ANNUAL REPORT 2010

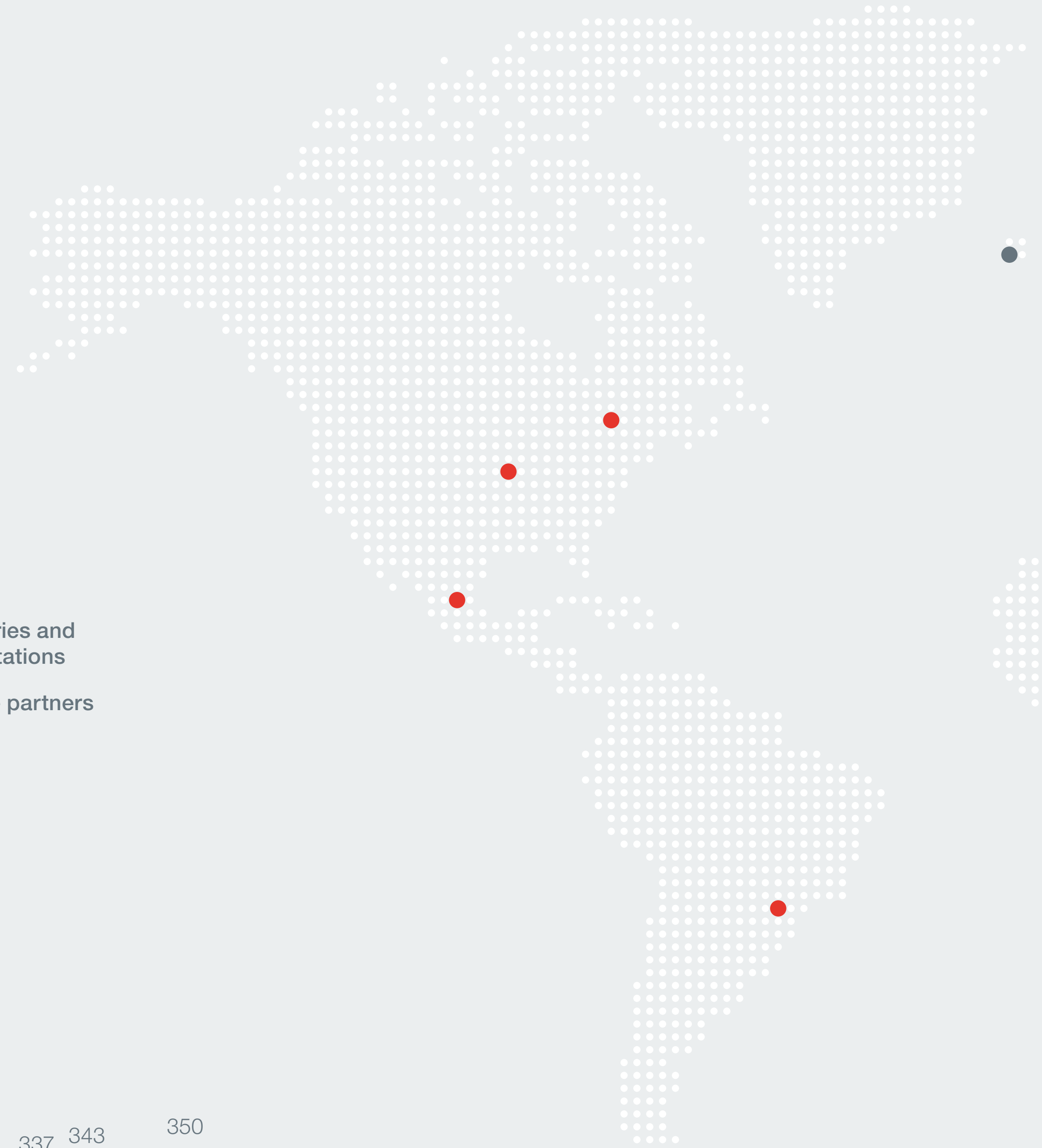
Key Figures

in m EUR	2010	2009	Change absolute	Change in %
Sales and earnings				
Sales	350.1	314.4	+35.7	+11
Sales abroad in %	84	83	+1	
Cost of sales	133.2	122.8	+10.4	+8
Sales and service expenses	83.4	75.5	+7.9	+10
Research and development expenses	13.5	11.4	+2.1	+19
General administration expenses	15.6	15.1	+0.5	+4
Earnings before interest and taxes (EBIT)	105.8	90.5	+15.3	+17
Group earnings	79.8	67.3	+12.5	+19
Balance sheet				
Balance sheet total	305.7	265.7	+40.0	+15
Working capital [1]	58.2	54.7	+3.5	+6
Equity	230.3	189.8	+40.5	+21
Equity ratio in %	75.3	71.4	+3.9	
Cash flow				
Cash flow from operating activities	86.9	83.2	+3.7	+4
Investments	4.5	2.4	+2.1	+88
Free cash flow [2]	82.4	80.8	+1.6	+2
Return on invested capital (ROIC) in %	33.9	35.5	–1.6	
Key figures RATIONAL share				
Earnings per share (in EUR)	7.02	5.92	+1.10	+19
Share price (in EUR) [3]	165.40	118.50	+46.90	+40
Market capitalization	1,880.6	1,347.3	+533.3	+40
Employees				
Number of employees as of Dec. 31	1,092	993	+99	+10
Number of employees (average)	1,058	1,031	+27	+3
Sales per employee (in kEUR)	330.9	304.9	+26.0	+9

[1] excluding liquid funds
[2] Cash flow from operating activities less investments
[3] XETRA-closing share price on the last trading day of the fiscal year

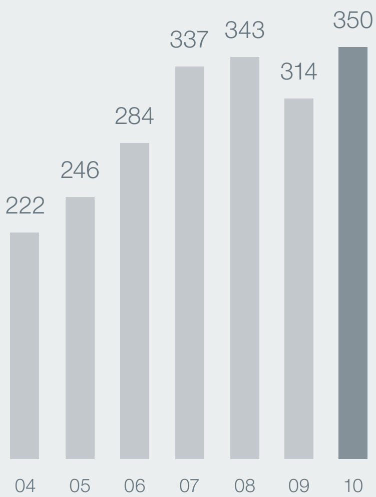
Cover image: Jürgen Erdt, Quality Management

RATIONAL 2010
Global Presence – close to the Customer.

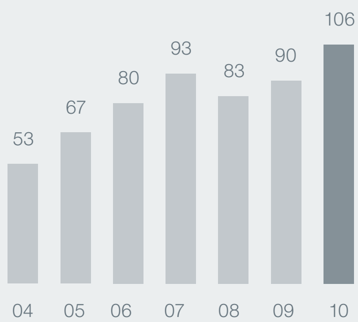


● Subsidiaries and representations

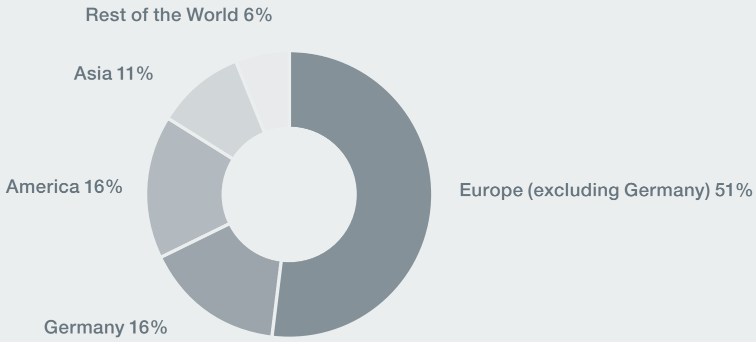
● Exclusive partners



Sales in m EUR



EBIT (earnings before interest and taxes) in m EUR



Sales by region in 2010

The RATIONAL added-value share – for high yields and growth

Since the stock market flotation in 2000, when the issue price was 23.00 euros, RATIONAL AG shareholders have seen the price of their shares rise by 619% overall to 165.40 euros. Added to this are dividends totalling 25.55 euros per share distributed over this period. In 2011, this is due to be augmented by a dividend of 5.00 euros plus a special dividend of 4.00 euros per share.

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Siegfried Meister
Chairman of the Supervisory Board

Foreword by the Supervisory Board

The global economy is unpredictable at present

In September 2008, the collapse of one single bank, put the entire global economy, completely unexpected, in a tailspin overnight. In fact, in 2009, there was even talk of the spectre of a global economic crisis along the lines of 1929.

Yet, thank goodness things turned out differently. By 2010, the global economy had already rebounded so strongly that it was back to pre-crisis levels.

Both phenomena, in other words, the sudden collapse and the unexpectedly rapid and strong upturn, were substantially caused and borne by the private and state financial sector.

Leading experts currently believe that the speculative trading volume of the global finance industry is now around five times as high as would be necessary to finance the real economy. No high limit is in sight. Hence, the finance industry's risk factor is set to increase rather than decrease over the coming years.

The direct consequence of this is that worldwide macroeconomic development is growing ever more unpredictable, i.e. both the frequency and size of unexpected upturns and downturns will increase significantly. So, the next crisis will come, but once again when it is least expected.

The future is being shaped now

Future sustained and long-term success will come only to those companies which actively start to gear themselves right now to the increasing uncertainty and high volatility of the macroeconomic environment.

Decentralised management plus decentralised responsibility, in other words, autonomy and self-organisation on the part of all employees, are important factors for success in this respect. It will be these companies which enable and encourage the ability to adapt rapidly to unexpected developments. Highly flexible change in the company will thus become the norm and will be a competitive advantage.

The "U.i.U.®" is our future

The foundation of successful implementation of autonomy and self-organisation at RATIONAL is the principle of the "U.i.U.®", i.e. the 'Entrepreneur in the Company'.

An employee's self-image is that of an exemplary craft worker, who thinks and acts independently towards our common goal.

He is honest, self-aware and autonomous, and also takes the necessary decisions in his own field of activity. At the same time, he always focuses on the maximum customer benefits and never loses sight of the big picture.

The better we live this self-image, the greater the freedom of movement and action of each individual employee, and the greater his development opportunities.

The result is the necessary highly flexible, adaptable, decentralised organisation which even in times of crisis can continue to steer a successful course for the company.

To these employees in all the various divisions and functions, I extend my especial respect, my heartfelt thanks and my unbounded appreciation to the high levels of commitment and the outstanding performance in 2010.

Siegfried Meister

Chairman of the Supervisory Board

Letter from the Executive Board

Dear Shareholders, Customers and Business Partners,

Global economy recovers surprisingly strong

After the sharp downturn in 2009, the global economy grew a very dynamic 4.7% in 2010. A year ago, no one would have expected such a headlong recovery, especially considering that the upturn is practically across-the-board.

All major industrialised nations turned the corner in 2010. Nonetheless, the drivers of the economy yet again were the “BRIC” states: Brazil, Russia, India and China. This is not surprising, since these countries have relatively healthy, national budgets and although they were affected in the short term by the precipitate fall in demand from abroad, they were not hit by the financial crisis itself. The balance in the world economy once more shifted a good way in the direction of the BRIC states in 2010. This trend will continue. It is expected that in 2011 China will move ahead of Japan to become the world’s second largest economy.

With growth of 3.7%, the German economy was also well above its long-term average. While initially this growth was primarily export-led, domestic demand for capital goods has now revived, too. Even consumption is growing, thanks to the low levels of unemployment. The upshot is that German industry has almost recovered from the sharp fall in production in 2009. Pre-crisis levels are now within reach.

Economic experts are predicting a continuation of the favourable trends in the global economy for 2011 and 2012, too. Growth rates of 3.9% and 4.2% are forecasted.

Photograph (from left to right):

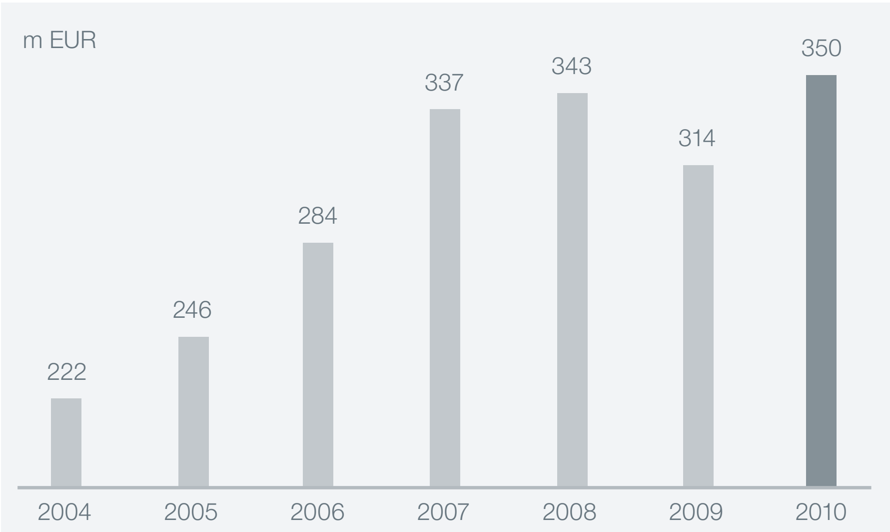
Reinhard Banasch, CSO
Peter Wiedemann, CTO
Dr. Günter Blaschke, CEO
Erich Baumgärtner, CFO

Sales exceed pre-crisis levels

In 2010, RATIONAL AG turned the cycle with 11% sales growth (previous year: 8% decline). At 350 million euros, sales were the highest ever in the Company's history.

We gained momentum quarter by quarter. In the 4th quarter of 2010, sales growth stood at 21%. All sales regions contributed to this growth, and once again, we are benefiting here from our global orientation. 30% of the growth was from the BRIC states in 2010, but the well-established markets of North America and Europe again grew significantly.

Sales in 2010: Back on sustained growth path



By far the world market leader

We maintained our high global market share of 54% in 2010. RATIONAL is currently around five times as big as its next-largest competitor. This success is supported by our clear corporate strategy, the focus on a single target group, superior product technology and concentration on the countries and regions with the biggest potential demand.

Product leadership confirmed

Product leadership is firmly entrenched in our philosophy – as an important part of our self-conception. In concrete terms, this means: "We promise our customers the best possible technology and quality at the right price. We keep this promise – always."

In March 2010, 1,240 head chefs in communal catering voted our SelfCooking Center® the best product in the entire range of appliances used in a professional kitchen, such as cooking equipment, refrigerators, dishwashers, coffee machines, etc. In all three assessment criteria (quality, service and price/performance ratio) the SelfCooking Center® beat all other well-known competitor products hands down.

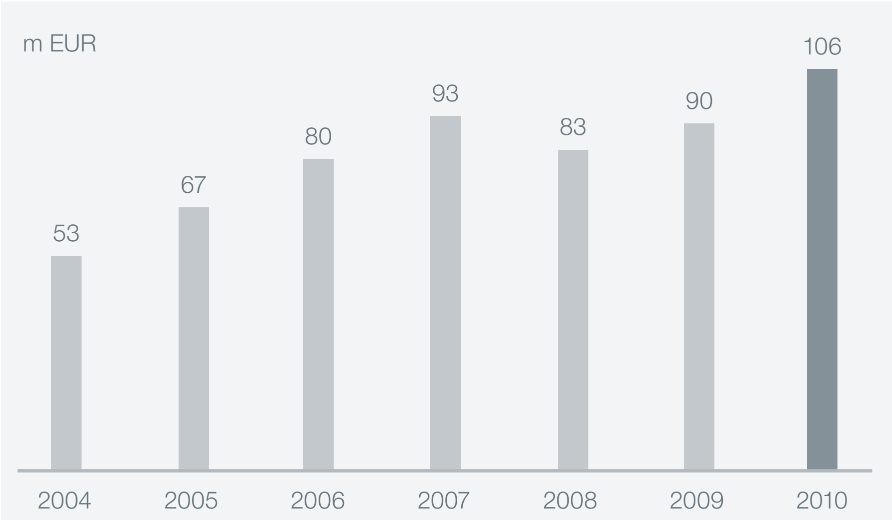
Operating result exceeds 100 million euros for the first time

Our process-oriented and extremely flexible corporate structure enabled us even in 2009, despite a difficult environment with falling sales, to grow the operating result (EBIT) to 90.5 million euros. In 2010, with a growth rate of 17%, we raised EBIT to around 106 million euros – the first time in the Company's history we have broken through the 100 million euros barrier. The EBIT margin accounts to 30%.

5.00 euros dividend and 4.00 euros special dividend proposed

The economic indicators are again pointing to growth. At the same time, the Company's liquidity situation is extremely good at year-end, with liquid funds of over 163 million euros. The Supervisory Board and Executive Board have, therefore, decided to propose a dividend increase from 3.50 euros to 5.00 euros to the General Meeting of Shareholders in 2011, plus a special dividend of 4.00 euros.

EBIT – Earnings before interests and taxes exceed 100 million euros



With a total dividend of 9.00 euros per share, our shareholders will enjoy a dividend yield of 5.4% (in relation to the 2010 year-end price). In total, RATIONAL is planning to distribute over 102 million euros. Nevertheless, the remaining liquid funds of around 60 million euros continue to be at a very high level. Thus, the Company is ideally placed to deal with any eventualities and possible crises that may arise from developments in the financial sector.

Positive economic outlook

Experts predict the economic environment will continue to be positive in 2011 and 2012. For the BRIC states growth rates of 4.5% to 8.7% are expected. In the US, the recovery is forecasted to pick up speed again, and Europe will remain largely stable.

RATIONAL has a large free market potential of 2.5 million professional kitchens worldwide. Although the SelfCooking Center® has established itself as an international standard and worldwide is an essential component of innumerable professional kitchens, around 5% of this market potential has been tapped so far. In addition, the VarioCooking Center® once again has 100% of the same market potential of 2.5 million kitchens.

Cautiously optimistic for 2011

Despite the positive trends of recent months, a number of imponderables exist for 2011 and the years ahead. The risks in the financial sector have not yet been eliminated. National budgets are suffering from the burden of debt and the need to economise. Nevertheless, we are optimistic that we will continue on our successful course in the future. We, therefore, expect an increase of around 10% in sales 2011 along with a good earnings development.

We should like to thank all our customers and business partners as well as you, our shareholders, for the trustful cooperation extended to us in fiscal 2010.

In times of crisis, as well as during the present upturn, our employees have proved that they are able to perform excellent work thanks to maximum flexibility and exemplary commitment. For this, we would like to extend our heartfelt thanks to them.

Dr. Günter Blaschke
CEO of RATIONAL AG

We are RATIONAL

Customer benefit as the paramount corporate goal

RATIONAL's ultimate corporate goal is not sales, nor profit or growth, but maximum customer benefit.

Our philosophy expresses it like this: "We offer people working in commercial kitchens the most beneficial solution to their thermal cooking tasks".

This objective goes hand in hand, virtually as our self-awareness, with specialisation on a single target group – people in the professional kitchens of the world – and concentration on the key function of the professional kitchen, namely the thermal cooking of food. Specialisation creates the necessary freedom, but also the obligation for all employees to maintain the closest possible links with this target group. Every decision in the company must be geared to whether or not it benefits the customer.

To achieve this objective as fully as possible with maximum flexibility, RATIONAL focuses on decentralised management and responsibility and on employees' perception of themselves as entrepreneurs in the company (U.i.U.®). The group is divided into manageable, legally independent subsidiaries with consistent entrepreneurial leadership and clearly delineated tasks. As a result, decisions taken are more closely aligned with the relevant work process, which has a logical and self-contained structure.

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

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

Made in Germany, made by RATIONAL, made by Bernhard Walch

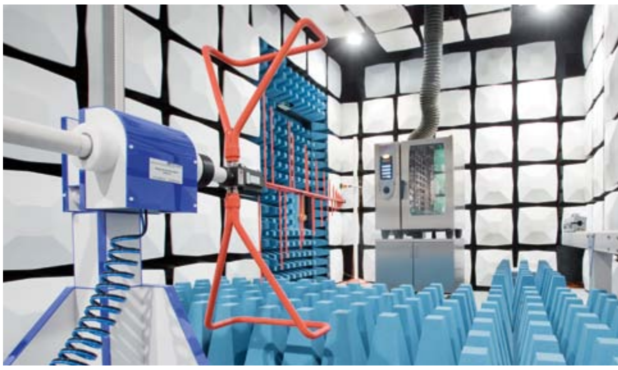
In the production process, RATIONAL combines both Hightec and personal responsibility.Every employee accompanies “his” unit from the very beginning up to the end.This guarantees high identification, best quality and the necessary flexibility for short-term delivery.

370 patents and utility models to extend product leadership and customer benefit.

RATIONAL primarily sees itself as an inventor of innovative solutions for the customer, and less as a mechanical engineer. The central aim is to continually improve our customers' world of work, and at all times to perform this task better than others.

Thus, since its market launch, the SelfCooking Center® has become the global standard. The VarioCooking Center® is well on the way to making the same claim. Hence, it is succeeding, year on year, in becoming ever more attractive for customers around the globe. The result is increasing demand, growth and profit. So the higher the customer benefit, the better these results are – and the key to this is research and development.

Nicole Echtler, Product Development employee



RATIONAL promises its customers:

- the best possible technology at all times
- the highest standard of quality and
- an attractive price/performance ratio.

Representative customer surveys bear impressive testimony to the success of our efforts over many years.
The structure of our research and development division also reflects the world in which our customers operate 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.

Every year, our own laboratories use some 25 tonnes of foodstuffs in order to identify the ideal and most efficient cooking process for any size and load of any product.

“Always pushing back the boundaries of what is technologically feasible in order to increase benefit for our customers – all around the world – is what makes my work so exciting.”

Andrea Jürgens, Head of Applied Research

Component Production acts like an independent supplier – with core skills for key technologies.

Component Production at RATIONAL AG acts as an independent supplier. Just like external partners, it is in full competition and must measure itself against the highest standards of quality and performance. Important key skills for machining high-grade steel are combined in Component Production. The quality and specifications of the inner casings produced satisfy the most stringent customer requirements.

One of the cornerstones of superior performance is the high-tech machinery which in past years has been ever further developed thanks to substantial investments.

