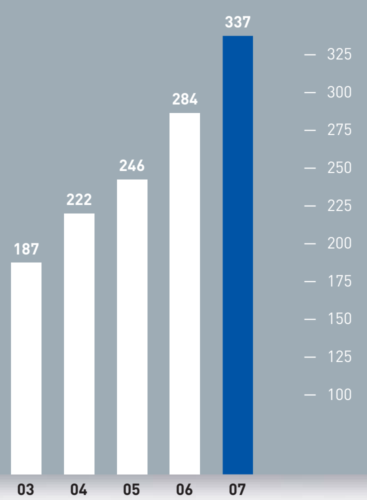
# Annual Report 2007

# The Company at a Glance ⇛

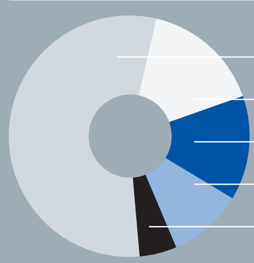
# The Company at a Glance

| Figures in thousands of euros | **2007** | 2006 | Change |
|---|---|---|---|
| Sales | 336,556 | 283,702 | + 19% |
| Sales abroad in % | 84% | 84% | +/– 0%-pts. |
| Cost of sales | 136,703 | 109,926 | + 24% |
| as a percentage of sales | 40.6% | 38.7% | |
| Sales and service expenses | 79,654 | 69,924 | + 14% |
| as a percentage of sales | 23.7% | 24.6% | |
| Research and development expenses | 11,759 | 10,229 | + 15% |
| as a percentage of sales | 3.5% | 3.6% | |
| General administration expenses | 15,295 | 12,642 | + 21% |
| as a percentage of sales | 4.5% | 4.5% | |
| EBIT – earnings before interest and taxes | 92,560 | 80,476 | + 15% |
| as a percentage of sales | 27.5% | 28.4% | |
| EBT – earnings before taxes | 93,463 | 81,101 | + 15% |
| as a percentage of sales | 27.8% | 28.6% | |
| Group earnings | 61,155 | 51,776 | + 18% |
| as a percentage of sales | 18.2% | 18.3% | |
| per share in euros | 5.38 | 4.55 | |
| Cash flow from operating activities | 61,063 | 49,140 | + 24% |
| per share in euros | 5.37 | 4.32 | |
| Balance sheet total | 187,422 | 146,559 | + 28% |
| Equity | 123,988 | 105,816 | + 17% |
| as a percentage of the balance sheet total | 66.2% | 72.2% | |
| Return on capital employed in % (ROCE) | 64.2% | 73.3% | – 9.1%-pts. |
| Working capital (without liquid funds) | 65,654 | 58,365 | + 12% |
| as a percentage of sales | 19.5% | 20.6% | |
| Employees (as an annual average) | 965 | 864 | + 12% |
| Sales per employee | 349 | 328 | + 6% |

**Sales in millions of euros**



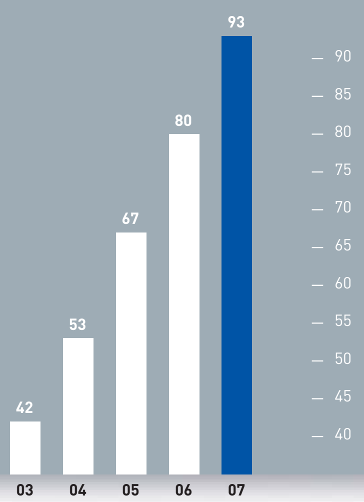

**Sales revenue by region (customers' location) in %**



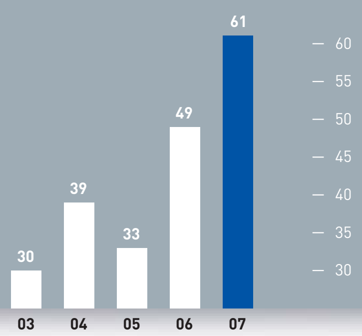
| | **2007** |
|---|---|
| **Europe excluding Germany** | **55%** |
| **Germany** | **16%** |
| **Americas** | **14%** |
| **Asia** | **10%** |
| **Rest of the world** | **5%** |

The value of RATIONAL as a company grew once again in the fiscal year 2007.
The return on invested capital (ROIC) amounts to an outstanding value of 43 percent.

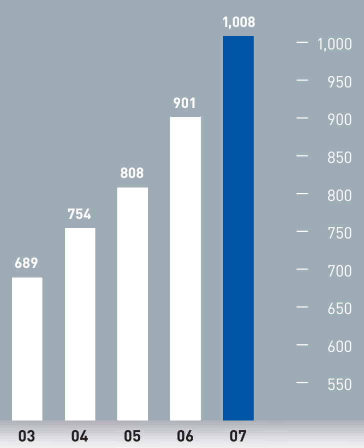
**EBIT in millions of euros**




**Cash flow from operating activities in millions of euros**




**Number of employees from 2003 to 2007 at year end**



Our sales growth of **19%** and our EBIT-margin of **28%**, once again, proves the company's extraordinary and sustained success.

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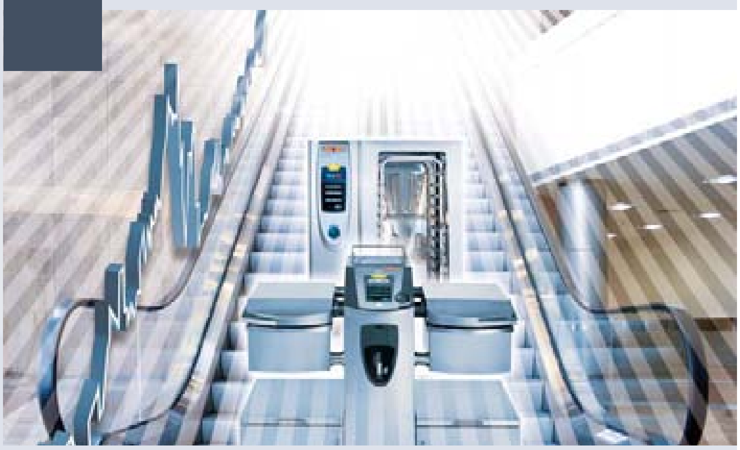


Foreword by the Supervisory Board

# No Limits … in entrepreneurial quality and success





## Long-term success means change

When it invented the combi-steamer over 30 years ago, RATIONAL began the process of making fundamental improvements to the way in which its customers work, i.e. people involved in the thermal preparation of food in professional kitchens around the world. And as a result, the entire sector changed in the long-term.

RATIONAL is currently by far the market and technology leader. With the SelfCooking Center® and VarioCooking Center®, the corporate group has two revolutionary product technologies, giving it a unique position worldwide with extensive sales potential.

But RATIONAL itself has had to "re-invent" itself time and again over the last 30 years, to enable it to develop from a small start-up company into the successful listed stock corporation that it is now, with over 330 million euros in annual sales and more than 1,000 employees. Its entrepreneurial quality has therefore continually improved year on year. This is true of all our corporate divisions, suppliers and partners, and especially our employees.

RATIONAL has continually improved its success through innovative strength and flexibility, while at the same time nurturing the necessary positive culture of change among all its employees, for as Charles Darwin observed, it is not the strongest of the species that survive, nor the most intelligent, but the most flexible and responsive to change. This principle of constant change is particularly applicable for companies, because as the company grows, so even more do the requirements placed on all employees.

## Our company philosophy is our guiding light

Changes tend to make people feel insecure. No-one finds it easy to question what is tried and tested, or even to denounce it as a risk for the future development of the company.

The RATIONAL corporate philosophy bridges the gap between necessary change and the human need for stability and predictability. It sets out the constant underlying strategic orientation of the company on a single page and in a readily comprehensible form. It therefore forms the company's "constitution" as it were, while providing a binding basis for every employee's day-to-day work.

"Purpose and authenticity is the key to motivation."

The core components of our philosophy are to focus all our work on offering our customers maximum benefit, which is the company's overriding aim, to see ourselves as specialists, to ensure product leadership and to deal with customers and suppliers – as well as the tasks and objectives of all employees.

This philosophy is increasingly instilled within RATIONAL employees, creating the necessary degree of assurance and stability in the ocean of daily change.

### Management as a driver of change

The biggest challenge facing management is to imbue the change with positivity. If you want to motivate others, you have to make sense and be genuine. Besides technical and methodological skills, RATIONAL managers must above all develop social skills. Social skills are the ability to connect with their employees' emotional side, encouraging them to embrace the future vision they have clearly set out. Only in this way will employees foster the desired enthusiasm in what they are thinking and doing, in addition to understanding the logical need for the change.

By creating a culture of challenge and support, managers instil the right atmosphere for their employees to meet objectives as effectively as possible and to develop personally. And as a result, the entrepreneurial quality, competitiveness and success of the company will continually improve.

## 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.

Foreword by the Executive Board

# No Limits … sales growth far exceeds expectations

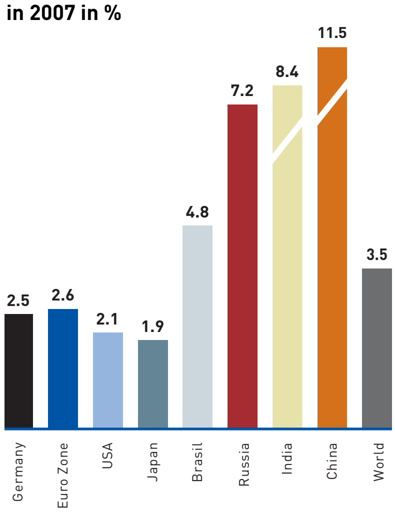




## Global economy continues on course for further growth

In 2007, the global economy continued along its course for further growth. 2007 marks one of the strongest years in terms of growth over the last few decades, with a growth rate of 3.5 percent. With a growth rate of 2.6 percent, the Euro Zone clearly disengaged itself from the uncertainty and volatility of the US economy, which only grew by 2.1 percent in 2007.

**Economic Growth in 2007 in %**




Source: Allianz-Dresdner Economic Research, Economy & Markets 12/2007

The emerging economies – including China, India, Russia and Brazil – also recorded above-average growth in 2007, with growth rates soaring between 7.5 percent and 11.5 percent. Once again, China remains the outright winner in the growth stakes, with 11.5 percent.

In 2007, the economic might of the emerging economies as a whole should already have overtaken that of conventional industrial countries.

In 2007, Germany at last managed to reclaim its leading position as the largest economy in Europe. The main driver for the current upswing is the strong export demand.
With labour market conditions easing and the relatively smooth introduction of the higher VAT rate, consumers in Germany are expected to again start playing a more important role in the future as trendsetters. The positive economic development is expected to continue.

## RATIONAL enjoys successful business in the Top 10 countries of tomorrow

The biggest climbers in the Top 10 over the next few years will probably be the countries with the largest populations, China and India. But Russia and Brazil are also moving up into the leading global group thanks to their abundant reserves of raw materials.

We believe the ten countries wielding the most power in the future in terms of economic policy will be China, the USA, Japan, India, Russia, Germany, Brazil, the UK, France and Italy.

**Top 10 of the future**

| Ranking | Country |
|---|---|
| 1 | CHINA |
| 2 | USA |
| 3 | JAPAN |
| 4 | INDIA |
| 5 | RUSSIA |
| 6 | GERMANY |
| 7 | BRASIL |
| 8 | UNITED KINGDOM |
| 9 | FRANCE |
| 10 | ITALY |

“We have crossed
the 300 million euros threshold
by a very wide margin in 2007.”

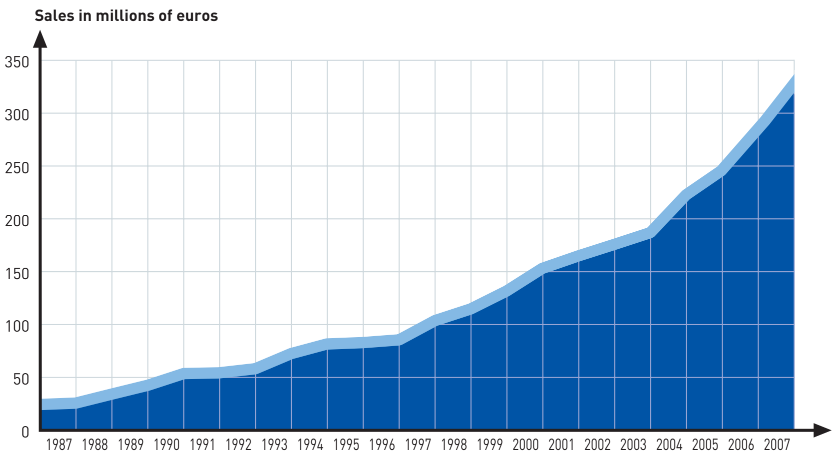
For RATIONAL, this means stepping up our strategy of developing and expanding sales and marketing capacities in these countries. For years now, RATIONAL has been successfully mirroring these general growth trends in the economy, with its own sales companies and a targeted strategy for expanding its retailer base.

### Sales growth at record level – up 19 percent

We posted sales of 337 million euros in 2007 (previous year: 284 million euros), an increase of 53 million euros, representing growth of 19 percent compared to the previous year. We have therefore not only crossed the 300 million euros threshold, we have crossed it by a very wide margin.

It was particularly pleasing that practically all sales companies around the world contributed to this growth. This is further testament to the solidity and performance of our global structures. Partner business in the markets of the future, such as Eastern Europe, Asia and Latin America also made an above-average contribution, recording a growth rate of 34 percent.

**Remarkable rise in growth rate in 2007**




## 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.

Foreword by the Executive Board





### Germany's growth in double digits

Even in the well-developed German combi-steamer market, where our sales figures are the highest, we managed once again in 2007 to achieve double-digit growth – of 13 percent. Just as thirty years ago the combi-steamer started to replace hot air appliances in particular, today the SelfCooking Center® is replacing the technically, economically and qualitatively obsolete combi-steamer. This means that the sales potential for our technology is almost 100 percent again, even in Germany. This apparently never-ending German success story also suggests that there is virtually unlimited sales potential in every other country in the world.

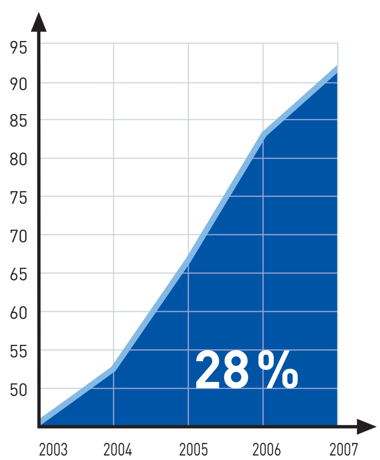
### RATIONAL top partner of Kentucky Fried Chicken (YUM!)

YUM! China Restaurants works intensively together with many partners on forward-looking strategies and developments for the fast-food sector. RATIONAL supports YUM! with a large team of specialists in the fields of research and development, quality management, sales and service. In special recognition of this outstanding cooperation, RATIONAL was chosen out of more than 500 suppliers and honoured as a top partner, as part of the **"grow big – grow strong through innovative partnership"** programme.

### Global market share expands to 54 percent

With its way above-average growth, RATIONAL was able to further increase its global market share in 2007, from 53 percent to 54 percent. The critical success factors here were RATIONAL's superior product technology, the fact that it continued to concentrate its resources in the countries with the greatest potential, and its systematic implementation of the unique RATIONAL sales and marketing process.

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

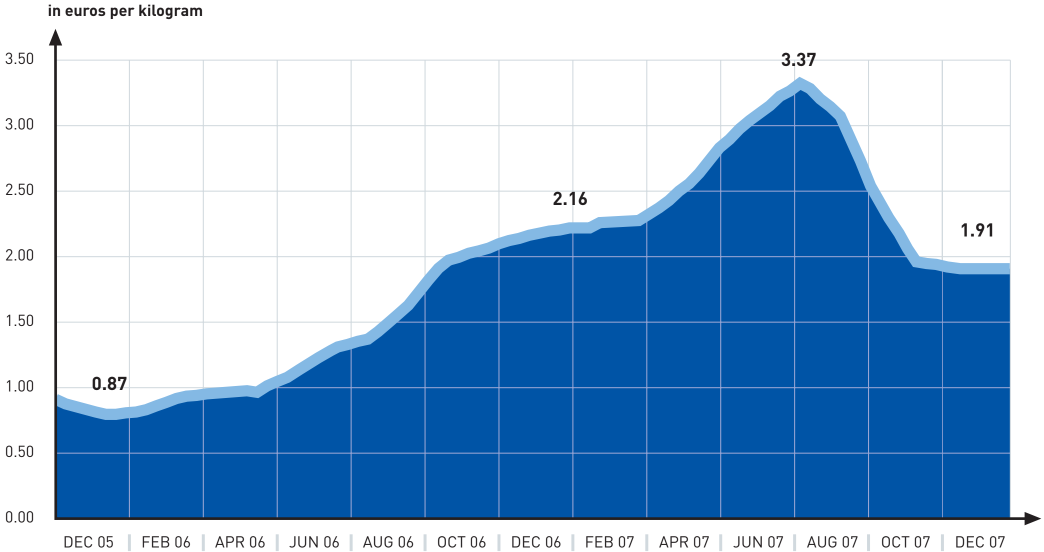



### 15 percent growth in EBIT despite high non-recurring expenses

Special effects such as those created by the high price of raw materials and, in this connection, particularly the alloy surcharge for stainless steel, as well as the strength of the euro against the US dollar and Japanese yen, had a negative impact on the growth of RATIONAL's earnings in 2007. Nevertheless we still managed to generate a growth in EBIT of 15 percent to 92.6 million euros (previous year: 80.5 million euros) in 2007. With an EBIT margin of 27.5 percent, we have again managed to match the high level of the previous year (28.4 percent).


RATIONAL top-partner of Kentucky Fried Chicken (YUM!)

**Changes in the alloy surcharge for high-grade steel**




## Clear improvement in structural earnings performance

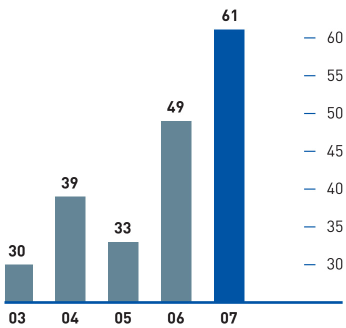
Around 70 percent of exceptional charges were due to the unexpectedly sharp rise in steel prices – particularly the alloy surcharge. The price of steel and the alloy surcharge have now dropped back to where they were before 2007, so fiscal 2008 will in all probability no longer be constrained by such factors.

If the speculative price rise resulting in the alloy surcharge affecting chromium nickel steel is eliminated, RATIONAL's EBIT grew by approximately 26 percent in 2007, corresponding to an EBIT margin of 30 percent. The company's structural earning power would thus have continued to improve significantly in 2007 without this special effect, which should no longer apply in 2008.

## High cash flow ensures growth financing and an attractive dividend

A cash flow from operations of 61 million euros was generated in 2007, compared to 49 million euros the previous year. The cash flow will be used in particular to invest in research and development, further expand the global sales network, and pay out an attractive dividend. For the fiscal year 2007, the Executive Board and Supervisory Board propose paying a dividend of 4.50 euros per share.

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



Foreword by the Executive Board





## RATIONAL – one of the best companies in Germany in terms of earning power

The largest groups in Germany are not necessarily the most profitable ones. In an analysis of companies' earning power conducted by the German financial newspaper "Handelsblatt" on August 8, 2007, RATIONAL ranks fourth.

**The most profitable companies**

| Ranking | Company | Net profit-sales ratio in percent |
|---|---|---|
| 1 | Solarworld | 25.3 |
| 2 | SAP | 19.9 |
| 3 | Wirecard | 18.8 |
| 4 | RATIONAL | 18.3 |
| 5 | Salzgitter | 17.9 |
| 6 | Q-Cells | 17.8 |
| 7 | Pfeiffer Vacuum | 16.6 |
| 8 | Merck | 16.0 |
| 9 | Software AG | 15.2 |
| 10 | Qiagen | 15.1 |

Source: "Handelsblatt" Aug. 8, 2007

In "Handelsblatt's" words: "Quite unexpectedly, two quite traditional companies have also made it to the top of the list of most profitable companies – RATIONAL, the kitchen technology manufacturer, and Stahlkocher Salzgitter", or: "There is actually no uniform trend within the sector at the moment. The figures are proof, however, that some companies are well managed and others are not."

## "International Best Service Award 2007"

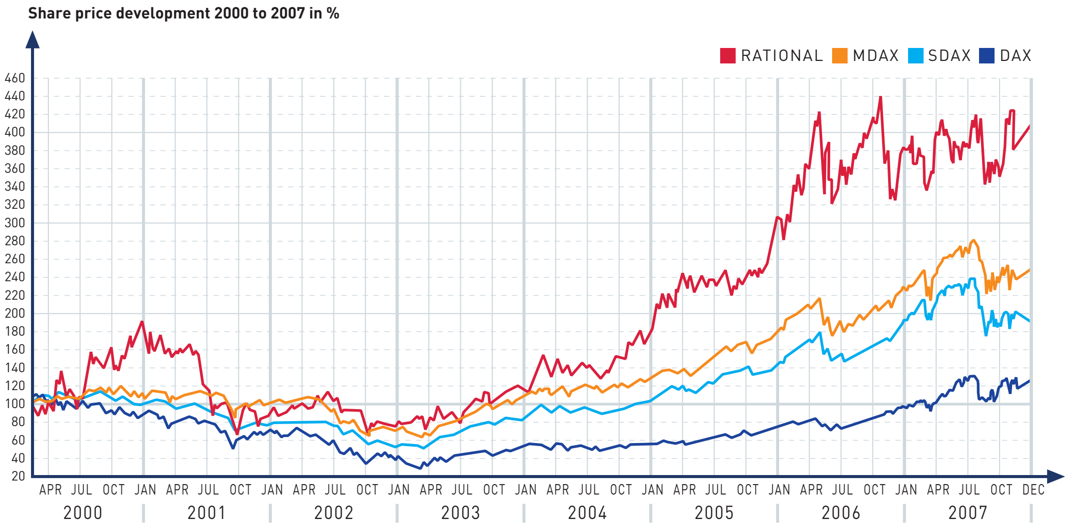
The "International Best Service Award" is one of the most prestigious international industry awards for innovative and future-oriented service concepts. More than 30 companies from around the globe competed for the "International Best Service Award", which is supported by famous names such as SAP and business magazine "Markt und Mittelstand". RATIONAL excelled in the customer service category, and as one of the top 3 companies won the "International Best Service Award 2007". RATIONAL was awarded the prize for its outstanding worldwide service partner concept. Other crucial factors were the strictly applied "one-piece-flow process" and the "entrepreneurs in the business" principle practised by all employees.

## RATIONAL share price consolidates in 2007

In terms of growth and earnings, RATIONAL shares are one of the most attractive securities listed on the German stock exchange. Between 2000, when the shares were first listed, and 2006, the RATIONAL share price rose to more than six times its original value. 2007, however, saw consolidation at this level. With a closing price as at December 31, 2007 of 140 euros, the value of RATIONAL shares matched that of the previous year (141 euros). The current calculations of all analysts clearly exceed this price level. This offers new potential for the share price to go up.

“International Best Service Award 2007”

**RATIONAL share price more than sextupled**




## The SelfCooking Center® sets new world standard

The findings of a representative customer survey carried out by TNS Infratest in Germany gave a resounding vote of confidence to the fact that the SelfCooking Center® is seen as a truly innovative quantum leap in technology, optimally meeting the needs of users.

With a customer satisfaction score of 96 index points, the SelfCooking Center® has notched up one of the highest scores ever measured by Infratest. For customers who also use a combi-steamer alongside the SelfCooking Center®, their level of satisfaction with the combi-steamer was only measured at 23 index points. From a customer’s perspective, they can derive up to four times as much benefit from the SelfCooking Center® for the same purchase price.

Therefore over the next few years, the SelfCooking Center® has the potential to gradually replace the large stocks of combi-steamers in addition to traditional cooking appliances. The high level of customer acceptance around the world is already reflected in the growing sales figures. More than 70 percent of all RATIONAL units sold in 2007 are already SelfCooking Center®.

Foreword by the Executive Board

# No Limits … in innovation and customer benefit





### "Kitchen Technology Award 2007" for the RATIONAL SelfCooking Center®

Once again, leading trade magazine "Küche" conducted a national survey of chefs and kitchen managers. They were looking for the most successful new launches of kitchen technology and equipment in the past 30 months. In top spot came the SelfCooking Centers®. Those surveyed scored the innovative strength, ease of use and communication strategy for the market launch particularly highly.

### SelfCooking Center® is "royal"

The status of royal supplier is highly regarded in the United Kingdom. In 2007, RATIONAL UK was officially granted its royal warrant, entitling it to use the words **"By Appointment to Her Majesty the Queen"**. The appointment is an indicator of the outstanding quality and considerable benefit of the SelfCooking Center®. SelfCooking Centers® can now be found in Buckingham Palace, as well as Clarence House and Windsor Castle.

### SelfCooking Center® is "Best in Class" in the USA

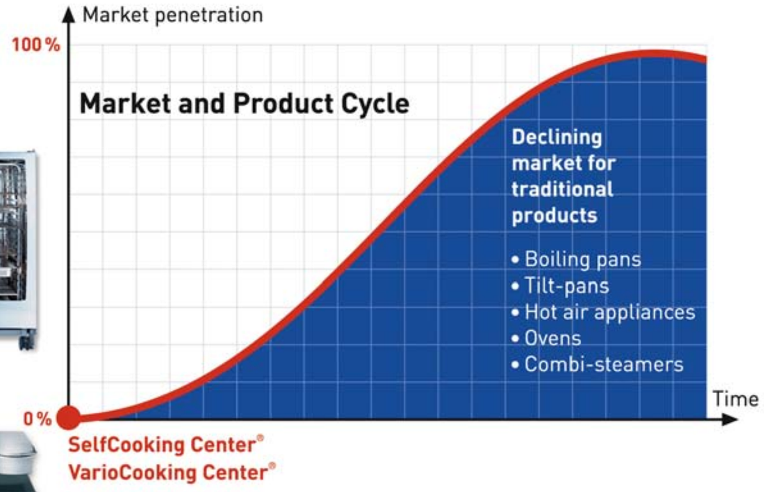
Over 1,000 chefs and kitchen designers took part in this year's survey conducted by the leading US trade magazine "Foodservice Equipment & Supplies". Companies throughout the food service industry were assessed for their product quality and service-oriented approach. RATIONAL reached the top score with its SelfCooking Center®, and was given the coveted "Best in Class Award 2007".

