Annual Report 2004

Never 'Me Too'

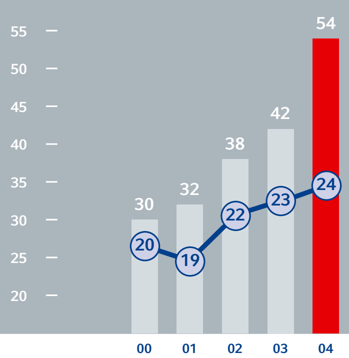
The Company at a Glance

The Company at a Glance

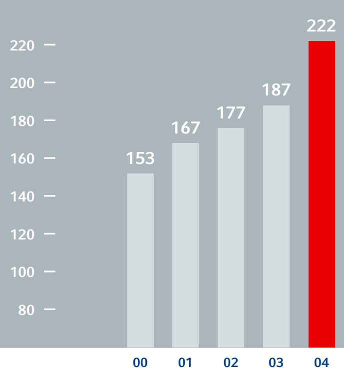
Figures in thousands of euros	2004	2003	Change
Sales	221,815	186,550	+ 19 %
Sales abroad in %	84 %	83 %	+ 1 %-pt.
Cost of sales	90,257	78,076	+ 16 %
as a percentage of sales	40.7 %	41.9 %	
Sales and service expenses	56,819	45,074	+ 26 %
as a percentage of sales	25.6 %	24.2 %	
Research and development expenses	10,391	11,362	– 9 %
as a percentage of sales	4.7 %	6.1 %	
General administration expenses	10,088	10,705	– 6 %
as a percentage of sales	4.5%	5.7 %	
EBIT – earnings before interest and taxes	53,560	42,333	+ 27 %
as a percentage of sales	24.1 %	22.7 %	
EBT – earnings before taxes	54,073	42,597	+ 27 %
as a percentage of sales	24.4 %	22.8 %	
Group earnings	34,065	26,806	+ 27 %
as a percentage of sales	15.4 %	14.4 %	
per share in euros	3.00	2.36	
Cash flow from operating activities	39,232	29,787	+ 32 %
per share in euros	3.45	2.62	
Balance sheet total	146,763	127,994	+ 15 %
Equity	104,077	90,585	+ 15 %
as a percentage of the balance sheet total	70.9 %	70.8 %	
ROCE - return on capital employed in %	48.0 %	42.3 %	+ 5.7 %-pts.
Working capital (without liquid funds)	40,948	37,034	+ 11 %
as a percentage of sales	18.5 %	19.9 %	
Employees (as an annual average)	742	679	+ 9 %
Sales per employee	298.9	274.7	+ 9 %

EBIT in millions of euros

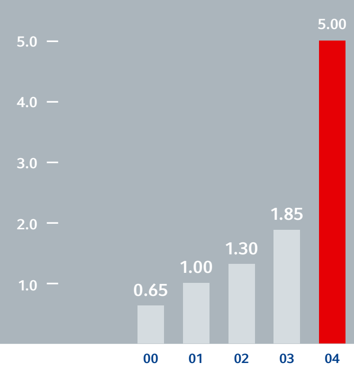
EBIT margin as a percentage



Sales in millions of euros



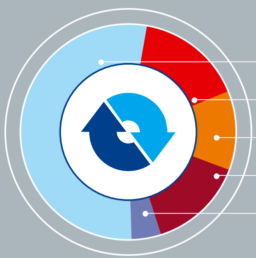
Cash dividend per share in euros



Figures for 2004 subject to approval of the Shareholders' Meeting

The strong upturn in business in all parts of the world enabled RATIONAL to increase its world market share from 49 to 51 percent.

Sales revenue by region (customers' location)



	2004 € thousand	2004 %	2003 %
Europe excluding Germany	118,200	54 %	54 %
Germany	35,602	16 %	17 %
Americas	26,366	12 %	10 %
Asia	31,822	14 %	15 %
Rest of the world	9,825	4 %	4 %

The extraordinarily high level of acceptance of the world's first SelfCooking Center® is impressively reflected in sales. For the first time, we have broken through the 200-million-euro-mark and have grown by 19 percent in 2004 or euro 35 million to euro 222 million (previous year euro 187 million).

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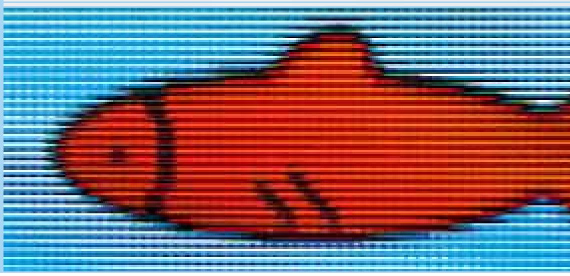

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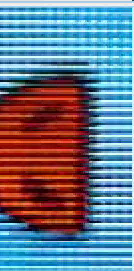


Never 'Me Too'

Expertise through specialisation

RATIONAL's success is based on our shared corporate principles, the simple corporate philosophy embraced by all our international subsidiaries. RATIONAL is an out-and-out specialist that focuses on a single target group and its basic needs. That target group is people in professional kitchens around the world; their basic needs relate to thermal preparation of food.

Maximum customer benefits as our overriding corporate goal

Our overriding corporate goal is and always has been to provide maximum benefits for customers. Over the years, our consistent specialisation and concentration of all thought and action have enabled us continuously to intensify our links with our customers, the better to understand their wishes and needs. We have practically become part of their world. This enviable position means we are better placed than others to solve their problems as we improve their working environment and their successes too, day in and day out. RATIONAL's consistent success over the past 30 years is undeniable testimony to this fact.

RATIONAL: the chefs' company

RATIONAL does not see itself essentially as an appliance manufacturer but as an innovative problem-solver. Our research and development process is geared to our customers' operational world and the corresponding scientific environment. Physicists carry out basic research, chefs and nutritionists focus on application research, while mechanical engineers are involved in product development.

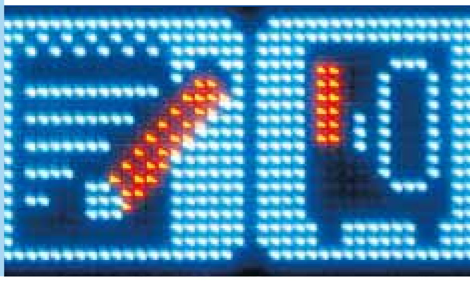
Product leadership involves setting the agenda

RATIONAL has devised groundbreaking solutions and innovations by concentrating all its resources on a single target group and leveraging the company's overall strategic focus on the application side. The results of this approach can be seen in terms of sustained product leadership and increasing customer benefits all the time. And meanwhile, the RATIONAL brand has become an increasingly more appealing, compelling proposition.

The world's first SelfCooking Center®

At RATIONAL, product leadership means: "All appliances always feature the most up-to-date technology that the market has to offer and are made to the highest quality standards." It is a promise we always keep. The overwhelmingly successful global launch of the SelfCooking Center® in 2004 once again bears impressive testimony to these high aspirations.

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.



Outstanding Results with the World's First SelfCooking Center®

Global economy posts above-average growth

In 2004, the industrial nations posted 3.6 percent growth to outpace average growth over the last three years once again. The USA was the powerhouse that helped kick-start growth in the global economy. Financed in particular by an increasing budget deficit, US employment figures have improved consistently over the period, leading to a buoyant increase in consumer spending.

Japan has shaken off its long-standing recession with style and at the start of the year posted 7 percent growth, the highest figure reported by the G3 countries. While growth has again fallen back to more moderate levels over the past two quarters, the impressive figures at the start of the year ensured average annual growth reached around 4 percent.

Exporters in Europe, and the German export sector in particular, have benefited hugely from the upturn in international demand. However, virtually flat consumer spending coupled with increasing imports continue to dog the German economy. The cumulative effect of these factors has been to prevent any reduction in the high unemployment figures and to stifle sustained economic growth.

Record sales: 19 percent growth in 2004

The extraordinarily high level of acceptance of the world's first SelfCooking Center® is impressively reflected in sales. For the first time, we have broken through the euro-200-million-mark and have grown by 19 percent in 2004 or euro 35 million to euro 222 million (previous year euro 187 million).

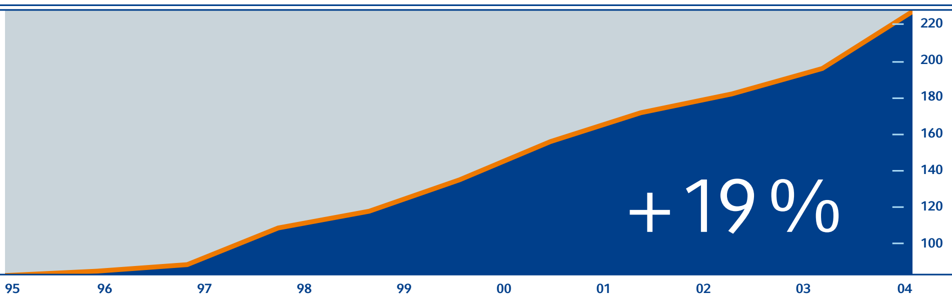
What is particularly pleasing in this respect is that we managed to post double-digit growth in all parts of the world in 2004. Particularly in North America, one of our most important potential markets around the world, we managed to achieve a sustained breakthrough in 2004, posting 43 percent growth. Targeted investment in expanding our sales and marketing network as well as our new product technology proved crucial to our success.

EBIT margin rises to over 24 percent

The company's earning power has grown strongly thanks to reduced cost of sales for the new product technology, ongoing process optimisation as well as increased productivity across the board.

Sales

in millions of euros



Despite negative currency effects and considerable non-recurrent expenditure in 2004, e.g. for converting our entire production, the previous year's 58.1 percent gross yield margin rose to 59.3 percent.

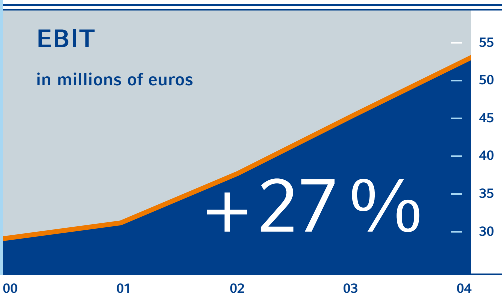
Compared to the previous year (euro 42.3 million), EBIT was up 26.5 percent to euro 53.6 million. EBIT margin rose from 22.7 percent to 24.1 percent.

World market share rises to 51 percent

Strong business growth in practically every part of the world has enabled us to increase the RATIONAL world market share from 49 to 51 percent (Source: HKI industry statistics, RATIONAL market research).

Thanks to our technological advantage and continually improving sales and marketing efficiency of delivering the unique RATIONAL benefits proposition to prospective customers, our market share has grown consistently over the past few years. Every second device installed somewhere in the world is now from RATIONAL. This fact alone illustrates just how competitive our products and services are internationally.

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.



Expect the unexpected

Guided by the basic principle of 'Never Me Too', we have changed the industry beyond recognition over the past 30 years.

A new global market has emerged

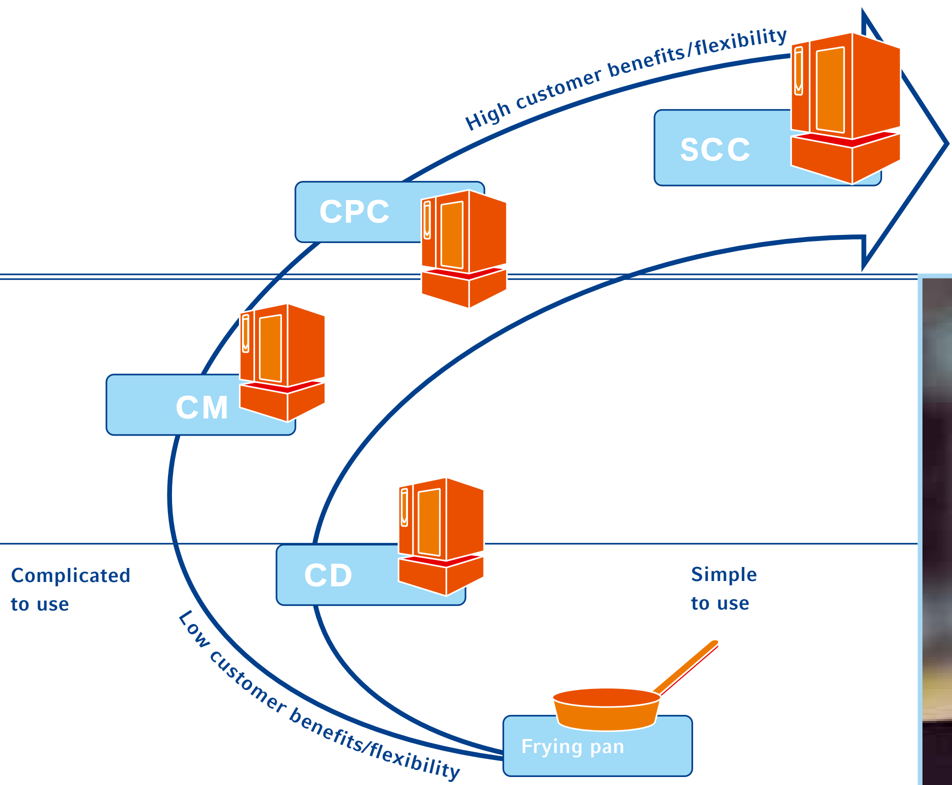
The RATIONAL success story began with the invention of the combi-steamer in 1976. The RATIONAL combi-steamer was then the biggest, most important innovation to hit commercial kitchens for decades. It revolutionised professional kitchens and production processes around the world and, in turn, the entire kitchen appliance sector.

At the same time, a new global market was born. The RATIONAL combi-steamer has replaced 40 to 50 percent of all traditional cooking appliances, allowing chefs to completely redesign the cooking process.

A new global quality standard for perfect food

RATIONAL took global quality standards for perfect food up a gear with the invention of ClimaPlus Control® technology in 1997. The underlying concept was based on the realisation that quality products can only thrive if the climate is right. Whereas heat and humidity determine this climate in the natural world, RATIONAL ClimaPlus Control® technology delivered the ideal climate for each product in the cooking cabinet for the very first time. Consequently, we now have a complete climate cycle starting from the product in its natural state right through to the plate.

The worldwide share of the ClimaPlus Combi® in relation to total unit sales rose to over 70 percent thanks to its unique customer benefits. The ClimaPlus Combi® has already largely replaced the traditional combi-steamer.



The world's first SelfCooking Center®

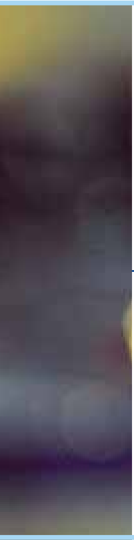
RATIONAL again sparked a global revolution in 2004 with the invention of the Self-Cooking Center®. This new product technology is a radical departure from the emphasis on more and more overt technology, complicated operating concepts and costly training courses for operating staff. Gone also is the need to constantly monitor cooking processes, as well as many of the routine chores required previously.

This third spectacular RATIONAL invention adopts the k.i.s. (keep it simple) principle and raises the bar in terms of performance. It has brought the excitement back into cooking. At the same time, it also offers our customers far more benefits and flexibility than a combi-steamer or ClimaPlus Combi® ever could. Which is why we came up with an entirely new name: the SelfCooking Center®.

Rewriting the rules

The world's first SelfCooking Center® means you now don't have to set the climate, cooking time, temperature or air speed in the cooking cabinet. So it's much easier to use than the good-old frying pan.

SelfCooking Control® automatically senses all product-specific requirements such as the size and type of food as well as the size of the load. SelfCooking Control® accurately checks and optimises the cooking process 3,600 times an hour. Food is cooked to perfection without any supervision – even over night, time after time, after time.



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.

Time for the essentials

A good chef needs time away from the distractions of the kitchen to concentrate on the essentials: from the recipe idea to the last finishing touches. The SelfCooking Center® gives the chef time for the essentials, time for creative menu planning, careful sourcing of raw materials, a perfect mise en place and meticulous presentation.

SelfCooking Control® also ensures that the numerous appliance functions are always used to their full potential, fully automatically. And as a result, customers see a guaranteed return on investment without the need for any special user training.

International awards for the world's first SelfCooking Center®

Numerous awards underline RATIONAL's expertise and innovation.

In the first half of the year, RATIONAL was awarded the German **GASTRO INNOVATIONSPREIS** for outstanding innovative, groundbreaking products and solutions in the mass-catering technology segment.

In September 2004, we were named **MANUFACTURER OF THE YEAR 2004** by the Foodservice Consultants Society International (FCSI). The award was given for the outstandingly innovative SelfCooking Center®.

In France, the SelfCooking Center® won the **Grand Prix APRIA 2004** in October. The standard APRIA Innovation Award is presented at the Equip'Hôtel Trade Fair for the leading innovations in mass-catering technology. In recognition of the outstandingly innovative SelfCooking Center®, the expert jury decided, for the first time in the award's 26-year history, to create a Grand Prix APRIA specially for RATIONAL.

The international awards for the SelfCooking Center® were topped off in November 2004 in the USA with the **Best New Product Editors' Choice Award** and the Kenneth F. Hine **New Product, Best of Show Award**.

"The strongest brands are RATIONAL, WMF and Blanco. The ranking took account of the points scored for innovation, reliability, high quality and price/performance."

Source: KÜCHE, hogatec survey 2004

Best brand image in the sector

A customer survey conducted by the German trade publication 'KÜCHE' in September 2004 shows RATIONAL with the best image of all brands in the sector. RATIONAL ranks impressively, especially in the categories innovation, high quality and the price/performance ratio.

We are proud to say we live up to the product and quality leadership aspirations enshrined in our corporate principles. And this is no idle boast, it's what our customers tell us.

Best system suppliers 2004 – teaming up with the best

As a company with little vertical integration, the quality and reliability of our system suppliers are crucial to the company's success. Based on the principle of extending our production facilities outside the company, we have forged close partnerships with our system suppliers. Annual partner plans in particular with quality and production targets, monthly reporting including key performance indicators and regular audits in addition to supplier certification underpin this cooperation.

The RATIONAL supplier evaluation system examines product quality closely and also considers the quality of cooperation. The best suppliers are honoured at the annual supplier conference, held in 2004 on May 18 in Landsberg with 85 representatives from 50 companies attending.

The following were singled out for their excellent work during the supplier conference on May 18:

- **Huba Control AG, Würenlos, Switzerland, 1st place,**
- **Stengel Apparatebau, Ellwangen, 2nd place and**
- **Thermo Sensor TS GmbH, Bönen, 3rd place.**

Apart from 1st to 3rd places, another five suppliers were honoured for their exceptionally good work.

Positive Outlook for 2005

Global economy: growth stalls

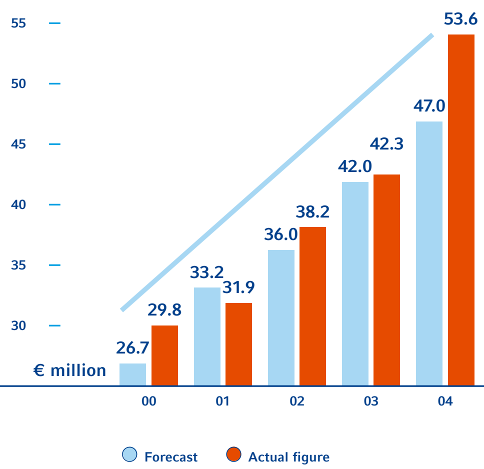
In 2005, the global economy will continue to grow robustly, although the USA will become less important as the powerhouse behind economic growth. The sharp upturn in Japan in 2004 is likely to falter as the superficial structural reforms continue to slow the economy down. In Western Europe, the export-led upturn will flatten out. Meanwhile, the economies of Latin America are seeing an economic recovery. Asia as a whole and the Central and Eastern European countries will be the powerhouses behind global growth in 2005 and after.