Involving the experts from the component plant in the development process for new products at an early stage ensures the best possible production flow from the outset.

Daniel Schneider (top), Max Gritscher (bottom),
Inner Casing Production employees

"It's nice to know what a major contribution our work in inner casing production makes to customer benefit and the competitive position of our products, and that our unique technology creates direct time and cost advantages for our customers."

Johannes Ziegler, Inner Casing Production employee

The U.i.U.® principle (entrepreneur in the company) is also a reality in Component Production. Employees certainly do not see themselves as mere plant operators. They act and take decisions on their own responsibility when managing their special-purpose plants. Their skills range from normal operation to maintenance and repair, to acting as an interface to the machine supplier or manufacturer.

RATIONAL dispenses with a functional division of labour. Accordingly, all employees must have very extensive knowledge in their field and must be continually learning.

"The variety of the tasks makes my job so interesting. In personal responsibility, I take care of the compliance of quality demands, as well as, the appointed deliveries to the following process or internal customer."

Florian Schwarz, Component Production employee

Marion Müller, Component Production employee

As throughout the RATIONAL group, the Component Production is geared exclusively to orders. The aim of the process and operational organisation is to maximise customer benefit – in the case of Component Production the internal customer is Final Assembly. So Component Production is closely linked to the processes in Final Assembly. Maximum flexibility combined with small economic lot sizes means inventory buffers are kept to a minimum.

Just as every chef perfects his dishes in a highly personal way, so RATIONAL employees are individually responsible for assembling their appliances

Assembly at RATIONAL takes place in natural, clear, integrated processes, known as assembly islands. As entrepreneurs in the company (U.i.U.®) employees themselves assume as much responsibility as possible and take the decisions required for their remit. Every employee works on the principle of “One person builds one complete appliance”.

Yet, the responsibility of the “entrepreneur in the company” goes well beyond this at RATIONAL. Assembly employees review their own work processes in workshops, which they direct and control themselves. Own ideas, own decisions and own implementation, these are important basic principles of day-to-day work at RATIONAL.

Christian Kern, employee on Island 1

At the same time, it is becoming increasingly important to improve multi-workplace professional knowledge. Assembly at RATIONAL is distributed across autonomous islands for each type of appliance. Despite this separation, there is a continuous exchange of personnel between the islands – depending on the order situation and availability. This approach demands more skills and more decision-making from all employees, but also offers more freedom of action. The entire company benefits from more flexible and hence higher capacities and ultimately from increased performance.

An important long-term project is the improvement of workplace ergonomics, especially in Production. No one is better placed to say how workplaces can be made even more efficient and conducive to health and safety than the employees themselves. RATIONAL believes optimum workplace ergonomics make a major contribution to guaranteeing the performance of its employees and, thus, the sustainability of the company.

Carola Bachmann, employee on Island 1

"I can arrange my working time as I like. In fact, in line with the flexible working hours I can come and go as I want , as long as the output is there at the end of the day. I'm judged by my results, not by my time sheet."

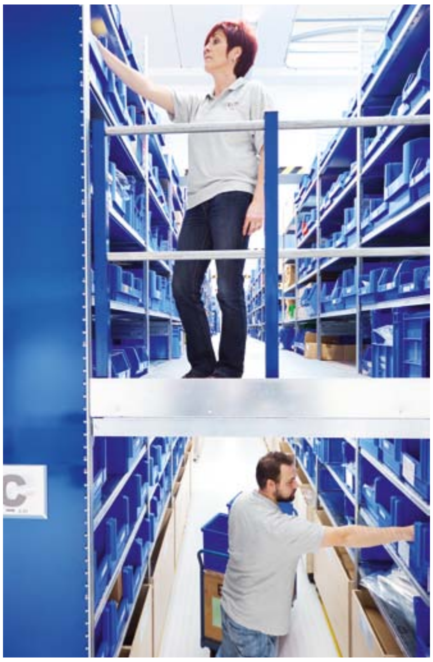
Ferdinand Rauer, employee on Island 1

Each individual customer order in Service Parts Shipping is processed from start to finish by one employee.

Izzetcavus Adas, Service Parts Shipping employee

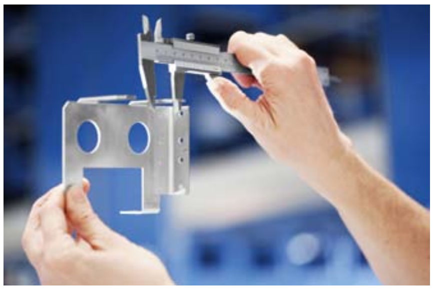
Life in Service Parts Shipping is generally very hectic. But speed alone is not enough, if meaningful solutions are to be found for problems that crop up. So the first of five stages in Service Parts Shipping is the professional and comprehensive technical clarification of what is required. Employee skills are taken literally in the service parts process: because as an entrepreneur in the company (U.i.U.®), an employee handles the entire customer order in an integrated fashion, from clarification of technical issues through to physical shipment. Where once up to 10 interfaces made the process slow and complex, nowadays five coordinated process steps carried out by a single employee ensure speed and transparency.

Employees in Service Parts Shipping combine expert technical knowledge with multilingualism, the ability to be hands-on and great flexibility. The customers of Service Parts Shipping are the local service partners and dealers – currently in some 120 countries around the world.



Thomas Sailer, Service Parts Shipping employee

The focus is always on customers and their satisfaction. Annual customer surveys, results of the ongoing improvement process, a detailed productivity metrics system, adherence to deadlines and rapid turnover times provide a picture of the status quo and show how the process could be improved still further.



"The key thing for me is the constant variety: Answering technical questions, giving advice, but also being hands-on yourself. We very much work on our own responsibility and always in direct contact with the customer. It's fun and you know what you achieve every day." Iveta Matus, Service Parts Shipping employee

Some 480,000 RATIONAL appliances have been sold around the world to date. The potential global market of 2.5 million professional chefs to be addressed is still enormous.

RATIONAL is the chef's company. Nowhere is this more directly apparent for customers than in contacts with the RATIONAL sales process. Over 200 chefs see themselves, not as salesmen, but as partners and consultants. They speak the customers' language and are familiar with their wishes and problems. They are the customer's point of contact for everything: researching requirements on site, all aspects of installation, familiarisation with the equipment, right through to trial runs of the customer's signature dishes. As entrepreneurs in the company (U.i.U.®) they are autonomous in their sales region.

"Promoting the individuality of the kitchen and increasing the benefit for customers: Our aim in Sales goes well beyond simply selling."

Thomas Treu, Head of Application Consulting

Potential customers can learn more at some 10,000 TeamCooking Live events all around the globe. In 2010, a total of almost 50,000 people were able to see for themselves how much time-consuming routine work they could save with RATIONAL technology, thereby freeing up time for creative activities and for contact with their guests.

RATIONAL's key argument is the demonstrable customer benefit in terms of time, costs and quality. This growing benefit does not end after the appliance has been sold and installed. Sales and customer loyalty merge seamlessly with one another. Advice on use, a dedicated telephone hotline, Academy RATIONAL and Club RATIONAL all help customers make the very most of the benefits of their partnership with RATIONAL.

RATIONAL Shares

Performance: RATIONAL shares surge ahead in 2010

2010 was a very good year for RATIONAL shares: with a 40% gain compared to the previous year, the price rose well above the figures for the relevant comparative indices (DAX30 (+16%) and MDAX (+35%)). Together with the dividend paid of 3.50 euro per share, this equates to an overall return of +42,5% in 2010 for RATIONAL shareholders. At year-end 2010, RATIONAL AG's market capitalisation stood at 1,881 million euros.

Impressive upward trend in the second half of the year

After a muted start from the year's low of 109.90 euros in January, the price temporarily peaked in March, but otherwise sidestepped until the end of May. Then – in line with the good operating performance – RATIONAL shares rose steadily until the year-end. The highpoint for 2010 was reached in early November, with a price of 173.60 euros. At year-end, the share price was 165.40 euros.

Compared to the issue price at the time of the IPO in 2000, RATIONAL shares have now risen more than seven-fold in value (+619%).

Performance of RATIONAL shares in 2010

	2010	2009
Number of shares	11,370,000	11,370,000
Market capitalization (cut-off) (in m EUR)	1,880.6	1,347.3
Average Price (in EUR)	135.28	84.79
Maximum Price (in EUR)	173.60	120.44
Lowest Price (in EUR)	109.90	57.10
Closing price (cut-off) (in EUR)[1]	165.40	118.50
Average numbers of daily traded stocks	8,709	10,961
Earnings per share (undiluted in EUR)	7.02	5.92
Dividend paid out (in EUR)	3.50	1.00
Dividend, proposal to General Meeting 2011 (in EUR)	5.00	–
Special dividend, proposal to General Meeting 2011 (in EUR)	4.00	–

[1] XETRA.

RATIONAL holds its ground in the MDAX

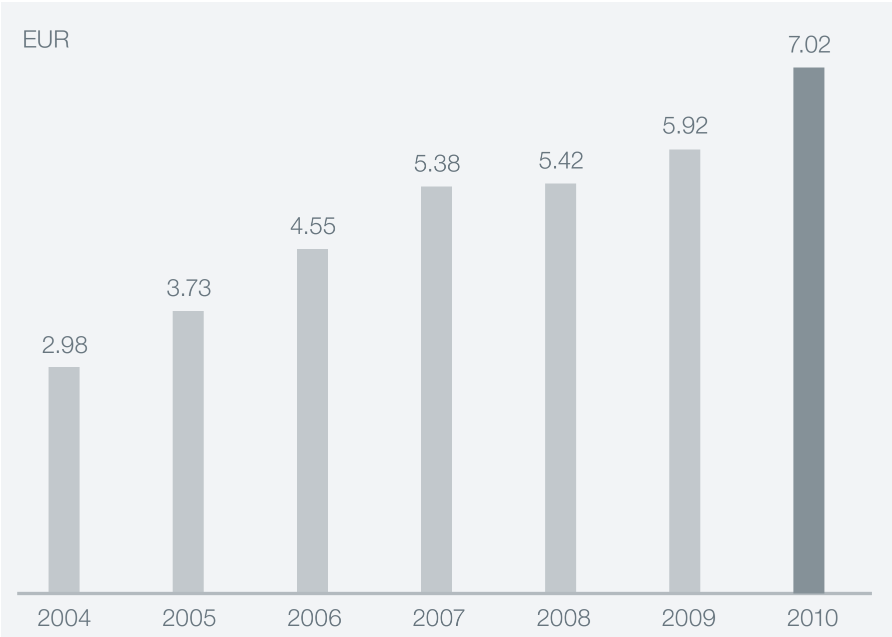
In its second year in the MDAX, RATIONAL AG easily held its ground in the index. Measured by free-float market capitalisation, the Company was ranked 49th at year-end (2009: 45th), and in terms of trading volume was in 56th place (2009: 52nd).

Average daily trading volume

The average daily trading volume for RATIONAL shares via XETRA was 7,620 shares in 2010, or 8,709 shares totalled across all stock exchange centres. In comparison: in 2009 an average of 10,593 shares were traded per day on XETRA; the total figure for all German stock exchange centres was 10,961. To support the marketability of RATIONAL shares, HSBC Trinkaus & Burkhardt AG acts as the designated sponsor.

Earnings per share still on the up

At 7.02 euros, RATIONAL AG continued the positive trend in earnings per share (EPS), which has been uninterrupted since the IPO in 2000. In the previous year, the figure was 5.92 euros. The further improvement can be ascribed to the 11% sales growth, in conjunction with consistent cost-consciousness. The number of shares issued is 11,370,000. No dilution effects occurred.



5.00 euros dividend and 4.00 euros special dividend proposed

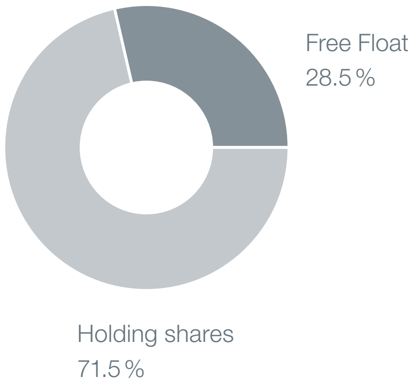
Due to the high liquidity available and the positive economic outlook, the Executive Board and Supervisory Board propose to the General Meeting of Shareholders to distribute a dividend of 5.00 euros per share plus a special dividend of 4.00 euros per share for fiscal 2010.

As a result, shareholders will reap extraordinary rewards from the Company's success in recent years and the positive business trends. At the same time, the Company retains a sufficiently high liquidity reserve for risk provisioning.

A total of 102.3 million euros has been set aside for the distribution. This equates to a dividend yield of around 5.4% (in relation to the closing price in 2010). In the previous year, a dividend of 3.50 euros and a total volume of 39.8 million euros was distributed for 2009.

Stable shareholder structure

The major shareholders and founders of the Company, together with their families, currently hold 71.5% of the share capital of RATIONAL AG. Free-float holdings amount to 28.5%.



Status: December 31, 2010

Current analysts' comments on the corporate website

At present, 15 institutes publish detailed analyses on RATIONAL AG. Interested investors can find the latest ratings plus investment recommendations and target prices under Investors / Analysts' Ratings at www.rational-online.com.

Capital market communication

In turbulent times for the markets, RATIONAL AG met investors’ demands for information in the form of in-depth communication with both institutional market players and private investors. In 2010, management spent 22 days at roadshows and at a number of capital market and analysts’ conferences in Germany and abroad.

All daily news of RATIONAL shares are available under Investors on the Company’s website at www.rational-online.com, where, for example, you will find the Financial Calendar, the share price, current publications and analysts' ratings.

RATIONAL share – key figures

ISIN (International Security Identification Number)	DE0007010803
WKN (securities identification code)	701080
Market abbreviation	RAA
Stock exchange centres	Frankfurt, Munich, Stuttgart, Berlin, Düsseldorf
Market segment	Regulated market
Transparency level	Prime Standard
Membership of indices	MDAX, CDAX, Classic All Share, Prime All Share (Deutsche Börse), DAXsector Industrial, DAX Internat. Mid 100, DAXplus Export Strategy, DAXplus Family, BayX (Munich Stock Exchange)
Sector	DAXsector All Industrial (Performance)
End of fiscal year	December 31
Accounting principles	IFRS
Flotation	March 3, 2000
Designated Sponsor	HSBC Trinkaus & Burkhardt AG

Corporate Governance Report

Conformity with new recommendations and suggestions in 2010

RATIONAL AG largely complies with the recommendations and suggestions included for the first time in the new version of the German Corporate Governance Code dated May 26, 2010. This has resulted in the submission of the declaration of conformity of February 2011, which has been published in the Annual Report and under Investor Relations on the RATIONAL website (www.rational-online.com).

Since the last report, the D&O insurance policies for the members of the Executive Board have been adjusted in line with new legislation and the existing recommendations of the Code in that a deductible of 10% has been agreed with Executive Board members, starting in fiscal year 2010. The maximum deductible is 1.5 times the fixed annual compensation of the Executive Board member concerned. From 2011 onward, the deductible of 10% of the loss up to 1.5 times the fixed annual compensation will also apply to members of the Supervisory Board.

The rules of procedure for the Executive Board and Supervisory Board were unchanged in the year under review. The Company's articles of incorporation were amended in two instances on the basis of a resolution of the General Meeting of Shareholders. The instances relate to adjusting the registration deadlines for the General Meeting of Shareholders in line with the new legal requirements under stock corporation law. In addition, text relating to the – now expired – temporarily approved capital has been deleted.

Shareholders and General Meeting of Shareholders

700 shareholders, representatives of the press, and guests attended the General Meeting of Shareholders in Augsburg on April 21, 2010. An imputed 89.11% of the share capital was represented. All seven resolutions on the agenda were approved by the General Meeting of Shareholders with a large majority.

Cooperation between Executive Board and Supervisory Board

A detailed account of the cooperation between Executive Board and Supervisory Board is provided in the Report by the Supervisory Board and in the Declaration on Corporate Governance on RATIONAL's website.

Executive Board

No conflicts of interest occurred in the past fiscal year. The members of the Executive Board, Dr. Günter Blaschke (CEO), Peter Wiedemann (Chief Technical Officer), Erich Baumgärtner (Chief Financial Officer) and Reinhard Banasch (Chief Sales Officer) do not perform any supervisory board duties in other listed companies.

Supervisory Board

The Supervisory Board of RATIONAL AG continues to have three members, hence no committees are formed. Details of the focus of the Supervisory Board's activities and advice in the year under review are given in the Report by the Supervisory Board. According to its own assessment, the Supervisory Board has a sufficient number of independent members who have the necessary knowledge, skills, and experience to discharge their duties. No conflicts of interest occurred in the past fiscal year.

Compensation of management bodies

The total compensation of the Executive Board for fiscal year 2010 amounted to 3,460 thousand euros, including a performance-based salary component of 1,826 thousand euros. The variable components of the compensation are based on the Group's earnings performance, among other things. Thus both positive and any negative developments are taken into account. The compensation system for members of the Executive Board was not changed in the year under review.

Compensation paid to the Supervisory Board for its monitoring and advisory work amounts to €580 thousand for 2010. The payments for the members of the Supervisory Board consist of fixed and performance-related components.

Payments to the individual members of the Supervisory Board were as follows:

kEUR	Fixed	Performance-related	Other	Total
Siegfried Meister	150	53	27	230
Walter Kurtz	125	53	19	197
Roland Poczka	100	53	0	153
Total	**375**	**159**	**46**	**580**

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 Company measured against the SMAX Performance Index (as of January 1, 2004 replaced by the SDAX Performance Index). In 2000 and 2004, tranches totaling 69,000 no-par value shares were issued, which on expiry of the relevant waiting periods and time limits for exercising the rights were likewise settled in cash.

Transparency

In the year under review, RATIONAL AG published a total of four ad-hoc notifications pursuant to section 15 of the Wertpapierhandelsgesetz (WpHG, German Securities Trading Act) to keep all shareholders directly informed of the latest business developments.

Date	Contents
March 11, 2010	Fiscal year 2009 – RATIONAL weathers the crisis well
May 12, 2010	Performance bottomed out, growth expectations confirmed
August 10, 2010	RATIONAL on success path
November 10, 2010	RATIONAL on growth path

The following notification on voting rights thresholds was received by RATIONAL AG in the year under review and published immediately:

Voting rights threshold announcements under section 26 (1) of the WpHG.	
Date	**Contents**
January 11, 2011	The Royce Fund, New York, USA, exceeds 3% of the voting rights

The following notifications on directors' dealings under section 15a of the WpHG were forwarded to RATIONAL AG in the year under review.

Date	Type	Number	Buyer/seller
August 30, 2010	Sale	200	Franziska Meister
September 2, 2010	Sale	10,510	Gabriella Meister
November 11, 2010	Sale	500	Jutta Wiedemann
January 11, 2011	Purchase	500	Peter Wiedemann

All ad-hoc notifications and mandatory publications were put on the Company's website in the year under review and were published in both German and English.

The shareholding of the Executive Board stands at well below 1% of the share capital. The total direct and indirect shareholding of the Supervisory Board stands at 72,14% according to the latest voting rights notifications.

Accounting and auditing

On April 21, 2010 the General Meeting of Shareholders appointed Rölfs WP Partner AG Wirtschaftsprüfungsgesellschaft, Munich, as auditors of the financial statements and the consolidated financial statements for fiscal year 2010. The audit engagement was awarded by the Supervisory Board. Prior to the proposal being distributed to the General Meeting of Shareholders, the Supervisory Board obtained a declaration from the auditors on the personal and business relationships with the Company. This gave rise to no obligations. The Supervisory Board agreed with the auditors – as in past years – that the Chairman of the Supervisory Board would be notified immediately about disqualification and reasons for bias during the audit.

The auditors are additionally required to report separately on any major weaknesses detected during the audit in the accounting-related internal control and risk management system.

Dependent company report

The Executive Board issued a dependent company report pursuant to section 312 of the AktG. The auditors did not raise any objections to the dependent company report following the audit. Likewise the Supervisory Board declared after examining the dependent company report that there are no objections to the declaration by the Executive Board at the end of the dependent company report.

Declaration of Compliance of RATIONAL AG

Pursuant to section 161 of the Aktiengesetz (AktG, Stock Corporation Act), the Executive Board and the Supervisory Board of RATIONAL AG, Landsberg am Lech, declare as follows:

RATIONAL AG complied with the recommendations of the German Corporate Governance Code as amended on June 18, 2009 from the time it submitted its last declaration of compliance in February 2010 until July 1, 2010 and, in addition, with all recommendations of the German Corporate Governance Code as amended on May 26, 2010 published in the official section of the electronic Federal Gazette ("Code") in the period from July 2, 2010 onward and intends to comply with the recommendations of the Code in future, with the following exceptions:

Numbers 4.2.4 and 4.2.5 of the Code:
"The total compensation of each one of the members of the Management Board is to be disclosed by name, divided into fixed and variable compensation components. The same applies to promises of benefits that are granted to a Management Board member in case of premature or statutory termination of the function of a Management Board member or that have been changed during the financial year. Disclosure may be dispensed with if the General Meeting has passed a resolution to this effect by three-quarters majority. Disclosure shall be made in a compensation report which as part of the Corporate Governance Report describes the compensation system for Management Board members in a generally understandable manner."
By resolution of the General Meeting of Shareholders of May 17, 2006, RATIONAL AG has dispensed with the publication of individualised figures for Executive Board compensation. The Executive Board and Supervisory Board intend again to propose to the ordinary General Meeting of Shareholders 2011 to pass a resolution pursuant to section 286 (5) of the "Handelsgesetzbuch" (HGB, German Commercial Code) to opt against individualised disclosure of Executive Board members' salaries. The other provisions are complied with in full.

Number 5.1.2 sentence 2 of the Code as amended on May 26, 2010:

"When appointing the Management Board, the Supervisory Board shall also respect diversity and, in particular, aim for an appropriate consideration of women."

