**		

39 | Legal disputes

In the course of its normal business activities, the RATIONAL group is involved in a number of small court actions and claims concerning the recovery of default receivables, assumed infringements of patents by competitors and opposition proceedings before the patent office (own patents and patents owned by third parties). All pending proceedings are initiated by RATIONAL.

40 | Supervisory Board and Executive Board

The composition of the Supervisory Board did not change during the financial year 2003. The members of the Supervisory Board are still the following:

- Siegfried Meister, Chairman
- Walter Kurtz, Deputy Chairman
- Roland Poczka, Board Member

For the financial year 2003, the total remuneration of the Supervisory Board amounted to € 141 thousand (previous year: € 138 thousand), distributed as follows:

- Siegfried Meister: € 68 thousand (previous year: € 66 thousand)
- Walter Kurtz: € 47 thousand (previous year: € 46 thousand)
- Roland Poczka: € 26 thousand (previous year: € 26 thousand)

As of December 31, 2003, the members of the Supervisory Board hold a total of 8,091,434 shares in RATIONAL AG (previous year: 8,200,455 shares), of which Mr Siegfried Meister holds 7,149,261 shares (previous year: 7,312,931 shares).
Mr Siegfried Meister and Mr Walter Kurtz each also hold 1 percent of the authorised capital of MEIKU Vermögensverwaltung GmbH.
In addition to his membership of the Supervisory Board of RATIONAL AG, Mr Roland Poczka holds a further post as chairman of the supervisory board of Winkler und Dünnebier Aktiengesellschaft in Neuwied.
The composition of the Executive Board did not change during the financial year 2003. The members of the Executive Board are still the following:

- Dr Günter Blaschke, Dipl.-Kaufmann, Chief Executive Officer
- Erich Baumgärtner, Dipl.-Betriebswirt, Chief Financial Officer
- Peter Wiedemann, Dipl.-Ingenieur, Chief Technical Officer.

The total remuneration for the members of the Executive Board for the performance of their tasks in the parent company and its subsidiaries amounted to € 1,300 thousand. This sum includes a performance-related salary component of € 460 thousand. The total remuneration for the Executive Board for 2002 was € 1,908 thousand, of which € 445 thousand was performance-related and € 593 thousand was a cash settlement relating to the stock option plan.
As at December 31, 2003, the members of the Executive Board hold a total of 8,668 shares in RATIONAL AG (previous year: 9,158 shares).

41 | Stock option plans

On February 3, 2000, RATIONAL AG launched a stock option scheme for the company's Executive Board members. The scheme is designed to offer Board members additional incentives to secure the company's economic success in the medium and long term and, in the interests of the shareholders, to work towards increasing the value of the company.

It was decided initially to grant beneficiaries of the scheme the option to buy 200,000 registered shares in the company in up to five annual tranches, representing a theoretical share of the company's share capital of € 200 thousand. Only the Supervisory Board is competent to conclude option agreements, and is also responsible for deciding the precise group of beneficiaries from among members of the Executive Board.

The option rights may have terms of up to five years from the dates of issue of the individual tranches. The option rights themselves may be exercised two years after issue at the earliest. The Supervisory Board can ordain that portions of the option rights may only be exercised after a longer waiting period. When individual waiting periods expire the option rights are only exercisable within certain periods. The periods during which rights are exercisable start in each case on the 2nd and end on the 6th trading day following a regular shareholders' meeting of the company or the presentation of a quarterly report.

The exercise price for option rights issued before the company's shares were first listed on the Frankfurt Stock Exchange when the company was first floated in 2000 corresponds to the placing price per share set then. For option rights issued at a later date, the exercise price corresponds to the average (arithmetical mean) closing price of the company's shares on the Frankfurt Stock Exchange on the last five trading days prior to the Supervisory Board's resolution to issue the particular portion of option rights.

For the first tranche, which was issued as part of the initial public offering, it was decided to issue 34,500 option rights, and these were issued in February 2000. The waiting period was two years for this first tranche, and they were exercisable for a period of three years. The exercise of option rights was linked to the attainment of RATIONAL share price targets, which were achieved, subsequent to the expiry of the waiting period. In 2002, it was decided by resolution of the Supervisory Board that after deduction of the fixed share issuance amount, a cash payment equivalent to 100 percent of the value of a common share of the company could be drawn on each option right. A cash settlement of € 593 thousand was paid to the Executive Board from the first tranche of the stock option plan in May 2002 (cf. Note **23 |**).

