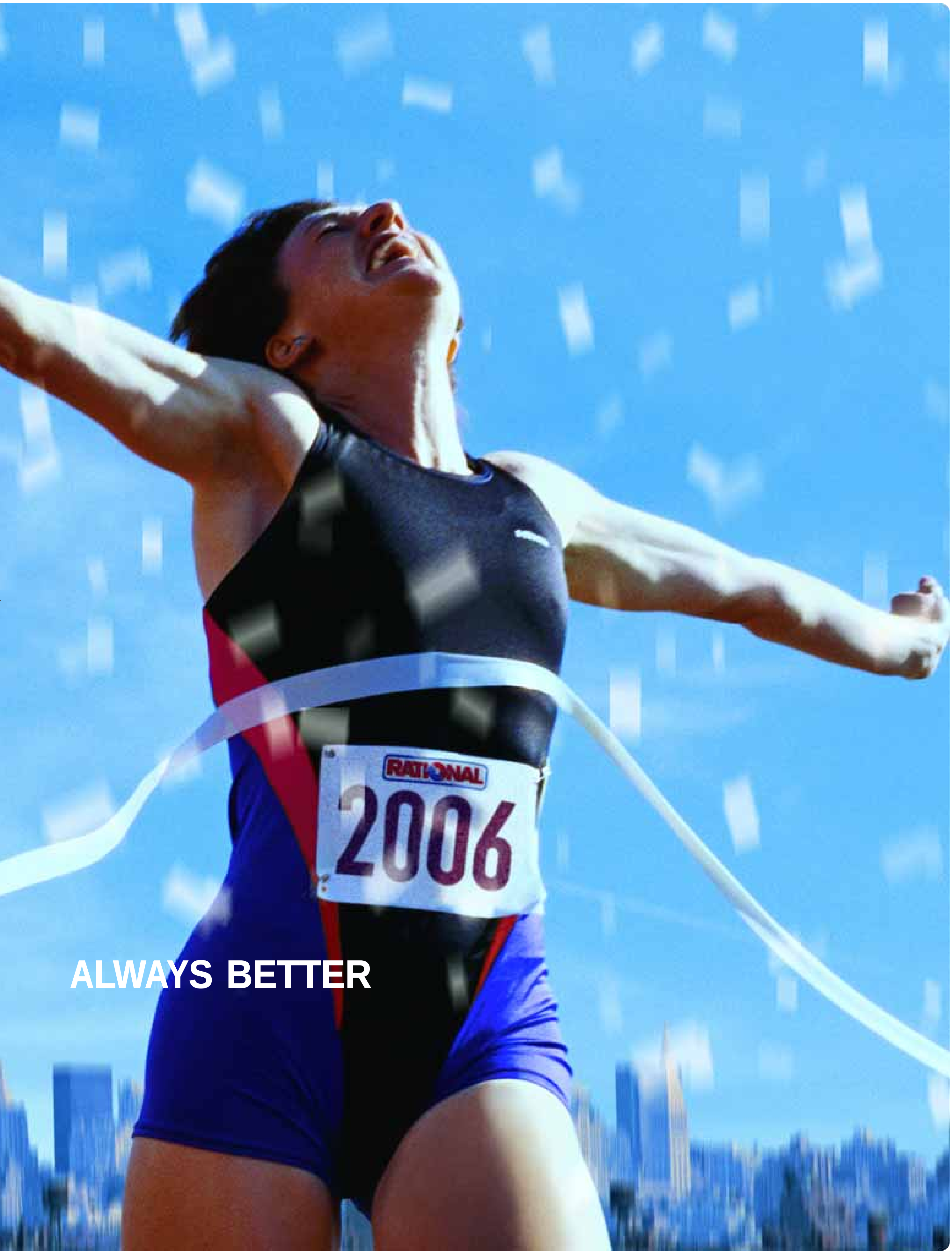
# Annual Report 2006

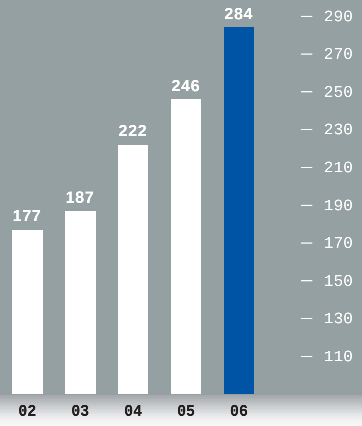


# The Company at a Glance ⇛

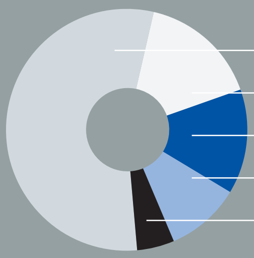
# The Company at a Glance

| Figures in thousands of euros | 2006 | 2005 | Change |
|---|---|---|---|
| Sales | 283,702 | 246,410 | + 15% |
| Sales abroad in % | 84% | 83% | + 1%-pt. |
| Cost of sales | 109,926 | 96,662 | + 14% |
| as a percentage of sales | 38.7% | 39.2% | |
| Sales and service expenses | 69,924 | 61,390 | + 14% |
| as a percentage of sales | 24.6% | 24.9% | |
| Research and development expenses | 10,229 | 10,011 | + 2% |
| as a percentage of sales | 3.6% | 4.1% | |
| General administration expenses | 12,642 | 11,693 | + 8% |
| as a percentage of sales | 4.5% | 4.7% | |
| EBIT – earnings before interest and taxes | 80,476 | 66,906 | + 20% |
| as a percentage of sales | 28.4% | 27.2% | |
| EBT – earnings before taxes | 81,101 | 67,224 | + 21% |
| as a percentage of sales | 28.6% | 27.3% | |
| Group earnings | 51,776 | 42,377 | + 22% |
| as a percentage of sales | 18.3% | 17.2% | |
| per share in euros | 4.55 | 3.73 | |
| | | | |
| Cash flow from operating activities | 49,082 | 32,759 | + 50% |
| per share in euros | 4.32 | 2.88 | |
| Balance sheet total | 146,559 | 132,136 | + 11% |
| Equity | 105,816 | 89,924 | + 18% |
| as a percentage of the balance sheet total | 72.2% | 68.1% | |
| Return on capital employed in % (ROCE) | 79.1% | 67.9% | + 11.2%-pts. |
| Working capital (without liquid funds) | 58,365 | 53,009 | + 10% |
| as a percentage of sales | 20.6% | 21.5% | |
| Employees (as an annual average) | 864 | 792 | + 9% |
| Sales per employee | 328 | 311 | + 6% |

**Sales in millions of euros**




**Sales revenue by region (customers' location) in %**

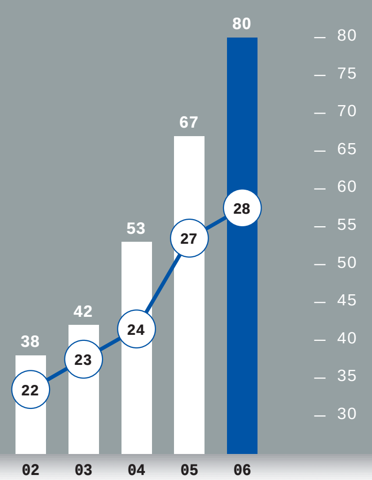


| | 2006 |
|---|---|
| Europe excluding Germany | 55% |
| Germany | 16% |
| Americas | 14% |
| Asia | 10% |
| Rest of the world | 5% |

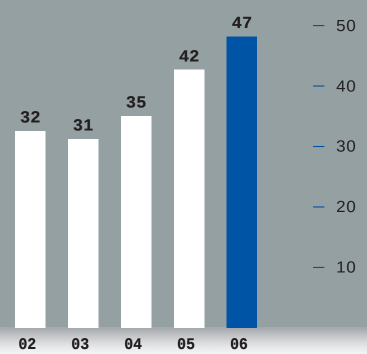
The value of RATIONAL as a company grew once again in the fiscal year 2006. The return on invested capital (ROIC) amounts to an outstanding value of 47 percent, which is far above previous year's 42 percent and on a new record level.

**EBIT in millions of euros**

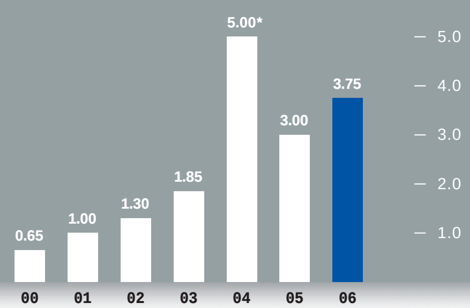
**EBIT-margin as a percentage of sales**




**ROIC in %**




**Attractive dividend per share in euros**




* extra dividend

Figures for 2006 subject to approval of the Shareholders' Meeting.

Our sales growth of 15 % and our EBIT-margin of 28 % once again proves the company's extraordinary and sustained success.

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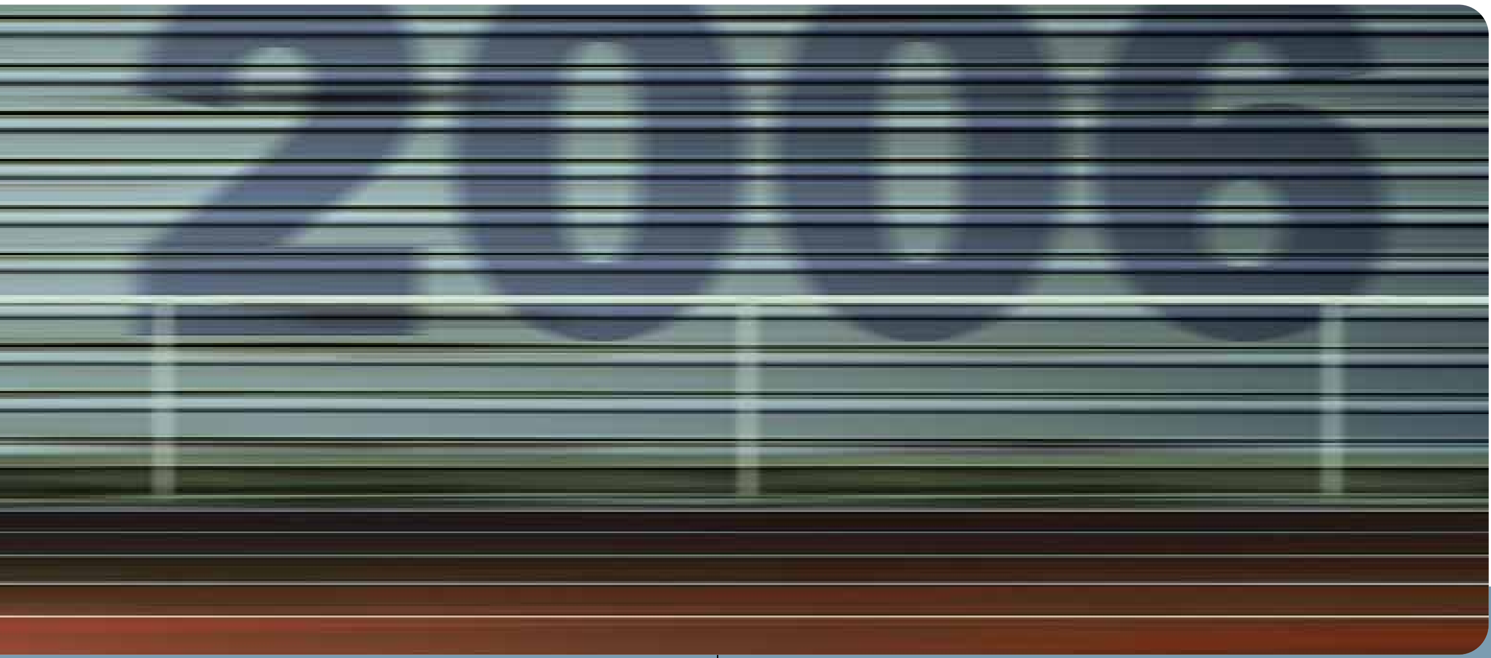

# Despite fast growing, still a solid mid-sized enterprise



**“Employees as entrepreneurs within the enterprise”**

In many companies, increasing growth and increasing size result in disproportionate complexity, division of labour and hierarchical levels. The organisation is overmanaged and its ability to focus on customer needs becomes increasingly blurred.

To prevent this from happening from the outset, RATIONAL is divided into clear, legally independent subsidiary companies with consistent entrepreneurial management and clearly delineated tasks. As a result, decisions taken are more in line with the work process, which has a logical and self-contained structure.

Staff in all the companies know precisely what their goals and duties are and therefore what contribution they are making to customer benefit. As entrepreneurs within the enterprise, they personally assume responsibility and take the necessary decisions themselves. In this way the high level of knowledge and training of all employees is leveraged to the full.

The principal task of management is to create the appropriate structures and to ensure that these independent corporate units cooperate with one another without a hitch.

**Leadership as a success factor**

The quality of the company overall is continually enhanced through growing employee quality. Goal-oriented and consistent leadership plays a key role in this process. RATIONAL management sees itself as the first among equals. It serves employees in order to make them consistently more successful.

However, leadership is more than just management. Managing focuses on logical and methodology skills. Based on their excellent functional and methodology skills, RATIONAL managers connect with their employees’ emotional side, encouraging them to enthusiastically embrace the future vision they have clearly set out. To the understanding of this logical necessity are then added enthusiastic determination and autonomous, consistent action.

By creating a culture of challenge and support, managers instil the right atmosphere for their employees to develop as effectively as possible both personally and professionally. After all, no company in the world can be better than its people.

**Accolade from international juries of experts**

RATIONAL’s performance is often held up by international juries as an excellent and trailblazing example. In 2006, the company received various awards for its overall quality and performance, its products and its exemplary investor relations.

In Europe’s most demanding benchmarking competition – “Best Factory” – RATIONAL was awarded first prize. This award was not only for the factory, but also for the individual parts of the company.

The award involved assessing operational strategy, product development, supplier management, overall organisation and personnel, service and sales partner management as well as companywide continuous quality improvement. RATIONAL was the only company to achieve the top score of "excellent" in all these assessment categories. Our high praise goes to all employees for this accolade.

### RATIONAL is best positioned for the future

RATIONAL is currently by far the market and technology leader. With the RATIONAL SelfCooking Center® and the FRIMA VarioCooking Center®, the RATIONAL-Group has two revolutionary product technologies to offer the global market, giving it a unique position worldwide with extensive sales potential and thus paving the way for it to achieve its ambitious plans for the future.
However, it should never be forgotten that today's peak performance may be tomorrow's mediocrity. This can be avoided if we continuously improve in all corporate divisions while fostering our distinctive culture of always learning from the "best", we will continue to fulfil our sporting aspiration set out in our corporate principles:

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

### Being based in Germany is a competitive advantage

By continuously improving corporate quality, we have also steadily increased the international competitiveness of our production facilities in Germany. As a result, we will build a third plant in 2007 to accompany the other two at our company headquarters in Landsberg to meet the constantly growing global demand. This will additionally create new highly skilled jobs – a great way of doing justice to our corporate responsibility.

SIEGFRIED MEISTER
Chairman of the
Supervisory Board

Siegfried Meister, born in 1938, studied electrical engineering. The founder of RATIONAL AG systematically developed the company into a global 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.

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# … always better: growth and earnings at new record level

### Positive trends in the global economy in 2006

2006 marks one of the strongest years in terms of growth over the last few decades, with the global economy growing by around 3.5 percent.

Growth in the United States continued to forge ahead, at 3.3 percent. After undergoing a strong economic recovery in the last few years, Japan also recorded growth in 2006 of 2.8 percent. Forecasts for growth in the Euro Zone were continually adjusted upwards, reaching 2.6 percent in the year under review.

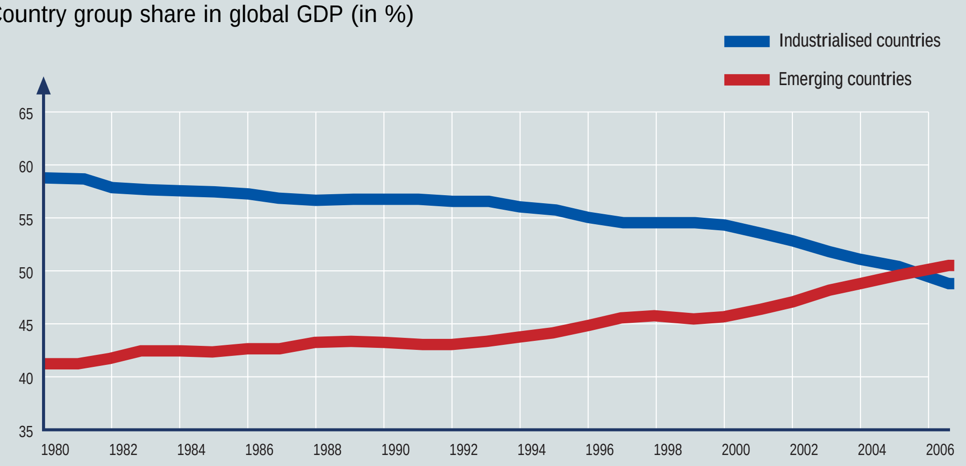
The People's Republic of China has seen a dramatic resurgence over the last few years. It plays an increasingly important role on the global political and economic stage. A growth rate of at least 10 percent is expected for 2006. Given its positive economic development, India has also grown in importance. With an expected growth of 7.3 percent, India has already moved up to become one of the strongest growing countries in the world in 2006. Achieving a growth rate of 5.7 percent, the Russian economy continuous to look good. Its sustained economic recovery over the last seven years is primarily driven by the sales boom in oil and gas.

### Emerging economies gain in importance

The usual ranking still applies for countries with the strongest economies in the world: First USA, second Japan and third Germany. However, China has now overtaken France and the UK.

Over the next few years, this picture will radically change, as the emerging economies of today continue to gain influence. Indeed already this year, the size of the emerging economies as a whole will be on a par with that of conventional industrial countries, and will then probably surge

**Emerging countries outstrip industrialised countries**
Country group share in global GDP (in %)



ahead year on year. In the medium and long term, these trends will significantly change the overall global balance of power.

## New future prospects

The countries wielding the most power in the future in terms of economic policy will be China, the United States, Japan, India and Russia. For RATIONAL, this means stepping up our strategy of developing and expanding sales and marketing capacities in the emerging economies. Taking our watchword of success:

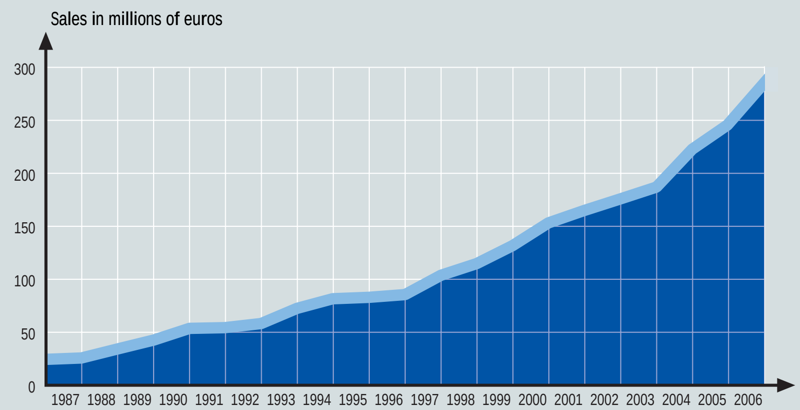
> **"Greater growth through proliferation"**

we have pooled and concentrated the skills we need within our newly founded sales subsidiary, RATIONAL International AG, based in Switzerland.

## 15 percent sales growth

Posting sales of 284 million euros (previous year: 246 million euros), we grew by 15 percent in 2006. Our average organic growth rate per year has achieved a sustained increase over the last years from 10-percent-level to 15-percent-level.

**Remarkable rise in growth rate**




## DR. GÜNTER BLASCHKE
Chief Executive Officer

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.

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## Disproportionate growth in future markets

Once again, the outstanding growth drivers in 2006 were RATIONAL's own sales companies, especially those in Russia and the Americas. The successful example of Russia vindicates in no uncertain terms our strategy of applying our own sales organisation to systematically concentrate on the markets exhibiting the greatest potential. The Russian team was honoured as RATIONAL branch of the year in recognition of its successful work.

**RATIONAL Russia, branch of the year**

We were also able to further ramp up our rate of growth in the largest key strategic market of the Americas, where we have since taken over as market leader, with a market share of over 30 percent.

And there are no signs of slowdown in our home market of Germany, where we have enjoyed more than 30 years of successful marketing, easily keeping pace with the leading group in our global growth markets. With over 5,800 appliances sold in 2006 alone, Germany's growth has reached double digits and remains for us the market in the world with by far the strongest sales. At the same time, the long-term German success story also highlights the enormous sales potential for RATIONAL technology in other countries in other parts of the world.

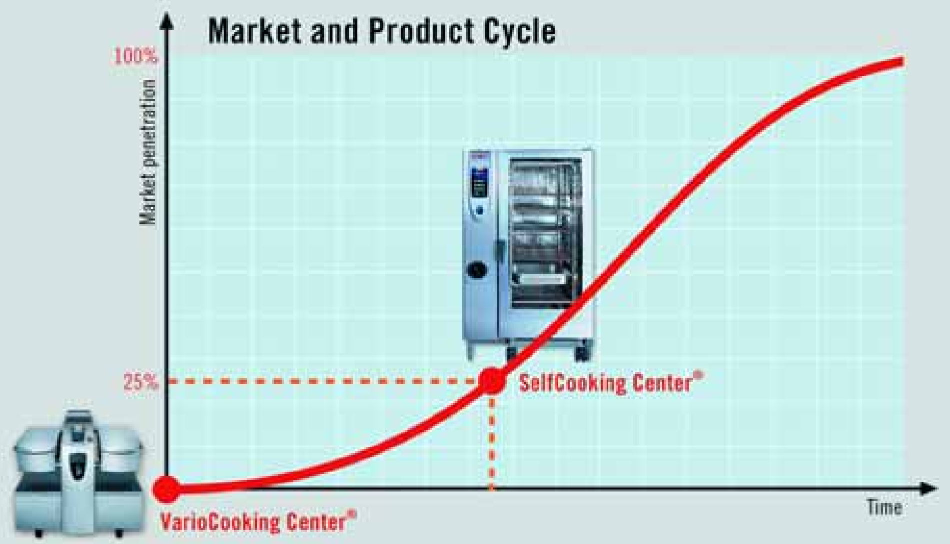
## Global market share expands to 53 percent

With its above-average growth, RATIONAL was able to further expand its global market share from 52 to 53 percent in 2006. This year too, the critical success factors were the fact that RATIONAL continued to concentrate its resources in countries with the greatest potential and the superior product technology as well as the systematic implementation of the global RATIONAL sales and marketing process.

## SelfCooking Center® replaces 50 percent of all cooking appliances

The SelfCooking Center® technology replaces about 50 percent of all traditional cooking appliances in a professional kitchen. Heat is ideally transferred by hot, fast-flowing gases. As we continue to make regular innovative quantum leaps in technology, we are in a better position to render obsolete the large stocks of traditional cooking appliances in terms of cost-effectiveness as well as quality – while clearly enhancing customer benefit. Thus for example in Germany the combi-steamer replaced conventional hot-air ovens years ago, and now in turn is being superseded by the SelfCooking Center®. Regular progress in innovative technology is offering stable opportunities for growth.

**Long-term opportunities for growth through innovation**




### The first VarioCooking Center® – a new global market

Since the early 1980s, our French subsidiary, FRIMA, has specialised in developing integrated cooking technology based on direct contact heat. It has now achieved a quantum leap in technology, with the invention of the VarioCooking Center®. The world's first VarioCooking Center® is the perfect complement to the SelfCooking Center®, replacing products used in a professional kitchen for cooking in liquid or in direct contact heat. What's more, the VarioCooking Center® makes any remaining tilt-pans, boiling pans and deep-fat fryers superfluous.

### VarioCooking Center® succeeds in pilot markets

In the first year in which the VarioCooking Center® was launched in the pilot markets of Germany, France, the Netherlands, Austria and Russia, it was possible to tailor this revolutionary and innovative technology to meet customer requirements in complex operational environments and further perfect its strategic product positioning.

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FRIMA production
VarioCooking Center®
Wittenheim, France

Product positioning of the VarioCooking Center® is now completely self-evident and sensational at the same time. The unique benefit-message is:

**"boiling pan, tilt-pan and deep-fat fryer in a single unit, 50 percent faster".**

In line with the RATIONAL principle of success:

**"depth before breadth"**

further market penetration in pilot markets is one of our priority activities for 2007.

As happened with the invention of the combi-steamer more than 30 years ago, the VarioCooking Center® has created a new global market. The unrestricted potential for this technology to be tapped over the next few years amounts to a further 2.5 million professional kitchens.

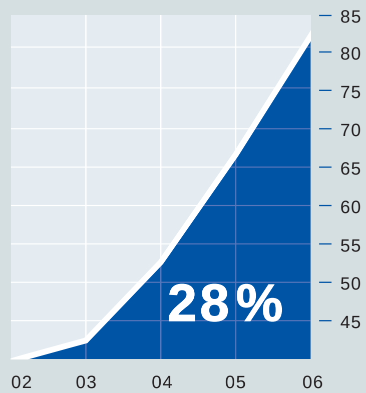
Based on our current level of experience, global sales expertise and financial resources, we can count on penetrating the market considerably faster with the VarioCooking Center®.

## EBIT-margin over 28 percent

Further increases in productivity in the manufacturing sector, ongoing process-improvements and efficiency in all corporate divisions have again led to an increase in our company's earning power far exceeding the average.

At 80.5 million euros, this year's EBIT topped the previous year's figure of 66.9 million euros by 20 percent. The EBIT-margin therefore jumped from 27.2 percent in 2005 to 28.4 percent in 2006.

**EBIT in millions of euros**
**EBIT-margin in %**



## High cash flow enables an attractive dividend

An excellent level of cash flow from operations was also achieved in 2006, at 49 million euros compared to 33 million euros the previous year. This cash flow will be used to further expand our global sales network, extend our production capacities and distribute an attractive dividend to our shareholders.

## RATIONAL among the top 5 best-performing companies

In the company ranking published by German finance newspaper "Handelsblatt" on August 28, 2006, RATIONAL was awarded 900 points, earning it the qualifier "with exceptional earning power" and a place among the top 5 companies in Germany in terms of earning power. All in all, 130 listed companies were analysed, and the average number of points awarded was just 503.

## Rise in share price reflects positive business development

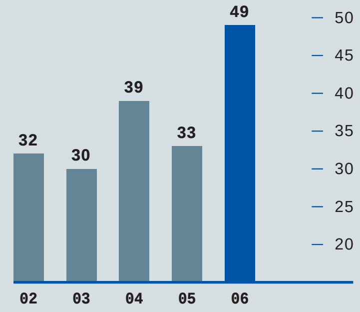
After a sharp rise in the share price by 80 percent from 94 euros at the end of November 2005 to over 170 euros at the end of October 2006, it settled back to 123 euros in November 2006. With a closing price as at December 31, 2006 of 141 euros, the value of RATIONAL shares went up approximately 30 percent compared to the previous year, thus reflecting our business development and the DAX, MDAX and SDAX indices.

In terms of growth and earnings RATIONAL shares are among the most attractive titles on the German stock market. Since the IPO in March 2000 the share price of 23 euros sextupled to 141 euros until December 2006. The RATIONAL share's average growth rate amounts to 73 percent per annum.

## Structural organisation expansion as a guarantee of success

To strengthen our ability to grow in the future, we focused on expanding and reinforcing our organisational structure in 2006. Our Executive Board has been expanded to include a member with responsibility for sales and marketing, RATIONAL International AG and FRIMA International AG – both based in Switzerland – have been set up, FRIMA Technik has been made independent in France, and the management team has been expanded to include a member for the production and supply process.

**Cash flow from operations in millions of euros**




**Handelsblatt-Company ranking**

| Ranking | Company | Points award |
|---|---|---|
| 1 | ComBOTS | 1000 |
| 2 | SAP | 950 |
| 5 | RATIONAL | 900 |
| 13 | BASF | 800 |
| 61 | Henkel | 475 |
| 70 | BMW | 450 |
| 84 | SIEMENS | 400 |
| 109 | Volkswagen | 275 |

Source: "Handelsblatt" Aug. 28, 2006

# … always better: through maximising customer benefit

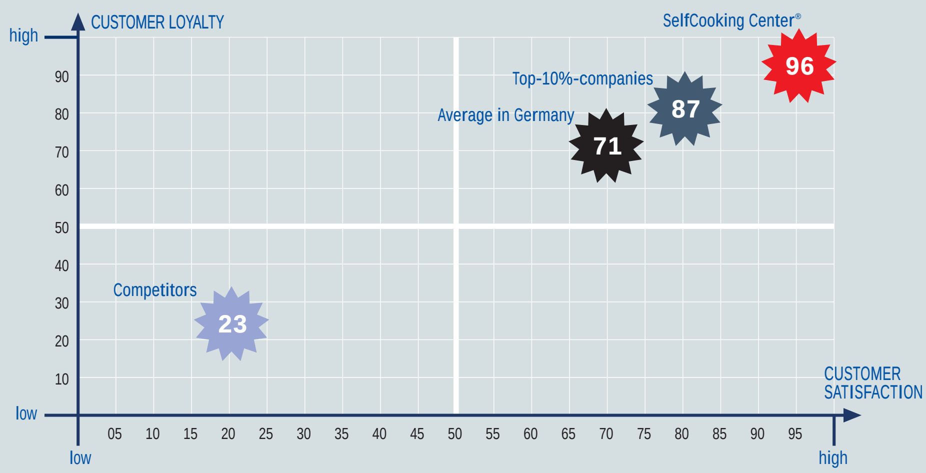
### Customer satisfaction exceeds all expectations

In a sample customer satisfaction survey conducted in Germany by the renowned market research institute TNS Infratest in 2006, a resounding vote of confidence was given by SelfCooking Center® owners: RATIONAL is ranked in the top 10 percent of the best German companies across all sectors, achieving the highest customer satisfaction ever recorded by Infratest. The SelfCooking Center® itself achieved the top score of 96 index points.