Only 20 percent of the world market potential tapped

Despite RATIONAL's long-running success story, only around 20 percent of the world's 2.5 million potential customers have switched to state-of-the-art cooking technology. That still leaves 2 million kitchens around the world with a need for one or more appliances.

The targeted expansion of our global sales and marketing network based on existing potential users in 2005, coupled with increasing efficiency in delivering the RATIONAL benefits proposition, leaves us sufficient scope for continuing organic growth, even if the underlying economic fundamentals are not encouraging.

EBIT: Reliable forecast



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.

The new SelfCooking Center®: a compelling proposition

In 2004, we successfully launched our new groundbreaking technology in all our international markets and surged ahead of the competition. We are confident that this new service platform will also open up additional growth opportunities in 2005.

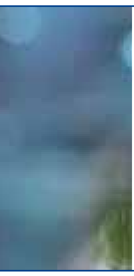
Double-digit growth in sales and earnings in 2005

We are optimistic of posting double-digit sales and earnings growth in 2005 as well for several reasons: the success of our new technology, further targeted investment in expanding our sales and marketing network, along with the large global market potential that is still untapped.

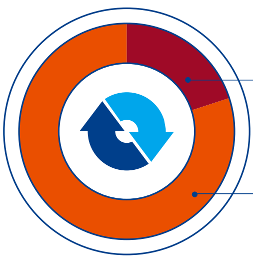
Qualified staff help buck the trend

From the outset, we have been committed to transforming our employees into entrepreneurs within the company and to promoting and leveraging each individual's knowledge and know-how. The enterprise-wide RATIONAL process organisation abandons the concept of a work organisation based on the extensive division of labour that is management-intensive. Instead, processes are natural, clear and self-contained. Employees themselves largely assume responsibility for their tasks and take necessary decisions on their own. Skills, motivation and the strong identification of employees with the company goals will also be decisive factors in the company's success in future.

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



Market potential	2004
Customers with combi-steamer technology	20 %
Potential customers without combi-steamer technology	80 %



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 communications are essential aspects of good Corporate Governance.

RATIONAL AG has always striven for corporate openness and transparency, and hence welcomes the German Corporate Governance Code, 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 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 on 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 5.3.1 “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 consists of only three members. Forming committees comprising fewer than three members would not result in any further increase in the efficiency of the Supervisory Board.

Landsberg, January 2005
RATIONAL Aktiengesellschaft

The Supervisory Board The Executive Board

Investor Relations

RATIONAL value-added shares: share price soars 52 percent in 2004

In what was generally a bullish stock market, RATIONAL value-added shares have once again done justice to their special position as the jewel in the SDAX crown in the last 12 months. Thanks to a 52 percent share price increase to euro 68.40, the shares had easily outperformed the German DAX (7 percent), MDAX (20 percent) and SDAX (22 percent) stock market indices as at December 31, 2004. This makes RATIONAL one of the few shares whose price has never fallen below its issue price of euro 23.0 in 2000.

High dividend

Apart from 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 2004 made by the Executive Board and the Supervisory Board amounts to euro 5.00 per share, an increase of 170 percent. This outstanding proposal of the administration considers the successful company development as well as the generally high cash position on the balance sheet. In consequence of this distribution, the business’s financial and capital structure would be in an ideal position to meet the strategic development and growth targets in the coming years.

Executive Board: hands-on approach to investor relations

RATIONAL attaches a great deal of importance to investor relations. The Executive Board is always on hand personally to answer any queries regarding the company's situation and future developments. The Executive Board has invested a great deal of time at international roadshows in the USA and Europe, analysts' conferences in London, Frankfurt, Kronberg and Munich, as well as numerous press interviews, to keep investors fully informed.

In 2004, we also encouraged more and more institutional investors to follow RATIONAL shares with keen interest, forming a growing pool of potential investors waiting for an opportunity to buy.

Research Coverage 2004

LBBW	December	Hold
Berenberg Bank	December	Hold
Cheuvreux	November	Outperform
Independent Research	November	Accumulate
Citigroup	November	Hold
Sal. Oppenheim	November	Neutral
HSBC Trinkaus & Burkhardt	November	Add
Commerzbank	November	Hold
HVB Equity Research	November	Outperform

Share key figures in euros	2004	2003
Consolidated earnings per share	3.00	2.36
Cash flow from current activities per share	3.45	2.62
Share price high	69.25	48.50
Share price low	44.35	25.32
Share price close	68.46	45.01
Market capitalisation (year-end)	€ 778 million	€ 512 million
Shares issued (year average)	11,370,000	11,370,000

Outstanding financial communications

RATIONAL's investor relations have also received several awards this year for their quality.

RATIONAL was awarded third place in the SDAX category in the Investor Relations Prize 2004 from the business magazine 'Capital'. The judges looked at criteria such as credibility, quality and topicality of financial information as well as the form and scope of corporate governance reporting.

Financial magazine 'FOCUS MONEY' voted RATIONAL Company of the Year (2nd place in the SDAX) in 2004. Among all the 133 companies analysed spanning all sectors of the stock market, RATIONAL came out on top in the 'Earning power' category, scoring 925 out of a possible 1,000.

RATIONAL in the MSCI Equity Index

In November, RATIONAL was added to Morgan Stanley's international MSCI Equity Index. Morgan Stanley Capital International Inc. (MSCI) is one of the leading providers of equity market indices. The MSCI Equity Index is calculated using standard international valuation methods, on the basis of which objective international benchmarks can be devised. These benchmarks are often used by large institutional investors in particular to make investment decisions.

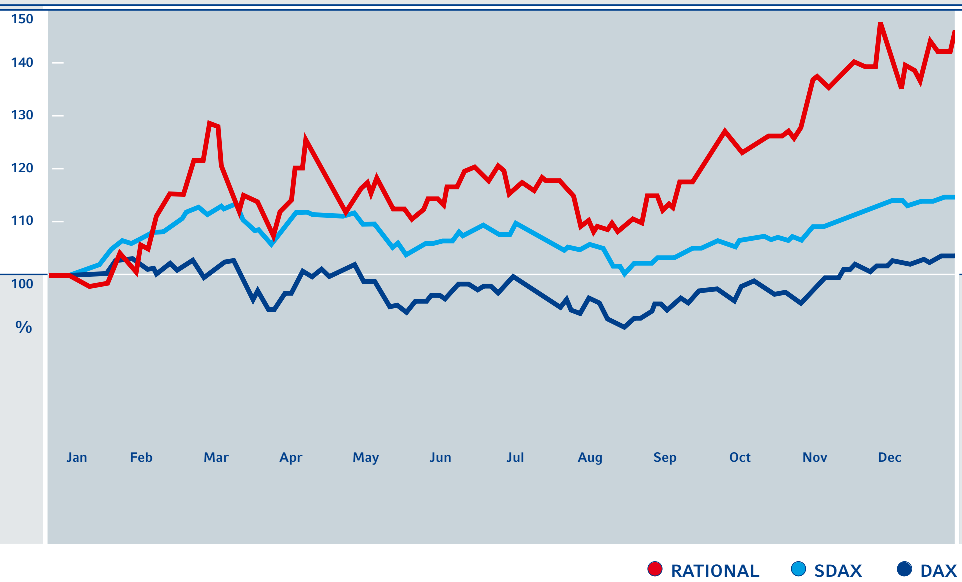
RATIONAL in the GEX

The German stock exchange is set to introduce a new share index for owner-dominated companies in January 2005. The German Entrepreneurial Index (GEX) includes German companies whose Executive Board or Supervisory Board retains between 25 percent and 75 percent of shares. Companies that wish to be listed in the GEX must be members of the Prime Standard, the high-end stock market segment with particularly stringent admission criteria. RATIONAL fulfils these criteria and has therefore been listed in this index from the start.

Financial Calendar 2005

January 18	German Corporate Conference, Cheuvreux
January 28	Press conference – 2004 Preliminary Results
March 02	Commerzbank Conference
March 17	DVFA-Conference
March 17	Publication of the 2004 Audited Results
March 21	Citibank Conference
May 09	Q1 Results 2005
May 10	Shareholders' Meeting
August 09	Half-Year Results 2005
November 08	9-Month Results 2005

Share price in 2004



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Events 2004

1st half of the year

Representative Office opened in Moscow
on February 26, 2004

Gastro Innovationspreis
RATIONAL was awarded Germany's Gastro Innovationspreis.

GEO Award presentation
RATIONAL AG received the Global Exellence in Operations (GEO) award for top entrepreneurial quality on February 27, 2004

Global launch of the first SelfCooking Center®
The overwhelmingly well received product launches delighted the partners, customers and the trade press.

CIP award
In the first quarter of 2004, the best of 1,668 improvement proposals were singled out for special praise.

2003 Vision Award, USA
RATIONAL and the First Rabbit agency were honoured with the Silver Award from the LACP (League of American Communications Professionals).

Shareholders' Meeting 2004
At the Shareholders' Meeting held on May 12, 2004, all the proposals put forward by the management team received widespread approval.

2nd half of the year

Grand Prix APRIA 2004
In France, the new SelfCooking Center® was awarded the Grand Prix APRIA 2004 in October.

250,000th appliance
The 250,000th RATIONAL appliance was produced on June 20, 2004.

Manufacturer of the Year, USA
In September 2004, RATIONAL received the accolade ‘Manufacturer of the Year 2004’ from the ‘Foodservice Consultants Society International’.

Company anniversaries
One employee with the company from Day 1 was honoured in 2004 for 30 years’ service, while four others marked 25 years with RATIONAL.

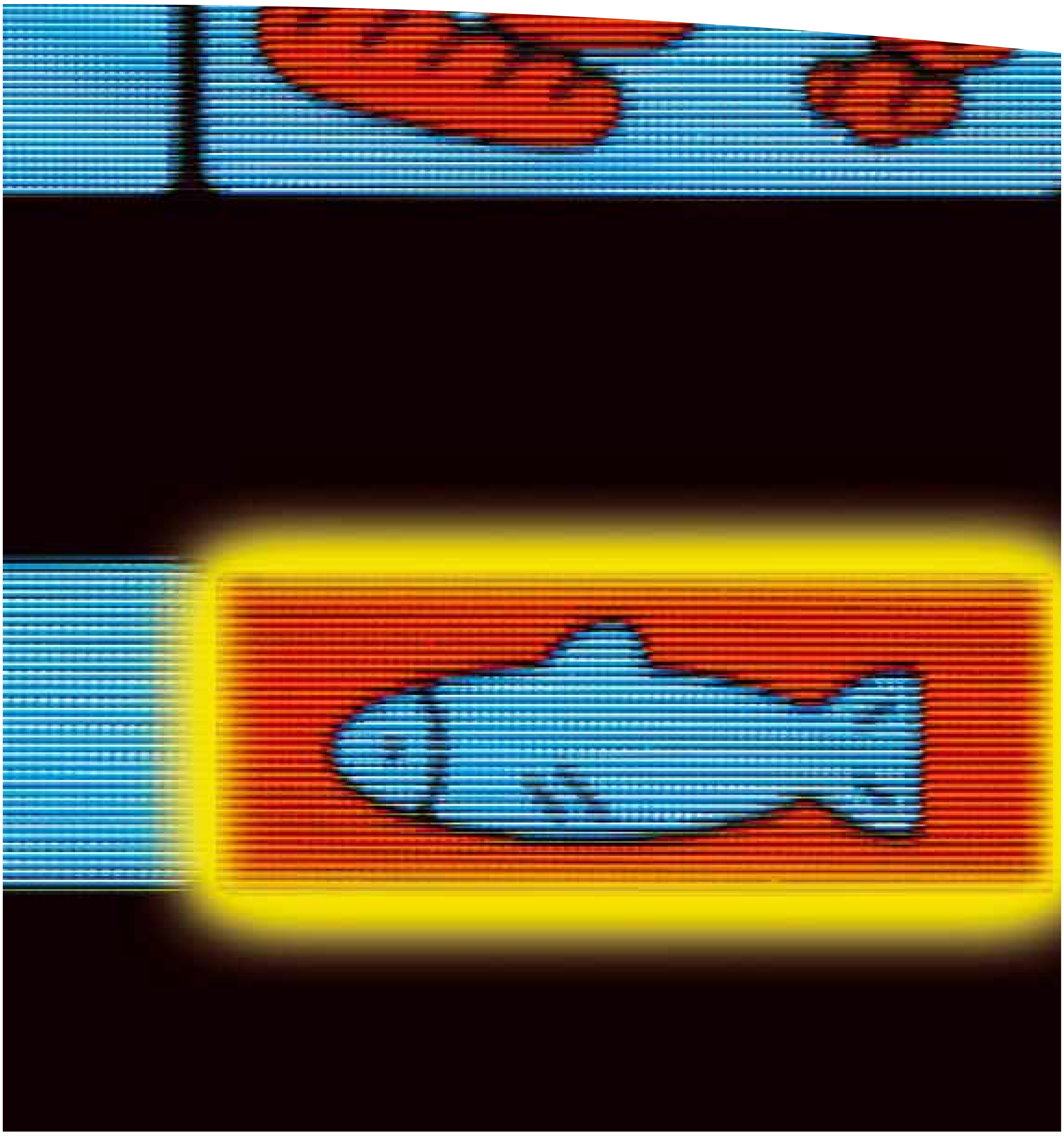
Supplier conference
The supplier conference was held in Landsberg on May 18, 2004, with 85 representatives from 50 companies attending.

Capital ‘Investor Relations Prize’
RATIONAL was also honoured this year with the Capital Investor Relations Prize 2004. We took third place in the SDAX category.

Company of the Year, FOCUS MONEY
RATIONAL ranked 2nd in the SDAX.

Chefs’ Olympics
The Chefs’ Olympics were held in Erfurt from October 17 to 20. All 32 international teams put the world’s first SelfCooking Center® from RATIONAL through its paces.

Best New Product and Best of Show Award
In November, RATIONAL was awarded the Best New Product Editors’ Choice Award 2004 and the Kenneth F. Hine New Product Best of Show Award in the USA.



Guided by the basic principle of 'Never Me Too', we have changed the industry beyond recognition over the past 30 years. RATIONAL again sparked a global revolution in 2004 with the invention of the world's first SelfCooking Center®.

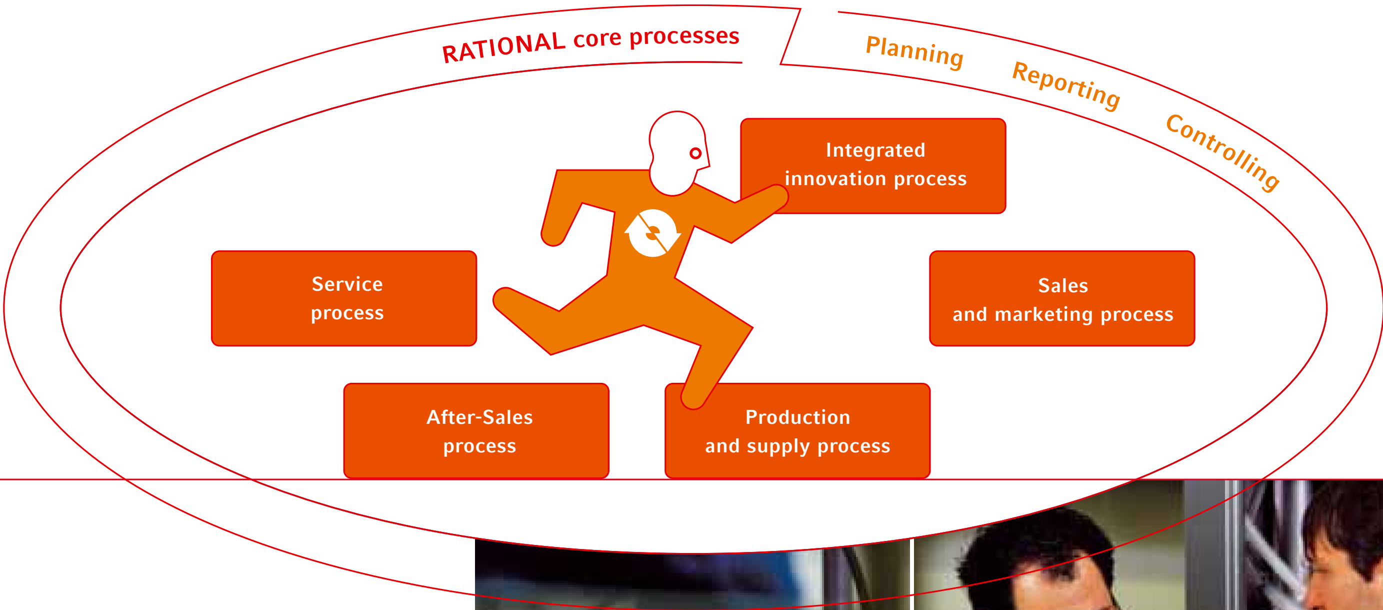
Never 'Me Too'

Cutting-Edge Research and Development

Enterprise-wide process organisation promotes innovation

The enterprise-wide integrated process organisation at RATIONAL is characterised by integral, clear, self-contained tasks. Superfluous interfaces and conventional departments have been eliminated. In effect, the RATIONAL process organisation abandons the concept of organising work on the basis of the extensive division of labour that is intrinsically management-intensive. All of which ensures we don't lose sight of the bigger picture. And at the same time, we can leverage the know-how and training of our staff to the full.

Everyone rose to the challenge of developing the world's first SelfCooking Center®. Employees from research and development, product management, technical service, application consulting and marketing, not forgetting production, quality assurance, shipping, sales and the commercial departments were fully involved right from the initial brainstorming through to market launch.



Less than three years in development

Efficiency poses a major challenge, particularly as far as research and development is concerned. To meet this challenge, research and development follows a pre-set, integrated innovation process at RATIONAL. We managed to develop and market the world's first SelfCooking Center® in less than three years by consistently involving all those concerned from the outset (simultaneous engineering).

The progress of the project is monitored and checked against five defined milestones – innovation release, implementation order, prototype release, marketing release and readiness for series production.

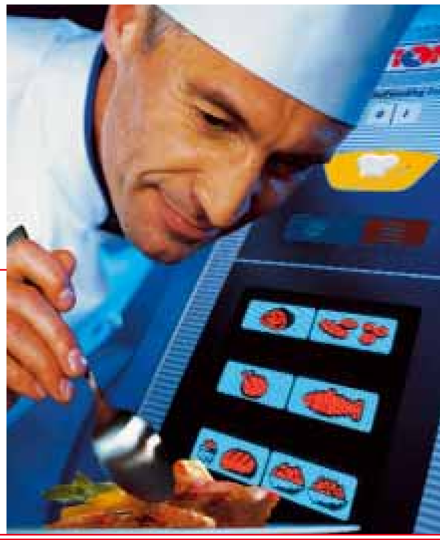
Cost of sales significantly reduced

Intelligent functional integration in particular enabled us to cut the cost of sales for the SelfCooking Center® compared with the ClimaPlus Combi®. These savings easily offset the high non-recurrent costs of production conversion and the recent surge in the price of stainless steel.

Technological quantum leap

Every new SelfCooking Center® is the culmination of RATIONAL's 30 years of international cooking experience. Its in-built intelligence means every SelfCooking Center® is able to anticipate national cooking and eating habits, and create the right cooking process.

We have made a technological quantum leap forward with this new remarkable 'cookology'. Never complacent though, our technical lead is also suitably safeguarded by over 200 patents and patent applications.



Top-Class Sales and Marketing

Clear global positioning

Cooking – it is artistry and passion, creativity and experience. An attentive eye for detail and a feel for the finer culinary points help a chef transform a plain meal into a culinary masterpiece.

Our new technology helps us fulfil every chef's basic need: 'Serving an excellent meal', in the best possible way. Our global positioning is based on the appliance's ease of use, the elimination of monitoring and routine chores, and time saved that the chef can devote to creative work that genuinely adds value.