### VarioCooking Center® doubles the sales potential

We have again achieved a quantum leap in technology thanks to the VarioCooking Center® invented by our French subsidiary FRIMA. The 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 with heat. It therefore renders superfluous the remaining 50 percent of traditional cooking appliances that may be needed, such as tilt-pans, boiling pans and deep-fat fryers. This means we are aiming at the same target group, while doubling the global sales potential for the RATIONAL-Group.

"SelfCooking Center®-
and VarioCooking Center®
-owners worldwide are excited."

**Long-term growth ensured by innovation.**




## 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.

### Owners of the VarioCooking Center® are delighted

In an initial customer satisfaction survey conducted in Germany, the VarioCooking Center® was given top marks at the level of the SelfCooking Center®.

The manager of the Siemens staff restaurant in Stuttgart, Jan van Gent, clearly vindicates this result:

"The VarioCooking Center® is devilishly fast! The succulence is tremendous, the searing power incredible and serving losses have dropped significantly. Thanks to VarioCooking Center®, we can now ensure consistent quality; as head chef, I find that extremely reassuring for myself and for my staff."

### VarioCooking Center® set for 40 percent growth

In 2007, the VarioCooking Center® successfully established itself in the selected European pilot markets with around 40 percent growth. It therefore makes an above-average contribution to the growth of the RATIONAL-Group. The VarioCooking Center® meets the needs of every customer, from restaurants preparing 30 meals a day to large-scale kitchens in the institutional catering sector. It offers the highest possible customer benefit at an extremely attractive price, making it almost unrivalled around the world. It usually takes just 4 to 12 months to recoup investment in the VarioCooking Center®.

Foreword by the Executive Board

# No Limits … in capacity and process quality





## State-of-the-art production process at FRIMA

The VarioCooking Center® is produced by FRIMA, our subsidiary based in Alsace in France. With a focus on transferring RATIONAL know-how, the entire FRIMA production and delivery process has now reached the highest echelons in Europe.

What's more, production at FRIMA is exclusively based on just-in-time manufacturing, with the shortest turnaround times and highest quality. Superior production methods are exemplarily deployed at FRIMA, such as one person building a complete unit or close to 100 percent KANBAN for efficiently replenishing materials based on the pull system.

## 50 percent more capacity with third plant in Landsberg

Because of its continued growth, RATIONAL will soon reach the capacity limits of its two existing plants. As a result, a third plant – and the largest one to date – is now being built in Landsberg. The construction phase was launched with the ground-breaking ceremony on July 24, 2007. The new plant is scheduled to be commissioned in mid-2008.

At 20 million euros, this building project represents the largest single investment in the company's history. Only 800 metres as the crow flies from the existing plants, the new plant will cover an area of 46,000 square metres. The 50 percent greater assembly capacity of 60,000 appliances per year that this will create will pave the way for double-digit growth well into the future, as well as creating a new platform for significant process improvements.

## Learning from the best

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 together with our key suppliers to meet quality, productivity and reduced cost objectives in joint re-engineering projects focusing on material and process improvements, which are based on annual partner plans. This leads to attractive purchase prices while encouraging long-term supplier loyalty.

This year's suppliers' conference was held on May 10, 2007, under the slogan of "Learning from the best". A range of workshops and presentations were organised, giving more than 150 participants the opportunity to exchange experiences with each other and get to know the various RATIONAL corporate processes in detail.

The day was rounded off by selecting the best suppliers. The top three suppliers, Stengel Apparatebau GmbH, TQ Systems GmbH and Thermo Sensor GmbH, were each able to take the prized RATIONAL trophy home with them as best suppliers of 2006.

"Best in class" production and logistics process at FRIMA

## RATIONAL quality means employee quality

According to a cross-sector survey conducted by TNS Infratest, RATIONAL occupies a leading position in terms of employee satisfaction, ranking it among the top 10 percent of leading German industrial companies. And that is not all: RATIONAL's employee quality is often held up by international juries as an excellent and trailblazing example.

But today's peak performance may be tomorrow's mediocrity. As the company continues to grow and internationalise, it faces entirely new challenges, while at the same time benefiting from new opportunities for employee development at an international level.

## Employee development – a strategic success factor

To manage these opportunities, we set up an International Employee Development as a new function in the corporate management team. The core goals are:

- To match the qualities and skills of employees to their area of responsibility. To focus on further developing their strengths, so that they are fit to meet the growing requirements of the future or take on new tasks.

- As a result, 70 percent of all worldwide managerial positions are to be filled in the medium term from the company's own ranks, thus largely eliminating the risk of making mistakes in appointments.

## 107 new jobs created in 2007

As customer benefit grows, our products and services become increasingly more appealing. This leads to a growing number of orders, which in turn generates additional jobs.

In 2007 alone, 107 new, highly skilled and secure jobs were created at RATIONAL. With 1008 employees worldwide, we passed the 1000 employee mark for the first time. At the same time, by continually improving productivity and efficiency in all corporate divisions, the company was also able to significantly enhance corporate quality in 2007. Sales per employee have been steadily rising for years and in 2007, reached a new record of 349 thousand euros.

# No Limits … in employee quality and future prospects





## Profit-sharing as an additional motivating factor

For years now, RATIONAL employees have voluntarily been able to enjoy a direct share in the company's profit. The share in profits is paid out to employees as a special payment in December. Employees become eligible once they have been working for RATIONAL for at least 24 months. In 2007, eligible employees received a share in profit amounting to 100 percent of their monthly salary.

## Excellent growth prospects

Around the world, there are about 2.5 million professional kitchens in which RATIONAL and FRIMA technology can be installed. The new SelfCooking Center® now not only replaces conventional cooking appliances, it also replaces the combi-steamers of the past, thanks to entirely new technology. So the market potential for the SelfCooking Center® is once again 100 percent. In addition, the market potential for the VarioCooking Center® is linked to the same 2.5 million kitchens, in other words another 100 percent.

## RATIONAL business almost oblivious to economic conditions

In economically difficult times, investments are preferably made with high economies of scale, leading to shorter redemption periods. Using RATIONAL technology directly increases the disposable income of its customers. The monthly savings that can be generated simply by using fewer materials, energy and personnel exceed the requisite financing costs for the units. So the customer's profitability is improved from the very first day. This makes RATIONAL products particularly attractive as an investment, even in times of recession.

## 15 percent growth in sales and earnings planned in 2008

In 2008 we shall be continuing to expand our international sales and marketing network. On top of this, additional production capacities will create a completely new platform for future increases in productivity.

This being the case, as well as

- the generally positive development of the world economic situation expected for 2008,
- the worldwide uniqueness of the RATIONAL SelfCooking Center®- and the FRIMA VarioCooking Center® technology,
- the high levels of customer acceptance noted for both these technologies
- and the strategies and measures we have initiated

we expect sales to grow by 15 percent, to 387 million euros, in 2008.

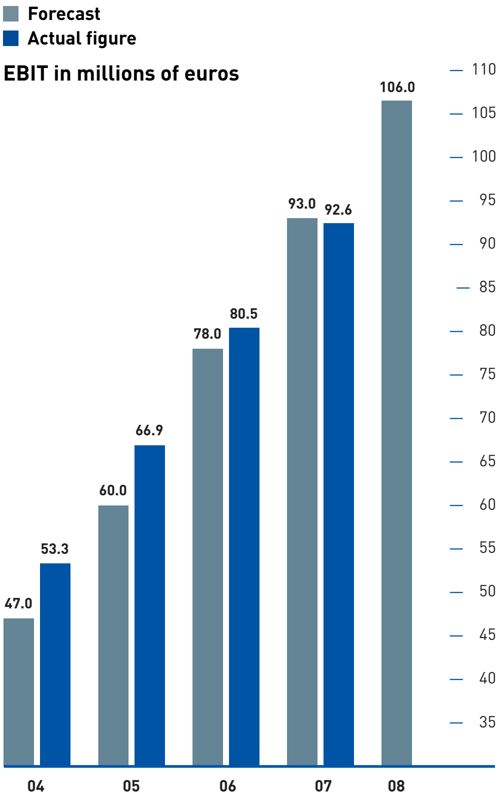
> "RATIONAL-products are particularly attractive investments even in times of an economic downturn."

In view of the recent easing of raw material prices, while allowing for future risks in the exchange rate trends of the US dollar, pound sterling and Japanese yen, we plan an average rise in EBIT of 15 percent to 106 million euros for 2008.

### Earnings per share likely to rise by 23 percent

As a result of tax reform in Germany, RATIONAL's tax ratio will fall from about 35 percent in 2007 to under 30 percent in 2008, which will result in an extraordinary high growth in earnings. Earnings per share are thus likely to rise by 23 percent from 5.38 euros in 2007 to 6.60 euros in 2008.

### Excellent: Forecast Predictabilty




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.

## ERICH BAUMGÄRTNER
Chief Financial Officer

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

# Corporate Governance Report





## Basic structural conditions

Rational AG is an Aktiengesellschaft (public limited company) under German law with its registered headquarter in Landsberg am Lech, and since March 2000 has been listed on the German stock exchange. The company is administered by the Executive Board and the Supervisory Board.
On December 31, 2007 the Executive Board of RATIONAL AG consisted of Dr. Günter Blaschke (Chief Executive Officer), Mr Peter Wiedemann (Chief Technology Officer) and Mr Erich Baumgärtner (Chief Financial Officer). Mr Thomas Polonyi (Director of Sales and Marketing) left the company by mutual agreement on April 30, 2007.
As before, the Supervisory Board consists of Mr Siegfried Meister (Chairman of the Supervisory Board), Mr Walter Kurtz (Deputy Chairman of the Supervisory Board) and Mr 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. Eight regular meetings of the Supervisory Board were held in 2007 in addition to numerous individual discussions.

## Remuneration report

For the performance of their tasks the Executive Board of RATIONAL AG received remuneration totalling 2,708 thousand euros in 2007 (previous year: 5,177 thousand euros), of which 1,242 thousand euros was paid out as a profit-related, variable component (previous year: 1,230 thousand euros). Included in total payments in the previous year are the claims of the Executive Board arising from the second tranche of the stock option scheme of February 3, 2000, which were paid by a cash settlement amounting to 2,623 thousand euros. This second tranche was issued by the Supervisory Board on January 28, 2004 and included options on 34,500 shares in RATIONAL AG. The option rights were linked to the achievement of specific performance targets by RATIONAL shares measured against the SDAX. The waiting period was two years and ended in the first quarter of 2006.
The expenses of the Supervisory Board for its control and consultancy activities were reimbursed by payments totalling 552 thousand euros (previous year: 543 thousand euros). Of this, Mr Meister received 218 thousand euros (previous year: 216 thousand euros), Mr Kurtz 188 thousand euros (previous year: 184 thousand euros) and Mr Poczka 146 thousand euros (previous year: 143 thousand euros) (see also the annex “Supervisory Board and Executive Board”).
The payments to the Supervisory Board consist of fixed and profit-related components. In fiscal 2007 payments to the members of the Supervisory Board were as follows:

| Thousands of euros | Fixed | Performance related | Other | Total 2007 |
|---|---|---|---|---|
| Mr Meister | 150 | 46 | 22 | 218 |
| Mr Kurtz | 125 | 46 | 17 | 188 |
| Mr Poczka | 100 | 46 | 0 | 146 |
| **Total** | **375** | **138** | **39** | **552** |

## 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 business 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 (the waiting period ended in March 2006) and was likewise drawn on in the form of a cash settlement (see also the annex “Stock Option Plans”). As at the balance sheet date 2007 the shareholding of all the board members stands at well below one percent.

## Mandatory publications in 2007

In 2007 RATIONAL AG provided information for shareholders and interested parties pursuant to § 15 German Securities Trading Act (WpHG) in the form of five 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 on the settlement of the patent disputes with Technology Licensing Corporation and Food Automation Service Techniques, Inc. (FAST). Stock transactions by Supervisory Board and Executive Board members were announced immediately we became aware of them, in the form of five notices pursuant to § 15a WpHG.

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 14, 2007, along with the standards and recommendations contained therein.

## Shareholding of the Supervisory Board

As founder of the company the Chairman of the Supervisory Board, Siegfried Meister, holds 63.72 percent of the issued RATIONAL shares. The Deputy Chairman of the Supervisory Board, Walter Kurtz, holds 7.81 percent of the shares. Mr Roland Poczka’s shareholding is well under one percent.

Corporate Governance

# Declaration of Compliance by RATIONAL AG






**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 14, 2007.

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) **policy** for the 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** "The **total compensation of each member of the Management Board** is to be disclosed by name, divided into non-performance-related, performance-related and long-term incentive components, unless decided otherwise by the General Meeting by three-quarters majority."

By resolution of the General Meeting of Shareholders of May 17, 2006 RATIONAL AG has dispensed with the publication of individualized figures for Executive Board compensation. The other provisions are complied with in full.

**5.3 "Formation of committees"**

Forming committees of the Supervisory Board to handle complex issues, such as an Audit Committee, is not appropriate for RATIONAL AG because the Supervisory Board consists of only three members.

Landsberg am Lech, February 2008

RATIONAL AG

The Supervisory Board

The Executive Board

# Investor Relations



## Financial Calendar 2008

| | |
|---|---|
| Mar. 26, 08 | Balance Sheet Press Conference and DVFA Conference |
| May 07, 08 | Shareholders' Meeting |
| May 07, 08 | Q1 Results |
| Aug. 12, 08 | Half-Year Results |
| Nov. 12, 08 | 9-Month Results |

### Investor relations is board business

RATIONAL gives investor relations work a very high priority. This can 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.

The Executive Board presented the company at numerous roadshows in the USA and Europe in fiscal 2007, as well as analysts' conferences in Frankfurt, Munich, London, Paris, Zurich and New York. The Executive Board also received analysts and prospective investors at the offices in Landsberg and attended numerous press interviews by representatives from the business and financial press. The confidence of the company's future successful development along with the associated rise in the share price are ultimately also a result of the hard work put into investor relations.

### Delighted shareholders at the annual general meeting

Some 700 shareholders and guests attended the general meeting of shareholders held on May 3, 2007 to find out at first hand how RATIONAL AG was progressing, ask questions and voice their opinions on the items on the agenda. The words of praise by the shareholder representatives, as well as the results of the votes (with all items on the agenda being approved by the overwhelming majority) are evidence of how satisfied the shareholders are with the company.

### RATIONAL share price consolidates in 2007

Since the IPO in March 2000, the RATIONAL share price has increased in value more than sixfold, from 23 euros to 140 euros and has far exceeded the DAX, MDAX and SDAX indices. 2007 was a year of consolidation. At 140 euros, the closing price on December 31, 2007 was virtually the same as the previous year (141 euros). The current calculations of all analysts clearly exceed this price level. This offers new potential for the share price to go up.

## Attractive dividend policy

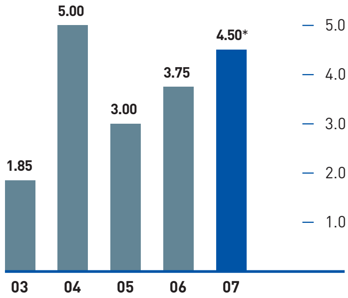
Thanks to an attractive dividend payout, RATIONAL AG shareholders benefit each year from the company's outstanding earnings performance.

For the fiscal year 2007, the Executive Board and Supervisory Board propose paying a dividend of 4.50 euros per share.

## Research coverage at high level

In fiscal 2007, a large number of financial institutions regularly published analysts' reports on RATIONAL AG. Their in-depth studies all echo the same positive sentiment in relation to entrepreneurial quality and future growth opportunities.

**Dividend in euros per share**




* Dividend proposal 2007

**Research Coverage 2007**

| Company | Recommendation | Price target |
|---|---|---|
| Deutsche Bank | Buy | 180 |
| Dresdner Kleinwort | Add | 168 |
| UniCredit | Buy | 180 |
| Merrill Lynch | Neutral | — |
| WestLB | Add | 165 |
| Citigroup | Buy | 165 |
| Reuschel & Co. | Accumulate | 152 |
| Berenberg Bank | Buy | 160 |
| Cheuvreux | 2/OP | 161 |
| HSBC Trinkaus | Overweight | 169 |
| Merck Finck | Buy | 165 |
| Cazenove | Outperform | — |
| LBBW | Buy | 164 |
| Sal. Oppenheim | Buy | 160 |

# Events 2007





### General meeting of shareholders

Some 700 visitors attended the RATIONAL AG general meeting of shareholders on May 3, 2007. All the proposals put forward from the agenda received widespread approval from shareholders.

### 107 new jobs

With 1,008 employees worldwide the RATIONAL-Group passed the 1,000 employee mark in 2007 for the first time.

### New production record in November

With over 4,500 units being produced in November, RATIONAL was able to notch up a new monthly record. Altogether in 2007, around 40,000 units were built in Landsberg and shipped around the world.

### Executive Board champions investor relations

In addition to welcoming numerous visits from investors at the head office in Landsberg in 2007, the RATIONAL Board also attended over 25 road-shows and analysts' conferences around the world.

### Ground-breaking ceremony inaugurates for the third Plant in Landsberg

The building phase for the third plant in Landsberg was launched with a ground-breaking ceremony on July 24, 2007. The new plant is scheduled to be commissioned in mid-2008. At 20 million euros, this building project represents the largest single investment in the company's history.

### Strong customer loyalty thanks to RATIONAL Chef Academy

In a one-day seminar for owners of the SelfCooking Center®, experienced RATIONAL chefs pass on tips and suggestions to our customers in order to get the very best out of their SelfCooking Center®. Enthusiastic participants are clear testament that this innovative global concept is the correct one.

## International Awards

"Best in Class Award 2007", Foodservice, USA


"Küche Award Technik 2007", Germany


"International Best Service Award 2007", Germany, Top 3

Kentucky Fried Chicken (YUM!) Top-Partner 2007, China

**RATIONAL suppliers' conference – partnership of success**

This year's RATIONAL suppliers' conference was held on May 10, 2007. A range of workshops and presentations were organised, giving more than 150 participants the opportunity to exchange experiences with each other and get to know the various RATIONAL processes in detail. The day was rounded off by selecting the best suppliers, who were able to take home the prized RATIONAL trophy as best suppliers of 2006.

**RATIONAL is top partner of KFC (YUM!)**

At the YUM! Restaurants China Partner Dinner 2007, RATIONAL was selected as a top partner from more than 500 suppliers.

**RATIONAL by royal appointment**

"By Appointment to Her Majesty The Queen, RATIONAL UK Ltd. suppliers of combi ovens", reads the official letter granting RATIONAL UK Ltd its royal warrant. The status of royal supplier is highly regarded in the United Kingdom.

**Company anniversaries**

Employee loyalty and the resultant high level of training and knowledge, as well as transfer of know-how are major success factors for RATIONAL. With a total of 43 company anniversaries in 2007, we have achieved a new record.

# NO LIMITS ... TO CUSTOMER BENEFIT, INNOVATION AND TO CONTINUOUS IMPROVEMENT






NO LIMITS
RATIONAL

Corporate quality

# No Limits … to customer benefit and innovation

A

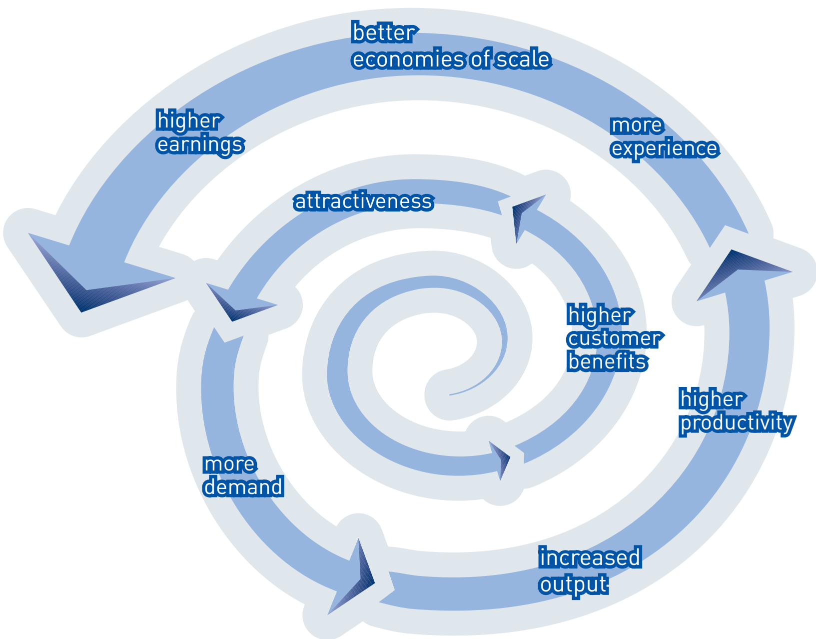


## Growth, size and profit are not aims, they are results

Our company's overriding aim is to offer the greatest possible benefit to the people who thermally prepare food in the professional kitchens of the world. This unambiguous corporate focus enables us to increase customer benefit even more year on year, making RATIONAL an ever more attractive partner for its customers. Our competitive edge is constantly increasing. The growing success of the company creates opportunities for additional investment in ever more customer benefits.

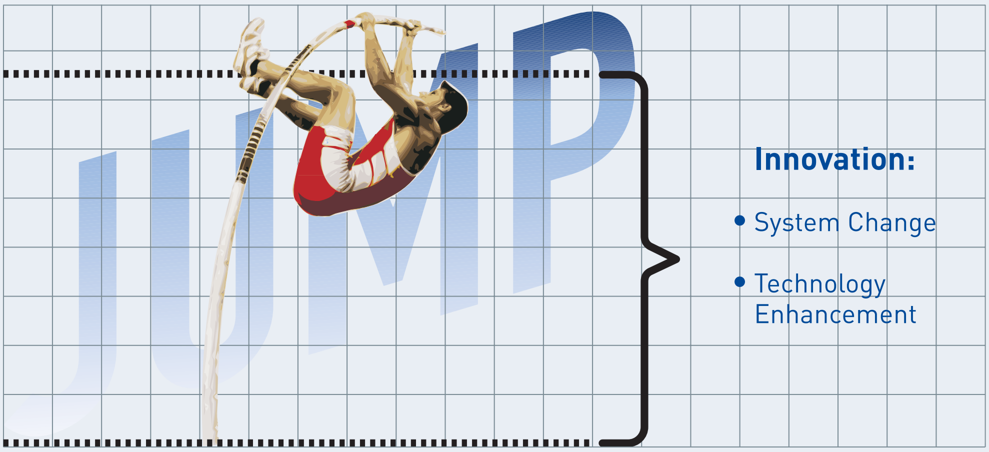
Growth, size and profit thus come about as a consequence of customer benefit and the appeal this creates. They are not aims, they are merely results.

**Maximum Customer Benefit is Our No. 1 Company Objective**




## Specialisation as a success factor

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




### Specialisation boosts innovative strength

The structure of our research and development process reflects our customers' operational world and the corresponding scientific environment. Our development team includes physicists who carry out basic research, chefs and nutritionists who focus on applied research and of course design engineers who focus on product development.

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

### Specialisation creates profile

Bundling all our resources into thermal food preparation leads to maximum problem-solving expertise, innovative power and thus increasing customer benefits. At the same time, the RATIONAL brand is gaining both appeal and profile.

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

Representative customer surveys have been impressively confirming RATIONAL's product leadership for many years. Compared to our competitors, customers perceive RATIONAL's particular strengths to be overall quality, durability, the variety of benefits and the range of applications of the products. What is more, the invention of the SelfCooking Center® and of the VarioCooking Center® represents a completely new quantum leap in technology, it has created a global unique selling point and maximum customer acceptance.

Corporate quality

# No Limits … to continuous improvement





## The RATIONAL process organisation: Basis for continuous improvement

The precondition for enterprise-wide, cross-divisional continuous improvement is our transparent process organisation. This organisation is characterised by holistic, natural, transparent and self-contained tasks. Superfluous interfaces and conventional departments have been completely eliminated. Employees at RATIONAL know their targets and tasks very precisely, and hence their contribution to the success of the company. As entrepreneurs within the company they assume personal responsibility for their area and take the necessary decisions themselves.

**The RATIONAL process organisation**


The RATIONAL process organisation is no longer an overmanaged organisation based on an extreme division of labour. Employees do not lose sight of the whole. The enterprise-wide process organisation permits maximum transparency and individual best practice comparisons as the basis for target-based, measurable continuous improvement. We make the very best use of the knowledge and education of our employees.

## The House of RATIONAL Corporate Quality as the basis for success

The House of RATIONAL Corporate Quality makes the performance of every individual subprocess – as well as of every individual employee – visible and hence forms the basis for continuous improvement.

Every RATIONAL employee has one or more internal or external suppliers whose input he incorporates into his process, in order to create a product – for example an appliance in Manufacturing, a customer order in Sales or an analysis in Financial Controlling. This product must ultimately offer his internal or external customers the maximum benefit.

In Production we audit, assess and re-engineer our key suppliers for the best, most cost-effective and error-free quality of supply. At the same time we optimise our own process quality year on year, with on average 8 to 10 percent increase in productivity. As a logical consequence, record results are achieved for customer satisfaction.

**The RATIONAL success spiral as a continuous aspiration**

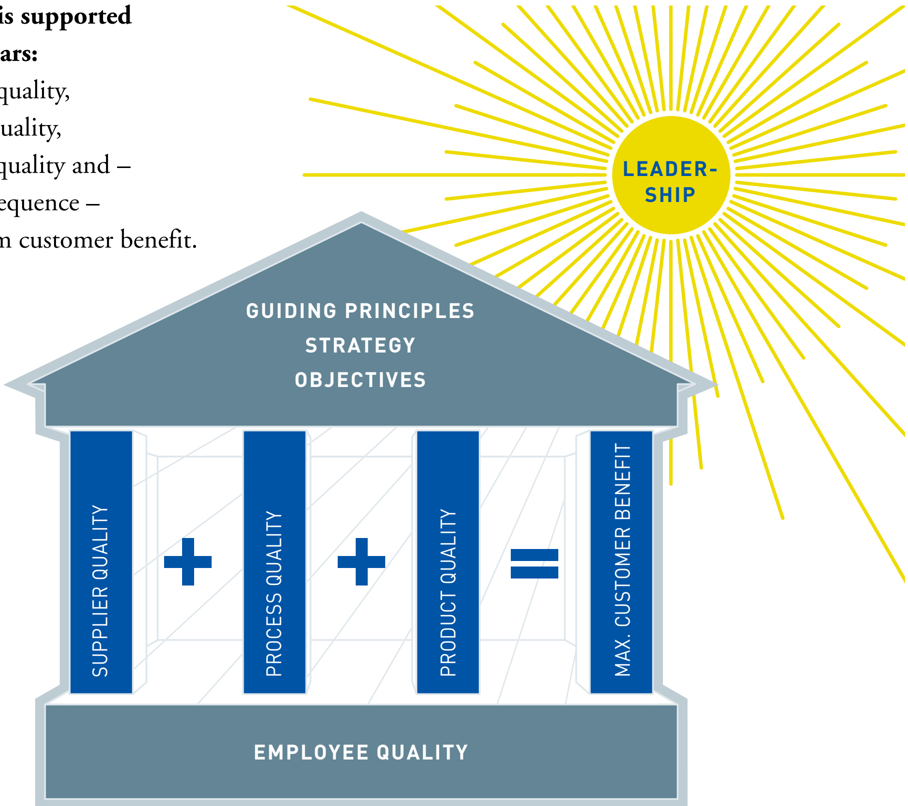

- Better
- Faster
- More cost-efficient

In Sales and Marketing supplier quality is defined by the number of usable addresses of potential customers available. Process quality is the day-to-day operational sales work that grows more efficient year on year. The end "product" of this value chain is the customer order and training given at the customer's premises to ensure that the maximum customer benefit promised and expected is actually received and experienced by the customer.