The Infratest analysis is a clear indicator that the new SelfCooking Center® optimally meets the needs of its users. As the survey shows, 88 percent of respondents use the unique intelligent cooking processes daily. Users simply select the food, define the result they want and that's it. The SelfCooking Center® guarantees perfect cooking – for perfect repeatable results each and every time.
The satisfaction level of customers who also own and use a competitor appliance in addition to the SelfCooking Center® only scored 23 index points. From a customer's perspective, they can derive up to four times as much benefit from the SelfCooking Center® than with a competitor's combi-steamer. Even more impressively, we are clearly achieving our overriding corporate goal:

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

**SelfCooking Center®: highest score in customer satisfaction and customer loyalty**




Source: Infratest, 2006

### SelfCooking Center® owners are "apostles"

84 percent of all SelfCooking Center® owners act as "apostles", in that they are not only absolutely loyal and satisfied, they are also ready to recommend the SelfCooking Center® to others.

> "The SelfCooking Center® is considered as innovative breakthrough … and used in its multifaceted functionality."
>
> DR. SCHARIOTH, MANAGING DIRECTOR, TNS INFRATEST

This score is practically double the average figure obtained by Infratest in an industry-wide survey.

### RATIONAL – the strongest brand in professional kitchen industry

The high level of customer satisfaction and impressive brand image enjoyed by RATIONAL was further confirmed by a survey conducted by "Küche" catering magazine at the "Hogatec" international fair. Chefs from professional and industrial kitchens voted RATIONAL as number one in the categories of "most innovative", "highest quality" and "most reliable", making it the strongest brand in the German professional kitchen sector.

### Welcome to "Club RATIONAL"

Our marketing activities to date have mainly concentrated on canvassing and developing new business. In 2006, we began to focus on increasing the loyalty of RATIONAL customers once they have purchased from us and developing concepts to achieve this goal.

The aim of these marketing activities is to increase the loyalty of the 150,000 RATIONAL apostles around the world and offer them a completely new Internet-based platform for exchanging know-how. Setting up "Club RATIONAL" is a milestone in the company's development.


PETER WIEDEMANN
Chief Technical Officer

Peter Wiedemann, born in 1959, joined RATIONAL GmbH in 1988 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 as a member of the management team. In September 1999, he was appointed as Chief Technical Officer to the Executive Board of RATIONAL AG.


### New SelfCooking Center® free of charge

Because of their free membership of “Club RATIONAL”, existing and future SelfCooking Center® owners will also have the opportunity to immediately benefit from the progress made by RATIONAL in cooking research free of charge.
Anyone who has purchased a SelfCooking Center® since the rollout in 2004 can simply upgrade without having to pay extra. All they have to do is:

- **Order a USB stick**
- **Download the software**
- **That’s it!**

Within minutes they will have upgraded the control panel of their SelfCooking Center®. The new SelfCooking Center® offers additional modes and many new cooking processes, providing greater cooking diversity while ensuring ease of use. This is the first time in the international professional kitchen industry that such customer service has been offered.

### International trade fair strategy sets new standards

“Standing still means going backwards”. True to this maxim, RATIONAL has revamped its approach to international trade fairs. “Time for the Essentials” which the chef gains from the use of the SelfCooking Center® becomes visible for trade fair visitors too, because an excellent quality of food and attractively presented dishes are central to the new RATIONAL trade fair experience.
Whether it’s in front-cooking, the new theatre show or the relaxed atmosphere of the restaurant, the new strategy focuses on the excellent cooking results that can be obtained with the SelfCooking Center® at the touch of a button. The trade fair restaurant’s fully functioning glass kitchen, in which several hundred top-quality à la carte meals are produced a day without rush, is impressive proof of the unique performance qualities of the SelfCooking Center®.

## Award for customer orientation

RATIONAL was awarded the "Manufacturing Excellence Award" in the customer orientation category on November 3, 2006 in Berlin, for its targeted global sales and marketing process and consistent focus on customer wishes and requirements by its corporate divisions.


**MX Award**
**November 03, 2006**

## Supplier quality an important success factor

As a company with little vertical integration, the quality, productivity, reduced costs and reliability of our system suppliers are particularly crucial to our success. Instead of continually pushing for lower purchase prices, which often leads to costly and high-risk changes in supplier, we work in partnership with our key suppliers to meet quality, productivity and cost objectives in joint re-engineering projects. This leads to attractive purchase prices while encouraging long-term supplier loyalty. Our best suppliers were honoured for their excellent work as part of the RATIONAL supplier conference held on May 23, 2006.

## New plant in Landsberg

Despite all our successful marketing activities in the past, we have still only exploited about 25 percent of the global market potential for the SelfCooking Center®. Out of the overall figure of 2.5 million professional kitchens, 75 percent or 1.9 million still cook with traditional cooking appliances that could gradually be replaced with state-of-the-art RATIONAL technology.

In view of the continuing growth, full capacity at the two existing plants in Landsberg will soon be reached. To meet growing demand, work on constructing the new plant commences in 2007. It is planned to be completed and commissioned in 2008. The total amount invested will hit the eight figure mark.

# … always better: through employee quality

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## Company quality means employee quality

Since years, RATIONAL has been promoting promising internal employees in its executive succession planning. The RATIONAL promotion system provides a proven platform to support this process, integrating all our company's subprocesses over a two-year period and our highly individual corporate culture. In 2006, we extended our promotion system to international level, targeting promising employees from Germany, France, the UK, Italy, Russia and China.

By holding annual performance reviews with all employees, setting specific objectives as part of annual planning and assessing individual potential, we ensure we are always in a better position to identify employees who deserve and want to be promoted and provide them with tailored programs to make them fit for the challenging tasks ahead.

## Profit-sharing as a motivating factor

For years now, RATIONAL employees have been able to enjoy a direct share in the company's profit. The share in profits is paid out voluntarily to employees as a special payment in December.

Employees become eligible once they have been working for RATIONAL for at least 24 months. The share in profit paid out for 2006 amounts to 100 percent of a monthly salary.

## Loyalty is rewarded

In view of the high increase in earnings over the last few years, the Supervisory and Executive Board of RATIONAL AG decided to pay out a one-off additional loyalty bonus to employees who for many years have actively contributed to the company's success with untiring dedication and constantly improving performance.

The amount of the bonus varies according to the number of years in service. For employees who have been working for RATIONAL for over five years, the bonus amounts to 40 percent of their monthly salary, increasing to 100 percent for those who have been with the company for over 30 years.

## 93 new jobs created in 2006

Only increased demand can create new jobs. With the job market situation continuing to stagnate, it is particularly remarkable that RATIONAL has been able to create a further 93 highly skilled new positions in 2006.

By continually improving productivity and efficiency in all corporate divisions, we have also been able to significantly enhance corporate quality. Sales per employee have been steadily rising for years and in 2006, reached a new record of 328 thousand euros.

## High growth in sales and earnings also planned for 2007

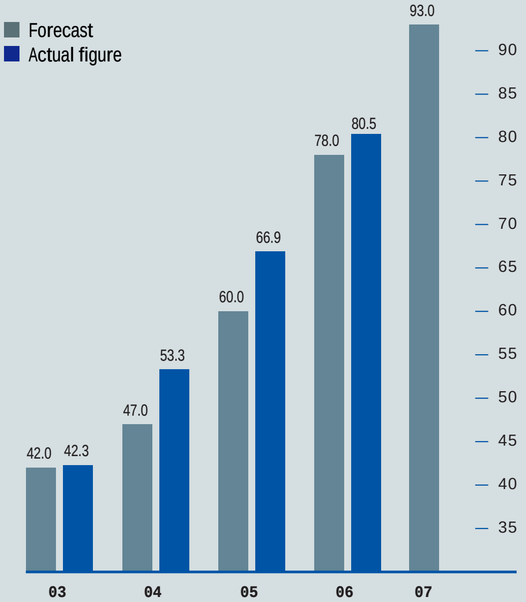
In 2007, we will continue to focus on investment in the further expansion of our international sales and marketing network, and in extending our production capacities.

With RATIONAL SelfCooking Center® and FRIMA VarioCooking Center®, we have created a unique, innovative technology platform that has become an increasingly more appealing, compelling proposition to customers.

Against this backdrop, sales growth of 15 percent, to 325 million euros, coupled with a rise in EBIT also of 15 percent, to 93 million euros, is expected for 2007.

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

**EBIT: Forecast Predictabilty**
**in millions of euros**




## ERICH BAUMGÄRTNER
Chief Financial Officer

Erich Baumgartner, 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.

# Corporate Governance Report



## Basic structural conditions

RATIONAL AG is an Aktiengesellschaft (public limited company) under German law with its registered headquarters in Landsberg am Lech. It has been listed on the stock exchange since March 2000. The company is administered by an Executive Board and a Supervisory Board.

The members of the Executive Board of RATIONAL AG as at December 31, 2006 are Dr. Günter Blaschke (Chief Executive Officer), Peter Wiedemann (Chief Technology Officer), Erich Baumgärtner (Chief Financial Officer) and Thomas Polonyi (Chief Sales and Marketing Officer). Mr Polonyi joined the Executive Board of RATIONAL AG on February 1, 2006.

The composition of the Supervisory Board is unchanged since last year, consisting of Siegfried Meister (Chairman of the Supervisory Board), Walter Kurtz (Deputy Chairman of the Supervisory Board) and Roland Poczka (Member of the Supervisory Board). Since the Supervisory Board comprises just three members, no committees are formed.

The Executive Board submits detailed reports to the Supervisory Board each month about the current business situation and the strategic orientation of the business. Five regular meetings of the Supervisory Board were held in 2006 in addition to numerous individual discussions.

## Remuneration report

For the performance of their tasks, the Executive Board of RATIONAL AG received remuneration totalling 5,177 thousand euros (previous year: 2,244 thousand euros), of which 1,230 thousand euros were paid out as a performance-related, variable component (previous year: 1,228 thousand euros). The total remuneration also includes the entitlement of the Executive Board from the second tranche under the stock option scheme dated February 3, 2000, which was drawn on in the form of a cash settlement amounting to 2,623 thousand euros. This second tranche was issued by the Supervisory Board on January 28, 2004, comprising options on 34,500 shares in RATIONAL AG. Option rights were linked to RATIONAL shares meeting specific performance targets measured against the SDAX Performance Index. The waiting period was for two years, ending in the first quarter of 2006.

“RATIONAL strives to take all actions and decisions on the basis of corporate management which is responsible and is geared to long-term, sustained value creation.”

The expenses of the Supervisory Board for its control and consultancy activities were reimbursed by payments totalling 543 thousand euros (previous year: 504 thousand euros). Of this, Mr Meister received 216 thousand euros (previous year: 201 thousand euros), Mr Kurtz 184 thousand euros (previous year: 170 thousand euros) and Mr Poczka 143 thousand euros (previous year: 133 thousand euros) (cf. note “Supervisory Board and Executive Board” on the German Corporate Governance Code”).

### Stock option scheme

On February 3, 2000, RATIONAL AG launched a stock option scheme for members of the Executive Board for a maximum of 200,000 individual shares in the company. The stock options are subject to waiting periods and time limits for exercising the rights, which are decided on by the Supervisory Board. The exercise of option rights is linked to a specified increase in the value of the enterprise measured against the SDAX Performance Index. In February 2000, a first tranche of 34,500 option rights was issued, which was drawn on in 2002 in the form of a cash settlement. A second tranche of 34,500 option rights was issued in January 2004 with a waiting period until March 2006. This tranche was likewise drawn on in the form of a cash settlement (cf. note “Stock option plans”). As at balance sheet date 2006, the shareholding of the board members stands at well below 1 percent.

### Mandatory publications in 2006

In 2006, RATIONAL AG provided information for shareholders and interested parties pursuant to §15 German Securities Trading Act (WpHG) in the form of six detailed, up-to-date ad-hoc communications within the prescribed periods concerning the company’s position as regards finance, assets and revenue as well as about the planned new plant at the Landsberg site. Share transactions by the Supervisory Board or the Executive Board were announced in nine notifications in accordance with §15 German Securities Trading Act (WpHG) as soon as we gained knowledge thereof.
Further information on the business was provided to shareholders in the form of the annual and quarterly reports, press and capital market conferences and individual meetings, as well as on RATIONAL’s internet site.

### Principles of responsible corporate management

The Executive Board and the Supervisory Board of RATIONAL AG have always striven to take all actions and decisions on the basis of corporate management which is responsible and which is geared to long-term, sustained value creation. Openness and transparency in corporate communication and consideration of the interests of shareholders are principles of paramount importance to RATIONAL.
In consequence of this, RATIONAL AG welcomes the German Corporate Governance Code, published by the Government Commission on February 26, 2002 and most recently amended on June 12, 2006, along with the standards and recommendations contained therein.

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# Declaration of compliance by RATIONAL AG


Pursuant to Article 161 of the Stock Corporation Act (AktG), the Executive Board and the Supervisory Board of RATIONAL AG submitted the first declaration of compliance with the German Corporate Governance Code on February 18, 2003. The present version has been amended in accordance with the current edition of June 12, 2006.
RATIONAL AG therefore complies with the recommendations of the Government Commission on the German Corporate Governance Code, with the exception of:

**3.8** “If the company takes out a **D&O** (directors’ and officers’ liability insurance) for Management Board and Supervisory Board, a suitable deduction should be agreed.”
A Directors’ & Officers’ policy has been taken out for the members of the Executive Board and Supervisory Board. No specific deduction for the insured parties has been agreed.

**4.2.4** **“Compensation of the members of the Management Board** shall be reported, specifying names and subdivided according to fixed, performance-related and long-term incentive components, unless decided otherwise by a majority of three-quarters at the general meeting of shareholders.”
In the resolution taken by the general meeting of shareholders on May 17, 2006, RATIONAL AG decided against publishing the individualised figures for Executive Board compensation. The remaining provisions are complied with in full.

**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 AG because the Supervisory Board consists of only three members.

**5.4.2** "The Supervisory Board shall include what it considers an adequate number of **independent members**."

As founder of the company, the Chairman of the Supervisory Board, Siegfried Meister, holds 63.0 percent of the issued RATIONAL shares. The Deputy Chairman of the Supervisory Board, Walter Kurtz, holds 7.8 percent of the shares. Mr Roland Poczka's shareholding is well under 1 percent.

Landsberg am Lech, February 2007

RATIONAL AG

The Supervisory Board

The Executive Board

F

# … always better: Investor Relations

### Investor relations is board business

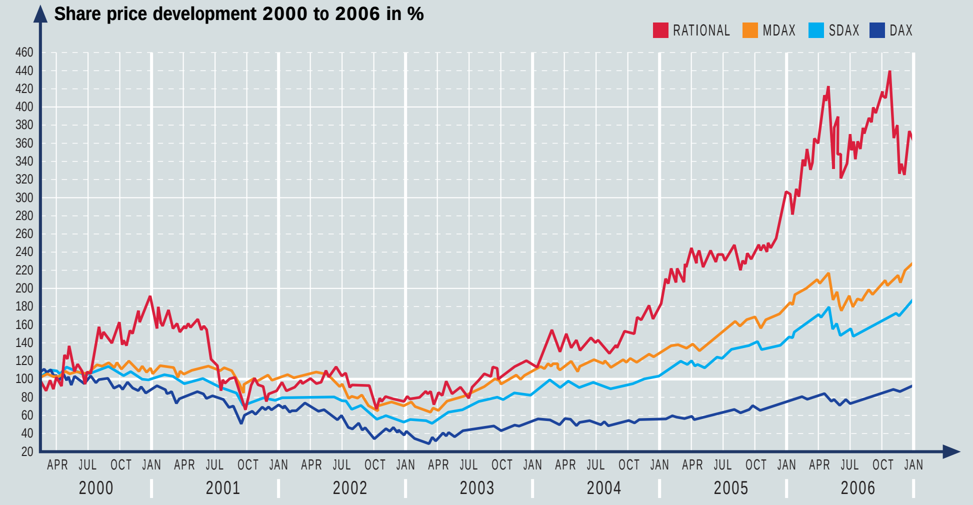
RATIONAL gives investor relations very high priority. This can also be seen by the fact that the Executive Board is always on hand in person to answer any questions on the company's situation and future developments that shareholders, analysts, fund managers and prospective customers may have.

At numerous roadshows in the USA, Japan and Europe in fiscal 2006, the company was presented to an increasing number of new institutional investors. RATIONAL has also taken part in international analysts' conferences in Kronberg, Frankfurt, Munich and New York, as well as numerous press interviews attended by representatives from the business and financial press. The confidence in the future successful development of the company along with the associated rise in the share price are ultimately a result of these activities.

### Average increase of 73 percent per annum in share price since IPO

By rising from 23 euros to 141 euros between March 2000 and December 2006, the RATIONAL share prize has grown on average by 73 percent per annum and reached a sextuple. This is by far a better performance compared to the indices DAX, MDAX and SDAX.

**RATIONAL share price more than sextupled**




### RATIONAL awarded German Investor Relations prize 2006

In the second quarter of 2006, RATIONAL AG was awarded the 2006 Investor Relations prize by the German investor relations association (DIRK) for its outstanding and exemplary work in financial communications. In a survey conducted for the first time in cooperation with international

## Financial Calendar 2007

| | |
|---|---|
| Mar. 22, 07 | Balance Sheet Press Conference and DVFA Conference |
| May 03, 07 | Shareholders' Meeting |
| May 09, 07 | Q1 Results |
| Aug. 09, 07 | Half-Year Results |
| Nov. 08, 07 | 9-Month Results |

financial services-provider Thomson Financial, over 500 experts from 270 financial institutions were interviewed about the quality of investor relations work carried out by over 150 listed companies in Germany. In the SDAX category, RATIONAL AG far outshone the rest of the field. The criteria assessed were clarity, transparency, technical expertise, quality and reliability of investor relations activities.

### General Meeting 2006 – enthusiasm from shareholders

At RATIONAL's General Meeting, the company's shareholders are given the opportunity to find out about RATIONAL's business situation at first hand, to ask questions and to present their opinions on the individual items on the agenda in the subsequent vote. The meeting was held on May 17, 2006, with more than 650 shareholders taking advantage of this opportunity. They expressed their high level of satisfaction with the operational and strategic management of the company and the results achieved in fiscal 2005.

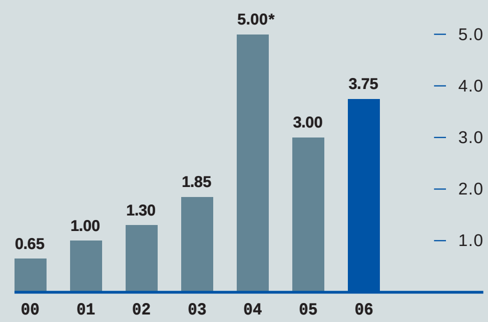
### Dividend proposal at 3.75 euros

Thanks to a high dividend payout, RATIONAL AG shareholders benefit from the outstanding earnings performance of the company. In line with the share-prize performance the dividend was increased by 68 percent on average per year since the IPO.

For the fiscal year 2006, the Executive Board and Supervisory Board propose paying a dividend of 3.75 euros per share.

**Attractive dividend year by year**

**in euros per share**



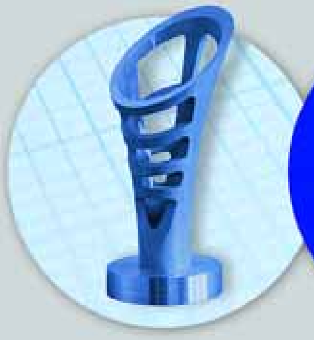

* one-time special dividend

Figures for 2006 subject to approval of the Shareholders' Meeting.

### High level of research coverage

In fiscal 2006, a large number of reports and studies were published on RATIONAL AG. Twelve financial institutions regularly monitor the share. Analysts' in-depth studies all echo the same positive sentiment, especially in relation to entrepreneurial quality and future growth opportunities. As at the balance sheet date, six institutions recommend buying the RATIONAL share or set it to 'outperform'. A further six institutions recommend holding the share.

# Events 2006




### RATIONAL is "European champion"

In Europe's most demanding benchmarking competition – "Best Factory" – RATIONAL came first ahead of all other leading companies taking part. "Excellent in all assessment categories, no other prizewinner has achieved this before."

### Russian success story

High-potential markets such as Russia are systematically tapped by our own highly efficient sales companies. Jacqueline Bauch, head of RATIONAL in Russia, and her team were honoured for their successful sales work in 2006.

### Supplier conference – focus on partnership

Highlight of this year's supplier conference was again the award for best system suppliers 2006.




### RATIONAL among the TOP 5 companies

RATIONAL is one of the best companies on the German stock exchange in terms of earning power in the annual ranking of Germans finance newspaper "Handelsblatt".

### Customer satisfaction at record level

In research conducted by renowned market research institute TNS Infratest, a resounding vote of confidence was given for RATIONAL, ranking it in the top 10 percent of German companies with the highest customer satisfaction.

### 93 new jobs

93 new highly skilled jobs were created around the world in 2006.

### RATIONAL – strongest brand in professional kitchen industry

A survey conducted by "Küche" catering magazine at the "Hogatec" international fair confirms that RATIONAL is the strongest brand in the professional kitchen. RATIONAL took first place in the categories "most innovative", "highest quality" and "most reliable".


**RATIONAL – a wealth of international awards**

- MX Award 2006
- Kitchen Innovations 2006 Award
- Gastro Innovation Prize 2006
- Horecava Innovation Award 2006
- German Investor Relations Prize 2006
- Prix Apria 2006
- European Champion 2006

### Trade fair strategy sets new standards

RATIONAL has revamped its approach to international trade fairs. Excellent cooking results and efficiency in use are central to the new strategy.

### RATIONAL celebrates 300,000th unit

On February 22, 2006, the 300,000th unit left the factory, heading for Nashville, Tennessee.



### General Meeting of Shareholders

Some 650 visitors attended the RATIONAL AG General Meeting of Shareholders on May 17, 2006. All the proposals put forward from the agenda received widespread approval from shareholders.

### Maximum customer loyalty

With “Club RATIONAL” scheme set up in the second half of the year an internet platform has been installed offering customers a host of attractive benefits for free.

### New plant in Landsberg

The considerable increase in production capacity at Landsberg to meet new demand due to growth is a clear indicator for our commitment to Germany. Construction of the new plant begins in 2007. It is planned to start operation in spring of 2008.

### Company anniversaries

Many anniversaries for years of service at RATIONAL were celebrated at the Christmas party, including employees who have remained loyal to RATIONAL for 25 years.

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# … always better: corporate quality



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# … always better: corporate quality

**Our company philosophy is our "constitution"**

Clear strategies and goals lead and guide all resources within RATIONAL AG in a well-defined common direction.

All are derived from the corporate vision – the RATIONAL company philosophy. These set out the overall strategic orientation of the company on a single page for every employee in a readily comprehensible form. Hence this is the company's "constitution" and at the same time form the basis for every employee's day-to-day work.

## OUR COMPANY PHILOSOPHY

**THE RATIONAL COMPANY OBJECTIVE: WE OFFER THE PEOPLE WORKING IN COMMERCIAL KITCHENS THE MOST BENEFICIAL SOLUTION TO THEIR COOKING TASKS.**

### OUR PHILOSOPHY

1
**We are specialists**, because we know that we can serve our well defined target group most effectively and clearly by concentrating all our efforts on an important, central need of this target group and solving their problems – better than others can – in an optimum manner.

2
**We are a winning team!** We are a top team playing in the champions' league.

3
**We are product leaders.** We promise our customers the best possible technology and quality at a reasonable price. We always fulfil this promise.

4
Growth, stability and profit are not objectives but outcomes. They improve all the more as our customer benefits improve.

### TASKS AND OBJECTIVES IN DEALING WITH OUR CUSTOMERS (EXTERNAL AND INTERNAL) AND SUPPLIERS

1
We build up an intimate relationship with our target group. We know the desires and needs of our customers.

2
Our main task is to offer our customers the maximum benefits.

3
RATIONAL staff members are always frank, sincere and honest.

4
We offer our suppliers a long-term, reliable partnership. In return we expect loyalty, quality, commitment, flexibility and innovation.

### TASKS AND OBJECTIVES OF RATIONAL STAFF MEMBERS

1
We respect our staff members as mature, self-motivated and responsible people – and we treat each other accordingly.

2
We expect from our staff members performance, commitment, a sense of responsibility and loyalty. Our staff members expect the same from us.

3
RATIONAL managers behave like gardeners: They prepare the ground for the best possible personal and professional development of our staff members.

4
RATIONAL managers are partners to their staff members:
- they lay down clearly defined objectives
- they prepare the ground for reaching those objectives
- they review the achievement of targets with their staff members.

### We are experts

From the outset, RATIONAL has concentrated on the basic human need of eating away from home. Our core expertise is the transfer of thermal energy to all kinds of food. So we do not see ourselves first and foremost as a machine manufacturer but as innovative problem-solvers for our customers. RATIONAL's global image today is characterised by the chefs we employ. All members of RATIONAL's sales staff are chefs too. They speak the same language as our customers and can offer complete tailor-made solution strategies.

### Focused on a single target group

A key component in RATIONAL's success is the way it consistently focuses all resources on a single target group. Thanks to this focus we have the necessary freedom to maintain an intimate relationship with this target group and become part of their world. We have a detailed knowledge of the desires and needs of people in professional kitchens around the world and hence are better positioned than others to continuously improve their working environment by means of innovative solutions.

### The RATIONAL success spiral as an aspiration

Always better, the overriding aspiration of all RATIONAL staff is to adopt a targeted and measurable approach to work in any corporate division, whether they are in product development, supplier management, production, sales, marketing, service or business administration. The RATIONAL success spiral moves upwards, and represents two basic principles:

1. More and more performance with fewer and fewer resources in always shorter timescales. Maximum transparency, the elimination of any waste, permanent ramping-up of productivity and efficiency are the prerequisites.
2. The improvement process is unlimited.

### The enterprise-wide RATIONAL process organisation forms the basis

The enterprise-wide integrated process organisation is characterised by integral, natural, clear, self-contained tasks. Superfluous interfaces and conventional departments have been eliminated completely. The RATIONAL process organisation abandons the concept of organising work on the basis of the extensive division of labour which is management-intensive by its very nature. All of which ensures we don't lose sight of the larger picture, in turn creating transparency and objective measurability. At the same time, we leverage and continually improve the know-how and training of our staff to the full.

**The RATIONAL success spiral**


**RATIONAL core processes**

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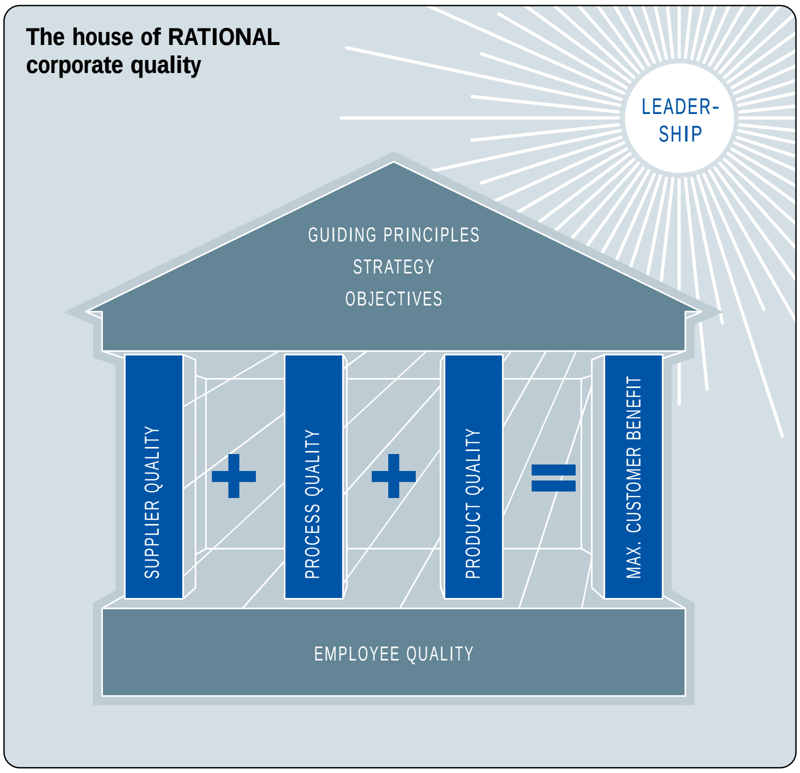
# The house of RATIONAL corporate quality

The house of RATIONAL corporate quality is used to objectively measure the efficiency of each individual subprocess – as well as that of each individual employee – and hence forms the basis for continuous improvement.