The current members of the Executive Board were appointed before the newly worded recommendation in number 5.1.2 of the Code was published. The Supervisory Board and Executive Board expressly welcome all efforts to counter discrimination on the basis of gender or any other form of discrimination and to promote diversity in an adequate manner. When appointing Executive Board members, the Supervisory Board focuses exclusively on special skills and qualifications; for this reason, other attributes such as gender or national identity have been and will be of no consequence for this decision.

No. 5.3 of the Code:

"Formation of committees"

The Supervisory Board of RATIONAL AG has not formed any committees. Forming committees of the Supervisory Board, such as an Audit Committee, is not appropriate for RATIONAL AG because the Supervisory Board consists of only three members. For this reason, it is not intended to form any Supervisory Board committees in the future.

Numbers 5.4.1 (2) and (3) of the Code as amended on May 26, 2010:

"The Supervisory Board shall specify concrete objectives regarding its composition which, whilst considering the specifics of the enterprise, take into account the international activities of the enterprise, potential conflicts of interest, an age limit to be specified for the members of the Supervisory Board and diversity. These concrete objectives shall, in particular, stipulate an appropriate degree of female representation.

Recommendations by the Supervisory Board to the competent election bodies shall take these objectives into account. The concrete objectives of the Supervisory Board and the status of the implementation shall be published in the Corporate Governance Report."

According to the will of the shareholders of RATIONAL AG, the Supervisory Board has existed in its current form for many years. Given the successful work of the Supervisory Board and the financial success of the Company, there are no plans to change the composition of the Supervisory Board in the short term. The composition of the Supervisory Board of RATIONAL AG must be guided by the Company's interests and has to guarantee that the Executive Board is effectively monitored and advised. The Supervisory Board will, therefore, nominate candidates for election exclusively on the basis of knowledge, skills and technical experience; other attributes such as gender or national identity have been and will be of no consequence for these nominations. Accordingly, the Supervisory Board of RATIONAL AG will not set any concrete objectives for the composition of the Supervisory Board in accordance with number 5.4.1 (2) of the Code and will not report on this in the Corporate Governance Report.

No age limit has been set for members of the Supervisory Board. Nominations to the General Meeting of Shareholders are based exclusively on knowledge, skills and technical experience of the candidates in question. It is also intended to abide by this policy in future in order to safeguard experience and skills for the benefit of the Company.

Landsberg, February 2011

RATIONAL Aktiengesellschaft

The Supervisory Board

The Executive Board

Report by the Supervisory Board

Dear Shareholders,
RATIONAL AG can look back on a successful fiscal year 2010. RATIONAL AG was not able to escape the unexpected declines triggered by the financial and economic crisis at the end of 2008 and in 2009. Encouragingly, however, by 2010, this trend was successfully turned around. Sales grew by 11% to around 350 million euros– outpaced by an increase in profits – and, as a result, returned not only to pre-crisis levels, but exceeded them.

Dialogue and communication as a basis for advice and monitoring
In 2010, we complied with the duties incumbent on the Supervisory Board by law and under the articles of association and the Corporate Governance Code. We regularly advised the Executive Board on the management of the Company and monitored its activities. The Supervisory Board was directly involved in all decisions of strategic importance to the RATIONAL Group. Cooperation between the Executive Board and the Supervisory Board was characterised by comprehensive, timely and regular communication, both written and verbal. The Executive Board also reported on major business transactions outside the meetings. The Supervisory Board received monthly and quarterly reports on market developments, the competitive situation, price developments, and the Company’s marketing, sales, and profit trends. In addition, the Supervisory Board and the Chairman of the Supervisory Board took steps to ensure that at all times it was informed by the Executive Board about current developments in the business situation, significant transactions and important decisions. With this aim in mind, the Supervisory Board was in close and regular contact with all members of the Executive Board, and in particular with the Chairman, to exchange information and ideas.

Where called for by law, articles of association and rules of procedure, the Supervisory Board voted, following detailed consultation and scrutiny, on the reports and draft resolutions of the Executive Board. All operations requiring consent were approved. In 2010 and in 2011 to date, these related in particular to decisions regarding the expansion of the global sales and marketing network, the RATIONAL management culture, international personnel development, and focal points in product development.

Indepth work in plenary meetings

The Supervisory Board had eight meetings in 2010. In 2011, a further meeting was held to the time of the meeting of the Supervisory Board on February 23, 2011 to adopt the financial statements. In addition, the members of the Supervisory Board consulted one another in writing and by telephone. Where applicable, the Supervisory Board also passed resolutions outside the ordinary meetings. During the past fiscal year, the Supervisory Board regularly examined the efficiency of its activities, in particular the procedures and the timely provision of sufficient information.

Since the RATIONAL AG Supervisory Board consists of just three members, no committees have been formed. The composition of the RATIONAL AG Supervisory Board has met the legal requirement that at least one Supervisory Board member must be an independent financial expert.

All the members of the Supervisory Board attended all meetings. No conflicts of interest in respect of individual Supervisory Board members occurred in the 2010 reporting year in connection with consultations, draft resolutions and the audit mandate.

Key areas of consultation

The consultations with the Executive Board and the internal discussions dealt with all relevant aspects of the development of the business, including financial, investment, and HR planning, business trends, the economic situation of the Company and the consolidated group, the risk situation, risk management, and, last but not least, the current cost and earnings position. In addition, numerous individual topics were on the agenda of the Supervisory Board meetings, and were discussed in depth. These included:

- Development of the Company's earnings structure,
- Ensuring liquidity,
- Appropriation of earnings and proposed dividend,
- Personnel development and management culture,
- New management structures in production and sales,
- Corporate planning for fiscal year 2011,
- Market development strategy for new markets,
- Research and development strategy.

At the Supervisory Board meeting to adopt the financial statements on February 23, 2011, the principal topics included not only the audit and adoption of the annual and consolidated group financial statements, but also in particular the draft resolutions to be proposed to the 2011 General Meeting of Shareholders.

Auditors PricewaterhouseCoopers AG, Munich, will be proposed as auditors for the 2011 audit. We also adopted the remaining draft resolutions for the ordinary General Meeting of Shareholders.

A further focus of our consultations, as well as, of the audits and examinations in 2010, and in particular at the 2011 meeting to adopt the financial statements, was the overall accounting process in RATIONAL AG and in the Group, monitoring of the internal audit system, and the effectiveness of internal auditing and of the risk management system. We also critically examined and confirmed the fairness of the Executive Board compensation for each individual member of the Executive Board. This was also done in view of the resolution passed in 2010 by the General Meeting of Shareholders to approve the compensation system for members of the Executive Board.

Corporate Governance

In 2010, no changes were made to the composition of the Executive Board or the Supervisory Board. The Supervisory Board and Executive Board carefully examined the new recommendations of the Corporate Governance Code as amended on May 26, 2010. The Executive Board and Supervisory Board also jointly resolved the newly submitted declaration of compliance pursuant to section 161 of the Aktiengesetz (AktG, German Stock Corporation Act) at the meeting on January 31, 2011. The declaration of compliance was published in February 2011 on the Company website of RATIONAL AG.

Audit of the annual financial statements and consolidated financial statements

As proposed by the Supervisory Board and elected by the General Meeting of Shareholders on April 21, 2010, Rölfs WP Partner AG, Wirtschaftsprüfungsgesellschaft, Munich, audited the financial statements of RATIONAL AG and of the Group for fiscal year 2010. The audit engagement was awarded by the Supervisory Board. Prior to the proposal for election, the Supervisory Board obtained a declaration of independence from the auditors. No reasons were apparent to doubt the independence of the auditors. The auditors were additionally obliged to inform us immediately of any circumstances which could give rise to a lack of impartiality on their part and, where appropriate, to notify us of services which they have performed in addition to the audit. The following key topics were defined for the 2010 audit: sales recognition and deferred sales, inventory measurement, the internal control system, the treatment of the results of the tax audit, and the impact of the “Gesetz zur Modernisierung des Bilanzrechts” (BilMoG, German Accounting Law Modernisation Act).

The annual financial statements for the fiscal year from January 1 to December 31, 2010, prepared in accordance with the provisions of the Handelsgesetzbuch (HGB, German Commercial Code), and the Company's management report, which also refers to the Declaration of Corporate Governance on the Company's website, were audited by the auditors and given an unqualified audit opinion. The Executive Board prepared consolidated financial statements for the Group in accordance with the International Financial Reporting Standards (IFRSs), supplemented by the commercial law regulations applicable under section 315 (1) of the HGB. In addition, a Group management report was prepared. The auditors examined the consolidated financial statements and the Group management report and granted 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 forwarded in good time to all Supervisory Board members for examination. They were the subject of intensive deliberations at the meeting of the Supervisory Board held on February 23, 2011. In particular, the Supervisory Board concerned itself thoroughly with the findings of the audit by the auditors.

The auditors took part in the discussion of the Company's annual financial statements and the consolidated financial statements. They reported on the results of the audits, in particular on the points on which it was agreed the 2010 audit would focus, and were available to the Supervisory Board for questions and supplementary information. One area on which the auditors' explanations concentrated was the assessment of the accounts-related internal control and risk management system. No significant weaknesses in this system were detected by the auditors. Both the Executive Board and the auditors provided us with comprehensive answers to all our questions to our satisfaction.

The Supervisory Board raises no objections further to its own final results of the deliberations and its own examination. The Supervisory Board approves the findings of the audit. At its meeting held on February 23, 2011, the Supervisory Board approved the annual financial statements prepared by the Executive Board of RATIONAL AG as of December 31, 2010, including the certified version, dated February 16, 2011, of the management report for fiscal year 2010, as well as the consolidated financial statements as of December 31, 2010 and the certified version, dated February 16, 2011, of the Group management report. The 2010 annual financial statements of RATIONAL AG, including the management report, are thereby adopted in accordance with section 172 sentence 1 of the AktG.

Dependent company report

The dependent company report, prepared by the Executive Board pursuant to section 312 of the AktG, on RATIONAL AG's relations with associated companies was examined by the auditor. The auditor issued the following audit opinion:

"Based on our statutory audit and our judgement, we confirm that the actual information in the report is correct and the consideration the Company paid for the legal transactions listed in the report was not inappropriately high."

The auditors' report on the dependent company report was available to all members of the Supervisory Board in good time before the meeting to approve the financial statements and was examined by us and discussed in detail with the auditors present. Following its own examination, the Supervisory Board concluded that there were no objections to the report and the final statement by the Executive Board contained therein.

Appropriation of earnings

After consideration of the operating environment, the situation on the global financial and capital markets, the financial position of the Company, and the expectations of the shareholders, we approve the appropriation of earnings proposed by the Executive Board.

Out of RATIONAL AG's net retained profits of 164.7 million euros, a dividend of 5,00 euros per share plus a special dividend of 4,00 euros per share, or a total of 102.3 million euros, should be distributed and the remainder should be carried forward to new account.

The Supervisory Board would like to thank the management for their close and constructive cooperation, and the trust they have placed in us. In particular, we want to thank all our employees, who once again in 2010 succeeded in convincing our existing and new customers of the benefits and value added of RATIONAL products and in making excellent use of the market opportunities that present themselves around the world.

Landsberg am Lech, March 7, 2011

Siegfried Meister
Chairman of the Supervisory Board

Management Report of the RATIONAL Group for Fiscal Year 2010

Contents

Note: The graphic elements and tables on pages 50 to 89 are not part of the unqualified opinion of the auditors regarding RATIONAL's management report.

Overview

Competitive position: Market and technology leader worldwide

RATIONAL is the global market and technology leader in the field of solutions for the thermal preparation of food in professional kitchens. Formed in 1973, the company incorporates 25 companies with around 1,100 employees in total, of whom more than 600 are based in Germany. Its share of the global market stands at 54 percent.

RATIONAL has become an excellent problem-solver by concentrating all of its resources on a single target group and on the strategic focus of the entire company in regards to the product application. This approach has yielded sustained product leadership and ever-greater benefits for customers. It also ensures that the attractiveness and appeal of the RATIONAL brand continue to grow, as evidenced by factors including the constantly increasing sales volume and revenue figures, as well as, the numerous international awards bestowed on the company.

Products: RATIONAL products set the standard worldwide

The company's SelfCooking Center® and VarioCooking Center® cover the full spectrum and diversity of thermal food preparation. They set the technological standard worldwide in their respective segments and are, hence, unrivalled in this respect.

The SelfCooking Center® is the only cooking appliance to offer intelligent cooking processes, including baking, roasting, grilling, steaming, braising, blanching and poaching. It is able to replace between 40 and 50 percent of conventional equipment, including hot air ovens and steamers. The heat is transferred via steam, hot air or a combination of the two.

The perfect complement to the SelfCooking Center® is the VarioCooking Center® launched by the French subsidiary FRIMA in 2005, which allows food to be cooked either in liquids or in direct contact with heat. The SelfCooking Center® and the VarioCooking Center® together are sufficiently versatile to replace practically all of the conventional cooking appliances found in the professional kitchen.

54% World market share – thanks to its quality and innovation, RATIONAL is the No.1

Customers benefit from the SelfCooking Center® and the VarioCooking Center® because they relieve chefs of routine tasks and allow them to concentrate on the essence of their work. They also open up a wealth of new possibilities and improve the quality of the food produced. All RATIONAL appliances offer extremely short amortisation periods. Thanks to the savings they deliver in terms of reduced raw material, staffing and energy requirements, they start to yield a return on investment from the very first day and typically pay for themselves completely within five to twelve months.

The global market: Plenty of untapped potential

There are some 2.5 million professional kitchens around the world for which RATIONAL technology is suitable. Around 95 percent of them represent untapped market potential for the SelfCooking Center® if opportunities for the replacement of old combi-steamers are taken into account. The VarioCooking Center® addresses the same target group as the SelfCooking Center®, so the global untapped market potential of this new technology essentially amounts to another 100 percent of the same 2.5 million professional kitchens.

The megatrends having an impact on the market, moreover, suggest that demand will continue to rise. Not only is the global population still growing, but people also increasingly tend to eat out at restaurants and staff canteens. This is a result of industrialisation in the emerging markets and the associated growth in the middle class in these areas, as well as, of the relentlessly increasing globalisation and diversity of the food available from professional kitchens and fast food restaurants.

Production strategy: Minimal vertical integration, maximum value added

Our production strategy combines minimal vertical integration with reliable, long-standing partnerships on the supplier side in order to achieve maximum flexibility and excellent quality with optimal costs and a high level of supplier loyalty. We only commit our own production resources if the object concerned can be manufactured in higher quality or more cost-efficient inhouse than by third parties or if a specific element of system expertise is especially important for the future development of the technology.

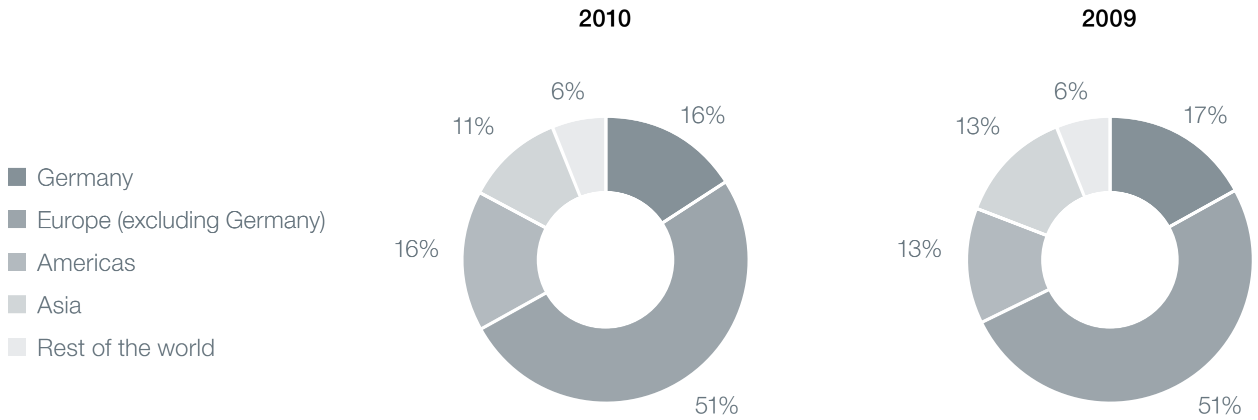
Sales strategy: Exploiting potential worldwide

RATIONAL maintains a presence in over 100 countries through its own companies and independent sales partners. The strategy is to increase the market penetration constantly in every country. While Europe, which accounts for around 70 percent of sales and still harbours very substantial untapped potential, remains our most important market in volume terms, the markets in the rest of the world, chiefly China, Russia, Brazil and India, are becoming increasingly important.

The market in the Americas is also now picking up again after the fall in sales in 2009 as a result of the financial crisis. Around 40 percent of total growth came from this region.

Germany once again emerged as our largest individual market in revenue terms, contributing 16 percent of total sales (previous year: 17 percent). The volume of business actually increased here as well, but since growth elsewhere in Europe and in the Americas was more pronounced, the domestic share of total sales declined. The proportion of sales generated outside Germany amounted to 84 percent in 2010 (previous year: 83 percent).

The growth recorded in Germany and the rest of Europe shows that very substantial untapped market potential remains even in the highly developed countries.



Growth strategy: Organic development

Our prospects for future growth are good thanks to the wealth of untapped market potential around the world and our position as product and global market leader. Accordingly we focus on organic growth without acquisitions. By continuously enhancing customer benefit with innovative products and services and strategically building up the sales and marketing network, the global market is successfully opened up with ever greater efficiency.

Business Conditions and General Situation

Group structure

RATIONAL AG is the parent company of the RATIONAL Group. It provides the lion's share of the Group's services and its headquarters at Landsberg am Lech are home to the Group's largest production plants. Our French subsidiary, FRIMA, has a production site of its own at Wittenheim in Alsace. Most of the 19 international and five domestic subsidiaries included in the group of consolidated companies on the balance sheet date are sales and/or local service companies.

Control: Quality and transparency are key-factors

The company's multi-tiered planning and control system, which covers all of our activities around the world, allows planning, tracking, reporting on and analysing all company processes in detail and evaluating their efficiency using a system of performance indicators. Any adjustments and corrections required are identified and implemented promptly.

RATIONAL recognises quality as one of the key control factors. We evaluate and render transparency to the quality of all of our suppliers and service partners using the same standards applied to the services we provide internally. We also work continuously with suppliers and service partners to improve product and service quality.

We are committed to improving our company processes continuously and we put this commitment into practice every day: in 2010, through the dedication of our employees in the pursuit of unrivalled quality, we implemented more than 3,000 suggested improvements implemented.

Our key financial indicators for controlling purposes are, besides sales growth, EBIT and return on invested capital (ROIC). Our ROIC amounted to 34 percent in 2010 (previous year: 35 percent). This means it exceeded the assumed cost of capital of 9 percent by 25 percentage points, in the process adding a further 59.3 million euros to the value of the company.

The ROIC indicator was again significantly lower than it might have been in 2010 on account of the high level of cash and cash equivalents maintained for risk management reasons. Had we allowed cash funds to drop back to the multi-year average figure of 60.0 million euros, our ROIC would have hit a new record high of 53 percent.

Economic Report

Global economy: Broad-based recovery

The global economy enjoyed a broad-based and very strong recovery in 2010, with only a few countries, notably Greece and Ireland, yet to navigate their way out of the crisis.

Global economic growth of around 4.7 percent in 2010 (Source: estimation Deutsche Bank), was driven in particular by the BRIC countries, where growth rates ranged from 4.9 percent (Russia) to 10.0 percent (China). Russia aside, the growth seen in these countries in 2010 came on top of stable economic performance or growth in 2009.

The industrialised countries, in contrast, are still making up the ground they lost in 2009: growth here in 2010 amounted to 2.5 percent following contraction of 3.6 percent in the previous year. One particularly welcoming feature of the recovery from the point of view of broad-based international companies like RATIONAL was the fact that it extended to almost all of the industrialised countries.

Economic developments in Germany were exemplary for Europe as a whole. Growth was stronger than could have been expected at the beginning of the year at 3.6 percent (source: German Federal Statistical Office) and was fuelled not just by exports, but also by domestic capital expenditure on equipment and rising consumer spending.

The euro weakened relative to almost all of the other major currencies in 2010, with its average value for the year falling by 5 percent against the US dollar, 14 percent against the Canadian dollar, around 12 percent against the Japanese yen, approximately 9 percent against the Swiss franc and the Russian rouble, 4 percent against the pound sterling and a substantial 16 percent against the Brazilian real. We benefitted overall from these developments on the currency markets, as we create most of our value in euros but earn about a third of our sales in other currencies.

Our very limited debt meant that we did not benefit from the low level of interest rates. Our “security before yield” strategy remained the top priority in 2010.

Sector and market development: Pattern of orders positive

The process of normalisation in customer ordering patterns that had begun to set in toward the end of 2009 continued into the first part of 2010. Thereafter, customers became even more inclined to invest.

The climate in the mass-catering technology market has improved markedly overall. Around two thirds of decision-makers in the German communal catering sector intend to invest in 2011, with approximately half planning investments in large appliances such as combi-steamers. Combined with the promising outlook for general economic growth, this suggests the prospects for the mass-catering industry for 2011 and beyond are positive.

Development of the business in 2010

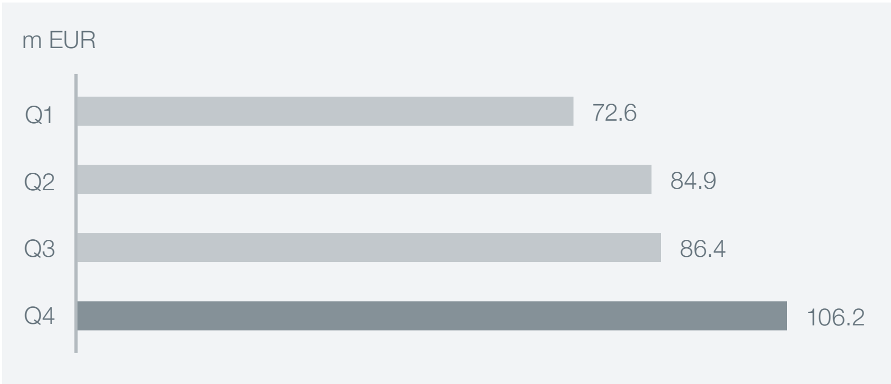
RATIONAL made a cautious start to 2010. Investment activities were concentrated on strategically selected high-potential markets for the future, while growth through efficiency gains was the main focus in all other markets. We did, however, invest once again in extending our technological advantage.