A good chef needs time away from the distractions of the kitchen to concentrate on the essentials: from the recipe idea to the last finishing touches. The unique RATIONAL SelfCooking Center® gives the chef time for the essentials, time for creative menu planning, a perfect mise en place but, above all, time for creativity and meticulous presentation.

Guided by the principle 'Simple is better', all our product documentation and advertising material focus on the emotion and excitement of cooking. While the state-of-the-art technology goes unnoticed, you can rest assured it will deliver perfect results automatically, time after time, after time. And all that without any complicated instructions or time-consuming user training.

The perfect product launch

All the product documentation in more than 20 languages was designed according to this concept and available on cue for the April 2004 launch.

Training for each individual member of staff in global Sales and Technical Service was carefully planned, organised just-in-time and delivered outstanding results.

The official launch event for specialist dealers, customers, planners and the trade press, with a standard format devised centrally down to the very last detail for each target market, set the benchmark for the entire sector. The launch events in the individual countries ran like clockwork thanks to the professional execution of this uniform high-quality global launch campaign. The campaign effectively delivered our unique benefits proposition to the markets in the shortest possible time.

Customers, partners and the trade press delighted

The overwhelmingly well received product launches in April in Europe, May in America and June in Asia enthused not just customers and partners but the trade press in particular.

“Wherever you find RATIONAL, you’ll find the leader”, “Cooking as if by magic”, “Time for the essentials” or “The empire rewrites the rules of the game” are only a few examples of the euphoric reaction to RATIONAL’s new technology.

Unrivalled Production and Supply Process

Shortest learning curve in production

Within three weeks, both plants had converted to a completely new technology platform, and only six weeks after start of production, all the line operators had gone through the entire learning curve. The existing monthly RATIONAL production record was beaten by more than 20 percent as early as June.

Guided by the principle “We only manufacture components ourselves that we can produce more cheaply or better than others”, we source over 80 percent of all components from external system suppliers based on the KANBAN principle. The technological restructuring of suppliers was therefore absolutely crucial to our success. Once again, we rose supremely to the challenge with 100 percent KANBAN readiness well ahead of the start of series production.

Cost of sales reduced

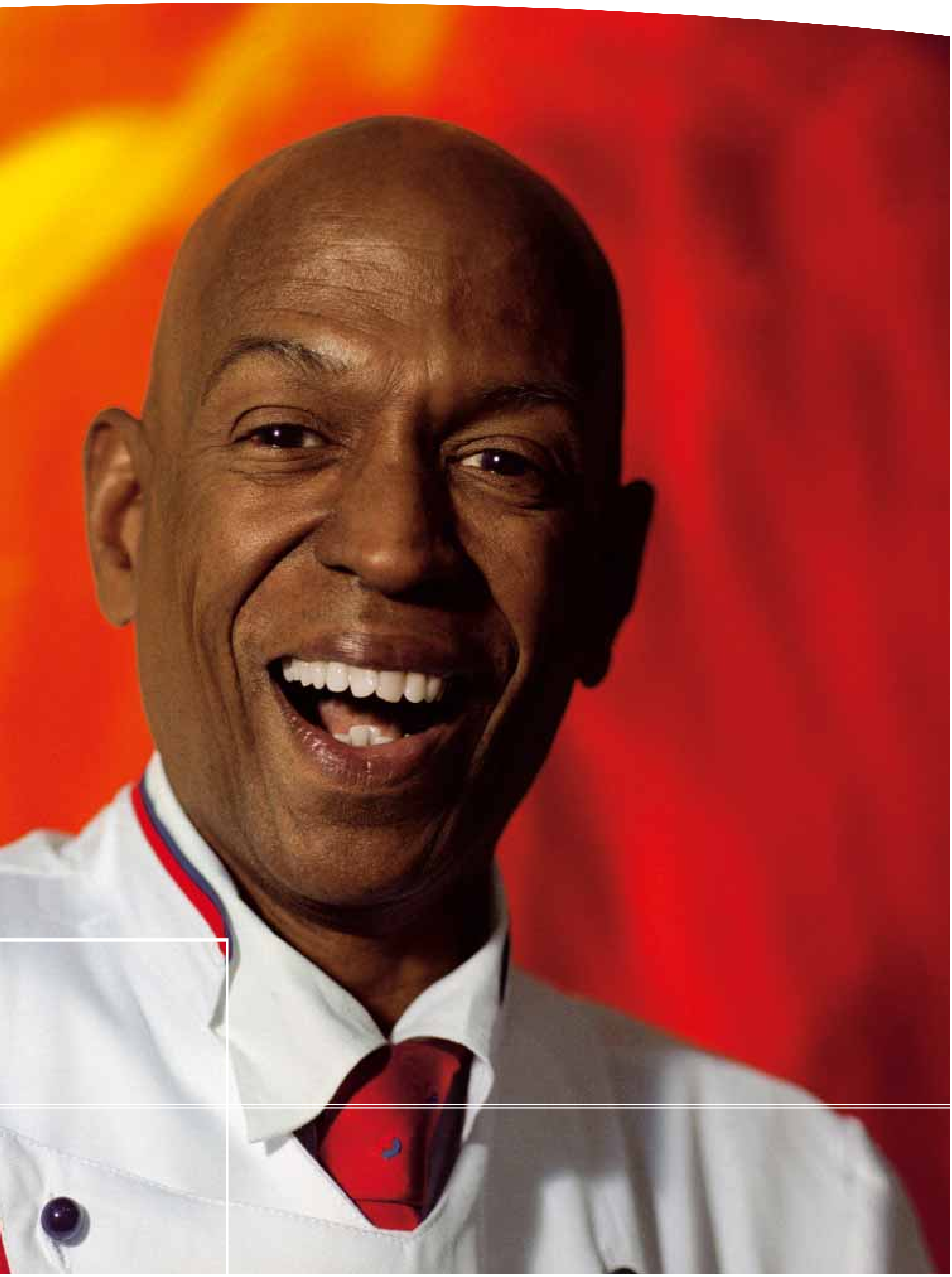
Targeted optimisation of all functional groups and intelligent system integration also enabled us to reduce cost of sales of the SelfCooking Center® compared with the predecessor model. The improvement in gross margin has boosted the company's earning power despite rising materials costs.

Top quality from the word go

The new SelfCooking Center® has already matched the top quality and the low level of complaints of the predecessor model. There have been no serious faults or breakdowns to report. The new SelfCooking Center® technology platform is perfect for improving this low fault rate even further over the next few years in order to deliver maximum customer benefits.

The strong upturn in business in virtually every part of the world enabled RATIONAL to increase its world market share from 49 to 51 percent in 2004.

The world's first SelfCooking Center® delights owners



School Catering in Beaumont, Texas

The state of Texas is spearheading the fight against childhood obesity and poor nutrition in the USA. Healthy food with fewer calories and less fat needs to be firmly back on the school menu. The Texas Nutrition Policy for state schools aims to gradually outlaw the practice of deep-frying food from school kitchens.

The 'Beaumont Independent School' in Houston, Texas, is one school covered by the policy. Every day, around 180 staff in the school kitchens serve more than 20,000 hungry school kids with their favourite meals.

For Pat Barker, the Director for Food and Nutrition at the Beaumont Independent School, the new regulations finally convinced her to actually introduce the new technology, something she'd been dying to do for a while anyway. "I've been convinced of the benefits of state-of-the-art cooking technology for years now", says Pat Barker. "Instead of hanging around, like a lot of others are doing, we went ahead and removed the deep-fat fryers from the school kitchens and replaced them with the RATIONAL SelfCooking Center®."

After a few months of working with the new RATIONAL technology, the staff in the Beaumont school kitchens are just amazed how easy the SelfCooking Center® is to use and how well it cooks the food. "The French fries are healthier and taste much better than before. The pizzas come out evenly brown, they look better, the cheese is light and tasty, and the base goes crispy without burning", enthuses Pat Barker.



Pat Barker, Director for Food and Nutrition

However, in Beaumont the excellent results with the new technology go beyond school catering per se. A wide selection of fish, meat and steaks is also on the menu in the cafeteria in the administration building that plays host to numerous receptions, and where the school's management team also regularly dines alongside the administration staff. "The quality of the food with the SelfCooking Center® is in a class of its own", says Pat Barker. "Everything is much faster, easier and better than using conventional hot-air ovens and steamers."

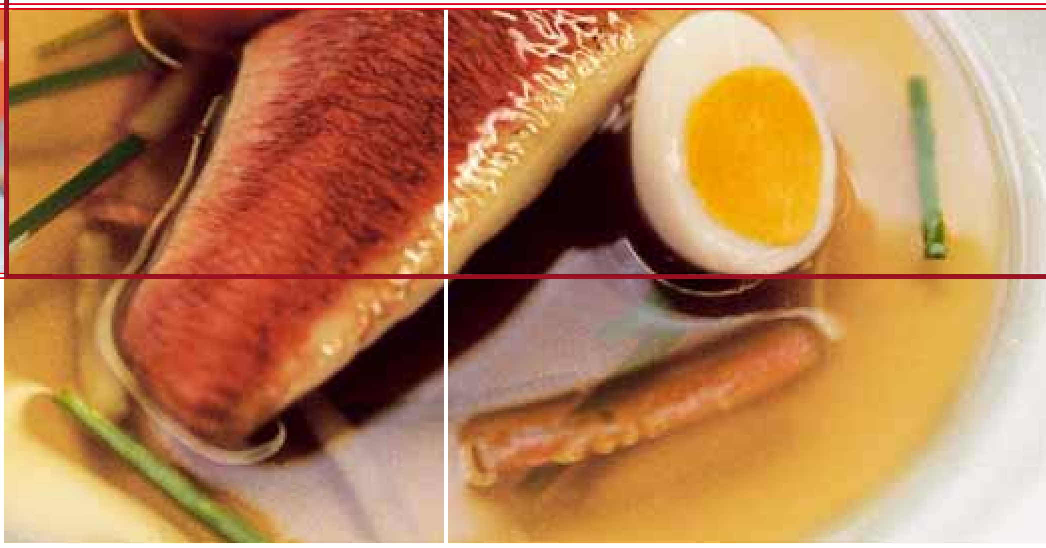
In addition to the outstanding appliances, the professional RATIONAL Chefline® expert chef-to-chef assistance service is just as impressive. For Pat Barker, one thing is crystal clear: "RATIONAL's SelfCooking Center® is ideal for school catering."

Indústria de Móveis Bartira, São Paulo

Walk into either of the two staff canteens at Indústria de Móveis Bartira, a large furniture manufacturer in São Paulo, and you would scarcely believe you are in a manufacturing company as you take in the clean, well-kept surroundings. Around 900 staff eat here every day, with meals prepared by a 19-strong team headed by Maria Capuzo Santos. "We want to offer staff variety on the menu", says Ms Capuzo Santos. "We need to be pretty inventive, especially given the time we have to prepare the meals." A RATIONAL SelfCooking Center® has only just recently been installed in the kitchen at Indústria de Móveis Bartira.

The SelfCooking Center® helps her take a more relaxed approach to her daily chores. "Whereas before we only used to prepare dishes you could boil in water, simply because we didn't have enough time to do anything else, now we can bake, roast, grill and steam without any problem. Plus, it's far less work than it used to be", adds Ms Capuzo Santos.

The SelfCooking Center® gives flexibility; it means we don't have to worry about a lot of routine chores, and it is so easy to use: "Even Pedro, our kitchen assistant, already knows how to use the SelfCooking Center®. And he's only been with us for a week!"



Ms Capuzo Santos sees the fact that her new SelfCooking Center® is so easy to use as an important advantage. "You had to be something of a juggler to prepare a simple fried egg when we were busy: constantly keeping an eye on things, putting the eggs to one side to keep warm, cracking more eggs, you never stopped. With the SelfCooking Center® and the non-stick trays it's all virtually automatic. My kitchen staff love it. For them, it means less stress and better results. Our fried eggs are hugely popular now. Truck drivers collecting the furniture from the factory go out of their way to be on the premises at mealtimes."

The extra time can be used to try out new recipes and add variety to the menu. But we're also feeding more and more employees – with the same number of kitchen staff. And it couldn't have been timed better: the furniture company has recently been posting double-digit growth. In just six months, the number of meals served has more than doubled – from 400 to over 850 meals. "Easy as pie with the SelfCooking Center®", laughs Ms Capuzo Santos, "I can feed the lot of them!"

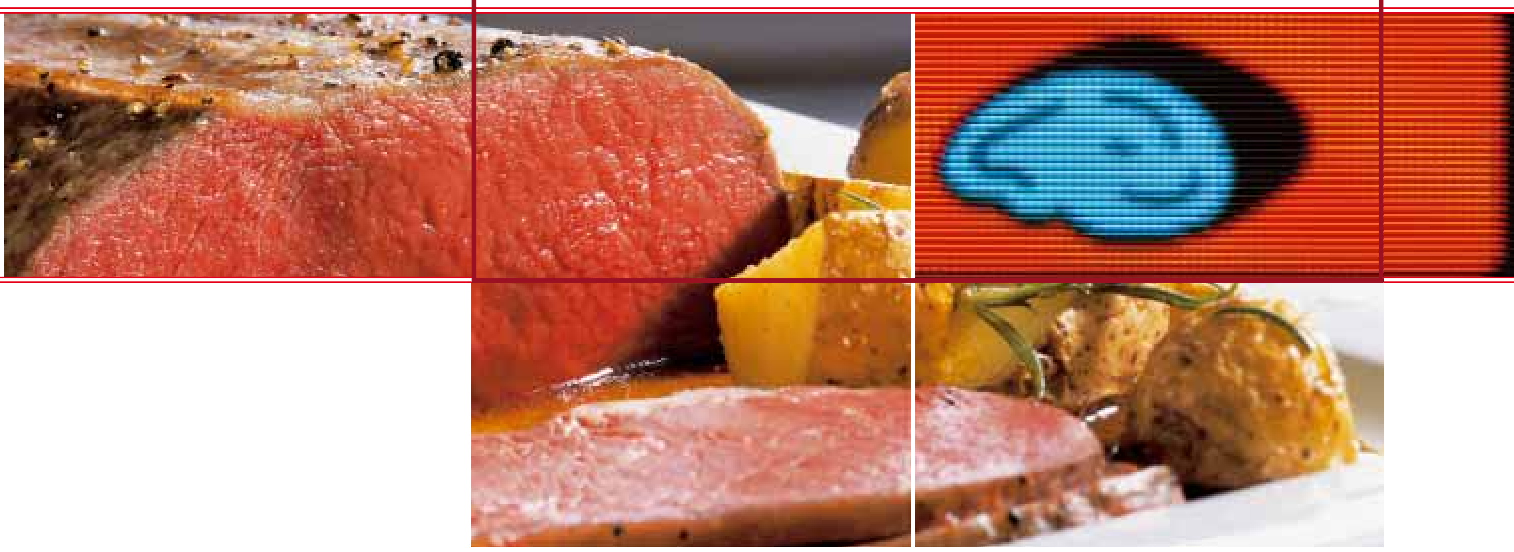



Maria Capuzo Santos

Stress-Free Cooking: Gassner, One of Munich's Premier Traditional Butchers

In Gassner's, the Munich-based traditional butcher's, 40 staff work in 2,900 square metres. The butcher's here is annexed to a restaurant where Gassner serves up to seven daily dishes. To maintain its high quality standards, Gassner only works with absolutely fresh raw materials. And as you'd expect, the dishes that Gassner prepares in RATIONAL's SelfCooking Center® are absolutely fresh, too.

Apart from the restaurant customers, Gassner also caters for its own staff with the help of the SelfCooking Center® and saves a great deal of time. "Put in 50 raw schnitzels and after 10 minutes you've got 50 schnitzels ready to eat", enthuses master butcher and co-owner Andy Gassner. Of course, schnitzels aren't the only food Gassner cooks in the SelfCooking Center®. "Whether it's a roast, Wiener schnitzel or roast pork with crackling – the SelfCooking Center® is



simply megafunctional. Apart from noodles, I can't think of anything we can’t cook to perfection in the SelfCooking Center®”, says Andy Gassner. The cooking processes in the SelfCooking Center® are fine-tuned to the specific characteristics of the food. The ideal climate for each piece of food is set precisely while the automatic program runs reliably in the background.

The options may seem daunting but it is so simple to use because, as Gassner says: “The SelfCooking Center® is self-explanatory. Absolutely anyone can learn how to use it within 10 minutes. Even our temporary staff use the SelfCooking Center® without any problem.”

Andy Gassner is convinced he made the right decision in opting for RATIONAL. For him, the versatility, fiendishly simple ease of use, superior reliability and the fact the SelfCooking Center® is so easy to maintain and clean, let alone the perfect results of course, are why RATIONAL has achieved its unique position with the world’s first SelfCooking Center®.

Andy Gaßner, master butcher and co-owner

CLUB NYX, Tokio

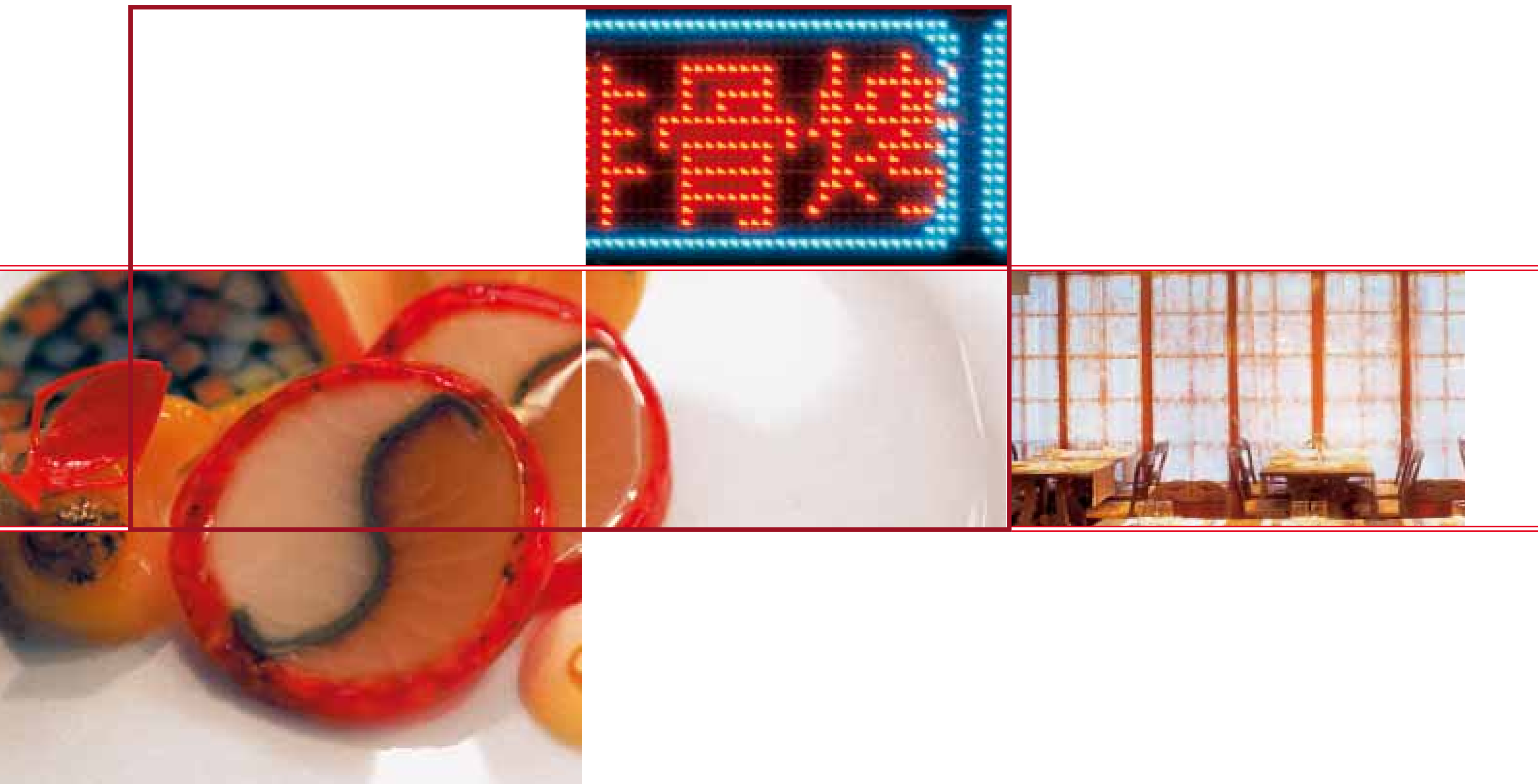
In the Ginza district of downtown Tokyo, you'll find numerous top-class French restaurants. The CLUB NYX is just one of them, where diners can savour "authentic French cuisine". The menu includes French dishes, simple yet prepared with a great deal of care in RATIONAL's SelfCooking Center®. Once inside, diners are whisked back to 19th-century France, antique furniture and all, in this welcoming setting.