**The house is supported by four pillars, which define the value creation chain:**

- Supplier quality
- Process quality
- Product quality, and simultaneously as a result and aspiration
- Maximum customer benefit

All RATIONAL employees have one or more internal or external suppliers who provide input to their processes in order to generate a product, for instance a SelfCooking Center® in production, a customer ultimately offer maximum benefit to the order in sales or a statistic in financial controlling. This product should and must employee's internal or external customer.

### Example: Value creation chain in production and supply process

In production we audit, assess and re-engineer our key suppliers to ensure the best, most cost-effective and error-free supplier quality. We optimise our own process quality year on year with an average increase in productivity of 8 to 10 percent. As a logical outcome, we achieve record scores in customer benefit and satisfaction.

### Example: Value creation chain in sales and marketing process

Supplier quality in sales and marketing is defined as the number of qualified addresses with potential. Process quality is the daily operational sales work that has to become more efficient year on year. The end "product" in this value creation chain is the customer order, including training and user consulting which ensure that the maximum customer benefit promised and expected is actually delivered and enjoyed.

### Built on the foundations of employee quality

Employee quality forms the foundations of the house of RATIONAL corporate quality – on which all four success pillars are based. After all, ever more efficient employees will generate ever more creative ideas to stimulate ever better supplier, process and product quality, in turn creating ever greater customer benefit.

### RATIONAL is "European champion" 2006

Once again in 2006, RATIONAL has been praised for its exceptional, comprehensive quality and efficiency.
A particular accolade received is the "Best Factory" award in Europe's benchmarking competition organised by the renowned INSEAD management academy in Fontainebleau and the Otto Beisheim graduate school of management in Vallendar, in cooperation with business journals "Wirtschaftswoche" and "L'Usine Nouvelle".
In all categories that define a company's class, be it operational strategy, product development,



supplier management, organisation and human resources, service or continuous improvement, RATIONAL was awarded the score of "excellent". In the jury's words, "no other prize-winner has achieved this before: management sets clear targets, knows how to encourage its staff and has created clear and simple processes – quite simply perfect."

# … always better: Leadership as a multiplier

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**The entire house of RATIONAL corporate quality is ever better pervaded and inspired by leadership.**

### Leadership is our prime responsibility

The know-how and skills of our staff are our most important corporate asset. Based on our management culture described in the company philosophy we continually develop our staff's skills.

### Leadership is more than management

Besides technical and methodological skills, RATIONAL managers must above all develop social skills. Formalisation and standardisation are simply not sufficient when it comes to goal-oriented management and the exertion of influence.

Social skills are the ability to address and selectively activate the emotional aspect of employees, as well as allowing employees to find out what they are capable of. To the sober understanding of logical necessity must be added inspired "wanting". This in turn gives rise to soundly-based, consistent "doing" as the fundamental guarantee of successfully achieving the objective. Including employees in the holistic task plus its causes and effects is the most important precondition for this.

### Leadership creates space

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

### Leadership by example

Employees need points of reference and shared, exemplary values. They experience this from their managers, who automatically act as an example, be it good or bad. This calls for a high degree of self-discipline, motivational strength and formative intent from every manager. So for RATIONAL managers the maxim is: "Only if you have led by example yourself employees will follow your lead in the long term."

### Leadership requires trust

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

### Leadership demands consistency

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

### Selective development of managers

First-class leadership is a prerequisite for first-class results. After all, it is RATIONAL managers who create a corporate culture and who encourage and reward top performance. So the targeted promotion of potential managers from RATIONAL's own ranks takes on particular significance. Promising employees whose performance is already outstanding are picked out in the "RATIONAL promotion system" and are given the appropriate training and skills.

### Learning from the best

Each subprocess along the value creation chain is systematically assessed and analysed, and comparisons are made of employees' individual performance, so that differences become apparent.

Having identified this potential, it can then be exploited directly by employees to improve their own efficiency. As no two people are alike, new areas for potential improvement will continually emerge by constantly comparing one's performance against the "best".

So based on the foundations of a continuous process of learning and improvement for all employees, our corporate quality will progressively improve across the board, our international competitiveness will be strengthened and our sales and earnings will steadily grow, in turn leading to job security.

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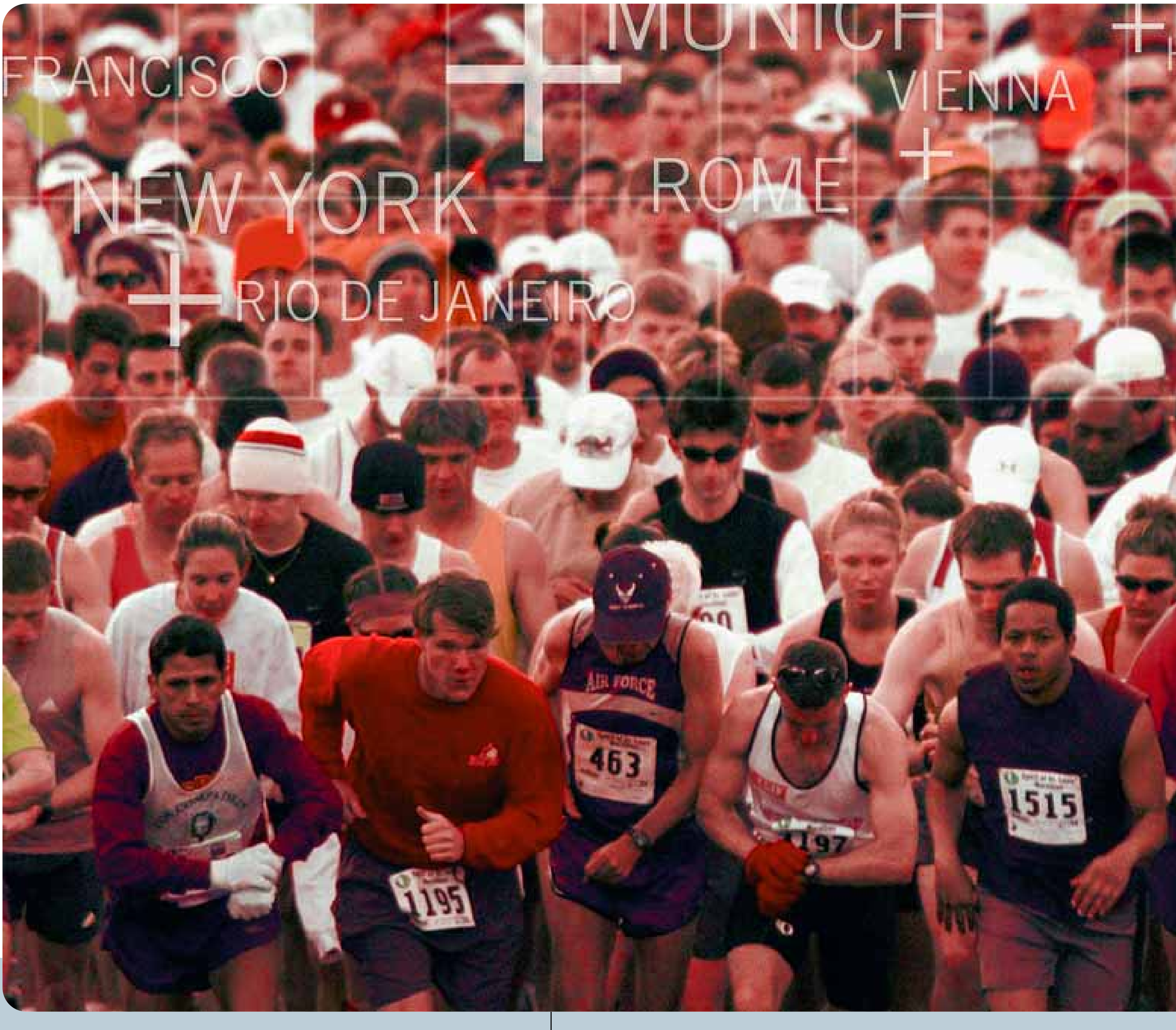
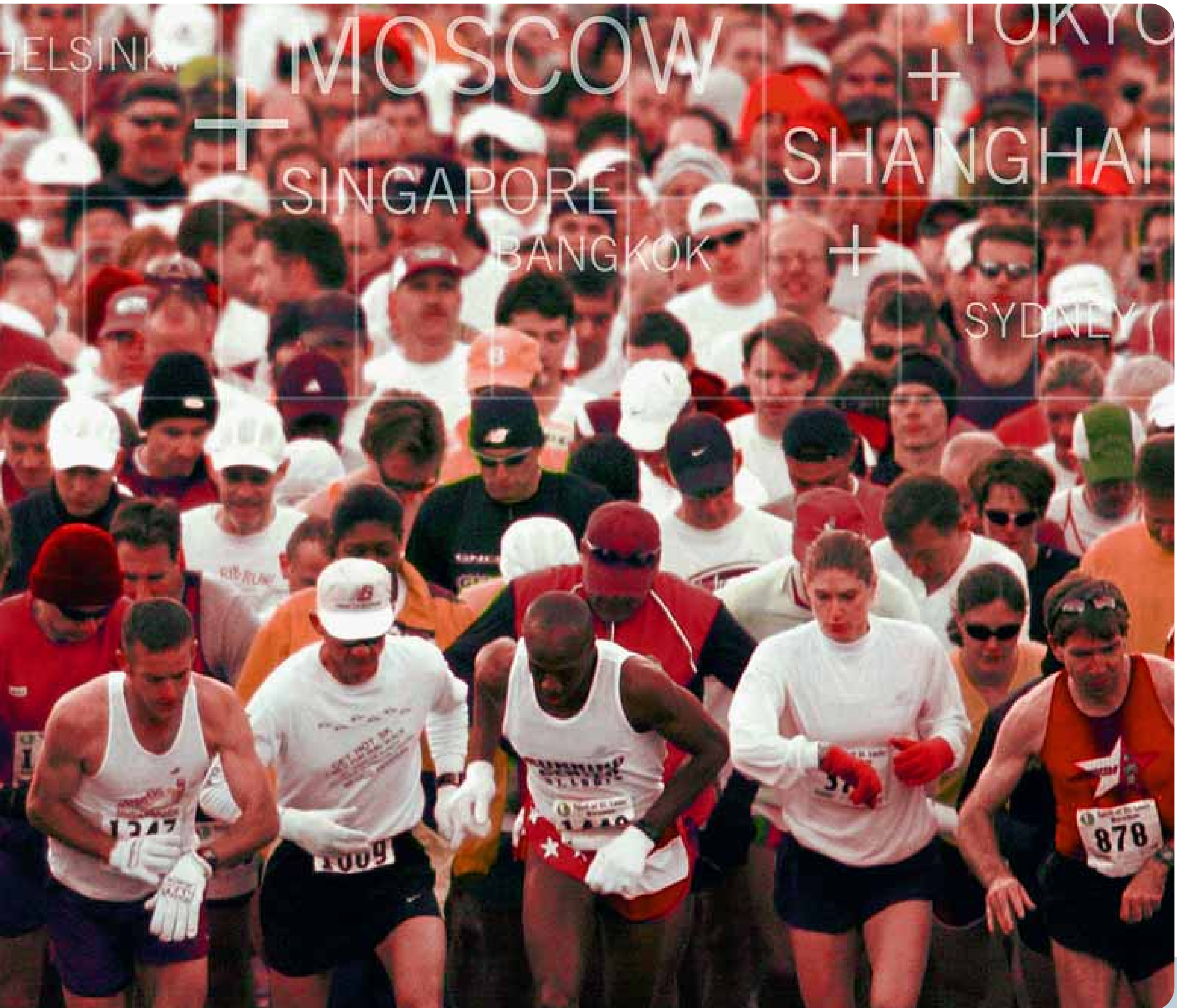
# … always better: for more and more customers worldwide



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TOKYO
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SINGAPORE
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**SHANGRI-LA HOTEL, SHANGHAI**



# "The flexibility of the SelfCooking Center® is unbeatable for our major functions"

The story of **Shangri-La hotels** began in 1971 when a deluxe hotel was founded in the city of Singapore. Today, Shangri-La is the largest Asian-based deluxe hotel group in the region, with around 60 exclusive hotels and resorts. With the completion of the new tower at its Pudong Shangri-La hotel in the heart of the financial and commercial district of Shanghai, the company is setting a new standard.

**"The SelfCooking Center® is a highly sophisticated tool offering maximum benefit for our chefs, yet it's child's play to operate."**

The hotel's ballroom is the largest in the city, with capacity for 1,200 guests. And the kitchen facilities are equally extensive – in the banqueting business alone 350,000 meals are served at the

Pudong Shangri-La hotel each year – all using RATIONAL technology. Eric Momméjac, Executive Chef at the Pudong Shangri-La hotel: "The flexibility of the SelfCooking Center® is unbeatable for our major functions. At any one time, we are assured maximum control over all parameters. This simply wouldn't be possible without RATIONAL." The kitchen facilities serve twelve banqueting rooms plus two large ballrooms. And on top of

that there are the various hotel restaurants. Otto Goh, Executive Sous-Chef at the Pudong Shangri-La hotel: "The SelfCooking Center® is a highly sophisticated tool offering maximum benefit for our chefs, yet it's child's play to operate."

**"The SelfCooking Center® is perfect for large-scale functions."**

It comes as no surprise that a whole bank of SelfCooking Centers® are in operation 24 hours a day at the Pudong Shangri-La hotel. As Otto Goh explains: "The SelfCooking Centers® are perfect for large-scale functions. Meals are prepared much faster with this equipment and are invariably better than if we were using traditional cooking methods. This is vital in the banqueting business. Say we have an event with 300 delegates – can you imagine what would happen if the speaker went on for


“That’s why our new kitchen facilities are fully fitted out with RATIONAL equipment. Everything from a single source. Their technology leads the field.”

OTTO GOH, SHANGRI-LA

longer than planned? It would be disastrous for the meal about to be served. But with the Finishing® facility of our SelfCooking Centers®, it’s no problem at all. Once the speaker has wrapped up, the food is finished off and ready for serving in just eight minutes. All done with perfect quality and completely stress-free. This simply wouldn’t be possible with traditional à la minute catering.”

**Otto Goh, Executive Sous-Chef at the Shangri-La**

### “RATIONAL technology leads the field”

Otto Goh: “Our events business is booming. With conferences, weddings and corporate events filling the agenda, we need the very best of support in our kitchens. That’s why our new kitchen facilities are fully fitted out with RATIONAL equipment. Everything from a single source. Their technology leads the field.”

The fact that the Pudong Shangri-La hotel is so taken with the SelfCooking Center® technology shows that the SelfCooking Center® is also suitable for use in front-cooking. As Otto Goh confirms: “The unit looks dazzling! And our guests are really impressed when they see how we conjure up the most stunning meals with RATIONAL in no time at all.”

## KHINOK RESTAURANT, MOSCOW

# "More ideas, more space, more success … it makes cooking fun"

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The **Khinok** restaurant in Moscow stands apart from the rest. Not only has it fed stars such as Mick Jagger, Catherine Deneuve and the Pet Shop Boys, but it also boasts a unique charm in every respect. It is built in the style of a Ukrainian farmhouse, and has a real courtyard with clucking hens and a mooing cow!

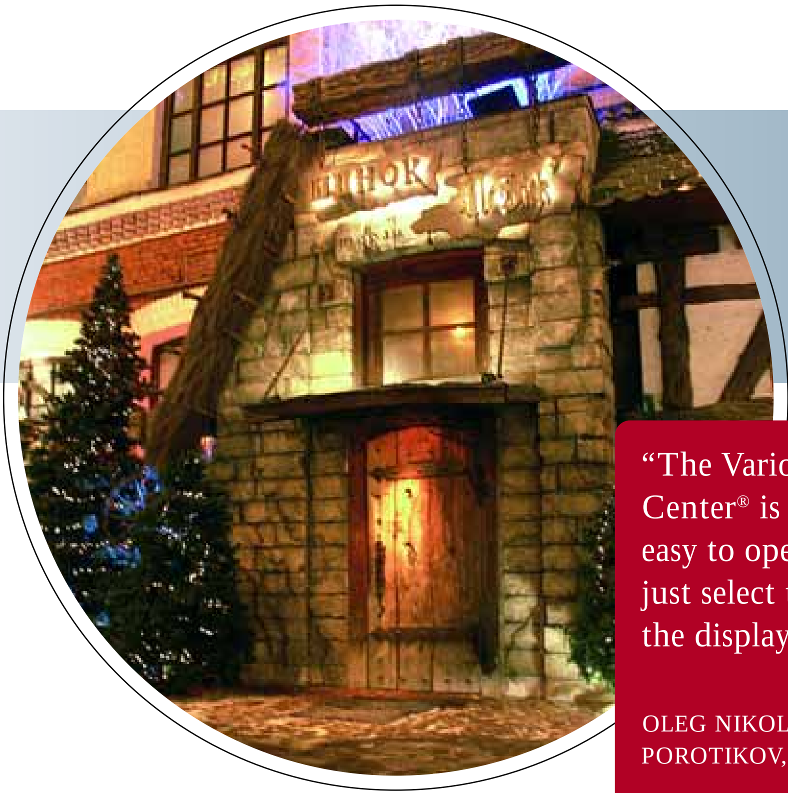
### "The VarioCooking Center® really hits the mark"

Oleg Nikolaevitsch Porotikov, Head Chef at Khinok: "Our guests love the back-to-the-roots feel here. Eating in our restaurant is always an event – especially as our dishes are all based on Ukrainian specialities. Even though our menu is really traditional, we are ultra high-tech in the kitchen. We're the first restaurant in Russia to work with the new VarioCooking Center® – tilt-pan, boiling pan and deep-fat fryer all in one. RATIONAL has really hit the mark with the VarioCooking Center®. We use it a lot, preparing dishes more quickly that taste even better."

### "I can cook twice as quickly with the VarioCooking Center® without having to wait around."

"Our aim is to create no ordinary dish. We want our guests to have something extraordinary whenever they come." Old-fashioned, traditional cuisine is making a big comeback. People remember how good things used to taste, and we serve up all the old favourites. We had to pore through many an old cookbook to hunt down some of the recipes. The VarioCooking Center® has been invaluable in converting them to the present day in a cost-effective way. For many dishes – some of which take several hours to prepare – we used to have to stand for hours at the tilt-pan or boiling pan, stirring, turning, monitoring … all that took time. The VarioCooking Center® reaches a heat of 250 °C in just four minutes and retains this heat even if the pan is full.

"This means I can cook twice as quickly with the VarioCooking Center® without having to wait around. It really saves time and energy", says Porotikov.



"The VarioCooking Center® is fantastically easy to operate – you just select the food on the display, and that's it."

OLEG NIKOLAEVITSCH POROTIKOV, HEAD CHEF

**"The VarioCooking Center® has replaced our tilt-pan and deep-fat fryer – I've even thrown out a few pots and pans."**

"The VarioCooking Center® has replaced our tilt-pan and deep-fat fryer – I've even thrown out a few pots and pans. So I've got more space in our narrow kitchen, and I'm also saving money", enthuses Porotikov.

**"It's a huge relief for me not to have to do everything myself."**

As Porotikov explains: "The VarioCooking Center® is fantastically easy to operate – you just select the food on the display, and that's it. It's a huge relief for me not to have to do everything myself. I can now devote more time to creating new dishes. This kills two birds with one stone – firstly in that our tried and tested dishes are in a class of their own thanks to the new RATIONAL technology. This is happily confirmed by our regular guests. Secondly, I can now always offer my customers something new, without having to rack my brains about how on earth I'm going to do it all in my kitchen. More ideas, more space, more success – it makes cooking fun!"

**Head Chef Oleg Nikolaevitsch Porotikov**

INTERNATIONAL UNIVERSITY OF APPLIED SCIENCES, BAD HONNEF

# Top-class cafeteria, bistro and à la carte restaurant

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At the **international university of applied sciences in Bad Honnef**, prospective managers in tourism are taught all about the work involved in the tour operator business, hotels, clubs, resorts, airlines and airports. The multicultural environment suits Timm Schmidt down to the ground. He is head chef and managing director of the university's various catering businesses.

### "The VarioCooking Center® is fast and flexible!"

Reflecting the internationality of the students, we prepare a diversity of dishes and food, ranging from exotic vegetables to good local fare. When Timm Schmidt selects his menu, primary consideration goes to freshness and seasonal availability of the ingredients. So despite tough competition in the city, he manages to create something new every day, to lure students to the cafeteria. Guests expect anything but monotonous institutional food – and with the Freeflow system, you can choose from a variety of main dishes, creative side dishes and a large salad buffet.

Apart from stir-fry dishes, students can also enjoy a delicious curry sausage – the VarioCooking Center® 311 is so fast and flexible, it can gently cook 10 kg of dry pasta in one load and then brown 150 sausages. Cleaning it between loads is wonderfully easy using the integrated shower attachment requiring very little water – "it's child's play" enthuses Timm Schmidt, who has already catered for various international diplomatic receptions.

### "We're saving time and money by using fewer materials and no longer having to wait around while food is cooking"

The kitchen is a state-of-the-art affair. Equipped with three VarioCooking Centers® and six SelfCooking Centers®, nothing but the very best is produced here. The VarioCooking Center® is used to cook fresh vegetables in large quantities, to brown meat perfectly or even to braise it overnight; this

> "The VarioCooking Center® – it's the most innovative and practical thing that's come onto the market in the last few years."
>
> TIMM SCHMIDT,
> INTERNATIONAL UNIVERSITY OF APPLIED SCIENCES, BAD HONNEF

is precisely where time and money are saved by using fewer materials and no longer having to wait around while food is cooking. The two compact VarioCooking Centers® 112 are used for preparing food in the main kitchen as well as directly in the cafeteria when cooking from fresh supplies. According to head chef Timm Schmidt, "it's the most innovative and practical thing that's come onto the market in the last few years. I can't imagine going back to using ordinary tilt-pans, boiling pans or pressure cooking technology!"

### "The benefits of the VarioCooking Center® are unique"

Every lunchtime, we have 500 to 600 guests in three main sittings, when the students all troop into the cafeteria at the same time after their lectures. "So it's a real pleasure to have such an extremely efficient system as the VarioCooking Center® which we can use to finish off dishes in a matter of minutes. Otherwise we simply wouldn't be able to be true to our goal of offering fresh produce and a wide selection. I really rely on VarioBoost™, the patented FRIMA heating system which is ready within seconds and has such huge reserve capacities it can cope with a large browning load even if I want to quickly brown 20 kg of sliced meat.", explains Timm Schmidt.

**Head Chef Timm Schmidt**

Innovative gastronomy is very popular at Bad Honnef. Together with his team, Timm Schmidt is not only responsible for the cafeteria, he is also in charge of three other businesses on the campus – the "Take Off" bar, "Charly's Lounge", a rooftop bistro offering fantastic views over the old town, and "Park Restaurant St. Anno" for business lunches and gourmet dining.

# Management Report

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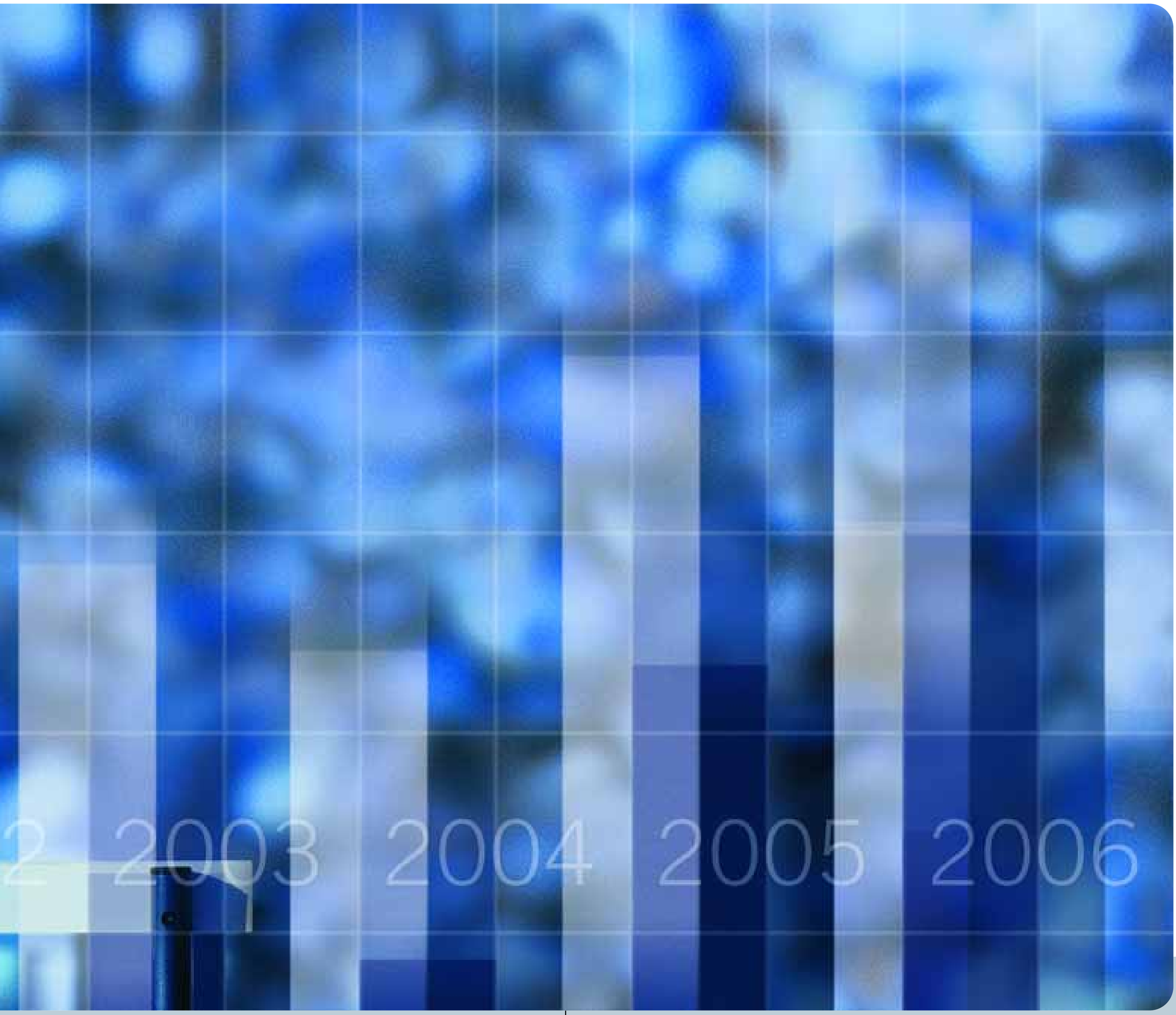
Note: The graphs, graphic elements and photos included in this annual report are not part of the unqualified opinion of the auditors regarding RATIONAL AG's financial statements.



# Economic Report

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### Positive trends in global economy in 2006

2006 marks one of the strongest years in terms of growth over the last few decades, with the global economy growing by around 3.5 percent.

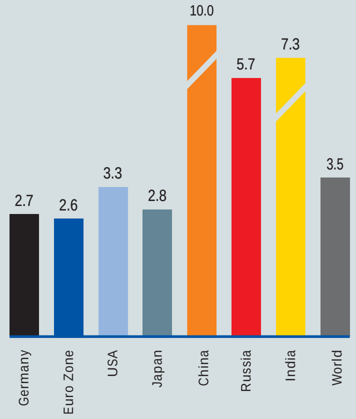
Growth in the United States continued to forge ahead, at 3.3 percent. After demonstrating strong economic recovery in the last few years, Japan also recorded growth of 2.8 percent in 2006. Forecasts for growth in the Euro Zone were continually adjusted upwards, reaching 2.6 percent in the year under review.

The People's Republic of China has seen a dramatic resurgence over the last few years. It plays an increasingly important role on the global political and economic stage. A growth rate of at least 10 percent is expected for 2006.

Given its positive economic development, India has also grown in importance. With an expected growth of 7.3 percent, India has already moved up to become one of the highest-growth countries in the world in 2006.

And notching up a growth rate of 5.7 percent, the Russian economy continues to look good. Its sustained economic recovery over the last seven years is primarily driven by the sales boom in oil and gas.

**Economic Growth in 2006 in %**




### Emerging economies gain in importance

The usual ranking still applies for countries with the strongest economies in the world: First USA, second Japan and third Germany. However, China has already overtaken France and the UK.

Over the next few years, this picture will radically change, as the emerging economies of today continue to gain influence. Already this year, the economic power of the emerging economies as a whole will be on a par with that of conventional industrial countries, and will then probably surge ahead year on year. In the medium and long term, these trends will significantly change the overall global balance of power.

### RATIONAL International AG – Growth through proliferation

In the future, the countries wielding the most power in terms of economic policy will be China, the United States, Japan, India and Russia. For RATIONAL, this means stepping up our strategy of developing and expanding sales and marketing capacities in the main conventional industrial countries, but also especially in the emerging economies. Taking as our watchword:

**"Greater growth through specialization and proliferation!"**

we have pooled and concentrated responsibility for the emerging economies within our newly founded sales subsidiary, RATIONAL International AG, based in Switzerland.