This approach led in the sales and distribution function to the expansion of our network in the BRIC countries, further efforts to tap into the chain restaurant segment, which promises strong growth in future, and additions to our sales organisation for the second main pillar, the FRIMA VarioCooking Center®.

Thanks to these measures, the company's business made good progress in 2010 and we achieved significant growth in almost all regions. Sales figures accelerated from quarter to quarter, culminating in the fourth quarter with a year-on-year increase in sales of 21 percent. Overall growth for 2010 ended up slightly higher than expected as a result of the dynamic recovery in the second half of the year.

Net Assets, Financial Position and Results of Operations

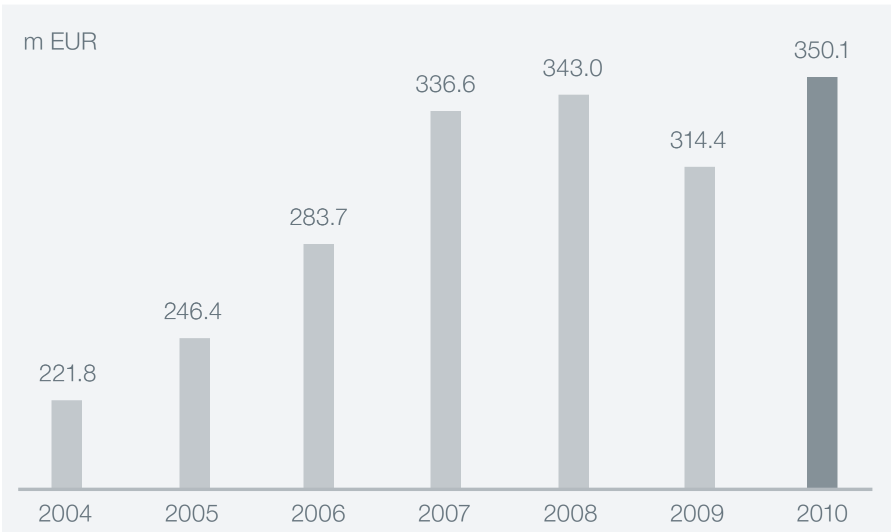
Sales revenue strengthened in every quarter of 2010



Sales growth: Return to significant growth

Sales in 2010 climbed 11 percent to 350.1 million euros (previous year: 314.4 million euros). This means that we not only returned to pre-crisis levels, but actually beat our previous record year of 2008. Most of the increase in sales revenues stems from higher sales volumes; positive effects from currency movements account for around 3 percentage points of the gains made.

Back on our sustained growth trajectory



Profit situation: EBIT above 100 million euros

The company managed to enhance its earning power even in the crisis year of 2009 and the positive trend in this area continued in 2010. The gross yield margin (gross profit on sales as a proportion of sales) rose from 61 percent to 62 percent in 2010, while EBIT jumped 17 percent to 105.8 million euros (previous year: 90.5 million euros) and net earnings climbed from 67.3 million euros to 79.8 million euros.

5.00 euros dividend and 4.00 euros special dividend proposed

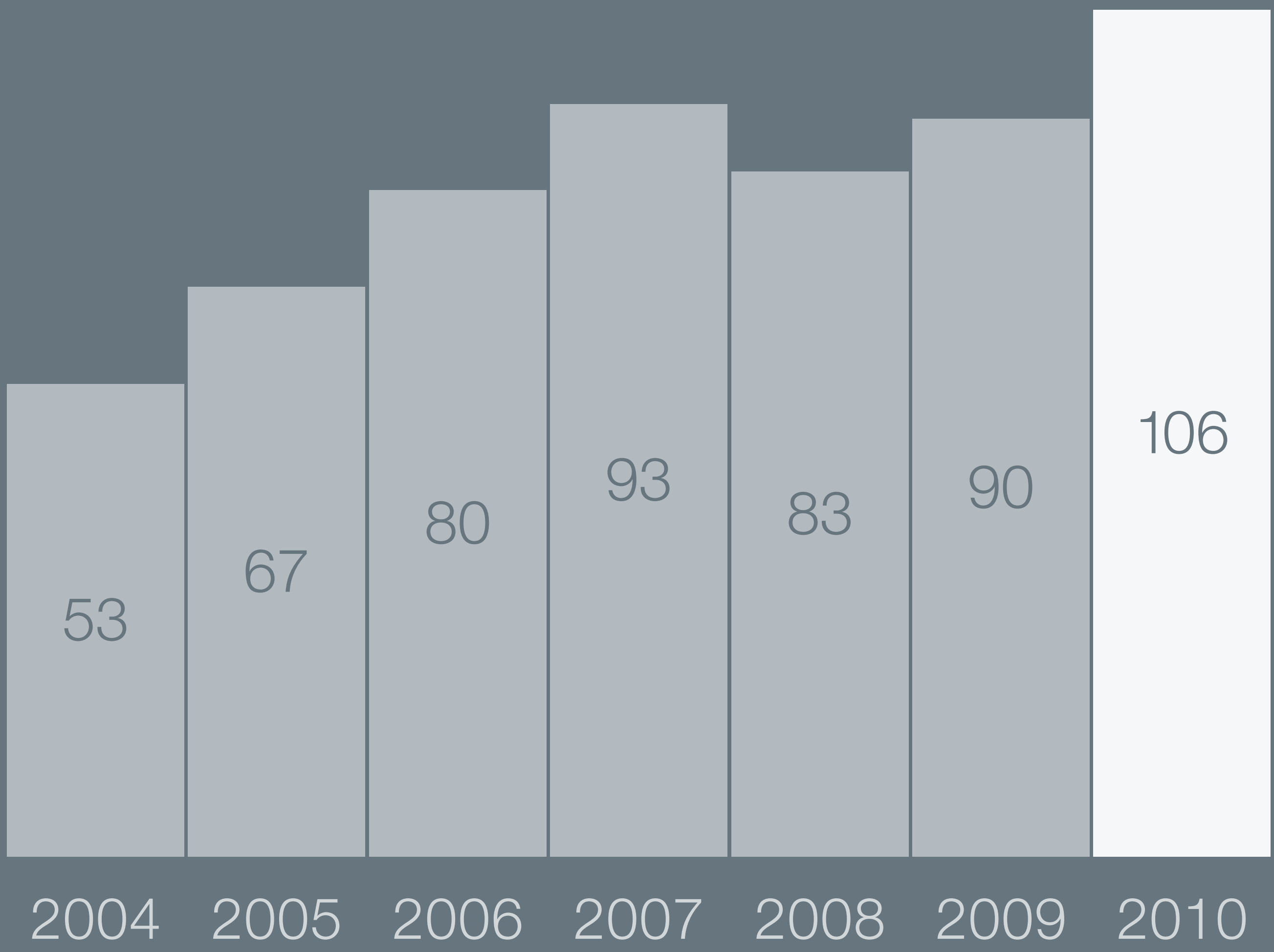
The economic indicators are again pointing to growth. At the same time, the company's liquidity situation is extremely good at year-end, with liquid funds of more than 163 million euros. The Supervisory Board and Executive Board have therefore decided to propose a dividend increase from 3.50 euros to 5.00 euros to the General Meeting of Shareholders in 2011, plus a special dividend of 4.00 euros.

With a total dividend of 9.00 euros per share, shareholders will enjoy a dividend yield of 5.4 percent (in relation to the 2010 year-end price). The dividend proposed entails paying out more than 102 million euros, but even then the company's liquid funds position will still be very strong. Thus, the company is ideally placed to deal with any eventualities and possible crises that may arise from developments in the financial sector.

Cost management: Improving margins

We increased our earnings significantly in 2009 despite a fall in sales; in fact all relevant profit margins improved substantially. We continued in the same vein in 2010, with gains in efficiency and productivity contributing most to the increase in sales and earnings.

EBIT of 106 m EUR – doubled since 2004



The gross yield margin improved by one percentage point in spite of a 30 percent jump in high-grade steel prices. While this can be explained in part by favourable currency effects, our policy of minimal vertical integration and having almost all manufacturing completed to order deserves most of the credit. Our entire production system, from procurement to assembly to logistics, adapts extremely well to rises and falls in the level of new orders so that we can ensure the highest possible productivity and efficiency at all times.

Operating expenses, which consist of sales and service expenses, research and development expenses and general administration expenses, increased by 10.4 percent, or 10.6 million euros, to 112.6 million euros in 2010 (previous year: 102.0 million euros).

Sales and service expenses rose by 10.5 percent, or 7.9 million euros, to 83.4 million euros (previous year: 75.5 million euros) as a result in particular of the stepping up of our sales support activities in the high-potential future markets. Our extensive upfront investment, intended to help the VarioCooking Center® penetrate the market as effectively and sustainably as possible, also played a role here.

An R&D budget of 13.5 million euros (previous year: 11.4 million euros) reflects the great importance we attach to investing in the future. We consider this to be the only way to strengthen and expand our position as product leader.

General administration expenses climbed from 15.1 million euros to 15.6 million euros. This equates to an increase of 3.7 percent, which is significantly lower than the increase in sales, and the expense ratio for general administration accordingly dropped back from 4.8 percent to 4.5 percent.

The tax ratio for the Group in 2010 amounted to 24.4 percent (previous year: 25.3 percent) and the absolute tax expense was 25.8 million euros.

The profit margins calculated on the basis of total sales improved again. The EBIT margin grew by 1.4 percentage points to 30.2 percent (previous year: 28.8 percent). Taking account of tax expense, the net margin (net earnings as a percentage of sales) rose by 1.4 percentage points to a new record high of 22.8 percent.

Financial management: Safeguarding liquidity in response to volatile markets

Financial management activities at RATIONAL consist principally of managing the capital structure, especially financial assets and deposits, controlling cash and liquidity, managing market price risks in relation to interest rates and currencies and, finally, managing receivables.

We aim continuously to reduce the amount of capital tied up in trade receivables. We introduced additional measures to improve our outstanding receivables position in 2010, in the process bringing about another reduction in days sales outstanding (DSO) and further optimising the age structure of our receivables. We suffered very few defaults on receivables in 2010. We achieved an average receivables coverage ratio in excess of 90 percent in 2010 through a combination of global trade indemnity insurance and bank letters of credit.

Analysis of financing: Excellent equity base

Selected balance sheet accounts in relation to the balance sheet total

% of total	Dec. 31, 2010	Dec. 31, 2009
Equity	75	71
Long-term liabilities	8	9
Short-term liabilities	17	20
Equity & Liabilities (total)	**100**	**100**

The positive trend in earnings and our optimal deployment of all resources enabled us to further improve our equity ratio significantly to 75.3 percent (balance sheet date 2009: 71.4 percent).

The largest single item under long-term liabilities are liabilities to banks, which stand at 19.0 million euros. This reflects the financing for Plant III, which was completed in 2008, and the production facilities at the components factory. The greater part of these loans, for which the interest rate is fixed until 2017, is scheduled to expire at the end of 2022.

Liabilities to banks fell significantly overall in 2010. Long-term loans were reduced in accordance with the repayment agreements concluded. All of our short-term loans, which amounted to 8 million euros at December 31, 2009, were repaid over the course of the fiscal year ended.

Off balance sheet financing instruments: Little use made

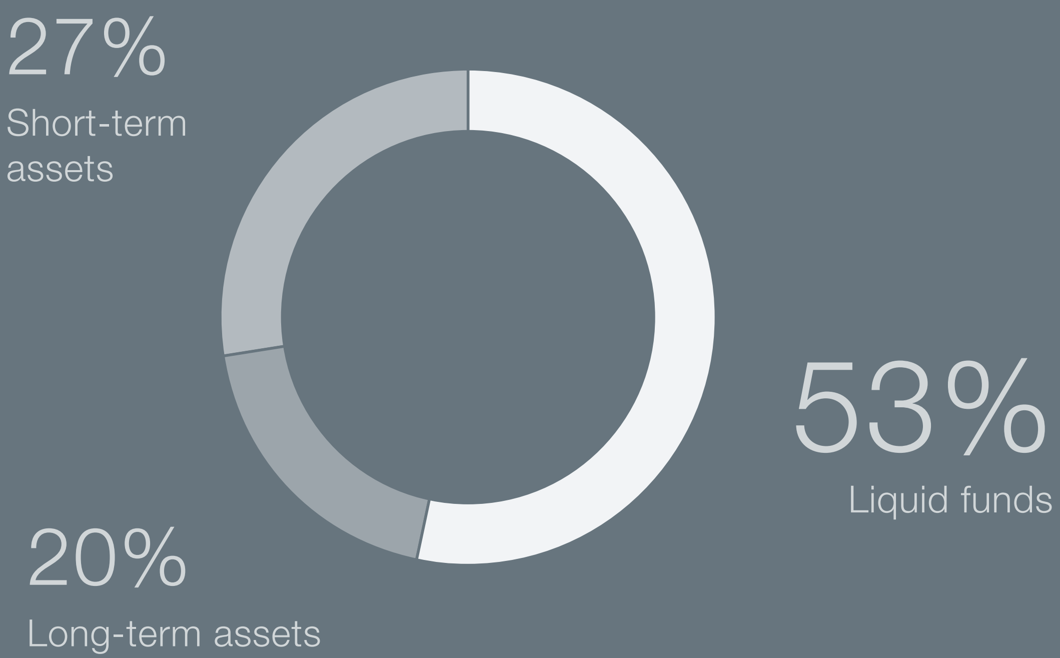
RATIONAL does not outsource liabilities to expressly created special purpose vehicles. We do, however, make very limited use of operating lease arrangements for technical equipment, company cars and IT systems and rental contracts for office space. The company anticipates having to make payments of around 8.5 million euros under these agreements over the next five years.

Analysis of investments: Substantial up-front investment pays off

Efficiency gains and improvements in productivity accounted for a large part of our growth in 2010. We committed funds to research and development, without capitalising the outputs concerned, and also to expanding our sales and marketing operation in high-potential future markets. Investment in fixed assets amounted to 4.5 million euros in fiscal 2010. Although this represents a marked increase on the previous year's figure of 2.4 million euros, it is still below the level we would otherwise consider usual for maintenance investment. This is due to the extensive investment made in 2007 and 2008 in Plant III at the Landsberg site, in technical facilities for component manufacturing and in a new data centre.

Outstanding balance sheet structure

75% Equity and 53% Liquid funds



Cash flow: Cash inflow rises again

Free cash flow in 2010 amounted to 82.4 million euros (previous year: 80.8 million euros). Most of this amount was used to build up the liquidity reserve and fund the dividend payment.

Asset situation: Optimal balance sheet structures ensure flexibility

The balance sheet total increased by 15.1 percent to 305.7 million euros in the year to December 31, 2010 (previous year: 265.7 million euros) as a result largely of the company's excellent earnings performance, which led to a corresponding rise in liquid funds and equity.

The asset structure has become even more strongly weighted in favour of current assets due to the increase in the liquidity reserve and working capital. This too underlines the company's particularly good liquidity position.

Assessment of the economic situation

Operating conditions are good in terms of the state of the market, the performance of our products and our general financial position. The level of untapped market potential around the world for products offering sector-leading quality and technical features is high. RATIONAL is already the out-and-out global market leader and continues to receive top scores for brand awareness, customer satisfaction and repurchase rates.

Thanks to the high levels of liquid funds, good ongoing ability to generate cash and consistent record of earnings growth coupled with a very strong equity base, the company also enjoys an excellent financial position. We were able to demonstrate our earning power and ability to maintain strong growth once again in 2010. As the last few years have clearly shown, RATIONAL ranks among the winners even in times of crisis.

Report on Research and Development

Technologically superior products are a key ingredient for commercial success. We invested 13.5 million euros in projects to develop new technologies and enhance the performance of our products in 2010. RATIONAL held 370 patents and utility models on December 31, 2010.

Our prowess as a technical pioneer stems in part from the optimal environment we provide and the effectiveness of our structured processes and in part from the great expertise of the people we employ in research and development. Our R&D team includes physicists for fundamental research, chefs and dieticians for applied research, as well as, engineers of various disciplines.

Employees

We created 99 new highly skilled jobs over the course of 2010, which pushed the total number of people employed throughout the Group up to 1,092 (December 31, 2009: 993).

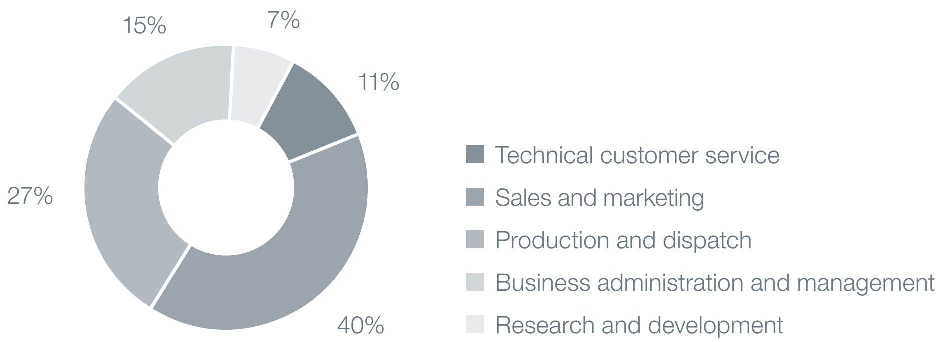
The strength of our employees, both as individuals and as team, is ultimately what makes the company so successful and we are accordingly continuing to increase our investment in staff education and training, as well as, management development. We were able to fill around 80 percent of all management vacancies in 2010 through internal appointments. The company had 46 young trainee employees across six different career paths – mechatronics engineer, industrial mechanic, computer scientist, business administrator, chef and digital media designer – on December 31, 2010. Ten trainees successfully completed their vocational training in 2010, all of whom we were able to take on as permanent employees.

One of the main focuses of human resources work in 2010 was the extension of the U.i.U.® (Entrepreneur in the company) initiative, which seeks to encourage and empower reliable, self-assured and autonomous employees who enjoy making and defending decisions on their own initiative irrespective of their level of seniority. Entrepreneurs in the company always endeavour to maximise customer benefits and understand all of the implications of the decisions they make for the company as a whole.

Employee retention and the high levels of training, expertise and experience of our people are all key success factors. One straightforward indicator of our success in retaining employees is the number of service anniversaries: 62 employees were honoured for their many years with the company in 2010.

RATIONAL paid employees a voluntary profit-sharing bonus in an aggregate amount of 3.3 million euros once again in 2010 in recognition of their outstanding achievements and the company's excellent earnings growth.

Employees by function



Non-financial Performance Indicators

Quality management: Continuous improvement of all corporate processes
All core elements of the company strive continuously to improve quality. The entire RATIONAL Group is organised around processes, each of which we define in detail to ensure that it is effective and that its quality can be measured.

Our quality management system covers the whole of our own enterprise plus all of our suppliers and partners, who are also included in the audited processes. Decisions intended to improve processes are in many areas based on up-to-the-minute data. We work together with both upstream (suppliers) and downstream (service and trade partners) organisations in our pursuit of continuous process improvement.

Should a customer nonetheless have cause to complain, we always aim to more than compensate for the problem encountered. The IT-based Customer Care system now in use in Germany plays an important role in handling customer issues. It ensures that responsibility is clear and transparent and provides new analytical possibilities to ensure an even faster and better response.

Innovation: The best possible technology at all times
RATIONAL promises customers the best possible technology at a reasonable price at all times. In 2010 once again, customer responses forcefully confirmed that RATIONAL fulfils these promises: the SelfCooking Center®, for example, was voted the best appliance used in the professional kitchen by 1,240 executive chefs in the communal catering sector to take first place in all three of the rated categories – quality, service and price/performance ratio – by a substantial margin.

Brand: Excellent brand recognition

The RATIONAL brand ranks as one of the most recognised in the sector worldwide. Customers identify the brand with market-leading innovation and performance, excellent quality, a wide range of applications and benefits, absolute reliability, longevity and outstanding ease of operation.

RATIONAL was again voted the strongest brand in the entire professional kitchen in leading German trade magazine “KÜCHE”. The jury, which consisted of 240 kitchen managers, singled out the company’s superiority in product innovation and reliability.

Another expert jury, comprising members from both, industry and academia, honoured RATIONAL in 2010 for its excellent customer focus: winning the Manufacturing Excellence Award in the customer focus category underlines the entire company’s consistent prioritisation of and successful focus on customer benefit.

CLUB RATIONAL: Strong customer retention after the sale

Our CLUB RATIONAL initiative enables us to retain end customers better and more effectively once they have made a purchase. Club members, of which there are already around 25,000, always have direct access to the latest software updates for the SelfCooking Center®, as well as many other free services, and thus automatically share in the benefits of RATIONAL’s progress in food preparation research.

CLUB RATIONAL also enables chefs to obtain skilled advice from their peers, with an extensive recipe database and the opportunity to publish personal recipes completing the service offering.

Environmental protection: Resource conservation and minimal emissions

The company has a strong sense of responsibility for the natural environment. We take great care to minimise our environmental impact and consumption of both raw and processed materials in all areas from product development to production, shipping as well as the use phase on the customer's premises to eventual disposal. Thanks to factors such as our low-impact production methods and exemplary environmental protection measures, our performance meets the applicable legal limits and standards in all areas and is often significantly better than the minimum requirements.

A so called "Green Assessment" was conducted in 2010 by "Lean & Green" to analyse energy usage and efficiency across all areas of the company. The results were rated exemplary, and RATIONAL, as the best industrial company in Europe, was awarded the "Lean & Green" seal.

We also had TÜV Süd certify our environmental management system under ISO 14001 in 2010. This accreditation enables our customers worldwide to be confident that they are always choosing a sustainably produced and particularly environmentally-friendly product.