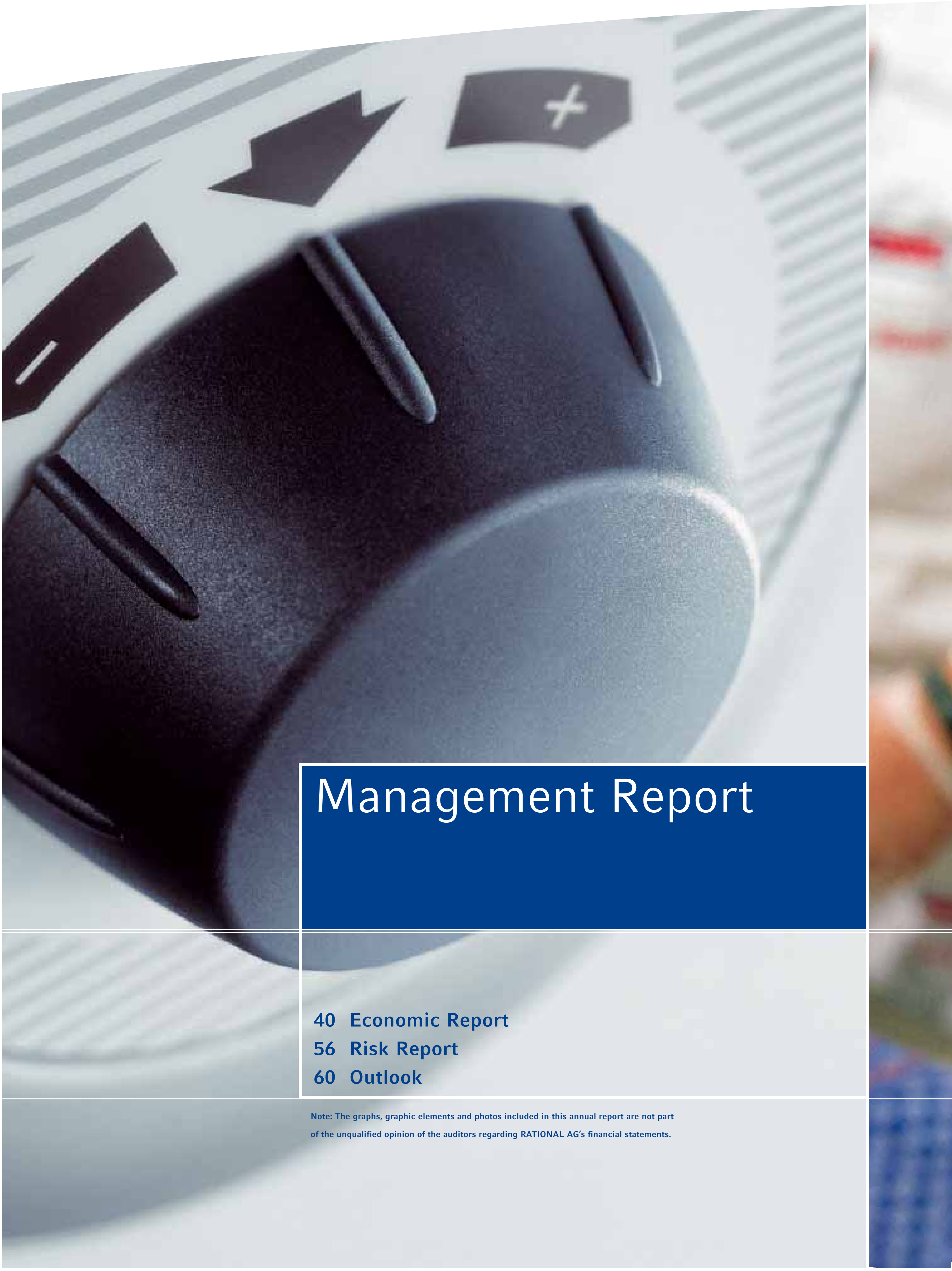
Head chef Hiroshi Haraguchi is convinced of the advantages of RATIONAL technology. "I've been impressed with RATIONAL before and had no qualms about the new technology. What impresses me is the way it lets you automatically control the cooking processes so accurately to produce consistent results. The technology is very versatile. It's not only ideal for large functions but also excellent for individual meals in particular", says Hiroshi Haraguchi.

Hiroshi Haraguchi, Head chef CLUB NYX

Apart from the high quality of the meals, ease of use is another advantage of RATIONAL's SelfCooking Center®. "To bake puff pastry, I simply press a button and hey presto, perfect puff pastry. That's why I can even let a temporary member of staff use it. We only have a limited number of chefs, so it's really important we work effectively in the kitchen", says Hiroshi Haraguchi.

Fresh fish baked in rock salt is a popular speciality of the house. "The fish is delivered straight from the quayside in Akune and baked in rock salt in the SelfCooking Center®. The fish stays succulent in the salt crust and is unlike any fish baked in a conventional oven. This dish is a unique culinary delight", raves Hiroshi Haraguchi. "We'd be lost without the SelfCooking Center® in the restaurant."





Management Report

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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.


RATIONAL

Economic Report

Global economy posts above-average growth in 2004

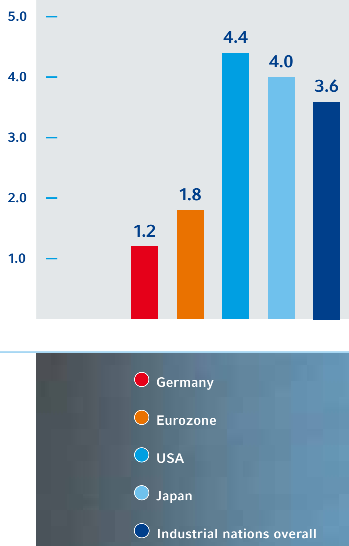
In 2004, the world's industrial nations posted a forecast 3.6 percent growth to significantly outpace average growth over the last three years once again. The USA was the powerhouse that kick-started growth in the global economy. Financed in particular by a soaring budget deficit, US employment figures have improved consistently over the period, leading to a buoyant increase in consumer spending.

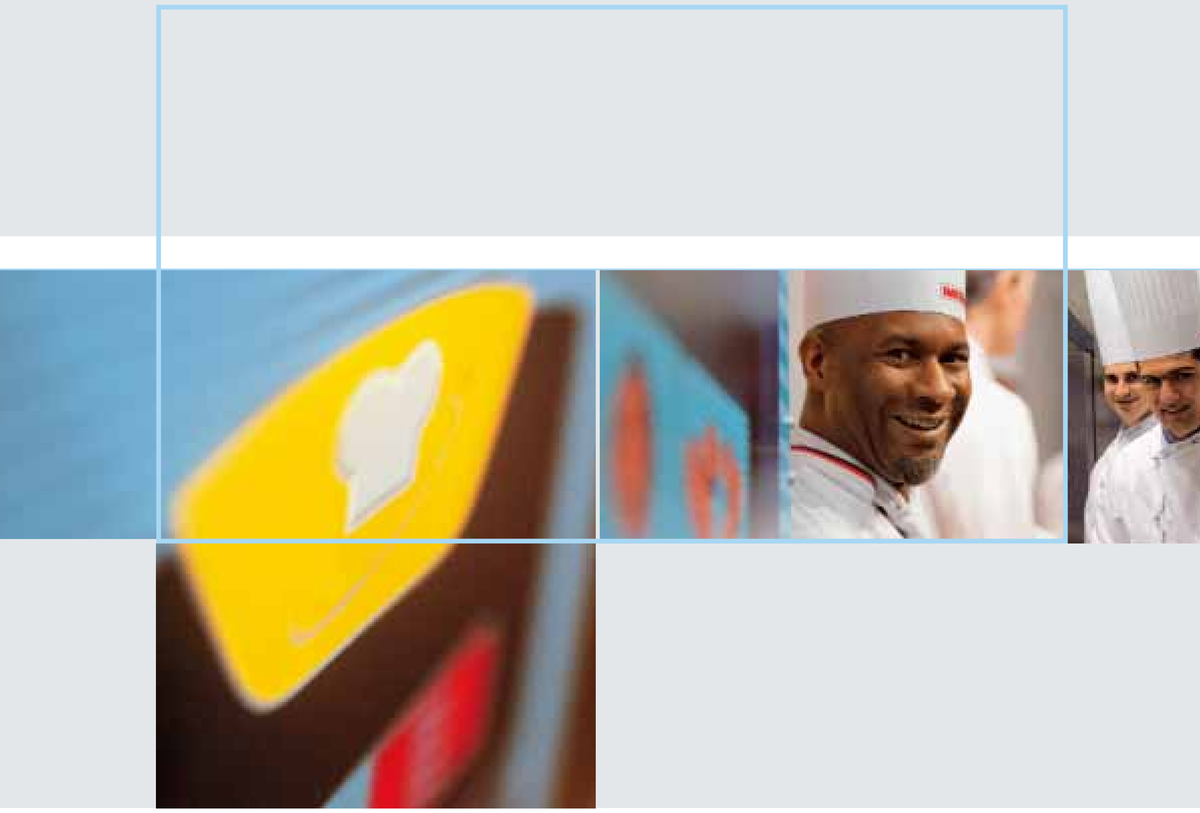
Japan has shaken off its long-standing recession with style and at the start of the year posted 7 percent growth, the highest figure reported by the G3 countries. While growth has again fallen back to more moderate levels over the past two quarters, the impressive figures at the start of the year ensured average annual growth reached around 4 percent.

Exporters in Europe – and the German export sector in particular – have benefited hugely from the upturn in international demand in spite of the strong euro.

However, virtually flat consumer spending coupled with increasing imports continue to dog the German economy. The cumulative effect of these factors has been to stifle any sustained economic growth in Germany which, in turn, meant unemployment remained stubbornly high.

Above-average growth of global economy in 2004 in %





The sector in 2004 – marginal increase

The German professional kitchen sector saw a marginal increase overall in 2004. While domestic demand remained sluggish due to the reluctance of the hotel and catering sectors to invest, a situation further compounded by the chronic budget deficit affecting government spending, growth in exports did manage to largely offset these factors.

RATIONAL once again did justice to its special position within the sector and posted growth well above average in 2004, both in its domestic and export markets.

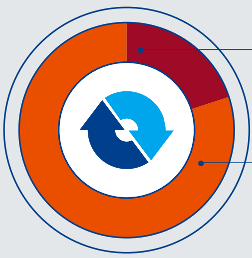
Major global sales potential

The RATIONAL success story began with the invention of the combi-steamer in 1976. Back then, the RATIONAL combi-steamer was the biggest, most important innovation to hit commercial kitchens for decades. It revolutionised the world's professional kitchens and production processes and, in turn, the entire kitchen appliance sector. RATIONAL technology has replaced 40 to 50 percent of all traditional cooking appliances, thereby virtually creating a new world market.

Despite RATIONAL's long-running success story, only around 20 percent of the world's 2.5 million potential customers have switched to state-of-the-art cooking technology. That still leaves 2 million kitchens around the world with a need for one or more appliances, and 80 percent of the market still untapped. Large regional markets are only now beginning to be penetrated.

The RATIONAL Group's growth will be determined less by economic developments than by our ability to turn ever more of our prospects into new customers more efficiently.

Market potential in %



	2004
Customers with combi-steamer technology	20 %
Potential customers without combi-steamer technology	80 %

World market share rises to 51 percent

Our market share has grown consistently over the past few years. This is due to our technological advantage and continually improving marketing efficiency of delivering the unique RATIONAL benefits proposition to prospective customers.

Strong business growth in every part of the world enabled RATIONAL to increase its world market share notably from 49 to 51 percent in 2004 (Source: HKI industry statistics, RATIONAL market research).

Every second device installed somewhere in the world is now from RATIONAL, a fact that reflects the impressively high levels of customer acceptance and competitiveness of our products and services.

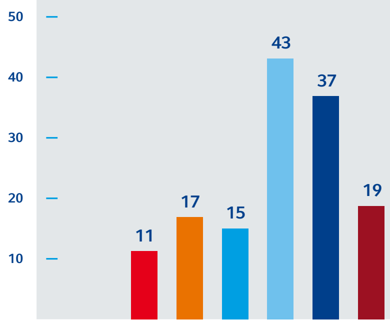
The world's first SelfCooking Center®

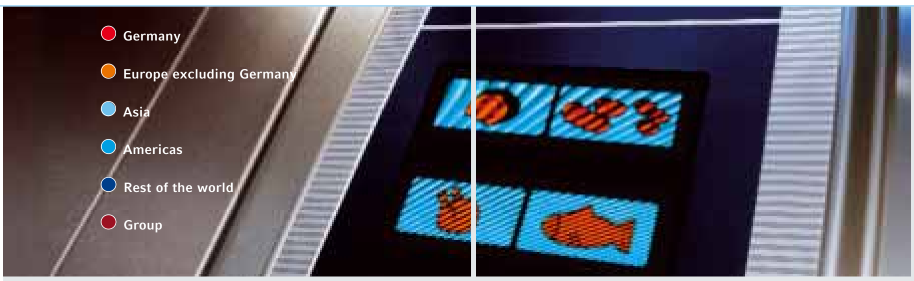
RATIONAL again sparked a global revolution in the professional kitchen sector in 2004 with the invention of the SelfCooking Center®. This new product technology is a radical departure from the emphasis on more and more overt technology, complicated operating concepts and costly training courses for operating staff. Gone also is the need to constantly monitor cooking processes, as well as many of the routine chores required previously.

Whether you're cooking fish, meat, poultry or bakery products, all you need to do is select the type of food, at the touch of a button. That's it! Conventional settings such as temperature, time and humidity, not to mention complicated programming and constant monitoring, are things of the past.

Sales growth by region in 2004

in %





SelfCooking Control® automatically senses all product-specific requirements such as the size of food as well as the size of the load. The cooking time, temperature and the ideal cooking climate are calculated individually, taking account of the desired result, and are continuously displayed.

SelfCooking Control® accurately checks and optimises the cooking process 3,600 times an hour. Food is cooked perfectly – even over night, time after time, after time.

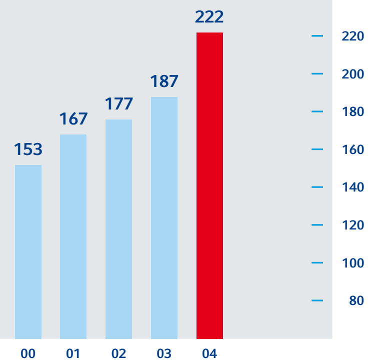
The SelfCooking Center® gives the chef time for the essentials, time for creative menu planning, careful sourcing of raw materials, a perfect mise en place and meticulous presentation.

This groundbreaking new technology was successfully launched in April 2004 in all our international markets, from Europe via America to Asia. RATIONAL was able to expand its competitive lead still further, a lead that is protected by more than 200 patents and patent applications.

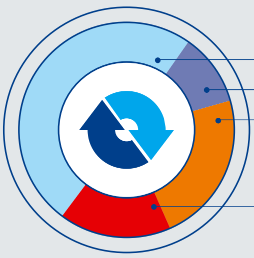
Record growth – 19 percent growth in 2004

The extraordinary high levels of acceptance of the world's first SelfCooking Center® is reflected impressively in sales. For the first time, RATIONAL has broken through the 200-million-euro-mark and sales have grown by 19 percent in 2004 or euro 35 million to euro 222 million (previous year euro 187 million).

Sales revenue
in millions of euros



Sales by distribution channel



	2004	2003
International subsidiaries	50 %	51 %
OEM sales	11 %	11 %
Sales partners	23 %	21 %
Domestic sales	16 %	17 %

Germany – growth through innovation

Germany is now a mature market after around 30 years of successful marketing. Current business increasingly relies on demand for replacements. Overall domestic demand was rather sluggish due to the budget constraints imposed on government spending, as well as the reluctance of the hotel and catering sectors to invest.

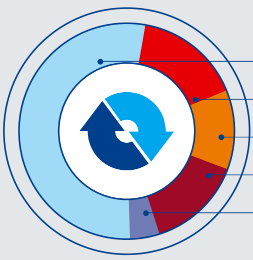
However, the innovative SelfCooking Center® offers a host of unique customer benefits, thereby considerably increasing the appeal of RATIONAL. The professional way in which the new technology was launched ensured that a high level of customer awareness was soon reached, hence triggering additional demand.

This, combined with professional, highly efficient sales and marketing skills, meant that even in Germany, RATIONAL's sales revenues rose in 2004 by 11.3 percent to euro 35.6 (previous year: euro 32.0 million), in turn enabling the company to gain significant market share.

Europe: largest absolute contribution

In addition to the modest economic recovery in Western Europe and the sustained high growth in Eastern European countries, the successful launch of the new SelfCooking Center® and the establishment of additional sales and marketing capacity in markets without own subsidiaries were pivotal to our excellent sales growth in Europe.

Europe provided the largest absolute contribution to the RATIONAL Group's growth with a 16.7 percent increase from euro 101.3 million in 2003 to euro 118.2 in 2004.



Sales revenue by region	2004 € thousand	2004 %	2003 %
Europe excluding Germany	118,200	54 %	54 %
Germany	35,602	16 %	17 %
Americas	26,366	12 %	10 %
Asia	31,822	14 %	15 %
Rest of the world	9,825	4 %	4 %

Breakthrough in the Americas

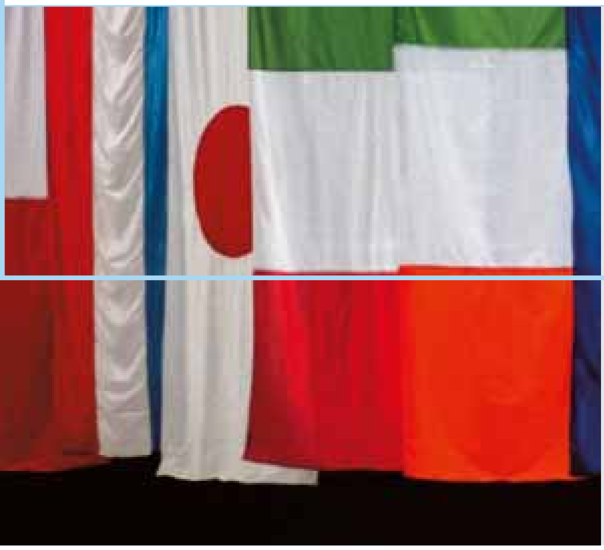
In the Americas, one of the world's most important potential markets, the RATIONAL Group made an impressive breakthrough with 43.3 percent sales growth taking the figure to euro 26.4 million in 2004 (previous year euro 18.4 million).