# RATIONAL's corporate philosophy

### 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 clearly defined target group and its "core" activities. The target group is formed by people who work in professional kitchens around the world. Its "core" activity is the thermal preparation of food.

### Maximum customer benefits as our overriding corporate goal

Our overriding corporate goal is to continue to provide maximum benefits for these 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 are therefore practically part of their world. This position means we are better placed than others to solve their problems.


### RATIONAL: the chefs' company

RATIONAL does not see itself primarily 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 design engineers are involved in product development.
RATIONAL has devised groundbreaking solutions 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.

### 15 percent sales growth in 2006

RATIONAL posted sales of 283.7 million euros in 2006 (previous year: 246.4 million euros), an increase of 37.3 million euros, representing growth of 15 percent. Our average annual growth rate has thus achieved a sustained increase over the last three years from a 6-percent-level to a 15-percent-level.

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# The regions

Excellent growth drivers in 2006 were once again the key markets of Russia and the United States, but also included Germany. This vindicates in no uncertain terms our strategy of applying our own sales organization to systematically concentrate on the markets that exhibit the greatest potential. The Russian team was honoured as RATIONAL branch of the year in recognition of its successful work.

New markets in the emerging economies of Eastern Europe, Latin America and Asia also made an above-average contribution to growth. The new strategic focus and systematic pooling of all resources and activities within newly formed subsidiary RATIONAL International AG were decisive factors in this success.

We were also able to further ramp up our rate of growth in the largest key strategic market of the Americas, where we have since taken over as market leader, with a market share of over 30 percent in 2006.

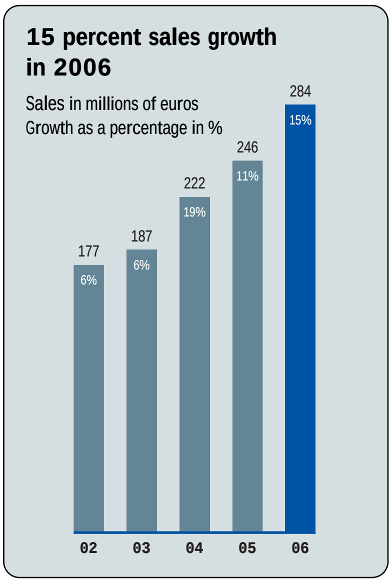
And there are no signs of slowdown in our home market of Germany, where we have enjoyed more than 30 years of successful marketing, easily keeping pace with the leading group in our global growth markets. With over 5,800 appliances sold in 2006 alone, Germany's growth has reached double digits and is our market in the world with by far the strongest sales. At the same time, the German success story also highlights the enormous sales potential for RATIONAL technology in other countries in the world.

### Global market share continues to expand

With this above-average growth, RATIONAL was able to further expand its global market share from 52 to 53 percent. The critical success factors here were RATIONAL's superior product technology, the fact that it continued to concentrate its resources in countries with the greatest potential, and its systematic implementation of the global RATIONAL sales and marketing process.

### Opportunities for growth through regular changes in technology

The SelfCooking Center® technology replaces about 40 to 50 percent of all traditional cooking appliances in a professional kitchen. Heat is ideally transferred by hot, fast-flowing gases (hot air and steam). Despite over 30 years of successful marketing, to date only 25 percent of the overall figure of 2.5 million potential kitchens have switched over to this state-of-the-art cooking technology.




In other words, 75 percent or 1.9 million kitchens in the world still rely on obsolete technology.
FRIMA, our French subsidiary, developed and launched the first VarioCooking Center® in the world, which looks set to replace the remaining traditional cooking appliances. The VarioCooking Center® cooks products in liquid or in direct contact heat. It replaces the boiling pan, tilt-pan and deep fat fryer in one single appliance, ensuring a 50 percent faster cooking time. The VarioCooking Center® is therefore the perfect addition to the SelfCooking Center® and is aimed at the same target group throughout the world. So the potential global market for this new revolutionary technology is still around 100 percent of the 2.5 million professional kitchens around the world.
As we continue to make regular innovative quantum leaps in technology, we are in a better position to render obsolete the large stocks of traditional cooking appliances and now also combi-steamers in terms of cost-effectiveness as well as quality. For instance, the combi-steamer replaced traditional hot-air ovens in Germany. The SelfCooking Center® will now supersede the installed combi-steamers. And the VarioCooking Center® will also replace all remaining boiling pans, tilt-pans and deep-fat fryers.
Regular progress in innovative technology offering significantly higher customer benefit proactively prevents market saturation and all associated negative effects such as market decline, deterioration in prices, pressure on costs and the relocation of jobs to low-wage countries.

### SelfCooking Center® sets new world standard

As early as 2005, i. e. in the very first year after it was launched, the SelfCooking Center® had established itself as a completely new world standard in performance, with over 20,000 appliances sold. With a share in total sales amounting to over 70 percent, it managed to continue this success story in 2006.
In the year under review, the SelfCooking Center® underwent significant further developments, making the technology even smarter. With extra modes for “egg dishes/desserts” and “potato products” as well as many additional automatic cooking processes, the SelfCooking Center of today offers even greater cooking diversity, meeting the needs of our Asian customers in particular.

### Customer satisfaction and customer loyalty exceed all expectations

In the sample customer satisfaction survey conducted in Germany by renowned market research institute TNS Infratest in 2006, a resounding vote of confidence was given by SelfCooking Center® owners: With 88 index points, RATIONAL is ranked in the top 10 percent of the best German companies across all sectors, achieving the highest customer satisfaction and customer loyalty.

### RATIONAL – the strongest brand in the professional kitchen industry

The high level of customer satisfaction and impressive brand image enjoyed by RATIONAL were further confirmed by a survey conducted by "Küche" catering magazine at the "Hogatec" international fair in September 2006. Representatives from professional and industrial kitchens voted RATIONAL as number one in the categories of "most innovative", "most valuable" and "most reliable", making it the strongest brand in the German professional kitchen sector.

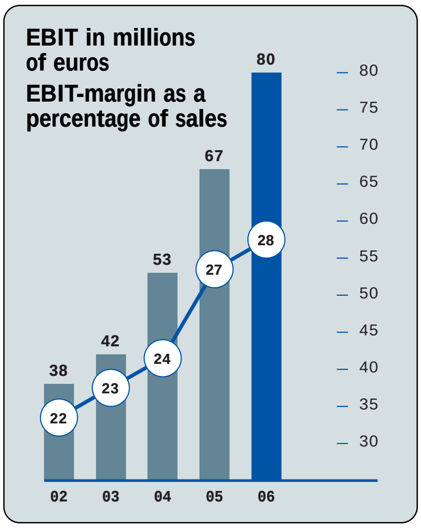
### VarioCooking Center® delights its owners

In the first year in which the FRIMA VarioCooking Center® was launched in pilot markets Germany, France, the Netherlands and Austria, it was possible to test out this revolutionary and innovative technology in complex operational environments and to perfect its strategic product positioning.
Experience to date shows that owners of the VarioCooking Center® are delighted by the new technology. They find it the most innovative and practical system that has come onto the market in recent years. Many customers are won over by its quality, speed, energy efficiency, flexibility and ease of operation, with their expectations by far exceeded.

# Net assets, financial position and results of operations

### RATIONAL in Germany's top 5 best-performing companies – EBIT-margin over 28 percent

Further increases in productivity in the manufacturing sector and ongoing improvements in processes and efficiency in all corporate divisions have again led to an increase in earning power far exceeding the average.




At 80.5 million euros, this year's EBIT topped the previous year's figure (66.9 million euros) by 20 percent. Compared to the previous year, the EBIT-margin jumped up another percentage point, reaching a new record level of 28 percent (previous year: 27 percent).

In the company ranking published by the German finance newspaper "Handelsblatt" on August 28, 2006, RATIONAL was awarded 900 points, earning it the qualifier "exceptional earning power" and a place among the top 5 companies in Germany in terms of earning power. All in all, 130 listed companies were analysed, and the average number of points awarded was just 503.

**Handelsblatt-Company ranking**

| Ranking | Company | Points award |
|---|---|---|
| 1 | ComBOTS | 1000 |
| 2 | SAP | 950 |
| 5 | RATIONAL | 900 |
| 13 | BASF | 800 |
| 61 | Henkel | 475 |
| 70 | BMW | 450 |
| 84 | SIEMENS | 400 |
| 109 | Volkswagen | 275 |

Source: "Handelsblatt" Aug. 28, 2006

## Cost of sales consistently on a low level

Despite the evident increase in the price of high-grade stainless steel in 2006, it was possible to further drive down the cost of sales in the year under review. The sharp rise in material costs was fully set off against cost savings and increased productivity in manufacturing, as well as value analysis measures in the components sector. The gross yield margin in the year under review is an impressive 61.3 percent, compared to the previous year's figure of 60.8 percent.

## Proliferation and efficiency for stronger growth

To strengthen our ability to grow in the future, we focused on expanding and reinforcing our sales organizational structure in 2006, taking proliferation as our watchword. RATIONAL International AG and FRIMA International AG – both based in Switzerland – have been further expanded to penetrate more deeply into defined target markets and successfully market the SelfCooking Center® and VarioCooking Center®.

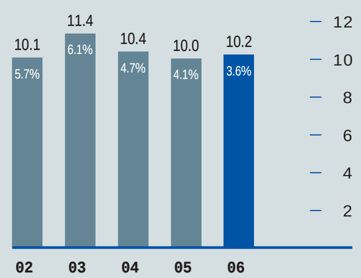
In addition to increasing our sales capacities in potential-laden markets, in 2006 we mainly focused on improving our sales efficiency in conveying the message to potential customers of the unique benefits we offer. Our sales and service costs rose by 14 percent from 61.4 million euros to 69.9 million euros.

## High level of investment in research and development

Research and development costs rose by 2.2 percent in 2006. At 10.2 million euros (previous year: 10.0 million euros), or 3.6 percent of sales (previous year: 4.1 percent), they remain at a consistently high level, well over the industry average.

Innovation and technological advances are crucial for RATIONAL to succeed. Over the last five years, more than 50 million euros have been invested specifically in innovative solutions in the product and basic technology sector. The company has therefore been able to continue to progress in technology terms ahead of its competitors.

**Research and development costs in millions of euros and percentage of sales**

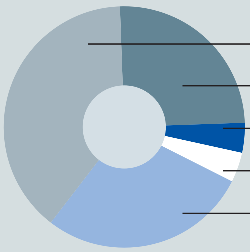



## Low administration costs thanks to integrated process organisation

The RATIONAL process organisation is characterised by integral, clear, self-contained tasks. Superfluous interfaces have been eliminated. Conventional departments have therefore virtually disappeared. And with these flat hierarchies, the result is a high level of transparency, even between administrative functions, plus ever greater efficiency.

In fiscal 2006, administration costs rose by 8.1 percent from 11.7 million euros in 2005 to 12.6 million euros in 2006, but are 0.3 percentage points below last year's value (previous year: 4.7 percent) at 4.4 percent of sales.

**2006 cost and earnings structure compared with previous year**



| | 2006 | 2005 |
|---|---|---|
| Cost of sales | 39% | 39% |
| Sales and service | 25% | 25% |
| Research and development | 4% | 4% |
| Administration and miscellaneous | 4% | 5% |
| EBIT | 28% | 27% |

### Group earnings up 22 percent

In the year under review, group earnings (net annual income) rose to 51.8 million euros (previous year: 42.4 million euros), or 22 percent. The net profit ratio was an excellent 18 percent (previous year: 17 percent).

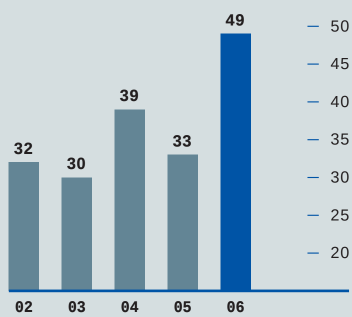
In fiscal 2006, income taxes were 29.3 million euros (previous year: 24.8 million euros). The tax ratio is 36.2 percent, which is a further improvement on the figure for last year (37.0 percent).

### High cash flow from operations to finance growth and an attractive dividend

An excellent level of cash flow from operations was also achieved in 2006, at 49 million euros compared to 33 million euros the previous year. The growth was mainly thanks to improvements in stock management, as well as higher earnings. The cash flow will be used to increase short-term assets as a result of higher sales, further expand our global sales network, extend our production capacities and pay out an attractive dividend to our shareholders.

In 2006, net cash used for investment activities went up from 3.6 million euros the previous year, to 4.8 million euros. A total free cash flow of 44.2 million euros was generated (previous year: 29.1 million euros).

**Cash flow from operations in millions of euros**



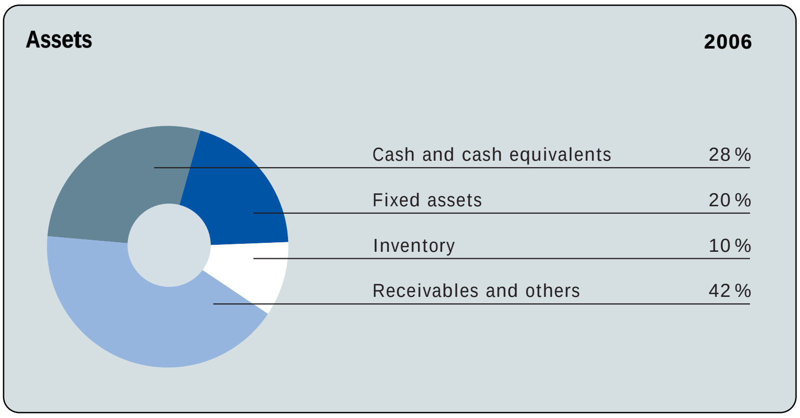

### Solid balance sheet structure – high equity ratio

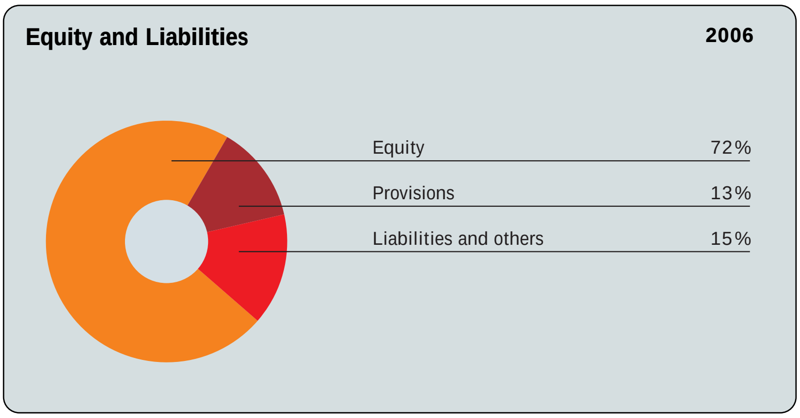
RATIONAL AG's balance sheet total as at the balance sheet date is 146.6 million euros, which is 14.4 million euros, or 11 percent, higher year on year.

Fixed assets (intangible, tangible and financial assets) rose in the period under review to 29.2 million euros (previous year: 28.1 million euros). Intangible assets went up by 0.7 million euros, to 1.4 million euros.

Because production is order-driven and lead times are short, stocks are generally very low. Despite the 15 percent increase in sales, it was nevertheless possible to reduce the value of inventories by 0.7 million euros to 15.5 million euros compared to the previous year.

Because of its low capitalisation ratio of 20 percent (previous year: 21 percent), RATIONAL only has a small share of capital tied up in the long term, meaning that it can adjust flexibly to changes in the market. The low capitalisation ratio is a direct consequence of the low level of vertical integration. RATIONAL's production boasts excellence at many levels, focusing on system know-how with the corresponding expertise in assembling.




Equity capital as at the balance sheet date stands at 106 million euros. And despite the large dividend paid out in May 2006, the equity ratio is still extraordinary good, at 72.2 percent (previous year: 68.1 percent).

Because of the low level of risk, provisions and liabilities from current tax remain at the relatively low level of 21.8 million euros (previous year: 21.3 million euros). In addition to provisions for warranty and accrued personnel costs, provisions are primarily made up of provisions for outstanding tax payments, which are, however, lower than the previous year due to advance payments already effected.

At 6.8 million euros, the amount posted for trade accounts payable is slightly more than in the previous year (5.4 million euros). Thanks to our close collaboration with suppliers, our liabilities are quickly cleared, enabling us to take advantage of supplier discounts in as many cases as possible.

## Targeted investment in technology and increasing capacity

Investment in 2006 was directed towards further increasing production capacity, developing production and expanding and modernising the company's IT infrastructure. Total investment for the year under review amounted to 5.7 million euros (previous year: 6.0 million euros). Depreciation totaled 4.3 million euros (previous year: 4.3 million euros).

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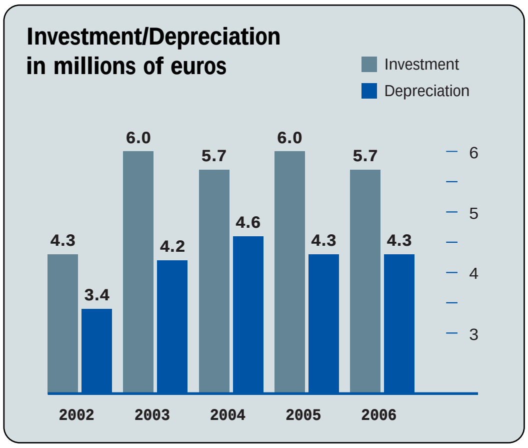


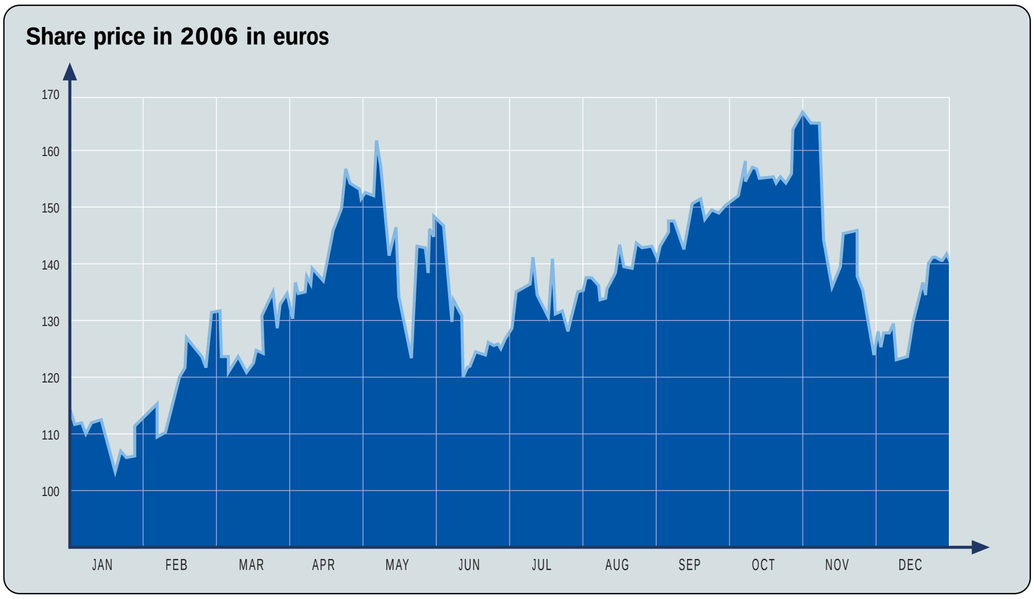

## New plant in Landsberg

In view of the continuing growth, full capacity will soon be reached in the two existing plants in Landsberg. The high level of qualifications required for RATIONAL employees is optimally available in Germany, which is why the decision was taken to build a third plant at the company's headquarters in Landsberg. In the medium term, this will create around 100 new jobs for highly skilled staff – just one way in which we do justice to our overall corporate responsibility.

Work on constructing the new plant commences in 2007. It is planned to be completed and commissioned in 2008. The total amount invested (in euros) will hit the eight-figure mark.

## Rise in share price reflects positive business development

In what was generally a bullish stock market, the RATIONAL share price rose in the year under review. After a sharp rise in share price by 80 percent from 94 euros at the end of November 2005 to over 170 euros at the end of October 2006, it was adjusted downwards to 123 euros in November 2006. With a closing price as at December 31, 2006 of 141 euros, the value of RATIONAL



shares went up by 26 percent compared to the previous year, thus reflecting business development and DAX, MDAX and SDAX indices.

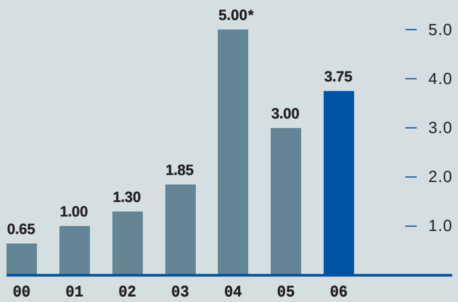

## RATIONAL awarded German Investor Relations prize 2006

In the second quarter of 2006, RATIONAL AG was awarded the 2006 Investor Relations prize by the German investor relations association (DIRK) for its outstanding and exemplary work in financial communications. In a survey conducted for the first time in cooperation with international financial services-provider Thomson Financial, over 500 experts from 270 financial institutions were interviewed about the quality of investor relations work carried out by over 150 listed companies in Germany. In the SDAX category, RATIONAL AG far outshone the rest of the field. The criteria assessed were clarity, transparency, technical expertise, quality and reliability of financial communication.

RATIONAL gives investor relations work a very high priority. The Executive Board is always on hand in person to answer any questions that shareholders, analysts, fund managers and prospective customers may have. Being awarded the 2006 German Investor Relations prize is further testament to the success of our IR-strategy.

**Attractive dividend year by year**

**per share in euros**




* one-time special dividend

Figures for 2006 subject to approval of the Shareholders' Meeting.

## Attractive dividend in 2006

In addition to the increase in the share price, the company's attractive dividend policy also underpins the RATIONAL share's position as a high-yield form of investment. At the 2006 Shareholders' Meeting, the Executive Board and the Supervisory Board will be proposing a dividend of 3.75 euros per share (previous year: 3.00 euros).

# Value-oriented management

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### Return on invested capital (ROIC) at a new record level

Operational control of the company is based on a tailored, global, multi-tiered planning and financial control system. All corporate processes are reliably planned, promptly recorded, reported with

a high degree of accuracy, analysed and evaluated in terms of key figures. Decisions on any necessary adjustment measures are taken and implemented immediately. The aim is to achieve sustained, year-on-year growth in the value of the company.

In this respect, an important key figure in terms of strategic control is return on invested capital (ROIC). A company's value can only be increased if ROIC exceeds the cost of capital.

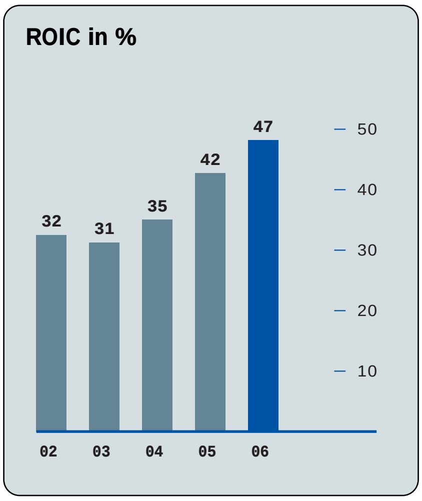
The ROIC for 2006 is 47 percent, which is outstanding; it once again far outstrips the previous year's return, which was 42 percent. Assuming that the cost of capital was 9 percent, this means that in fiscal 2006, the company's value was increased by 42 million euros (previous year: 33 million euros), which will be distributed in full to our shareholders once it has been approved at the Shareholders' Meeting.

## Procurement

### Supplier quality as a success factor

As a company with little vertical integration, the quality, productivity, reduced costs and reliability of our system suppliers are particularly crucial to our success. Instead of continually pushing for lower purchase prices, which often leads to costly and risk-laden changes in supplier, we work in partnership with our key suppliers to meet quality, productivity and cost objectives in joint re-engineering projects.

In addition to supplier certification, the cooperation is underpinned, in particular, by annual partner plans with quality, productivity and reduced cost objectives,



monthly reporting for the principal key figures and regular audits. This approach helps encourage attractive purchase prices and long-term supplier loyalty.
The RATIONAL supplier evaluation system closely examines product, process and supplier quality and also considers the quality of cooperation. RATIONAL honours its best suppliers at its annual supplier conference, which in 2006 was held on May 23.
In 2006, expenditure on materials went up by 17 percent from 78.4 million euros to 92.0 million euros due to the 15 percent increase in sales and sharp rise in the price of steel and stainless steel.

# Employees

### Company quality means employee quality

No company is better than its people. RATIONAL employees excel in terms of their high level of skills and extraordinary commitment. For years now, RATIONAL has been promoting promising employees as part of its executive succession planning. The RATIONAL promotion system provides a proven platform to support this process, integrating all our company's subprocesses and our highly individual corporate culture. In 2006, we extended our promotion system to international level, targeting promising employees from Germany, France, the UK, Italy, Russia and China.
By holding annual performance reviews with all employees, setting specific objectives as part of annual planning and assessing individual potential, we ensure we are always better able to identify employees who deserve and want to be promoted and provide them with the necessary training by tailored programs for challenging future tasks.

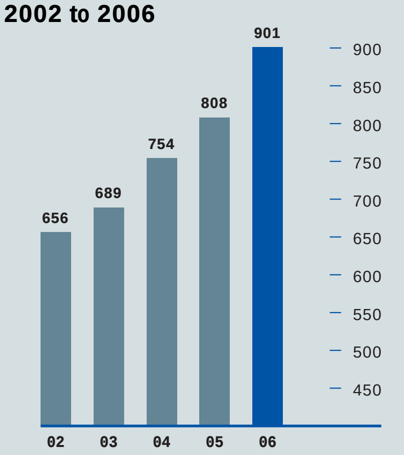
### Profit-sharing as a motivating factor

Since years, RATIONAL employees have been able to enjoy a direct share in the company's profit. The share in profits is paid out voluntarily to employees as a special payment in December. Employees become eligible once they have been working for RATIONAL for at least two years. The share in profit paid out for 2006 amounts to 100 percent of a monthly salary.

### One-off loyalty bonus in 2006

In view of the above-average increase in earnings over the last few years, the Supervisory and Executive Boards of RATIONAL AG decided to pay out a one-off loyalty bonus in 2006, to employees who for many years have actively contributed to the company's success with untiring dedication and constantly improving performance. The amount of the bonus varies according to the number of years in service. For employees who have been working for RATIONAL for over five years, the bonus amounts to 40 percent of their monthly salary, increasing to 100 percent for those who have been with the company for over 30 years.

Number of employees from 2002 to 2006




### 93 new jobs created in 2006

Only increased demand can create new jobs. And with the job market situation continuing to stagnate, it is particularly remarkable that RATIONAL has been able to create a further 93 highly skilled positions in 2006.

As at December 31, 2006, the RATIONAL-Group employed 901 people (previous year: 808), 351 of whom work for us abroad (previous year: 271 employees).

By continually improving productivity and efficiency in all corporate divisions, we have also been able to significantly enhance corporate quality. In 2006, sales per employee, relating to the average employee status of 864 employees, reached a new record of 328 thousand euros.

### Executive Board remuneration report

According to § 315 Para. 2 No. 4 of the German Commercial Code (HGB) public companies, listed on the stock exchange, have to give statements on the main features of their compensation systems for the Executive Board.

The responsibility for the salaries of the Executive Board at RATIONAL AG is with the Supervisory Board. The fixing of the payments to the members of the Executive Board reflects the size and global business of the company, its economic and financial situation and is in line with amount and structure of Executive Board payments in comparable companies.

The total compensation of the Executive Board for the perception of its duties and responsibilities in the parent company and in the subsidiaries amounts to 5.2 million euros for the financial year 2006. This sum includes performance-related payments of 1.2 million euros and payments for long-term impulsions of 2.6 million euros. In addition payments in pension scheme of 0.3 million euros were made. In 2006 no stock options were issued. According to the decision at the

shareholders meeting on May 17, 2006 RATIONAL AG is not publishing the compensation of the members of the Executive Board individually.
The Executive Board of the company can comprise one or more persons. According to § 6 No. 2 of the statutes the Supervisory Board appoints the Executive Board and decides about the number of members.

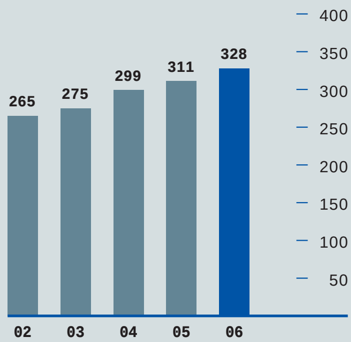
## Capital structure unchanged

RATIONAL AG's share capital as at December 31, 2006 was unchanged at 11,370,000 euros and consists of 11,370,000 ordinary registered shares at no-par value, issued in the name of the bearer, with a theoretical value of 1 euro.
As at December 31, 2006 the head of the Supervisory Board holds 7,159,786 shares (previous year 7,159,786 shares) in RATIONAL AG, which exceeds the 10-percent-hurdle.
There is no restriction in the exercise of voting rights or in the transfer or disposition of shares. Shares with individual rights do not exist.
Conditional capital amounts to 200,000 euros and relates to option rights for the 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 are utilised by their bearer.
According to § 11 No. 2 of the statutes the Supervisory Board is authorised to add or change the statutes in terms of the frame work. Constitutive changes of the statutes are made by the sharehol-der meeting with a bare majority vote.