Capital market: Increasing recognition in the financial market

Becoming a public listed company and, not least, being promoted to the MDAX in 2009 and being retained in 2010 have done much to increase awareness of the company in the global financial market. Continuous and constructive dialogue with external analysts strengthens awareness within the company of the importance of efficient processes, effective risk management, transparent structures and open communication.

Remuneration Report

Section 315 (2) 4. of the German Commercial Code (HGB) requires public companies listed on the stock exchange to provide information on the main features of their remuneration system.

Executive Board remuneration at RATIONAL AG is in responsibility of the Supervisory Board, which sets the remuneration payable to Executive Board members on the basis of the company's size and the global nature of its operations, its economic and financial situation and the level and structure of Executive Board remuneration at comparable companies. The Executive Board remuneration system was approved by the General Meeting of Shareholders on April 21, 2010.

The total compensation paid to the Executive Board for the performance of its duties within the parent company and its subsidiaries in fiscal 2010 was 3.5 million euros (previous year: 3.6 million euros). This sum includes a performance-related pay component in the amount of 1.8 million euros (previous year: 2.1 million euros). Additionaly, payments into the pension scheme for Executive Board members totalling 0.3 million euros (previous year: 0.3 million euros) were made.

No stock options were issued in 2010. The General Meeting of Shareholders of May 17, 2006 decided that RATIONAL should not publish an individual breakdown of Executive Board remuneration.

The level of the variable remuneration components is determined on the basis of sales, net earnings, employee satisfaction and the extent to which the company has extended its technological leadership and improved its quality.

The total remuneration paid to the Supervisory Board for fiscal 2010 amounted to 580 thousand euros (previous year: 555 thousand euros).

Information Required under Takeover Law to § 315 Para. 4 of the German Commercial Code and Explanatory Report

The share capital of RATIONAL AG on December 31, 2010 amounted to exactly 11,370,000 euros and consisted of 11,370,000 no-par value bearer shares, each of which has a nominal calculated value equal to a 1.00-euro share in the share capital. Each share carries one vote and is relevant necessary for entitlement to a share of profits.

There are currently no restrictions affecting voting rights or the transfer of shares.

The company's founder, who is also Chairman of the Supervisory Board, held 7,161,411 shares in RATIONAL AG at December 31, 2010 and thus exceeded the threshold of 10 percent of voting rights.

By resolution of the General Meeting of Shareholders on May 6, 2009, § 8 of the Articles of Association of RATIONAL AG was changed to include a right of appointment. The wording of the resolution is as follows: "For as long as Mr. Siegfried Meister and Mr. Walter Kurtz are shareholders of the company they shall have the joint right to appoint a member of the Supervisory Board to replace a member who steps down from the Supervisory Board. The right to appoint may be exercised as soon as a member of the Supervisory Board, which was appointed in its entirety by the General Meeting of Shareholders, has stepped down. If one of the two holders of the right to appoint ceases to be a shareholder of the company, the remaining shareholder shall have the sole right to appoint. The right to appoint is to be exercised by submitting a written declaration to the Executive Board of the company."

In accordance with both statutory regulations and the company's Articles of Association, all employees of RATIONAL AG may directly exercise the rights of control they possess as shareholders in the same way as other shareholders.

Section 84 of the German Stock Corporation Act (Aktiengesetz) stipulates that the Supervisory Board is responsible for the appointment and removal of members of the Executive Board. In relation to these powers, § 6 No. 2 of the Articles of Association of RATIONAL AG states that the Supervisory Board appoints the members of the Executive Board, determines their number and allocates their duties. The Executive Board manages the company and represents it vis-à-vis third parties.

According to § 11 No. 2 of the Articles of Association of RATIONAL AG, the Supervisory Board is entitled to make amendments and additions to the Articles of Association provided these are to the wording only. All other amendments to the Articles of Association are to be made by resolution of the General Meeting of Shareholders passed with a simple majority of the votes, provided that a greater majority is not required by law. Sections 179 et seq. of the German Stock Corporation Act (Aktiengesetz) apply accordingly. The Supervisory Board made no amendments to the Articles of Association in 2010.

The most recent amendments to the Articles of Association were made by resolution of the General Meeting of Shareholders on April 21, 2010 and relate to the increasing of the company's authorised capital and adjustments to the rules for the General Meeting of Shareholders, in particular those relating to escrow and registration, required to align the Articles of Association with changes in the applicable legal provisions.

The company does not hold any own shares. The company does not currently have authorisation from the General Meeting of Shareholders to repurchase own shares.

RATIONAL AG has not entered into any material agreements that are subject to the condition of a change of control following a takeover bid.

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 a change of control, that is to say the assumption of the majority of voting rights in the company by either an individual shareholder or by shareholders acting jointly.

Declaration of Corporate Governance

All actions on the part of the managing and controlling committees of RATIONAL AG are determined by the principles of conscientious corporate governance. In its Declaration of Corporate Governance, the Executive Board is reporting, in compliance with Section 289a (1) of the German Commercial Code (HGB) – and also on behalf of the Supervisory Board – on corporate leadership, management and governance. The declaration can be found on the company's website (www.rational-online.com) in the Investors/Corporate Governance section.

Supplementary Report

No events that might have affected the assessment of the net assets, financial position or results of operations of the RATIONAL Group and should have been reported here occurred after the balance sheet date, December 31, 2010.

Risk Report

Our operations around the world expose us to a variety of risks. In order to meet strategic targets and assure the company's success, it is essential that risks be identified early, their causes and impact be analysed and suitable measures be introduced to prevent or contain them on a long-term basis. Our processes and early warning instruments are continually revised and improved to this end.

The RATIONAL risk analysis process

Entrepreneurial risk can be defined as the danger of not meeting financial, operational or strategic targets according to plan. Our risk analysis process includes assessing the probability of occurrence of a given risk and the amount of loss or damage that is likely to be suffered as a result. To do this, we use both quantitative and qualitative methods that are uniformly defined company-wide, and thus, allow comparisons to be made between different business units.

The individual risks are assessed for their probability of occurrence and their impact on the basis of an assessment horizon of three years. The last risk inventory of this kind was undertaken in September 2008. The results of the risk inventory flow into the strategic planning process, are taken into account by the business units when they implement internal control systems and organisational restructuring and allow corporate management to focus on the main areas of risk and how they are being managed.

Mindful of the highly volatile state of the economy following the global economic crisis of 2009 and the dynamic upturn in 2010, the company's risk management activities in 2010 focused once again on the flexible adjustment of the organisational and cost structure and on improvements in working capital. We also kept a close eye on business developments at our suppliers as a matter of priority in order to counteract the threat of interruptions in production if a supplier were to fail.

The RATIONAL risk management system

Risk analysis is just one of the many tools we employ for the early identification and analysis of risks and opportunities. The others are:

- A uniform company-wide planning process used by all corporate units worldwide, together with a comprehensive reporting system.
- Descriptions of the processes and internal control systems of all corporate units, the quality of which and adherence to which are assured worldwide through regular training courses and corresponding checks to verify effectiveness in practice. To ensure that internal controls and decontrols continue to be conducted properly over time, we map highly sensitive processes such as that for approving creditor invoices using SAP workflows.
- An internal audit, which provides an independent and objective snapshot of the current situation with regard to the company's processes and recommends suitable measures to counteract any deviations from targets.
- Risk indicators with threshold values for sales and marketing efficiency, receivables management, supply chain management and the quality of the service network, to help identify undesirable developments at an early stage and allow appropriate countermeasures to be promptly implemented.
- A globally integrated treasury management system for optimal cash and currency management worldwide.
- Customer satisfaction surveys conducted regularly in all the important markets to provide a customer perspective on product quality, service quality and the company's competitiveness.
- Partner plans agreed annually with key suppliers and designed to increase quality and productivity. Our purchasing department's close collaboration with suppliers and our regular audits help to head off potential supply shortages and quality problems.

- Special processes designed to reflect the great importance of information security and protecting expertise.
- A comprehensive insurance strategy that is updated each year in line with the latest risk situation and organisational structure.
- Cooperation with Coface, one of the largest trade credit insurers, to secure our receivables. The use of specific software systems and the automated updating of insurance data ensure that full transparency regarding possible bad debt risks is maintained at all times.
- Regular strategy meetings between the Supervisory Board and the Executive Board, which minimise the risk of undesirable strategic developments.

Our constant efforts to raise employee awareness of risks and opportunities and the highly entrepreneurial approach taken by our senior managers play a vital role alongside risk analysis and the risk management system in helping the company make a success of its business.

The effectiveness and currency of the risk management system are continually updated and refined through the internal auditing process. The auditor additionally checks whether the Executive Board has taken the necessary steps required under Section 91 (2) of the German Stock Corporation Act (Aktiengesetz) to ensure that developments with the potential to jeopardise the company's existence are identified at an early stage.

Risks

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 and the fact that we sell our products in all the world's main markets give us the opportunity to compensate for regional difficulties through our activities in other markets.

The potential consequences of political instability could include import restrictions in individual emerging markets, for example, but since the proportion of our sales attributable to these markets is still relatively small, we consider this risk to be no more than moderate.

Risk from competition and other sector risks

We monitor developments and trends in the sector and the market strategy of our competitors constantly and factor them into our corporate planning. While there is a risk that new competitors could emerge as a result of mergers within the sector, we anticipate that any losses sustained by us as a result would be very limited.

Economic risks

The international economic environment in which the company operates is susceptible to cyclical risks. The purchase of RATIONAL appliances represents a significant investment for our customers and is thus subject to an investment decision process and the necessary financing. As the experience of 2008 and 2009 demonstrates, our special market position and the highly positive effect of our products on productivity tend to make the company less susceptible to cyclical fluctuations and crises than mainstream machine manufacturers, for example.

We monitor economic developments in our principal markets very carefully to ensure that emerging risks are identified at an early stage and that any corrective measures required are implemented promptly. Thanks to our flexible cost planning and our large liquidity reserve, which gives us adequate room to manoeuvre and the flexibility and independence to take all necessary entrepreneurial decisions, we are well prepared for currently conceivable macroeconomic scenarios.

Financial and capital market risks

The proportion of total sales generated in foreign currencies amounted to 34 percent in 2010 (previous year: 30 percent). We incur most of our cost of sales in euros. This means that changes in exchange rates have a direct impact on the company's earnings position, with increases in the value of the euro in relation to other currencies depressing earnings and reductions enhancing earnings. The relative weakness of the euro in relation to foreign currencies including the US dollar, the pound sterling, the Swiss franc, the Japanese yen, the Brazilian real, the Russian rouble and the Swedish krona accordingly had a positive effect on our operating result in 2010.

We hedge currency risks using customary instruments such as options and futures arranged with highly-rated partners. The nature and scope of the company's hedging operations are prescribed by internal guidelines developed centrally by the parent company. While our currency risk management activities cannot insulate us against the impact of a medium or long term increase in the value of the euro, our currency hedges do significantly reduce the risk posed to our operating cash flows by short-term currency fluctuations.

Market risks and risk of defaults on receivables

Bad debt risks on trade receivables can arise as a result of customers not fulfilling their payment obligations. We protect receivables against the risk of default by means of trade credit insurance or bank letters of credit in order to avoid or reduce such risks. More than 90 percent of receivables were protected by such arrangements on the balance sheet date and the risk of significant losses as a result of defaults on receivables has thus been largely eliminated.

Market risks, in turn, relate to the loss of sales potential as the result of the failure of a customer. We generate our sales with several thousand individual customers, so the failure of particular customers poses no special threat to our prospects for constant future sales growth. Our sales and marketing process targets end users as well as trade customers, moreover, so the failure of a trade customer does not automatically entail a substantial fall in demand.

Our most significant individual customer in terms of sales – an exclusive trade partner with which we have been working for many years – accounted for 2.99 percent of total sales in the reporting year (previous year: 3.53 percent). Our credit insurer has awarded this partner an impeccable credit rating and we, consequently, see no reason to fear any interruption to our future business with this partner on grounds of financial stability. Receivables from this customer were fully covered by credit insurance during the reporting period.

Product quality

The quality of the company's products has continued to improve over recent years, as evidenced by our consistently low warranty cost ratio and the customer satisfaction ratings returned by our regular customer surveys. We, nevertheless, remain fully aware of the potential risks associated with quality problems and incorrect product use and take care to review and analyse service reports worldwide. The company’s management believes that existing product liability insurance adequately covers the risks arising from product liability.

Product development and trademark protection

RATIONAL has been the clear leader in its field in terms of products and technology for many years. Innovations are protected by a variety of intellectual property rights including 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. Patent proceedings alleging possible patent infringements by RATIONAL are investigated by experienced patent attorneys and pursued and defended vigorously.

Human resources risks

Our skilled employees and managers are the cornerstone of the company's success and future prospects and it is, therefore, very important that we are able both, to attract new qualified personnel and to retain existing high achievers. A high turnover rate, especially in high achievers, would have a negative effect on our business. As well as providing appropriate remuneration, we implement a number of measures to strengthen employee retention including targeted human resources development and promotion schemes and opportunities for employees to share directly in the company's profits.

Commodity prices and procurement risks

Manufacturing companies like ours are sensitive to changes in energy and commodity prices because of the way they cause our material and production costs to fluctuate.

The prices of both, high-grade stainless steel and nickel, the price of which affects the alloy surcharge on stainless steel, are of particular importance for the products we manufacture and we, therefore, monitor the commodities markets closely. We are able reduce the price risk in respect of high-grade stainless steel by means of corresponding contracts with suppliers, but it is not possible to do this with the alloy surcharge. Changes in the alloy surcharge consequently have a direct effect, positive or negative depending on the direction of change, on our cost of sales.

Our procurement strategy includes working in partnership with key component and subassembly suppliers. Focusing on key suppliers in this way enables us to improve quality and our products continuously and is also the most effective way to protect our technological lead. It does produce a certain degree of codependency, which means that the complete loss of a supplier could lead to short-term interruptions in production, but we are well aware of this risk and keep a particularly sharp eye on business developments at our suppliers and on the production processes of relevance to our own operations. We believe the advantages and opportunities offered by this strategy far outweigh the associated risks.

IT risks

Risks can arise in particular as a result of the ever-increasing integration of all internal IT systems: networks can go down, data can be corrupted or destroyed by operating or program errors or as a result of external factors and system failures can cause work to be delayed. We counter information technology risks by investing continuously in hardware and software, by encrypting e-mail and data transfers, by using virus scanners, firewall systems and admission and access controls and by housing our systems in a specially protected data centre. We employ a redundant design for many of our systems to ensure that individual failures can be compensated for quickly.

Transferring risk through insurance protection

The main insurable risks to which the company is exposed are covered by a global protection concept drawn up in conjunction with external insurance brokers. The associated Group insurance policies transfer the risk to the insurer. An insurance retention may still apply in each case depending on the provisions agreed. Changing risk situations for the Group are examined regularly and insurance cover is adjusted accordingly. In the last two years, both the contractually agreed amounts insured and the retentions have been improved as compared with previous years or, at the very least, maintained.

We only deal with insurers whose creditworthiness has been verified (meaning they have at least an A– rating from a reputable ratings agency) by our insurance broker. The broker monitors creditworthiness continuously and notifies us promptly of any sustained negative trend affecting one of our insurers so that we can make a prompt decision as to how to respond.

We work continuously to improve loss/damage prevention, or at least to reduce the probability of loss or damage, in all insured areas. The measures implemented in this connection include our ongoing efforts to optimise the materials used to package our appliances and so realise a lasting reduction in damage in transit.

In addition to this, regular coordinated site inspections carried out by specialists from our specialist insurer and our insurance broker ensure that defined precautionary and security measures designed to minimise risk are implemented.

Protection of buildings and plants

We have established our own site security system at the three plants in Landsberg to help protect our employees, the buildings, our plant and machinery and the environment: with 24-hour security provided by our own personnel and a professional-standard central security control room on site (with, among other things, permanent video surveillance and a technical fire protection system), we are able to guarantee high levels of security.

Summary

Although it is currently impossible to predict how the world economy will develop, we believe that in the light of the measures we have implemented, our large liquidity reserve and our solid balance sheet structure, the existing risks pose no risk, either individually or in combination, to the company's future viability.

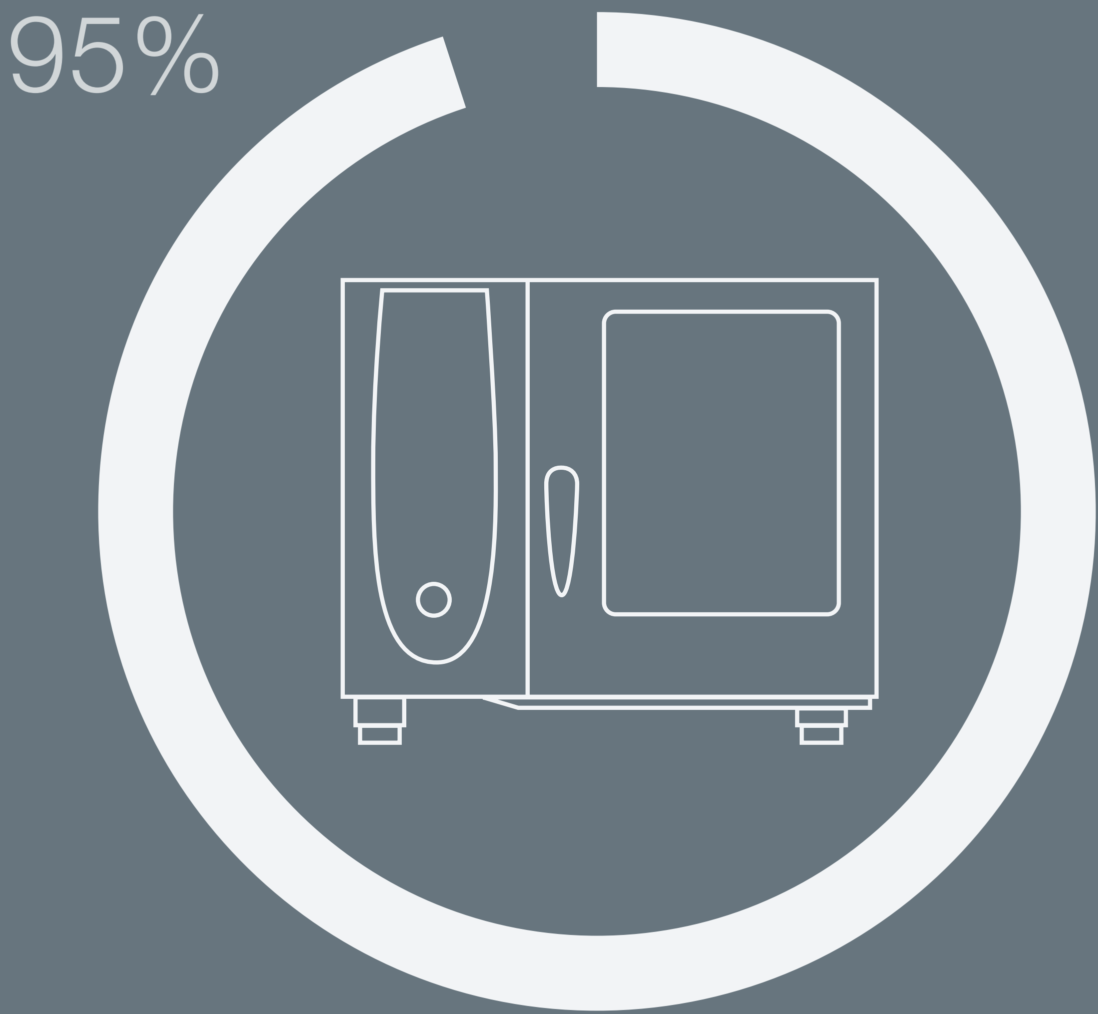
RATIONAL AG's internal control and risk management system in relation to the accounting process

The main features of the internal control and risk management system in relation to the (Group) accounting process can be summarised as follows:

- The accounting processes in place at the parent company and its subsidiaries are clearly structured in relation to areas of responsibility and management.
- Guidelines applicable throughout the Group ensure consistent accounting practices in all areas. These guidelines are updated continuously.
- The functions of the main units (Finance, Accounting and Controlling) involved in the accounting process are clearly demarcated in respect of the preparation of the closing financial statements and responsibilities are definitively assigned.

- The actual bookkeeping process is handled centrally in Landsberg, where possible, provided this is permitted under applicable national law. This ensures a high level of quality throughout the Group in relation to the recording and processing of data relevant to accounting.
- Standard software is employed where possible for the financial systems used in the Accounting unit. Appropriate security and authorisation concepts are deployed to protect these systems against unauthorised access.
- The units involved in the accounting process are properly equipped to meet the applicable requirements. The staff involved have the necessary qualifications and receive further training on a continuous basis. The units involved in the accounting process throughout the Group coordinate their activities closely in regular meetings.
- Data relevant to accounting is subject to regular spot checks for completeness and correctness.
- The four-eyes-principle is applied universally in all processes relevant to accounting.
- The annual financial statements of all Group companies are audited by locally appointed auditors or reviewed in order to ensure that accounting practice is standardised and complies with the law.
- All of the Group processes relevant to accounting are regularly checked by the Internal Audit function as part of the audit process for subsidiaries. The processes involved at the Landsberg site are also checked in turn.

The internal control and risk management system, the main features of which are described above, ensures that the accounting process is efficient. The controls in place largely eliminate errors and make certain any errors that do occur are detected and corrected. This ensures that accounting practice at the company complies with the applicable statutory regulations. The control and checking mechanisms described above also create a structure through which business transactions can be recorded, reported and evaluated consistently and appropriately throughout the Group, which enables us to make reliable and relevant information available as necessary.



95% untapped market potential for the SelfCooking Center® out of 2.5 million professional kitchens – further 100% for the VarioCooking Center®

Outlook

The economy: Upturn expected to continue

The great majority of economists expect the global economy to continue its recovery on a broad footing in 2011. Overall growth rates are likely to slow slightly again say the experts, but should remain at least at the long-term average levels. After a plus of 4.7 percent in 2010, the global economy is expected to expand by 3.9 percent in 2011 (Source: estimation Deutsche Bank).