**The house of RATIONAL corporate quality**

**The house is supported by four pillars:**

- supplier quality,
- process quality,
- product quality and – as a consequence –
- maximum customer benefit.




The foundation underpinning the House of RATIONAL Corporate Quality – on which all four pillars for success are built – is Employee Quality. Only ever better employees have ever better ideas for ever better supplier, process and product quality and hence for ever more customer benefit.

The entire House of RATIONAL Corporate Quality is ever better permeated and inspired by sustainable management.

# "UNLIMITED" WORLDWIDE GROWTH POTENTIAL






LIMITS
FRIMA

Customer Reference SelfCooking Center®

# No Limits …<br>SelfCooking Center® –<br>Al Boom, Dubai





### Over 10,000 guests a day dining in sumptuous style

The Al Boom in Dubai is best known for its sumptuous surroundings, cheerfully decorated function rooms and exclusive menus. Guests, including Dubai's ruling family, value the perfect quality of the food served as well as the ever successful and stylish events that are the Al Boom trademark. Over 10,000 guests and up to twelve weddings every day present huge challenges, and not just for kitchen logistics. To respond to these challenges, the traditional cooking appliances were replaced with ten SelfCooking Center® 202 units from RATIONAL.

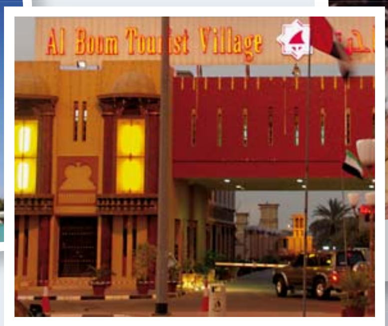
A large number of weddings are run on five banqueting boats, known as dhows. "To enchant our many guests with exclusive dishes, in addition to our sumptuous surroundings, we rely on the SelfCooking Center®. In the past, we had to boil many hundreds of kilograms of rice in massive pots, and grill thousands of kebabs over an open fire. Today the food is cooked fully automatically in the SelfCooking Center®. Our lamb always tastes particularly succulent and tender, and the taste is no different to traditionally-prepared lamb", enthuses Chef Munib Rushdi.

### "The SelfCooking Center® has revolutionised our kitchen!"

Thanks to RATIONAL, our work has become much simpler. In the past we had to start in the middle of the night to prepare food for the evening, but now we can start many hours later with the mise en place and cooking. This is only possible because the SelfCooking Center® cooks incredibly quickly, yet gently.

With the intelligent technology from RATIONAL, chefs are now under much less stress, and the atmosphere in the kitchen is far more relaxed than before. Watching over the cooking processes by standing for hours by the grill over the open fire and the time-consuming turning of the kebabs are now history. Instead, personnel can take more time for buying excellent ingredients and ensuring the perfect mise en place.

"We are particularly proud of our perfect food quality which is always guaranteed with the SelfCooking Center® despite the massive capacity. For example, 30 whole lambs are cooked in just one and a half hours. Prepared the traditional way, that would have taken three hours. The amount


of time saved with RATIONAL is enormous. We also cut our working time by 50 percent when cooking, and cooking losses are reduced by 25 percent", explains Munib Rushdi.

The SelfCooking Center® units replace the deep-fat fryers, pans, water boilers, fireplaces and gas stoves that were originally kept in several extra rooms. Now, only two production kitchens are needed.

### Perfect quality at the touch of a button

For menues with nine different dishes each food item was cooked and monitored separately. This was not only time but also labour intensive.

Using the SelfCooking Center® is child's play. The SelfCooking Control® function automatically detects the product-specific requirements, the type and size of the food and the load size. The cooking time, temperature and the ideal cooking cabinet climate are individually calculated and continuously adjusted. This means that an incredible variety of different dishes can be cooked using just one button, while ensuring optimum quality. The CombiGrill® is used to grill steaks, hamburgers and kebabs at the same time in the SelfCooking Center®. CombiFry® produces perfect potato wedges and French fries without the need to add extra fat or oil.


### Perfect food quality ensures top position

"Despite the strong competition, we can maintain our position as Dubai's top event caterer. It's not only our immense capacity that makes us stand out, we are also renowned for the constant perfect quality of our food. We can therefore rely on RATIONAL 100 percent", says Munib Rushdi.

Customer
Reference
ALLin 2

# No Limits …
# Company restaurant Siemens, Stuttgart

A



### Over 1,100 satisfied diners every day

The Siemens company restaurant in Stuttgart has about 1,100 diners every day. Ensuring they enjoy a diverse and high quality menu is the task of manager Jan van Gent and his team. Today is clearly shaping up to be a hectic day's work. Two chefs are off sick with the flu. Despite this, Jan van Gent calmly runs through the early morning meeting. The menu plans are discussed and tasks are allocated.

"We've got backup staff from the temporary employment agency. But thanks to the SelfCooking Center® and VarioCooking Center®, it won't be a problem working with semi-skilled temp staff. The processes are stored in the SelfCooking Center® and VarioCooking Center® units, so luckily we can avoid any inconsistency in quality; and that's not just reassuring for me as head chef, it also gives my employees extra confidence, as regularly producing good results is motivating and inspiring", believes Jan van Gent.

### Flexibility to meet all needs

As a successful company, Siemens continually runs optimisation projects in all its functions. In the "Restaurant Services" function, the following improvements have been implemented:

- Reorganising into smaller units with shorter storage times and a greater quantity of fresh products.
- Optimising production procedures and processes
- Modernising the serving area, which is now designed as an attractive freeflow system with front cooking station.

To be able to respond to new needs and requirements, the kitchen was equipped with four VarioCooking Center® units and seven SelfCooking Center® units.

### The VarioCooking Center® is hellishly fast!

The 10-strong kitchen team is delighted with the VarioCooking Center®. It is now possible to cook with far greater flexibility. Just-in-time production is no longer a problem with the VarioCooking


Center® and if products run out, they can very quickly be made up again. Thanks to the great flexibility and performance of the VarioCooking Center®, it is possible to produce top quality catering for conferences and the guest restaurant, in addition to preparing the regular meals.

Whereas business administrators decided in favour of the equipment because of its greatly reduced installation costs, the winning factor for chefs is clearly the facilities it offers for stress-free cooking. The VarioCooking Center® takes the strain off the entire kitchen team in their daily work. Hectic working processes are eased and stabilised.

The response time of the VarioCooking Center® is so rapid that as soon as the pasta process is initiated, the water is fed in and the ultrafast heating system starts the heating phase. A couple of minutes later, the noodles are lowered into the boiling water and then removed fully automatically once the desired cooking time has been reached.

"The VarioCooking Center® is considerably fast! The level of product quality achieved with meat in particular is extremely high, the succulence is tremendous, the searing power incredible and serving losses have dropped", says Jan van Gent.

### Even specialities are possible

This obviously provides an incentive to try out even extravagant ideas, in turn enhancing the creativity of the dishes. In addition to the wide range of standard dishes, themed menus are also offered, such as a week of dietary specials or regional fare. The VarioCooking Center® was recently used to cook a large batch of omelettes. "Without the VarioCooking Center®, we would never have managed to serve up the 300 portions in the time and quality achieved – nothing was burned and production ran like clockwork", explains Jan van Gent.

Customer
Reference
VarioCooking
Center®

# No Limits …
# "Les 5 Sens" restaurant in Avignon





### "The VarioCooking Center® takes centre stage in the kitchen!"

"It's just great, fun and practical!" says Thierry Baucher. He was awarded the Meilleur Ouvrier de France or MOF award for France's best craftsman in 1986 in the Traiteur (caterer) category, and has been using the VarioCooking Center® to prepare dishes for over a year now, since opening his new restaurant "Les 5 Sens" in Avignon. Among his array of kitchen equipment which includes a SelfCooking Center®, a VarioCooking Center®, a stove with 4 hotplates, a small bain marie and a top-fired grill, the VarioCooking Center® takes centre stage.

Opening his restaurant was a logical step in Thierry Baucher's professional career: After apprenticeship as a butcher, he was awarded the "MOF Traiteur" in 1986 when graduating from CEPROC culinary training centre in Paris. Gaining experience in a variety of different fields in the food industry, he ended up in the suburbs of Avignon, where he took over a restaurant before finally opening his own restaurant in March 2006.

His restaurant evokes an Indian feel, with a mixture of colours and a distinctly refined ambiance, which is also reflected in his cooking. In his kitchen Thierry prepares delicious and sumptuously coloured dishes for 45 guests seated in his restaurant.

### "Easy to use and extremely efficient"

When planning his kitchen, the decision to opt for the VarioCooking Center® was not taken lightly: "I needed an appliance that was easy to use and efficient, as there are only two of us in the kitchen. I attended two cooking live seminars, before finally deciding in favour of the VarioCooking Center®. The decision was most probably based on a "fear of fire", which is true of most chefs. It's far more preferable to rely on equipment with powerful technology! Looking back now, I don't regret my


decision in the slightest. The unit responds unbelievably quickly. This means I can prepare my dishes for griddling, boiling, poaching and grilling, cook quick dishes, keep dishes warm and even cook braising dishes overnight."

### "Unbelievably responsive!"

There has been no mention so far of the speed of the VarioCooking Center®, and yet here too it is unbeatable: "In the time it takes to heat up a pan for griddling, the dish has already been cooked in the VarioCooking Center® … After all, the temperature in the VarioCooking Center® reaches 250 °C in less than four minutes! And because even the most delicate dishes don't stick during cooking, I don't have to stand there stirring them as I used to have to!" What's more, as with its counterpart the SelfCooking Center®, the VarioCooking Center® can also be used overnight without requiring any supervision, to prepare dishes such as stuffed trotters, stews or cassoulet, which saves chefs a tremendous amount of time!

This rapid responsiveness is also extremely useful when serving: Pan-frying is easy in the VarioCooking Center®, while the SelfCooking Center® keeps the prepared dishes and plates at the ideal serving temperature during the process of plating up, thanks to the Finishing®-function.

### "You can cook anything in it!"

"The VarioCooking Center® is compact, you can cook anything in it. I can perform two cooking processes one after the other without any loss of time. The cleaning function takes two minutes – a mere twinkling of an eye. Then with a press of a button, you can start cooking the next dish. And thanks to the intelligent VarioCooking Control® operating concept, the time spent watching over the cooking is significantly reduced, enabling me to offer my guests excellent quality with fewer staff", explains Thierry Baucher.

# MANAGEMENT REPORT



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


NO LIMITS

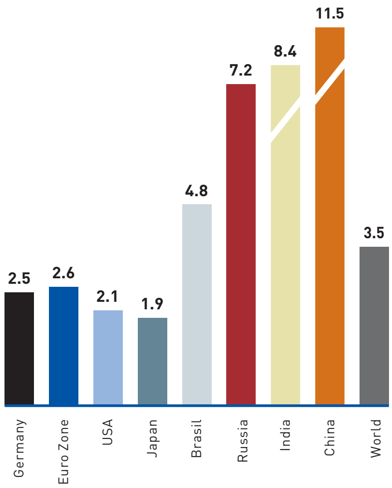
# Economic Report

## Global economy continues to expand in 2007

2007 saw continued expansion of the global economy. As in Asia, Eastern Europe and the United States growth of the GDP increased significantly in the Euro Zones as well.

In the US, economic growth slowed somewhat in 2007, as a result of the combined effects of rising raw materials prices, the crisis in the real estate market and rising inflation.

**Economic Growth in 2007 in %**




Source: Allianz-Dresdner Economic Research, Economy & Markets 12/2007

Japan is enjoying its sixth year of uninterrupted growth, albeit still at a relatively modest level. The main drivers of growth here were investment, which was encouraged by the high company profits posted, and exports.

## Emerging economies gain in importance

The dynamic growth recorded in Brazil, Russia, India and China, or the "BRIC countries", as they are known, has been a mainstay of the positive global economic trend, accounting for around a third of growth worldwide.

China's economy continues to surge ahead at full speed, accounting for 13 percent of world economic growth in 2007 and coming very close to the US's contribution of 16 percent. Its GDP grew by a record 11.5 percent in 2007.

India has meanwhile achieved sustained growth of around 8 percent year on year, despite ongoing infrastructure problems, an inflation rate of 5 percent and making only sporadic progress with privatisation and the dismantling of its bureaucracy.

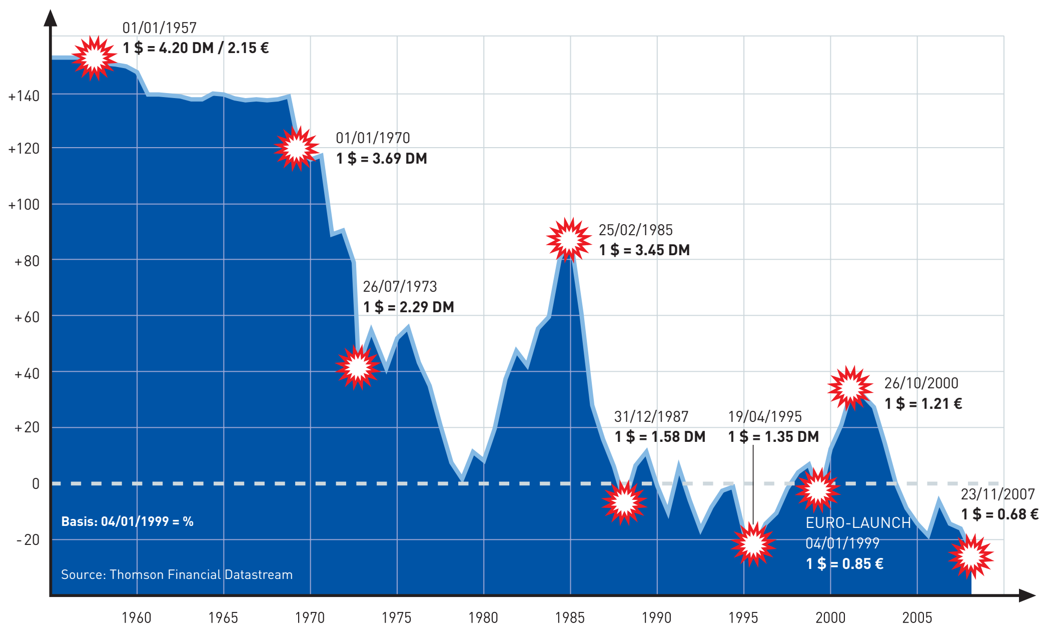
Brazil and Russia are profiting from the higher fuel prices seen in 2007, recording respective growth rates of 4.8 percent and 7.2 percent. Russia's growth is also driven by strong consumer demand and investment activity.

In future, the economically most important countries in the world will be China, the US, Japan, India, Russia, Germany and Brazil. For RATIONAL, this means continuing to grow and expand its sales and marketing capacities, not just in the traditionally important industrialised countries of the world, but also, in fact especially, in these emerging economies.

## Weak US dollar burdens the export economy

The US dollar is continuing to fall against the euro, and the steep rise in the value of the euro is affecting exports in particular. However, although the dollar fell in value by around 10 percent in 2007 and is worth approximately 44 percent less than it was in 2000, the negative effects on Germany's export economy have been less than might have been expected. The reason for this is the enduring competitiveness of European companies as a result of innovation, high quality and competitive prices.

**Weak US dollar Burdens the Export Economy**




## Positive economic trend in the sector

According to figures published by the industry's main trade association, HKI-Industrieverband Haus-, Heiz- und Küchentechnik e.V., the professional kitchen industry in Germany followed the generally positive economic trend in 2007, with the substantial increases in sales reported indicating strong growth.

RATIONAL lived up to its exceptional position as sector leader last financial year, and once again recorded above-average growth for the sector.

Economic Report

# RATIONAL's company philosophy





### Competence 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, by consistently specialising and concentrating our thoughts and efforts we have become ever closer to our customers, the better to understand their needs and wishes. So much so, in fact, that we are practically part of their world. This position means we are better placed than others to solve their problems.

### RATIONAL: the chef's company

RATIONAL does not see itself primarily as an appliance manufacturer, but as an innovative solution provider. Our research and development process reflects our customers' operational world and the corresponding scientific environment. Our physicists carry out basic research, our chefs and nutritionists focus on applied research and our design engineers focus on product development.
RATIONAL has devised groundbreaking solutions by concentrating all its resources on a single target group and at the same time leveraging the company's overall strategic focus on the application side. The results of this approach can be seen in our sustained product leadership, with ever-increasing benefits to the customer. Meanwhile, the RATIONAL brand has become an increasingly appealing and compelling proposition.

### Opportunities for growth through regular technology steps

The quantum leaps in innovation that we make on a regular basis, and the corresponding benefits these bring to the customer, proactively prevent market saturation and all the associated negative effects, such as market decline, deterioration in prices, pressure on costs and the relocation of jobs to low-wage countries. Every 7 to 10 years, RATIONAL makes such a quantum leap through a new step in technology, and provides so much more customer benefit in the process that all previously installed appliances become technologically, economically and qualitatively obsolete; quite simply: a new global market is created.

Although RATIONAL has successfully worked the market for more than 30 years, still only 25 percent of a potential 2.5 million kitchens have switched to combi-steamer technology. This means that 75 percent, or 1.9 million kitchens throughout the world, still cook with obsolete technology. Our SelfCooking Center® technology, which we introduced in 2004, now supersedes not only traditional cooking appliances but also any combi-steamers already installed, reducing the market penetration worldwide practically back to zero.


## FRIMA VarioCooking Center®: A new world market has been created

The SelfCooking Center® technology replaces approximately 40 to 50 percent of all the traditional cooking appliances normally found in a professional kitchen. Heat is ideally transferred via hot, fast-flowing gases. The world's first VarioCooking Center®, developed by our French subsidiary FRIMA and launched onto the market in 2005, has essentially made all existing cooking appliances redundant. In the VarioCooking Center®, food can be cooked either in liquid or through direct contact with heat. A single appliance thus replaces boiling pans, tilt-pans and deep fryers, for example, as well as cooking in half the time. The VarioCooking Center® is the perfect complement to the SelfCooking Center® and appeals to the same target group. This means that the global market potential of this new and revolutionary technology is once again around 100 percent of the 2.5 million professional kitchens in the world.

## Excellent customer satisfaction

Our customers for both the SelfCooking Center® and the VarioCooking Center® are extremely satisfied, both with the products themselves and with the service that goes with them.

The latest customer satisfaction surveys have shown that 84 percent of all SelfCooking Center® owners and an amazing 90 percent of all VarioCooking Center® owners are almost evangelical about these appliances: not only are they satisfied and loyal, but they recommend the appliances to their friends and acquaintances, and would always be happy to purchase the same appliance again.

## Developing new markets through organic growth

RATIONAL technology is used in every corner of the world, and we have achieved this situation through organic growth, not acquisitions. Organic growth ultimately leads to greater stability and minimises entrepreneurial risk, leading to increased security in the future.

Depending on the market potential of the country in question, we are opening up markets in the various countries of the world, either by establishing sales companies or through collaborations with independent sales partners. We now have successful subsidiaries in practically all the high-potential countries. And as a result of concentrating our efforts on the important emerging markets, this division of RATIONAL International is also showing above-average growth.

## Global market share continues to expand

It is above-average growth that has enabled RATIONAL to further increase its global market share in 2007, from 53 percent to 54 percent. The critical success factors here were RATIONAL's superior product technology, the fact that it continued to concentrate its resources in the countries with the greatest potential, and its systematic implementation of the global RATIONAL sales and marketing process.

Economic Report

# Net assets, financial position and results of operations





## Record sales growth of 19 percent

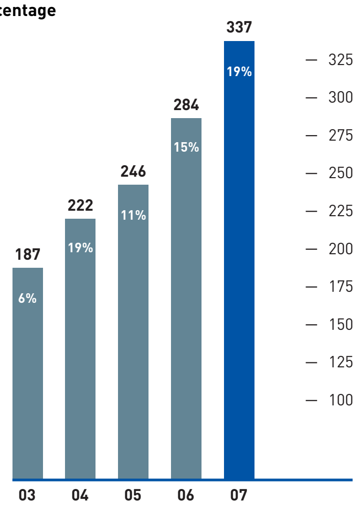
With sales in 2007 of 337 million euros, RATIONAL topped the previous year's figure of 284 million euros by 53 million euros, or 19 percent. We have therefore not only crossed the 300 million euro threshold, we have crossed it by a very wide margin.

It was particularly pleasing that our sales subsidiaries worldwide were not the only contributors to this growth, but also our partner business throughout the markets of the future, such as Eastern Europe, Asia and Latin America. This is impressive testimony to the efficiency of our global structures.

Even in the well-developed German combi-steamer market, where our sales figures are the highest, we managed once again in 2007 to achieve double-digit growth – of 13 percent. Just as 30 years ago the combi-steamer started to replace the country's large stock of hot air appliances, today the SelfCooking Center® is replacing the technically, economically and qualitatively obsolete combi-steamer. This means that the sales potential for our technology is almost 100 percent again, even in Germany. This apparently never-ending success story also suggests that there is considerable sales potential for RATIONAL technology in just about every other country in the world.

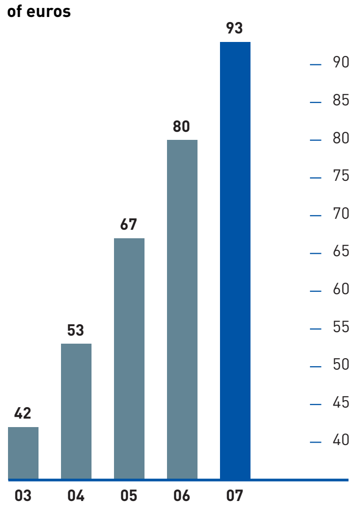
**19 percent sales growth in 2007**

**Sales in millions of euros**
**Growth percentage**




**EBIT: growth at planning level**

**EBIT in millions of euros**




## EBIT: growth despite special negative effects at planning level

Special effects such as those created by the high price of raw materials and, in this connection, particularly the alloy surcharge for stainless steel, as well as the strength of the euro against the US dollar and Japanese yen, had a negative impact on the growth of RATIONAL's earnings in 2007.

RATIONAL
by royal
appointment

EBIT still grew by 15 percent, however, to 92.6 million euros (previous year 80.5 million euros) as planned. The EBIT margin currently stands at 27.5 percent, i.e. at a similarly high level to last year's 28.4 percent.

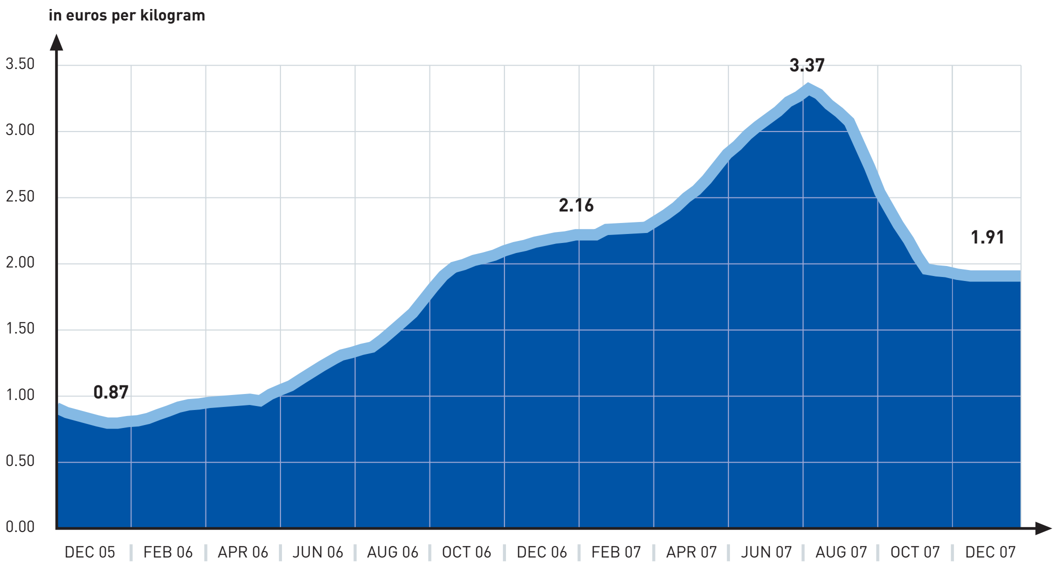
Around 70 percent of these special negative effects are the result of the unexpectedly high increases in steel prices – again, the alloy surcharge in particular. Both the price of steel and the alloy surcharge have now dropped to pre – 2007 levels, however, and this should have a positive effect on earnings growth in financial year 2008.

The segment results for Germany, the Americas and Asia reach again last year's level, those for Europe show growth up to 16.1 million euros, from 7.3 million in 2006. The segment results for the parent company, which take account of the development and manufacture of appliances, have grown by a disproportionately small amount relative to sales, primarily as a result of the abovementioned special negative effects caused by higher raw materials prices.

## Structural earning power further improved

If the speculative price rise resulting in the alloy surcharge affecting chromium nickel steel is eliminated, RATIONAL's EBIT grew by approximately 26 percent in 2007, corresponding to an EBIT margin of 30 percent. The company's structural earning power would thus have continued to improve in 2007 without this special effect, which should no longer apply in 2008.

**Changes in the alloy surcharge for high-grade steel**



# Economic Report





## RATIONAL one of the top companies in Germany in terms of earning power

Germany's largest companies are not its most profitable. In an analysis of companies' earning power conducted by the German financial newspaper "Handelsblatt" on August 8, 2007, RATIONAL ranks fourth.

**The most profitable companies**

| Ranking | Company | Net profit-sales ratio in percent |
|---|---|---|
| 1 | Solarworld | 25.3 |
| 2 | SAP | 19.9 |
| 3 | Wirecard | 18.8 |
| 4 | RATIONAL | 18.3 |
| 5 | Salzgitter | 17.9 |
| 6 | Q-Cells | 17.8 |
| 7 | Pfeiffer Vacuum | 16.6 |
| 8 | Merck | 16.0 |
| 9 | Software AG | 15.2 |
| 10 | Qiagen | 15.1 |

Source: "Handelsblatt" Aug. 8, 2007

"In Handelsblatt's" words: "Quite unexpectedly, two quite traditional companies have also made it to the top of the list of most profitable companies – RATIONAL, the kitchen technology manufacturer, and Stahlkocher Salzgitter", and: "There is actually no uniform trend within the sector at the moment. The figures are proof, however, that some companies are well managed and others are not."