Precisely in the Americas, the SelfCooking Center® is an ideal solution for customers thanks to its simple operating concept, wide range of sizes and optimum combination options.

The self-explanatory, extremely simple operating concept requires no special training and enables error-free operation even with high staff turnovers or untrained personnel. Targeted investment in expanding our sales and marketing network as well as our new product technology proved crucial to our success.

Success in Asia

The overall trend in Asia is evidence that the new RATIONAL technology has also been greeted with enthusiasm in the Asian professional catering sector. With 14.7 percent sales growth taking the figure to euro 31.8 million (previous year euro 27.7 million), Asia is already an important sales market for RATIONAL. This is an excellent base on which to build in future in this important economic area.



Rising earning power thanks to rising entrepreneurial quality

RATIONAL is one of Germany's best-performing companies in terms of earning power. This was also confirmed in 2004 in an analysis conducted on behalf of financial magazine FOCUS MONEY. Looking at Germany's 133 best-listed companies, RATIONAL came out on top in the 'Earning power' category, scoring 925 out of a possible 1,000.

This extraordinarily high earning power is a direct consequence of continual improvements in productivity and efficiency in all company processes as well as continually increasing levels of employee skills.

Cost of sales reduced – gross margin further improved

Intelligent functional integration in particular has enabled us to cut the cost of sales significantly once again in 2004. These savings easily offset the high non-recurrent costs of production conversion and the recent surge in the price of stainless steel.

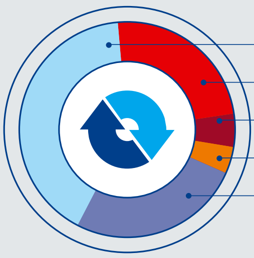
The 58.1 percent gross margin posted in the previous year increased to 59.3 percent despite extra negative currency effects of euro 1.2 million affecting sales revenue, caused by the strength of the euro against the US dollar and the Japanese yen.

Sales and marketing activities expanded on a broad front

Further expansion of sales and marketing activities will be crucial to the RATIONAL Group's further growth if the large global market potential is to be exploited.

Sales and service capacity in all major sales markets was expanded significantly in 2004. This expansion of capacity, combined with the non-recurrent costs for the market launch of the SelfCooking Center®, helped push up sales and service expenses by 26.0 percent to euro 56.8 million (previous year euro 45.1 million) in line with the budget.

Earnings structure 2004 as a percentage of sales



Earnings structure 2004 as a percentage of sales	2004	2003
Cost of sales	41 %	42 %
EBIT	24 %	23 %
R&D expenses	5 %	6 %
Administration and others	4 %	5 %
Sales and service expenses	26 %	24 %

A secure future thanks to targeted research and development

RATIONAL is by far the product technology leader in its field as an innovative problem-solver. The operational world of our customers is also reflected in the structure of our research and development process. In addition to conventional development engineers, our development team is staffed with physicists carrying out basic research, as well as chefs and nutritionists involved in application research.

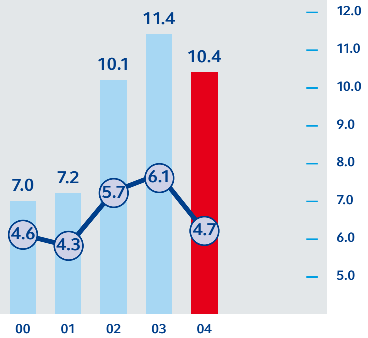
Research and development expenses of euro 10.4 million (previous year euro 11.4 million) were incurred in the year under review. The slight year-on-year drop is due to the non-recurrent costs incurred in the previous year as a result of the development of the new generation of appliances.

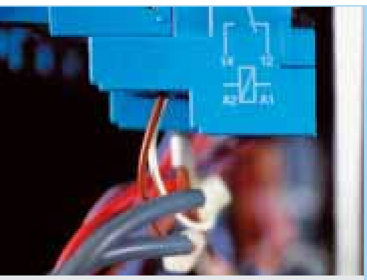
Low administration expenses thanks to RATIONAL process organisation

The RATIONAL process organization is characterised by integral, clear, self-contained tasks. Superfluous interfaces have been eliminated. Conventional departments have virtually disappeared. This administrative approach provides for a lean organisation with accordingly low general administration expenses.

General administration expenses actually fell in absolute terms in 2004 from euro 10.7 million in the previous year to euro 10.1 million or 4.5 percent of sales revenues (previous year 5.7 percent).

R&D expenses
in thousands of euros
and as percentage of sales





EBIT margin hits new record level of over 24 percent

Compared to the previous year (euro 42.3 million), EBIT was up 26.5 percent to euro 53.6 million. At the same time, the EBIT margin rose from 22.7 percent to a new record level of 24.1 percent.

Risk-minimised investment policy leads to moderate financial results

Financial results also include interest expenses from leasing liabilities as per IAS17 in addition to interest income from short and medium-term investments.

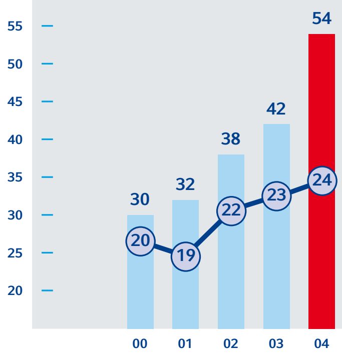
Given the overall higher financial investment volume, the financial results of euro 0.5 million are 94.3 percent above the previous year's figure (euro 0.3 million) despite lower credit interest.

37.0 percent tax ratio slightly better

Taxes on income amounted to euro 20.0 million in 2004 (previous year euro 15.8 million). The 37.0 percent tax ratio is slightly below the previous year's result (37.1 percent).

The main reason has been the elimination of the solidarity surcharge for flood victims in eastern Germany that led to a 1.5 percent increase in rate of corporation tax in Germany in 2003.

EBIT in millions of euros
EBIT margin as a percentage of sales



Earnings per share up 27 percent

Group earnings at euro 34.1 million are well above the previous year's figure of euro 26.8 million and correspond to a net return on sales of 15.4 percent (previous year 14.4 percent).

The number of shares remains unchanged in the year under review at 11,370,0000, resulting in earnings per share of euro 3.00. This is an increase of 27.1 percent compared with the previous year's figure of euro 2.36.

High cash flow creates scope for growth from own resources

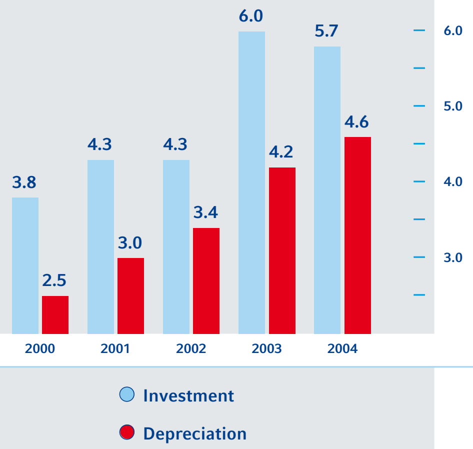
The high earning power of RATIONAL AG combined with the low capitalisation ratio of production and low working capital have also had an excellent impact on cash flow in 2004.

Despite higher stocks of spare parts and accessories due to the introduction of the new generation of appliances, cash flow from operating activities totalled euro 37.3 million (previous year euro 29.8 million) in the year under review, an increase of 25 percent.

Investment of euro 5.7 million (previous year euro 6.0 million) in modernising and extending our production facilities, investment in product development and IT systems was financed from cash flow.

Cash flow from financing activities will essentially be dependent on the dividend payment. Given its capital structure, the company is currently operating almost entirely without any debt.

Investment/ Depreciation
in millions of euros



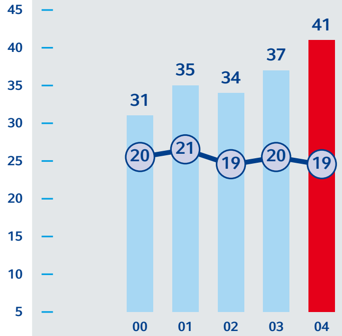
Solid balance sheet – minimal tied-up capital

Fixed assets (intangible assets and tangible assets) rose in the period under review by euro 0.6 million to euro 28.1 million (previous year euro 27.5 million). Given the low capitalisation ratio of 19.1 percent (previous year 21.5 percent), RATIONAL only has a small amount of capital tied up longterm and can respond quickly and flexibly to the particular market situation.

The low capitalisation ratio is a direct consequence of our minimal vertical integration. RATIONAL essentially only manufactures components itself that it can produce more cheaply or better than others. Nonetheless, RATIONAL retains complete system know-how and has final assembly facilities that have received numerous awards.

Working capital in the year under review rose from euro 37.0 million in 2003 to euro 41.0 million. This increase is due to the increased level of receivables caused by growth in sales volume and slightly higher stocks required for spare parts and accessories as part of the new generation of appliances. Nevertheless, the ratio of working capital to sales of 19.8 percent in the previous year has improved to 18.5 percent in 2004.

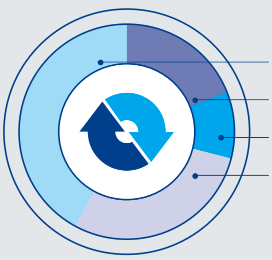
Working capital
in millions of euros
and as a percentage of sales



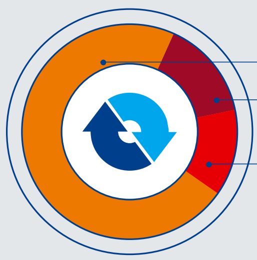
High equity ratio – minimal risks

The equity ratio before paying out a dividend is 70.9 percent in 2004 (previous year 70.8 percent).

Given the minimal risks associated with RATIONAL's business structure, provisions are correspondingly low. Though at euro 22.0 million they are significantly above the previous year's figure (euro 16.7 million), they essentially include outstanding tax payments resulting from the company's improved earning position in addition to warrantee expenses, social security contributions and performance bonuses for staff.



Assets	2004
Cash in hand and in bank accounts	42 %
Fixed assets	19 %
Inventory	10 %
Receivables and others	29 %



Equity and Liabilities	2004
Equity	71 %
Provisions	15 %
Liabilities and others	14 %

Thanks to our excellent liquidity situation and close cooperation with suppliers, liabilities are covered on time. This privileged situation enables us to leverage our supplier accounts fully.

Other liabilities of euro 12.5 million (previous year euro 13.5 million) essentially include liabilities from finance leasing agreements, dealer bonuses, income tax on wages and salaries, and social security contributions.

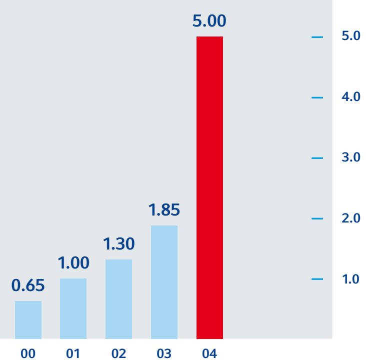
RATIONAL – the value-added share with 52 percent increase in share price in 2004

In what was generally a bullish stock market, the RATIONAL value-added shares have once again done justice to their special position as the jewel in the SDAX crown over the last 12 months. Thanks to a 52 percent share price increase to euro 68.40, the share had easily outperformed the German DAX (7 percent), MDAX (20 percent) and SDAX (22 percent) share indices as at December 31, 2004. This makes RATIONAL one of the few shares whose price at year-end 2004 is around 200 percent above the issue price of euro 23.00 in 2000, and what is more, the share price has never fallen below its issue price.

Dividend proposed for 2004

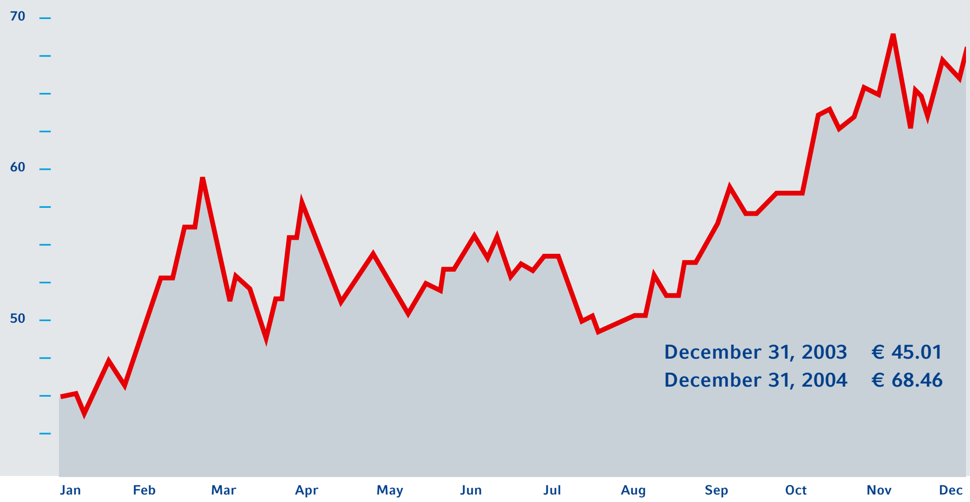
Because of the excellent way in which business developed in 2004 and because of the company's generally very high financial reserves, the Executive Board will propose to the Supervisory Board and the Shareholders' Meeting payment of a dividend of euro 5.00, hence well above the distribution of euro 1.85 per share in the anniversary year of 2003. In consequence of this distribution, the business's financial and capital structure would be in an ideal position to meet the strategic development and growth targets in the coming years.

Cash dividend per share
in euros



Figures for 2004 subject to approval of the Shareholders' Meeting

Share price in 2004 in euros



Executive Board: hands-on approach to investor relations

RATIONAL attaches a great deal of importance to investor relations. The Executive Board is always on hand personally to answer any queries regarding the company's situation and future developments. The Executive Board has invested a great deal of time at international roadshows in the USA and Europe, analysts' conferences in London, Frankfurt, Kronberg and Munich, as well as numerous press interviews, to keep investors fully informed.

This has meant more and more institutional investors are following RATIONAL shares with keen interest, forming a growing pool of potential investors waiting for an opportunity to buy.

High-quality research coverage

RATIONAL shares are now analysed and assessed regularly by more than ten reputable investment houses. The financial analysts are convinced of the company's excellent prospects of success and predominantly recommend buying RATIONAL shares even with the current price/earnings ratio (P/E) running at 23 on the basis of 2004 profits.

Outstanding financial communications

RATIONAL's investor relations have also received several awards this year for their quality.

RATIONAL was awarded third place in the SDAX category in the Investor Relations Prize 2004 from the business magazine 'Capital'. The judges looked at all 198 companies listed in the EURO STOXX 50, DAX, MDAX, TECDAX and SDAX indices. Criteria such as credibility, quality and topicality of financial information as well as the form and scope of corporate governance reporting were taken into account.

Financial magazine FOCUS MONEY voted RATIONAL 'Company of the Year' (2nd place in the SDAX) in 2004. The judges singled out the company's outstanding earning power as well as the quality of information in the annual reports. Among all the 133 analysed companies spanning all sectors of the stock market, RATIONAL came out on top in the 'Earning power' category, scoring 925 out of a possible 1,000.

RATIONAL share listing in new indices helps boost awareness

In November, RATIONAL was added to Morgan Stanley's International MSCI Equity Index. Morgan Stanley Capital International Inc. (MSCI) is one of the leading providers of equity market indices. The MSCI Equity Index is calculated using standard international valuation methods, on the basis of which objective international benchmarks can be devised. These benchmarks are often used by large institutional investors in particular to make investment decisions.

The German stock exchange introduced a new share index for owner-dominated companies in January 2005. The German Entrepreneurial Index (GEX) will include German companies whose Executive Board or Supervisory Board retains between 25 and 75 percent of shares. Companies that wish to be listed in the GEX must be members of the Prime Standard, the stock market segment with particularly stringent admission criteria. RATIONAL AG fulfils these criteria and will therefore be listed in this particularly attractive index from the start.

Best system suppliers 2004 – teaming up with the best

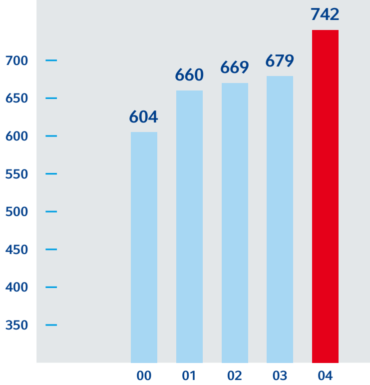
RATIONAL's procurement volume came to euro 100 million (previous year euro 87 million) in 2004.

Guided by the principle of only manufacturing components ourselves that we can produce more cheaply or better than others, RATIONAL sources over 80 percent of all components from external system suppliers based on the KANBAN principle. As part of converting production to the SelfCooking Center®, the technological restructuring of suppliers was therefore absolutely crucial to our success. Once again, we rose supremely to the challenge with 100 percent KANBAN readiness well ahead of the start of series production.

In addition to regular certification, cooperation with system suppliers is based in particular on annual partner plans that include quality and production targets, monthly reporting with key performance indicators and regular audits.

The RATIONAL supplier evaluation system examines product quality closely and also considers the quality of cooperation. The best suppliers are honoured at the annual supplier conference, held in 2004 on May 18 in Landsberg with 85 representatives from 50 companies attending. Overall, eight companies were singled out for their excellent work.

Employees as an annual average



Qualified staff helps buck the trend

Ambitious targets call for extraordinary employees. Employee skills, creativity, motivation and dedication are ultimately the key success factors both at home and abroad.

RATIONAL employees work highly efficiently as entrepreneurs within the company. They take their own decisions on matters affecting their area of work. RATIONAL has no management hierarchies or specific decision-making bodies. Our integrated process organisation avoids unnecessary interfaces and thus creates holistic, self-contained areas of responsibility.

Regular target agreement and feedback sessions, internal and external development initiatives as well as numerous company events and benefits above the general pay scale help promote our employees' personal responsibility as entrepreneurs within the enterprise and ensure they identify with the company.

The 'RATIONAL Development Group' has been set up to develop management and leadership skills – and also draws on our own ranks. Here, employees who show potential are trained and developed in cross-disciplinary areas.

As a result of its successful expansion, RATIONAL added another 63 highly skilled jobs globally in 2004. On average in 2004, the RATIONAL Group employed 742 staff (previous year 679), of which 228 employees are abroad (previous year 188).

Responsible use of resources

Everything we do at RATIONAL is geared to offering the best possible range of benefits to people all over the world who cook food thermally in professional kitchens.

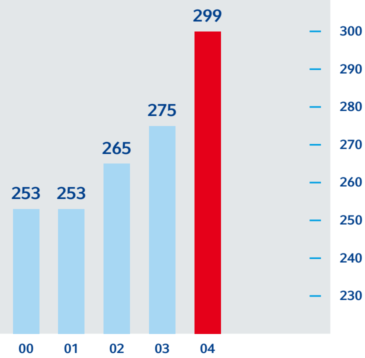
A great deal of importance is placed on using resources responsibly. At RATIONAL, innovations are geared to the environmentally friendly use of raw and processed materials to save resources.

This applies equally to the product development phase as well as to production, shipping and the subsequent usage of appliances on the customer's premises. The overwhelmingly successful global launch of the SelfCooking Center® in 2004 is once again impressive testimony to these high aspirations.

For years, we have been cooperating proactively with environmental protection agencies. RATIONAL meets, and in most cases easily exceeds, statutory limits and standards thanks to environmentally friendly production and best-in-class environmental protection measures in all areas.