Sector outlook: Untapped market potential

The level of untapped market potential for RATIONAL products worldwide remains high. There are some 2.5 million professional kitchens around the world for which the SelfCooking Center® and VarioCooking Center® would be suitable. Around 95 percent of those 2.5 million professional kitchens currently represent untapped market potential for the SelfCooking Center® and almost all are potential customers for the VarioCooking Center®.

We anticipate further growth in the industry over the coming years as a result of the improving climate in the professional kitchens sector and an increasing willingness to invest on the part of decision-makers in the gastronomy segment. RATIONAL too stands to gain from this positive trend as the market and technology leader.

Internationalisation: Tapping into market potential

We began investing selectively in the expansion of our sales and marketing network in 2010 and intend to extend these efforts to all parts of the world in 2011 in line with the potential offered by each region.

Procurement: Moderate rise in commodity prices expected

High-grade stainless steel prices rose markedly as the global economy came back to life but then levelled off again. If the global economy continues to grow as expected, the price of both steel and the alloys we need is likely to see a moderate increase. Contracts already in place give us a reliable basis for costing in respect of steel prices, but the cost of the alloy surcharge may well push up material costs in 2011 just as in 2010.

Investment: Reaping the benefits of up-front investment

The company's heavy investment in modern production facilities and key skills over recent years has created an excellent platform for future production operations. No major investments in fixed assets are planned for 2011, but we will certainly be continuing to invest in marketing, sales as well as research and development.

Operating cash flows cover current liquidity requirements

Liquidity requirements are determined on the basis of current operating costs, the increase in working capital needed to keep pace with growth, the necessary investment in plant and equipment and the planned dividend payment. Past experience suggests the company will continue to be able to meet its liquidity requirements out of its expected operating cash inflows and the net liquidity currently available.

Employees: High-quality employees means high-quality company

RATIONAL created 99 new highly skilled jobs in 2010. A further significant increase in headcount is likely in 2011, although this will depend on the progress of the market and, in particular, the course of developments in specific countries and regions.

The company intends to make employee retention, training and development key priorities for 2011 and to direct significant investment into these areas just as in the past. The Entrepreneur within the Enterprise (U.i.U.®) initiative, which cultivates a decentralised approach to leadership and organisation, will also receive further promotion.

Corporate outlook: Expectations positive

RATIONAL has laid compelling foundations for renewed success in 2011: we have the best products, excellent customer loyalty, a robust business model and a very strong financial position.

These attributes coupled with the anticipated economic growth, the good prospects for the sector and our position relative to the competition lead us to predict an increase of around 10 percent in sales in 2011 along with a good earnings development. The substantial risks still facing the global financial markets and their potential impact on the real economy make it difficult to produce a multi-year forecast with any kind of confidence. However assuming the global economy continues to prosper, we expect both sales and earnings to return to the growth trajectory of the pre-crisis years in the period beyond 2011.

Landsberg am Lech, February 16, 2011

RATIONAL AG
The Executive Board

Consolidated Financial Statement of the RATIONAL Group for fiscal year 2010

Contents

Statement of Comprehensive Income RATIONAL-Group

kEUR	Note	2010	2009
Sales	1	350,136	314,354
Costs of sales	2	–133,150	–122,788
Gross profit		**216,986**	**191,566**
Sales and service expenses	3	–83,443	–75,534
Research and development expenses	4	–13,515	–11,380
General adminstration expenses	5	–15,639	–15,085
Other operating income	6	9,093	8,544
Other operating expenses	7	–7,715	–7,629
Earnings before interest and taxes (EBIT)		**105,767**	**90,482**
Financial results	8	–156	–355
Earnings from ordinary activities (EBT)		**105,611**	**90,127**
Taxes on income	9	–25,818	–22,822
Group earnings		**79,793**	**67,305**
Differences from currency translation		518	258
Total comprehensive income		**80,311**	**67,563**
Average number of shares (undiluted/diluted)		11,370,000	11,370,000
Earnings per share (undiluted/diluted) in euros relating to the group earnings and the number of shares	10	7.02	5.92

Balance Sheet
RATIONAL-Group

ASSETS

kEUR	Note	Dec. 31, 2010	Dec. 31, 2009
Long-term assets		**59,415**	**60,670**
Intangible assets	12, 13	1,155	1,259
Property, plant and equipment	14, 15	54,155	56,321
Financial assets	16	50	50
Other long-term assets	19	245	222
Deferred tax assets	9	3,810	2,818
Short-term assets		**246,299**	**204,991**
Inventories	17	19,347	17,822
Trade receivables	18	58,726	51,434
Other short-term assets	19	5,089	4,106
Deposits with maturities of more than 3 months	20	115,900	96,000
Cash and cash equivalents	21	47,237	35,629
Balance sheet total		**305,714**	**265,661**

EQUITY AND LIABILITIES

kEUR	Note	Dec. 31, 2010	Dec. 31, 2009
Equity	22	**230,266**	**189,750**
Subscribed capital		11,370	11,370
Capital reserves		28,058	28,058
Retained earnings		192,394	152,396
Other components of equity		–1,556	–2,074
Long-term liabilities		**22,755**	**24,704**
Provisions for pensions	23	697	688
Other long-term provisions	25	3,076	2,267
Non-current loans	26	18,982	21,284
Other long-term liabilities	28	–	465
Short-term liabilities		**52,693**	**51,207**
Liabilities for current tax	24	7,172	4,564
Short-term provisions	25	17,261	16,517
Current portion of non-current loans	26	2,315	2,354
Liabilities to banks	26	–	8,000
Trade accounts payable	27	9,240	6,963
Other short-term liabilities	28	16,705	12,809
Liabilities		**75,448**	**75,911**
Balance sheet total		**305,714**	**265,661**

Cash Flow Statement RATIONAL-Group

kEUR	2010	2009
Earnings from ordinary activities	105,611	90,127
Depreciation on fixed assets	6,796	7,589
Net results from asset retirements	11	177
Non-realised foreign currency result	69	76
Change in derivative financial instruments	160	–300
Interest income and income from financial assets	–1,061	–1,073
Interest expenses	1,217	1,428
Operating results before changes in working capital	**112,803**	**98,024**
Changes in		
Inventories	–1,525	2,742
Trade accounts receivables and other assets	–8,395	7,837
Accruals	1,562	625
Trade accounts payable and other liabilities	6,342	–5,929
Cash generated from current business activities	**110,787**	**103,299**
Taxes paid on income	–23,934	–20,110
Cash flow from operating activities	**86,853**	**83,189**
Investing in intangible assets and tangible assets	–4,476	–2,382
Income from asset retirements	33	94
Purchase of fixed deposits with maturities of more than 3 months	–115,900	–96,000
Decrease in fixed deposits with maturities of more than 3 months	96,000	25,000
Interests received	852	1,081
Dividend from non-consolidated, affiliated companies	46	49
Cash flow from investing activities	**–23,445**	**–72,158**
Dividends	–39,795	–11,370
Changes within the scope of finance leasing agreements	–869	–869
Proceeds of current bank liabilities	–	16,000
Repayment of liabilities to banks	–10,341	–10,146
Interest paid	–1,163	–1,331
Cash flow from financing activities	**–52,168**	**–7,716**
Net changes in cash and cash equivalents	**11,240**	**3,315**
Changes in cash from exchange rate changes	368	204
Changes in cash funds	**11,608**	**3,519**
Cash and cash equivalents on Jan. 1	**35,629**	**32,110**
Cash and cash equivalents on Dec. 31	**47,237**	**35,629**
Deposits with maturities of more than 3 months on Dec. 31	115,900	96,000
Cash funds including fixed deposits on Dec. 31	**163,137**	**131,629**

Statement of Changes in Equity RATIONAL-Group

kEUR	Subscribed capital	Capital reserves	Retained earnings	Differences from currency translation	Total
Balance on Jan. 1, 2009	**11,370**	**28,058**	**96,461**	**–2,332**	**133,557**
Dividend	–	–	–11,370	–	–11,370
Total comprehensive income	–	–	67,305	258	67,563
Balance on Dec. 31, 2009	**11,370**	**28,058**	**152,396**	**–2,074**	**189,750**
Dividend	–	–	–39,795	–	–39,795
Total comprehensive income	–	–	79,793	518	80,311
Balance on Dec. 31, 2010	**11,370**	**28,058**	**192,394**	**–1,556**	**230,266**

Notes
on the RATIONAL Group Annual Report for fiscal year 2010

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 HRB 2001.

The RATIONAL Group (hereafter "RATIONAL" or "Group") is a 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 conventional combi-steamer. RATIONAL sells its products worldwide through its own subsidiaries and independent distribution partners.

In parallel with the SelfCooking Center®, the subsidiary, FRIMA - T SAS, developed a complementary product, the VarioCooking Center®, which has been on sale in selected European markets since 2005. Whereas the SelfCooking Center® is used for cooking all foods involving the transfer of heat by hot, fast-flowing gases, the VarioCooking Center® is used to cook products in liquid or in direct contact with heat.

The shares of the company, which has been listed on the Frankfurt Stock Exchange since March 2000, have been admitted to the Prime Standard and are traded on the Regulated Market in the MDAX segment. RATIONAL is also included in the Deutsche Börse CDAX, Classic All Share, Prime All Share, DAXsector Industrial, DAX International Mid 100, DAXplus Export Strategy and DAXPLUS FAMILY selective indices as well as in 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 guidance regarding classification and format. The presentation for fiscal year 2010 and the previous year is broken down by maturities of “12 months or less” (current) and those of “more than 12 months” (non-current).

Based on the operational and strategic bases for decisions also available to management, the disclosures in the notes to the consolidated financial statements are intended to allow a comprehensive assessment of the company’s net assets, financial position and profit or loss, as well as facilitate a full evaluation of the opportunities open to the company and the risks to which it is exposed. For RATIONAL, the key components of its consolidated financial statements are the statement of comprehensive income, the balance sheet, the cash flow statement, and the statement of changes in equity. 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”. Disclosures not relating to specific items in the financial statements can be found in “Other Notes on the Group Financial Statements”.

The consolidated financial statements were approved for publication by the Executive Board of RATIONAL AG on February 16, 2011.

Fundamental accounting principles

The consolidated financial statements for fiscal year 2010 (including prior year figures) have been prepared in compliance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) promulgated and published by the International Accounting Standards Board (IASB), together with their interpretation by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU, and in accordance with the supplementary rules applicable under Section 315a (1) of the German Commercial Code (HGB). All the effective and mandatory standards for fiscal year 2010 have been 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 reported.

The following new or revised standards and interpretations have been applied on a mandatory basis for the first time in fiscal year 2010; RATIONAL had not applied them voluntarily in previous years.

- IAS 27 “Consolidated and Separate Financial Statements” (amendments of January 10, 2008)
- IAS 39 “Financial Instruments: Recognition and Measurement” (eligible hedged items)
- IFRS 1 “First-time Adoption of International Financial Reporting Standards” (restructuring of the standard)
- IFRS 1 “First-time Adoption of International Financial Reporting Standards” (additional exemptions for first-time adopters)
- IFRS 2 “Share-based Payment” (Group cash-settled share-based payment transactions)
- IFRS 3 “Business Combinations” (revised)
- IFRIC 12 “Service Concession Arrangements”
- IFRIC 17 “Distributions of Non-cash Assets to Owners”
- IFRIC 18 “Transfers of Assets from Customers”
- Various changes resulting from the “Annual Improvement Project 2007 – 2009”

IFRIC 15 “Agreements for the Construction of Real Estate” and IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”, the application of which became mandatory for the first time in fiscal year 2010 in accordance with an EU Regulation, had already been applied in fiscal year 2009.

The following new or revised standards and interpretations are not yet mandatory and RATIONAL has not applied them early. It is not expected that this will have any material effect on the consolidated financial statements.

- IAS 24 “Related Party Disclosures” (revised version); applicable to fiscal years beginning on or after January 1, 2011
- IAS 32 “Financial Instruments: Presentation” (classification of rights issues); applicable to fiscal years beginning on or after February 1, 2010
- IFRS 1 “First-time Adoption of International Financial Reporting Standards” (limited exemption from comperative IFRS 7 disclosures for first time adopters); to be applied in fiscal years beginning on or after July 1, 2010
- IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (amendment: prepayments of minimum funding requirement); applicable to fiscal years beginning on or after January 1, 2011
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”; applicable to fiscal years beginning on or after July 1, 2010

The following new or amended standards and interpretations not yet adopted by the EU are not expected to have any impact on future consolidated financial statements of RATIONAL.

- IAS 12 “Income Taxes” (deferred taxes: recovery of underlying assets); according to the standard, to be applied to fiscal years beginning on or after January 1, 2011
- IFRS 1 “First-time Adoption of International Financial Reporting Standards” (severe hyperinflation and removal of fixed dates); according to the standard, to be applied to fiscal years beginning on or after July 1, 2011
- IFRS 7 “Financial Instruments: Disclosures” (disclosures about transfers of financial assets); according to the standard, to be applied to fiscal years beginning on or after July 1, 2011
- IFRS 9 “Financial Instruments: classification and measurement”; according to the standard, to be applied to fiscal years beginning on or after January 1, 2013
- Various amendments as a result of the “Annual Improvement Project 2008 – 2010”; according to the standard, to be applied to fiscal years beginning on or after January 1, 2011

The fiscal year for RATIONAL AG and all subsidiaries included in the consolidated financial statements corresponds to the calendar year. The balance sheet date of the consolidated financial statements is the balance sheet date of the parent company in accordance with IAS 27.

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 applied on the dates when individual subsidiaries are acquired or formed. The carrying amounts of the respective subsidiaries are deducted from the acquisition cost of the equity investments at the time of acquisition. If this results in any differences, these differences are also allocated to the assets and liabilities to the extent that the fair values of the assets and liabilities exceed the carrying amounts at the date of the initial consolidation. Any difference remaining after this allocation is recognised as goodwill. In accordance with IAS 36, this goodwill is tested annually for impairment, in order to determine any amortisation requirements.

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

The effects of material intragroup transactions are eliminated. Balances between consolidated companies are eliminated, intercompany profits on inventories are eliminated, and intragroup expenses are deducted from the corresponding income. Deferred taxes are recognised for temporary differences arising from consolidation measures in accordance with IAS 12.

The consolidation methods remain unchanged from those used last year.

Consolidated companies

As of the balance sheet date (December 31, 2010), five domestic and 19 foreign subsidiaries in addition to the parent company were included in the consolidated financial statements in compliance with IAS 27 requirements. During 2010, the name of the subsidiary RATIONAL France SAS was changed to FRIMA RATIONAL France SAS. In addition, the legal structure of the subsidiary FRIMA S.A. was changed in 2010, the name of the subsidiary now being FRIMA - T SAS. The shareholding was increased from 99.9% to 100%. There were no other changes during fiscal year 2010 to the companies included in the consolidation. As of December 31, 2010 the consolidated companies were as follows:

Name and registered office of RATIONAL AG subsidiaries	% capital shares / % voting rights
LechMetall Landsberg GmbH Edelstahlerzeugnisse, Landsberg am Lech, Germany	100.0
RATIONAL Großküchentechnik GmbH, Landsberg am Lech, Germany	100.0
RATIONAL Komponenten GmbH, Landsberg am Lech, Germany	100.0
RATIONAL Technical Services GmbH, Landsberg am Lech, Germany	100.0
FRIMA - T SAS, Wittenheim, France	100.0
RATIONAL Canada Inc., Mississauga, Canada	100.0
RATIONAL Iberica Cooking Systems SL, Barcelona, Spain	100.0
RATIONAL Italia s.r.l, Marcon, Italy	100.0
RATIONAL Japan Co. Ltd., Tokio, Japan	100.0
RATIONAL Scandinavia AB, Malmö, Sweden	100.0
RATIONAL Schweiz AG, Balgach, Switzerland	100.0
RATIONAL UK Limited, Luton, United Kingdom	100.0
RATIONAL USA, Inc., Schaumburg, USA	100.0
RATIONAL International AG, Balgach, Switzerland	100.0
RATIONAL Austria GmbH, Salzburg, Austria	100.0
RATIONAL Brasil Comércio E Distribuição De Sistemas De Cocção LTDA., São Paulo, Brazil	99.9
FRIMA RATIONAL France SAS, Wittenheim, France	100.0
RATIONAL Polen sp.zo.o, Warschau, Poland	100.0
RATIONAL RUS OOO, Moskau, Russia	100.0
RATIONAL Trading (Shanghai) Co.,Ltd., Shanghai, China	100.0
FRIMA International AG, Balgach, Switzerland	100.0
FRIMA Germany GmbH, Frankfurt a. Main, Germany	100.0
FRIMA France SAS, Wittenheim, France	100.0
FRIMA UK Limited, London, United Kingdom	100.0

In addition, RATIONAL AG holds 98% of the shares and voting rights in MEIKU Vermögensverwaltung GmbH, which has its registered office in Landsberg am Lech, and which for its part is the sole limited partner in TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG. In principle, these special purpose entities are subject to consolidation in accordance with IAS 27 and SIC 12; however, they are not included in the consolidation because of their minor significance for the net assets, financial position and profit or loss of the Group. As of December 31, 2010, MEIKU Vermögensverwaltung GmbH reported net earnings of 65 thousand euros (previous year: 64 thousand euros) and equity of 92 thousand euros (previous year: 91 thousand euros).

Topinox Sarl, Nantes, France, an operationally inactive subsidiary of FRIMA - T SAS, is likewise not included in the consolidation.

The domestic subsidiaries LechMetall Landsberg GmbH, RATIONAL Großküchentechnik GmbH, RATIONAL Technical Services GmbH, and RATIONAL Komponenten GmbH plan to exercise the option not to disclose their annual financial statements for fiscal year 2010 in accordance with Section 264 (3) of the HGB. In addition, RATIONAL Großküchentechnik GmbH and RATIONAL Komponenten GmbH are electing not to prepare a management report in accordance with Section 264 (3) of the HGB.

Foreign currency translation

The financial statements of the foreign subsidiaries are translated into euros in accordance with the concept of functional currency. The local currency in each country is the functional currency for the entities based in the country concerned. RATIONAL International AG and FRIMA International AG, both of which have registered offices in Switzerland, are exceptions to this rule and use the euro as their functional currency. Assets and liabilities are translated at the spot rate as of the balance sheet date and the items in the income statement at the annual average rate. The portions of equity to be included in the capital consolidation and the accumulated profit or loss brought forward are translated at historical rates. If this gives rise to differences as a result of changes in rates, the differences are recognised under ‘Differences from currency translation’ in the statement of comprehensive income.

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

1 Euro =	Annual average exchange rate			Exchange rate on balance sheet date		
	2010	2009	Change in %	2010	2009	Change in %
USD = US dollar	1.3209	1.3970	–5	1.3380	1.4405	–7
JPY = Japanese yen	115.29	130.66	–12	108.80	133.06	–18
GBP = Pound sterling	0.8560	0.8900	–4	0.8625	0.8900	–3
CHF = Swiss franc	1.3700	1.5085	–9	1.2525	1.4836	–16
CAD = Canadian dollar	1.3652	1.5805	–14	1.3370	1.5100	–11
SEK = Swedish krona	9.4918	10.5966	–10	8.9752	10.2589	–13
PLN = Polish zloty	4.0000	4.3434	–8	3.9604	4.1030	–3
CNY = Chinese yuan	8.9289	9.5400	–6	8.8205	9.8299	–10
RUB = Russian rouble	40.2280	44.3098	–9	40.9241	43.6469	–6
BRL = Brazilian real	2.3270	2.7659	–16	2.2211	2.5097	–11

Accounting and valuation methods

Intangible assets and property, plant and equipment

Purchased 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.

Goodwill arising from the consolidation of equity investments and other company acquisitions is not amortised regularly but is tested at least annually for impairment in compliance with IAS 36. If the fair value or value in use is below the carrying amount of the cash-generating unit, an impairment loss is recognised through the income statement. Past impairment losses recognised on goodwill may not be reversed.

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 recognised in accordance with IAS 23. Depreciation is calculated on the basis of the useful lives of the assets. Depreciation allowed exclusively on the basis of tax law has not been 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. Administration and production buildings are depreciated over a period of between 25 and 36 years using the straight-line method. Items of technical equipment and machinery as well as operating and office equipment are depreciated over their useful lives, which normally range from 2 to 15 years, using the straight-line or reducing-balance method. Depreciation is charged pro rata in the year the asset is purchased. Low-value assets are depreciated or written off, taking into account the relevant statutory requirements.

As of each balance sheet date, the Group has to assess whether there are any indications that the carrying amount of an intangible asset or item of property, plant and equipment may be impaired. If impairment is identified in excess of depreciation/amortisation, the asset is written down to its recoverable amount. To determine its recoverable amount, it is necessary to make assumptions and estimates, especially with regard to expected useful life, future selling prices and volumes, and costs and discount rates. Although management is confident that the assumptions and estimates are appropriate, a change in the assumptions or circumstances could result in an additional requirement to recognise impairment losses or to reverse such losses.

Finance leasing

If a Group company acting as lessee assumes substantially 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 present value of the lease instalments at the time the contract is entered into. The depreciation methods and useful lives match those used for similar assets that have been purchased.

Inventories

Raw materials, consumables, supplies and merchandise are measured at cost. Purchase price reductions, such as volume and cash discounts, are taken into account when determining cost. The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Work in process and finished goods are measured at cost. This includes the cost of purchase and all costs directly attributable to the production process, as well as appropriate portions of production-related overheads. Financing costs are not included because the products are not qualifying assets as defined by IAS 23.

Inventories are written down as soon as their net realisable value becomes lower than the carrying amount.

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 the beneficial 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 relate to 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, less allowance for impairment. There are no available-for-sale financial assets on the balance sheet.