## Gross margin at 59,4 percent

In 2007 the price of high quality stainless steel, and the alloy surcharge in particular, rose steeply from the previous year's levels. Cost savings, together with increased productivity in production and value analysis projects in the area of components, compensated to some extent for the resulting higher material costs. However, cost of sales per unit is still up 7 percent, and the gross profit margin for the year under review is 59.4 percent, as against 61.3 percent last year.

## Targeted expansion of global sales and marketing network

2007 saw continued expansion of RATIONAL's global sales and marketing network, particularly in high-potential markets.

However, in addition to increasing our sales capacities in 2007, we also succeeded in considerably increasing efficiency levels within the sales organisation. The result has been that sales and service costs rose relatively little in relation to cost of sales – by 14 percent, from 69.9 million euros to 79.7 million euros.

## Targeted investment in the future through research and development

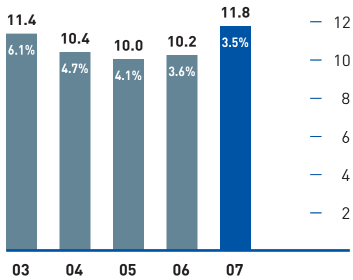
RATIONAL has one of the largest and best qualified research and development teams in the sector. By consistently focusing on the application side, RATIONAL has developed into an innovative solutions provider and put itself well ahead of the competition as regards technology.

Team
RATIONAL, Dubai

RATIONAL aims to make a quantum leap in innovation every 7 to 10 years, and does so through a radical step upwards in technology. The enormous customer benefit created in the process is such that all previous installed appliances are made economically obsolete, which in turn creates fresh demand.

Research and development costs rose by 15 percent in 2007, from 10.2 million euros to 11.8 million euros. Therefore they are way above the industry average and are evidence of the high value RATIONAL places on research and development as a factor in securing its future.

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



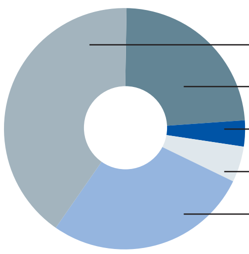

## Flat hierarchies and process organisation keep administration expenses down

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 administration and ever-increasing efficiency, at the same time as flat hierarchies.

In financial year 2007 administration expenses rose by 21 percent, from 12.6 million euros in 2006 to 15.3 million euros. This corresponds to 4.5 percent of sales, the same percentage as last year.

However if extraordinary expenses incurred in connection with a patent dispute in the US are eliminated, administration expenses rose by only 12 percent in 2007, which is disproportionately low in relation to sales. The patent dispute was settled in September 2007, with claims on both sides being waived.

**2007 cost and earnings structure compared with previous year**



| | 2007 | 2006 |
|---|---|---|
| Cost of sales | 40.6 % | 38.7 % |
| Sales and service | 23.7 % | 24.6 % |
| Research and development | 3.5 % | 3.6 % |
| Administration and miscellaneous | 4.7 % | 4.7 % |
| EBIT | 27.5 % | 28.4 % |

Economic
Report

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### Group earnings rise by 18 percent

In the year under review, group earnings (net annual income) rose by 18 percent to 61.2 million euros (previous year: 51.8 million euros). This corresponds to earnings per share of 5.38 euros (previous year: 4.55 euros). Net return on profit reached last year's excellent figure of 18 percent.

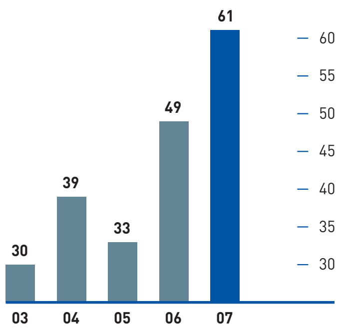
Income taxes for fiscal 2007 amount to 32.3 million euros (previous year: 29.3 million euros). The tax ratio is 34.6 percent – again, a further improvement on the figure for the previous year (36.2 percent).

### Cash flow from operations will finance growth and an attractive dividend

| Thousands of euros | **2007** | 2006 |
|---|---|---|
| Earnings from ordinary activities | 93.463 | 81.101 |
| Net cash generated from operating activities | 61.063 | 49.140 |
| Net cash for investing activities | – 30.166 | – 1.834 |
| Net cash for financing activities | – 25.988 | – 38.401 |
| Changes in cash from exchange rate changes | – 197 | – 85 |
| Changes in cash funds | 4.712 | 8.820 |
| Cash and cash equivalents on Jan. 1 | 40.583 | 31.763 |
| Cash and cash equivalents on Dec. 31 | 45.295 | 40.583 |

At 61.1 million euros, the figure for cash flow from operations in 2007 was again excellent (previous year: 49.1 million euros). The growth was mainly due to improvements in receivables management, but also due to a considerable increase in earnings.

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




In 2007, cash flow from investment activities not only reflects the company's considerably increased investment in property, plant and equipment, but also its investment in long-term deposits of capital not needed in the short-term. Both the dividend paid out in 2007 and, with reverse effect, the loan taken out for the expansion of capacity in Landsberg, affect cash flow from financing activities this year. Fortunately, still higher cash flow is available in 2008, which will be used to finance further growth and pay an attractive dividend to our shareholders.

One unit is completely assembled by only one employee

## Solid balance sheet structure

RATIONAL AG's balance sheet total as at the balance sheet date – December 31 – is 187.4 million euros, which is 40.9 million euros, or 28 percent, higher year on year.

The total for property, plant and equipment and intangible assets for the period under review increased to 37.8 million euros (previous year: 29.0 million euros). Important items here were the rebuilding of the company restaurant at headquarters in Landsberg, work in progress on building the new production plant, the ongoing modernisation of IT infrastructure and the continued expansion of our subsidiaries worldwide.

Because production is order-driven and lead times are short, stocks are generally very low. At 18.6 million euros, however, the value shown for inventories is 20 percent higher year on year The main reason for this, apart from the 19 percent rise in sales, is the higher stainless steel prices already mentioned.

As at the balance sheet date, trade accounts receivable amount to 61.4 million euros, which corresponds to an increase of 16 percent compared with last year's figure of 53.1 million euros. The average length of receivables outstanding is now 55 days (previous year: 56 days). 83 percent of accounts receivable are secured against default with trade indemnity insurance or other protection. Written-off receivables in fiscal 2007 amount to 0.4 million euros, or 0.13 percent of annual sales (previous year: 0.5 million euros/0.17 percent). Compensation payments and anticipated compensation payments from trade indemnity insurance have not been set off set off against this figure.

## A high equity ratio promotes entrepreneurial activity

As at balance sheet date, RATIONAL has equity capital of 124.0 million euros, and in spite of the dividend of 42.6 million euros paid out in May 2007 our equity ratio is 66.2 percent (previous year: 72.2 percent).

Other long-term liabilities include 2.1 million euros' worth (previous year: 3.0 million euros) of finance leasing agreements under IAS 17 with remaining terms of more than one year.

At 19.4 million euros (previous year: 17.7 million euros), short-term liabilities remain at a relatively low level because of low business risk exposure. Specifically, they include accrued personnel costs, bonuses paid to business partners and provisions for warranties. No provisions had to be created for anticipated losses.

Liabilities to banks of 18 million euros reflect the financing for the new plant in Landsberg. The annuity loan secured by mortgage has a term of 15 years and the interest rate is fixed for 10 years.

Although, at 9.3 million euros, the figure for trade accounts payable is higher than the previous year's figure of 6.8 million euros, it is still very low. However, thanks to our close collaboration with suppliers, our liabilities are quickly cleared. This has a favourable effect on the prices our suppliers charge us, as well as enabling us to make optimum use of suppliers' discounts.

At 10.4 million euros, other (short-term) liabilities are slightly higher than last year, when they amounted to 9.2 million euros. In addition to sales tax liabilities, they mainly include liabilities to business partners in respect of bonuses and liabilities for wage tax, church tax and social security charges.

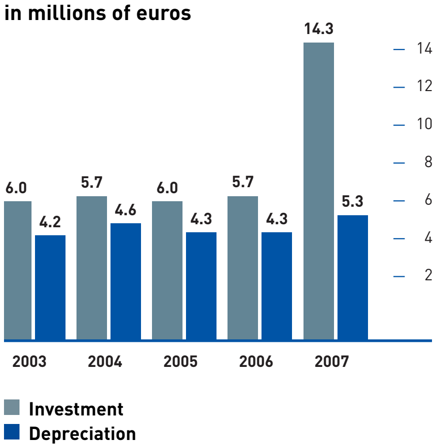
### Third plant in Landsberg provides 50 percent more capacity

In view of RATIONAL's continuing growth, full capacity will soon be reached at its two existing plants. A third plant, which will be the largest of the three, is therefore now being built at the Landsberg site. The first sod was turned on July 24, 2007, so building is now under way. The new plant is scheduled to be commissioned in mid-2008.

At 20 million euros, this building project represents the largest single investment in the company's history. Only 800 metres as the crow flies from the existing plants, the new plant will cover a site of approximately 46,000 square metres. The 50 percent greater assembly capacity of 60,000 appliances per year that this will create will pave the way for double-digit growth well into the future, as well as creating a new platform from which to launch further improvements in productivity.

In 2007 RATIONAL also invested in building a new company restaurant and modernising its IT infrastructure. Total investment for the year under review amounted to 14.3 million euros (previous year: 5.7 million euros). Depreciation amounted to 5.3 million euros (previous year: 4.3 million euros).

**Investment / Depreciation**
**in millions of euros**




The new Plant in Landsberg am Lech

## RATIONAL shares in 2007

In terms of growth and earnings, RATIONAL shares are one of the most attractive securities listed on the German stock exchange. Between 2000, when the shares were first listed, and 2006, the RATIONAL share price rose to six times its original value. 2007, however, saw consolidation at this level. At 140 euros, the closing price on December 31, 2007 was virtually the same as at year end 2006 (141 euros). For 2008 the share price has upside potential. This is supported by analysts' studies, which have produced valuations well above the current share price.

**Research Coverage 2007**

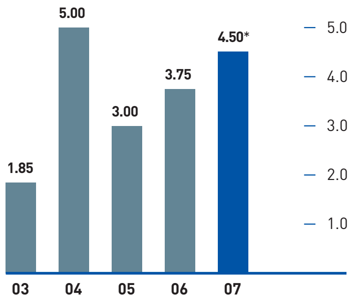
| Company | Recommendation | Price target |
|---|---|---|
| Deutsche Bank | Buy | 180 |
| Dresdner Kleinwort | Add | 168 |
| UniCredit | Buy | 180 |
| Merrill Lynch | Neutral | — |
| WestLB | Add | 165 |
| Citigroup | Buy | 165 |
| Reuschel & Co. | Accumulate | 152 |
| Berenberg Bank | Buy | 160 |
| Cheuvreux | 2/OP | 161 |
| HSBC Trinkaus | Overweight | 169 |
| Merck Finck | Buy | 165 |
| Cazenove | Outperform | — |
| LBBW | Buy | 164 |
| Sal. Oppenheim | Buy | 160 |

## Attractive dividend

In addition to the increase in its share price, the company's attractive dividend policy also underpins the position of RATIONAL shares as a high-yield investment option. At the Shareholders' Meeting, the Executive Board and the Supervisory Board will be proposing a dividend for 2007 of 4.50 euros per share (previous year: 3.75 euros).

**Attractive dividend distributed year by year**

**per share in euros**




* Dividend proposal 2007

# Economic Report





## Return on invested capital (ROIC) again reaches record level

Operational control of the company is based on a specially tailored, global, multi-tiered planning and financial controlling 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 2007 is an excellent 43 percent, and thus falls within the same high range as last year's figure of 47 percent. Assuming that the cost of capital was 9 percent, this means that in financial year 2007, the company's value was increased by 50 million euros (previous year: 42 million euros) or 19 percent.

## Supplier quality as a success factor

In 2007, expenditure on materials went up by 27 percent, from 92 million euros to 117 million euros, due to the 17 percent increase in unit sales and the sharp, short-term rise in the prices of steel and stainless steel.
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 reengineering projects.

In addition to supplier certification, our collaborations with suppliers are underpinned by partner plans, monthly reporting of key figures and regular audits – an approach which is as conducive to favourable purchase prices as it is to long-term supplier loyalty.

RATIONAL's supplier evaluation system not only closely examines product and supplier quality but also the quality of the collaboration as a whole. In addition to this, special awards are given to our best suppliers at our annual suppliers' conference.

## The quality of a company is in its employees

No company is better than its people. RATIONAL employees excel in terms of qualification, but also in terms of their extraordinary commitment and high levels of satisfaction.

For years now, RATIONAL has been promoting promising employees as part of its programme to foster a new generation of executives. The international "RATIONAL development program", under


RATIONAL
Company anniversaries 2007

which these promising employees spend two years acquainting themselves not only with all our processes but also with our corporate culture, provides a proven platform to support this process.

## 43 employees celebrate anniversaries in 2007

Employee loyalty, and the high standards of training and knowledge that go with it, are important factors in RATIONAL's success. In 2007, we were pleased to honour no fewer than 43 of our employees for long service to the company of either 10 or, in some cases, 25 years.

## Profit-sharing – in the form of an extra month's pay

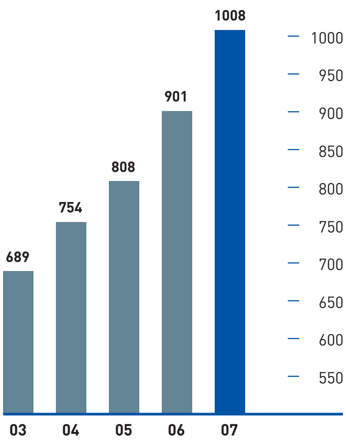
RATIONAL's employees have been able to share directly in company profits for many years now. Employees receive their share of profits in the form of a special payment in December, which in 2007 equalled an extra month's pay.

## Only increased demand can create new jobs

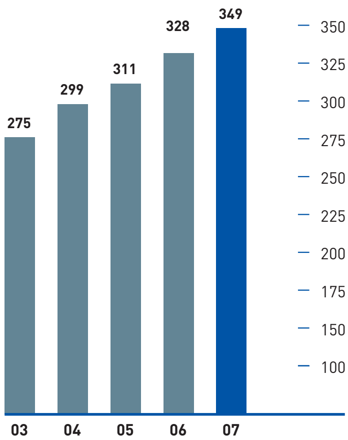
Ever-increasing customer benefit makes the products and services we offer correspondingly more attractive. The result is increased orders, which in turn create more jobs.
In 2007 alone, 107 new jobs were created at RATIONAL, and the "1,000 employees worldwide" mark was exceeded for the first time.

By continually increasing productivity and efficiency in all areas of the company we have also been able to achieve considerable further improvements in quality. Sales per employee have been steadily rising for years and, in 2007, reached a new record of 349 thousand euros.

**Number of employees from 2003 to 2007**




**Sales per employee in thousands of 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 must provide information on the main features of their system of compensation for their executive board.

At RATIONAL AG, the Supervisory Board is responsible for setting Executive Board members' remuneration, which is based on the company's size and global activity, its economic and financial situation and the levels and structure of executive board remuneration in comparable companies.

The total compensation paid to the Executive Board for the performance of its duties within the parent company and its subsidiaries in financial year 2007 was 2.7 million euros (previous year: 5.1 million euros). This sum includes performance-related payments of 1.2 million euros (previous year: 1.2 million euros) as well as a cash compensation of the share option program for 34.500 shares from the previous year. This cash compensation was implemented in 2004 and paid in 2006 in the amount of 2.6 million euros. To this must be added payments into the pension scheme of 0.2 million euros. No stock options were issued in 2007. By resolution of the Shareholders' Meeting of May 17, 2006, RATIONAL AG will not be publishing the individual compensation paid to members of the Executive Board.

## Information to be provided under § 315 Para. 4 of the German Commercial Code and associated explanatory report

**Composition of subscribed capital**

The share capital of RATIONAL AG as at December 31, 2007 was unchanged at 11,370,000 euros and consisted of 11,370,000 ordinary registered no-par value shares, each of which has a nominal calculated value equal to a 1-euro share in the share capital.

**Restrictions affecting voting rights and the transfer of shares**

There are currently no restrictions on the exercise of voting rights or the transfer or disposal of shares.

**Capital investment exceeds 10 percent of voting rights**

As at December 31, 2007, 7,159,786 shares in RATIONAL AG (previous year: 7,159,786 shares) are held by members of the Supervisory Board, and thus exceed 10 percent of voting rights. As required by law, the Chairman of the Supervisory Board informed the company on April 1, 2002 that his share of the voting rights exceeded the 50 percent threshold.

**Shares with special rights conferring powers of control**

There are no shares with special rights.


**Method used to monitor voting rights when employees have a share in the capital and do not directly exercise their rights of control.**

In accordance with both statutory regulations and the statutes of the company, employees of the company may directly exercise the rights of control they possess as shareholders in the same way as other shareholders.

**Appointment and dismissal of members of the Executive Board; amendments to the statutes**

The Executive Board of the company may consist of one or more people. Under §§ 84, 85 of the German Stock Companies Act (Aktiengesetz) in conjunction with § 6 No. 2 of the statutes, the Supervisory Board appoints members of the Executive Board, determines their number and is responsible for their dismissal.

Under § 11 No. 2 of the statutes the Supervisory Board is entitled to make amendments and additions to the statutes provided these relate to the wording only. All other amendments to the statutes are made by resolution of the Shareholders' Meeting passed with a simple majority of the votes, provided a greater majority is not required by law. §§ 179ff. of the German Stock Companies Act apply accordingly.

**Authority of Executive Board to issue or repurchase shares**

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. Increases in conditional capital may only be made insofar as bearers exercise their option rights. The company does not hold own shares, neither is the Executive Board currently authorised by the Shareholders' Meeting to purchase own shares for the company.

**Important agreements entered into by the company that are subject to the condition of change of control following a takeover bid**

Rational AG has not entered into any important agreements that are subject to the condition of change of control. No agreements have been entered into with members of the Executive Board or other employees of the company that provide for any particular compensation or additional remuneration in the event of change of control, i. e. of the assumption of the majority of voting rights in the company by either an individual shareholder or by shareholders acting jointly.

## 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 the production, shipping and subsequent use of appliances on the customer's premises. We have been working in constructive partnership with 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.

# Risk Report



## Early identification of risk indicators assures high growth and stable earning power

The companies with the best risk management are the ones that regularly meet ambitious planning targets, even when exposed to negative influencing factors. For RATIONAL, entrepreneurial risk can be defined as the danger of not meeting financial, operational or strategic targets according to plan.

In past years, RATIONAL has proved time and again that early identification of risk combined with the systematic implementation of appropriate countermeasures meets even unidentified goals and brings about lasting improvements in company value and company quality.

Crucial success factors that complement RATIONAL's risk management system are the regular risk and opportunity awareness-raising initiatives we undertake with our employees and the highly developed sense of corporate identity among our managers.

The processes and instruments we use to identify opportunities and risks are constantly reviewed, improved and made the subjects of training courses. As a result, the opportunities that present themselves take on far greater significance than the threats. This holds particularly true given 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

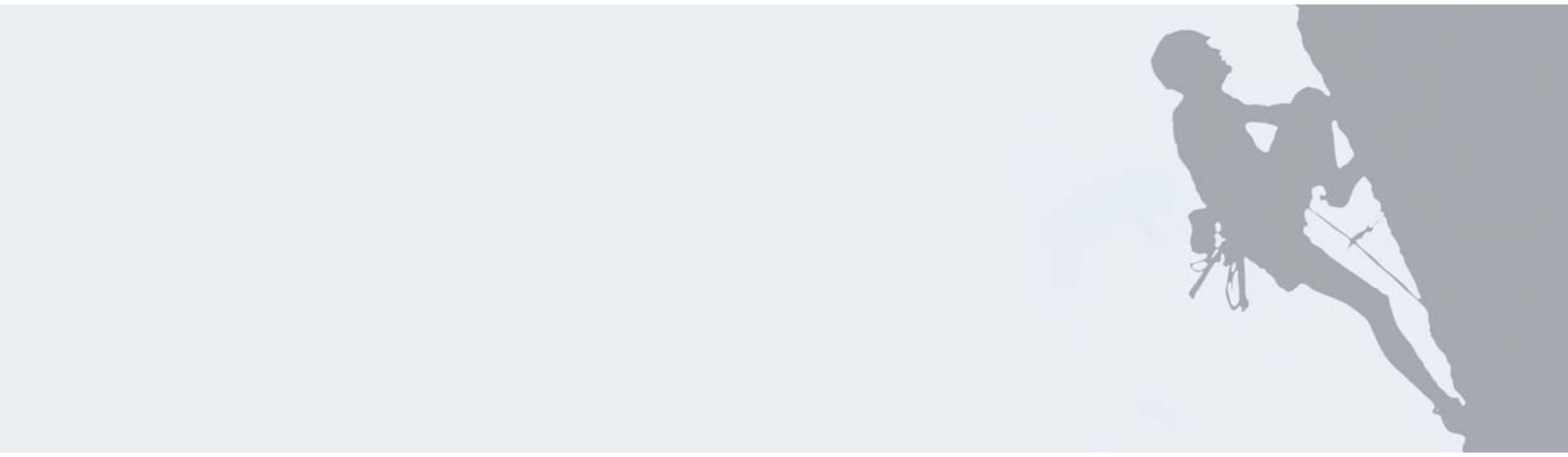
Professional risk management and the kind of sustained optimum performance that regularly improve the quality of a company are inextricably linked. That is why RATIONAL's risk management system is being constantly developed and the quality of its early warning indicators continually improved.

**Key components of RATIONAL's risk management system include:**

- The integrated planning process that involves all divisions of the company worldwide

- Comprehensive group reporting of all company processes and subsidiaries, that is analysed, commented on and assessed by Financial Control and quickly delivered to all decision-makers, to enable them to implement the necessary adjustment measures promptly

- Process descriptions for all divisions of the company, the quality and observance of which are assured worldwide by regular training courses and subsequent monitoring of success



- An internal audit, which provides an independent and objective snapshot of the current situation with regard to all processes, and assesses and weights any deviations from targets. The scoring system for both process risks and corporate risks is standardised, so comparisons can be made between the various processes with regard to quality and risk situation, and their development evaluated over time

- Benchmarks with threshold values for sales and marketing efficiency, receivables management, supply chain management and the quality of the service network, to assist the early identification of undesirable developments so that appropriate countermeasures can be promptly implemented. As well as making the risk situation more transparent, ranking companies in this way creates internal competition, the result of which is that the less efficient organisations learn from the "best" and the quality of the company is constantly improved

- A globally integrated treasury management system for optimum cash and currency management worldwide

- Customer satisfaction surveys conducted regularly in all the important markets, providing an external perspective on product quality, service quality and the company's competitiveness

- Partner plans agreed annually with strategic suppliers and service partners and designed to increase productivity and reduce costs. Adherence to these plans is assured through regular reporting, auditing and certification

- A security concept for all sites that provides optimum protection for employees, plant, buildings and know-how. Dedicated standby teams and emergency plans make it possible to act quickly in critical situations

- IT security, which is particularly important to RATIONAL, with its many sites all over the world and its many mobile PC users. The safeguards and tools used in IT are continually updated, and are checked and evaluated by specialists from both inside and outside the company

- A comprehensive insurance concept that is adapted each year to the new security situation

- Regular strategy meetings between the Supervisory and Executive Boards, which minimise the risk of undesirable developments

# Risk Report



The effectiveness and topicality of the risk management system is continually updated and adjusted through the internal auditing process. Also, external auditors check whether the Executive Board has taken the necessary steps required under § 91 Para. 2 of the German Stock Companies Act to ensure that developments that could put the existence of the company at risk are identified at an early stage.



## Political crises and natural disasters

The impact of political instability and natural disasters can put product sales in the affected countries at risk.

The international nature of RATIONAL's operations means that its products and services are sold in all the important markets of the world. This gives us the flexibility to compensate for regional economic difficulties in one particular market with our activities in others, thus making it unlikely for the business as a whole to be negatively affected to any significant degree.

## General economic and sector risks

The international market environment 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.

Experience has shown, however, that because of the company's special market position and the high productivity effect of its products, fluctuations in the economic climate do not have any serious impact on the company's business development.

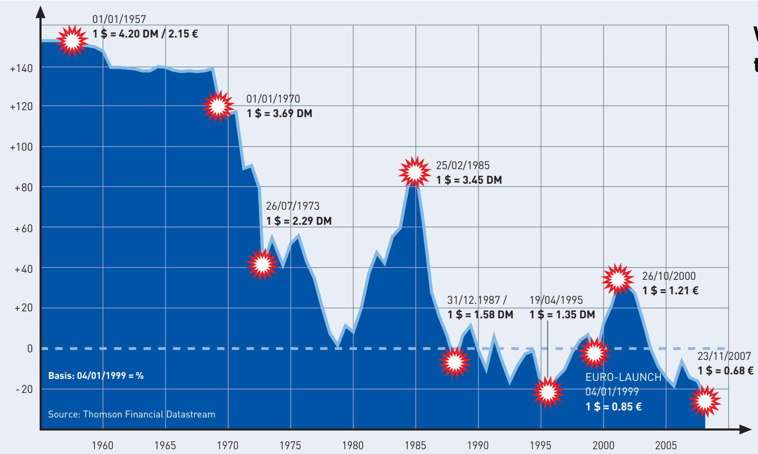
## Financial risks

In 2007 the share of total sales in foreign currencies outside the Euro Zone amounted to 29.8 percent (previous year: 29.9 percent), and since the greater part of production costs is generated within the Euro Zone, changes in exchange rates affect the company's results.

Any increase in the value of the euro in relation to other currencies has a generally negative effect, whereas a low-value euro has a positive influence.

Currency hedging, which is an instrument of currency risk management, considerably reduces the impact of short and medium term currency fluctuations on payment streams within operations.

**Weak US dollar Burdens the Export Economy**




RATIONAL uses the usual currency hedging instruments, such as options and forward exchange contracts in a limited scale, and works with top-ranking financial partners. The type and scope of its hedging activities are prescribed by internal guidelines; they are centrally managed by the Finance Division.

RATIONAL's total sales volume is divided between several thousand dealers, most of whom operate in the "specialist gastronomy" sector. Consequently, there is no special risk to constant future sales growth through the loss of dealers. Against the background of the fact that the RATIONAL sales process is focussed particularly on end users, the loss of trade customers does not lead automatically to a drop in demand. It will be forwarded instead to an alternative dealer.