## Responsible use of resources

At RATIONAL, we attach particularly high importance to the responsible use of resources. The environmentally friendly and sparing use of both raw and processed materials is as important to product development as it is to production, shipping and subsequent use of appliances on the customer's premises.
We have been involved in constructive partnerships with the various regional environmental protection agencies for years, ensuring that statutory limits and standards are met, or even clearly improved upon, thanks to our particularly environmentally friendly production methods and best-in-class environmental protection measures.

**Sales per employee**
**in thousands of euros**



# Risk Report

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## Managed risks ensure peak performance

Peak performance on the part of the company requires innovative flair, high commitment from managers and employees alike and stringent cost management, not to mention considerable experience and a thorough knowledge of possible weaknesses.
The quality and sustainability of RATIONAL's development relies on the company's ability to detect and assess risks at an early stage and systematically take the necessary measures.
As a result, the opportunities that present themselves take on far greater significance than the threats. This holds particularly true in view of the enormous market potential that is still waiting to be exploited, coupled with RATIONAL's exceptional competitive position in the international arena.

## The RATIONAL risk management system

RATIONAL has a risk management system that is implemented worldwide, enabling to identify and analyse opportunities and threats at an early stage and so take appropriate measures.
Bearing in mind that optimum performance, corporate quality and risk management are intrinsically interlaced, we further developed the content of our RATIONAL risk management system in 2006 and enhanced its quality.

## Key components of the risk management system include:

- The integrated planning process that involves all corporate divisions worldwide
- Comprehensive group reporting of all corporate divisions and subsidiaries that is analyzed and commented on by Financial Control and quickly delivered to all decision-makers, to enable them to implement the necessary adjustment measures promptly
- Process descriptions for all RATIONAL corporate divisions, the quality and observance of which are assured worldwide by regular training courses and corresponding success checks
- An internal audit, which provides an independent and objective snapshot of the current situation with regard to all corporate processes, and assesses and weighs any variations from targets. The scoring system for both process risks and corporate risks is standardized, so that comparisons can be made between diverse processes with regard to quality and risk situation, and their development evaluated over time
- Benchmarks and threshold values are defined to assist the early identification of undesirable developments, so that appropriate countermeasures can be implemented promptly
- A globally integrated treasury management system for optimal cash and currency management worldwide

- Customer satisfaction surveys conducted annually in all the important markets, providing an external perspective on product quality, service quality and our competitiveness
- Partner plans agreed annually with important suppliers and service partners, to raise quality and productivity and reduce costs. Adherence to these plans is ensured by means of regular reporting, auditing and certification
- A security concept for all sites that takes account of the local situation and regional regulations and protects employees, plant, buildings and know-how as effectively as possible. Defined standby teams and emergency plans are now in place to ensure people know what to do and when in critical situations
- IT-security, which is particularly important to RATIONAL, with its many sites all over the world and its mobile PC users. The safeguards and tools used in IT security are continually updated, and are checked and evaluated by both internal and external specialists
- A comprehensive insurance strategy that is adapted each year to the new risk situation
- Strategy meetings held regularly by the Supervisory and Executive Boards, which minimize the risk of strategically undesirable developments

The effectiveness and topicality of the risk management system is continually updated by the internal audit function, and any necessary changes are made. Furthermore, the external auditor checks whether the Executive Board has taken the steps required under § 91 Para. 2 of the German Stock Companies Act (Aktiengesetz), to ensure that developments that could put a risk on the existence of the company are identified at an early stage.

### RATIONAL is “European Champion”

In Europe’s most demanding benchmarking competition “Best Factory”, organised by the well-known INSEAD management academy in Fontainebleau and the Otto Beisheim graduate school of management in Vallendar, in cooperation with business journals “Wirtschaftswoche” and “L’Usine Nouvelle”, RATIONAL came first, ahead of all other leading European companies taking part. In all assessment categories judging the quality of all corporate processes, RATIONAL achieved the top score of “excellent”. This underlines the fact that continuous improvement in all corporate divisions reduces corporate risk and enhances corporate quality.

### More effective early identification through operational benchmarks

With respect to sales and marketing efficiency, receivables management and supply chain management, monthly benchmarks were introduced in 2006 for all RATIONAL subsidiaries. There are four to five risk and quality parameters for each of these topics, adding up to a risk indicator that acts as a corresponding threshold value.

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This creates a transparent risk situation. What's more, ranking the companies in this way creates a form of internal competition, which drives corporate quality, as the organisations with lower scores learn from the "best" ones.

# Risks

### Summary

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

### Political crises and natural disasters

The impact of political crises and natural disasters can put a risk on product sales in the affected countries. This risk is minimized by our cooperating with numerous different sales and service partners in each region. Also, the international nature of the business, with operations across numerous individual markets, helps spread the risk as well as considerably reducing its impact.

### 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, fluctuations in the economic climate will probably not have any serious impact on the company's business development, given RATIONAL's special market position and the high productivity effect of its products.

### Financial opportunities and threats

In 2006, the share of total sales in foreign currencies outside the Euro Zone amounted to 32.6 percent (previous year: 32.0 percent). Since the cost of sales is predominantly generated in the Euro Zone, changes in exchange rates affect the company's earnings position.
The biggest impact is due to the current relatively high volatility of the US dollar and the Japanese yen. RATIONAL's currency hedging activities significantly reduce the earnings risk in the event of fluctuating foreign exchange rates.

Trade accounts receivable are secured against the risk of default by trade indemnity insurance and bank letters of credit. On the balance sheet date, around 82 percent of receivables (previous year: 80 percent) were covered by corresponding securities.

### Product quality

Product quality continued to improve in 2006. This trend is further substantiated by the improvement in warranty costs and drop in the number of customer service callouts.
Nevertheless, RATIONAL is aware of the potential risks associated with quality problems and the incorrect use of products. For this reason, service reports worldwide are subject to expert scrutiny and analysis. Senior corporate management has also ensured that the existing product liability insurance covers risks arising from product liability.

### Product development and the protection of trademarks

RATIONAL is the clear product and technology leader in its field. Innovations are protected by intellectual property rights and numerous patents and patent applications.

Where RATIONAL patents are infringed, the corresponding protective measures or even legal proceedings will be initiated. Patent proceedings due to possible patent infringements by RATIONAL will be investigated by experienced patent attorneys and emphatically prosecuted and defended.
In summer 2006, proceedings for infringed patent rights were brought in the United States against our subsidiary there, RATIONAL Cooking Systems Inc., on the basis of a patent expiring in October 2007, with this fact being published at the same time. In our statement of defence and counter charge, we submit not only that the patent in question is not infringed by us but also that it is not valid.

### Personnel management-related risks

If managers or other staff in key positions leave RATIONAL and no suitable replacement can be found for them at short notice, RATIONAL's business operations could be adversely affected.
But as all corporate processes are defined and documented, and as employees are continually being hired and trained in all our divisions and at all our sites, there is little risk of this.

### Raw materials prices and procurement risks

Continual product improvements, further process optimizations in production and strong partnerships with key suppliers were able to offset the rises in raw material prices, to the extent that the cost of sales increased relatively little compared to sales.

# Opportunities

**The growth opportunity**

Main objective is to enlarge the technological gap to the competitors by investing consequently in research and development. Beyond this RATIONAL AG has a worldwide sales and marketing network with own subsidiaries in many high-potential markets.

The addressable market of worldwide 2.5 million professional kitchens for the Combisteamer- and SelfCooking Center®-technology has only been tapped with 25 percent. The high untapped potential of 1.9 million kitchens still cooking with traditional equipment offers extraordinary growth opportunities for the coming years.

The subsidiary FRIMA newly developed the VarioCooking Center® as an ideal complement to the SelfCooking Center® technology and doubles the size of sales potential. So far, the VarioCooking Center® has only been launched in test markets.

Through newly arranged sales structures and direct penetration of growth markets, we see good opportunities for future disproportional growth. With the establishment of a new factory in Landsberg the necessary production capacities are guaranteed.

# Outlook

**High growth in sales and earnings also planned for 2007**

For 2007 we furthermore assume that the general economic situation will be positive. The world's economic growth is foreseen at 2.9 percent. Especially for emerging markets like Brazil, Russia, India and China (BRIC) disproportional growth rates are expected.

In 2006 the US dollar and the Japanese yen have already strongly lost on a value basis, compared to the euro. In 2007 we assume that exchange rates will be likely unchanged, but we see the risk of a further devaluation for those currencies as well. Due to a still comparatively low contribution of sales revenues in dollar and the yen the effect of changes in these currencies on the profitability of RATIONAL AG is comparatively low.

Because of its high profitability and the low working capital needs the company achieves a high free cash flow. This is used for the growth financing and for the dividend distribution.

In 2007, we will continue to focus investment in the further expansion of our international sales and marketing network, and in extending our production capacities.
With RATIONAL SelfCooking Center® and FRIMA VarioCooking Center®, we have created a broader technology platform that has become an increasingly more appealing, compelling proposition to customers.

Against this backdrop, sales growth of 15 percent to 325 million euros, coupled with an average rise in EBIT also of 15 percent to 93 million euros, are expected for 2007.

**Supplementary report**

After the close of the financial year 2006, no events of particular significance occurred affecting the assessment of RATIONAL AG or the group's net assets, financial position and result of operations.

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

Landsberg am Lech, February 16, 2007

RATIONAL AG
The Executive Board

# Financial Statements

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2006

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## Report by the Supervisory Board of RATIONAL AG on the fiscal year 2006

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.

During the past year the Supervisory Board regularly examined the efficiency of its work, in particular the procedures in the Supervisory Board and the timely provision of sufficient information. No committees were formed, since the Supervisory Board of RATIONAL AG consists of only three members.

The Executive Board provided the Supervisory Board with timely and full reports on business policy and corporate planning, in particular financial, investment and personnel planning.

The course of the business, revenue situation, liquidity and unforeseen developments for all individual subsidiaries and for the Group were detailed in monthly written reports.

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 have been subject of intensive consultation.

In the course of 2006, in addition to numerous individual discussions, regular monthly meetings plus five ordinary meetings of the Supervisory Board were held, at which the entire Supervisory Board was present. In addition, the members of the Supervisory Board consulted each other in writing and by telephone. The Supervisory Board was 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:

- Strategy on development of new markets by the new subsidiary RATIONAL International AG
- Market strategy of FRIMA International AG and market launch of VarioCooking Center®
- Development of management structures in line with decentralisation of responsibility
- Systematic career advancement of potential managers from our own staff
- Enlargement of production capacity at the company's headquarter in Landsberg
- Further development of risk management approach

The Executive Board and the Supervisory Board submitted the declaration of compliance with the German Corporate Governance Code in accordance with the current edition of June 12, 2006 and published the declaration on RATIONAL's internet site on February 6, 2007.

The annual financial statements for the fiscal year from January 1 to December 31, 2006, 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, Rölfs WP Partner AG, Wirtschaftsprüfungsgesellschaft, Munich. The auditors granted an unqualified auditors' opinion.

Consolidated financial statements according to IFRS, as applicable in the EU, as well as according to IFRS overall and the supplementary commercial regulations applicable under para. 315a section 1 of the German Commercial Code were prepared by the Executive Board, as well as a consolidated management report. The auditors audited the consolidated financial statements and the consolidated management report and granted an unqualified auditors' opinion.

The annual financial statements, the consolidated financial statements, the management report, the auditors' reports and the proposal by the Executive Board on the appropriation of retained earnings were passed to the Supervisory Board and distributed to all Supervisory Board members in good time. They were the subject of intensive deliberations at the meeting of the Supervisory Board held on February 28, 2007. 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 the final result of their audit and consultations, no objections were raised. The Supervisory Board approved the annual financial statements for RATIONAL AG as at December 31, 2006 as prepared by the Executive Board with the management report for 2006 in the certified version of February 7, 2007 and authorised the consolidated financial statements as at December 31, 2006 in the certified version of February 16, 2007. The company's annual financial statements for 2006, including the management report, are thereby adopted in accordance with para 172 section 1 AktG (German Stock Companies Act).

The Supervisory Board concurs with the proposal by the Executive Board to distribute from RATIONAL AG's total of 57.6 million euros in retained earnings for 2006 a dividend of 3.75 euros 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 2006 and for their close, constructive participation. Our particular thanks go to all employees for their reliability, their loyalty and their high level of commitment, which once again was the critical factor ensuring success in 2006.

Landsberg am Lech, March 1, 2007

Siegfried Meister
Chairman of the Supervisory Board

**Report by the Executive Board of RATIONAL AG on the fiscal year 2006**

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 Rölfs WP Partner AG, Wirtschaftsprüfungsgesellschaft, Munich, 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, March 1, 2007

RATIONAL AG
The Executive Board

**Auditors' Report**

"We have audited the consolidated financial statements prepared by the Parent Company RATIONAL Aktiengesellschaft, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. [paragraph] 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

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

Our audit has not led to any reservations.

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

Munich, February 16, 2007

Rölfs WP Partner AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Dr. Wenk | Weissinger |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

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## Income Statement RATIONAL-Group

| Thousands of euros | 2006 | 2005 | Note I Page |
|---|---|---|---|
| Sales | 283,702 | 246,410 | 01 I 91 |
| Cost of sales | – 109,926 | – 96,662 | 02 I 92 |
| **Gross profit** | **173,776** | 149,748 | |
| Sales and service expenses | – 69,924 | – 61,390 | 03 I 92 |
| Research and development expenses | – 10,229 | – 10,011 | 04 I 92 |
| General administration expenses | – 12,642 | – 11,693 | 05 I 92 |
| Other operating income | 3,975 | 4,699 | 06 I 93 |
| Other operating expenses | – 4,480 | – 4,447 | 07 I 93 |
| **Earnings before interest and taxes (EBIT)** | **80,476** | 66,906 | |
| Financial results | 625 | 318 | 08 I 94 |
| **Earnings from ordinary activities** | **81,101** | 67,224 | |
| Taxes on income | – 29,325 | – 24,847 | 09 I 94 |
| **Group earnings** | **51,776** | 42,377 | |
| **Retained earnings brought forward** | **15,138** | 6,871 | |
| **Retained earnings** | **66,914** | 49,248 | |

| | 2006 | 2005 | Note I Page |
|---|---|---|---|
| Average number of shares (undiluted) | 11,370,000 | 11,370,000 | |
| Average number of shares (diluted) | 11,372,875 | 11,404,500 | |
| Earnings per share (undiluted) in euros relating to the consolidated results and the number of shares | 4.55 | 3.73 | 10 I 96 |
| Earnings per share (diluted) in euros relating to the consolidated results and the number of shares | 4.55 | 3.72 | 10 I 96 |

## Assets RATIONAL-Group

| Thousands of euros | Dec. 31, 2006 | Dec. 31, 2005 | Note I Page |
|---|---|---|---|
| **Long-term assets** | **32,525** | 31,302 | |
| Intangible assets | 1,441 | 718 | 12, 13 I 97 |
| Property, plant and equipment | 27,576 | 27,179 | 14, 15 I 98 |
| Financial assets | 218 | 218 | 16 I 99 |
| Other long-term assets | 191 | 195 | 19 I 101 |
| Deferred tax assets | 3,099 | 2,992 | 9 I 94 |
| **Short-term assets** | **114,034** | 100,834 | |
| Inventories | 15,496 | 16,219 | 17 I 99 |
| Trade receivables | 53,140 | 46,089 | 18 I 100 |
| Other short-term assets | 4,815 | 3,763 | 19 I 101 |
| Cash and cash equivalents | 40,583 | 34,763 | 20 I 102 |
| **Balance sheet total** | **146,559** | 132,136 | |

## Equity and Liabilities RATIONAL-Group

| Thousands of euros | Dec. 31, 2006 | Dec. 31, 2005 | Note I Page |
|---|---|---|---|
| **Equity** | **105,816** | 89,924 | |
| Subscribed capital | 11,370 | 11,370 | 21 I 103 |
| Capital reserves | 27,018 | 28,792 | 22 I 103 |
| Revenue reserves | 514 | 514 | 23 I 103 |
| Retained earnings | 66,914 | 49,248 | |
| **Long-term liabilities** | **3,633** | 4,833 | |
| Provision for pensions | 672 | 683 | 24 I 103 |
| Other long-term liabilities | 2,961 | 4,150 | 29 I 106 |
| **Short-term liabilities** | **37,110** | 37,379 | |
| Liabilities for current tax | 3,432 | 6,435 | 25 I 104 |
| Short-term provisions | 17,675 | 14,167 | 26 I 104 |
| Liabilities to banks | — | 2,537 | 27 I 105 |
| Trade accounts payable | 6,787 | 5,361 | 28 I 105 |
| Other short-term liabilities | 9,216 | 8,879 | 29 I 106 |
| **Liabilities** | **40,743** | 42,212 | |
| **Balance sheet total** | **146,559** | 132,136 | |

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**Cash Flow Statement RATIONAL-Group**

| Thousands of euros | 2006 | 2005 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Earnings from ordinary activities | 81,101 | 67,224 |
| Depreciation on fixed assets | 4,262 | 4,341 |
| Stock option plan | – 2,623 | — |
| Net results from disposal of fixed assets | – 16 | 3 |
| Non-realised foreign currency result | 157 | 124 |
| Interest income | – 871 | – 670 |
| Interest expenses | 324 | 460 |
| Valuation of share options | — | 240 |
| Operating results before changes in working capital | 82,334 | 71,722 |
| Changes in | | |
| Inventories | 723 | – 1,881 |
| Trade accounts receivable and other assets | – 8,286 | – 9,252 |
| Accruals | 3,497 | 2,843 |
| Trade accounts payable and other liabilities | 2,356 | – 367 |
| Cash generated from current business activities | 80,624 | 63,065 |
| Interest paid | – 58 | – 373 |
| Taxes paid on income | – 31,484 | – 29,933 |
| **Net cash generated from operating activities** | **49,082** | 32,759 |
| | | |
| **Cash flow from investing activities** | | |
| Investing in intangible assets and tangible assets | – 5,725 | – 4,353 |
| Net results from disposal of fixed assets | — | 25 |
| Interest received | 845 | 633 |
| Dividend from non-consolidated, affiliated companies | 46 | 39 |
| **Net cash used for investing activities** | **– 4,834** | – 3,656 |
| | | |
| **Cash flow from financing activities** | | |
| Dividends | – 34,110 | – 56,850 |
| Changes within the scope of finance leasing agreements | – 1,696 | 187 |
| Repayment of liabilities to banks | – 8,302 | – 2,202 |
| Granted long-term credit and loans | 5,765 | 2,537 |
| Purchase of long-term funds | — | – 3,000 |
| Release of long-term funds | 3,000 | 17,000 |
| **Net cash used for financing activities** | **– 35,343** | – 42,328 |
| | | |
| **Net changes in cash and cash equivalents** | **8,905** | – 13,225 |
| Changes in cash from exchange rate changes | – 85 | 47 |
| **Change in cash funds** | **8,820** | – 13,178 |
| **Cash and cash equivalents on Jan. 1** | **31,763** | 44,941 |
| **Cash and cash equivalents on Dec. 31** | **40,583** | 31,763 |

## 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, 2005** | **11,370** | **28,472** | **– 2,338** | **514** | **63,721** | **104,077** |
| Dividends | — | — | — | — | – 56,850 | – 56,850 |
| Group earnings | — | — | — | — | 42,377 | 42,377 |
| Differences from currency conversion | — | 80 | 80 | — | — | 80 |
| Other changes | — | 240 | 240 | — | — | 240 |
| Total changes | — | 320 | 320 | — | – 14,473 | – 14,153 |
| **Balance at Dec. 31, 2005** | **11,370** | **28,792** | **– 2,018** | **514** | **49,248** | **89,924** |
| Dividends | — | — | — | — | – 34,110 | – 34,110 |
| Group earnings | — | — | — | — | 51,776 | 51,776 |
| Differences from currency conversion | — | 27 | 27 | — | — | 27 |
| Other changes | — | – 1,801 | – 1,801 | — | — | – 1,801 |
| Total changes | — | – 1,774 | – 1,774 | — | 17,666 | 15,892 |
| **Balance at Dec. 31, 2006** | **11,370** | **27,018** | **– 3,792** | **514** | **66,914** | **105,816** |

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## Contents

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## Description and explanation of business activities

RATIONAL AG is a public limited company under German law with its registered offices at Iglinger Strasse 62, Landsberg am Lech, entered in the Augsburg Commercial Register under number 2001.
RATIONAL 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®. In addition to the SelfCooking Center®, we also offer a basic model, the Combi-Master®. Our appliances and accessories are sold worldwide by both our own subsidiaries and independent business partners.
In parallel with the SelfCooking Center® our French subsidiary FRIMA developed an entirely new complementary product in the guise of the VarioCooking Center®, which it successfully launched in selected European test markets in 2005. Whereas the SelfCooking Center® is used for cooking all foods for which the ideal cooking process is the transfer of heat by hot, fast-flowing gases, the new VarioCooking Center® can be used to cook all the other products found in a professional kitchen, i.e. those that are cooked in liquid or in direct contact heat.
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 on the German Stock Exchange CDAX, Classic All Share, Prime All Share and GEX selective indices as well as on BayX30 on the Munich Stock Exchange.

## Presentation of financial statements

The functional currency and the currency used in the consolidated financial statements is the euro. For the sake of clarity, figures are shown in thousands of euros. The structure of the balance sheet complies with the IAS 1 specifications regarding classification and format. The presentation for the financial year 2006 and the previous year defines maturities of "below 12 months" as short-term and those of "over 12 months" as long-term. The former sub-total "Fixed assets" has been dispensed, the item "Cash in hand and cash in bank accounts" has been renamed "Cash and cash equivalents", and current liabilities from income tax, which were formerly shown as a "Provision for taxation", are now shown under "Liabilities from current tax".
Based on the operational and strategic bases for decisions also available to management, the notes to the consolidated financial statements of RATIONAL AG allow a full assessment of the company's net assets, financial position and results of operations, as well as of the opportunities open to it and the risks to which it is exposed. For RATIONAL AG, the key components of its annual consolidated financial statements are the income statement, the balance sheet, the cash flow statement, the statement of changes in equity and the segments statement. The specific notes are based on the individual items within those components. Information on accounting and consolidation methods can be found under "Fundamental accounting principles", "Consolidation methods" and "Accounting and valuation methods".The significance of financial instruments is explained in the section entitled "Notes on financial instruments", and general information not related to specific items in the financial statements can be found in the "Other Notes" section.
The consolidated financial statements were released for publication by the management of RATIONAL AG on February 16, 2007.

## Fundamental accounting principles

The consolidated financial statements of RATIONAL AG for the financial year 2006 (giving the previous year's figures) were prepared in compliance with the International Accounting Standards (IAS) adopted and published by the International Accounting Standards Board (IASB), and the International Financial Reporting Standards (IFRS) and their interpretation by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC) respectively, as applicable in the EU, along with the IFRS in their entirety and the supplementary commercial regulations applicable under Section 315a (1) of the German Commercial Code (HGB). All the effective standards for the financial year 2006 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.
Application of IFRS 7 (Financial Instruments: Disclosures), which the IASB published in January 2006, is now mandatory for reporting periods starting on or after January 1, 2007. RATIONAL AG voluntarily applied the new disclosure requirements for financial instruments that have been described to the presentation of its consolidated financial statements for both 2006 and the comparison period, 2005.
Application of the amendment to IAS 1 adopted by the IASB in August 2005 and involving extended disclosure obligations relating to the management of capital within the company (Capital disclosures) is compulsory for financial years starting on or after January 1, 2007, and RATIONAL AG has voluntarily applied the new specifications to its 2006 consolidated financial statements. In addition, the interpretations of IFRC 7 (Applying the restatement approach under IAS 29 Financial reporting in hyperflationary economies), IFRIC 8 (Scope of IFRS 2) and IFRIC 9 (Reassessment of embedded derivatives), all adopted by the IASB on December 31, 2006 but not yet in force were also voluntarily applied to the 2006 consolidated financial statements, but did not result in any amendments.
Application of IFRS 8 (Operating segments), adopted by the IASB on November 30, 2006 but not yet adopted by the EU, is to be compulsory for financial years starting on or after January 1, 2009; it requires an entity to provide financial and descriptive information on its reportable segments. In these financial statements RATIONAL AG provides a segments statement in compliance with IAS 14, broken down by geographical location of registered offices of subsidiaries. This approach reflects the company's management structures, as well as representing the risk and profit structures within its business worldwide. If RATIONAL chose to apply IFRS 8 here, it would result in no fundamental change in the way the segments were presented, but there would be additional notes.
The respective interpretations of IFRIC 10 (Interim financial reporting and impairment), IFRIC 11 (Group and treasury share transactions) and IFRIC 12 (Service concession agreements) which were published on December 31, 2006 and which have not yet been adopted by the EU or come into force were not applied when the consolidated financial statements were prepared, but in any event would have had no effect on the way RATIONAL's net assets, financial position and results of operations were presented.
No accounting or valuation methods under German commercial law that do not comply with IFRS/IAS or IFRIC/SIC were used in the preparation of these consolidated financial statements. The accounting and valuation methods used that are different from those applicable under German commercial law are as follows:

**Goodwill**

In accordance with IFRS 3, there was no scheduled amortisation of goodwill.

**Inventories**

In accordance with IAS 2, inventories are shown 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 valued using the projected unit credit method, taking into account the corridor rule in compliance with IAS 19. Gains and losses calculated using the actuarial projected unit credit method are treated in full as income/expense in the period in which they arise.

**Currency conversion**

Currency receivables and liabilities are converted at the current rate on the balance sheet date and the resulting differences are always treated as income/expense, in compliance with IAS 21.

**Financial investments held to maturity**

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

**Derivative financial instruments**

In compliance with IAS 39, derivative financial instruments are recorded at the present fair value on the balance sheet date, provided this can be reliably determined. The resulting value changes are treated as income/expense.

**Leasing**

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

**Stock options**

In compliance with IFRS 2.43, the stock options issued to the Executive Board are posted against capital reserves.

The financial year for RATIONAL AG and all subsidiaries included in these financial statements 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 compliance with IAS 27.

## Consolidation methods

In addition to the parent company, all major domestic and foreign subsidiaries under the legal control of RATIONAL AG 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 formed. 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 if their applicable fair value exceeds the book value on the date of the initial consolidation. Any difference remaining after this offset is reported as goodwill. Under IAS 36, this then undergoes an impairment test to determine whether any depreciation is necessary.

Non-consolidated subsidiaries are recorded at acquisition cost or applicable value if lower.
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 created on the basis of temporary differences arising from consolidation measures.
The consolidation methods remain unchanged from those used last year.

## Consolidated companies

In compliance with the specifications of IAS 27, as at the balance sheet date of December 31, 2006, the consolidated financial statements of RATIONAL AG include four domestic and fifteen foreign subsidiaries, in addition to the parent company. The composition of the RATIONAL AG group has not changed since last year, and as at December 31, 2006 comprised the following consolidated companies:

| Name and registered office of consolidated companies | % capital shares and % voting shares |
|---|---|
| **Domestic** | |
| LechMetall Landsberg GmbH, Landsberg am Lech, Germany | 100.0 |
| RATIONAL Großküchentechnik GmbH, Landsberg am Lech, Germany | 100.0 |
| RATIONAL Technical Services GmbH, Landsberg am Lech, Germany | 100.0 |
| **Europe*** | |
| RATIONAL Scandinavia 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, SL, Barcelona, Spain | 100.0 |
| RATIONAL Italia s.r.l., Marcon, Italy | 100.0 |
| RATIONAL International AG, Balgach, Switzerland | 100.0 |
| RATIONAL Polen sp.zo.o., Warschau, Poland | 100.0 |
| RATIONAL Austria GmbH, Salzburg, Austria | 100.0 |
| RATIONAL France SAS, Noisiel, France | 100.0 |
| FRIMA International AG, Balgach, Switzerland | 100.0 |
| FRIMA Deutschland GmbH, Frankfurt am Main, Germany | 100.0 |
| FRIMA France SAS, Wittenheim, France | 100.0 |
| **America** | |
| RATIONAL Cooking Systems Inc., Schaumburg, USA | 100.0 |
| RATIONAL Canada Inc., Vaughan, Canada | 100.0 |
| **Asien** | |
| RATIONAL Japan Co. Ltd., Tokyo, Japan | 100.0 |

* For the description of consolidated companies, FRIMA Deutschland GmbH, registered office in Germany, is shown under region "Europe" as a subsidiary of FRIMA International AG.

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In addition, RATIONAL AG holds 98 percent of the shares and voting rights in MEIKU Vermögensverwaltung GmbH, with registered offices in Landsberg am Lech, 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 among the consolidated companies as they are only of minor significance for the assessment of the group's net assets, financial position and results of operations. Both participations fall into the category of "investments held to maturity" and are shown at acquisition cost or applicable market value if lower. As at the balance sheet date of December 31, 2006, MEIKU Vermögensverwaltung GmbH showed a net profit of 75 thousand euros (previous year: 50 thousand euros) and authorised capital of 117 thousand euros (previous year: 101 thousand euros).