No further option rights were issued.

This means that, as at balance sheet date 2003, options totalling a maximum of 165,500 shares remained in RATIONAL AG's stock action plan.

42 | Provision for pensions for the management

In 2001, RATIONAL AG implemented a contributory pension plan for the Executive Board and other members of the management, through an external, insured relief fund. In 2003, € 241 thousand was contributed to the scheme (previous year: € 242 thousand).

43 | Statement on the German Corporate Governance Code

The Executive Board and the Supervisory Board of RATIONAL AG 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.

44 | Subsequent events

After the close of financial year 2003, no events of any significance occurred affecting the net assets, financial position and results of operations of RATIONAL AG or the RATIONAL group.

Multi-year Overview

		2000	2001	2002	**2003**
Earnings situation					
Sales	€ million	152.6	167.3	177.3	186.6
Sales abroad	%	78.0	79.9	81.2	82.3
Gross margin	€ million	86.7	96.0	105.0	108.5
EBITDA	€ million	32.3	35.0	41.6	46.5
Depreciation/Amortisation	€ million	2.5	3.0	3.4	4.2
EBIT	€ million	29.8	31.9	38.2	42.3
Financial results	€ million	– 0.3	– 0.1	0.2	0.3
EBT	€ million	29.5	31.9	38.4	42.6
Group earnings	€ million	17.5	20.8	26.6	26.8
Earnings per share (EPS)	€	1.54	1.83	2.34	2.36
Gross margin	%	56.8	57.4	59.2	58.1
EBITDA margin	%	21.1	20.9	23.5	24.9
EBIT margin	%	19.5	19.1	21.5	22.7
EBT margin	%	19.3	19.0	21.6	22.8
Return on equity (before taxes)	%	57.9	49.5	48.6	47.0
Return on capital employed (ROCE)	%	45.6	40.0	42.3	42.3
Dividend	€ million	7.4	11.4	14.8	21.0
Dividend per share 2003 – subject to approval of the Shareholders' Meeting	€	0.65	1.00	1.30	1.85

		2000	2001	2002	**2003**
Assets situation					
Fixed assets	€ million	20.3	25.7	26.0	27.5
Current assets (incl. deferred tax assets and prepaid expenses)	€ million	65.6	75.1	88.0	100.5
Inventories	€ million	11.0	11.8	11.3	12.8
Trade receivables	€ million	27.5	29.8	30.9	32.7
Liquid funds (including securities)	€ million	21.4	27.7	41.0	49.7
Balance sheet total	€ million	85.9	100.8	114.0	128.0
Equity	€ million	50.9	64.4	78.9	90.6
Debts	€ million	35.0	36.4	35.1	37.4
Provisions	€ million	12.6	11.6	13.0	16.7
Liabilities to banks	€ million	6.7	5.3	2.9	2.4
Trade accounts payable	€ million	3.9	4.4	4.8	4.6
Other liabilities (incl. deferred income)	€ million	11.8	15.1	14.3	13.8
Liabilities from finance leasing agreements	€ million	6.0	9.2	8.1	6.9
Residual liabilities	€ million	5.8	5.9	6.2	6.9
Equity ratio	%	59.3	63.9	69.2	70.8
Net gearing	%	– 17.1	– 20.4	– 38.6	– 41.9
Equity-to-fixed-assets ratio	%	250.5	250.5	304.0	329.0
Capital employed	€ million	64.7	79.7	90.7	100.6
Working capital (excluding liquid funds)	€ million	31.1	34.8	33.6	37.0
as a percentage of sales	%	20.4	20.8	18.9	19.9
Cash Flow / Investments					
Cash Flow from operating activities	€ million	16.0	19.7	31.9	29.8
Cash Flow from investing activities	€ million	– 3.4	– 4.1	– 3,4	– 4.9
Cash Flow from financing activities	€ million	5.0	– 8.6	– 25.2	– 5.1
Investments	€ million	3.8	4.3	4.3	6.0
Employees					
Employees (as an annual average)		604	660	669	679
Personnel expenses	€ million	36.2	40.4	42.0	43.6
Sales per employee	€ thousand	252.7	253.4	265.1	274.7

Multi-year Overview

Responsible: RATIONAL Aktiengesellschaft

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