Trade accounts receivable are secured against the risk of default by trade indemnity insurance or bank letters of credit. As at the balance sheet date, 83 percent (previous year: 84 percent) of receivables were covered by corresponding securities. This virtually eliminates any sizeable risk to the RATIONAL-Group in relation to defaults on accounts payable.

RATIONAL is however exposed to an interest rate risk, in that in 2007 it took out a loan for which the interest rate was fixed for 10 years, so in this transaction at least, it could not profit from any fall in interest rates.

## Product quality and product liability

RATIONAL is aware of the risks associated with quality problems and the incorrect use of products. For this reason, service reports worldwide are subject to expert scrutiny and analysis. In the view of management, existing product liability insurance covers the risks arising from product liability.

Product quality continued to improve in 2007. This trend is further substantiated by lower warranty costs and a drop in the number of customer service callouts, as well as the customer satisfaction levels recorded in our regular customer surveys.

### Product development and the protection of trademarks

In terms of products and technology, RATIONAL has been the clear leader in its field for many years. Innovations are protected by intellectual property rights, as well as numerous patents and patent applications.

Whenever an infringement of an active patent is suspected, all possible defensive measures, including taking the third party to court, are employed. Where legal proceedings are initiated against RATIONAL for possible infringement of a patent, claims are examined by experienced patent lawyers before being vigorously followed up and defended.

The dispute over patents in the US, which had been running for about a year, was finally settled. In the third quarter of 2007, the parties have withdrawn with prejudice all proceedings against each other.

### Personnel management related risks

Its highly qualified employees and management are the mainstay of the RATIONAL-Group's success and continued development. It is therefore very important that we are able not only to retain high achievers within the company, but also to attract new highly qualified personnel. If a large number of these high achievers were to leave the company in short succession, and suitable replacements could not be found at short notice, RATIONAL's business operations could be negatively affected.

But as all company processes are defined and documented, and as employees are constantly being hired and trained in all our divisions and at all our sites, we believe there is little risk of this happening.

The results of the latest employee survey show that RATIONAL is also one of the best firms in the world in terms of employee satisfaction and retention.

### Raw materials prices and procurement risks

As a manufacturing company, RATIONAL is affected by the rising energy and raw material prices, as they result in variable material and production costs.

The price of nickel, which in turn affects the alloy surcharge on stainless steel, is particularly important for the manufacture of our products. RATIONAL watches the raw materials markets closely and, thanks to longstanding contracts with suppliers, is able to reduce cost-related risks.

> “Taking into account the measures it has put in place, RATIONAL does not see any risks, which either individually or in combination, as posing a threat to its future viability or as likely, in the long-term, to significantly impair its net assets, financial position and results of operations.”

A 10 percent fluctuation in the price of nickel will generate a change of around 1 percent in production costs. Raw material prices are predicted both to fall and to rise sharply again in 2008. As raw material prices have been relatively stable in the past, we do not see a great risk here, so we are not currently engaged in any hedging activities. In 2007, working in close partnership with key suppliers, we were able to at least partly compensate for the rise in raw materials prices by improving products and optimising production processes.

# Outlook



## General economic situation for 2008 still looks positive

In spite of increasing signs of a distinct economic slowdown in the US, triggered by the financial crisis, we are still expecting the general economic situation to remain good. World economic growth of 4.6 percent is forecast, with the emerging economies of Brazil, Russia, India and China (BRIC), in particular, expected to show disproportionately high growth rates.

The US dollar, the pound sterling and the Japanese yen all fell sharply against the euro during 2007. In 2008, therefore, we are expecting currency parities to remain largely unchanged, but do see a risk of possible further depreciations in value.

## 15 percent growth in sales and earnings planned for 2008

In 2008 we shall be continuing to expand our international sales and marketing network. On top of this, additional production capacities will create a completely new platform for future increases in productivity.

This being the case, as well as

- the generally positive development of the world economic situation expected for 2008,
- the unique positions worldwide of RATIONAL's SelfCooking Center® technology and FRIMA's VarioCooking Center® technology,
- the high levels of customer acceptance noted for both these technologies
- and the strategies and measures we have adopted

we expect sales to grow by 15 percent, to 387 million euros, in 2008.

In view of the recent easing of raw material prices, we are planning on a proportionate increase in EBIT of 15 percent, to 106 million euros, despite the unpredictable US dollar, pound sterling and Japanese yen rates expected in 2008.

### Earnings per share likely to rise by 23 percent

As a result of tax reform in Germany, RATIONAL's tax ratio will most likely fall from 34.6 percent in 2007 to under 30 percent in 2008, which will result in an extraordinary high growth in earnings. Earnings per share are thus likely to rise by 23 percent from 5.38 euros in 2007 6.60 euros in 2008.

### Supplementary report

No events that might have affected the net assets, financial position or results of operations of the RATIONAL AG occurred after the close of the financial year.

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

Landsberg am Lech, February 15, 2008

RATIONAL AG
The Executive Board

# FINANCIAL STATEMENTS






NO LIMITS
FRIMA

# Report by the Supervisory Board





**Report by the Supervisory Board of RATIONAL AG on the fiscal year 2007**

In the year under review, the Supervisory Board performed the tasks laid down for it by law and the Articles of Association. It regularly advised the Executive Board and monitored the Company's management of business. The Supervisory Board was directly involved in all decisions of strategic importance to the Company.

During the past fiscal 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 has only three members.

The Executive Board provided the Supervisory Board with timely and full reports on business policy and corporate planning, in particular the financial, investment, and personnel planning of RATIONAL AG and its subsidiaries, as well as risk exposure and risk management.

The course of the business, profit and loss, liquidity and unforeseen developments for each subsidiary and for the Group were detailed in monthly written reports and discussed at joint meetings of the Executive Board and the Supervisory Board. In addition, the Chairman of the Executive Board was in regular contact with the Chairman of the Supervisory Board in order to discuss the latest events and impending decisions.

Where the course of business deviated from published plans and targets, this was discussed individually and in detail. In particular, the Company's strategic orientation and all material business transactions of the Company were the subject of intensive consultation.

In addition to numerous individual meetings, regular monthly reviews and eight ordinary Supervisory Board meetings were held in fiscal year 2007. The members of the Supervisory Board also 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.

In the year under review, the consultations of the Supervisory Board focused on the following:

- Marketing and sales structure for the development of new markets
- Creation of an efficient management structure for subsidiaries
- Professional, internationally focused personal development to promote young management talent from within the Company
- Expansion of production capacities
- Corporate planning for 2007 including strategic planning up to 2010
- Further development of the RATIONAL risk management system

The Supervisory Board dealt intensively with the guidance of the German Corporate Governance Code and its implementation in the Company. In accordance with Section 161 of the German Stock Corporation Act (Aktiengesetz, AktG), it resolved at its meeting held on January 23, 2008 to issue a declaration of conformity with the German Corporate Governance Code as amended on June 14, 2007. The declaration of conformity issued by the Executive Board and Supervisory Board was published on the website of RATIONAL AG on January 30, 2008.

The Supervisory Board dealt in detail with personnel matters in the past fiscal year. Mr. Thomas Polonyi, member of the Company's Executive Board, left the Company by mutual agreement on April 30, 2007.

The annual financial statements for the fiscal year from January 1 to December 31, 2007, prepared in accordance with the provisions of the German Commercial Code (HGB) and the Company's management report were audited by the company's auditors, Rölfs WP Partner AG Wirtschaftsprüfungs-gesellschaft, Munich. The auditors issued an unqualified audit opinion.

The Executive Board prepared consolidated financial statements as well as a group management report in accordance with the International Financial Reporting Standards (IFRSs), and in accordance with the supplementary provisions of Section 315a (1) of the German Commercial Code.

## Report by the Supervisory Board





The auditors audited the consolidated financial statements and the group management report and issued an unqualified audit opinion.

The annual financial statements, the consolidated financial statements, the management reports, the auditors' reports, and the Executive Board's proposal on the appropriation of unappropriated profits were distributed to all Supervisory Board members in good time. These documents were the subject of intensive consultation at the Supervisory Board meeting held on February 27, 2008. In particular, the Supervisory Board dealt comprehensively with the auditors' findings. The auditors took part in the discussion of the Company's annual financial statements and the consolidated financial statements. They reported on the findings of their audit and were available to supply the Supervisory Board with additional information.

Following the final result of the consultations and a separate review by the Supervisory Board, no objections were raised. At its meeting held on February 27, 2008, the Supervisory Board approved the annual financial statements for RATIONAL AG as of December 31, 2007, including the certified version, dated February 07, 2008, of the management report for fiscal year 2007, as well as the consolidated financial statements as of December 31, 2007 and the certified version, dated February 15, 2008, of the group management report. The Company's 2007 annual financial statements, including the management report, are thereby adopted in accordance with section 172 sentence 1 of the AktG.

The Supervisory Board examined the Executive Board's proposal for the appropriation of unappropriated profits with regard to the Company's profit and loss, liquidity, and balance sheet. The Supervisory Board concurs with the proposal by the Executive Board to distribute from RATIONAL AG's total unappropriated profits of 67.4 million euros for 2007 a dividend of 4.50 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 fiscal year 2007 and for their close, constructive cooperation. 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 2007.

Landsberg am Lech, March 1, 2008

Siegfried Meister
Chairman of the Supervisory 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, 2007.
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.
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 accountingrelated 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 and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Munich, February 15, 2008

Rölfs WP Partner AG
Wirtschaftsprüfungsgesellschaft

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

# Income Statement RATIONAL-Group





**Income Statement RATIONAL-Group**

| Thousands of euros | 2007 | 2006 | Note I Page |
|---|---|---|---|
| Sales | 336,556 | 283,702 | 01 I 93 |
| Cost of sales | – 136,703 | – 109,926 | 02 I 94 |
| **Gross profit** | **199,853** | 173,776 | |
| Sales and service expenses | – 79,654 | – 69,924 | 03 I 94 |
| Research and development expenses | – 11,759 | – 10,229 | 04 I 94 |
| General administration expenses | – 15,295 | – 12,642 | 05 I 94 |
| Other operating income | 5,264 | 3,975 | 06 I 95 |
| Other operating expenses | – 5,849 | – 4,480 | 07 I 95 |
| **Earnings before interest and taxes (EBIT)** | **92,560** | 80,476 | |
| Financial results | 903 | 625 | 08 I 96 |
| **Earnings from ordinary activities (EBT)** | **93,463** | 81,101 | |
| Taxes on income | – 32,308 | – 29,325 | 09 I 96 |
| **Group earnings** | **61,155** | 51,776 | |
| **Retained earnings brought forward** | **24,276** | 15,138 | |
| **Retained earnings** | **85,431** | 66,914 | |

| | 2007 | 2006 | Note I Page |
|---|---|---|---|
| Average number of shares (undiluted) | 11,370,000 | 11,370,000 | |
| Average number of shares (diluted) | 11,370,000 | 11,372,875 | |
| Earnings per share (undiluted) in euros relating to the consolidated results and the number of shares | 5.38 | 4.55 | 10 I 98 |
| Earnings per share (diluted) in euros relating to the consolidated results and the number of shares | 5.38 | 4.55 | 10 I 98 |

## Assets RATIONAL-Group

| Thousands of euros | Dec. 31, 2007 | Dec. 31, 2006 | Note \| Page |
|---|---|---|---|
| **Long-term assets** | **40,268** | 32,525 | |
| Intangible assets | 1,732 | 1,441 | 12, 13 \| 99,100 |
| Property, plant and equipment | 36,097 | 27,576 | 14, 15 \| 100, 101 |
| Financial assets | 218 | 218 | 16 \| 102 |
| Other long-term assets | 248 | 191 | 19 \| 104 |
| Deferred tax assets | 1,973 | 3,099 | 09 \| 96 |
| **Short-term assets** | **147,154** | 114,034 | |
| Inventories | 18,638 | 15,496 | 17 \| 102 |
| Trade receivables | 61,393 | 53,140 | 18 \| 102 |
| Other short-term assets | 4,828 | 4,815 | 19 \| 104 |
| Deposits with maturities of more than 3 months | 17,000 | — | 20 \| 104 |
| Cash and cash equivalents | 45,295 | 40,583 | 21 \| 105 |
| **Balance sheet total** | **187,422** | 146,559 | |

## Equity and Liabilities RATIONAL-Group

| Thousands of euros | Dec. 31, 2007 | Dec. 31, 2006 | Note \| Page |
|---|---|---|---|
| **Equity** | **123,988** | 105,816 | |
| Subscribed capital | 11,370 | 11,370 | 22 \| 106 |
| Capital reserves | 26,673 | 27,018 | 23 \| 106 |
| Revenue reserves | 514 | 514 | 24 \| 106 |
| Retained earnings | 85,431 | 66,914 | |
| **Long-term liabilities** | **19,813** | 3,633 | |
| Provision for pensions | 617 | 672 | 25 \| 107 |
| Non-current loans | 17,144 | — | 28 \| 109 |
| Other long-term liabilities | 2,052 | 2,961 | 30 \| 109 |
| **Short-term liabilities** | **43,621** | 37,110 | |
| Liabilities for current tax | 3,646 | 3,432 | 26 \| 108 |
| Short-term provisions | 19,424 | 17,675 | 27 \| 108 |
| Current portion of non-current loans | 856 | — | 28 \| 109 |
| Trade accounts payable | 9,292 | 6,787 | 29 \| 109 |
| Other short-term liabilities | 10,403 | 9,216 | 30 \| 109 |
| **Liabilities** | **63,434** | 40,743 | |
| **Balance sheet total** | **187,422** | 146,559 | |

# Cash Flow Statement RATIONAL-Group





**Cash Flow Statement RATIONAL-Group**

| Thousands of euros | 2007 | 2006 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Earnings from ordinary activities | 93,463 | 81,101 |
| Depreciation on fixed assets | 5,294 | 4,262 |
| Stock option plan | — | – 2,623 |
| Net results from disposal of fixed assets | – 3 | – 16 |
| Non-realised foreign currency result | – 100 | 157 |
| Interest income | – 1,283 | – 871 |
| Interest expenses | 380 | 324 |
| Operating results before changes in working capital | 97,751 | 82,334 |
| Changes in | | |
| Inventories | – 3,142 | 723 |
| Trade accounts receivable and other assets | – 8,440 | – 8,286 |
| Accruals | 1,695 | 3,497 |
| Trade accounts payable and other liabilities | 3,948 | 2,356 |
| Cash generated from current business activities | 91,812 | 80,624 |
| Taxes paid on income | – 30,749 | – 31,484 |
| **Net cash generated from operating activities** | **61,063** | 49,140 |
| | | |
| **Cash flow from investing activities** | | |
| Investing in intangible assets and tangible assets | – 14,309 | – 5,725 |
| Purchase of non-current fixed deposits | – 17,000 | — |
| Decrease in non-current fixed deposits | — | 3,000 |
| Interest received | 1,081 | 845 |
| Dividend from non-consolidated, affiliated companies | 62 | 46 |
| **Net cash used for investing activities** | **– 30,166** | – 1,834 |
| | | |
| **Cash flow from financing activities** | | |
| Dividends | – 42,638 | – 34,110 |
| Changes within the scope of finance leasing agreements | – 1,164 | – 1,696 |
| Proceeds of non-current bank liabilities | 18,000 | — |
| Proceeds of current bank liabilities | 4,973 | 5,765 |
| Repayment of liabilities to banks | – 4,973 | – 8,302 |
| Interest paid | – 186 | – 58 |
| **Net cash used for financing activities** | **– 25,988** | – 38,401 |
| | | |
| **Net changes in cash and cash equivalents** | **4,909** | 8,905 |
| Changes in cash from exchange rate changes | – 197 | – 85 |
| **Change in cash funds** | **4,712** | 8,820 |
| **Cash and cash equivalents on Jan. 1** | **40,583** | 31,763 |
| **Cash and cash equivalents on Dec. 31** | **45,295** | 40,583 |

**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, 2006** | **11,370** | **28,792** | **-2,018** | **514** | **49,248** | **89,924** |
| Differences from currency conversion | — | 27 | 27 | — | — | 27 |
| Other changes | — | – 1,801 | – 1,801 | — | — | – 1,801 |
| Income statement for the period taken directly to equity | — | – 1,774 | – 1,774 | — | — | – 1,774 |
| Group earnings | — | — | — | — | 51,776 | 51,776 |
| Total of profit and expense items recorded in the period under review | — | – 1,774 | – 1,774 | — | 51,776 | 50,002 |
| Dividends | — | — | — | — | – 34,110 | – 34,110 |
| **Balance at Dec. 31, 2006** | **11,370** | **27,018** | **– 3,792** | **514** | **66,914** | **105,816** |
| Differences from currency conversion | — | – 345 | – 345 | — | — | – 345 |
| Other changes | — | — | — | — | — | — |
| Income statement for the period taken directly to equity | — | – 345 | – 345 | — | — | – 345 |
| Group earnings | — | — | — | — | 61,155 | 61,155 |
| Total of profit and expense items recorded in the period under review | — | – 345 | – 345 | — | 61,155 | 60,810 |
| Dividends | — | — | — | — | – 42,638 | – 42,638 |
| **Balance at Dec. 31, 2007** | **11,370** | **26,673** | **– 4,137** | **514** | **85,431** | **123,988** |

# Notes

## Contents

## Contents

# Fundamentals





## Description and explanation of business activities

RATIONAL AG is an Aktiengesellschaft (stock corporation) under German law with its registered offices at Iglinger Straße 62, Landsberg am Lech, Germany, entered in the Augsburg Commercial Register under number 2001.

The RATIONAL-Group (hereafter "RATIONAL" or "Group") 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 replaced its existing combi-steamer technology with the world's first SelfCooking Center®. In addition to the SelfCooking Center®, it also offers a basic model, the Combi-Master®. The Group's appliances and accessories are sold worldwide through its own subsidiaries and independent trading partners.

In parallel with the SelfCooking Center®, the French subsidiary FRIMA developed an entirely new complementary product, 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 with 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 Regulated 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 fiscal year 2007 and the previous year defines maturities of "below 12 months" as current and those of "over 12 months" as non-current.

Based on the operational and strategic bases for decisions also available to management, the notes to the consolidated financial statements are to allow a full assessment of the Company's net assets, financial position, and profit or loss, as well as of the opportunities open to it and the risks to which it is exposed. For RATIONAL, 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 segment financial statements. The specific notes relate to the respective captions of these financial statements. 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 under "Notes on financial instruments". General information not related to specific items in the financial statements can be found in the "Other disclosures" section.

The consolidated financial statements were released for publication by the management of RATIONAL AG on February 15, 2008.

## Fundamental accounting principles

The consolidated financial statements for fiscal year 2007 (including the previous year's figures) were prepared in compliance with the International Accounting Standards (IASs) adopted and published by the International Accounting Standards Board (IASB), and the International Financial

Reporting Standards (IFRSs) 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 IFRSs in their entirety and the supplementary rules applicable under Section 315a (1) of the German Commercial Code (HGB). All the effective Standards for the fiscal year 2007 were taken into account, with the result that a true and fair view of the Group's net assets, financial position and profit or loss has been given.

IFRIC 11 (Group and Treasury Share Transactions) is applicable for annual periods beginning on or after March 1, 2007. RATIONAL has opted to apply this new guidance in the 2007 consolidated financial statements. Its application has not resulted in any changes to the consolidated financial statements.

Application of IFRS 8 (Operating Segments), adopted by the IASB on November 30, 2006 and by the EU on November 21, 2007 is mandatory for annual periods beginning 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 provides segment financial statements 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. The application of IFRS 8, which RATIONAL will apply for fiscal years beginning after January 1, 2009, would not result in any fundamental changes in the way the segments are presented, but there would be additional disclosures in the notes.

The fiscal year of RATIONAL AG and all subsidiaries included in the consolidated 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.

RATIONAL Trading (Shanghai) Co., Ltd., which was established as of April 19, 2007, and RATIONAL Komponenten GmbH, which was established as of May 31, 2007, were consolidated on the basis of their respective short fiscal years ended December 31, 2007. Up to the date of their formation, the functions of these newly established companies were included in other Group companies. For this reason, the enlargement of the consolidated group has no impact on the comparability of the 2007 consolidated financial statements with the previous year.

## Consolidation methods

In addition to the parent company, all material domestic and foreign subsidiaries under the legal control of RATIONAL AG have been included in the consolidated financial statements of RATIONAL.

Capital consolidation (initial consolidation) is carried out on the dates when individual subsidiaries are acquired or formed. The cost of the acquisition is deducted from the book value of the equity attributable to the subsidiary as of the date it is first included in the consolidated financial statements. Any remaining differences are allocated to the assets and liabilities if their fair values exceed the book values at the date of the initial consolidation. Any difference remaining after this allocation is recognised as goodwill. Under IAS 36, goodwill is tested annually for impairment.

Non-consolidated subsidiaries are recognised at the lower of cost or fair value.

The effects of all material intragroup transactions are eliminated. Balances between consolidated companies are eliminated, intercompany profits on inventories are eliminated, and intragroup

income is offset against the corresponding expenses. Under IAS 12, deferred taxes are recognised for temporary differences arising from consolidation measures.
The consolidation methods remain unchanged from those used last year.

### Consolidated companies

In compliance with the guidance of IAS 27, as of the balance sheet date of December 31, 2007, the consolidated financial statements include five domestic and sixteen foreign subsidiaries, in addition to the parent company. The sales company RATIONAL Trading (Shanghai) Co., Ltd., established as of April 19, 2007 as a wholly owned subsidiary of RATIONAL International AG with its registered offices in Shanghai, China, and share capital of 220 thousand euros, and RATIONAL Komponenten GmbH, established as of May 31, 2007 as a wholly owned subsidiary of RATIONAL AG with its registered offices in Landsberg, Germany and share capital of 25 thousand euros were included in the consolidated group for the first time. Both companies started their operations in the third quarter of 2007. This means that the number of consolidated companies increased by two year-on-year to twenty-one. The consolidated group consisted of the following companies as of December 31, 2007:

| Name and registered office of consolidated companies | % capital shares and % voting shares |
|---|---|
| LechMetall Landsberg GmbH Edelstahlerzeugnisse, 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 |
| RATIONAL Komponenten GmbH, Landsberg am Lech, Germany | 100.0 |
| 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 |
| RATIONAL Trading (Shanghai) Co., Ltd., Shanghai, China | 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 |
| RATIONAL USA, Inc.*, Schaumburg, USA | 100.0 |
| RATIONAL Canada Inc., Mississauga, Canada | 100.0 |
| RATIONAL Japan Co. Ltd., Tokyo, Japan | 100.0 |

*RATIONAL Cooking Systems, Inc. was additionally registered under the name RATIONAL USA, Inc. in 2007.

In addition, RATIONAL AG holds 98 percent of the shares and voting rights in MEIKU Vermögensverwaltung GmbH, with its registered offices in Landsberg am Lech, which for its part is the sole limited partner in TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG. These companies are special-purpose entities, which must generally be consolidated in accordance with IAS 27/SIC 12. However, due to their minor significance for the Group's net assets, financial position and profit or loss, they are not consolidated. As of the balance sheet date of December 31, 2007, MEIKU Vermögensverwaltung GmbH reported a net profit of 58 thousand euros (previous year: 75 thousand euros) and equity of 85 thousand euros (previous year: 117 thousand euros).

Topinox Sarl, Nantes, France, an operationally inactive subsidiary of FRIMA S.A., is likewise not included in the consolidated group.

The domestic subsidiaries LechMetall Landsberg GmbH, RATIONAL Großküchentechnik GmbH, RATIONAL Technical Services GmbH, and RATIONAL Komponenten GmbH intend to make use of the option not to disclose their annual financial statements in accordance with Section 264 (3) of the HGB.

## 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. Exceptions are RATIONAL International AG and FRIMA International AG, both with registered offices in Switzerland, which use the euro as the functional currency. Assets and liabilities are translated 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 to be included in the capital consolidation and the profit or loss brought forward are translated at historical rates. Should differences arise on the balance sheet, they are taken directly to equity as "differences arising from currency conversion" and offset against the reserves.

The following table shows the most important exchange rates in relation to the euro used in the consolidated financial statements, as well as year-on-year changes:

| | Exchange rate Annual average | | | Exchange rate on balance sheet date | | |
|---|---|---|---|---|---|---|
| 1 euro = | **2007** | 2006 | **Change** | **2007** | 2006 | **Change** |
| USD – US dollar | 1.3789 | 1.2630 | 9% | 1.4715 | 1.3182 | 12% |
| JPY – Japanese yen | 162.08 | 146.71 | 10% | 165.05 | 156.67 | 5% |
| GBP – Pound sterling | 0.6872 | 0.6820 | 1% | 0.7345 | 0.6713 | 9% |
| CHF – Swiss franc | 1.6461 | 1.5764 | 4% | 1.6558 | 1.6084 | 3% |
| CAD – Canadian dollar | 1.4654 | 1.4254 | 3% | 1.4435 | 1.5303 | – 6% |
| SEK – Swedish krona | 9.2615 | 9.2523 | 0% | 9.4360 | 9.0430 | 4% |
| PLN – Polish zloty | 3.7769 | 3.8995 | – 3% | 3.5860 | 3.8350 | – 6% |
| CNY – Chinese yuan | 10.538 | — | — | 10.748 | — | — |

## Accounting and valuation methods

**Intangible assets**

Acquired intangible assets are recognised at cost and amortised over three to five years using the straight-line method. There are no capitalisable development costs as defined by IAS 38.57. If impairment is identified in excess of amortisation, the asset is written down to its recoverable amount. Goodwill from capital consolidation and other company acquisitions is not amortised but

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tested at least annually for impairment in compliance with IAS 36. If the fair value or value in use is below the book value of the cash-generating unit, an impairment loss is recognised through the income statement. Historical reductions in the value of goodwill may not be reversed retrospectively.



**Property, plant and equipment**

Property, plant and equipment is measured at cost less depreciation. Production costs include all directly attributable costs and appropriate portions of production-related overheads. Financing costs are not recognised. Depreciation is calculated on the basis of the useful lives of the assets. Depreciation allowed exclusively on the basis of tax law was not recognised. If the cost of particular components of an item of property, plant and equipment is a material proportion of the total cost of the asset, these components are recognised and depreciated separately. If impairment is identified in excess of depreciation, the asset is written down to its recoverable amount. Administration buildings and production facilities are depreciated over a period of between 25 and 50 years using the straight-line method.



Other property, plant and equipment is mainly depreciated using the reducing balance method at rates of between 20 percent and 30 percent. New items of property, plant and equipment are depreciated on a "pro rata" basis in the year of acquisition. Low-value assets are depreciated in full in the year of acquisition.