## 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 with the exception of the newly founded subsidiaries in Switzerland. Asset values and liabilities are converted at the middle exchange rates on the balance sheet date and the items in the income statement at the annual average rates. The portions of equity capital to be included in the capital consolidation and the retained profits or accumulated losses brought forward are converted at historic rates. Should differences arise on the balance sheet, they are recorded as "differences arising from currency conversion" within equity capital, where they are revenue-neutral, 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, with their comparative changes over the course of the year:

| | Exchange rate Annual average | | | Exchange rate on balance sheet date | | |
|---|---|---|---|---|---|---|
| 1 euro = | **2006** | 2005 | **Change** | **2006** | 2005 | **Change** |
| USD – US dollar | 1.2630 | 1.2379 | 2% | 1.3182 | 1.1825 | 11% |
| JPY – Japanese yen | 146.71 | 136.91 | 7% | 156.67 | 139.17 | 13% |
| GBP – Pound sterling | 0.6820 | 0.6832 | 0% | 0.6713 | 0.6863 | – 2% |
| CHF – Swiss franc | 1.5764 | 1.5478 | 2% | 1.6084 | 1.5548 | 3% |
| CAD – Canadian dollar | 1.4254 | 1.4989 | – 5% | 1.5303 | 1.3750 | 11% |
| SEK – Swedish krona | 9.2523 | 9.2993 | – 1% | 9.0430 | 9.3920 | – 4% |
| PLN – Polish zloty | 3.8995 | 4.0253 | – 3% | 3.8350 | 3.8650 | – 1% |

## Accounting and valuation methods

**Intangible assets**

Acquired intangible assets are capitalised at acquisition cost and are depreciated over three to five years using the straight-line method. There are no capitalisable development costs as defined by IAS 38.57. If a reduction in value is identified that exceeds the scheduled depreciation, the item is depreciated to the achievable value. Goodwill from capital consolidation and other corporate acquisitions is no longer subject to scheduled amortisation but to an annual impairment test in compliance with IAS 36. If either the applicable fair value or the utility value is below the book value of the goodwill, the reduction in value (impairment) is allowed for in the income statement. Historical reductions in the value of goodwill may not be recognised retroactively.

**Property, plant and equipment**

Tangible fixed assets are valued at acquisition cost or production cost, less scheduled 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 economically useful life of the items. Depreciation was not calculated solely on the basis of tax regulations. If the acquisition or production costs of particular components of a tangible asset are to be calculated and depreciated in comparison with the overall intrinsic value of a tangible asset, then the value of these components is calculated and depreciated accordingly. If a reduction in value is identified that exceeds the scheduled depreciation, the item is depreciated to the value that is achievable. 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 using the reducing balance method at rates of between 20 percent and 30 percent. New tangible assets are depreciated on a “pro rata temporis” basis in the year of their acquisition. Low-value fixed assets are depreciated in full in the year of acquisition or production.

**Finance leasing**

Since a group company 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 company as a lessee, the leasing item is capitalised for the lessee 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 asset values purchased in a similar manner.

**Inventories**

Raw materials, consumables, supplies and trade goods are valued at acquisition cost. The lowest value principle, in accordance with the weighted average price, is used to determine acquisition costs. Assets in inventories are depreciated as soon as their net sales price becomes lower than the book value.
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.

**Financial assets**

Depending on the individual case, financial assets as defined by IAS 39 are classified either as financial assets, shown at the applicable fair value and treated as income/expense, or classified as loans and receivables, financial investments held to maturity or financial assets available for sale.
All financial assets in current assets are recorded at acquisition cost on the account date, i.e. the date on which the claim arises or the economic interest is transferred. Standard purchases and sales are recorded using the value on the day of trading.
“Financial assets shown at the applicable fair value” refers to derivatives classified as held for trading. If financial assets are held to maturity, they are shown at acquisition cost carried forward. Subsequent to initial recording, and using the effective interest method, loans and receivables are valued at acquisition cost carried forward, less any adjustments for reductions in value. Financial assets available for sale are not carried.
The applicable fair value for all categories of financial asset is their value on those markets that are relevant for 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 recognised in the results for the period.

**Derivative financial instruments**

Derivative financial instruments are shown at the fair value on the balance sheet date, while the resulting valuation advantages or disadvantages are included in the balance sheet within other assets or other liabilities, and the changes in fair value are included in the income statement within other operating income or expenses. For further information on derivative financial instruments, please see "Notes on financial instruments" and "Derivative financial instruments".

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand and in bank accounts and short-term deposits with remaining terms of less than three months calculated from the time of acquisition, and are valued at nominal value. Cash in foreign currency is converted at the middle exchange rate on the balance sheet date.

**Actual tax assets and tax liabilities**

Actual tax assets and liabilities for the current as well as prior periods are valued at the amount of the expected refund from or payment to the tax authorities. The amount is calculated on the basis of the tax rates or tax legislation applicable on the balance sheet date.

**Deferred tax assets**

The item "Deferred tax assets" is created in accordance with IAS 12, using the liabilitiies method for temporary differences between the value of an asset or liability as shown on the balance sheet and the valuation for tax purposes. Also, any tax losses brought forward are capitalised – if they are likely to be utilised in the future – in the amount of the future deferred tax refund claim. Deferred tax assets and liabilities are valued at the tax rates expected to be effective in the period in which the asset is recognised or liability settled, with the tax rates that apply on the balance sheet date being used as a basis. As in the previous year, the domestic tax rate forming the basis for calculating deferred tax was approximately 37 percent in 2006. The deferred tax rates for foreign subsidiaries were between 9 percent and 51 percent (previous year: 17 percent and 42 percent). The book value of deferred tax claims is reviewed each balance sheet date and reduced by the amount by which it is no longer probable that sufficient taxable income will be available towards which at least part of the deferred tax claim can be used. Deferred taxes which relate to items that are recorded directly in equity capital are not recognised in the income statement, but in equity capital.

**Provisions**

The valuation of provisions for pensions is based on the projected unit credit method stipulated in IAS 19 for performance-based pension schemes.
Other provisions are created if, as a result of a past event, a liability to a third party exists which is likely to have to be met in future and of which the amount claimed can be reliably estimated. The valuation of the provisions is reviewed each balance sheet date. If the effect of discounting would be substantial, the provision is discounted.

**Financial liabilities**

"Financial liabilities shown at the applicable fair value" refers to derivatives classified as financial liabilities held for trading. Liabilities from finance leasing agreements are reported on the date the agreements are concluded, at the cash value of the leasing instalments. Because they belong to the category of loans and receivables, trade accounts payable and other liabilities are shown at acquisition cost carried forward, which is their applicable fair value.

**Realisation of income and expense**

The revenue from sales is recognised when the service is rendered or when the risk is 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 warranties are created on an individual basis or when the corresponding revenue from sales is recognised. 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 in principle, and in particular for provisions for pensions and finance leasing, as well as to assess the value of goodwill, 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. It is the book values of the assets and liabilities as at the balance sheet date that are shown on the balance sheet. In this context, the significant sources of uncertainty about valuations are those valuation factors projected into the future, such as the rate of interest used for accounting purposes, including the assumptions applied to the risk situation and the trend in interest rates and assumptions on the future trend in earnings in the underlying cash generating units. The book values for the items discussed are shown individually in the respective notes.
Actual developments may under certain circumstances differ from the estimates and assumptions made. The principle of the "true and fair view" is applied unreservedly when using estimates.
Other than to form estimates and assumptions there was no significant use of discretion on the part of management in the application of accounting and valuation methods.

## Notes on financial instruments

IFRS 7 states that the notes should include a section that explains the significance to the company of financial instruments and includes an assessment of the market, credit and liquidity risks associated with financial instruments.
Since its formation in 1973, the RATIONAL's sole activities have been the development, production and sale of professional cooking appliances for industrial kitchens. The appliances and accessories are marketed by RATIONAL sales subsidiaries worldwide, not directly to the end customer but indirectly, by our independent trading partners (B-to-B business). In the course of normal operating activities, companies can enter into a large number of contractual agreements that lead to the creation of financial assets for one company and, at the same time, financial liabilities for another. These financial instruments, as they are called, can conceal specific risks in addition to the operational risks to the company already described in the Management Report. These risks are divided into a number of categories: credit risk, or risks arising from default on payment of receivables items, liquidity risk, which relates to liabilities items, and market risks – exchange rate risk, interest rate risk and price risk in particular.

RATIONAL has a risk management system which is implemented worldwide, enabling it to identify and analyse opportunities and risks at an early stage, and so take appropriate preventative action. The following elements of the RATIONAL risk management system have particular relevance with regard to the opportunities and risks connected with financial instruments:

- The integrated RATIONAL planning process that involves all companies and corporate divisions worldwide and the setting of specific sales and financial targets, as well as detailed measures to ensure those targets are met
- The monthly reporting process which ensures that the degree to which targets are achieved in all corporate divisions is reliably and continuously measured, analysed and commented on. Prompt provision of information allows countermeasures to be implemented quickly and flexibly if things start to go wrong
- Benchmarks and threshold values in the area of finance, especially in receivables management, help managers to identify undesirabale developments at an early stage, so that appropiate countermeasures can be taken
- All our business processes are documented in precise process descriptions. Quality and compliance are assured through regular training, as well as through checks
- The Internal Audit department independently and objectively records and assesses any variations from targets, and undesirable developments are quickly and flexibly halted
- A professional treasury team that implements our globally integrated treasury management system, providing top quality cash management worldwide
- A comprehensive insurance strategy that is reviewed annually and adapted to the new risk environment
- The company's management creates the framework conditions that make it possible for all our employees to identify and take up opportunities, to assess risks accurately and to take appropriate action

**Default/credit risks**

The RATIONAL-Group supplies customers in approximately 120 countries around the world. The risk of default on trade receivables and other receivables (which fall into the category of loans and receivables) can arise as a result of customers not fulfilling their payment obligations. In order to counter the risk of default from the outset, and consequently the credit and liquidity risks for the RATIONAL-Group which may be associated with it, we run credit checks on our customers and are given a decision on a limit from a company providing credit sale insurance. As an alternative to the credit checks made by the insurers, and depending upon the type and amount of the payment concerned, it is sometimes necessary to use security deposits, prepayments, or "clean credits" from banks to provide security, or to take account of documented previous payment behaviour in the decision-making process. Only the public sector customers that we supply are not subject to credit checks.

COFACE is contracted to the whole of the RATIONAL-Group worldwide as insurer for credit sale insurance. Under our contracts, the credit sale insurance not only covers the risk of customer insolvency, but also so-called "protracted default" (non-payment situation covered by insurance). 90 percent of the insurance claims made for default on receivables are met by the insurer.

Of the trade receivables carried at year end 2006, 79 percent (previous year: 80 percent) were secured through credit sale insurance. In addition to this, securities in the form of "clean credits" from banks amounting to 1,869 thousand euros (previous year: 2,334 thousand euros), a volume of 802 thousand euros of which (previous year: 556 thousand euros) related to public sector customers. The theoretical maximum credit risk as at the balance sheet date, after taking account of cover through credit sale insurance and "clean credits" from banks, is 9,411 thousand euros (previous year: 8,120 thousand euros). This theoretical maximum credit risk does not include any substantial lump-sum risks. The lump-sum risks that do exist include unsecured receivables with a nominal value of more than 100 thousand euros per individual customer. The total for this category is 1,967 thousand euros (previous year: 1,190 thousand euros), and is divided among nine (previous year: seven) customers. This corresponds to a share of 3.70 percent (previous year: 2.58 percent) of the trade receivables shown by the RATIONAL-Group on its balance sheet. The remainder of the receivables volume shown on the balance sheet is accounted for by the individual customer with the largest unsecured receivables balance 420 thousand euros (previous year: 356 thousand euros), which is still only 0.79 percent (previous year: 0.77 percent) of the overall volume of receivables shown. The following table showing trade receivables divided by segment also shows where the risk is concentrated:

| Thousands of euros | **2006** | % of total | 2005 | % of total |
|---|---|---|---|---|
| Germany | 4,270 | 8 | 2,899 | 6 |
| Europe (excluding Germany) | 39,688 | 75 | 27,599 | 60 |
| America | 4,908 | 9 | 4,851 | 11 |
| Asia | 1,322 | 2 | 1,433 | 3 |
| Parent company | 2,952 | 6 | 9,307 | 20 |
| **Total** | **53,140** | **100** | 46,089 | 100 |

Any default risks identified within receivables are accounted for by creating appropriate value adjustments (write-downs). Receivables reversed in financial year 2006 amount to 486 thousand euros, or 0.17 percent of sales revenue for the year (previous year: 445 thousand euros/0.18 percent). This figure does not allow for compensation paid by or expected from the credit sales insurer. The changes in value adjustments are shown in tabular form under "Trade receivables" in the notes to the financial statements.

**Liquidity risks**

Liquidity risk refers to the theoretical possibility that at some point in time RATIONAL AG might not be in a position to fully meet its normal payment obligations in the categories of trade accounts payable or other liabilities by their due dates. This risk is countered through continual planning and monitoring, and by Corporate Treasury's management of incoming and outgoing payment streams across the group. As a result of the successful development of the RATIONAL AG business and the group's enormous earning power, it has in the past regularly succeeded in building up very high levels of net cash. And because of its excellent liquidity situation it is able to settle trade accounts payable and other payment obligations extremely promptly, and so take advantage of any discounts from suppliers. RATIONAL AG also enjoys a high credit rating with banks (A+ to AAA) because of its excellent earning power and capital structure, which allows it to obtain interim financing quickly and at favourable rates.

As at the balance sheet date, the parent company had unused credit lines to the value of 42,587 thousand euros (previous year: 39,813 thousand euros). The credit lines are provided by various banks until further notice or for twelve months in each instance. No securities are assigned in respect of the credit lines; instead, a negative covenant or a banks' pari passu clause is agreed, whereby with regard to the securing of claims, RATIONAL AG undertakes not to put the individual bank into a position any less favourable than other creditors or banks providing comparable loans.

**Market price risks**

Because of the nature of RATIONAL AG's activities in general, as well as their international nature, a number of asset and liability items are exposed to market risks arising from fluctuations in exchange rates, interest rates and raw materials prices.

Exchange rate risks in this case relate to receivables denominated in foreign currency, liabilities and anticipated transactions. Anticipated transactions include planned payment flows, based on the currency-related receipts of each sales company after costs and other expenses in the same currency have been deducted. A theoretical interest rate risk relates to the finance leasing liabilities included in other liabilities. The majority of price risks are related to the purchase of raw materials for the production of RATIONAL products.

One of the functions of Corporate Treasury, which is a department within the parent company, is to counter these risks with suitable instruments and measures. Its activities are governed by corporate guidelines, and are supported, controlled and monitored by a professional treasury system. Derivative financial instruments are used to counter any risks that are identified, which can involve the hedging of posted, open and anticipated transactions. Only banks with good to excellent credit ratings (a Standard & Poor's rating of at least A+) are permitted as contractual partners in derivative financial instruments.

**Currency risks**

Exchange rate risks worldwide, especially for RATIONAL's sales companies in Scandinavia, the UK, Switzerland, Poland, the US, Canada and Japan, for whom the ledger currency is not the euro, are calculated on a monthly basis with a projection for six months into the future, centrally pooled and controlled. Where necessary, they are hedged by means of derivative financial instruments. The exchange rate risks relate to receivables, liabilities and anticipated transactions denominated in foreign currencies. Anticipated transactions include planned payment flows, based on the currency-related receipts of each sales company, after costs and other expenses in the same currency have been deducted.

RATIONAL AG uses currency options and forward exchange contracts to hedge these cash flows. 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, to trade a fixed volume at an agreed time, in the agreed currency and at a fixed exchange rate.

As a rule, 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 spread.

Zero-cost options with spread combine the purchase of put options with the sale of call options at different base prices. Zero-cost options without spread combine the purchase of put options with the sale of a call option where the base price is the same for both. Further information on the management of currency risks can be found in the notes on derivatives.

**Interest rate risks**

The financing under RATIONAL's existing property leasing agreements is at a fixed rate for the entire leasing period. Although there is no interest rate risk inherent in these agreements, interest swaps and interest-currency swaps with terms of more than one year are used, in order to take advantage of interest rate variations between different currency areas. 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 on conclusion of the contract. Further information on the management of interest rate risks can be found in the notes on derivatives.

**Price risks**

In its production processes, RATIONAL uses several thousand tonnes of high-grade stainless steel a year. The risk arising from changes in the price of stainless steel is governed both by the cost price of stainless steel itself and by the fluctuations in the price of alloys on the raw materials market, which are reflected in the so-called “alloy surcharge”. Stainless steel is approximately 8 percent to 9 percent nickel, so of the alloy metals, nickel is of particular interest. The cost price of stainless steel itself cannot be hedged by derivative financial instruments; instead, RATIONAL AG agrees fixed prices with its suppliers for periods of twelve months. The alloy surcharge rose again during the last financial year. For RATIONAL, an increase in the alloy surcharge means increased cost of sales; however, the negligible financial effects of the increase mean that it can be disregarded and does not require hedging with, for example, derivative financial instruments.

**Tabular presentation classification of financial instruments**

The table below shows the various categories of financial instruments based on the relevant balance sheet items and the values at which they are shown on the balance sheet.

| Thousands of euros | Book value Dec. 31, 2006 | Valuation Acquisition cost carried forward | Valuation Fair value through profit or loss |
|---|---|---|---|
| **Loans and receivables** | **97,971** | **97,971** | — |
| Trade receivables | 53,140 | 53,140 | — |
| Other receivables (excluding derivatives) | 4,248 | 4,248 | — |
| Cash and cash equivalents | 40,583 | 40,583 | — |
| **Financial investments held to maturity** | **218** | **218** | — |
| Investments | 218 | 218 | — |
| **Financial assets held for trading** | **758** | — | **758** |
| Derivatives not in a hedging relationship | 758 | — | 758 |
| **Financial liabilities valued at acquisition cost** | **18,669** | **18,669** | — |
| Trade accounts payable | 6,787 | 6,787 | — |
| Other liabilities (excluding derivatives) | 7,806 | 7,806 | — |
| Financing leasing liabilities | 4,076 | 4,076 | — |
| **Financial liabilities held for trading** | **295** | — | **295** |
| Derivatives not in a hedging relationship | 295 | — | 295 |

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The following table shows the applicable fair values of the financial assets and liabilities shown on the balance sheet at acquisition cost carried forward. The applicable fair values for the financial instruments not shown at acquisition cost carried forward are the book values.

| Thousands of euros | Book value Dec. 31, 2006 | Fair value Dec. 31, 2006 |
|---|---|---|
| **Assets** | | |
| Financial assets | 218 | 218 |
| Trade receivables | 53,140 | 53,140 |
| Other receivables | 4,248 | 4,237 |
| Derivatives not in a hedging relationship | 758 | 758 |
| Cash and cash equivalents | 40,583 | 40,583 |
| **Equity and Liabilities** | | |
| Trade accounts payable | 6,787 | 6,787 |
| Other liabilities | 7,806 | 7,634 |
| Financing leasing liabilities | 4,076 | 3,904 |
| Derivatives not in a hedging relationship | 295 | 295 |

Additional, primarily quantitative, information on financial instruments can be found in the notes to the relevant balance sheet items.

**Sensitivity analysis for financial instruments**

IFRS 7 requires a sensitivity analysis to be carried out in order that the hypothetical effects of market price risks on income and equity capital can be shown. This involves making assumptions with regard to company-specific risk variables connected with financial instruments. For the purposes of the sensitivity analysis it is assumed that the financial instruments balance as at the balance sheet date is representative of the whole year.

**Risks attached to the conversion of currency items**

As at the balance sheet date of December 31, 2006, RATIONAL AG was subject to hypothetical currency risks attributable to its activities in the following currencies: US dollar, Japanese yen, Pound sterling, Swiss franc, Canadian dollar, Swedish krona, and Polish zloty; these risks are reflected in the items “Trade receivables”, “Other receivables” and “Cash and cash equivalents”, as well as in “Trade accounts payable”, “Liabilities to affiliated companies” and “Other liabilities”. If on December 31, 2006 the euro had been 10 percent stronger against the foreign currencies in which RATIONAL AG conducts its operations, the value of the net assets shown in the functional currency would have been 58 thousand euros higher. If the euro had been 10 percent weaker, the value shown in the functional currency would have been 58 thousand euros lower.

**Risks attached to derivatives**

RATIONAL contains the level of risk to which it is exposed in the areas of foreign currency and interest rates through the use of derivatives. RATIONAL does not fulfil the IAS 39 requirements for hedge accounting, so it shows all derivative financial instruments at fair value, with any changes in value being treated as income/expense. There is no direct influence on equity capital.
Currency hedging transactions relate to a future point in time, so on the balance sheet date a theoretical risk can be produced on the basis of the items shown.
In compliance with IFRS 7, RATIONAL determines the effects on earnings as shown in the income statement by defining theoretical changes in the market situation:

- a simultaneous, parallel upward revaluation (devaluation) of the euro by 10 percent against all other foreign currencies
- a rise (fall) in interest rates of 100 base points

The changed parameters mentioned above flow into a theoretical valuation of the closing balance of all financial instruments, and thus into the calculation of the variances from the fair values shown on the balance sheet.
These theoretical valuations are based on recognised mathematical valuation models:

- Futures and swaps, using the discounted cash flow method
- European currency options using Garman-Kohlhagen's modified Black-Scholes formula
- Interest rate options using the Black-Merton-Scholes formula

The theoretical effects on the income statement calculated in this way and shown in the table below are estimates, and are based on the assumption that the changes in the markets assumed for the purposes of the sensitivity analysis actually accur. The actual effects on the income statement of real developments in markets worldwide can vary considerably from these estimates.
For RATIONAL, when actual changes in the markets occur, the effects of the corresponding underlying transactions (for example, foreign currency sales revenue) counter the effects of the derivatives shown below.

| | Theoretical effect on income* Devaluation of euro or fall in interest rates | Theoretical effect on income* Revaluation of euro or rise in interest rates |
|---|---|---|
| Thousands of euros | **2006** | **2006** |
| Currency futures | 114 | – 93 |
| Currency options | – 2,645 | 1,150 |
| Interest-currency swaps | – 96 | 96 |
| Interest swap | – 41 | 40 |
| **Total** | **– 2,668** | **1,193** |

*Positive values represent a theoretical increase in earnings and negative values a theoretical decrease in earnings

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**Management of capital**

RATIONAL AG's capital structure is monitored through the company's reporting process, and the prevailing economic situation is the key determining factor in its management. The purpose of capital management is to secure the company's business and investment activities in the long-term, to achieve a high credit rating for the company and to maximize shareholder value. Capital is monitored primarily on the basis of the gearing ratio (coefficient of indebtedness), which represents the ratio of external third party financing to shareholder financing of the company. The underlying principle is that the higher the gearing ratio, the greater the company's dependency on external sources of credit. And despite the fact that RATIONAL AG regularly pays out high dividends, its gearing ratio as at December 31, 2006 was only 38.5 percent (previous year: 46.9 percent). Net liabilities here are composed of provisions, trade accounts payable and other liabilities, including finance leasing liabilities.

| Thousands of euros | **2006** | 2005 |
|---|---|---|
| Long-term liabilities | 3,633 | 4,833 |
| short-term liabilities | 37,110 | 37,379 |
| **Liabilities** | **40,743** | 42,212 |
| **Equity** | **105,816** | 89,924 |
| Gearing Ratio | 38.5% | 46.9% |

## Notes on the Income Statement

### 01 Sales

RATIONAL AG records revenue from sales of products as at the date on which the risks and rights of disposal attaching to ownership of the goods and products sold passed to the buyer. Sales include all revenue attributable to the typical busines activities of RATIONAL AG.
In the financial year 2006, RATIONAL AG achieved worldwide sales of 283,702 thousand euros (previous year: 246,410 thousand euros). 80 percent of sales can be attributed to the sale of our appliances, the RATIONAL SelfCooking Center®, RATIONAL CombiMaster® and the FRIMA VarioCooking Center®. The remaining 20 percent was generated from the sale of accessories, spare parts and cleaning products.
Sales are distributed across the regions as follows, by customer location:

| Thousands of euros | **2006** | % of total | 2005 | % of total |
|---|---|---|---|---|
| Germany | 46,917 | 16 | 41,341 | 17 |
| Europe (excluding Germany) | 155,538 | 55 | 136,253 | 55 |
| Americas | 38,852 | 14 | 30,405 | 12 |
| Asia | 29,257 | 10 | 28,129 | 12 |
| Rest of the world* | 13,138 | 5 | 10,282 | 4 |
| **Total** | **283,702** | **100** | 246,410 | 100 |

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

The sales for the new subsidiary, FRIMA Deutschland GmbH, founded in 2005 and with its registered office in Frankfurt, are no longer shown in the “Europe” region, but in the “Germany” region. The previous year’s values for the “Europe” and “Germany” regions were adjusted accordingly.
The “Germany” region still has the highest sales of any region and with a double-figure growth has for several years been a large contributor to group profits. In the financial year 2006, sales rose by 13 percent, to 46,917 thousand euros (previous year: +12 percent). At 19,285 thousand euros, the largest contribution to growth comes from the “Europe” region. In addition to the pleasing developments in established markets such as the UK, Scandinavia, Italy and Spain, this financial year has seen outstanding sales in Russia, in particular. In the strategic key market of the Americas, growth was faster than ever in 2006, and with a market share currently standing at over 30 percent, RATIONAL is now market leader here as well. The necessary restructuring of our Japanese subsidiary had a negative effect on growth in the “Asia” region in the financial year 2006, but sales were still 4 percent up on last year, largely because of stronger partner and OEM business.
The foreign share of sales amounts to 84 percent (previous year: 83 percent), and the foreign currency share to 33 percent (previous year: 32 percent). Changes in exchange rates during the financial year 2006, especially those in the US dollar and the Japanese yen, produced a negative currency effect, reflected in sales, of 771 thousand euros (previous year: 66 thousand euros).

RATIONAL sells its products worldwide through owned subsidiaries and independent trading partners, whose respective shares of sales can be broken down as follows:

| Thousands of euros | **2006** | % of total | 2005 | % of total |
|---|---|---|---|---|
| Subsidiaries | 198,781 | 70 | 175,613 | 71 |
| Sales partners | 60,216 | 21 | 47,181 | 19 |
| OEM sales | 24,705 | 9 | 23,616 | 10 |
| **Total** | **283,702** | **100** | 246,410 | 100 |

A further breakdown of sales, by region, appears in the segments statement.

### 02 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.
In spite of the fact that steel and oil prices continued to rise in 2006, cost of sales for RATIONAL AG rose proportionately less than sales, and this was because of increases in productivity in the production and delivery process. Production costs are no higher than last year and only represent 16 percent of the total for cost of sales (previous year: 19 percent).

### 03 Sales and service expenses

Sales and service expenses are made up of sales organisation costs for internal and field sales, shipping costs, and costs for marketing, application consultancy and after-sales service.
In the financial year 2006, the focus was on developing sales capacities in markets with high potential and continuing to increase sales force efficiency, but also on improving market penetration internationally, with our own sales organisations. Overall responsibility for the development of new markets for the RATIONAL brand has been given to the new subsidiary we have set up in Switzerland, RATIONAL International AG.
The biggest cost items within sales and service expenses are personnel costs, delivery costs and promotional costs, in particular for exhibiting at trade fairs and for marketing activities.

### 04 Research and development expenses

Research and development activities at RATIONAL 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. Expenditure on research and development was not only higher this year, but is also still well above the industry average. Development costs have not been capitalised, but are fully recognised as affecting income within the income statement item "research and development expenses".

### 05 General administration expenses

General administration expenses include business administration costs such as accounting, human resources, finance and IT costs, but also cost for financial controlling and certain strategic purchasing costs.
The defining characteristic of the RATIONAL process organisation is that it is composed of discreet, self-contained functions. All superfluous interfaces have been eliminated, and there are practically no departments in the conventional sense. This produces greater transparency of adminstration and ever increasing efficiency, at the same time as flat hierarchies.

Despite the inclusion, for the first time for a full financial year, of our companies in Austria, Poland, France and Switzerland, which were formed in 2005, adminstration expenses are only slightly higher than last year, and rose by a disproportionately small amount in comparison to sales.

## 06 Other operating income

| Thousands of euros | 2006 | 2005 |
|---|---|---|
| Exchange gains | 2,676 | 4,249 |
| Insurance recoveries | 719 | 257 |
| Income from value adjustments and depreciation on accounts receivables | 420 | 19 |
| Income from the release of provisions | 44 | 113 |
| Other (< euro 100 thousand in each case) | 116 | 61 |
| **Total** | **3,975** | 4,699 |

Exchange gains from foreign currency positions were primarily generated by fluctuations in the exchange rate between dates of origin and dates of payment, as well as by the varying valuations on the balance sheet date. Exchange gains realised are essentially the gains, or income, resulting from the valuation of forward exchange transactions and currency options, as well as the gains resulting from the valuation of foreign currency positions in US dollars, Pounds sterling and Japanese yen. Included is unrealised income from currency valuations amounting to 834 thousand euros; this comes from the valuation of intercompany receivables, forward exchange contracts and currency options, but also from the valuation of cash held in foreign currency. “Exchange gains” includes income from financial instruments amounting to 54 thousand euros (previous year: 281 thousand euros) and representing gains due to increases in the applicable fair value of those financial instruments.
The item “Insurance recoveries” primarily represents compensation from credit sale insurers for defaults on receivables and from other insurers for goods lost or damaged in transit. “Other” includes a large number of income items, such as refunds in respect of travel expenses, and tax refunds.