Sales revenue per employee

in thousands of euros



Risk Report

At RATIONAL, risks are maintained in calculable limits

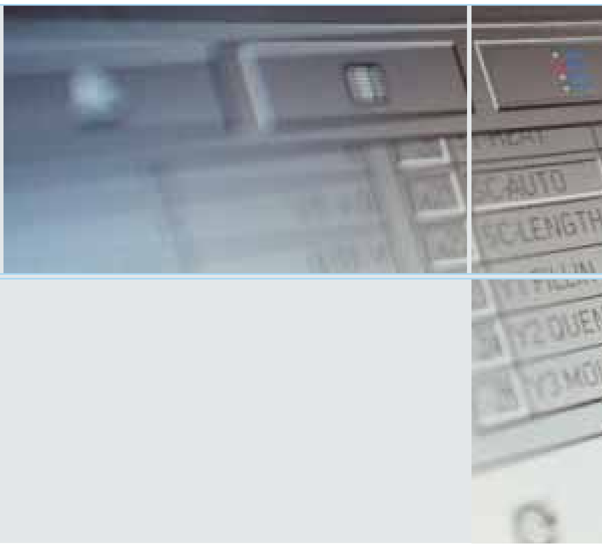
As a multinational company, RATIONAL is exposed to a whole raft of risks that are inextricably linked to its entrepreneurial activities.

Strong growth and market leadership in virtually all markets mean we also need to identify emerging opportunities and existing risks proactively. RATIONAL addresses these opportunities and risks with a comprehensive risk management system that forms an integral part of corporate management.

The RATIONAL risk management system

Key components of the risk management system include:

- The integrated RATIONAL planning process that involves all corporate divisions worldwide and that stipulates specific objectives and measures in addition to sales and financial planning.
- Detailed monthly reporting for all corporate processes that is analysed and commented on by Controlling and delivered promptly to all decision-makers.
- A worldwide standard IT network that generates up-to-date key figures on sales activities, sales and unit sales figures on a daily or weekly basis and automatically distributes this information to all sales staff and management.
- RATIONAL organisational agreements whose quality and compliance worldwide are ensured through regular training and performance reviews.
- A risk inventory is drawn up regularly using computer-based checklists. The use of a standard tool provides high-quality reporting and ensures the description of risks and the associated measures can be compared throughout RATIONAL.
- An internal audit helps provide an independent objective snapshot of the current situation, assesses and weights variations from targets. The scoring system is standardised so that the quality of all corporate divisions can be benchmarked against each other and their development evaluated over time.



- The use of a treasury management system provides more effective liquidity, currency and interest risk controls.
- Customer satisfaction surveys conducted regularly provide an external perspective on product quality, service quality and competitiveness.
- Partner plans covering quality and productivity are agreed with suppliers and service partners annually. Regular reporting as well as auditing and certification help ensure compliance with the plans.
- The supervisory function carried out by RATIONAL AG's Supervisory Board in conjunction with the Executive Board in particular minimises the risk of strategic mistakes.

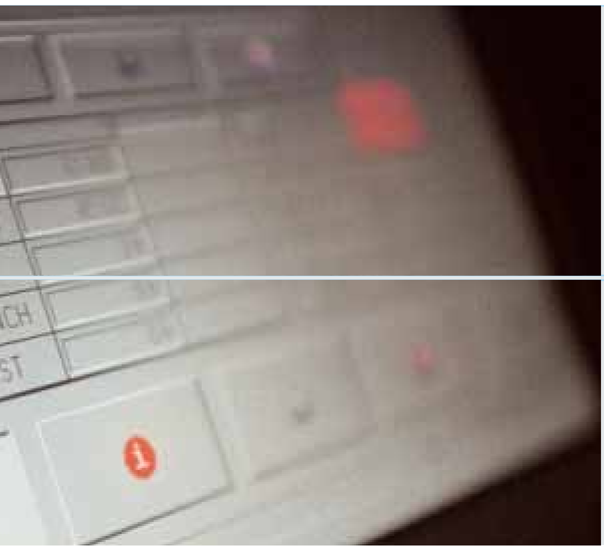
Moreover, the enterprise-wide planning, control and reporting systems have been fine-tuned and increasingly interlinked.

The effectiveness and topicality of the risk management system is assessed regularly by the internal audit function. Furthermore, the external auditor checks whether the Executive Board has taken the steps required under para. 91 (2) of the German Stock Companies Act (Aktiengesetz) to ensure that developments that could jeopardise the existence of the business are identified at an early stage.

Overall risk situation 2004

Summary

Taking into account the measures taken, the existing risks neither individually nor cumulatively pose a threat to RATIONAL's future viability.



General economic and sector risks

The international market in which RATIONAL operates is susceptible to general economic risks. Economic trends as well as trends within the sector are monitored constantly and factored into corporate planning. Nevertheless, these factors do not have any serious impact on business development given RATIONAL's special market position.

Natural disasters and political crises

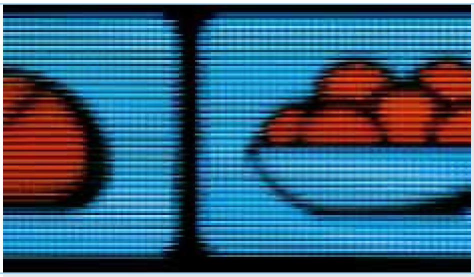
Since RATIONAL is a company that is growing strongly and expanding into new markets, natural disasters and political instability could jeopardise product sales in the affected markets. As far as possible, this risk is minimised by cooperating with numerous different sales and service partners in each region. The international nature of the business with operations across numerous smaller individual markets also helps spread the risk.

Financial risks

In 2004, the share of total sales in foreign currencies outside the eurozone amounted to 31.5 percent (previous year 32.1 percent). Since the cost of sales is overwhelmingly generated in the eurozone, short-term rate fluctuations in the euro can adversely effect the company's earnings position.

The multitude of markets already covered does, however, mean that risk is spread widely. As far as possible, RATIONAL also hedges against remaining currency risks as part of treasury management.

Trade accounts receivable are secured against the risk of default by trade indemnity insurance and bank letters of credit. On the balance sheet date of December 31, 2004 over 80 percent of receivables were covered by corresponding securities.



Product development and protection of trademarks

RATIONAL is by far the product and technology leader in its field. This lead is not only seen and acknowledged by customers but equally by our competitors. Innovations are protected by over 200 patents and patent applications. Where patent infringements are identified, protective measures or even legal proceedings may be instigated.

Product quality

Product quality once again improved in 2004. The reduction in warranty costs combined with fewer customer service incidents per unit sold reflects this trend.

Nevertheless, RATIONAL is aware of the potential risks associated with quality problems and the incorrect use of products. For this reason, service reports are logged and analysed for each appliance. Senior corporate management has also ensured that adequate insurance cover exists for associated product liability risks.

Raw material prices

Despite the rise in the prices of raw material, and of high-grade stainless steel in particular, the margin in 2004 is well above last year's figure. Production of the new SelfCooking Center® is associated with savings in the cost of materials as well as further process optimisations. The cost of sales has increased relatively little compared to sales.

Supplementary report

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

Outlook

Positive outlook for 2005

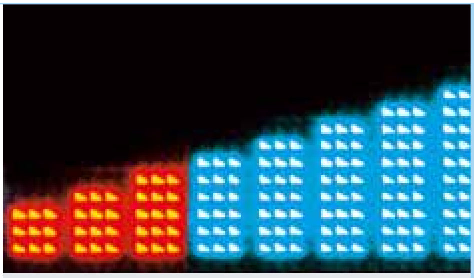
Global economy – growth stalls

The global economy will continue to grow robustly, although the USA will become less important as the powerhouse behind economic growth. The sharp upturn in Japan in 2004 is also likely to falter as the superficial structural reforms continue to slow the economy down. In Western Europe, however, the export-led upturn will flatten out. Latin America will see an economic recovery, but in particular Asia as a whole and the Eastern European countries will be the powerhouses behind global growth in 2005 and after.

Only 20 percent of the world market potential tapped

Despite RATIONAL's long-running success story, only around 20 percent of the world's 2.5 million potential customers have switched to state-of-the-art cooking technology. That still leaves 2 million kitchens around the world with a need for one or more appliances.

The targeted expansion of our global sales and marketing network based on existing potential users in 2005, coupled with increasing efficiency in delivering the RATIONAL benefits proposition, leaves us sufficient scope for continuing organic growth, even if the underlying economic fundamentals are not encouraging.



The new SelfCooking Center®: a compelling proposition

In 2004, we successfully launched our groundbreaking new technology in all our international markets and surged ahead of the competition. This new service platform will also open up additional growth opportunities in 2005.

Double-digit growth for sales and earnings expected in 2005

We are optimistic of posting double-digit sales and earnings growth next year as well for two main reasons: the success of our new technology and the major worldwide market potential that is still untapped.

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

Landsberg am Lech, February 24, 2005

The Executive Board

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RATIONAL

Report by the Supervisory Board of RATIONAL AG on the fiscal year 2004

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 closely 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, the situation of the group and unforeseen developments.

Deviations in the course of business from published plans and targets were discussed individually and fully. In particular, the company's strategic orientation and all business transactions of importance for the company were the subject of intensive consultation.

In the course of 2004, five ordinary meetings of the Supervisory Board were held in addition to numerous individual discussions, at which the entire Supervisory Board was present or represented. In addition, the members of the Supervisory Board regularly consulted each other in writing and by telephone. The Supervisory Board was also informed in detail of projects and plans of particular significance for the company or of those requiring urgent action between its meetings. Where applicable, the Supervisory Board also passed resolutions outside the ordinary meetings.

Central topics of the consultations were product development, the international market launch of the new generation of products, the expansion of the sales network and the management structure of the company.

The RATIONAL management strategy of developing clear medium- and long-term corporate targets, and using these to derive and agree personal divisional targets, was further developed and intensified in a broad-based approach.

In the context of corporate planning for the fiscal year 2004, in-depth discussions were held on the planned measures to enhance the group 's value.

The annual financial statements for the fiscal year from January 1 to December 31, 2004, prepared in accordance with the regulations laid down in the German Commercial Code (HGB), and the company's management report were audited by the company's auditor, Allrevision Dornhof Kloss und Partner GmbH Wirtschaftsprüfungsgesellschaft, Munich. The auditors granted an unqualified auditors' opinion.

Consolidated financial statements according to IAS/IFRS and a consolidated management report were prepared. In compliance with para. 292a of the German Commercial Code, consolidated financial statements according to the German Commercial Code were waived. The auditors also audited these consolidated financial statements, the consolidated management report and the further notes in compliance with para. 292a of the German Commercial Code and granted them unreserved approval.

The financial statements and auditors' 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 24, 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 company's management report, the consolidated financial statement and the consolidated management report, the Supervisory Board approved the company's financial statements and the consolidated financial statements. The company's annual financial statements for 2004, including the management report, are thereby adopted in accordance with para. 172 section 1 AktG (German Stock Companies Act).
As a result of the company's very high levels of funds and the positive development of the business, which is expected to continue in future years in terms of both sales and earnings, the Supervisory Board concurs with the proposal of the Executive Board to distribute from RATIONAL AG's total of euro 58.3 million in retained earnings for the 2004 financial year a special dividend of euro 5.00 per share to shareholders, and to carry forward the remainder to new account.
The Supervisory Board would like to thank the members of the Executive Board and the company's management for their outstanding achievements in the fiscal year 2004 and for their close, constructive participation. Our particular thanks go to all employees for their reliability, loyalty and high level of commitment, which once again was the critical factor ensuring success in 2004.

Landsberg am Lech, February 24, 2005

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

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

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

The financial statements of the parent company are not included in the consolidated annual report. They are displayed at the business premises of RATIONAL AG in Landsberg am Lech for inspection and can 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, 2005

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, 2004.

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, 2004, 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, 2004, 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 18, 2005

Allrevision Dornhof Kloss und Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Dr. Maerz	Dr. Wenk
public auditor	public auditor

Income Statement RATIONAL Group

Thousands of euros	2004	2003	Note I Page
Sales	221,815	186,550	01 I 81
Cost of sales	− 90,257	− 78,076	02 I 81
Gross profit	**131,558**	108,474	
Sales and service expenses	− 56,819	− 45,074	03 I 81
Research and development expenses	− 10,391	− 11,362	04 I 82
General administration expenses	− 10,088	− 10,705	05 I 82
Other operating income	4,055	5,178	06 I 82
Other operating expenses	− 4,755	− 4,178	07 I 83
Earnings before interest and taxes (EBIT)	**53,560**	42,333	
Financial results	513	264	08 I 83
Earnings from ordinary activities (EBT)	**54,073**	42,597	
Taxes on income	− 20,008	− 15,791	09 I 84
Group earnings	**34,065**	26,806	
Retained earnings brought forward	**29,876**	24,105	
Retained earnings	**63,941**	50,911	

	2004	2003	Note I Page
Average number of shares (undeluted)	11,370,000	11,370,000	10 I 85
Average number of shares (deluted)	11,401,625	11,370,000	10 I 85
Earnings per share (undeluted) in euros relating to the consolidated results and the number of shares	3.00	2.36	10 I 85
Earnings per share (deluted) in euros relating to the consolidated results and the number of shares	2.99	2.36	10 I 85

Assets RATIONAL Group

Thousands of euros	Dec. 31, 2004	Dec. 31, 2003	Note | Page
Intangible assets	1,031	1,433	12 | 86
Property, plant and equipment	26,858	25,881	13, 14 | 86, 87
Financial assets	218	218	15 | 87
Fixed assets	**28,107**	27,532	
Inventories	14,338	12,768	16 | 87
Trade receivables	36,694	32,687	17 | 87
Other assets	3,092	3,458	18 | 88
Securities	2,000	2,000	19 | 88
Cash in hand and cash in bank accounts	59,941	47,699	20 | 88
Current assets	**116,065**	98,612	
Deferred tax assets	**1,761**	1,389	09 | 84
Prepaid expenses	**830**	461	21 | 89
Balance sheet total	**146,763**	127,994	

Equity and Liabilities RATIONAL Group

Thousands of euros	Dec. 31, 2004	Dec. 31, 2003	Note | Page
Subscribed capital	11,370	11,370	22 | 90
Capital reserve	28,252	27,790	23 | 90
Revenue reserves	514	514	24 | 90
Retained earnings	63,941	50,911	
Equity	**104,077**	90,585	
Provisions for pensions	591	533	25 | 90
Provisions for taxation	9,969	6,782	26 | 91
Other provisions	11,416	9,387	27 | 91
Accruals	**21,976**	16,702	
Liabilities to banks	2,202	2,399	28 | 92
Trade accounts payable	5,844	4,550	
Other liabilities	12,492	13,537	29 | 92
Liabilities	**20,538**	20,486	
Deferred income	**172**	221	30 | 93
Balance sheet total	**146,763**	127,994	

Cash Flow Statement RATIONAL Group

Thousands of euros	2004	2003
Cash flow from operating activities		
Earnings from ordinary activities	54,073	42,597
Depreciation on fixed assets	4,631	4,169
Net results from disposal of fixed assets	34	73
Non-realised foreign currency result	342	– 537
Interest income	– 997	– 877
Interest expenses	484	613
Operating results before changes in working capital	58,567	46,038
Changes in		
Inventories	– 1,570	– 1,477
Trade accounts receivable and other assets	– 4,134	– 2,483
Accruals	2,087	211
Trade accounts payable and other liabilities	1,468	429
Cash generated from current business activities	56,418	42,718
Interest paid	– 459	– 589
Taxes paid on income	– 16,727	– 12,342
Net cash generated from operating activities	**39,232**	29,787
Cash flow from investing activities		
Investing in intangible assets and tangible assets	– 5,722	– 6,002
Net results from disposal of fixed assets	283	45
Interest received	740	949
Dividend from non-consolidated, affiliated companies	78	—
Granted credit and loans	—	– 46
Repayment of granted credit and loans	—	178
Net cash used for investing activities	**– 4,621**	– 4,876
Cash flow from financing activities		
Dividends	– 21,035	– 14,781
Payments within the scope of finance leasing agreements	– 1,268	– 1,276
Release/Purchase of long-term funds	– 15,000	13,000
Purchase of securities	—	– 2,000
Net cash used for financing activities	**– 37,303**	– 5,057
Net increase in cash	**– 2,692**	19,854
Changes in cash from exchange rate changes	– 66	– 161
Change in cash funds	**– 2,758**	19,693
Cash on January 1	**47,699**	28,006
Cash on December 31	**44,941**	47,699

Statement of Changes in Equity RATIONAL Group

Thousands of euros	Subscribed capital	Capital reserve	thereof: non-realised	Revenue reserves	Retained	Total
Balance at Jan. 1, 2003	**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 at Dec. 31, 2003	**11,370**	**27,790**	**– 2,753**	**514**	**50,911**	**90,585**
Dividends	—	—	—	—	– 21,035	– 21,035
Group earnings	—	—	—	—	34,065	34,065
Differences from currency conversion	—	47	—	—	—	47
Other changes not affecting operating results	—	415	415	—	—	415
Balance at Dec. 31, 2004	**11,370**	**28,252**	**– 2,338**	**514**	**63,941**	**104,077**

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Description and explanation of business activities

RATIONAL AG is the worldwide market and technology leader in the field of thermal preparation of food in professional kitchens. Since its formation in 1973, the company's sole activities have been the development, production and sale of professional cooking appliances for industrial kitchens. In 2004, RATIONAL AG replaced its existing combi-steamer technology with the world's first SelfCooking Center®, replacing its three current product lines – CD, CM and CPC – with a basic model, the Combi-Master (CM), and the fully automatic SelfCooking Center® (SCC®). Our appliances and accessories are sold worldwide via both our own domestic and foreign subsidiaries and independent business partners.
The shares of the company, which has been listed on the German Stock Exchange since March 2000, have been admitted to the Prime Standard and are traded on the organised market in the SDAX segment. RATIONAL is also listed in the selective indices GEX (German Stock Exchange), BayX30 (Munich Stock Exchange) and the MSCI (Morgan Stanley Capital International Inc.) World Index.

Fundamental accounting principles

The consolidated financial statements of RATIONAL AG for the financial year 2004 (giving last year's figures) were prepared in compliance with the International Accounting Standards (IAS) adopted and published by the International Accounting Standards Board (IASB) or the International Financial Reporting Standards (IFRS), and their interpretation by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), respectively. All the effective standards for the financial year 2004 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 consolidated financial statements contain the following accounting and valuation methods that differ from German trading law:

Inventories

In compliance with IAS 2, inventories are valued at whichever is the lower of the respective values for production costs and net sales price. Production costs include all costs directly attributable to the production process as well as appropriate portions of production-related overheads.

Deferred tax assets

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 finance 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.
The requirements 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. 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, and the balance sheet date for the consolidated financial statements is the same as the balance sheet date of the parent company, in accordance with IAS 27. The financial statements of the consolidated domestic and foreign companies were audited by independent auditors and granted an unqualified auditors' opinion.
The functional currency in the consolidated financial statements is the euro. For the sake of clarity, the figures in the consolidated 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 consolidated 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 consolidated 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 all group-internal business transactions are eliminated. Receivables and liabilities between the included companies are consolidated, intercompany 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. Asset values and debts are consequently converted at the average 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, and are offset against the reserves.
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 2004	2003	Exchange rate on balance sheet date 2004	2003
GBP – Pound sterling	0.6799	0.6928	0.7051	0.7045
JPY – Japanese yen	134.07	131.62	139.65	133.65
USD – US dollar	1.2464	1.1407	1.3621	1.2505
SEK – Swedish krona	9.1274	9.1326	9.0206	9.0750
CHF – Swiss franc	1.5441	1.5231	1.5429	1.5605
CAD – Canadian dollar	1.6161	1.5869	1.6416	1.6380

Consolidated companies

Companies are consolidated in accordance with IAS 27. The consolidated financial statements of RATIONAL AG therefore relate to three domestic and nine foreign subsidiaries in addition to the parent company, RATIONAL AG.
RATIONAL Technical Services GmbH, formed on April 28, 2004, as certified by notary public, with its registered office in Landsberg am Lech, was shown as a consolidated company for the first time in the 2004 half-yearly financial statements. All RATIONAL AG's service and customer service activities are brought together in RATIONAL Technical Services. RATIONAL Technical Services GmbH has authorised capital of euro 25 thousand, of which RATIONAL AG, as parent company, owns 100 percent. It showed earnings for the year ending December 31, 2004 of euro 68 thousand on sales of euro 2,239 thousand.