**Finance leasing**

If a group company acting as lessee assumes all risks and rewards incidental to the ownership of the leased item, IAS 17 requires the leased item to be recognised by the lessee at the cash value of the lease instalments at the time the contract is concluded. The depreciation methods and useful lives correspond to those of similar acquired assets.

**Inventories**

Raw materials, consumables, supplies and merchandise are measured at cost. Cost is determined as the lower of cost and net realisable value in relation to the weighted average price. Inventories are written down as soon as their net realisable value becomes lower than the book value.

Work in process and finished goods are measured at cost. This includes acquisition costs and all costs directly attributable to the production process, as well as appropriate portions of production-related overheads.

Financing costs are not recognised.

**Financial assets**

Depending on the individual case, financial assets as defined by IAS 39 are classified as financial assets reported at fair value through profit and loss, as loans and receivables, as investments held to maturity, or as available-for-sale financial assets.

All financial assets are recognised at cost on the settlement date, i.e. the date on which the receivable arises, or on the date economic ownership is transferred. Standard purchases and sales are recognised in the balance sheet on the trading date.

Financial assets at fair value through profit and loss are derivatives classified as financial assets held for trading. If financial assets are held to maturity, they are carried at amortised cost. Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest method. There are no available-for-sale financial assets on the balance sheet.

The fair values for all categories of financial asset are their values on those markets that are relevant for RATIONAL, especially taking into account the banks' terms and conditions for over-the-counter transactions. All changes in fair value of financial assets are recognised in the income statement for the period.

**Derivative financial instruments**

Derivative financial instruments are recognised at fair value as of the balance sheet date. Any measurement gains or losses are recognised as other assets or other liabilities in the balance sheet. Changes in fair value are charged to other operating income or expenses in the income statement. 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, cash in banks, as well as short-term deposits due within three months calculated from the time of acquisition; they are measured 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 tax liabilities for the current as well as prior periods are measured 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 enacted at the balance sheet date.

**Deferred tax assets**

Deferred tax assets are recognised in accordance with IAS 12, using the liability method, for temporary differences between the value of an asset or liability as shown on the balance sheet and the tax base. Also, any tax loss carryforwards are capitalised, if it is probable that they will be utilised in the future, in the amount of the future deferred tax asset. Deferred tax assets and liabilities are calculated at the tax rates expected to be effective in the period in which the asset is realised or liability settled. For the consolidated financial statements as of December 31, 2007, a tax rate of 27 percent (previous year: around 37 percent) was used to calculate deferred taxes on consolidation entries. This tax rate is equivalent to the expected tax rate of RATIONAL AG for fiscal years beginning after January 1, 2008. It is based on the corporate income tax reform passed by Germany's two houses of parliament in 2007, effective from January 1, 2008. The deferred tax rates of the subsidiaries are between 28 percent and 42 percent (previous year: 9 percent and 51 percent). The book value of deferred tax assets is reviewed at 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 asset can be used. Deferred taxes which relate to items taken directly to equity are not recognised in the income statement, but in equity.

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**Provisions**

The measurement of provisions for pensions is based on the projected unit credit method stipulated in IAS 19 for defined benefit pension plans.
Other provisions are recognised if, as a result of a past event, a liability to a third party exists which is expected to have to be met in future and of which the amount claimed can be reliably estimated. The amount recognised for the provisions is reviewed at each balance sheet date. If the effect of discounting is material, the provision is discounted.

**Financial liabilities**

Financial liabilities at fair value are derivatives classified as financial liabilities held for trading. Liabilities from finance leases are recognised on the date the agreements are concluded, at the cash value of the lease instalments. Since trade accounts payable and other liabilities belong to the category of loans and receivables they are reported at amortised cost, which is equivalent to fair value.



**Recognition 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 recognised in the income statements when the service is utilised or on the date they are incurred. Provisions for warranties are created on an individual basis or when the corresponding revenue is recognised. Interest income and expense are recognised in the period in which it accrues or is incurred. Research and development costs are expensed as incurred. Financing costs are recognised as expenditure in the period in which they are incurred.

**Use of estimates and assumptions**

In the preparation of the consolidated financial statements, estimates and assumptions are required in general, and in particular for provisions for pensions and finance leasing, as well as to assess whether goodwill is impaired; these estimates and assumptions may influence the amounts reported for assets, liabilities, and financial obligations on the balance sheet date, as well as income and expenditure for the year under review. The book values of the assets and liabilities as of the balance sheet date are shown on the balance sheet. In this context, the material sources of uncertainty relate to forward-looking measurement factors, such as the assumed rate of interest, including the assumptions about the risk situation and the development of interest rates and assumptions about the future development of earnings in the underlying cash-generating units. The book values of the items in question are disclosed 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 management judgement in the application of accounting and measurement methods.

## Notes on financial instruments

Since its formation in 1973, RATIONAL's sole activities have been the development, production and sale of professional cooking appliances for industrial kitchens. The appliances and accessories are marketed worldwide by independent sales partners and RATIONAL sales companies, not directly to the end customer but indirectly, through specialised retailers. 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, bad debt risk, liquidity risk relating to liabilities, and market risk, in particular exchange rate risk, interest rate risk and price risk.
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 defines specific sales and financial targets, as well as detailed measures to ensure those targets are met
- The monthly reporting process 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 thresholds in the area of finance, especially in receivables management, help managers to identify undesirable developments at an early stage, so that appropriate countermeasures can be taken
- All business processes are documented in accurate 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 implements the globally integrated treasury management system, providing top quality cash management worldwide
- The comprehensive insurance strategy is reviewed annually and adapted to the new risk environment
- The company's management creates the conditions that make it possible for all our employees to identify and take up opportunities, to assess risks accurately and to take appropriate action

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## Default/credit risks

RATIONAL supplies customers in approximately 120 countries around the world. Bad debt risk on trade receivables can arise as a result of customers not fulfilling their payment obligations. In order to avoid or reduce bad debt risk, which could lead to potential liquidity risks and risks to the financial standing of RATIONAL, we subject all customers of the RATIONAL-Group worldwide to credit checks performed by credit sale insurer COFACE.

As far as possible, customer receivables are insured on this basis. Under these arrangements, the credit sale insurance not only covers the risk of customer insolvency, but also protracted default (non-payment as the insured event). In the event of a claim, 90 percent of the credit loss on receivables is met by the credit sale insurer. The “KV sprint” software – an SAP add-on – was successfully implemented in the year under review. This tool largely automates compliance with the obligations under the credit sale insurance agreement, thus ensuring that compensation claims can be successfully made in the event of loss.

As an alternative to credit sale cover, and depending on the type and amount of the payment concerned, collateral (e.g. irrevocable documentary and clean credits from banks, bank guarantees, and other customary collateral) or prepayment is sometimes requested, or the decision of whether to supply on credit is taken on the basis of documented previous payment behaviour.

Only trade receivables from public sector customers are not subject to credit checks and collateralisation.

The following table showing trade receivables broken down by segment also shows where the risk is concentrated:

| Thousands of euros | **2007** | **% of total** | 2006 | % of total |
|---|---|---|---|---|
| Germany | 4,182 | 7 | 4,270 | 8 |
| Europe (excluding Germany) | 47,076 | 76 | 39,688 | 75 |
| Americas | 6,087 | 10 | 4,908 | 9 |
| Asia | 1,131 | 2 | 1,322 | 2 |
| Parent company | 2,917 | 5 | 2,952 | 6 |
| **Total** | **61,393** | **100** | 53,140 | 100 |

More information on credit risk can be found in the note on “Trade receivables”.

## Liquidity risks

Liquidity risk refers to the theoretical possibility that at some point in time RATIONAL may not be in a position to fully meet its payment obligations by their due dates. This risk is effectively countered through continual planning and monitoring, and by Corporate Treasury’s management of cash inflows and outflows across the Group. 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 (AA 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 of 39,339 thousand euros (previous year: 42,587 thousand euros).

The credit lines are provided by various banks until further notice or for twelve months in each instance. No collateral has been assigned in respect of the credit lines; instead, a negative covenant or a banks' pari passu clause is agreed upon. Under this clause, RATIONAL AG undertakes, in relation to the collateralisation of claims, not to put the individual bank into a position any less favourable than other creditors or banks providing comparable loans.

**Market risks**

Because of the international alignment of RATIONAL AG, a number of assets and liabilities are exposed to market risks arising from fluctuations in exchange rates, interest rates and raw material prices.

Exchange rate risks in this case relate to receivables, liabilities, and anticipated transactions denominated in foreign currency. Anticipated transactions include planned payments, 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 lease liabilities and long-term loan agreements included in other liabilities. The majority of price risks are related to the purchase of raw materials for the production of 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 recognised, uncompleted, and anticipated transactions. Only banks with good to excellent credit ratings (a Standard & Poor's rating of at least A+) are permitted as contract partners for derivative financial instruments.

**Currency risks**

Global exchange rate risks are determined, centrally pooled, and managed monthly with a rolling 6-month horizon. This applies in particular to sales companies that conduct their business in a freely convertible foreign currency, such as Scandinavia, the UK, Switzerland, Poland, the United States, Canada and Japan.

An exception is the yuan (also referred to as renminbi), the currency the sales company in China uses to conduct its business. The yuan is subject to strict exchange control regulations, i.e. the currency can only be converted within China into other currencies for imports of goods and dividend payments with the approval of a Chinese authority (called SAFE). The Chinese subsidiary currently makes its purchases within China, which means that yuan exchange rate risks are negligible.

Where necessary, risks are hedged by means of derivative financial instruments. The exchange rate risk relates to receivables, liabilities, and anticipated transactions denominated in foreign currencies.

RATIONAL currently uses currency options and forward exchange contracts to hedge these cash flows. Currency options concluded include both plain vanilla options and zero-cost options with knock-in options.

Purchasing a plain vanilla put option entitles RATIONAL, on payment of an option premium when the deal is entered into, to sell a fixed volume of foreign currency at an agreed time at a fixed exchange rate in the agreed currency.

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 finances the option premium payable on the purchase of a put option by simultaneously selling a call option with a knock-in option. The put option is treated as a plain vanilla option. The call option sold by RATIONAL, however, only knocks in when a certain price level is reached. When the activated call option matures, the buyer (the bank) is entitled to buy a fixed volume of foreign currency at an agreed time at a fixed exchange rate in the agreed currency.
Further information on the management of currency risks can be found in the note on derivatives.



**Interest rate risks**

RATIONAL's existing real estate leases are financed at a fixed rate for the entire lease term. The loans concluded to finance the capacity extension in Landsberg have fixed interest rates until the end of 2017. This exposes RATIONAL to the theoretical interest rate risk that the Company cannot benefit from possible reductions in interest rates during the term of the interest rate agreement.
Further information on the management of interest rate risks can be found in the note on derivatives.



**Price risks**

In its production processes, RATIONAL uses several thousand tons 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 what is known as the "alloy surcharge". Stainless steel is approximately 8 percent to 9 percent nickel, so of the alloy metals, nickel is of particular interest.
RATIONAL does not hedge the basic price of steel on the basis of derivative financial instruments. Instead, it agrees fixed prices with suppliers for a period of twelve months.
The alloy surcharge increased further until July of the past fiscal year, although its price was lower in December 2007 than in December 2006. Any change in the alloy surcharge causes a change in RATIONAL's production costs. In the past, the effect of changes in the alloy surcharge was negligible, but in fiscal year 2007 this effect was more noticeable. Because the alloy surcharge continues at a high level, it is currently not hedged through derivative financial instruments.

## Classification of financial instruments

The table below shows the various categories of financial instrument based on the relevant balance sheet items and the amounts at which they are recognised on the balance sheet.

| Thousands of euros | Book value Dec. 31, 2007 | Valuation Acquisition cost carried forward | Valuation Fair value through profit or loss |
|---|---|---|---|
| **Loans and receivables** | **127,901** | **127,901** | — |
| Trade receivables | 61,393 | 61,393 | — |
| Other financial assets (excluding derivatives) | 21,213 | 21,213 | — |
| Cash and cash equivalents | 45,295 | 45,295 | — |
| **Financial investments held to maturity** | **218** | **218** | — |
| Investments | 218 | 218 | — |
| **Financial assets held for trading** | **863** | — | **863** |
| Derivatives not in a hedging relationship | 863 | — | 863 |
| **Financial liabilities valued at acquisition cost** | **39,527** | **39,527** | — |
| Trade accounts payable | 9,292 | 9,292 | — |
| Other liabilities (excluding derivatives) | 9,323 | 9,323 | |
| Financing leasing liabilities | 2,912 | 2,912 | — |
| Liabilities from loans | 18,000 | 18,000 | — |
| **Financial liabilities held for trading** | **220** | — | **220** |
| Derivatives not in a hedging relationship | 220 | — | 220 |

| 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 financial assets (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 | — |
| Liabilities from loans | — | — | — |
| **Financial liabilities held for trading** | **295** | — | **295** |
| Derivatives not in a hedging relationship | 295 | — | 295 |

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The following table shows the fair values of the financial assets and liabilities shown on the balance sheet at amortised cost. The fair values of the financial instruments not carried at amortised cost correspond to their book values.

| Thousands of euros | Book value Dec. 31, 2007 | Fair value Dec. 31, 2007 | Book value Dec. 31, 2006 | Fair value Dec. 31, 2006 |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets | 218 | 218 | 218 | 218 |
| Trade receivables | 61,393 | 61,393 | 53,140 | 53,140 |
| Other financial assets | 21,213 | 21,195 | 4,248 | 4,237 |
| Derivatives not in a hedging relationship | 863 | 863 | 758 | 758 |
| Cash and cash equivalents | 45,295 | 45,295 | 40,583 | 40,583 |
| **Equity and Liabilities** | | | | |
| Trade accounts payable | 9,292 | 9,292 | 6,787 | 6,787 |
| Other liabilities | 9,323 | 9,151 | 7,806 | 7,634 |
| Financing leasing liabilities | 2,912 | 2,740 | 4,076 | 3,904 |
| Liabilities from loans | 18,000 | 17,828 | — | — |
| Derivatives not in a hedging relationship | 220 | 220 | 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 to show the hypothetical effects of market risks on income and equity capital. This involves making assumptions with regard to company-specific risk variables connected with financial instruments.

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

As of the balance sheet date of December 31, 2007, RATIONAL was exposed to currency risks attributable to its activities in the following currencies: US dollar, Japanese yen, Pound sterling, Swiss franc, Canadian dollar, Swedish krona, Chinese yuan 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” and “Other liabilities”. If on December 31, 2007 the euro had been 10 percent stronger against the foreign currencies in which RATIONAL AG conducts its operations, the value of the equity and consolidated profit shown in the functional currency would have been 1,265 thousand euros lower (previous year: 58 thousand euros higher). If the euro had been 10 percent weaker, the value shown in the functional currency would have been 1,265 thousand euros higher (previous year: 58 thousand euros lower). The effect of derivatives, which are dealt with in the next section, is not included in these calculations.

**Risks attached to derivatives**

RATIONAL contains the level of currency and interest rate risk to which it is exposed through the use of derivatives. RATIONAL does not fulfil the requirements under IAS 39 for hedge accounting, so it shows all derivative financial instruments at fair value. Any changes in fair value are recognised in the income statement. There is no direct impact on equity capital.

Hedging transactions relate to a future point in time, so a theoretical risk can arise from the above items as of the balance sheet date.
RATIONAL determines the effect on the income statement, as required by IFRS 7, by defining theoretical changes in the market situation:

- Simultaneous parallel increase (decrease) in the value of the euro as against all other foreign currencies by 10 percent
- A rise (fall) in interest rates of 100 base points

The changed parameters mentioned above are included in a theoretical measurement of all financial instruments as of the reporting date, and thus in the calculation of the variances from the fair values shown on the balance sheet
These theoretical measurements are based on established mathematical 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 occur. 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 (e.g. future sales revenue in foreign currency) 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 | **2007** | 2006 | **2007** | 2006 |
| Forward exchange contracts/swaps | 386 | 114 | – 315 | – 93 |
| Currency options | – 3,306 | – 2,645 | 2,304 | 1,150 |
| Interest-currency swaps | — | – 96 | — | 96 |
| Interest swap | — | – 41 | — | 40 |
| **Total** | **– 2,920** | – 2,668 | **1,989** | 1,193 |

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

### Management of capital

RATIONAL'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 maximise shareholder value. Capital is monitored in particular on the basis of the equity ratio, taking return on equity into account. The equity ratio indicates the ratio of shareholders' equity to the Company's total capital. Generally, the higher the equity ratio, the better a company's credit rating and financial stability, and the lower its dependence on external credit providers. RATIONAL's equity ratio as of December 31, 2007 was an excellent 66.2 percent (previous year: 72.2 percent).

Another important key figure in terms of strategic control is return on invested capital (ROIC). This key figure gives the ratio of profit or loss from operating activities, which is defined as EBIT adjusted for changes in provisions and amortisation of intangible assets, less income taxes, to invested capital, which primarily consists of shareholders' equity, borrowings, and non-current provisions. A company only adds value if ROIC exceeds the cost of capital. RATIONAL's ROIC of 43 percent (previous year: 47 percent) significantly exceeds its cost of capital of around 9 percent, thus creating value added of 49,639 thousand euros (previous year: 42,116 thousand euros).

| Thousands of euros | **2007** | 2006 |
|---|---|---|
| Profit or loss from operating activities after tax | 62,736 | 52,067 |
| Invested capital | 145,517 | 110,564 |
| **ROIC** | **43%** | 47% |

The above key figures were impacted in 2007 by borrowings to finance capacity extensions. Consequently, the return on equity will improve further in the medium term.

## Notes on the Income Statement

### 01 Sales

RATIONAL recognises revenue from sales of products as of the date on which the risks and rewards attaching to ownership of the goods and products sold are transferred to the buyer. Sales include all revenue attributable to the typical business activities of RATIONAL.

In fiscal year 2007, RATIONAL generated worldwide sales of 336,556 thousand euros (previous year: 283,702 thousand euros). 80 percent of sales can be attributed to the sale of appliances, SelfCooking Center®, CombiMaster® and VarioCooking Center®. The remaining 20 percent was generated from the sale of accessories, spare parts and care products.

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

| Thousands of euros | **2007** | **% of total** | 2006 | % of total |
|---|---|---|---|---|
| Germany | 53,179 | 16 | 46,917 | 16 |
| Europe (excluding Germany) | 187,218 | 55 | 155,538 | 55 |
| Americas | 46,667 | 14 | 38,852 | 14 |
| Asia | 32,216 | 10 | 29,257 | 10 |
| Rest of the world* | 17,276 | 5 | 13,138 | 5 |
| **Total** | **336,556** | **100** | 283,702 | 100 |

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

The "Germany" region continues to generate the highest sales of any single region and, with double-digit growth, has for several years been the largest contributor to Group profits. In fiscal year 2007, sales rose by 13 percent, to 53,179 thousand euros. At 31,680 thousand euros, the largest contribution to growth comes from the "Europe" region. In addition to the pleasing developments in markets that are already established, such as the UK, Italy and Spain, this financial year has seen excellent sales in Russia, in particular. In the key strategic market of the Americas, the pace of growth was once again above average in 2007. With a market share of more than 30 percent, RATIONAL is also the market leader in this market. Sales growth in the "Asia" region gathered pace significantly in fiscal year 2007, mainly due to strong business expansion in China and South Korea.

The foreign share of sales amounted to 84 percent, as in the previous year, and the share of sales denominated in foreign currency was 30 percent (previous year: 30 percent). Due to the increasing strength of the euro, exchange rate movements negatively impacted sales by 4,243 thousand euros in fiscal year 2007 (previous year: 771 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 | **2007** | **% of total** | 2006 | % of total |
|---|---|---|---|---|
| Subsidiaries | 232,827 | 69 | 198,781 | 70 |
| Sales partners | 80,768 | 24 | 60,216 | 21 |
| OEM sales | 22,961 | 7 | 24,705 | 9 |
| **Total** | **336,556** | **100** | 283,702 | 100 |

While business conducted through subsidiaries and sales partners increased significantly, business with OEM partners declined year-on-year. An important factor is that most of the business relations

## Notes on the Income Statement





with a particular major trading partner were terminated for strategic reasons in 2007. 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 direct costs for materials and production, overheads for materials and production, and depreciation and amortisation expense.

Productivity increases in the production processes did not fully offset the increases in steel prices and the alloy surcharge in 2007. Thus, the rise in the cost of materials outstripped year-on-year sales growth; this item was up 27 percent to 117,009 thousand euros (previous year: 91,995 thousand euros). Production costs advanced by only 10 percent, and thus significantly more slowly than sales. They account for 14 percent (previous year: 16 percent) of total cost of sales, which rose by 24 percent overall.

### 03 Sales and service expenses

Sales and service expenses are made up of sales organisation costs for office-based and field sales, shipping costs, and costs for marketing, application consultancy and after-sales service.

In fiscal year 2007, the focus was again on developing sales capacities in markets with high potential and on continuing to increase sales force efficiency, but also on improving market penetration internationally, with dedicated sales organisations.

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. Research and development expenses grew by around 15 percent year-on-year and are significantly above the industry average. Development costs are fully expensed and reported under "research and development expenses" in the income statement.

### 05 General administration expenses

General administration expenses include business administration costs, such as ledger accounting, human resources, finance and IT costs, but also managerial accounting and financial control costs and certain executive management costs.

The defining characteristic of the RATIONAL process organisation is that it is composed of discrete, transparent and self-contained functions. Superfluous interfaces have been eliminated. Conventional departments have therefore virtually disappeared. This produces greater transparency of administration and ever increasing efficiency, at the same time as flat hierarchies.

Non-recurring expenses of 1.7 million euros arising from a patent dispute had an additional negative impact on administration expenses in fiscal year 2007. As a result, these expenses jumped by 21 percent year-on-year, thus outstripping sales growth. Adjusted for these non-recurring expenses, administration expenses increased by only 12 percent.

## 06 Other operating income

| Thousands of euros | 2007 | 2006 |
|---|---|---|
| Exchange gains | 3,935 | 2,676 |
| Insurance recoveries | 749 | 719 |
| Income from value adjustments and depreciation on accounts receivables | 483 | 420 |
| Other (< euro 100 thousand in each case) | 97 | 160 |
| **Total** | **5,264** | 3,975 |

Exchange gains were primarily generated by fluctuations in the exchange rate between origination and payment dates, as well as by measuring balance sheet items at closing rates. Realised exchange gains are primarily the gains resulting from the measurement of forward exchange transactions and currency options, as well as the gains resulting from the measurement of foreign currency positions in US dollars, Pounds sterling and Japanese yen. Unrealised gains from foreign currency measurement amounted to 1,213 thousand euros (previous year: 834 thousand euros). They result from the measurement of intercompany receivables, forward exchange transactions and currency options, as well as cash held in foreign currency. Exchange gains include income from financial instruments measured at fair value through profit and loss, amounting to 827 thousand euros (previous year: 54 thousand euros).
The item "insurance recoveries" primarily represents compensation from credit sale insurers for bad debt and from other insurance payouts for loss or damage in transit and other losses. "Other" includes a large number of smaller items, such as tax refunds.

## 07 Other operating expenses

| Thousands of euros | 2007 | 2006 |
|---|---|---|
| Exchange losses | 4,599 | 3,260 |
| Depreciation and value adjustments on accounts receivables | 712 | 917 |
| Donations | 325 | 87 |
| Option fees | 123 | 135 |
| Other (< euro 100 thousand in each case) | 90 | 81 |
| **Total** | **5,849** | 4,480 |

Exchange losses were primarily generated by fluctuations in the exchange rate between origination and payment dates, as well as by measuring balance sheet items at closing rates. Realised exchange losses are primarily the losses resulting from the measurement of forward exchange transactions and currency options, as well as the losses resulting from the measurement of foreign currency positions in US dollars, Pounds sterling and Japanese yen. Unrealised losses on currency conversion amounting to 1,928 thousand euros (previous year: 1,112 thousand euros) arise from the measurement of intercompany receivables, forward exchange transactions and currency options, but also from the measurement of cash held in foreign currency. Exchange losses include expenses for financial instruments measured at fair value through profit and loss, amounting to 204 thousand euros (previous year: 352 thousand euros).
Depreciation and value adjustments on accounts receivable reflect specific valuation allowances and aggregated valuation allowances, as well as uncollectible receivables written off in a few minor instances. The derecognised receivables are largely offset by the payments from credit sale insurers shown under other operating income. There were no material write-downs for specific valuation allowances in fiscal year 2007.

# Notes on the Income Statement





## 08 Financial results

| Thousands of euros | 2007 | 2006 |
|---|---|---|
| Income from financial assets | — | 78 |
| Other interest and similar income | 1,283 | 871 |
| Interest and similar expenses | – 380 | – 324 |
| **Total** | **903** | 625 |

Income from financial assets included the dividend paid to RATIONAL AG by the non-consolidated MEIKU Vermögensverwaltung GmbH in the previous year.
The interest income shown includes 549 thousand euros (previous year: 255 thousand euros) of interest on fixed-term deposits and 734 thousand euros (previous year: 616 thousand euros) of income from investment funds, demand deposits, and interest on credit balances in current accounts. The interest rates for demand deposits 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 in the last fiscal year ranged between 3.41 percent and 4.69 percent per annum (previous year: 2.53 percent and 4.39 percent). The annual equivalent yields on the investment funds ranged between 3.63 percent and 4.28 percent per annum (previous year: 2.21 percent and 3.37 percent).
Interest and similar expenses primarily consists of two components. Firstly, it includes an interest component of 194 thousand euros (previous year: 283 thousand euros) for the lease liabilities recognised in accordance with IAS 17. Secondly, 143 thousand euros was incurred for financing the construction of the new plant 3 in the fiscal year under review.
The remaining interest expenses, totalling 43 thousand euros (previous year: 41 thousand euros), represent interest on short-term liabilities to banks, interest on the Japanese subsidiary's discount bills, and a small amount of interest on arrears.