## 07 Other operating expenses

| Thousands of euros | 2006 | 2005 |
|---|---|---|
| Exchange losses | 3,260 | 3,763 |
| Depreciation and value adjustments on accounts receivables | 917 | 455 |
| Other (< euro 100 thousand in each case) | 303 | 229 |
| **Total** | **4,480** | 4,447 |

Exchange losses from foreign currency positions are primarily composed of expenses arising from exchange rate fluctuations between dates of origin and dates of payment, as well as by the varying valuations on the balance sheet date. In addition to any exchange losses realised, this item primarily includes expenses arising from the valuation of forward exchange transactions and currency options, as well as from the valuation of foreign currency positions in US dollars, Pounds sterling and Japanese yen. Unrealised expenses amounting to 1,112 thousand euros and arising from currency valuation are from the valuation of intercompany receivables, forward exchange transactions and currency options, but also from the valuation of cash held in foreign currency. Exchange losses include expenses arising from financial instruments amounting to 352 thousand euros (previous year: 814 thousand euros) and representing losses due to reductions in the applicable fair value of those financial instruments.

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The “depreciation and value adjustments on accounts receivable” item reflects the reversal of lumped individual value adjustments, some of which are connected with the setting up of new subsidiary structures, but also reflects the reversal of uncollectible receivables relating to a few small individual cases. The reversed receivables are largely offset by the payments from credit sale insurers shown under other operating income. No major depreciation is shown on individual accounts receivable for the financial year 2006.

## 08 Financial results

| Thousands of euros | **2006** | 2005 |
|---|---|---|
| Income from financial assets | 78 | 108 |
| Other interest and similar income | 871 | 670 |
| Interest and similar expenses | – 324 | – 460 |
| **Total** | **625** | 318 |

The item “Income from financial assets” includes the dividend paid out to RATIONAL AG as the parent company by the non-consolidated company MEIKU Vermögensverwaltung GmbH. The item therefore represents income from a financial instrument falling into the “held-to-maturity” category.

The interest income shown is made up of 255 thousand euros (previous year 235 thousand euros) in interest on fixed-term deposits and of 616 thousand euros (previous year: 435 thousand euros) in income from investment funds, deposits with next-day maturity and from interest on credit balances in current accounts. 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 2.53 percent and 4.39 percent per annum (previous year: 2.03 percent to 3.00 percent) in the last financial year. The annual equivalent yields on the investment funds were between 2.21 percent and 3.37 percent per annum (previous year: 1.90 percent and 2.56 percent).

The main component of the interest and similar expenses shown is accumulated interest of 283 thousand euros (previous year: 338 thousand euros) included in leasing liabilities in accordance with IAS 17.

The remaining interest expenses, totaling 41 thousand euros (previous year: 122 thousand euros) represent interest paid during this financial year on liabilities to banks, interest on the Japanese subsidiary’s discount bills and interest on tax and customs duty arrears.

## 09 Taxes on income

The following table shows the reconciliation between the expected and the actual reported tax expenses. As in the previous year, average tax rates of approximately 37 percent were used to calculate expected tax expenses for 2006 in relation to earnings from ordinary activities. This rate includes corporation tax – including the solidarity surcharge – and trade income tax. The deferred tax items for the years 2006 and 2005 were all valued in the same way, using an average tax rate of approximately 37 percent.

| Thousands of euros | **2006** | 2005 |
|---|---|---|
| Earnings before taxes (EBT) | 81,101 | 67,224 |
| Expected tax rate in percent | 36.53 | 36.53 |
| Expected income tax | **29,626** | 24,557 |
| Variations in local tax rates in the subsidiaries | – 833 | 58 |
| Tax refunds from previous years | – 1 | – 142 |
| Tax expenses relating to previous years | 1 | 226 |
| Non tax-deductible expenses and other deductible amounts | 532 | 148 |
| **Reported income tax** | **29,325** | 24,847 |

Deferred tax assets of 3,099 thousand euros are shown for the financial year 2005, following 2,992 thousand euros as at balance sheet date 2005. The deferred tax gain for 2006 is therefore 107 thousand euros, as against 1,231 thousand euros the previous year.
The tax accruals and deferrals for the financial years 2006 and 2005 are attributable to the following:

| | Deferred tax assets | | Effect on net income |
|---|---|---|---|
| Thousands of euros | **2006** | 2005 | **2006** |
| Elimination of intercompany profits | 2,925 | 2,912 | 13 |
| Tax losses brought forward | 358 | 397 | – 39 |
| Currency conversion | – 15 | – 51 | 36 |
| Hedging transactions | – 169 | – 278 | 109 |
| Finance leasing | – 7 | – 1 | – 6 |
| Debt consolidation | — | 7 | – 7 |
| Provisions for pensions | 56 | 67 | – 11 |
| Other | – 49 | – 61 | 12 |
| **Total** | **3,099** | 2,992 | **107** |

The deferred tax refund claims of 2,685 thousand euros (previous year: 2,528 thousand euros) that have been capitalised have prospective terms of less than one year. The reported amounts of 414 thousand euros (previous year: 464 thousand euros) are long-term. The short-term deferred taxes are apportionable to RATIONAL AG and result from temporary differences between the commercial balance sheet and the tax balance sheet, as well as from consolidation measures, whilst the long-term deferred taxes are mainly based on the accumulated tax losses of the subsidiaries that have been carried forward. Where tax deferrals and accruals with the same term of maturity exist within a company, a net balance is shown for them. Items for which equity capital was directly debited have produced deferred taxes amounting to 822 thousand euros. The realisation of deferred tax liabilities of 358 thousand euros depends on the future taxable operating income of the various subsidiaries, as there are no temporary differences. Deferred taxes of 322 thousand euros have been capitalised, although the subsidiaries made losses in 2005 and 2006. One of the subsidiaries in question already posted positive income in 2006 or rather, because of its strategic realignment, it was assumed it will make positive contributions to earnings in future.

## 10 Earnings per share

Earnings per share are calculated as stipulated by IAS 33 (Earnings per Share), 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 and group earnings of 51,776 thousand euros, undiluted earnings per share for the financial year 2006 are 4.55 euros, when in comparison with the previous year's figure of 3.73 euros constitutes a year-on-year rise of 22 percent. As a result of the Executive Board having been granted stock options on 34,500 shares in 2004, subject to a two-year waiting period, the diluted average number of shares is 11,372,875 (previous year: 11,404,500 shares) and diluted earnings per share 4.55 euros, as against 3.72 euros the previous year. As the waiting period ended in January 2006, the average number of shares outstanding in 2006 is 2,875. The option rights were settled in cash when exercised, in accordance with a Supervisory Board resolution of January 25, 2006.

The earnings per share shown in the financial year 2006 in compliance with IFRS/IAS also correspond to DVFA earnings.

## 11 Dividend per share

The dividend of 3.00 euros per share proposed by the Supervisory Board and the Executive Board of RATIONAL AG for the financial year 2005 was passed by a majority at the shareholders' meeting on May 17, 2006. A dividend totalling 34,110 thousand euros was paid on May 18, 2006.

The dividend proposed to the shareholders' meeting by the Supervisory Board and the Executive Board for the financial year 2006 is 42,638 thousand euros, or 3.75 euros per share. Subject to the appropriate approval from the shareholders' meeting, this would equate to 82 percent of group earnings for 2006 (previous year: 80 percent).

## Notes on the Balance Sheet – Assets

### 12 Intangible assets

| Thousands of euros | Industrial and similar rights | Goodwill | Total |
|---|---|---|---|
| **Acquisition cost** | | | |
| Balance at Jan. 1, 2006 | 2,061 | 6,048 | 8,109 |
| Additions | 1,147 | — | 1,147 |
| Disposals | – 77 | — | – 77 |
| Balance at Dec. 31, 2006 | 3,131 | 6,048 | 9,179 |
| **Amortisation** | | | |
| Balance at Jan. 1, 2006 | 1,767 | 5,624 | 7,391 |
| Additions | 422 | — | 422 |
| Disposals | – 75 | — | – 75 |
| Balance at Dec. 31, 2006 | 2,114 | 5,624 | 7,738 |
| **Book values** | | | |
| Balance at Dec. 31, 2006 | 1,017 | 424 | 1,441 |
| Balance at Dec. 31, 2005 | 294 | 424 | 718 |

The item "Intangible assets" is comprised of industrial and similar rights capitalised at acquisition cost, and goodwill; it does not include self-made assets. Development costs were not capitalised, but are recorded as expenses as incurred under research and development costs and are shown in the income statement. The useful life of the assets is assumed to be three to five years, and depreciation, which is calculated using the straight-line method, is distributed accordingly over this period. Depreciation was not calculated solely on the basis of tax regulations. If a reduction in value is identified that exceeds the scheduled depreciation, the item is depreciated to the value that is achievable. In the financial year 2006, there was no extraordinary depreciation of intangible assets. None of the intangible assets is subject to pledges or restrictions on disposal, and no contractual obligations to purchase intangible assets exist.

The depreciation shown was allocated to each functional area in the income statement according to its origin. The classification of depreciation for both intangible assets and tangible fixed assets is described in the notes on property, plant and equipment.

### 13 Goodwill

Remaining book values for goodwill of 424 thousand euros as at the balance sheet date are shown under intangible assets. The original book value of 2,958 thousand euros comes from the acquisition of the RATIONAL subsidiary, FRIMA S.A., Wittenheim in 1993. Accumulated depreciation amounts to 2,534 thousand euros. The hidden reserves for the LechMetall subsidiary that are also included in goodwill with a value of 3,090 thousand euros were fully amortised in financial year 2005.

Under IFRS 3, the goodwill for financial years starting on or after March 31, 2004 is no longer subject to scheduled amortisation over its useful lifespan in compliance with IAS 22. Instead, goodwill must undergo an impairment test in compliance with IAS 36 once a year at least.

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In December 2006, an impairment test based on the discounted cash flow method was conducted on the goodwill of FRIMA S.A. As in the previous year, the legal entity that is FRIMA S.A was identified as a "smallest possible cash generating unit", the achievable value of which is determined on the basis of its utility value. Future cash flow was estimated on the assumption that the assets would continue to be used, and using the management's current financial and business plans for the next 5 years, based on experience values. Growth in earnings was calculated on the same basis, using a contribution margin model. This model assumes 0 percent growth in earnings starting in the 5th year. In accordance with IAS 36, no allowance was made for any future restructuring and associated increases in earning power. The discounting rate used of 9 percent (post-tax) took appropriate account of the current market assessment of the effect of interest rates and the risk forecast as they affect the assets. The capital value calculated in this way was substantially higher than the derivative goodwill of FRIMA S.A. shown in the "intangible assets" item. Therefore, as no reduction in value (impairment) was identified, and no amortisation of goodwill was necessary here.

## 14 Property, plant and equipment

| Thousands of euros | Land and Buildings | Technical equipment, machinery | Operating and office | Total |
|---|---|---|---|---|
| **Acquisition cost** | | | | |
| Balance at Jan. 1, 2006 | 29,534 | 9,617 | 11,092 | 50,243 |
| Currency differences | – 26 | – 8 | – 194 | – 228 |
| Additions | 1,812 | 1,265 | 1,500 | 4,577 |
| Disposals | – 54 | – 207 | – 1,215 | – 1,476 |
| Balance at Dec. 31, 2006 | 31,266 | 10,667 | 11,183 | 53,116 |
| **Amortisation** | | | | |
| Balance at Jan. 1, 2006 | 11,793 | 4,090 | 7,181 | 23,064 |
| Currency differences | – 22 | – 5 | – 135 | – 162 |
| Additions | 1,338 | 1,303 | 1,199 | 3,840 |
| Disposals | – 41 | – 193 | – 968 | – 1,202 |
| Balance at Dec. 31, 2006 | 13,068 | 5,195 | 7,277 | 25,540 |
| **Book values** | | | | |
| Balance at Dec. 31, 2006 | 18,198 | 5,472 | 3,906 | 27,576 |
| Balance at Dec. 31, 2005 | 17,741 | 5,527 | 3,911 | 27,179 |

Tangible fixed assets ("property, plant and equipment") include land and buildings, as well as technical equipment and machinery and operating and office equipment, and are shown at acquisition or production cost less scheduled depreciation. The useful life of the land and buildings is estimated at 25 to 50 years and depreciation, which is calculated using the straight-line method, is based on the useful life. The remaining tangible fixed assets have a useful life of 1 to 15 years and are mainly depreciated using the reducing balance method.

If a reduction in value is identified that exceeds the scheduled depreciation, the item is depreciated to the value that is achievable. In the financial year 2006, there was no extraordinary depreciation of tangible fixed assets. There are no restrictions on the disposal of the tangible fixed assets, and no contractual obligations to purchase tangible fixed assets exist. Currency differences can be produced by the conversion of the tangible fixed assets of the subsidiaries, which are shown in foreign currency, into the functional currency.

There are no mortgages or other restrictions on the disposal of the tangible fixed assets, nor do any contractual obligations to purchase tangible fixed assets exist.
The depreciation shown was allocated to each functional area in the income statement according to its origin.
Total depreciation on intangible assets and tangible fixed assets amounts to 4,262 thousand euros and is allocated to the following functional areas in the income statement in the amounts listed below :
Production: 1,481 thousand euros (previous year: 1,643 thousand euros)
Sales and service: 850 thousand euros (previous year: 759 thousand euros)
Research and development: 366 thousand euros (previous year: 413 euros) and
General administration: 1,565 thousand euros (previous year 1,526 thousand euros).

## 15 Finance leasing

Tangible fixed assets ("property, plant and equipment") include land and buildings which, in compliance with IAS 17, are accounted for as the economic property rather than the legal property of the group, under finance leasing.
The book values of this leased property and buildings amount to 11.2 million euros (previous year: 11.7 million euros). In the financial year 2006, the accumulated depreciation on these leased assets rose by 0.5 million euros, to 3.9 million euros. The buildings have an expected useful life of 25 years. The corresponding liabilities arising from the fixed assets capitalised in accordance with IAS 17 are accounted for under other liabilities and itemised in the corresponding note.

## 16 Financial assets

As in previous years, the financial assets of 218 thousand euros shown fall into the "financial assets held to maturity" category, and 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 30 thousand euros investment in Topinox Sarl was depreciated in previous periods.
The original acquisition costs of these investments total 2,725 thousand euros, and the accumulated partial depreciation of the lower going-concern value made necessary by the distribution of dividends amounts to 2,507 thousand euros. The current market value of the investment in MEIKU Vermögensverwaltung GmbH corresponds to the book value shown of 218 thousand euros.

## 17 Inventories

| Thousands of euros | **2006** | 2005 |
|---|---|---|
| Raw materials, consumables and supplies | 5,966 | 6,748 |
| Work in progress | 1,157 | 906 |
| Finished goods and goods for resale | 8,373 | 8,565 |
| **Total** | **15,496** | 16,219 |

The inventories balances shown are valued at the cost of sales and include acquisition costs, all of those costs directly attributable to the production process and reasonable production overheads.
The raw materials, consumables and supplies and work in progress shown are mainly inventory items of RATIONAL AG as the producing parent company, and 7 percent (previous year: 9 percent) is accounted for by the production inventories of our subsidiary FRIMA S.A.. RATIONAL AG is responsible for over 97 percent (previous year: 95 percent) of what is a low inventory balance for work in progress.
The inventories balance is lower than last year, despite continuing improvements in sales performance, because production is order-driven, lead times are short and inventory management has been further

optimised. Overall, RATIONAL AG's inventories are at a very low level, which is clearly demonstrated by the extremely small range of stock.
The inventory holdings as at the balance sheet date of December 31, 2005 are not subject to any restrictions on disposal or mortgages.

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## 18 Trade receivables

| Thousands of euros | 2006 | 2005 |
|---|---|---|
| Trade receivables at nominal value | 53,796 | 46,732 |
| Write-downs for doubtful accounts receivables | – 656 | – 643 |
| **Total** | **53,140** | 46,089 |

Beause of the higher level of sales at year end, trade receivables as at balance sheet date 2006 were not only higher than the previous year but also well above the average for the year. All receivables have a remaining term of less than one year.
As at balance sheet date 2006, 12 percent of receivables were overdue, and 72 percent of those were in the 1-60 days band.

| Thousands of euros | | 2006 | Overdue | | | |
|---|---|---|---|---|---|---|
| | Total | not due | 1-60 days | 61-90 days | 91-120 days | > 120 days |
| Trade receivables | 53,796 | 47,154 | 4,792 | 483 | 427 | 940 |
| Write-downs for doubtful accounts receivables | – 656 | — | — | — | — | — |
| **Total** | **53,140** | — | — | — | — | — |

79 percent (previous year: 80 percent) of trade receivables at year end 2006 are secured through credit sale insurance. An amount of 1,869 thousand euros (previous year: 2,334 thousand euros) is secured through "clean credits" from banks, and a further volume of 802 thousand euros (previous year: 556 thousand euros) is due from public sector customers.
The theoretical maximum credit risk as at the balance sheet date, after taking account of cover through credit sale insurance and "clean credits" from banks, is 9,411 thousand euros (previous year: 8,120 thousand euros). This theoretical maximum credit risk does not include any substantial lump-sum risks. The lump-sum risks that do exist include unsecured receivables with a nominal value of more than 100 thousand euros per individual customer. The total for this category is 1,967 thousand euros (previous year: 1,190 thousand euros), and is divided among nine (previous year: seven) customers. This corresponds to a share of 3.70 percent (previous year: 2.58 percent) of the trade receivables shown by the RATIONAL-Group on its balance sheet. The remainder of the receivables volume shown on the balance sheet is accounted for by the individual customer with the largest unsecured receivables balance 420 thousand euros (previous year: 356 thousand euros), which is still only 0.79 percent (previous year: 0.77 percent) of the overall volume of receivables shown.

| Thousands of euros | Balance at Jan. 1, 2006 | Use | Additions | Balance at Dec. 31, 2006 |
|---|---|---|---|---|
| Write-downs for doubtful accounts receivables | 643 | 420 | 433 | 656 |

Provision is made for any default risks identified in the receivables inventory by making sufficient value adjustments (allowances). In the financial year 2006, value adjustments were made to 1.2 percent of trade accounts receivable (previous year: 1.4 percent) in the receivables inventory. Receivables reversed in the financial year 2006 amounted to 486 thousand euros (previous year: 445 thousand euros). This represents 0.9 percent (previous year 1.0 percent) of the receivables balance as at the balance sheet date, or 0.17 percent (previous year: 0.18 percent) of sales revenue for the year. This figure does not allow for compensation paid by or expected from the credit sales insurer.

## 19 Other assets

| Thousands of euros | **2006** | 2005 |
|---|---|---|
| Value-added tax refund claims | 2,048 | 735 |
| Fair value of derivative financial instruments | 758 | 811 |
| Corporation tax refund claims | 498 | 628 |
| Payments in advance | 243 | — |
| Deposits | 206 | 201 |
| Suppliers with debit balances | 46 | 308 |
| Receivables from interest | 1 | 101 |
| Prepaid Expenses | 862 | 825 |
| Other (< euro 100 thousand in each case) | 344 | 349 |
| **Total** | **5,006** | 3,958 |

The item “Deposits” includes receivables in an amount of 185 thousand euros (previous year: 189 thousand euros), all of which have remaining terms of more than one year. Loans of over 6 thousand euros (previous year: 6 thousand euros) are also long-term. Other long-term assets thus total 191 thousand euros (previous year: 195 thousand euros), and reflect a fair value of euro 180 thousand (previous year: 184 thousand euros). Because the value involved was so small, long-term assets were not shown at their discounted fair value, but at acquisition cost.

Prepaid expenses only includes expenses incurred before the closing date, of which the associated costs are to be allocated to the following year. This item is made up of a number of smaller items. The expenses shown relate primarily to exhibitions, marketing activities and rents, as well as insurance payments. All the items in prepaid expenses have remaining terms of less than one year.

Other short-term assets recorded amount in total to 4,815 thousand euros (previous year: 3,763 thousand euros).

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### 20 Cash and cash equivalents

As a rule, the Corporate Treasury is responsible for the management of the RATIONAL-Group's cash and cash equivalents worldwide, other than in countries where restrictions on capital movements conflict with this.

A balance of 40,583 thousand euros (previous year: 34,763 thousand euros) as at the balance sheet date is shown.

During the financial year, RATIONAL invested the major portion of its liquid funds in currency market-based growth funds or fixed-term deposits. Gains on the sale of shares in growth funds sold before the end of the financial year were recognised in interest income. At year end, liquid funds were primarily invested in the form of fixed-term deposits with terms not exceeding four months.

The annual equivalent yields on the fixed-term deposits in the last financial year were between 2.53 percent and 4.39 percent per annum (previous year: 2.03 percent and 3.00 percent). The annual equivalent yields on the market-based funds were between 2.21 percent and 3,37 percent per annum (previous year: 1.90 percent and 2.56 percent). 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.

As at the balance sheet date, the fixed-term deposits and deposits in euros with next-day maturity were placed in a number of different banks. Cash held in foreign currencies is valued at the rate applicable on the balance sheet date.

## Notes on the Balance Sheet – Equity and Liabilities

### 21 Subscribed capital

RATIONAL AG's share capital as at December 31, 2006 was unchanged at 11,370,000 euros and consisted of 11,370,000 ordinary registered no-par value shares, issued in the name of the bearer, with a calculated nominal value of 1 euro.
Conditional capital amounts to 200,000 euros and relates to option rights for 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 exercised by their bearers. The stock option scheme is described in the note "Stock option scheme".
Changes in subscribed capital are shown in the consolidated financial statements, in the statement of changes in equity.

### 22 Capital reserve

The capital reserve mainly represents the premium of 29,994 thousand euros from the initial public offering. It also includes income and expense items not affecting income and totalling –2,338 thousand euros (previous year: –2,338 thousand euros) resulting 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 income. The cash settlements paid to the Executive Board in the financial year 2006 as the second tranche of the stock option scheme of February 3, 2000 have reduced the capital reserve by the amount of the post-tax effect, namely 1,801 thousand euros, but this amount is revenue-neutral.
Changes in the capital reserve are shown in the consolidated financial statements, in the statement of changes in equity capital.

### 23 Revenue reserves

The revenue reserves shown are statutory reserves accrued from previous years, in compliance with Section 150 of the German Stock Companies Act (AktG).
Changes in revenue reserves are reported in the consolidated financial statements, in the statement of changes in equity capital .

### 24 Provisions for pensions

Under a final salary scheme, entitlements to the RATIONAL AG employee pension scheme exist for one former director and one former company secretary. The employee pension scheme is financed exclusively by pension provisions, which were reduced to 672 thousand euros in the financial year 2006 from the previous year's level of 683 thousand euros.
In compliance with IAS 19, benefit obligations are calculated annually using the actuarial projected unit credit method. Also in compliance with IAS 19, when pension provisions and pension costs were calculated, any actuarial gains and losses were recognised immediately and in full in income/expense. The pension obligations are shown in the balance sheet in the amount of the benefit obligation.
Expenditure on pension obligations included in costs:

| Thousands of euros | **2006** | 2005 |
|---|---|---|
| Interest expense | 29 | 25 |
| Recognised actuarial gains (previous year: losses) | – 13 | 67 |
| **Total** | **16** | 92 |

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The changes in the cash value of the benefit obligation are as follows:

| Thousands of euros | **2006** | 2005 |
|---|---|---|
| Efficiency-oriented obligation Jan. 1 | 683 | 591 |
| Interest expense | 29 | 25 |
| Paid obligations | – 27 | — |
| Recognised actuarial gains (previous year: losses) | – 13 | 67 |
| **Efficiency oriented obligation Dec. 31** | **672** | 683 |

In 2006, “Paid obligations” relates for the first time to benefit payments to a former director. The calculations were based on the following assumptions:

Rate of interest: 4.50 percent (previous year: 4.25 percent)
Pensions trend: 1.00 percent (previous year: 1.00 percent)

K. Heubeck’s mortality tables (2005 G version) were used as a biometric basis for the calculations. The benefit obligations for the current and the previous four reporting periods are as follows:

| Thousands of euros | **2006** | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|
| **Efficiency-oriented obligations at Dec. 31** | **672** | 683 | 591 | 533 | 507 |

## 25 Liabilities for current tax

| Thousands of euros | Balance at Jan. 1, 2006 | Currency Differences | Use | Additions | Balance at Dec. 31, 2006 |
|---|---|---|---|---|---|
| Taxes on income | 6,435 | – 25 | – 6,410 | 3,432 | 3,432 |

All provisions for taxes shown have terms of less than one year.

## 26 Short-term provisions

| Thousands of euros | Balance at Jan. 1, 2006 | Currency Differences | Use | Additions | Balance at Dec. 31, 2006 |
|---|---|---|---|---|---|
| Personnel | 5,850 | – 79 | – 5,739 | 6,993 | 7,025 |
| Warranty | 2,526 | – 8 | – 2,518 | 2,981 | 2,981 |
| Outstanding invoices | 2,041 | – 12 | – 2,029 | 2,015 | 2,015 |
| Consulting and audit fees | 1,342 | – 5 | – 1,337 | 1,450 | 1,450 |
| Trader bonuses | 1,950 | – 69 | – 1,881 | 3,276 | 3,276 |
| Other | 458 | – 4 | – 454 | 928 | 928 |
| **Total** | **14,167** | **– 178** | **– 13,958** | **17,643** | **17,675** |

The item “Other” shows totals for provisions of less than 50 thousand euros each. All the provisions have terms of less than one year.

## 27 Liabilities to banks

As at the balance sheet date, RATIONAL AG had no liabilities to banks. On the balance sheet date in 2005 it had a one-year bank loan for 3,000 thousand US dollars that was valued at 2,537 thousand US dollars at the spot rate on the balance sheet date. The interest for this loan was fixed at 3.9025 percent for the full term of the loan. The loan was repaid in February 2006. The interest of 11 thousand euros that accrued during 2006 was posted as interest expense so as to affect income. The currency gain realised when the loan was discharged was recognised in other operating income.

In the period between March and August 2006, bridging loans with terms of less than one year were taken out for a total of 800 million Japanese yen (acquisition value: 5,765 thousand euros), and at fixed interest rates of between 0.40 and 0.60 percent per annum Finance in low-interest currencies such as the Japanese yen is available to the RATIONAL-Group through its foreign subsidiaries, without the additonal currency risk.

All financing for the RATIONAL-Group is arranged by Corporate Treasury as and when required. As at the balance sheet date, the parent company had unused credit lines to the value of 42,587 thousand euros (previous year: 39,813 thousand euros). The credit lines have been provided by various banks until further notice or for 12 months in each instance. No securities are assigned in respect of the credit lines; instead, a negative covenant or a banks' pari passu clause is agreed, whereby with regard to the securing of claims, RATIONAL AG undertakes not to put the individual bank into a position any less favourable than other creditors or banks providing comparable loans.

## 28 Trade accounts payable

| Thousands of euros | **2006** | 2005 |
|---|---|---|
| Trade accounts payable | **6,787** | 5,361 |

As at balance sheet date 2006, 79 percent (previous year: 78 percent) of the trade liabilities shown were incurred at the production facilities of RATIONAL AG, Landsberg, and FRIMA S.A., Wittenheim. As a result of its excellent liquidity situation, RATIONAL is able to settle trade accounts payable extremely promptly, and so take advantage of any discounts from suppliers. The following table shows payment terms and net cash used, based on the payment terms usually agreed with our suppliers:

| Thousands of euros | **2006** | **Due dates** | | |
|---|---|---|---|---|
| | Total | up to 30 days | 30-60 days | > 60 days |
| Trade accounts payable | **6,787** | 6,044 | 729 | 14 |

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## 29 Other liabilities

| Thousands of euros | 2006 | 2005 |
|---|---|---|
| Liabilities from finance leasing agreements | 4,076 | 5,772 |
| Value-added tax liabilities | 3,379 | 2,187 |
| Liabilities to business partners | 2,380 | 2,062 |
| Liabilities from PAYE and church taxes | 1,529 | 1,276 |
| Liabilities from wages, salaries and social security contributions | 354 | 1,486 |
| Fair value of derivative financial instruments | 295 | 51 |
| Deferred income | 74 | 123 |
| Other (< euro 100 thousand in each case) | 90 | 72 |
| **Total** | **12,177** | 13,029 |

Deferred income here includes deferred book gains from a sale-and-lease-back transaction of our French subsidiary, FRIMA S.A., in the amount of 74 thousand euros (previous year: 123 thousand euros). In compliance with IAS 17, book gains are reversed over the terms of the respective leasing contracts, and so affect income.