As at December 31, 2004, the RATIONAL Group comprised the following consolidated companies:

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
RATIONAL Technical Services GmbH, Landsberg am Lech	100.0
Europe	
RATIONAL Skandinavia AB, Lund, Sweden	100.0
RATIONAL UK Limited, Luton, United Kingdom	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 of FRIMA S.A., Topinox Sarl, Nantes, France, in the consolidated companies as they are only of minor importance for the group's net assets, financial 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 to January 1, in line with the calendar year. Thus, as at balance sheet date on December 31, 2004 MEIKU Vermögensverwaltung GmbH posted annual net profits of euro 52 thousand (previous year euro 61 thousand) and equity capital of euro 91 thousand after payment of a dividend (previous year euro 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. There are no development costs capitalisable in accordance with IAS 38.45.
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 costs include all directly imputed costs and appropriate portions of production-related overheads. Financing costs are not reported. 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. In the year under review, depreciation was applied to new tangible assets 'pro rata temporis'. 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 cash value of the leasing instalments. The depreciation methods and useful lives correspond to those of comparable purchased asset values.

Financial assets

Financial assets are shown at acquisition 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 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. This includes acquisition costs 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 asset 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 capital value of financial instruments

Because of 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 consolidated 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 37 percent in 2004 and approximately 38 percent in 2003. The deferred tax rates of foreign subsidiaries were between 26 percent and 42 percent.

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 finance 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 average exchange rate on the balance sheet date.

Realisation of income and expenses

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 the consolidated 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 expenditure 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 I Sales

In financial year 2004, RATIONAL AG achieved sales of euro 221,815 thousand (previous year euro 186,550 thousand). More than 80 percent of consolidated sales is attributable to appliances sales, with the approximately 20 percent remaining primarily being generated from the sales of accessories, spare parts and care products.
Sales are distributed across the regions as follows, according to the location of the customer:

Thousands of euros	2004		2003 **)	
Germany	35,602	16%	32,000	17%
Europe (excluding Germany)	118,200	54%	101,250	54%
Americas	26,366	12%	18,399	10%
Asia	31,822	14%	27,748	15%
Rest of the world *)	9,825	4%	7,153	4%
Total	**221,815**	**100%**	186,550	100%

*) Australia, New Zealand, Near/Middle East, Africa
**) Because of changes in regional assignments in 2004, the figures for 2003 have also been updated using the new assignment.

RATIONAL AG is able to report double-figure percentage raise in sales in all its sales regions in 2004.
In Germany, which represents the most opened-up of the markets, sales are up 11 percent on the previous year, despite an unfavourable domestic economic situation.
Successful development of the US and Canadian subsidiaries' group share, from 10 to 12 percent, accounts for the rise in the Americas' share of group sales. The North American market is one of RATIONAL AG's most important and potential-laden markets.
In Asia, both our Japanese subsidiary and our partner businesses in China, South Korea and the countries of South-East Asia continue to be successful, with sales this year up 15 percent on last.
On the basis of the percentages shown in the above table, overall sales abroad rose again slightly in 2004, from 83 to 84 percent.

02 I 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.
Despite the rise in raw materials prices, especially that of high-grade steel, there is a considerable year-on-year improvement in the gross margin compared to the previous year. The rise in cost of sales is disproportionately small relative to sales because production of the new SelfCooking Center® has resulted in savings in material costs and in further optimisation of production processes.

03 I 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 customer service.
With process optimisation and cost management having been the main priorities in 2003, the costs situation in 2004 was primarily influenced by the launch of the new product and our expanding and increasing our sales capacity. The increase in selling and service costs was mainly due to personnel costs (new employees), but also to marketing costs related to the international product launch.

04 | Research and development expenses

Research and development activities largely consist of projects involving application research and the development of new products to secure the company's technological edge and thus its success in the future.

Once development of the new SelfCooking Center® was complete and it had been successfully launched onto the market in April 2004, development costs dropped sharply year on year. High extraordinary expenses in connection with outsourced external research, trials and testing, as well as expenses in connection with patents and industrial property rights, returned to normal levels.

Research and development activities are primarily based at the Landsberg site of the RATIONAL parent company, although some research and development takes place at RATIONAL's French subsidiary.

05 | General administration expenses

General administration expenses include business administration expenses such as accounting, personnel, finance and IT, but also accounting and controlling and parts of strategic purchasing.

After the one-time costs incurred in 2003 in connection with implementing SAP/R3 in all our subsidiaries and integrating their systems into the parent company's system, in 2004 no extraordinary administration expenses were incurred and, as a result of further optimisation of processes and structures, the absolute amounts recorded for administration expenses are even lower than the previous year's.

06 | Other operating income

Thousands of euros	2004	2003
Exchange gains	2,720	3,850
Insurance recoveries	424	194
Income from value adjustments and depreciation on accounts receivable	395	243
Rental income	97	114
Income from the release of provisions	66	349
Income from asset retirements	41	37
Other (< euro 100 thousand in each case)	312	391
Total	**4,055**	**5,178**

Exchange gains from foreign currency positions were primarily generated by fluctuations in the exchange rate between the date of origin and the date of payment, as well as by the variable valuation on the balance sheet date. They primarily include income from the valuation of forward exchange transactions and currency options, as well as income from the valuation of foreign currency positions in US dollars, pounds sterling and Japanese yen. Payments received as a result of credit sale insurance are shown under 'Insurance recoveries'.

07 | Other operating expenses

Thousands of euros	2004	2003
Exchange losses	3,464	3,800
Depreciation and value adjustments on accounts receivables	713	262
Donations	235	90
Other (< euro 100 thousand in each case)	343	26
Total	**4,755**	4,178

Exchange losses from foreign currency positions are primarily composed of expenditure from exchange rate fluctuations between the date of origin and the date of payment, as well as of the variable valuation on the balance sheet date. Default on payment by a major Italian customer amounting to approximately euro 300 thousand resulted in depreciation and value adjustments on accounts receivable being significantly higher than the previous year. The corresponding payment received through credit sale insurance is reflected in the item 'Other operating income'. The largest individual amounts included in donations were for donations to regional institutions and events.

08 | Financial results

Thousands of euros	2004	2003
Income from partnerships	78	—
Other interest and similar income	919	877
Interest and similar expenses	– 484	– 613
Total	**513**	264

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, fixed-term deposits and a small proportion of cash in current accounts.
The annual equivalent yield on the above mentioned bond in 2004 was 4.5 percent. The yield on the currency-market-based funds was between 2.0 and 2.2 percent p.a. The interest rates of the deposits with next-day maturity are based on EONIA (Euro Overnight Index Average), but also take account of an agreed margin for the bank. The annual equivalent yields on the fixed-term deposits were between 2.0 and 2.6 percent in the last financial year.
Interest expenses is chiefly comprised of the accumulated interest of euro 394 thousand (previous year euro 474 thousand) shown as leasing liabilities in accordance with IAS 17. The remaining interest expenses are attributable to the parent company's US dollar loan, the Japanese subsidiary's discount bills and interest on tax arrears.
The item 'Income from partnerships' includes the dividend paid out by the non-consolidated company MEIKU Vermögensverwaltung GmbH.

09 | Taxes on income

The following table shows a transition from the expected to the actual reported tax expenses. Average tax rates of approximately 37 percent for 2004 and approximately 38 percent for 2003 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 2004 and 2003 were all also valued in the same way, using average tax rates of approximately 37 and 38 percent respectively.

Thousands of euros	2004	2003
Expected income tax	19,753	16,140
Non tax-deductible amortisation of goodwill and released silent reserves from capital consolidation	94	122
Variations in local tax rates in the subsidiaries	– 27	– 203
Tax refunds from previous years	– 35	– 203
Tax expenses relating to previous year	100	—
Effects from tax rate changes on deferred tax calculation	61	– 84
Non tax-deductible expenses and other deductible amounts	62	19
Reported income tax	**20,008**	15,791

Deferred tax assets of euro 1,761 thousand are shown for financial year 2004. The previous year's figure for deferred tax assets was euro 1,389 thousand. The deferred tax gain for 2004 is therefore euro 372 thousand, as against deferred tax expenses of euro 711 thousand the previous year. Also, deferred tax assets of euro 420 thousand (previous year euro 662 thousand) are shown as not affecting income in 2004, having been created via equity capital.
The tax accruals and deferrals in 2004 and 2003 are attributable to the following:

	Deferred tax assets		Effect on net income
Thousands of euros	2004	2003	2004
Elimination of intercompany profits	2,237	1,714	523
Tax losses brought forward	321	464	– 143
Currency conversion	– 309	– 462	153
Hedging transactions	– 455	– 409	– 46
Finance leasing	4	8	– 4
Debt consolidation	5	5	—
Provisions for pensions	42	29	13
Other	– 84	40	– 124
Total	**1,761**	1,389	**372**

Settlement of the capitalised deferred tax refund claims of euro 1,397 thousand (previous year euro 888 thousand) is expected to take less than a year. The reported amounts of euro 364 thousand (previous year euro 501 thousand) are longterm. The shortterm 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.

10 | Earnings per share

Earnings per share are calculated as stipulated by 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, undiluted earnings per share for the financial year 2004 are euro 3.00, which constitutes a year-on-year rise of 27 percent over the previous year's earnings per share of euro 2.36. As a result of the Executive Board having granted share options on 34,500 shares in 2004, the diluted average number of shares is 11,401,625 and diluted earnings per share euro 2.99. Last year, diluted earnings per share corresponded to undiluted earnings per share.

The earnings per share according to IFRS/IAS shown in financial year 2004 also correspond to DVFA earnings.

11 | Dividend per share

As a result of the outstanding development of the business in 2004 and because of generally very high levels of funds, the dividend proposed to the Shareholders' Meeting by the Supervisory Board and the Executive Board for the 2004 financial year is euro 56.9 million, or euro 5.00 per share, to be paid from RATIONAL AG's retained earnings. Including the anniversary bonus of euro 0.45, the previous year's payout was euro 21.0 million, or euro 1.85 per share. Subject to the appropriate approval from the Shareholders' Meeting, therefore, the dividend will once again be well above that of the previous year.

Notes to the Balance Sheet – Assets

12 | Intangible assets

Thousands of euros	Industrial and similar rights	Goodwill	Total
Acquisition cost			
Balance at Jan. 1, 2004	1,595	6,048	7,643
Currency differences	—	—	—
Additions	305	—	305
Disposals	—	—	—
Transfers	—	—	—
Balance at Dec. 31, 2004	1,900	6,048	7,948
Amortisation			
Balance at Jan. 1, 2004	1,043	5,167	6,210
Currency differences	—	—	—
Additions	356	351	707
Disposals	—	—	—
Transfers	—	—	—
Balance at Dec. 31, 2004	1,399	5,518	6,917
Book values			
Balance at Dec. 31, 2004	501	530	1,031
Balance at Dec. 31, 2003	552	881	1,433

13 | Tangible assets

Thousands of euros	Land and buildings	Technical equipment, machinery	Operating and office equipment	Payments on account	Total
Acquisition cost					
Balance at Jan. 1, 2004	26,651	6,700	10,281	659	44,291
Currency differences	—	—	– 125	—	– 125
Additions	1,275	1,779	2,364	—	5,418
Disposals	– 22	– 485	– 2,258	—	– 2,765
Transfers	—	659	—	– 659	—
Balance at Dec. 31, 2004	27,904	8,653	10,262	—	46,819
Amortisation					
Balance at Jan. 1, 2004	9,766	1,795	6,849	—	18,410
Currency differences	—	—	– 81	—	– 81
Additions	950	1,312	1,662	—	3,924
Disposals	– 19	– 384	– 1,889	—	– 2,292
Transfers	—	—	—	—	—
Balance at Dec. 31, 2004	10,697	2,723	6,541	—	19,961
Book values					
Balance at Dec. 31, 2004	17,207	5,930	3,721	—	26,858
Balance at Dec. 31, 2003	16,885	4,905	3,432	659	25,881

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

14 | Finance leasing

Tangible fixed assets also include leased property and buildings that, as finance leasing, are classified as the economic but not the legal property of the company according to IAS 17. The book value of this leased property and buildings amounts to euro 10.5 million (previous year euro 11.0 million). In financial year 2004, the accumulated depreciation on these leased assets rose by euro 0.5 million to euro 2.9 million. The corresponding liabilities created through the capitalisation of fixed assets in accordance with IAS 17 are further explained under 'Other liabilities'.

15 | Financial assets

As in previous years, the financial assets of euro 218 thousand shown reflect the book value of the investment in MEIKU Vermögensverwaltung GmbH, which is not included among the consolidated companies as it is only of minor importance for the RATIONAL Group's net assets, financial position and results of operations. Our French subsidiary Frima S.A.'s euro 30 thousand investment in Topinox Sarl was amortised in previous periods.
The original acquisition costs of these investments total euro 2,725 thousand, and the accumulated partial depreciation to the lower going-concern value made necessary by the distribution of dividends amounts to euro 2,507 thousand. The current market value of the investment in MEIKU Vermögensverwaltung GmbH corresponds to the book value shown of euro 218 thousand.

16 | Inventories

Thousands of euros	**2004**	2003
Raw materials, consumables and supplies	6,435	4,940
Work in progress	935	1,235
Finished goods and goods for resale	6,968	6,593
Total	**14,338**	12,768

The raw materials, consumables and supplies and work in progress shown are mainly inventory items of RATIONAL AG as the producing parent company, and a very small proportion relates to production inventories of the French subsidiary. Because production is order-driven and lead times are short, the value of finished goods is only slightly above last year's level, despite the strong surge in demand created by the SelfCooking Center®.

17 | Trade receivables

Thousands of euros	**2004**	2003
Trade receivables at nominal value	37,226	33,288
Write-downs for doubtful accounts receivable	– 532	– 601
Total	**36,694**	32,687

At balance sheet date on December 31, 2004 value adjustments (write-downs) amounted to 1.4 percent of the receivables balance (previous year 1.8 percent). In the year under review, an average of 77 percent of the trade receivables were insured against risk of default through credit sale insurance (previous year 75 percent).

18 | Other assets

Thousands of euros	2004	2003
Fair value of derivative financial instruments	1,258	1,174
Corporation tax refund claims	307	773
Value-added tax refund claims	865	869
Deposits	186	233
Interest receivables	179	58
Receivables from travel expense advances	105	98
Loans	6	6
Other (< euro 50 thousand in each case)	186	247
Total	**3,092**	3,458

The corporation tax refund claims for the year 2003 included tax relief on the French subsidiary's development costs, which were lower in 2004.
The increased amount shown for interest receivable is the result of interest income from the parent company's treasury business.
The total value of items with remaining terms of more than one year is euro 159 thousand (previous year euro 122 thousand).

19 | 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 is a so-called 'range bond with cancellation rights'. This is a public mortgage bond originally issued by the 'Westfälische Hypothekenbank' and rated Aa3 (Moody's) and AAA (Stand & Poor's). The current issuer is Hypo Real Estate Bank AG, legal successor to 'Westfälische Hypothekenbank'. The bond matures on May 26, 2008, provided the issuer does not exercise its cancellation right prior to maturity. In financial year 2004, the interest rate of this 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 para. 69, this category of financial asset is valued at acquisition cost carried forward.

20 | 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 or fixed-term deposits. 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 year-end, liquid funds were primarily invested in the form of fixed-term deposits with terms of less than 4 months.
In 2004, the yield on the currency-market-based funds was between 2.0 and 2.2 percent p.a. The annual equivalent yields on the fixed-term deposits were between 2.0 and 2.6 percent in the last financial year. The interest rates of the deposits with next-day maturity are based on EONIA (Euro Overnight Index Average), but also take account of an agreed margin for the bank. The previous year, the interest, or yield, on moneys invested (but not the deposits with next-day maturity or the bonds) was 2.0 to 2.4 percent p.a.

At balance sheet date, the fixed-term deposits and deposits in euros with next-day maturity were invested in various banks. Cash held in foreign currencies is valued at the applicable rate at balance sheet date.

Thousands of euros	Currency	**2004**	2003
Fixed-term deposits with remaining terms of less than 4 months	EUR	47,000	36,000
Cash including deposits with next-day maturity	EUR	7,331	8,879
Cash including deposits with next-day maturity	USD	1,076	607
Cash including deposits with next-day maturity	GBP	2,401	394
Cash including deposits with next-day maturity	SEK	475	661
Cash including deposits with next-day maturity	CHF	452	209
Cash including deposits with next-day maturity	CAD	35	76
Cash deposits	JPY	1,129	838
Cash deposits	CNY	5	4
Cash deposits	RUB	1	7
Cash in hand	various	36	24
Total		**59,941**	47,699

No bank balances have been pledged for loans, approved credit lines or other obligations.

21 | Prepaid expenses

Prepaid expenses only includes 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

22 | Subscribed capital

RATIONAL AG's share capital as at December 31, 2004 was unchanged at euro 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 euro 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 was 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 euro 4,215,000 (approved capital I) and euro 1,100,000 (approved capital II).

Conditional capital amounts to euro 200,000 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 40).

Changes in subscribed capital are included in changes in equity capital in the consolidated financial statements.

23 | Capital reserve

The capital reserve, which mainly represents the premium from the IPO, also includes income and expense items not affecting income, totalling euro –2,338 thousand (previous year euro –2,753 thousand). They result primarily from the costs of the IPO not being posted as affecting net income in previous years, but also from a loan to the US subsidiary not previously affecting net income.

The figure also includes differences from currency translation not affecting net income and amounting to euro 428 thousand (previous year euro 474 thousand).

Changes in the capital reserve are included in changes in equity capital in the consolidated financial statement.

24 | Revenue reserve

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

Changes in revenue reserves are reported under changes in equity capital in the consolidated financial statements.

25 | 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 2004 amounted to euro 591 thousand (previous year euro 533 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 were based on the following assumptions:

- Rate of interest: 5.00 percent (previous year 5.50 percent)
- Pensions trend: 1.00 percent (previous year 1.00 percent)

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

Pension provision development was as follows:

Thousands of euros	2004	2003
Balance at Jan. 1	533	507
Additions	58	26
Releases	—	—
Balance at Dec. 31	**591**	533

The cost of the provisions for pensions contained in the income statement for financial year 2004 is composed of the accumulation of expected pension obligations in the amount of euro 58 thousand. Provisions for pensions totalling euro 26 thousand were accumulated last year.

26 | Provisions for taxes

Thousands of euros	Balance at Jan. 1, 2004	Currency differences	Use	Additions	Balance at Dec. 31, 2004
Taxes on income	6,782	– 5	– 6,653	9,845	9,969

All provisions for taxes have terms of less than one year, and can thus be classed as short-term.

27 | Other provisions

Thousands of euros	Balance at Jan. 1, 2004	Currency differences	Use	Additions	Balance at Dec. 31, 2004
Personnel	4,138	– 26	– 3,848	4,862	5,126
Warranty	1,600	– 2	– 98	365	1,865
Outstanding invoices	1,528	– 14	– 1,520	1,399	1,393
Consulting and audit fees	819	– 1	– 808	1,249	1,259
Trader bonuses	1,088	– 31	– 974	1,358	1,441
Other	214	– 1	– 87	206	332
Total	**9,387**	**– 75**	**– 7,335**	**9,439**	**11,416**

The provisions shown under 'Other' comprise totals of individual provisions of less than euro 50 thousand each. All items listed as other provisions have terms of less than one year.