## 09 Taxes on income

The following table shows the reconciliation between expected and the actual reported tax expense. An average tax rate of approximately 37 percent (previous year: 37 percent) was applied to earnings from ordinary activities to calculate expected tax expense for 2007. This tax rate is calculated on the basis of corporate income tax, including solidarity surcharge and trade tax, as applied to the parent company. Deferred taxes recognised at Group level are reported at a different rate of around 27 percent (previous year: 37 percent). This tax rate is based on the future tax rate for the parent company, which is expected to be substantially lower because of Germany's corporate income tax reform.

| Thousands of euros | 2007 | 2006 |
|---|---|---|
| Earnings before taxes (EBT) | 93,463 | 81,101 |
| Expected tax rate in percent | 36.53 | 36.53 |
| Expected income tax | **34,142** | 29,626 |
| Variations in local tax rates in the subsidiaries | – 2,052 | – 833 |
| Changes in tax rates for deferred tax in the consolidated group | 599 | — |
| Tax refunds from previous years | – 479 | – 1 |
| Tax expenses relating to previous years | 17 | 1 |
| Non tax-deductible expenses and other deductible amounts | 81 | 532 |
| **Reported income tax** | **32,308** | 29,325 |

Deferred tax assets reported in fiscal year 2007 amounted to 1,973 thousand euros, as against 3,099 thousand euros as of the 2006 balance sheet date. The deferred tax expense attributable to 2007 is therefore 1,126 thousand euros, as against tax income of 107 thousand euros in the previous year. Deferred taxes for fiscal years 2007 and 2006 are attributable to the following:

| | Deferred tax assets | | Effect on net income |
|---|---|---|---|
| Thousands of euros | **2007** | 2006 | **2007** |
| Elimination of intercompany profits | 1,855 | 2,925 | – 1,070 |
| Tax losses brought forward | 51 | 63 | – 12 |
| Temporary differences in subsidiaries | 317 | 354 | – 37 |
| Currency conversion | – 7 | – 15 | 8 |
| Hedging transactions | – 128 | – 169 | 41 |
| Finance leasing | – 6 | – 7 | 1 |
| Provisions for pensions | 26 | 56 | – 30 |
| Other | – 135 | – 108 | – 27 |
| **Total** | **1,973** | 3,099 | **– 1,126** |

Deferred tax assets of 1,896 thousand euros (previous year: 2,685 thousand euros) are expected to mature within less than a year. 77 thousand euros (previous year: 414 thousand euros) of the reported amounts are non-current. Current deferred taxes result from temporary differences between amounts reported in the financial statements and their tax base and from consolidation measures. Non-current deferred taxes are primarily based on tax loss carryforwards. If a company has deferred tax assets and liabilities with the same maturity, they are reported on a net basis. In the previous year, items taken directly to equity resulted in deferred taxes of 822 thousand euros. Whether the tax loss carryforwards of 51 thousand euros can be realised depends on the future taxable operating profits or losses of a subsidiary, although it already generated a profit in 2007.

# Notes on the Income Statement



### 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 fiscal year.
Calculated on the basis of 11,370,000 shares and consolidated net profit of 61,155 thousand euros (previous year: 51,776 thousand euros), basic and diluted earnings per share are 5.38 euros. This is 18 percent higher than the EPS of 4.55 euros in the previous year. Because of the options to buy 34,500 shares granted to the Executive Board in 2004, subject to a two-year lock-up period, the average number of shares outstanding in 2006 was 2,875 and the diluted number of shares was therefore 11,372,875. The options were settled in cash when they were exercised in 2006.
The earnings per share shown for fiscal year 2007 in compliance with IFRSs/IASs also correspond to DVFA earnings.

### 11 Dividend per share

The dividend of 3.75 euros per share proposed by the Supervisory Board and the Executive Board of RATIONAL AG for fiscal year 2007 was approved by a majority at the shareholders' meeting on May 3, 2007. Total dividends of 42,638 thousand euros were paid in May 2007.
The dividend proposed to the shareholders' meeting by the Supervisory Board and the Executive Board for fiscal year 2007 is 51,165 thousand euros or 4.50 euros per share. Subject to approval by the shareholders' meeting, this would equate to 84 percent of consolidated net profits for 2007 (previous year: 82 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, 2007** | 3,131 | 424 | 3,555 |
| Additions | 932 | — | 932 |
| Disposals | – 171 | — | – 171 |
| **Balance at Dec. 31, 2007** | 3,892 | 424 | 4,316 |
| **Amortisation** | | | |
| **Balance at Jan. 1, 2007** | 2,114 | — | 2,114 |
| Additions | 575 | — | 575 |
| Disposals | – 105 | — | – 105 |
| **Balance at Dec. 31, 2007** | 2,584 | — | 2,584 |
| **Book values** | | | |
| **Balance at Dec. 31, 2007** | 1,308 | 424 | 1,732 |
| | | | |
| **Acquisition cost** | | | |
| Balance at Jan. 1, 2006 | 2,061 | 424 | 2,485 |
| Additions | 1,147 | — | 1,147 |
| Disposals | – 77 | — | – 77 |
| Balance at Dec. 31, 2006 | 3,131 | 424 | 3,555 |
| **Amortisation** | | | |
| Balance at Jan. 1, 2006 | 1,767 | — | 1,767 |
| Additions | 422 | — | 422 |
| Disposals | – 75 | — | – 75 |
| Balance at Dec. 31, 2006 | 2,114 | — | 2,114 |
| **Book values** | | | |
| Balance at Dec. 31, 2006 | 1,017 | 424 | 1,441 |

*The presentation of changes in goodwill has been amended for the previous year in accordance with IFRS 3

Intangible assets are comprised of industrial and similar rights recognised at cost, as well as goodwill. Self-created assets are not included. Development costs are not capitalised, but expensed as incurred under research and development expenses in the income statement. Industrial and similar rights are amortised using the straight-line method over their useful lives of three to five years. Amortisation allowed exclusively on the basis of tax law was not recognised. If impairment is identified in excess of amortisation, the asset is written down to its recoverable amount. In fiscal year 2007, no impairment losses were recognised on 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 amortisation expense was allocated to each functional area in the income statement according to its origin. The break-down of amortisation of intangible assets and depreciation of property, plant and equipment has been combined in the notes on property, plant and equipment.

# Notes on the Balance Sheet – Assets





## 13 Goodwill

As of the balance sheet date, a net book value for goodwill of 424 thousand euros is reported under intangible assets. This goodwill originated from RATIONAL's acquisition of its subsidiary FRIMA S.A., Wittenheim, in 1993.

Under IFRS 3, the goodwill for fiscal years beginning on or after March 31, 2004 can no longer be amortised over its useful life as previously allowed under IAS 22. Instead, goodwill must be tested for impairment at least annually in compliance with IAS 36.

In December 2007, an impairment test based on the discounted cash flow method was performed on the goodwill of FRIMA S.A. As in the previous year, the legal entity FRIMA S.A. was identified as a smallest possible cash generating unit. Its recoverable amount is determined on the basis of its value in use. Future cash flows were 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 past experience. 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 applied discount rate of 7.5 percent (after tax) took appropriate account of the current market assessment of the effect of interest rates and the risk expectation as they affect the assets. The capital value calculated in this way was substantially higher than the book value of the cash-generating unit FRIMA S.A. No impairment was identified and there was no need to write down goodwill.

## 14 Property, plant and equipment

| Thousands of euros | Land and Buildings | Technical equipment, machinery | Operating and office | Total |
|---|---|---|---|---|
| **Acquisition cost** | | | | |
| **Balance at Jan. 1, 2007** | 31,266 | 10,667 | 11,183 | 53,116 |
| Currency differences | – 30 | – 7 | – 203 | – 240 |
| Additions | 8,144 | 1,958 | 3,275 | 13,377 |
| Disposals | – 168 | – 44 | – 2,045 | – 2,257 |
| **Balance at Dec. 31, 2007** | 39,212 | 12,574 | 12,210 | 63,996 |
| **Amortisation** | | | | |
| **Balance at Jan. 1, 2007** | 13,068 | 5,195 | 7,277 | 25,540 |
| Currency differences | – 27 | – 6 | – 148 | – 181 |
| Additions | 1,238 | 1,436 | 2,045 | 4,719 |
| Disposals | – 168 | – 44 | – 1,967 | – 2,179 |
| **Balance at Dec. 31, 2007** | 14,111 | 6,581 | 7,207 | 27,899 |
| **Book values** | | | | |
| **Balance at Dec. 31, 2007** | 25,101 | 5,993 | 5,003 | 36,097 |

| 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 |

Property, plant and equipment includes land and buildings, as well as technical equipment and machinery, and operating and office equipment recognised at cost less depreciation. Land and buildings are depreciated using the straight-line method over their useful lives, estimated at between 25 and 50 years. Property, plant and equipment includes assets under construction of 6,673 thousand euros (previous year: 1,474 thousand euros). The remaining items of property, plant and equipment are depreciated using primarily the reducing-balance method over their useful lives of 1 to 15 years.

If impairment is identified in excess of depreciation, the asset is written down to its recoverable amount. In the fiscal year 2007, no impairment losses were recognised on property, plant and equipment. No items of property, plant and equipment are subject to pledges or restrictions on disposal, and no contractual obligations to purchase property, plant and equipment exist, except those disclosed in the note on other financial obligations. Exchange rate differences can occur when foreign-currency denominated book values of property, plant and equipment held by the subsidiaries are converted into the functional currency.

The depreciation expense was allocated to each functional area in the income statement according to its origin.

Amortisation of intangible assets and depreciation of property, plant and equipment totalled 5,294 thousand euros and was charged to the functional areas in the income statement as follows: Production: 1,980 thousand euros (previous year: 1,481 thousand euros), sales and service: 932 thousand euros (previous year: 850 thousand euros), research and development: 440 thousand euros (previous year: 366 thousand euros), and general administration: 1,942 thousand euros (previous year: 1,565 thousand euros).

## 15 Finance leasing

Property, plant and equipment includes land and buildings which, in compliance with IAS 17, are accounted for as finance leases, under which the Group has acquired the risks and rewards incidental to ownership without owning legal title.

The book values of the leased land and buildings amount to 10.6 million euros (previous year: 11.2 million euros). In fiscal year 2007, the accumulated depreciation on these leased assets rose by 0.5 million euros, to 4.5 million euros. The buildings have an expected useful life of 25 years.

# Notes on the Balance Sheet – Assets





The corresponding liabilities arising from the property, plant and equipment recognised in accordance with IAS 17 are reported under other liabilities and itemised in the corresponding note.

## 16 Financial assets

As in previous years, financial assets amounting to 218 thousand euros (previous year: 218 thousand euros) relate to the investment book value of MEIKU Vermögensverwaltung GmbH. Due to its minor significance for the RATIONAL's net assets, financial position and profit or loss, it is not consolidated.
The original cost of the financial assets is 2,725 thousand euros (previous year: 2,725 thousand euros), and the accumulated write-downs to fair value were unchanged at 2,507 thousand euros.

## 17 Inventories

| Thousands of euros | **2007** | 2006 |
|---|---|---|
| Raw materials, consumables and supplies | 7,197 | 5,966 |
| Work in progress | 1,263 | 1,157 |
| Finished goods and goods for resale | 10,178 | 8,373 |
| **Total** | **18,638** | 15,496 |

Inventories are recognised at cost, including acquisition costs, all costs directly attributable to the production process, and reasonable production overheads.
Most of the raw materials, consumables and supplies relate to inventories of RATIONAL AG, the producing parent company, while 9 percent (previous year: 7 percent) relate to production inventories of RATIONAL's subsidiary FRIMA S.A. RATIONAL AG is responsible for over 97 percent (previous year: 97 percent) of the Group's work in progress. The increase in inventories is mainly due to increased selling activity in the Group's regions overseas. In addition, the year-on-year increase in production costs also impacted on inventories. Continued optimisation of inventory management, just-in-time manufacturing, and short turnaround times enable RATIONAL to keep inventories at a very low level.
In the period under review, impairment losses recognised on inventories fell from 1,082 thousand euros to 956 thousand euros. As of the balance sheet date of December 31, 2007, the inventories were not subject to any restrictions on disposal or pledges.

## 18 Trade receivables

| Thousands of euros | **2007** | 2006 |
|---|---|---|
| Trade receivables at nominal value | 61,808 | 53,796 |
| Write-downs for doubtful accounts receivables | – 415 | – 656 |
| **Total** | **61,393** | 53,140 |

Because of the higher sales at year end, trade receivables as at balance sheet date of December 31, 2007 were not only higher than at the end of the previous year but also well above the average for the year. All receivables are due within less than one year.
As at balance sheet date of December 31, 2007, 12 percent (previous year: 12 percent) of receivables were overdue, and 74 percent (previous year: 72 percent) were in the "due within 1-60 days" band.

| Thousands of euros | | 2007 | Overdue | | | |
|---|---|---|---|---|---|---|
| | Total | not due | 1-60 days | 61-90 days | 91-120 days | > 120 days |
| Trade receivables | 61,808 | 54,519 | 5,429 | 555 | 472 | 833 |
| Write-downs for doubtful accounts receivables | – 415 | — | — | — | — | — |
| **Total** | **61,393** | — | — | — | — | — |

Of the unsettled trade receivables at the end of 2007, 78 percent (previous year: 79 percent) were insured through credit sale insurance. In addition to this, collateral was provided in the form of clean credits from banks amounting to 2,465 thousand euros (previous year: 1,869 thousand euros), and a volume of 360 thousand euros (previous year: 802 thousand euros) related to amounts receivable from public sector customers. This gives a total cover ratio for trade receivables of 83 percent (previous year: 84 percent). If you also take into account that value-added tax paid on bad debts will be refunded by the tax authorities, the cover ratio is 91 percent.

The theoretical maximum credit risk as of the balance sheet date, after taking account of any refundable VAT, is 5,503 thousand euros (previous year: 9,411 thousand euros). This theoretical maximum credit risk does not include any material cluster risks. Cluster risks relate to unsecured receivables with a nominal value of more than 100 thousand euros per individual customer. The total in this category is 1,281 thousand euros (previous year: 1,967 thousand euros) and is spread among eight (previous year: nine) customers. This corresponds to a share of 2.09 percent (previous year: 3.70 percent) of trade receivables. The customer owing the largest amount of unsecured receivables, 279 thousand euros (previous year: 420 thousand euros), accounts for 0.45 percent (previous year: 0.79 percent) of total receivables.

| Thousands of euros | Balance at Jan.1, 2007 | Use | Additions | Balance at Dec.31, 2007 |
|---|---|---|---|---|
| Write-downs for doubtful accounts receivables | 656 | 483 | 242 | 415 |

Adequate allowances are recognised for credit risks on receivables. Receivables written off in fiscal year 2007 amount to 431 thousand euros, or 0.13 percent of annual sales (previous year: 486 thousand euros or 0.17 percent) and 0.7 percent of total receivables as of the balance sheet date (previous year: 0.9 percent). This figure does not include compensation paid by or expected from the credit sales insurer.

# Notes on the Balance Sheet – Assets





## 19 Other assets

| Thousands of euros | 2007 | 2006 |
|---|---|---|
| Value-added tax refund claims | 2,271 | 2,048 |
| Fair value of derivative financial instruments | 864 | 758 |
| Corporation tax refund claims | 279 | 498 |
| Deposits | 269 | 206 |
| Payments in advance | 125 | 243 |
| Suppliers with debit balances | 93 | 46 |
| Receivables from interest | 192 | 1 |
| Prepaid Expenses | 785 | 862 |
| Other (< euro 100 thousand in each case) | 198 | 344 |
| **Total** | **5,076** | 5,006 |

An amount of 4,828 thousand euros (previous year: 4,815 thousand euros) of other assets is classified as current. Deposits include receivables of 242 thousand euros (previous year: 185 thousand euros) due after one year. Non-current loans of 6 thousand euros (previous year: 6 thousand euros) are included under "Other". In total, other non-current assets therefore amount to 248 thousand euros (previous year: 191 thousand euros), reflecting a present value of 230 thousand euros (previous year: 180 thousand euros). For reasons of materiality, non-current assets were not reported at their discounted fair values, but at cost.

Prepaid expenses only include expenses incurred before the reporting date, but which relate to the following year. This item is made up of a number of smaller prepaid amounts. The expenses relate primarily to exhibitions, marketing activities and rents, as well as insurance payments. All the items in prepaid expenses are due within less than one year.

## 20 Deposits with maturities of more than 3 months

Fixed deposits with maturities of more than 3 months, amounting to 17,000 thousand euros (previous year: 0 euros), were reported as of the balance sheet date.

A total of 10,000 thousand euros has been pledged as current collateral as part of the financing arrangements for the real estate being constructed in Landsberg. The utilisation of a financing arrangement had been agreed by the end of the year, but construction of the new building had not progressed sufficiently. The amount drawn down in excess of requirements has been invested as a fixed deposit with a term that matches the expected construction progress and pledged to the financing bank.

| Thousands of euros | Currency | 2007 |
|---|---|---|
| Fixed deposits with maturities from Oct. 05, 2007 to Apr. 28, 2008 | EUR | 4,000 |
| Fixed deposits with maturities from Oct. 25, 2007 to Feb. 15, 2008 | EUR | 5,000 |
| Fixed deposits with maturities from Oct. 25, 2007 to Mar. 26, 2008 | EUR | 5,000 |
| Fixed deposits with maturities from Oct. 31, 2007 to Feb. 15, 2008 | EUR | 3,000 |
| **Total** | **EUR** | **17,000** |

## 21 Cash and cash equivalents

As a rule, Corporate Treasury is responsible for the management of RATIONAL's cash and cash equivalents worldwide, other than in countries where restrictions on capital movements conflict with this. A balance of 45,295 thousand euros (previous year: 40,583 thousand euros) was reported as of the balance sheet date.

During the fiscal year, RATIONAL AG invested part of its cash and cash equivalents in investment funds or fixed-term deposits. Gains on the sale of shares in growth funds sold before the end of the fiscal year were recognised in interest income. At year end, cash was primarily invested in the form of fixed-term deposits.

The annual equivalent yields on the fixed-term deposits in the last fiscal year ranged between 3.41 percent and 4.69 percent per annum (previous year: 2.53 percent and 4.39 percent). The annual equivalent yields on the investment funds ranged between 3.63 percent and 4.28 percent per annum (previous year: 2.21 percent and 3.37 percent). The interest rates for demand deposits are based on EONIA (Euro Overnight Index Average), but also take account of an agreed margin for the bank.

As of the balance sheet date, the fixed-term deposits of up to three months and euro-denominated demand deposits were held in a number of different banks. Deposits in foreign currencies are measured at the rate applicable on the balance sheet date. No cash and cash equivalents have been pledged as collateral for loans and confirmed lines of credit.

| Thousands of euros | Currency | **2007** | 2006 |
|---|---|---|---|
| Fixed deposits in previous year with maturities of up to 3 months | EUR | — | 24,000 |
| Fixed deposits with maturities from Nov. 23, 2007 to Jan. 23, 2008 | EUR | 4,000 | — |
| Fixed deposits with maturities from Dec. 19, 2007 to Feb. 19, 2008 | EUR | 10,000 | — |
| Fixed deposits with maturities from Dec. 28, 2007 to Jan. 23, 2008 | EUR | 4,000 | — |
| Deposits incl. demand deposits | EUR | 13,214 | 11,869 |
| Deposits incl. demand deposits | GBP | 9,575 | 532 |
| Deposits incl. demand deposits | USD | 1,413 | 1,444 |
| Deposits incl. demand deposits | CAD | 1,381 | 659 |
| Deposits incl. demand deposits | CHF | 710 | 1,056 |
| Deposits incl. demand deposits | SEK | 356 | 248 |
| Deposits incl. demand deposits | PLN | 192 | 297 |
| Deposits | JPY | 301 | 434 |
| Deposits | CNY | 103 | 2 |
| Deposits | RUB | 25 | 9 |
| Cash in hand | various | 25 | 33 |
| **Total** | | **45,295** | 40,583 |

## Notes on the Balance Sheet – Equity and Liabilities

### 22 Subscribed capital

RATIONAL AG's share capital as of December 31, 2007 was unchanged at 11,370 thousand euros, divided into 11,370,000 ordinary registered no-par value shares, each with a nominal value of 1 euro.

Conditional capital amounts to 200 thousand 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 options granted are exercised by their holders. The stock option scheme is described in the note on stock options schemes.

Changes in issued capital are shown in the statement of changes in equity, which forms part of the consolidated financial statements.

### 23 Capital reserves

The capital reserves mainly represent the premium of 29,994 thousand euros from the initial public offering. They also include income and expenses taken directly to equity totalling – 4,137 thousand euros (previous year: – 3,792 thousand euros) resulting primarily from the costs of the IPO incurred in previous years, the currency conversion of a loan granted to the US subsidiary, and the entitlements under the second tranche of the stock option scheme dated February 3, 2000 paid as cash compensation to members of the Executive Board.

Changes in capital reserves are shown in the statement of changes in equity, which forms part of the consolidated financial statements.

### 24 Revenue reserves

Revenue reserves are legal reserves from previous years transferred in compliance with Section 150 of the German Stock Corporation Act (AktG).

Changes in revenue reserves are shown in the statement of changes in equity, which forms part of the consolidated financial statements.

## 25 Provision for pensions

RATIONAL AG has given pension commitments to a former director and a former company secretary. The benefits amount to a final salary scheme. The scheme is financed exclusively by pension provisions which in fiscal year 2007 amounted to 617 thousand euros (previous year: 672 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 the income statement. The full amount of the defined benefit obligation is recognised in the balance sheet.

Administration and selling expenses included the following pension benefit expenses:

| Thousands of euros | **2007** | 2006 |
|---|---|---|
| Interest expense | 30 | 29 |
| Recognised actuarial gains | – 53 | – 13 |
| **Total** | **– 23** | 16 |

The present value of the defined benefit obligation changed as follows:

| Thousands of euros | **2007** | 2006 |
|---|---|---|
| Efficiency-oriented obligation Jan. 1 | 672 | 683 |
| Interest expense | 30 | 29 |
| Paid obligations | – 32 | – 27 |
| Recognised actuarial gains | – 53 | – 13 |
| **Efficiency-oriented obligation Dec. 31** | **617** | 672 |

Paid obligations relate to the pension payments to a former director, which started in 2006.

The calculations were based on the following assumptions:

| | | |
|---|---|---|
| Rate of interest: | 5.25 percent | (previous year: 4.50 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 defined benefit obligations for the current and the previous four reporting periods are as follows:

| Thousands of euros | **2007** | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| **Efficiency-oriented obligation Dec. 31** | **617** | 672 | 683 | 591 | 533 |

# Notes on the Balance Sheet – Equity and Liabilities

## 26 Liabilities for current tax

| Thousands of euros | Balance at Jan. 1, 2007 | Currency Differences | Use | Additions | Balance at Dec. 31, 2007 |
|---|---|---|---|---|---|
| Taxes on income | 3,432 | – 11 | – 3,421 | 3,646 | 3,646 |

All liabilities for taxes shown are due within one year.



## 27 Short-term provisions

| Thousands of euros | Balance at Jan. 1, 2007 | Currency Differences | Use | Additions | Balance at Dec. 31, 2007 |
|---|---|---|---|---|---|
| Personnel | 7,025 | – 118 | – 6,796 | 8,021 | 8,132 |
| Warranty | 2,981 | 4 | – 2,985 | 3,001 | 3,001 |
| Outstanding invoices | 2,015 | – 40 | – 1,975 | 2,624 | 2,624 |
| Consulting and audit fees | 1,450 | – 1 | – 1,449 | 401 | 401 |
| Trader bonuses | 3,276 | – 166 | – 3,110 | 3,918 | 3,918 |
| Other | 928 | – 21 | – 907 | 1,348 | 1,348 |
| **Total** | **17,675** | **– 342** | **– 17,222** | **19,313** | **19,424** |



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

## 28 Liabilities to banks

Last fiscal year, RATIONAL concluded two annuity loan agreements, totalling 23,000 thousand euros, secured by land charges and maturing on December 30, 2022, in order to finance the construction of its new building in Landsberg. The interest rate is fixed at a nominal 4.56 percent per annum for 18,000 thousand euros and at a nominal 4.98 percent per annum for 5,000 thousand euros until December 30, 2017. Total monthly payments for the two loans amount to 179 thousand euros.

As of the balance sheet date, RATIONAL AG reported the draw-down of 18,000 thousand euros under one of the above real estate financing arrangements, as agreed in the contract. The amount drawn down has been secured by land charges equivalent to the construction progress achieved as of the end of the year, amounting to 6,150 thousand euros, by pledging fixed-term deposits of 10,000 thousand euros as collateral, and by temporarily using the operating line of credit by 1,850 thousand euros. The interest of 143 thousand euros that accrued during 2007 was recognised as interest expense in the income statement. As agreed, the principal will only be repaid from January 2008. In the previous year, there were no liabilities to banks as of the balance sheet date.

In the period between April and December 2007, bridging loans with terms of less than one year were taken out for a total of 1.2 billion Japanese yen (initially recognised at 7,461 thousand euros), and at fixed interest rates of between 0.91 and 1.01 percent per annum. Through its foreign subsidiaries, RATIONAL has access to finance in low-interest currencies (e.g. the Japanese yen), without additional currency risk.

## 29 Trade accounts payable

| Thousands of euros | **2007** | 2006 |
|---|---|---|
| Trade accounts payable | **9,292** | 6,787 |

As at balance sheet date 2007, 80 percent (previous year: 79 percent) of the trade accounts payable had originated at the production facilities of RATIONAL AG, Landsberg, and FRIMA S.A., Wittenheim. The excellent liquidity means that amounts payable to suppliers are normally settled so that advantage can be taken of discounts provided by suppliers. The following table shows payment terms and cash outflows, based on the payment terms agreed with suppliers:

| Thousands of euros | **2007** | **Due dates** | | |
|---|---|---|---|---|
| | Total | up to 30 days | 30-60 days | > 60 days |
| Trade accounts payable | **9,292** | 8,736 | 551 | 5 |

## 30 Other liabilities

| Thousands of euros | **2007** | 2006 |
|---|---|---|
| Liabilities from finance leasing agreements | 2,912 | 4,076 |
| Value-added tax liabilities | 3,495 | 3,379 |
| Liabilities to business partners | 3,582 | 2,380 |
| Liabilities from PAYE and church taxes | 1,504 | 1,529 |
| Liabilities from wages, salaries and social security contributions | 569 | 354 |
| Fair value of derivative financial instruments | 220 | 295 |
| Deferred income | 25 | 74 |
| Other (< euro 100 thousand in each case) | 148 | 90 |
| **Total** | **12,455** | 12,177 |

## Notes on the Balance Sheet – Equity and Liabilities





Deferred income includes deferred book gains from a sale-and-leaseback transaction of the French subsidiary, FRIMA S.A., in the amount of 25 thousand euros (previous year: 74 thousand euros). In accordance with IAS 17, book gains are reversed through the income statement over the term of the respective lease. In the previous year, 25 thousand euros of these deferred book gains were non-current.

Under IAS 17, liabilities under finance lease contracts were reduced in 2007 by the amount of the regular repayments of the finance lease liabilities, which amounted to 1,164 thousand euros (previous year: 1,696 thousand euros).