49 thousand euros (previous year: 74 thousand euros) of these deferred book gains are long-term in character.

Liabilities relating to finance leasing agreements under IAS 17, which increased by 1,643 thousand euros in financial year 2005 as a consequence of the leasing financing for a new shipping facility, decreased in financial year 2006 by the amount of the regular repayments of finance leasing liabilities, which amount to 1,696 thousand euros (previous year: 1,456 thousand euros).

The due dates of liabilities resulting from finance leasing agreements are listed in the following table:

| | Total | Remaining up to 1 Year | Total | Remaining up to 1 Year |
|---|---|---|---|---|
| Thousands of euros | 2006 | 2006 | 2005 | 2005 |
| **Term; interest** | | | | |
| a) to 2007; 6.45% | 285 | 285 | 1,105 | 820 |
| b) to 2007; 4.93% | 22 | 22 | 85 | 63 |
| c) to 2008; Pibor 3 months + 1.50% | 293 | 164 | 448 | 155 |
| d) to 2011; 6.65% | 1,942 | 376 | 2,295 | 353 |
| e) to 2011; 6.05% | 254 | 50 | 301 | 47 |
| f) to 2011; 3.50% | 1,280 | 267 | 1,538 | 258 |
| **Total** | **4,076** | **1,164** | 5,772 | 1,696 |

For the finance leasing agreements under a), b), d), e) and f) in the above table, both interest and leasing rates are fixed for the entire term and are distributed evenly over the terms of the leasing agreements. There are no options to extend these terms, nor are there any restrictions on them. It was contractually agreed that lessee loans were to be taken out in each case that would achieve the fixed sale value (option to buy in RATIONAL AG's favour) of the leased objects when the leasing agreements expire. Finance leasing agreement f) is used for the finance leasing of the new shipping facility constructed in 2005.

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). Upon expiry, the leased object may be purchased from the lessor for 0.15 euros. There are no restrictions on this agreement, either.

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

| Thousands of euros | **2007** | 2008 – 2011 | from 2012 |
|---|---|---|---|
| Present values | 1,305 | 2,581 | — |
| Discounts | 49 | 547 | — |
| Leasing payments | 1,354 | 3,128 | — |

With the exception of the other long-term liabilities resulting from finance leasing that have been mentioned, all other liabilities shown are short-term in character.

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## Notes on the Cash Flow Statement

**30 Cash flow statement**

The cash flow statement shows the changes in cash and cash equivalents of the RATIONAL-Group during the year under review. In compliance with IAS 7, the cash flow statement shows the cash flow from operating activities – representing the cash inflow from current operating business activity – separately from that from investing and financing activities. Also in compliance with IAS 7, investing and financing activities which did not result in a change in cash are not included in this cash flow statement.

Cash in bank accounts includes cash subject to restrictions on disposal. The restrictions on disposal relate to a sum of 2 thousand euros (previous year: 6 thousand euros). No bank balances have been pledged for loans or approved credit lines. The cash and cash equivalents shown include cash on hand and cash in bank accounts with remaining terms of three months or less, and are included in the balance sheet item “Cash and cash equivalents”. At the start of the financial year, cash and cash equivalents amounted to 31,763 thousand euros, and had risen to 40,583 thousand euros by December 31, 2006.

## Other Notes on the group financial statements

### 31 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 3,115 thousand euros (previous year: 2,846 thousand euros). The various other provisions are itemised in the relevant sections of these notes.

### 32 Employees and personnel costs

The average number of people employed by RATIONAL AG rose once again during the last financial year, from an average of 792 during financial year 2005 to an average of 864 during financial year 2006. The average number of people employed outside Germany increased by 59, to 330.
The largest area of growth in the number of people employed was that of sales and marketing, reflecting the continuing expansion of our international sales organisations.
Employee distribution amongst the various operational areas is as follows:

| Employee distribution to operational areas | **2006** | % of total | 2005 | % of total |
|---|---|---|---|---|
| Production | 256 | 30 | 249 | 32 |
| Sales and Marketing | 320 | 36 | 279 | 35 |
| Technical Customer Service | 111 | 13 | 111 | 14 |
| Research and Development | 60 | 7 | 56 | 7 |
| Administration | 117 | 14 | 97 | 12 |
| **Average number of employees** | **864** | | 792 | |
| of which abroad | 330 | 38 | 271 | 34 |

As at the balance sheet date on December 31, 2006, the number of employees was 901, compared with 808 as at the same date in the previous year.
Personnel costs in 2006 amounted to 60,076 thousand euros (previous year: 53,420 thousand euros).

| Thousands of euros | **2006** | 2005 |
|---|---|---|
| Salaries and wages | 50,358 | 45,358 |
| Social security | 9,718 | 8,062 |
| **Total** | **60,076** | 53,420 |

### 33 Derivative financial instruments

Because of the international nature of its operations, the RATIONAL-Group is exposed to the risks generally associated with the financial markets. Corporate Treasury, a department within the parent company, is responsible for all security and financing activities conducted by any of the RATIONAL companies. The activities of Corporate Treasury are governed by written agreements. The treasury activities required are supported, managed and monitored by a professional treasury management system.
Derivative financial instruments are used to counter the risks identified; which can involve the hedging of posted, open and/or anticipated transactions. On average, approximately 50 percent of the risks

identified are hedged for a period of six to twelve months. The group does not generally enter into any trading deals, nor does it enter into any commitments where the risk involved is unquantifiable on the date the contract is to be concluded. 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.

The interest swap that was still open at year end is an interest rate hedge, over several years, of a planned financing deal in an amount of 2,000 thousand euros, and involves swapping the agreed fixed interest rate of 3.95 percent per annum for a variable interest rate (3-months-EURIBOR). RATIONAL pays the portion of the interest that is based on the fixed rate and in return receives the portion of the interest rate that is based on the variable rate. When a contract is concluded in this way no premium is payable.

Valuation of derivative financial instruments

RATIONAL does not fulfil the IAS 39 requirements for hedge accounting, so it shows all derivative financial instruments at market value. 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. Any changes in the market value are shown as affecting net income.

The market value of forward exchange contracts is calculated using the middle spot rate applicable on the balance sheet date, taking account of the time premiums or discounts that apply for the remaining terms of the individual contracts compared with the forward exchange rate at the time each contract was concluded.

With currency options and swaps, the fair 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 and/or obligations of a financial instrument. Any compensatory effects from underlying transactions are disregarded when determining the fair market value.

The following table shows the contract value and fair value of the derivative financial instruments, by category, as at December 31, 2006 and 2005: The contract values do not represent the market risk; but they provide information on the volume of transactions outstanding on the balance sheet date. All the open currency hedging transactions have remaining terms of less than one year.

| | | Contract Value | | Positive market value (assets) | | Negative market value (liabilities) | |
|---|---|---|---|---|---|---|---|
| Thousands of euros | Currency | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| Forward exchange contracts | CHF | — | 1,705 | — | 87 | — | — |
| Forward exchange contracts | SEK | — | 2,215 | — | 24 | — | — |
| Forward exchange contracts | JPY | 1,046 | 2,157 | — | 9 | 14 | — |
| Currency Options | GBP | 35,230 | 14,554 | 108 | 69 | 270 | 51 |
| Currency Options | USD | — | 1,613 | — | 4 | — | — |
| Currency Options | PLN | — | 506 | — | 4 | — | — |
| Currency Options | SEK | 3,007 | — | 14 | — | 11 | — |
| Interest rate / currency swaps | JPY | 1,870 | 2,280 | 633 | 614 | — | — |
| Interest rate swaps | EUR | 2,000 | — | 3 | — | — | — |
| **Total** | | **43,153** | 25,030 | **758** | 811 | **295** | 51 |

## 34 Other financial obligations

As at December 31, 2006, in addition to provisions, liabilities and contingent liabilities, other financial liabilities amounted to 7,417 thousand euros, 2,908 thousand euros of which will become due within the next twelve months. Liabilities to the value of 39 thousand euros have due dates of more than five years; these primarily represent future payments resulting from long-term development, rental, transport and leasing agreements.

The leasing agreements, which are treated as operating leases in accordance with IAS 17, are predominantly for the long-term use of production facilities, vehicles, IT and miscellaneous office machinery. The agreements do not have fixed terms, but provide for future minimum lease payments within the next 12 months of 1,935 thousand euros, and of 1,727 thousand euros for the years 2008 to 2011 (1 - 5 years). No leasing payments are due after that date. Insurance against loss or destruction of the objects leased is generally covered by policies taken out by the RATIONAL-Group. The leasing agreements contain no restrictions relating to, for example, dividends, additional debts or further leasing agreements. Leasing expenses recognised in net income for the financial year 2006 amount to 777 thousand euros (previous year: 988 thousand euros).

151 thousand euros is payable to former employees for agreed restraints on competition.

## 35 Segment reporting

RATIONAL AG'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 as segments internally. For this reason, the primary and only segment reporting format is geographical.

For segment reporting purposes, RATIONAL therefore groups its subsidiaries on the basis of their various geographical regions, in accordance with the stipulation of IAS 14.13 governing the apportionment of assets by location. We distinguish between the following five segments. a) subsidiaries in Germany, b) subsidiaries in Europe excluding Germany, c) subsidiaries in the Americas, d) subsidiaries in Asia and e) the activities of the parent company, with RATIONAL AG, LechMetall and RATIONAL Technical Services GmbH, all of whose registered offices are in Landsberg am Lech, Germany, being grouped together in one segment.

FRIMA Deutschland GmbH, with its registered offices in Frankfurt, was shown in the “Europe” segment in 2005 because it is a subsidiary of FRIMA International AG, which is based in Switzerland. Management has now decided, however, that as of 2006 FRIMA Deutschland GmbH is to be shown in the “Germany” segment, rather than in “Europe excluding Germany”. This is in line with management's espousal of the principle that it is the subsidiary's place of business that counts in such cases. The previous year's figures have been adjusted accordingly. The shifts between these segments have not been presented separately, as it was decided that the amounts involved were not sufficiently material. “Europe excluding Germany” thus now includes the companies in the UK, France, Italy, Austria, Switzerland, Poland, Spain (sales activities in Portugal and Spain) and Sweden (sales activities in the whole of Scandinavia). The Americas segment includes the activities of our subsidiaries in the US and Canada. The subsidiary in Japan represents the Asia segment.

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, which is based in Landsberg am Lech, Germany, is the owner of the property on which Factory I stands. RATIONAL AG is currently LechMetall's only business partner, and pays it ground rent for the leased land and buildings, plus an annual operating fee of 15 percent of LechMetall's authorised capital. It is included in the parent company's segment, along with RATIONAL Technical Services GmbH, Landsberg, the new subsidiary that was formed in 2004, and which combines all our service and after-sales activities.

This segment division reflects the company's management structure and also represents the risk and profit structures within the business worldwide. Within the operating business, the shift between the "parent company" and "Europe" segments is due to the fact that the structure of the group has been changed by the inclusion of two new subsidiaries.

For reasons of administrative simplicity, RATIONAL AG makes investments for the German sales and after-sales service business that is combined in RATIONAL Großküchentechnik GmbH (GKT). Support from RATIONAL AG in the form of cost transfers, including depreciation, is included in the segment expenses of the German subsidiary, and is thus also taken into account in the segment result.

Segment sales includes both sales with third parties and intercompany sales between group companies across the segments. Sales and revenues arising from internal relationships are always priced at the same level as those to third parties.

Segment depreciation and amortisation relates to intangible and tangible assets. No other significant non-cash expenses requiring disclosure under IAS 14.61 were incurred in either 2006 or the previous year.

Segment assets includes all assets, with the exception of liquid funds and any deferred tax assets.

The reconciliation column both reflects the effects of consolidation and shows the amounts resulting from varying definition of the content of segment items compared with the related group items.

In accordance with IAS 14.71, sales are also broken down by customer's place of business – in the notes on Sales.

| 2006<br>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** | 46,405 | 173,252 | 29,570 | 9,487 | 24,988 | **283,702** | — | **283,702** |
| vs. previous year | + 14% | + 74% | + 34% | – 23% | – 65% | + 15% | — | + 15% |
| share | 16% | 61% | 11% | 3% | 9% | 100% | — | 100% |
| **Intercompany sales** | 1,403 | 2,600 | — | — | 187,528 | **191,531** | — | **191,531** |
| **Segment sales** | 47,808 | 175,852 | 29,570 | 9,487 | 212,516 | **475,233** | — | **475,233** |
| vs. previous year | + 16% | + 76% | + 34% | – 23% | + 9% | + 28% | — | + 28% |
| **Segment expenses** | 46,251 | 168,562 | 28,494 | 9,586 | 141,888 | **394,781** | — | — |
| **Segment result** | 1,557 | 7,290 | 1,076 | – 98 | 70,628 | **80,453** | 23 | **80,476** |
| vs. previous year | + 458 | + 1,554 | + 121 | – 55 | + 7,643 | + 9,721 | 3,849 | + 13,570 |
| **Financial result** | — | — | — | — | — | — | — | **625** |
| **Earnings before taxes** | — | — | — | — | — | — | — | **81,101** |
| **Taxes on income** | — | — | — | — | — | — | — | **– 29,325** |
| **Group earnings** | — | — | — | — | — | — | — | **51,776** |
| **Segment assets** | 5,753 | 54,539 | 9,505 | 4,317 | 89,888 | **164,002** | – 61,126 | **102,877** |
| **Segment liabilities** | 6,355 | 44,244 | 10,220 | 4,575 | 22,701 | **88,095** | – 50,784 | **37,311** |
| **Segment investments** | 9 | 788 | 129 | 19 | 4,781 | **5,725** | — | **5,725** |
| **Segment depreciation** | 2 | 720 | 173 | 74 | 3,294 | **4,262** | — | **4,262** |
| **Employees** as at Dec.31,2006 | 59 | 258 | 60 | 33 | 491 | **901** | — | **901** |
| vs. previous year | – 1 | + 82 | + 7 | + 2 | + 3 | + 93 | — | 93 |

| 2005<br>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** | 40,584 | 99,675 | 22,105 | 12,292 | 71,754 | **246,410** | — | **246,410** |
| share | 16% | 40% | 9% | 5% | 29% | 100% | — | 100% |
| **Intercompany sales** | 790 | 168 | — | — | 122,692 | **123,650** | — | **123,650** |
| **Segment sales** | 41,374 | 99,843 | 22,105 | 12,292 | 194,446 | **370,060** | — | **370,060** |
| **Segment expenses** | 40,275 | 96,075 | 21,150 | 12,335 | 131,461 | **301,296** | — | — |
| **Segment result** | 1,099 | 5,736 | 955 | – 43 | 62,985 | **70,732** | – 3,826 | **66,906** |
| **Financial result** | — | — | — | — | — | — | — | **318** |
| **Earnings before taxes** | — | — | — | — | — | — | — | **67,224** |
| **Taxes on income** | — | — | — | — | — | — | — | **– 24,847** |
| **Group earnings** | — | — | — | — | — | — | — | **42,377** |
| **Segment assets** | 4,899 | 39,587 | 8,967 | 4,900 | 83,198 | **141,551** | – 47,170 | **94,381** |
| **Segment liabilities** | 5,133 | 29,330 | 8,978 | 5,004 | 27,312 | **75,757** | – 39,980 | **35,777** |
| **Segment investments** | 2 | 961 | 151 | 33 | 4,846 | **5,993** | — | **5,993** |
| **Segment depreciation** | — | 629 | 195 | 96 | 3,421 | **4,341** | — | **4,341** |
| **Employees** as at Dec.31,2005 | 60 | 176 | 53 | 31 | 488 | **808** | — | **808** |

### 36 Legal disputes

As part of its normal business activities, the RATIONAL-Group is involved in a number of court actions and claims, including the settlement of opposition proceedings against patents and alleged infringements of patents (own patents and patents owned by third parties). RATIONAL is also involved in several actions, in Germany and elsewhere, against the trademarks of third parties.
In the summer of 2006, an action was made pending in the US against our subsidiary there, RATIONAL Cooking Systems Inc., for infringement of patent rights on the basis of a patent that expires in October 2007, and at the same time, the facts were made public. In both our response to the claim and our counter-claim, we are maintaining not only that the patent has not been infringed, but that it is not valid.

### 37 Associated companies and persons

Other than those described below under “Supervisory Board and Executive Board”, there were no significant transactions with companies or people associated in any way whatsoever with RATIONAL AG during the year under review, 2006.
The only person associated with the group who could be said to have any control over it is Mr. Siegfried Meister, who holds 62.97 percent of the equity in the parent company, RATIONAL AG. Mr. Meister is Chairman of the Supervisory Board.

### 38 Supervisory Board and Executive Board

The composition of the Supervisory Board did not change during the financial year 2006. The members of the Supervisory Board are still the following:

- Siegfried Meister, Kaufmann — Chairman of the Supervisory Board
- Walter Kurtz, Kaufmann — Deputy Chairman of the Supervisory Board
- Roland Poczka, Kaufmann — Board member of the Supervisory Board

For the financial year 2006, the total remuneration of the Supervisory Board amounted to 543 thousand euros (previous year: 504 thousand euros), distributed as follows:

- Siegfried Meister — 216 thousand euros (previous year: 201 thousand euros)
- Walter Kurtz — 184 thousand euros (previous year: 170 thousand euros)
- Roland Poczka — 143 thousand euros (previous year: 133 thousand euros)

A provision to the value of 496 thousand euros has been made for the remuneration of the Supervisory Board. Also, receivables due from the Supervisory Board in an amount of 52 thousand euros are recognised within short-term assets.
As at December 31, 2006, the members of the Supervisory Board hold a total of 8,119,310 shares in RATIONAL AG (previous year: 8,116,309 shares), of which Mr. Siegfried Meister holds 7,159,786 (previous year: 7,159,786 shares). Mr. Siegfried Meister and Mr. Walter Kurtz each also hold one percent of the authorised capital of MEIKU Vermögensverwaltung GmbH.
In addition to his membership of the Supervisory Board of RATIONAL AG, Mr. Poczka is on the advisory council of the Glatz Group, Niedenfels, Germany, and the administrative councils of RATIONAL International AG and FRIMA International AG, both of Balgach, Switzerland and, as of January 1, 2007, of RATIONAL Schweiz AG, Balsthal, Switzerland.
Also, until May 31, 2006, Mr. Poczka was a member of the supervisory board of Winkler und Dünnebier Aktiengesellschaft of Neuwied, Germany.

In February 2006 Mr. Thomas Polonyi was appointed to the Executive Board as a new member. The composition of the Executive Board is therefore now as follows:

- Dr. Günter Blaschke, Dipl.-Kaufmann — Chief Executive Officer
- Erich Baumgärtner, Dipl.-Betriebswirt — Chief Financial Officer
- Peter Wiedemann, Dipl.-Ingenieur — Chief Technical Officer
- Thomas Polonyi, Dipl.-Kaufmann — Chief Sales and Marketing Officer

At the shareholders' meeting on May 17, 2006, a resolution was passed in compliance with Section 314 Para. 2 Sub-para. 2 of the German Commercial Code dispensing with the individualised publication of the Executive Board members' remuneration.

The total remuneration of the members of the Executive Board for the performance of their functions in the parent company and its subsidiaries amounted to 5,177 thousand euros in the financial year 2006 (previous year: 2,224 thousand euros). This sum includes a performance-related salary component of 1,230 thousand euros (previous year: 1,228 thousand euros) and a cash settlement relating to stock options on 34,500 shares issued in 2004 under a stock option scheme, from which 2,623 thousand euros was paid out in 2006.

As at the balance sheet date, the members of the Executive Baord hold a total of 10,383 shares in RATIONAL AG (previous year: 8,033 shares).

None of the members of the Executive Board sits on the supervisory board of a non-RATIONAL-Group company.

## 39 Stock option scheme

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 a total of 200,000 registered shares in the company in up to five annual tranches, representing a theoretical share of the company's share capital of 200,000 thousand euros. 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 for 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 middle) 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.

The first tranche, issued to coincide with the company's listing on the stock exchange, was of 34,500 option rights; these were issued in February 2000. The waiting period for the option rights was two years and the term (exercise period) three years. The exercise of option rights was linked to the attainment of RATIONAL share price targets, which were achieved, subsequent to the expiry of the waiting period. In 2002, it was decided by resolution of the Supervisory Board that after deduction of the fixed share issuance amount, a cash payment equivalent to 100 percent of the value of a common share of the company could be drawn on each option right. A cash settlement of 593 thousand euros was paid to the Executive Board from the first tranche of the stock option scheme 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 was two years and the term three years. Again, exercise of option rights was linked to the achievement of certain performance targets in comparison with the SDAX. The exercise price was set – taking account of the price of RATIONAL shares at the time the option was granted – at 47 euros per share. It was decided by resolution of the Supervisory Board on January 25, 2006 that for the second tranche also, a cash payment equivalent to 100 percent of the value of one share in the company could be drawn on each option right after deduction of the fixed share issuance amount. The result was that 2,623 thousand euros was paid to the Executive Board from the second tranche of the stock option scheme in 2006.

As at balance sheet date 2006, therefore, option rights to a maximum of 131,000 ordinary registered shares in RATIONAL AG still remained in the stock option scheme.

### 40 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 the financial year 2006, 306 thousand euros (previous year: 272 thousand euros) was contributed to the scheme.

### 41 Statement on the German Corporate Governance Code

The Executive Board and the Supervisory Board of RATIONAL AG have issued a statement in compliance with Section 161 AktG detailing which recommendations of the government commission for the German Corporate Governance Code have been and will be complied with. This was based upon the German Corporate Governance Code in the version dated June 12, 2006. The statement of compliance has been made permanently available to the shareholders.

**42 Subsequent events**

No events have taken place since the close of financial year 2006 that are of particiular significance for the assessment of RATIONAL AG's net assets, financial position and results of operations.

**43 Auditor**

By resolution of the shareholders' meeting of May 17, 2006, Rölfs WP Partner AG, auditors, was appointed as auditors for the financial year 2006. In 2005, Rölfs WP Partner AG merged with RATIONAL AG's auditors for the financial year 2005, namely Allrevision Dornhof Kloss und Partner GmbH, auditors and tax consultants.

In the financial year 2006, RATIONAL AG received invoices for fees in an amount of 253 thousand euros from Rölfs WP Partner AG (previous year: 218 thousand euros, from Allrevision Dornhof Kloss und Partner GmbH). The total is made up of 173 thousand euros (previous year: 138 thousand euros) for auditing the individual and consolidated financial statements, 33 thousand euros (previous year: 61 thousand euros) for tax consultancy services, 35 thousand euros (previous year: 14 thousand euros) for certification and valuation services and 12 thousand euros (previous year: 5 thousand euro) for other services.

Landsberg am Lech, February 16, 2006

RATIONAL Aktiengesellschaft
The Executive Board

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# ⇚ Multi-year overview

**Responsible: RATIONAL Aktiengesellschaft**
**Conception and design: Werbeagentur Ursula Borsche GmbH / breygraphics**

# Multi-year overview

| | | **2006** | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|
| **Earnings situation** | | | | | | | | |
| Sales | € million | 283.7 | 246.4 | 221.8 | 186.6 | 177.3 | 167.3 | 152.6 |
| Sales abroad | % | 84 | 83 | 84 | 83 | 81 | 80 | 78 |
| Gross margin | € million | 173.8 | 149.7 | 131.5 | 108.5 | 105.0 | 96.0 | 86.7 |
| EBITDA | € million | 84.8 | 71.2 | 57.9 | 46.5 | 41.6 | 35.0 | 32.3 |
| Depreciation/Amortisation | € million | 4.3 | 4.3 | 4.6 | 4.2 | 3.4 | 3.0 | 2.5 |
| EBIT | € million | 80.5 | 66.9 | 53.3 | 42.3 | 38.2 | 31.9 | 29.8 |
| Financial results | € million | 0.6 | 0.3 | 0.5 | 0.3 | 0.2 | – 0.1 | – 0.3 |
| EBT | € million | 81.1 | 67.2 | 53.9 | 42.6 | 38.4 | 31.9 | 29.5 |
| Group earnings | € million | 51.8 | 42.4 | 33.8 | 26.8 | 26.6 | 20.8 | 17.5 |
| Earnings per share (undiluted) | € | 4.55 | 3.73 | 2.98 | 2.36 | 2.34 | 1.83 | 1.54 |
| Gross margin | % | 61.3 | 60.8 | 59.3 | 58.1 | 59.2 | 57.4 | 56.8 |
| EBITDA-margin | % | 29.9 | 28.9 | 26.1 | 24.9 | 23.5 | 20.9 | 21.1 |
| EBIT-margin | % | 28.4 | 27.2 | 24.0 | 22.7 | 21.5 | 19.1 | 19.5 |
| EBT-margin | % | 28.6 | 27.3 | 24.3 | 22.8 | 21.6 | 19.0 | 19.3 |
| Return on equity (before taxes) | % | 76.7 | 74.7 | 51.8 | 47.0 | 48.6 | 49.5 | 57.9 |
| Return on capital employed (ROCE) | % | 79.1 | 67.9 | 47.9 | 42.3 | 42.3 | 40.0 | 45.6 |
| Dividend* | € million | 42.6 | 34.1 | 56.9 | 21.0 | 14.8 | 11.4 | 7.4 |
| Dividend per share* | € | 3.75 | 3.00 | 5.00 | 1.85 | 1.30 | 1.00 | 0.65 |

* Dividend 2006 - subject to approval by Shareholders' Meeting

| | | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|---|
| **Assets situation** | | | | | | | | |
| Fixed assets | € million | 29.2 | 28.1 | 28.1 | 27.5 | 26.0 | 25.7 | 20.3 |
| Current assets (incl. deferred tax assets and prepaid expenses) | € million | 117.4 | 104.0 | 118.7 | 100.5 | 88.0 | 75.1 | 65.6 |
| Inventories | € million | 15.5 | 16.2 | 14.3 | 12.8 | 11.3 | 11.8 | 11.0 |
| Trade receivables | € million | 53.1 | 46.1 | 36.7 | 32.7 | 30.9 | 29.8 | 27.5 |
| Liquid funds (including securities) | € million | 40.6 | 34.8 | 59.9 | 49.7 | 41.0 | 27.7 | 21.4 |
| Balance sheet total | € million | 146.6 | 132.1 | 146.8 | 128.0 | 114.0 | 100.8 | 85.9 |
| Equity | € million | 105.8 | 89.9 | 104.1 | 90.6 | 78.9 | 64.4 | 50.9 |
| Debts | € million | 40.8 | 42.2 | 42.7 | 37.4 | 35.1 | 36.4 | 35.0 |
| Provisions (incl. liabilities from current taxes) | € million | 21.8 | 21.3 | 22.0 | 16.7 | 13.0 | 11.6 | 12.6 |
| Liabilities to banks | € million | — | 2.5 | 2.2 | 2.4 | 2.9 | 5.3 | 6.7 |
| Trade accounts payable | € million | 6.8 | 5.4 | 5.8 | 4.6 | 4.8 | 4.4 | 3.9 |
| Other liabilities (incl. deferred income) | € million | 12.2 | 13.0 | 12.7 | 13.8 | 14.3 | 15.1 | 11.8 |
| Liabilities from finance leasing agreements | € million | 4.0 | 5.8 | 5.6 | 6.9 | 8.1 | 9.2 | 6.0 |
| Other liabilities | € million | 8.2 | 7.2 | 7.1 | 6.9 | 6.2 | 5.9 | 5.8 |
| Equity ratio | % | 72.2 | 68.1 | 70.9 | 70.8 | 69.2 | 63.9 | 59.3 |
| Net gearing | % | 27.8 | 31.9 | 29.1 | 29.2 | 30.8 | 36.1 | 40.7 |
| Equity-to-fixed-assets ratio | % | 362.3 | 320.0 | 370.5 | 329.0 | 304.0 | 250.5 | 250.5 |
| Capital Employed | € million | 102.5 | 99.0 | 112.6 | 100.6 | 90.7 | 79.7 | 64.7 |
| Working Capital (excluding liquid funds) | € million | 58.4 | 53.0 | 41.0 | 37.0 | 33.6 | 34.8 | 31.1 |
| as a percentage of sales | % | 20.6 | 21.5 | 18.5 | 19.9 | 18.9 | 20.8 | 20.4 |
| **Cash flow/Investments** | | | | | | | | |
| Cash flow from operating activities | € million | 49.1 | 32.8 | 39.2 | 29.8 | 31.9 | 19.7 | 16.0 |
| Cash flow from investing activities | € million | – 4.8 | – 3.7 | – 4.6 | – 4.9 | – 3.4 | – 4.1 | – 3.4 |
| Cash flow from financing activities | € million | – 35.3 | – 42.3 | – 37.3 | – 5.1 | – 25.2 | – 8.6 | 5.0 |
| Investments | € million | 5.7 | 6.0 | 5.7 | 6.0 | 4.3 | 4.3 | 3.8 |
| **Employees** | | | | | | | | |
| Employees (as an annual average) | | 864 | 792 | 742 | 679 | 669 | 660 | 604 |
| Personnel expenses | € million | 60.1 | 53.4 | 47.7 | 43.6 | 42.0 | 40.4 | 36.2 |
| Sales per employee | € thousand | 328.4 | 311.1 | 298.9 | 274.7 | 265.1 | 253.4 | 252.7 |

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