28 | Liabilities to banks

Parent company liabilities to banks as at balance sheet date on December 31, 2004 amounted to euro 2,202 thousand (previous year euro 2,399 thousand), and related to a loan of USD 3,000 thousand taken out in 2002.
The terms of the loan agreement include six-month pegging of the interest rate, with the option of extending the arrangement every six months for an indefinite period. Until January 2004, the interest rate was 2.25 percent; from February to July 2004 it was 2.21 percent and from August 2004 it was 2.92 percent.
The exchange gain of euro 197 thousand (previous year euro 473 thousand) resulting from the valuation of the loan at the lower rate at balance sheet date is included in other operating income.

29 | Other liabilities

Thousands of euros	2004	2003
Liabilities from finance leasing agreements	5,585	6,853
Value-added tax liabilities	1,323	1,143
Liabilities to business partners	2,958	2,448
Liabilities from PAYE and church taxes	1,117	1,194
Income tax liabilities	—	11
Liabilities from wages, salaries and social security contributions	1,323	1,374
Liabilities due to affiliated companies	—	76
Fair value of derivative financial instruments	14	68
Other (< euro 100 thousand in each case)	172	370
Total	**12,492**	13,537

The figure for other liabilities is below that for the previous year, primarily as a result of regular repayment of finance leasing liabilities in accordance with IAS 17.
With the exception of liabilities relating to finance leasing agreements, all 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 to 1 year	Total	Remaining term up to 1 year
Thousands of euros	2004	2004	2003	2003
Term; interest				
a) to 2007; 6.45%	1,875	770	2, 597	722
b) to 2007; 4.93%	146	61	204	58
c) to 2008; Pibor 3 months +1.50%	595	147	734	139
d) to 2011; 6.65%	2,624	329	2,932	308
e) to 2011; 6.05%	345	44	387	41
Total	**5,585**	**1,351**	6,853	1,268

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 euro 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	**2005**	2006 – 2009	from 2010
Present values	1,606	3,070	542
Discounts	60	852	298
Leasing payments	1,666	3,922	840

30 | Deferred income

The item 'deferred income' relates to accrued book profits amounting to euro 172 thousand (previous year euro 221 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.
Items with terms of more than one year account for euro 123 thousand of deferred income posted.

Notes to the Cash Flow Statement

31 | 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 separately shows the cash flow from operating activities – representing the cash in flow from current operating business activity – and 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 bond acquired in 2003 is a range bond with cancellation rights that has been kept since it was purchased and 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 euro 5 thousand (previous year euro 4 thousand). No bank balances have been pledged for loans or approved credit lines. The item 'Liquid funds as at December 31, 2004' relates exclusively to cash in hand and cash in banks totalling euro 44,941 thousand (previous year euro 47,699 thousand).

Other Notes

32 | 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 euro 2,068 thousand (previous year euro 1,729 thousand).
Note 27 contains an overview of other provisions.

33 | Employees and personnel costs

During the financial year 2004, the average number of people employed by the RATIONAL Group was 742 (previous year 649). Employee distribution among the various operational areas is as follows:

	2004	**%**	2003	%
Production	251	34%	257	38%
Marketing, Sales and Service	243	33%	182	27%
Technical Customer Service	102	14%	95	14%
Research and Development	54	7%	58	8%
Administration	92	12%	87	13%
Average number of employees	**742**		679	
of which abroad	228	31%	188	28%

As at balance sheet date on December 31, 2004 the number of employees was 754 (previous year 689). The changes shown in employee numbers in the areas of marketing, sales and service reflect the RATIONAL Group’s continuing strategic expansion of its sales capacities.

Personnel costs in 2004 amounted to euro 47,711 thousand (previous year euro 43,569 thousand).

Thousands of euros	**2004**	2003
Salaries and wages	40,572	36,668
Social security	7,139	6,901
Total	**47,711**	43,569

34 | Derivative financial instruments

As part of its risk management activities, 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. Its contractual partners in derivative financial instrument transactions are always banks with good to first class credit ratings, i.e. with a Standard & Poor's A+ rating as a minimum.
These 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 commercial 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. A treasury management system and an internal monthly reporting system ensure that all trading is monitored.
The following notes give an overview of the instruments used and the effects they have on the consolidated financial statements.

Raw materials price risks

In its production processes, RATIONAL uses high-quality stainless steel that contains between 8 and 9 percent nickel as the alloying constituent. As the cost price of stainless steel itself cannot be hedged by derivative financial instruments, RATIONAL agrees fixed prices with its suppliers for periods of at least twelve months. Only fluctuations in the price of alloys (mainly nickel) on the raw materials market are reflected in the so-called alloy surcharge that suppliers add to the cost price of stainless steel. In 2004, the alloy surcharge was increased because the price of nickel rose, partly as a result of high demand in China. At the end of 2004, sidestepping was observed in the case of the alloy surcharge.
For RATIONAL, the increase in the alloy surcharge means increased cost of sales and reduced margins. In financial year 2004, this effect was less than 5 percent of the planned margin. As RATIONAL views this risk as acceptable, and the price at which it purchases stainless steel is fixed for periods of one year, it does not make use of commodity futures or commodity options in order to hedge planned purchases.

Foreign exchange risks

As a group of companies operating at an international level, RATIONAL necessarily operates in different currency areas and is thus exposed to foreign exchange risks. The hedging of these risks is managed centrally by the parent company. Risks to which the group as a whole is exposed are pooled and entered in a treasury management system. The necessary data, which has a planning horizon of six months, is supplied to this system by all relevant companies and subjected to variance analysis on a monthly basis. The pooled foreign exchange risk can thus be measured at any time on the basis of market values.
The foreign exchange risks apply to future cash flows in foreign currencies. The underlying volume of cash flows in each currency is carried in the planned exchange-related moneys received by the sales companies after the deduction of costs and other expenses in the same currency.
As a rule, around 50 percent of future net cash flows in the individual currencies are hedged for a period of at least six months. RATIONAL uses currency options and currency futures to hedge these cash flows.

The currency options concluded include both so-called plain vanilla options and zero cost options. Purchasing a plain vanilla option entitles RATIONAL, if it pays a premium on the option when the deal is concluded at the agreed time, to trade a fixed volume in the agreed currency at a fixed exchange rate.
In principle, the zero cost option finances the option premium required for the purchase through the sale of another option at the same time. RATIONAL uses zero cost options both with and without bandwidth.
Zero cost options with bandwidth combine the purchase of put options with the sale of call options at different base prices. Zero cost options without bandwidth combine the purchase of put options with the sale of a call options where the basis 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. The longest remaining term of any existing contract is eighteen months.

Interest rate derivatives

Interest currency swaps with terms of more than one year are used to exploit interest rate variations between different 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

In accordance with IAS 39, RATIONAL should record all existing derivative financial instruments at market value. The requirements for hedge accounting under IAS 39 thus not being met, on the day of trading, hedging transactions in the form of purchases are capitalised as assets and those which are sales are capitalised as liabilities, the assets being shown under other assets and the liabilities under other liabilities.

The market value of currency futures is calculated using the average spot rate applicable as at balance sheet date, taking account of the time premiums or discounts that apply for the remaining terms 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 derivative financial instruments by category, currency, size (contract value) and market value as at December 31, 2004 and 2003:

		Contract value		Positive market value (assets)		Negative market value (liabilities)	
Thousands of euros	Currency	**2004**	2003	**2004**	2003	**2004**	2003
Derivative financial instruments							
Forward exchange contracts	CHF	5,114	8,524	201	312	—	—
Forward exchange contracts	USD	414	—	47	—	—	—
Currency options	USD	2,386	2,542	139	69	—	5
Currency options	JPY	4,491	2,243	96	10	5	26
Currency options	GBP	7,123	5,940	34	33	9	37
Currency options	PLN	313	—	—	—	—	—
Interest rate/ currency swaps	JPY	2,689	3,098	741	750	—	—
Total		**22,530**	22,347	**1,258**	1,174	**14**	68

35 | Other financial obligations

As at 31 December 2004, in addition to provisions, liabilities and contingent liabilities, other financial liabilities amounted to euro 6,953 thousand, of which euro 2,705 thousand will become due within the next twelve months. These primarily represent future payments resulting from long-term rental, transport and leasing agreements.

The leasing agreements, treated in accordance with IAS 17 as operative leases, apply to the long-term use of production facilities. The terms of the agreements run for up to 66 months and are subject to fixed lease rates evenly distributed over the terms of the agreements. These are non-terminable agreements which contain continuation clauses applicable at the end of the agreed leasing term.

Insurance against loss or destruction of the objects leased is generally covered by policies issued by the RATIONAL Group. The leasing agreements contain no restrictions such as relating to, for example, dividends, additional debts or further leasing agreements.
Future minimum lease payments for operative leases will amount to euro 1,398 thousand over the next twelve months, and for the years 2006 to 2009 euro 1,410 thousand in total. The UK subsidiary has obligations amounting to euro 103 thousand beyond the five-year period given. In addition, euro 216 thousand is payable to former employees for agreed restraints on competition.

36 | Credit risks

The majority of claims against our customers worldwide arise in connection with deliveries of goods. All trade receivables shown on the balance sheet at year-end 2004 are due for payment within one year. Of these, 77 percent (previous year 75 percent) are secured through credit sale insurance. In addition, euro 2,395 thousand is secured against default on payment by confirmed, irrevocable letters of credit (clean credits) from banks, and a claims volume totalling euro 664 thousand exists against the public sector.
In spite of the difficult economic climate in financial year 2004, written-off receivables only account for 0.20 percent of the year’s sales figure. This is in no small part due to strict receivables management, including conscientious observance of the credit checks conducted and the decisions on limits made by the insurer for credit sale insurance. As an alternative to checks on creditworthiness made by the insurers, and depending on the type and amount of the payment concerned, it is sometimes necessary to secure against default on payment using security deposits, prepayments, or ‘clean credits’ from banks, or by referring to documented payment behaviour so far.
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 those countries. Claims in respect of advance payments on goods and services, claims secured by clean credits from banks and claims against the public sector remain uninsured.
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 to 90 percent of the claim in default is settled through the credit sale insurance.
At the end of 2004, unhedged, uninsured claims with a nominal value of more than euro 100 thousand per individual customer only exist against eight customers. The total value of these claims is euro 1,239 thousand, which corresponds to a 3.38 percent share of the trade receivables shown by the RATIONAL Group on its balance sheet. The customer with the largest unsecured claims balance accounts for 1 percent of total receivables volume.
The value to be shown for receivables on the balance sheet is obtained by making appropriate value adjustments to account for identifiable risks.
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 of a sales subsidiary thus has no appreciable impact on the credit risk of the RATIONAL Group as a whole.

37 | 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, LechMetall and Rational Technical Services GmbH, all 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. In financial year 2004, the Asia segment is represented by RATIONAL's subsidiary in Japan.

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

RATIONAL's new subsidiary, RATIONAL Technical Services GmbH, formed in April 2004, and whose registered office is in Landsberg am Lech, was shown as a consolidated company for the first time in the 2004 half-yearly financial statements. All RATIONAL AG's international service and after-sales service activities are brought together in RATIONAL Technical Services.

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, the AG makes investments for the German sales and customer service business included under GKT GmbH (Großküchentechnik). Support provided by the AG is included in the segment expenditure 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 intercompany 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 2004 or the previous year.

Segment assets includes 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.

2004 Thousands of euros	**Activities of the subsidiaries in:** Germany	Europe excl. Germany	Americas	Asia	**Activities** of the parent company	**Total** for segments	**Reconcil.**	**Group**
External sales	35,061	82,162	17,188	12,145	75,259	**221,815**	—	**221,815**
vs. previous year	+ 12 %	+ 14 %	+ 37 %	+ 5 %	+ 28 %	+ 19 %		+ 19 %
share	16 %	37%	8 %	5 %	34 %	100 %		100 %
Intercompany sales	955	24	—	—	102,864	**103,843**	—	**103,843**
Segment sales	36,016	82,186	17,188	12,145	178,123	**325,658**	—	**325,658**
vs. previous year	+ 11 %	+ 14 %	+ 37 %	+ 5 %	+ 21 %	+ 18 %		+ 18 %
Segment expenses	35,804	78,065	16,504	12,048	128,049	**270,470**		
Segment result	212	4,121	684	97	50,074	**55,188**	– 1,628	**53,560**
vs. previous year	+ 129	+ 587	– 316	– 259	+ 12,574	+ 12,715		+ 11,227
Segment assets	3,265	30,110	5,562	5,229	66,246	**110,412**	36,351	**146,763**
Segment liabilities	3,526	19,570	6,102	5,773	31,830	**66,801**	– 24,115	**42,686**
Segment investments	—	1,079	108	312	4,223	**5,722**	—	**5,722**
Segment depreciation and amortisation	—	488	163	91	3,889	4,631	—	4,631
Employees as at Dec. 31, 2004	58	146	43	32	475	**754**	—	**754**
vs. previous year	+ 7	+ 11	+ 17	+ 6	+ 24	+ 65		+ 65

2003 Thousands of euros	**Activities 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**
share	17 %	39 %	7 %	6 %	31 %	100 %		100 %
Intercompany sales	1,043	—	—	—	88,583	**89,626**	—	**89,626**
Segment sales	32,483	72,202	12,552	11,548	147,391	**276,176**	—	**276,176**
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**
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	—	419	135	82	5,366	**6,002**	—	**6,002**
Segment depreciation and amortisation	—	415	222	69	3,463	**4,169**	—	**4,169**
Employees as at Dec. 31, 2003	51	135	26	26	451	**689**	—	**689**

An additional breakdown of sales by customer location as required by IAS 14.71 can be found in Note **1** (Sales).

38 | 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 proceedings are initiated by RATIONAL.

39 | Supervisory Board and Executive Board

The composition of the Supervisory Board did not change during the financial year 2004. 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 2004, the total remuneration of the Supervisory Board amounted to euro 482 thousand (previous year euro 141 thousand), distributed as follows:

○ Siegfried Meister:	euro 193 thousand (previous year euro 68 thousand)
○ Walter Kurtz:	euro 163 thousand (previous year euro 47 thousand)
○ Roland Poczka:	euro 126 thousand (previous year euro 26 thousand)

As of December 31, 2004, the members of the Supervisory Board hold a total of 8,116,309 shares in RATIONAL AG (previous year 8,091,434), of which Mr. Siegfried Meister holds 7,159,786 (previous year 7,149,261).
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 2004.
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 of the members of the Executive Board for the performance of their tasks in the parent company and its subsidiaries amounted to euro 1,500 thousand in financial year 2004 (previous year euro 1,300 thousand). This sum includes a performance-related salary component of euro 611 thousand (previous year euro 460 thousand).
As of December 31, 2004, the members of the Executive Board together hold a total of 8,033 shares in RATIONAL AG (previous year 8,668) .
None of the members of the Executive Board sits on a supervisory board of a non-RATIONAL Group company.

40 | 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 euro 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 shares, 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 euro 593 thousand was paid to the Executive Board from the first tranche of the stock option plan in May 2002.

It was decided by resolution of the Supervisory Board on January 28, 2004 to grant the Executive Board option rights on a further 34,500 RATIONAL AG shares. The waiting period for this second tranche is two years and they are exercisable for a period of three years. The exercise of option rights was linked to the attainment by the RATIONAL share of certain performance targets, measured against the SDAX index. The exercise price was set – taking account of the price of RATIONAL shares at the time the option was granted – at euro 47 per share.

As at balance sheet date 2004, therefore, option rights to a maximum of 131,000 ordinary registered shares in RATIONAL AG still remained in the stock option scheme.

41 | 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 2004, euro 274 thousand was contributed to the scheme (previous year euro 241 thousand).

42 | 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 on the German Corporate Governance Code have been and will be complied with. The statement of compliance has been made permanently available to the shareholders.

43 | Subsequent events

After the close of financial year 2004, no events of any significance occurred affecting the net assets, financial position or results of earnings of RATIONAL AG or the RATIONAL Group.

Landsberg am Lech, February 24, 2005

RATIONAL Aktiengesellschaft

Dr. Günter Blaschke Erich Baumgärtner Peter Wiedemann

Multi-year Overview

Responsible: RATIONAL Aktiengesellschaft

Conception and design: FIRST RABBIT GmbH, Cologne

Multi-year Overview

		2004	2003	2002	2001	2000
Earnings situation						
Sales	€ million	221.8	186.6	177.3	167.3	152.6
Sales abroad	%	84	83	81	80	78
Gross margin	€ million	131.6	108.5	105.0	96.0	86.7
EBITDA	€ million	58.2	46.5	41.6	35.0	32.3
Depreciation/Amortisation	€ million	4.6	4.2	3.4	3.0	2.5
EBIT	€ million	53.6	42.3	38.2	31.9	29.8
Financial results	€ million	0.5	0.3	0.2	– 0.1	– 0.3
EBT	€ million	54.1	42.6	38.4	31.9	29.5
Group earnings	€ million	34.1	26.8	26.6	20.8	17.5
Earnings per share (EPS)	€	3.00	2.36	2.34	1.83	1.54
Gross margin	%	59.3	58.1	59.2	57.4	56.8
EBITDA margin	%	26.2	24.9	23.5	20.9	21.1
EBIT margin	%	24.1	22.7	21.5	19.1	19.5
EBT margin	%	24.4	22.8	21.6	19.0	19.3
Return on equity (before taxes)	%	52.0	47.0	48.6	49.5	57.9
Return on capital employed (ROCE)	%	48.0	42.3	42.3	40.0	45.6
Dividend	€ million	56.9	21.0	14.8	11.4	7.4
Dividend per share Value for 2004 – subject to approval of the Shareholders' Meeting	€	5.00	1.85	1.30	1.00	0.65

		2004	2003	2002	2001	2000
Assets situation						
Fixed assets	€ million	28.1	27.5	26.0	25.7	20.3
Current assets (incl. deferred tax assets and prepaid expenses)	€ million	118.7	100.5	88.0	75.1	65.6
Inventories	€ million	14.3	12.8	11.3	11.8	11.0
Trade receivables	€ million	36.7	32.7	30.9	29.8	27.5
Liquid funds (incl. securities)	€ million	61.9	49.7	41.0	27.7	21.4
Balance sheet total	€ million	146.8	128.0	114.0	100.8	85.9
Equity	€ million	104.1	90.6	78.9	64.4	50.9
Debts	€ million	42.7	37.4	35.1	36.4	35.0
Provisions	€ million	22.0	16.7	13.0	11.6	12.6
Liabilities to banks	€ million	2.2	2.4	2.9	5.3	6.7
Trade accounts payable	€ million	5.8	4.6	4.8	4.4	3.9
Other liabilities (incl. deferred income)	€ million	12.7	13.8	14.3	15.1	11.8
Liabilities from finance leasing agreements	€ million	5.6	6.9	8.1	9.2	6.0
Residual liabilities	€ million	7.1	6.9	6.2	5,9	5.8
Equity ratio	%	70.9	70.8	69.2	63.9	59.3
Net gearing	%	– 29.1	– 41.9	– 38.6	– 20.4	– 17.1
Equity-to-fixed-assets ratio	%	370.3	329.0	304.0	250.5	250.5
Capital employed	€ million	112.6	100.6	90.7	79.7	64.7
Working capital (excluding liquid funds)	€ million	41.0	37.0	33.6	34.8	31.1
as a percentage of sales	%	18.5	19.9	18.9	20.8	20.4
Cash flow/Investments						
Cash flow from operating activities	€ million	39.2	29.8	31.9	19.7	16.0
Cash flow from investing activities	€ million	– 4.6	– 4.9	– 3.4	4.1	– 3.4
Cash flow from financing activities	€ million	– 37.3	– 5.1	– 25.2	– 8.6	5.0
Investments	€ million	5.7	6.0	4.3	4.3	3.8
Employees						
Employees (as an annual average)		742	679	669	660	604
Personnel expenses	€ million	47.7	43.6	42.0	40.4	36.2
Sales per employee	€ thousand	298.9	274.7	265.1	253.4	252.7

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