The fair values for all categories of financial assets 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 consequential measurement gains or losses are recognised as other assets or other liabilities in the balance sheet. Changes in fair value are recognised under 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 with maturities of up to three months calculated from the time of acquisition; they are measured at nominal value. Cash in foreign currency is translated at the spot rate as of the balance sheet date.

Current tax assets and tax liabilities

Current tax assets and 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 and 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. Deferred tax assets are also recognised for tax loss carryforwards if it is probable that these tax loss carryforwards will be utilised in the future. 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 for the year ended December 31, 2010, each country-specific tax rate was used in determining deferred taxes on consolidation postings. Deferred taxes recognised at Group level for 2009 were measured at a standard average tax rate of around 27%. The deferred tax rates of the subsidiaries are between 10% and 42% (previous year: 19% and 42%). As in 2009, the deferred tax rate for RATIONAL AG is 27%. Deferred taxes that relate to items recognised in comprehensive income are also recognised in the statement of comprehensive income below Group earnings.

The carrying amount 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 against which at least part of the deferred tax asset can be used. This requires management to assess, among other things, the tax benefits arising from the available tax strategies and future taxable income. The reported amount of deferred tax could decline if the estimates of planned taxable income and the achievable tax benefits are reduced or current tax legislation limits the period during which, or the extent to which, future tax benefits can be utilised.

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 there is an obligation to a third party as a result of a past event, it is probable that this obligation will have to be settled in the future, and the amount required to settle the obligation can be reliably estimated. The carrying amount of 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 through profit and loss are derivatives classified as financial liabilities held for trading. Liabilities from finance leases are recognised on the date the leases are signed and at the present value of the lease instalments. Trade accounts payable and other liabilities are recognised at amortised cost.

Recognition of income and expense

The revenue from sales is recognised when the service is performed or when the risk is transferred to the customer. Operating expenses are recognised in the income statement when the service is utilised or on the date the expenses are incurred. Provisions for warranties are recognised on an individual basis or when the corresponding revenue is recognised. Interest income and expense are recognised in the period in which they accrue or are incurred. Research and development costs are expensed as incurred. Financing costs are expensed in the period in which they are incurred, unless they can be directly allocated to the acquisition, construction or manufacture of a qualifying asset.

Use of estimates and assumptions

In preparing the consolidated financial statements, estimates and assumptions are required in general and in particular for provisions and finance leases, as well as to assess whether goodwill is impaired. These estimates and assumptions may influence the amounts reported for assets, liabilities, and financial obligations as of the balance sheet date, as well as income and expenses for the year under review. The carrying amounts of the assets and liabilities concerned as of the balance sheet date are shown on the face of 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 assumptions about the risk situation and changes in interest rates, and assumptions about future earnings performance in the underlying cash-generating units. The carrying amounts of the items in question are disclosed individually in the relevant 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 policies.

Notes on financial instruments

RATIONAL's products are marketed worldwide by sales companies and independent sales partners, not directly to the end customer but 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, especially relating to receivables, liquidity risk relating to liabilities, as well as market risk, which consists of currency 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 preventive action. The following elements of the RATIONAL risk management system have particular relevance for the opportunities and risks connected with financial instruments (see also the risk report in the Group Management Report):

- The integrated RATIONAL planning process, which 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 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 corrective action to be taken 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. To minimise the risk arising in connection with our receivables, we collaborate worldwide with COFACE, one of the largest trade credit insurers.
- All business processes and internal control systems are documented in process descriptions. Quality and compliance are assured through regular training, as well as, thorough checks. Sensitive processes, such as the approval process for creditor invoices, are mapped using SAP workflows.
- The Internal Audit independently and objectively records and assesses any variances from targets. Undesirable developments are halted quickly and flexibly at an early stage.
- A professional treasury team implements the globally integrated treasury management system, providing quality cash management worldwide.
- The comprehensive insurance strategy is reviewed annually and adapted to the new risk environment.

Credit risk

RATIONAL supplies customers on all continents and in almost all regions of 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 risk and a risk to RATIONAL's credit rating, we submit customers of all Group companies worldwide to credit checks performed by COFACE, a credit insurance provider. The RATIONAL customer portfolio is rated as low risk under the "Coface @rating score".

As far as possible, customer receivables are insured on this basis. In the year under review, our corresponding credit insurance agreements were renewed for a further two years and the accompanying terms and conditions were almost unchanged. Under the existing arrangements, the credit insurance covers not only the risk of customer insolvency, but also protracted default (non-payment as the insured event). In the event of a claim, 90% of the loss on receivables is met by the credit insurer.

A credit policy valid for the entire Group sets out clear rules that apply from the beginning to the end of the order process. Training, prompt reporting and IT support ensure that the policy is properly implemented. The credit policy combines the "Minimum credit management requirements (MaCM)" of the "Verein für Creditmanagement" (German credit management association, VfCM) with the RATIONAL-specific "one-piece flow" process organisation.

As an alternative to credit insurance cover, other collateral (for example, irrevocable confirmed letters of credit, bank guarantees, and other customary bank collateral) or advance payments are requested, depending on the type and value of the goods or services to be provided. The supply of goods or services to a customer on the basis of open payment terms without collateral is only considered by the company in clearly defined exceptional cases. Such cases require a documented satisfactory payment history in the business relationship with the customer to date in combination with third-party credit ratings and financial data provided by the customer itself (annual financial statements and management analyses).

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

Dividing all trade receivables by segment, the risk distribution is as follows:

kEUR	2010	% of total	2009	% of total
Germany	3,319	6	3,190	6
Europe (excluding Germany)	45,120	77	40,713	80
Americas	7,853	13	3,695	7
Asia	2,416	4	1,683	3
Parent company	18	0	2,153	4
Total	**58,726**	**100**	**51,434**	**100**

RATIONAL is also exposed to significant credit risk in relation to money deposits. This applies in particular to the possible failure of the bank to meet its contractual obligations. For derivative financial instruments with a positive fair value, a credit risk arises from the possible failure of the contract partner to fulfil its obligations. Details of these risk factors are provided in the disclosures for the consolidated balance sheet and for derivative financial instruments.

Liquidity risk

Liquidity risk refers to the possibility that at some point in time RATIONAL may not be in a position to meet its payment obligations in full by the relevant due dates.

Corporate Treasury assigns top priority to the monitoring and provision of liquidity. It does so by implementing daily cash management and rolling liquidity planning, including the continuous monitoring and control of the Group's incoming and outgoing payments. The liquidity reserve also enables the Group to respond flexibly to considerable fluctuations in cash flow or any demand peaks that may occur, thereby ensuring that the Group meets all its payment obligations on time.

RATIONAL attaches great importance to internal financing; most of our global business growth over recent years has been funded in this way. In the event that RATIONAL should have additional need for external financing, contractually agreed, confirmed credit lines are available from several banks (with long-term Standard & Poor's ratings ranging from A to AA+).

Banks have given RATIONAL an investment-grade rating (AA to AAA). The existing credit lines are not subject to any covenants that could require the credit lines to be renegotiated in the event of non-compliance. Furthermore, the Group has not assigned any collateral to the banks in connection with the existing credit line agreements; instead, a negative covenant or a banks' "pari passu"-clause has been agreed. Under this clause, RATIONAL undertakes to treat all banks equally in relation to the provision of any collateral for comparable loans.

As of the balance sheet date, the Group's liquidity reserve from its own resources (including all existing fixed-term deposits, all of which had a maximum maturity of five months) amounted to a total of 163,137 thousand euros (previous year: 131,629 thousand euros). This also included currency reserves amounting to 1,430 thousand euros that were not freely convertible or were subject to strict currency restrictions (previous year: 796 thousand euros). As of the balance sheet date, the total amount of the contractually agreed credit lines was 35,669 thousand euros (previous year: 43,669 thousand euros). After taking into account assignments for subsidiaries and sureties, this leaves unused credit lines amounting to 31,995 thousand euros (previous year: 32,291 thousand euros).

Further information, especially on the liquidity reserve, and on existing external loans and their maturities, can be found in the relevant disclosures.

Market risk

Because of RATIONAL's international orientation, the fair values or future cash flows from financial instruments, taking the form of different asset and liability positions, may be exposed to market risk arising from changes in exchange rates, interest rates and commodity prices.

Exchange rate risk in this case relates to receivables, liabilities and anticipated transactions denominated in foreign currency. Anticipated transactions include planned cash flows from sales company receipts denominated in foreign currency after costs and other expenses in the same currency have been deducted. The interest rate risk relates to the finance lease liabilities and long-term loan agreements included in other liabilities. Price risk may primarily arise in relation to the purchase of raw materials for the manufacture 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 corrective action. Its activities are governed by corporate guidelines, and are supported, controlled and monitored by a professional treasury management system. Where deemed appropriate, and provided that effective hedging instruments are available, derivative financial instruments are used to counter any risks that are identified. This can involve the hedging of recognised, pending or anticipated transactions. Contractual partners in derivative financial instrument transactions are always banks with good to best quality credit ratings, i.e. with a Standard & Poor’s A-rating as a minimum.

Currency risk

One of the factors giving rise to currency risk is the possible change in the fair value (as of the balance sheet date) of existing balance sheet items denominated in foreign currencies (other than the functional currency) owing to exchange rate fluctuations (translation risk). This applies to existing receivables, liabilities and cash denominated in foreign currency. At RATIONAL, translation risk is not minimised by the use of hedges.

Another factor giving rise to currency risk is that the future cash flows resulting from a financial instrument in a foreign currency may differ significantly from the recoverable values as of the balance sheet date owing to changes in exchange rates (transaction risk). Transaction risk has an impact on both liquidity and the income statement.

The global transaction risk faced by the RATIONAL Group is determined, centrally pooled, and managed monthly with a rolling six-month horizon. Where necessary, any identified transaction risk is hedged by means of derivative financial instruments. This applies in particular to transactions in the freely convertible currencies of our companies in Sweden, the UK, Switzerland, Poland, the United States, Canada and Japan.

The local currencies of the sales companies in China and Brazil are subject to tight restrictions and are therefore not freely convertible. The local currency must therefore be exchanged to euros for the payment of goods imports and dividend payments. This is possible only within the country concerned and subject to the approval of the competent authorities. Currently, the foreign currency transactions in these two companies are not hedged because the volume of the transactions is low.

RATIONAL uses currency options and forward exchange contracts to hedge anticipated foreign currency transactions in freely convertible currencies. Currency options entered into by the Group include both plain vanilla put options and zero-cost options with or without knock-in options. Both European-style knock-in options (exercisable on expiry) and American-style knock-in options (exercisable at any time from inception) are used.

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 of the put option through the sale of a call option at the same time. A sold call option without knock-in is active right from inception. A sold call option with knock-in (trigger) is only activated once the knock-in level is breached. On maturity of the activated call option, the buyer (the bank) decides whether or not to exercise, depending on price. Unlike forward exchange transactions, the zero-cost option (without expenses resulting from option premiums) offers not only a guaranteed hedging rate, but also the ability to benefit from a favourable movement in the exchange rate.

Further information on the management of currency risk can be found in the disclosures on derivative financial instruments.

Interest rate risk

Interest rate risk is the risk of a possible change in fair values or future payments of financial instruments resulting from changes to market interest rates.

RATIONAL counteracts the risks relating to interest rates changes for future payments by agreeing fixed interest rates or by the use of interest rate/currency swaps.

For the existing real estate financing contracts, a fixed interest rate has been agreed to the end of 2017. The current financing contracts for production facilities stipulate fixed interest rates for the entire term.

To take advantage of differences in interest rates between various currency areas, the Group enters into interest rate/currency swaps with maturities of more than one year. This involves converting a fixed interest and repayment obligation in one currency into a fixed interest and redemption obligation in another currency. The interest payments and repayments of principal are made from the income generated in the other currency by the operating activities of the subsidiary in the country concerned. By using available foreign currency to make the payments, RATIONAL simultaneously reduces the existing currency risk within the Group (natural hedge). The terms and conditions relating to interest rate/currency swaps are designed in such a way that no premium is payable when the contract is entered into.

Further information can be found in the disclosures on liabilities to banks and on derivative financial instruments.

Price risk

In its production process, RATIONAL uses several thousand tonnes of high-quality stainless steel a year. The risk arising from changes in the price of stainless steel is governed both by the basic price of steel itself and by the fluctuations in the price of alloys on metals markets, which are reflected in what is known as the “alloy surcharge”.

Neither the basic price of steel nor that of alloy metals is hedged by the use of derivative financial instruments. Concerning the steel price, however, RATIONAL does have fixed contracts with the suppliers, under which the purchase price is set in advance for twelve months.

Classification of financial instruments

The following table shows the carrying amounts and fair values of financial instruments. With the exception of derivative financial instruments, which are recognised at fair value, these instruments are carried at amortised cost in the balance sheet. The relevant balance sheet items are reconciled to the categories of financial instruments reportable under IAS 39.

kEUR	Category	Fair value hierarchy*	Book value Dec. 31, 2010	Fair Value Dec. 31, 2010	Book value Dec. 31, 2009	Fair Value Dec. 31, 2009
Assets						
Trade receivables	a		58,726	58,726	51,434	51,434
Other financial assets						
Other short-term assets	a		754	754	399	399
Other long-term assets	a		245	237	222	214
Derivatives not in a hedging relationship	c	Level 2	95	95	73	73
Deposits with maturities of more than 3 months	a		115,900	115,921	96,000	95,999
Cash and cash equivalents	a		47,237	47,237	35,629	35,629
Financial assets	b		50	50	50	50
Liabilities						
Trade accounts payable	d		9,240	9,240	6,963	6,963
Other financial liabilities						
Other short-term liabilities	d		6,554	6,554	4,848	4,848
Derivatives not in a hedging relationship	e	Level 2	332	332	151	151
Financing leasing liabilities	d		465	465	1,280	1,275
Liabilities from loans	d		21,297	23,399	31,638	33,508
Of which: aggregated by category in accordance with IAS 39						
a) Loans and receivables			222,862	222,854	183,684	183,675
b) Held-to-maturity investments			50	50	50	50
c) Financial assets held for trading			95	95	73	73
d) Financial liabilities measured at amortised cost			37,556	39,658	44,729	46,594
e) Financial liabilities held for trading			332	332	151	151

* acc. to IFRS 7.27 B

The fair values of financial instruments have been determined as explained below:

For all financial instruments with maturities of less than one year, it is generally assumed for the sake of simplicity due to the short residual maturity that their fair values are the same as their carrying amounts. This applies to both current assets (cash and cash equivalents, trade receivables and other current assets) and current liabilities (trade accounts payable and other current liabilities).

Exceptions are derivatives, deposits with a maturity of more than three months, short-term loans and short-term portions of long-term loans.

The fair value of derivatives is determined using the discounted cash flow method. The fair value of European currency options is determined using the modified Black-Scholes formula in accordance with the Garman-Kohlhagen model.

For cash deposits with a maturity of more than three months, the fair value is determined using the discounted cash flow method. The interest to be apportioned to the fiscal year ended December 31, 2010 is included in other current assets and is therefore no longer included here.

The fair values of other non-current assets and finance lease liabilities are determined using the discounted cash flow method.

The fair values of the mostly non-current loan liabilities (but also those of the short-term loans and the short-term portions of long-term loans) are determined using the discounted cash flow method. To this end, the cash flows of the annuity loans at the different interest and repayment dates have been discounted using the relevant maturity-matched discount rates.

Investments are measured at amortised cost.

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

All financial instruments to be recognised at their fair value in the balance sheet according to IFRS 7.27B are classified at level 2 of the fair value hierarchy in accordance with IFRS 7.27A, as shown in the table above. This class includes financial instruments for which no price is quoted on a public market but that can be measured using the market prices of comparable financial instruments or using models based on input parameters observable on the market.

Sensitivity analysis for financial instruments

IFRS 7 requires a sensitivity analysis to be carried out to show the hypothetical effects of market risk on income and equity. This involves making assumptions with regard to company-specific risk variables connected with financial instruments.

Risk attached to the translation of currency items

As of the balance sheet date of December 31, 2010, RATIONAL was exposed to currency risk arising from activities in various foreign currencies. These risks are reflected in the "trade receivables," "other assets," "cash and cash equivalents," as well as "trade accounts payable" and "other liabilities" items. If, on December 31, 2010, the euro had been 10% stronger against the foreign currencies in which RATIONAL conducts its operations, the Group earnings and the currency reserve, and thus the total equity, would have been 3,242 thousand euros lower (previous year: 2,711 thousand euros lower). If the euro had been 10% weaker, the carrying amount reported in the functional currency would have been 3,242 thousand euros higher (previous year: 2,711 thousand euros higher). The hypothetical impact on profit of +/−3,242 thousand euros is primarily the result of significant currency sensitivities: +/−1,206 thousand euros for EUR/GBP; +/−771 thousand euros for EUR/USD. The effect of derivatives, which are dealt with in the next section, is not included.

Risk attached to derivatives

RATIONAL limits its exposure to transaction risk associated with currencies and interest rates through the use of derivatives. RATIONAL classifies derivative financial instruments as "held for trading" and recognises them at fair value because it does not fully meet the IAS 39 requirements for hedge accounting, despite the close alignment of the hedge with the underlying transaction. Any changes in fair value are recognised in the income statement.

Derivative hedging transactions relate to a future point in time, so a theoretical risk can arise from the existing 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. To this end, it assumes a simultaneous parallel increase (decrease) of 10% in the value of the euro as against all other foreign currencies. This assumption is included in a measurement of all derivative financial instruments as of the reporting date, and thus in the calculation of the variances from the fair values actually shown on the balance sheet.

The measurement methods applied are based on established mathematical models and correspond to the methods used to measure derivative financial instruments in the balance sheet:

- Futures and swaps are measured using the discounted cash flow method.
- European currency options are measured using Garman-Kohlhagen's modified Black-Scholes formula.

The aim of this measurement according to IFRS 7 on the basis of assumed changes in the market situation is to show what impact this measurement would have had on Group earnings if the changed market situations described above had applied at the end of the year. For RATIONAL, when actual changes to the market situation occur, the effects of the corresponding underlying transactions counter the effects of the derivatives shown below.

The 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 effects of real developments in markets worldwide on the actual future income statement can vary considerably from these estimates.

kEUR	Theoretical effect on income* Devaluation of euro		Theoretical effect on income* Revaluation of euro	
	2010	**2009**	**2010**	**2009**
Currency options	–641	–1,423	383	481
Interest rate/currency swaps	–145	–196	145	159
Total	**–786**	**–1,619**	**528**	**640**

* 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 operating and investing activities in the long term, to achieve a high credit rating for the company, and to maximise the value of the company. 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 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 lenders.

RATIONAL's equity ratio as of December 31, 2010 was 75.3% (previous year: 71.4%). The return on average equity was 38% in the year under review (previous year: 42%).

Another important key figure in terms of strategic control is return on invested capital (ROIC), which gives the ratio of profit or loss from operating activities after income taxes to average invested capital. A company only adds value if ROIC exceeds the cost of capital. RATIONAL's ROIC of 34% (previous year: 35%) significantly exceeds its assumed cost of capital of approximately 9%, thus creating value added of 59,288 thousand euros (previous year: 51,031 thousand euros).

kEUR	2010	2009
Group earnings	79,793	67,305
+ Interest on borrowings after tax	919	1,067
Profit or loss from operating activities after tax	**80,712**	**68,372**
Equity*	210,008	161,654
+ Provisions for pensions*	692	651
+ Borrowings subject to interest*	27,340	30,377
Invested capital*	**238,040**	**192,682**
ROIC	**34 %**	**35 %**
Value added	**59,288**	**51,031**

* Annual averages: (figure as of Jan. 1 + figure as of Dec. 31) / 2

Interest-bearing debt includes the Group's loan and finance lease liabilities.

Notes on the Statement of Comprehensive Income

1. 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. Revenue includes all income from sales attributable to the typical business activities of RATIONAL.

In fiscal year 2010, RATIONAL generated worldwide revenue of 350,136 thousand euros (previous year: 314,354 thousand euros), 77% (previous year: 78%) of which was attributable to appliance sales. The remaining 23% (previous year: 22%) was generated from the sale of accessories, spare parts, and care products.

The regional breakdown of revenue by customer location was as follows:

kEUR	2010	% of total	2009	% of total
Germany	55,832	16	53,304	17
Europe (excluding Germany)	181,104	51	160,128	51
Americas	55,373	16	41,175	13
Asia	37,598	11	41,064	13
Rest of the world *	20,229	6	18,683	6
Total	**350,136**	**100**	**314,354**	**100**

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

France accounted for revenue of 34,869 thousand euros (previous year: 32,575 thousand euros), a significant proportion of the Group's total revenue.

Revenue generated from OEM partners amounted to 20,715 thousand euros (previous year: 18,329 thousand euros).

Further revenue breakdowns appear in the note on Operating segments.

2. 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.

The cost of materials was 110,992 thousand euros, an increase of 9% on the previous year (101,395 thousand euros). This was attributable to the increase in sales volume and the higher price of high-grade stainless steel compared with 2009.

3. 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.

Following a reduction of sales expenses in fiscal year 2009, targeted investment in sales and marketing was resumed in 2010, driven by positive economic trends overall and the significant potential for growth worldwide.

4. Research and development expenses

Research and development activities at RATIONAL largely consist of projects focusing on application research and the development of new products to secure the company's technological edge and thus its long-term success. The costs are fully expensed and reported under "research and development expenses" on the face of the income statement.

5. General administration expenses

General administration expenses include business administration costs, such as accounting, human resources, finance, IT, business finance and controlling as well as certain executive management costs.

6. Other operating income

kEUR	2010	2009
Exchange gains	7,958	6,895
Insurance recoveries	667	1,062
Income from value adjustments and depreciation on accounts receivables	303	491
Other (< 100 thousand euros in each case)	165	96
Total	**9,093**	**8,544**

Exchange gains were primarily generated by fluctuations in the exchange rate between origination and payment dates, and by measuring balance sheet items at the spot rate. Exchange gains include income from financial instruments measured at fair value through profit or loss amounting to 1,133 thousand euros (previous year: 662 thousand euros).