The maturities of liabilities resulting from finance leases are listed in the following table:

| | Total | Remaining up to 1 Year | Total | Remaining up to 1 Year |
|---|---|---|---|---|
| Thousands of euros | **2007** | **2007** | 2006 | 2006 |
| **Term; interest** | | | | |
| a) to 2007; 6.45% | — | — | 285 | 285 |
| b) to 2007; 4.93% | — | — | 22 | 22 |
| c) to 2008; Pibor 3 months + 1.50% | 129 | 129 | 293 | 164 |
| d) to 2011; 6.65% | 1,567 | 401 | 1,942 | 375 |
| e) to 2011; 6.05% | 204 | 53 | 254 | 50 |
| f) to 2011; 3.50% | 1,012 | 277 | 1,280 | 268 |
| **Total** | **2,912** | **860** | 4,076 | 1,164 |

For the contract modules under a), b), d), e) and f) in the above table, which are elements of finance leases, fixed interest rates have been agreed, as well as fixed lease instalments, which are allocated evenly over the terms of the contract modules. There are no options to extend the terms of the contract modules, nor are there any restrictions on them. It was agreed that a lessee loan agreement was to be concluded that would achieve the fixed sale value (purchase option for RATIONAL AG) of the leased object when the lease expires.

Finance lease 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 leases, the following lease payments will become due in subsequent periods:

| Thousands of euros | **2008** | 2009-2012 | from 2013 |
|---|---|---|---|
| Present values | 964 | 1,839 | — |
| Discounts | 36 | 333 | — |
| Leasing payments | 1,000 | 2,171 | — |

With the exception of the non-current other liabilities arising from finance leases, the remaining other liabilities shown are short-term in character.

## Notes on the Cash Flow Statement

### 31 Cash flow statement

The cash flow statement shows the changes in cash and cash equivalents of RATIONAL during the year under review. In compliance with IAS 7, the cash flow statement reports the cash flows classified by operating, investing and financing activities. Unlike the previous year's classification, the changes in fixed-term deposits have been allocated to cash flows from investing activities; interest paid has been allocated to cash flows from financing activities, because it is primarily attributable to bank liabilities.

Cash and cash equivalents include items subject to restrictions on disposal. The restrictions on disposal relate to an amount of 128 thousand euros (previous year: 2 thousand euros). As of the balance sheet date, RATIONAL reported a non-current bank liability of 18,000 thousand euros. The amount drawn down has been secured by land charges equivalent to the construction progress achieved as of the end of the year, amounting to 6,150 thousand euros, by pledging fixed-term deposits of 10,000 thousand euros as collateral, and by temporarily using the operating line of credit by 1,850 thousand euros. Cash and cash equivalents increased from 40,583 thousand euros at the beginning of the fiscal year to 45,295 thousand euros as of December 31, 2007. In addition, RATIONAL had fixed-term deposits of 17,000 thousand euros, which are due after three months from date of purchase and can therefore not be included in cash and cash equivalents.

F



## Other Notes on the Group Financial Statements

### 32 Contingent liabilities

Contingent liabilities are, firstly, possible obligations whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the Company. Secondly, they are present obligations where it is not probable that an outflow of resources will be required to settle the obligation or where the amount of the obligation cannot be reliably quantified.

At RATIONAL, warranty obligations could be considered contingent liabilities, although they are covered by appropriate provisions. The other provisions are itemised in the respective notes.

### 33 Employees and personnel costs

The average number of people employed by RATIONAL continued to rise, from 864 in fiscal year 2006 to 965 in fiscal year 2007. The average number of people employed outside Germany increased by 66, to 396.

The largest area of growth in the number of people employed was that of sales and marketing, reflecting the continuing expansion of the international sales organisations.

Employee distribution among the various operational areas is as follows:

| Employee distribution to operational areas | **2007** | % of total | 2006 | % of total |
|---|---|---|---|---|
| Production | 263 | 27 | 256 | 30 |
| Sales and Marketing | 393 | 41 | 320 | 36 |
| Technical Customer Service | 114 | 12 | 111 | 13 |
| Research and Development | 68 | 7 | 60 | 7 |
| Administration | 127 | 13 | 117 | 14 |
| **Average number of employees** | **965** | | 864 | |
| of which abroad | 396 | 41 | 330 | 38 |

As of the balance sheet date of December 31, 2007, the number of employees was 1,008, compared with 901 as at the same date in the previous year.

Personnel costs in 2007 amounted to 63,694 thousand euros (previous year: 57,044 thousand euros).

| Thousands of euros | **2007** | 2006 |
|---|---|---|
| Salaries and wages | 54,065 | 48,263 |
| Social security | 9,629 | 8,781 |
| **Total** | **63,694** | 57,044 |

### 34 Derivative financial instruments

Because of the international nature of its operations, RATIONAL 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 guidelines. 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. Derivative financial instruments are used to hedge recognised, uncompleted and anticipated transactions. A portion of the identified risks is 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 at the time the contract is 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.

### Valuation of derivative financial instruments

RATIONAL does not fulfil the IAS 39 requirements for hedge accounting, so it recognises all derivative financial instruments at fair value. On the day of trading, they are recognised at the purchase or sale price and reported under other assets or other liabilities in the balance sheet. Any changes in fair value are recognised in the income statement.

The fair 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.

In the case of 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 offsetting effects from underlying transactions are disregarded when determining fair value.

The following table shows the contract values and fair values of the derivative financial instruments, by category, as of December 31, 2007 and December 31, 2006: 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 are due within less than one year.

| | | Contract Value | | Positive market value (assets) | | Negative market value (liabilities) | |
|---|---|---|---|---|---|---|---|
| Thousands of euros | Currency | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Forward exchange contracts | SEK | 1,666 | — | — | — | 4 | — |
| Forward exchange contracts | CHF | 1,087 | — | 3 | — | — | — |
| Forward exchange contracts | CAD | 475 | — | 9 | — | — | — |
| Forward exchange contracts | JPY | 242 | 1,046 | 2 | — | — | 14 |
| Currency Options | GBP | 38,282 | 35,230 | 572 | 108 | 80 | 270 |
| Currency Options | USD | 12,270 | — | 130 | — | 60 | — |
| Currency Options | CAD | 8,696 | — | 147 | — | 76 | — |
| Currency Options | SEK | — | 3,007 | — | 14 | — | 11 |
| Interest rate/ currency swaps | JPY | — | 1,870 | — | 633 | — | — |
| Interest rate swaps | EUR | — | 2,000 | — | 3 | — | — |
| **Total** | | **62,718** | 43,153 | **863** | 758 | **220** | 295 |

### 35 Other financial obligations

In addition to provisions, liabilities and contingent liabilities, other financial liabilities as of December 31, 2007 amounted to 21,105 thousand euros (previous year: 7,417 thousand euros), of which 16,047 thousand euros (previous year: 2,908 thousand euros) will become due within the next twelve months; 235 thousand euros (previous year: 39 thousand euros) will become due after five years. This includes obligations under building contracts concluded for expanding the capacity at the Landsberg location, amounting to 12,905 thousand euros. The rest of this item relates to future payments under rental agreements and leases.

The leases treated as operating leases in accordance with IAS 17 are predominantly for the 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 2,131 thousand euros (previous year: 1,935 thousand euros), and of 3,017 thousand euros (previous year: 1,727 thousand euros) for the years 2009 to 2012 (1-5 years). No lease payments are due after that date. Insurance against loss or destruction of the objects leased is generally covered by insurance policies. The leases contain no restrictions relating to, for example, dividends, additional debts, or other leases. Lease expenses recognised in the income statement in fiscal year 2007 amounted to 2,667 thousand euros (previous year: 2,695 thousand euros). 304 thousand euros (previous year: 151 thousand euros) is payable to former employees for agreed restraints on competition.

### 36 Segment reporting

RATIONAL'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. RATIONAL 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.

In its segments, RATIONAL combines the subsidiaries located in the different geographical regions. This complies with the definition of segments by the location of the Company's assets under IAS 14.13. The Company distinguishes 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) parent company activities.

For reasons of administrative simplicity, investments for the German sales and after-sales service business, which is combined in RATIONAL Großküchentechnik GmbH, are made by RATIONAL AG. However, the segment expenses for Germany, and therefore the segment profit or loss, also include the depreciation and amortisation charges attributable to these investments. In addition to RATIONAL Großküchentechnik GmbH, FRIMA Deutschland GmbH with its registered office in Frankfurt am Main is also included in the "Germany" segment.

The "Europe excluding Germany" segment includes the companies in the UK, France, Italy, Austria, Switzerland, Poland and Sweden (for sales activities in Scandinavia).

The "Americas" segment includes the activities of our subsidiaries in the United States and Canada. For a year-on-year comparison, it has to be taken into account that in fiscal year 2007 RATIONAL AG reimbursed the American subsidiary for the costs of a legal dispute, of which 504 thousand euros related to the previous year. In 2006, these expenses had been reported in the "Americas" segment.

The activities of the subsidiary in Japan and those of the new subsidiary RATIONAL Trading (Shanghai) Co., Ltd., which was established in 2007, are reported in the "Asia" region. For reasons of materiality, comparative figures are not reported for this newly established subsidiary.

The activities of the parent company segment, which comprises RATIONAL AG, LechMetall Landsberg GmbH, RATIONAL Technical Services GmbH and RATIONAL Komponenten GmbH (newly established in 2007), all with registered offices in Landsberg am Lech, Germany, involve the development, production and delivery of products to the subsidiaries and the provision of services. Comparative figures for the newly established subsidiary are not reported, because the activities were included in RATIONAL AG in the previous year. In addition, the parent company makes supplies to OEM customers around the world.

This segment division reflects the Company's management structure and also represents the risk and profit structures within the business worldwide.

Segment sales include both sales to third parties and intercompany sales between Group companies across the segments. Intercompany sales and revenues are always provided at arm's length prices.

Segment depreciation and amortisation relates to intangible assets and property, plant and equipment. No other material non-cash expenses requiring disclosure under IAS 14.61 were incurred in either 2007 or the previous year.

Segment assets include all assets except cash and cash equivalents and tax assets. Segment liabilities do not include liabilities under finance leases, loans and income tax liabilities.

The reconciliation column reflects the effects of consolidation as well as amounts resulting from different definitions of the content of segment captions compared with the corresponding Group captions.

# Other Notes on the Group Financial Statements





| **2007** 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** | 51,972 | 213,683 | 38,679 | 8,750 | 23,472 | **336,556** | — | **336,556** |
| vs. previous year | + 12% | + 23% | + 31% | – 8% | – 6% | + 19% | — | + 19% |
| share | 15% | 63% | 11% | 3% | 7% | 100% | — | 100% |
| **Intercompany sales** | 760 | 3,203 | — | — | 223,374 | **227,337** | – 227,337 | — |
| **Segment sales** | 52,732 | 216,886 | 38,679 | 8,750 | 246,846 | **563,893** | – 227,337 | **336,556** |
| vs. previous year | + 10% | + 23% | + 31% | – 8% | + 16% | + 19% | — | + 19% |
| **Segment expenses** | 51,728 | 200,836 | 37,123 | 8,687 | 174,220 | **472,594** | – 228,598 | 243,996 |
| **Segment result** | 1.004 | 16,050 | 1,556 | 63 | 72,626 | **91,299** | 1,261 | **92,560** |
| vs. previous year | – 553 | + 8,760 | + 480 | + 162 | + 1,998 | + 10,847 | + 1,237 | + 12,084 |
| **Financial result** | — | — | — | — | — | — | — | **903** |
| **Earnings before taxes** | — | — | — | — | — | — | — | **93,463** |
| **Taxes on income** | — | — | — | — | — | — | — | **– 32,308** |
| **Group earnings** | — | — | — | — | — | — | — | **61,155** |
| **Segment assets** | 5,563 | 60,657 | 12,546 | 3,465 | 99,515 | **181,746** | – 58,871 | **122,875** |
| **Segment liabilities** | 6,080 | 43,387 | 13,911 | 3,926 | 18,231 | **85,535** | – 46,658 | **38,877** |
| **Segment investments** | 158 | 874 | 481 | 28 | 12,769 | **14,310** | — | **14,310** |
| **Segment depreciation** | 17 | 772 | 197 | 45 | 4,264 | **5,295** | — | **5,295** |
| **Employees** as at Dec. 31, 2007 | 73 | 318 | 70 | 32 | 515 | **1,008** | — | **1,008** |
| vs. previous year | + 14 | + 60 | + 10 | – 1 | + 24 | + 107 | — | 107 |

| **2006** 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** |
| 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** | – 191,531 | **283,702** |
| **Segment expenses** | 46,251 | 168,562 | 28,494 | 9,586 | 141,888 | **394,781** | – 191,555 | **203,226** |
| **Segment result** | 1,557 | 7,290 | 1,076 | – 99 | 70,628 | **80,452** | 24 | **80,476** |
| **Financial result** | — | — | — | — | — | — | — | **625** |
| **Earnings before taxes** | — | — | — | — | — | — | — | **81,101** |
| **Taxes on income** | — | — | — | — | — | — | — | **– 29,325** |
| **Group earnings** | — | — | — | — | — | — | — | **51,776** |
| **Segment assets** | 5,753 | 54,003 | 9,319 | 4,123 | 90,024 | **163,222** | – 60,843 | **102,379** |
| **Segment liabilities** | 6,355 | 42,754 | 10,220 | 4,512 | 16,746 | **80,587** | – 47,352 | **33,235** |
| **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** |

In accordance with IAS 14.71, sales are also broken down by customer location in the note on sales.

## 37 Legal disputes

As part of its normal business activities, RATIONAL 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.
The dispute over patents in the US, which had been running for about a year, was finally settled. In the third quarter of 2007, the parties concerned withdrew proceedings, and all claims on both sides were waived.

## 38 Associated companies and persons

In the 2007 reporting year, there were transactions with the non-consolidated subsidiaries MEIKU Vermögensverwaltung GmbH and TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG. The only party related to the Group is majority shareholder Mr. Siegfried Meister, who holds 62.97 percent of the equity of Rational AG and thus exercises control over the Company.
In the period under review, invoices issued by MEIKU Vermögensverwaltung GmbH to RATIONAL AG, primarily for the management of land and buildings at Siemensstraße 5 in Landsberg am Lech, were recognised as expenses in an amount of 121 thousand euros (previous year: 122 thousand euros). Sales of RATIONAL AG to MEIKU Vermögensverwaltung GmbH, and investment income in the previous year, amounted to 24 thousand euros (previous year: 81 thousand euros). As of December 31, 2007 RATIONAL AG had recognised neither liabilities to (previous year: 5 thousand euros) nor receivables from (previous year: 78 thousand euros) MEIKU Vermögensverwaltung GmbH.
RATIONAL AG leases buildings located at Siemensstraße 5 in Landsberg am Lech from TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG. Lease expenses incurred in this regard amounted to 723 thousand euros in the period under review (previous year: 815 thousand euros). As of the balance sheet date of December 31, 2007, RATIONAL AG had liabilities to TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG amounting to 15 thousand euros (previous year: 12 thousand euros). RATIONAL AG has granted a lessee loan to TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG amounting to 6,914 thousand euros as of December 31, 2007 (previous year: 6,378 thousand euros). The loan will be used to acquire the building at the end of the lease without additional cash. Since finance leases are reported in accordance with IAS 17, these consolidated financial statements do not include any lease expenses nor the lessee loan. The inclusion of TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG in the consolidated group would have no material effect on the consolidated financial statements.
Further information on MEIKU Vermögensverwaltung GmbH and TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG can be found in the notes on the consolidated group and on financial assets.

# Other Notes on the Group Financial Statements





## 39 Supervisory Board and Executive Board

The composition of the Supervisory Board did not change during fiscal year 2007. The members of the Supervisory Board are as follows:

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

For fiscal year 2007, the total compensation of the Supervisory Board amounted to 552 thousand euros (previous year: 543 thousand euros), distributed as follows:

| Thousands of euros | Fixed | Performance-related | Other | Total 2007 | Total previous year |
|---|---|---|---|---|---|
| Siegfried Meister | 150 | 46 | 22 | 218 | 216 |
| Walter Kurtz | 125 | 46 | 17 | 188 | 184 |
| Roland Poczka | 100 | 46 | — | 146 | 143 |
| **Total** | **375** | **138** | **39** | **552** | **543** |

The Supervisory Board compensation for fiscal year 2007, amounting to 513 thousand euros (previous year: 496 thousand euros), is included in the provisions recognised as of the balance sheet date.

As of December 31, 2007, the members of the Supervisory Board held a total of 8,119,310 shares in RATIONAL AG (previous year: 8,119,310), of which Mr. Siegfried Meister held 7,159,786 (previous year: 7,159,786 shares). Mr. Siegfried Meister and Mr. Walter Kurtz each also hold one percent of the share capital of MEIKU Vermögensverwaltung GmbH.

In addition to his membership of the Supervisory Board of RATIONAL AG, Mr. Roland Poczka is on the Advisory Board of the Glatz Group, Neidenfels, Germany, and the Administrative Boards of RATIONAL International AG and FRIMA International AG, both Balgach, Switzerland and, since January 1, 2007, of RATIONAL Schweiz AG, Balsthal, Switzerland.

Mr. Thomas Polonyi, member of the Executive Board and Chief Sales and Marketing Officer, left RATIONAL AG as of April 30, 2007. The following are therefore members of the Executive Board:

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

The shareholders' meeting held on May 17, 2006 resolved in accordance with Section 314 (2) sentence 2 of the HGB not to disclose separately the compensation paid to individual members of the Executive Board.

The total compensation of the members of the Executive Board for the performance of their duties in the parent company and its subsidiaries amounted to 2,708 thousand euros in fiscal year 2007 (previous year: 5,177 thousand euros). This amount includes a performance-related salary component of 1,242 thousand euros (previous year: 1,230 thousand euros) and, in the previous year a cash settlement relating to options on 34,500 shares under the stock option plan issued in 2004, under which 2,623 thousand euros was paid out in 2006.

As of the balance sheet date, the members of the Executive Board together held 9,933 shares in RATIONAL AG (previous year: 10,383 shares). None of the members of the Executive Board are members of Supervisory Board committees of non-Group companies.

## 40 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 plan the option to buy a total of 200,000 shares in the Company in up to five tranches, representing a notional share of the Company's share capital of 200 thousand euros. Only the Supervisory Board is competent to conclude option agreements, and is also responsible for deciding who is eligible among the members of the Executive Board.

The option rights may have terms of up to five years from the dates of issue of the individual tranches. The option rights themselves may be exercised two years after issue at the earliest. The Supervisory Board can resolve that portions of the option rights may only be exercised after a longer lock-up period. When individual lock-up periods expire, the option rights are only exercisable within certain periods. The periods during which options can be exercised start in each case on the second and end on the sixth trading day following a regular shareholders' meeting of the Company or the publication of a quarterly report.

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

As of the balance sheet date of December 31, 2007, option rights to a maximum of 131,000 shares in RATIONAL AG still remained in the stock option scheme.

# Other Notes on the Group Financial Statements



### 41 Provision for pensions for the management

In 2001, RATIONAL AG implemented a pension scheme for the Executive Board and other senior executives, through an external reinsured support fund. In fiscal year 2007, 291 thousand euros (previous year: 306 thousand euros) was contributed to the defined contribution plan.

### 42 Statement on the German Corporate Governance Code

The Executive Board and the Supervisory Board of RATIONAL AG have issued a declaration in accordance with Section 161 of the AktG detailing which recommendations of the Government Commission for a German Corporate Governance Code were and are being complied with. This declaration was based on the German Corporate Governance Code as amended on June 14, 2007. The declaration of conformity has been made permanently available to the shareholders.

### 43 Subsequent events

No events have taken place since the close of fiscal year 2007 that are of particular significance for the assessment of RATIONAL AG's and the RATIONAL-Group's net assets, financial position and profit or loss, as stipulated by IAS 10.



### 44 Auditor

By resolution of the shareholders' meeting of May 3, 2007, Rölfs WP Partner AG Wirtschaftsprüfungsgesellschaft were appointed as auditors for fiscal year 2007.

In fiscal year 2007, total expenses of 292 thousand euros (previous year: 253 thousand euros) were recognised for services provided by Rölfs WP Partner AG Wirtschaftsprüfungsgesellschaft. The total is made up of 219 thousand euros (previous year: 173 thousand euros) for the auditing of single-entity and consolidated financial statements, 32 thousand euros (previous year: 33 thousand euros) for tax consultancy services, 32 thousand euros (previous year: 35 thousand euros) for certification and valuation services, and 9 thousand euros (previous year: 12 thousand euros) for other services.

Landsberg am Lech, February 15, 2008

RATIONAL AG
The Executive Board

**Responsibility Statement**

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Landsberg am Lech, February 15, 2008

RATIONAL AG
The Executive Board

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# Notes

# ⇚ Multi-year overview

# Multi-year overview

| | | **2007** | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|---|---|
| **Earnings situation** | | | | | | | | |
| Sales | € million | 336.6 | 283.7 | 246.4 | 221.8 | 186.6 | 177.3 | 167.3 |
| Sales abroad | % | 84 | 84 | 83 | 84 | 83 | 81 | 80 |
| Gross margin | € million | 199.9 | 173.8 | 149.7 | 131.5 | 108.5 | 105.0 | 96.0 |
| EBITDA | € million | 97.9 | 84.8 | 71.2 | 57.9 | 46.5 | 41.6 | 35.0 |
| Depreciation / Amortisation | € million | 5.3 | 4.3 | 4.3 | 4.6 | 4.2 | 3.4 | 3.0 |
| EBIT | € million | 92.6 | 80.5 | 66.9 | 53.3 | 42.3 | 38.2 | 31.9 |
| Financial results | € million | 0.9 | 0.6 | 0.3 | 0.5 | 0.3 | 0.2 | – 0.1 |
| EBT | € million | 93,5 | 81.1 | 67.2 | 53.9 | 42.6 | 38.4 | 31.9 |
| Group earnings | € million | 61.2 | 51.8 | 42.4 | 33.8 | 26.8 | 26.6 | 20.8 |
| Earnings per share (undiluted) | € | 5.38 | 4.55 | 3.73 | 2.98 | 2.36 | 2.34 | 1.83 |
| Gross margin | % | 59.4 | 61.3 | 60.8 | 59.3 | 58.1 | 59.2 | 57.4 |
| EBITDA-margin | % | 29.1 | 29.9 | 28.9 | 26.1 | 24.9 | 23.5 | 20.9 |
| EBIT-margin | % | 27.5 | 28.4 | 27.2 | 24.0 | 22.7 | 21.5 | 19.1 |
| EBT-margin | % | 27.8 | 28.6 | 27.3 | 24.3 | 22.8 | 21.6 | 19.0 |
| Return on equity (before taxes) | % | 75.4 | 76.7 | 74.7 | 51.8 | 47.0 | 48.6 | 49.5 |
| Return on capital employed (ROCE) | % | 64.2 | 73.3 | 67.9 | 47.9 | 42.3 | 42.3 | 40.0 |
| Dividend* | € million | 51.2 | 42.6 | 34.1 | 56.9 | 21.0 | 14.8 | 11.4 |
| Dividend per share* | € | 4.50 | 3.75 | 3.00 | 5.00 | 1.85 | 1.30 | 1.00 |

*Dividend 2007 - subject to approval by Shareholders' Meeting.

| | | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|---|---|
| **Asset situation** | | | | | | | | |
| Fixed assets | € million | 38.0 | 29.2 | 28.1 | 28.1 | 27.5 | 26.0 | 25.7 |
| Current assets | | | | | | | | |
| (incl.deferred tax assets and prepaid expenses) | € million | 149.4 | 117.4 | 104.0 | 118.7 | 100.5 | 88.0 | 75.1 |
| Inventories | € million | 18.6 | 15.5 | 16.2 | 14.3 | 12.8 | 11.3 | 11.8 |
| Trade receivables | € million | 61.4 | 53.1 | 46.1 | 36.7 | 32.7 | 30.9 | 29.8 |
| Cash and cash equivalents (including fixed deposits) | € million | 62.3 | 40.6 | 34.8 | 59.9 | 49.7 | 41.0 | 27.7 |
| Balance sheet total | € million | 187.4 | 146.6 | 132.1 | 146.8 | 128.0 | 114.0 | 100.8 |
| Equity | € million | 124.0 | 105.8 | 89.9 | 104.1 | 90.6 | 78.9 | 64.4 |
| Debts | € million | 63.4 | 40.8 | 42.2 | 42.7 | 37.4 | 35.1 | 36.4 |
| Provisions (incl. liabilities from current taxes) | € million | 23.7 | 21.8 | 21.3 | 22.0 | 16.7 | 13.0 | 11.6 |
| Liabilities to banks | € million | 18.0 | — | 2.5 | 2.2 | 2.4 | 2.9 | 5.3 |
| Trade accounts payable | € million | 9.3 | 6.8 | 5.4 | 5.8 | 4.6 | 4.8 | 4.4 |
| Other liabilities (incl. deferred income) | € million | 12.4 | 12.2 | 13.0 | 12.7 | 13.8 | 14.3 | 15.1 |
| Liabilities from finance leasing agreements | € million | 2.9 | 4.0 | 5.8 | 5.6 | 6.9 | 8.1 | 9.2 |
| Other liabilities | € million | 9.5 | 8.2 | 7.2 | 7.1 | 6.9 | 6.2 | 5.9 |
| Equity ratio | % | 66.2 | 72.2 | 68,1 | 70.9 | 70.8 | 69.2 | 63.9 |
| Net gearing | % | 33.8 | 27.8 | 31.9 | 29.1 | 29.2 | 30.8 | 36.1 |
| Equity-to-fixed-assets ratio | % | 326.3 | 362.3 | 320.0 | 370.5 | 329.0 | 304.0 | 250.5 |
| Capital Employed | € million | 145.5 | 110.6 | 99.0 | 112.6 | 100.6 | 90.7 | 79.7 |
| Working Capital (excluding liquid funds) | € million | 65.7 | 58.4 | 53.0 | 41.0 | 37.0 | 33.6 | 34.8 |
| as a percentage of sales | % | 19.5 | 20.6 | 21.5 | 18.5 | 19.9 | 18.9 | 20.8 |
| **Cash flow/Investments** | | | | | | | | |
| Cash flow from operating activities | € million | 61,1 | 49,1 | 32,8 | 39,2 | 29,8 | 31,9 | 19,7 |
| Cash flow from investing activities | € million | – 30,2 | – 1,8 | – 3,7 | – 4,6 | – 4,9 | – 3,4 | – 4,1 |
| Cash flow from financing activities | € million | – 26,0 | – 38,4 | – 42,3 | – 37,3 | – 5,1 | – 25,2 | – 8,6 |
| Investments | € million | 14,3 | 5,7 | 6,0 | 5,7 | 6,0 | 4,3 | 4,3 |
| **Employees** | | | | | | | | |
| Employees (as an annual average) | | 965 | 864 | 792 | 742 | 679 | 669 | 660 |
| Personnel expenses | € million | 63,7 | 57,0 | 53,4 | 47,7 | 43,6 | 42,0 | 40,4 |
| Sales per employee | € thousand | 348,8 | 328,4 | 311,1 | 298,9 | 274,7 | 265,1 | 253,4 |

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