In the year under review, the “insurance recoveries” item included income of 490 thousand euros (previous year: 635 thousand euros) from the payment of claims by credit insurers relating to receivables defaults.

7. Other operating expenses

kEUR	2010	2009
Exchange losses	6,006	5,439
Depreciation and value adjustments on accounts receivables	1,053	1,489
Other taxes	389	218
Donations	114	105
Loss from asset retirements	13	195
Other (< 100 thousand euros in each case)	140	183
Total	**7,715**	**7,629**

Exchange losses were primarily generated by fluctuations in the exchange rate between origination and payment dates, and by measuring balance sheet items at the spot rate. Exchange losses include expenses for financial instruments measured at fair value through profit or loss amounting to 1,293 thousand euros (previous year: 362 thousand euros).

8. Financial results

kEUR	**2010**	**2009**
Income from financial assets	63	66
Interest and similar income	998	1,007
Interest and similar expenses	–1,217	–1,428
Total	**–156**	**–355**

'Income from financial assets' reflects the dividend paid to RATIONAL AG by the non-consolidated MEIKU Vermögensverwaltung GmbH.

9. Taxes on income

The following table shows the reconciliation from expected to reported tax expense. An average tax rate of approximately 27% (previous year: 27%) was applied to profit from ordinary activities to calculate expected tax expense for 2010. This tax rate was determined on the basis of a corporate income tax rate of 15% and a solidarity surcharge of 5.5% levied on corporate income tax, as well as a municipal trade tax multiplier of 320%, as applied to the parent company. Deferred taxes recognised at Group level for 2009 were measured at a standard average tax rate of around 27%. Deferred taxes recognised at Group level for 2010 have been measured on the basis of each country-specific income tax rate.

kEUR	2010	2009
Earnings before taxes (EBT)	105,611	90,127
Expected tax rate in percent	27.09	27.09
Expected income tax	**28,610**	**24,415**
Variations in local tax rates in the subsidiaries	–2,620	–1,850
Changes in tax rates for deferred tax in the consolidated group	–527	–
Tax refunds from previous years	–154	–205
Tax expenses relating to previous years	61	307
Non-tax-deductible expenses and other deductible amounts	448	155
Reported income tax	**25,818**	**22,822**

Deferred tax assets reported for December 31, 2010 amounted to 3,810 thousand euros compared with 2,818 thousand euros as of December 31, 2009. The deferred tax income attributable to 2010 was therefore 992 thousand euros compared with a tax expense of 99 thousand euros in 2009. The current income tax expense thus amounted to 26,810 thousand euros (previous year: 22,723 thousand euros). In fiscal year 2010, the tax expense included taxes of 179 thousand euros (previous year: 167 thousand euros) on dividend payments made by subsidiaries to RATIONAL AG.

The deferred taxes recognised for fiscal years 2010 and 2009 are attributable to the following balance sheet items:

			Effect on net income	
kEUR	2010	2009	2010	2009
Inventories	3,717	2,528	1,189	–280
Provisions	279	262	17	68
Trade receivables	37	98	–61	95
Other	–223	–70	–153	18
Total	**3,810**	**2,818**	**992**	**–99**

Deferred tax assets of 3,742 thousand euros (previous year: 2,743 thousand euros) are expected to have a maturity of less than one year. Of the reported amounts, 68 thousand euros (previous year: 75 thousand euros) are non-current. Current deferred taxes result from various temporary differences between amounts reported in the financial statements and their tax base as well as from consolidation measures, while non-current deferred taxes are based on measurement differences for pension provisions and on temporary differences between carrying amounts of non-current assets reported in the financial statements and their tax base. If a company has deferred tax assets and liabilities with the same maturity, they are reported on a net basis. Deferred tax liabilities of 284 thousand euros (previous year: 151 thousand euros) have been recognised for dividends expected to be distributed by the subsidiaries in 2011. This item therefore results in a tax expense of 133 thousand euros for fiscal year 2010 (previous year: tax income of 9 thousand euros).

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 Group earnings of 79,793 thousand euros (previous year: 67,305 thousand euros), basic and diluted earnings per share for fiscal year 2010 were 7.02 euros (previous year: 5.92 euros).

The earnings per share shown for fiscal year 2010 in compliance with IFRS/IAS also correspond to DVFA earnings.

11. Dividend per share

The dividend of 3.50 euros per share proposed by the Supervisory Board and the Executive Board of RATIONAL AG for fiscal year 2009 was approved by a majority at the shareholders' meeting on April 21, 2010. Total dividends of 39,795 thousand euros were paid in April 2010.

The Supervisory Board and the Executive Board propose to the shareholders' meeting that a dividend of 5.00 euros per share plus a special dividend of 4.00 euros per share, i.e. 9.00 euros per share in total, be paid for fiscal year 2010, the total distribution in this case being 102,330 thousand euros.

Notes on the Balance Sheet - Assets

12. Intangible assets

kEUR	Industrial and similar rights	Goodwill	Total
Acquisition cost			
Balance at Jan. 1, 2010	4,497	424	4,921
Additions	458	–	458
Disposals	–13	–	–13
Balance at Dec. 31, 2010	4,942	424	5,366
Amortisation			
Balance at Jan. 1, 2010	3,662	–	3,662
Additions	562	–	562
Disposals	–13	–	–13
Balance at Dec. 31, 2010	4,211	–	4,211
Book Values			
Balance at Dec. 31, 2010	731	424	1,155
Acquisition cost			
Balance at Jan. 1, 2009	4,611	424	5,035
Additions	134	–	134
Disposals	–248	–	–248
Balance at Dec. 31, 2009	4,497	424	4,921
Amortisation			
Balance at Jan. 1, 2009	3,174	–	3,174
Additions	736	–	736
Disposals	–248	–	–248
Balance at Dec. 31, 2009	3,662	–	3,662
Book Values			
Balance at Dec. 31, 2009	835	424	1,259

Intangible assets comprise industrial and similar rights recognised at cost, as well as goodwill. Self-created assets are not included. Amortisation allowed exclusively on the basis of tax law has not been recognised. If impairment is identified in excess of amortisation, the asset is written down to its recoverable amount. In fiscal year 2010, no impairment losses were recognised on intangible assets. None of the intangible assets is subject to pledges or restrictions on disposal, and the Group does not have any contractual obligations to purchase intangible assets.

Amortisation of intangible assets amounting to 562 thousand euros (previous year: 736 thousand euros) was recognised in the income statement and allocated to the various functional areas as follows: 34 thousand euros (previous year: 46 thousand euros) to production, 93 thousand euros (previous year: 102 thousand euros) to development, 94 thousand euros (previous year: 94 thousand euros) to sales and services, and 341 thousand euros (previous year: 494 thousand euros) to general administration.

13. Goodwill

A net carrying amount of 424 thousand euros for goodwill was reported under intangible assets as of the balance sheet date. This goodwill arose from RATIONAL's acquisition of FRIMA - T SAS, Wittenheim, in 1993.

Under IFRS 3, goodwill cannot be amortised over its useful life, but must be tested for impairment at least annually in compliance with IAS 36.

In December 2010, the goodwill related to FRIMA - T SAS was subjected to an impairment test using the discounted cash flow method. As in the previous year, the legal entity FRIMA - T SAS was identified as a smallest possible cash-generating unit. Its recoverable amount was 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 four years, based on past experience. Growth in earnings was calculated on the same basis, using a contribution margin model. This model assumes 0% growth in earnings from the fifth year onward (annuity). In accordance with IAS 36, no allowance was made for any future restructuring and associated increases in earning power. The applied discount rate of 7.2% after tax, which equated to 10.2% before tax, (previous year: 8.9% after tax, 12.7% before tax) took appropriate account of present market forecasts regarding the time value of money and risk estimates in relation to assets. The present value calculated under this method was substantially higher than the carrying amount of the FRIMA - T SAS cash-generating unit. No impairment was identified and there was, therefore, no requirement to recognise any impairment loss in respect of the goodwill.

Although management believes that the assumptions used in calculating the recoverable amount are appropriate, unforeseen changes in these assumptions could lead to an impairment loss, which could have a negative impact on net assets, financial position, and profit or loss.

14. Property, plant and equipment

kEUR	Land and buildings	Technical equipment, machinery	Operating and office equipment	Total
Acquisition cost				
Balance at Jan. 1, 2010	58,191	20,658	14,931	93,780
Currency differences	40	4	255	299
Additions	317	2,327	1,374	4,018
Disposals	–88	–61	–660	–809
Balance at Dec. 31, 2010	58,460	22,928	15,900	97,288
Amortisation				
Balance at Jan. 1, 2010	17,840	10,043	9,576	37,459
Currency differences	25	2	183	210
Additions	1,752	2,294	2,188	6,234
Disposals	–88	–48	–634	–770
Balance at Dec. 31, 2010	19,529	12,291	11,313	43,133
Book values				
Balance at Dec. 31, 2010	38,931	10,637	4,587	54,155
Acquisition cost				
Balance at Jan. 1, 2009	57,905	20,209	16,231	94,345
Currency differences	10	–2	–5	3
Additions	455	1,297	496	2,248
Disposals	–179	–846	–1,791	–2,816
Balance at Dec. 31, 2009	58,191	20,658	14,931	93,780
Amortisation				
Balance at Jan. 1, 2009	15,810	8,314	9,026	33,150
Currency differences	7	–1	–	6
Additions	2,193	2,420	2,240	6,853
Disposals	–170	–690	–1,690	–2,550
Balance at Dec. 31, 2009	17,840	10,043	9,576	37,459
Book values				
Balance at Dec. 31, 2009	40,351	10,615	5,355	56,321

Property, plant and equipment comprises land and buildings, technical equipment and machinery, and operating and office equipment recognised at cost less depreciation.

If impairment is identified in excess of depreciation, the asset is written down to its recoverable amount. In fiscal year 2010, no impairment losses were recognised on property, plant and equipment. Land charges of 23,000 thousand euros are registered for the new plant in Landsberg. There are no restrictions on disposal. Exchange rate differences can occur when foreign-currency-denominated carrying amounts for property, plant and equipment held by the subsidiaries are translated into the functional currency.

Depreciation of property, plant and equipment amounting to 6,234 thousand euros in total (previous year: 6,853 thousand euros) was recognised in the income statement and allocated to the various functional areas as follows: 3,800 thousand euros (previous year: 4,154 thousand euros) to production, 1,228 thousand euros (previous year: 1,265 thousand euros) to sales and service, 866 thousand euros (previous year: 876 thousand euros) to development, and 340 thousand euros (previous year: 558 thousand euros) to general administration.

15. Finance leasing

Property, plant and equipment includes land and buildings purchased under finance leases and therefore recognised in accordance with the requirements of IAS 17 as the Group is the beneficial owner without owning legal title.

As of December 31, 2010, the net carrying amounts of the land and buildings in question amounted to 8,283 thousand euros (previous year: 8,761 thousand euros). Accumulated depreciation increased by 478 thousand euros (previous year: 478 thousand euros) to 5,282 thousand euros (previous year: 4,804 thousand euros). The buildings have an expected useful life of 25 years.

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 disclosures.

16. Financial assets

As in previous years, financial assets amounting to 50 thousand euros (previous year: 50 thousand euros) relate to the carrying amount of the investment in MEIKU Vermögensverwaltung GmbH. Due to its minor significance for RATIONAL's net assets, financial position and profit or loss, this entity is not consolidated.

The original cost of the financial assets was 2,725 thousand euros (previous year: 2,725 thousand euros). Accumulated dividend-related writedowns to fair value amounted to 2,675 thousand euros (previous year: 2,675 thousand euros).

17. Inventories

kEUR	2010	2009
Raw materials, consumables and supplies	7,835	7,255
Work in progress	438	427
Finished goods and goods for resale	11,074	10,140
Total	**19,347**	**17,822**

Inventories are recognised at cost, including acquisition costs, all costs directly attributable to the production process, and reasonable production overheads.

In the period under review, writedowns on inventories were increased from 871 thousand euros to 1,572 thousand euros (previous year: increase from 843 thousand euros to 871 thousand euros).

As of the balance sheet date (December 31, 2010), the inventories were not subject to any restrictions on disposal or pledges.

18. Trade receivables

kEUR	2010	2009
Trade receivables at nominal value	59,360	52,017
Write-downs for doubtful accounts receivables	–634	–583
Total	**58,726**	**51,434**

All receivables are due within one year.

As of the balance sheet date, 8% (previous year: 10%) of receivables were overdue. Of these, 84% (previous year: 81%) were between one and 60 days overdue.

The following table shows the breakdown of trade receivables by days overdue:

Trade receivables at nominal value

	Total	Not due	Overdue			
kEUR			1–60 days	61–90 days	91–120 days	> 120 days
Balance at Dec. 31, 2010	59,360	54,569	4,017	417	137	220
Balance at Dec. 31, 2009	52,017	47,007	4,066	215	150	579

As of the balance sheet date, writedowns of 302 thousand euros (previous year: 274 thousand euros) had been applied to the trade receivables not yet due amounting to 54,569 thousand euros (previous year: 47,007 thousand euros). In the case of the trade receivables already overdue amounting to a total of 4,791 thousand euros (previous year: 5,010 thousand euros), write-downs of 332 thousand euros (previous year: 309 thousand euros) had been applied.

Where customers have long-term payment difficulties, the Group enters into instalment agreements where possible or initiates collection via the credit insurer or external collection agencies. Receivables for which the Group has entered into instalment agreements continue to be recognised with their original maturity and, therefore, are considered overdue. As of the balance sheet date, instalment agreements were in place for a receivables volume of less than 100 thousand euros.

As of December 31, 2010, 80% (previous year: 80%) of unsettled receivables were covered by credit insurance. In addition, the Group held collateral in the form of irrevocable, confirmed bank letters of credit with a value of 3,323 thousand euros (previous year: 2,259 thousand euros). Receivables of 75 thousand euros (previous year: 264 thousand euros) related to public sector customers. This gives a total cover ratio for trade receivables of 86% (previous year: 85%). If the fact that value added tax paid on bad debts will be refunded by the tax authorities is taken into account, the cover ratio is 96% (previous year: 94%). Taking into account refundable value added tax, the economic risk of bad debt therefore amounted to 2,354 thousand euros (previous year: 3,260 thousand euros) as of the balance sheet date.

The credit risk remaining after this security has been taken into account does not contain any material cluster risks. Cluster risks are determined on the basis of any unsecured receivables with a principal amount of more than 100 thousand euros per individual customer. The total for this category is 429 thousand euros (previous year: 341 thousand euros) and is divided among three (previous year: two) customers. This equates to 0.73% (previous year: 0.66%) of trade receivables recognised in the balance sheet. The customer with the largest unsecured receivable of 185 thousand euros (previous year: 237 thousand euros) accounts for just 0.32% (previously: 0.46%) of the recognised receivables.

Write-downs for doubtful accounts receivables

kEUR	Balance at Jan 1	Currency effekt	Consumption	Reversal	Additions	Balance at Dec 31
2010	583	17	–408	–182	624	634
2009	493	3	–280	–204	571	583

Adequate allowances are recognised for identifiable credit risk on receivables. Receivables written off in 2010 amounted to 752 thousand euros, or 0.21% of revenue for the year (previous year: 945 thousand euros, 0.30% of annual revenue). This equates to 1.3% of total receivables as of the balance sheet date (previous year: 1.8%). This figure does not include any claims settled by or payments expected from the credit insurer, which amounted to 490 thousand euros in 2010 (previous year: 635 thousand euros).

19. Other assets

kEUR	2010	2009
Value-added tax refund claims	2,474	1,844
Claims to suppliers	1,492	1,057
Deposits	408	355
Receivables from interest	258	112
Receivables from travel expense advances	207	181
Corporation tax refund claims	154	422
Insurance	110	145
Fair value of derivative financial instruments	95	73
Other (< 100 thousand euros in each case)	136	139
Total	**5,334**	**4,328**

Of the other assets shown in the table, 5,089 thousand euros (previous year: 4,106 thousand euros) is classified as current.

Security deposits includes receivables amounting to 245 thousand euros (previous year: 222 thousand euros) that are due after more than one year. These non-current assets have a fair value of 237 thousand euros (previous year: 214 thousand euros). For reasons of materiality, non-current assets were not reported at their discounted fair values, but at cost.

20. Deposits with maturities of more than 3 months

As of the balance sheet date, the Group reported German fixed-term deposits with maturities of up to 9 months and amounting to a total of 115,900 thousand euros (previous year: 96,000 thousand euros). The longest maturity is until May 2011. None of these deposits has been pledged as collateral.

RATIONAL places greater emphasis on capital retention than on returns and therefore considers it imperative to protect its deposits adequately. In the case of German fixed-term deposits, this protection is obtained from the German deposit protection fund. RATIONAL only makes deposits with banks that have a Standard & Poor's rating of at least A and diversifies risk by spreading its fixed-term deposits among a number of banks. As of December 31, 2010, these deposits were spread among five banks, with no single bank accounting for more than 34% of the total.

21. Cash and cash equivalents

Corporate Treasury manages the Group's cash and cash equivalents worldwide, other than in countries where this is prevented by restrictions on capital movements, such as in Russia, Brazil, China or India.

The largest proportion of cash and cash equivalents is concentrated at the parent company in Germany. The total amount is distributed over several banks (diversification). Deposits at German banks are protected by the deposit protection fund. At RATIONAL, cash and cash equivalents in Germany include not only balances on current accounts but also all fixed-term deposits and all demand deposits.

Cash and cash equivalents of 47,237 thousand euros (previous year: 35,629 thousand euros) were reported as of the balance sheet date. Deposits in foreign currencies are measured at the rate applicable on the balance sheet date. No cash or cash equivalents have been pledged as collateral.

kEUR	Currency	2010	2009
Fixed-term deposits with maturities of up to 3 months	EUR	9,900	9,000
Deposits incl. demand deposits	EUR	23,644	13,134
Deposits incl. demand deposits	GBP	6,088	2,602
Deposits incl. demand deposits	USD	2,800	5,888
Deposits incl. demand deposits	SEK	829	1,615
Deposits incl. demand deposits	CAD	813	454
Deposits incl. demand deposits	CHF	624	785
Deposits incl. demand deposits	PLN	164	439
Deposits	BRL	820	207
Deposits	JPY	758	524
Deposits	RUB	519	808
Deposits	CNY	204	103
Deposits other currencies and cash in hand	various	74	70
Total		**47,237**	**35,629**

Notes on the Balance Sheet – Equity and Liabilities

22. Equity

Changes in equity are reported in the statement of changes in equity as a component of the consolidated financial statements.

Subscribed capital

RATIONAL AG's subscribed capital as of December 31, 2010 remained unchanged at 11,370 thousand euros divided into 11,370,000 no-par-value bearer shares, each with a nominal value of 1.00 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 plan is described in the disclosures on stock option plans.

Capital reserves

Capital reserves consist mainly of the premium from the initial public offering less the costs associated with the initial public offering. Capital reserves also include income and expenses taken directly to equity and which resulted primarily from the entitlements under the second tranche of the stock option plan dated February 3, 2000 paid out in previous years as cash compensation to members of the Executive Board.

Revenue reserves

The legal reserves recognised under revenue reserves and transferred in accordance with Section 150 of the German Stock Corporation Act (AktG) amount to 514 thousand euros, as in the previous year. Past earnings of companies included in the consolidated financial statements continue to be included in revenue reserves unless they have been distributed as dividends.

23. Provisions 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 funded exclusively by pension provisions, which were increased in fiscal year 2010 to 697 thousand euros (previous year: 688 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, any actuarial gains and losses arising from the measurement of pension provisions and the calculation of pension costs are recognised immediately and in full in the income statement. In the year under review, the actuarial gain resulting from the difference between the expected and actual change in the pension obligation was 6 thousand euros (previous year: actuarial loss of 22 thousand euros). The full amount of the defined benefit obligation is recognised in the balance sheet.

Administration and selling expenses included the following pension benefit expenses:

kEUR	2010	2009
Interest expense	35	37
Recognised actuarial losses	21	71
Total	**56**	**108**

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

kEUR	2010	2009
Efficiency-oriented obligation Jan. 1	688	614
Interest expense	35	37
Paid obligations	–47	–34
Recognised actuarial losses	21	71
Efficiency-oriented obligation Dec. 31	**697**	**688**

The benefits paid in 2009 relate to payments to one pension recipient, in 2010 they relate to both mentioned recipients.

The calculations were based on the following assumptions:

Discount rate: 4.80% (previous year: 5.25%)
Pension progression rate: 1.75% (previous year: 1.75%)

K. Heubeck's mortality tables (2005 G version) were used as the biometric basis for the calculations.

The defined benefit obligations for the current and the previous four reporting periods are as follows:

kEUR	2010	2009	2008	2007	2006
Efficiency-oriented obligation Dec. 31	697	688	614	617	672

24. Liabilities for current tax

2010

kEUR	Balance at Jan. 1, 2010	Currency differences	Consumption	Additions	Balance at Dec. 31, 2010
Taxes on income	4,564	138	–4,702	7,172	7,172

2009

kEUR	Balance at Jan. 1, 2009	Currency differences	Consumption	Additions	Balance at Dec. 31, 2009
Taxes on income	3,264	28	–3,292	4,564	4,564

25. Other provisions

2010

kEUR	Balance at Jan. 1, 2010	Currency differences	Consumption	Additions	Balance at Dec. 31, 2010	thereof non-current
Personnel	8,482	189	–8,341	8,254	8,584	490
Trade bonuses	3,072	177	–3,249	2,710	2,710	–
Warranty	4,980	8	–3,512	4,829	6,305	2,536
Other	2,250	51	–2,301	2,738	2,738	50
Total	**18,784**	**425**	**–17,403**	**18,531**	**20,337**	**3,076**

2009

kEUR	Balance at Jan. 1, 2009	Currency differences	Consumption	Additions	Balance at Dec. 31, 2009	thereof non-current
Personnel	7,033	13	–7,041	8,477	8,482	469
Trade bonuses	3,527	82	–3,559	3,022	3,072	–
Warranty	4,181	–7	–4,070	4,876	4,980	1,798
Other	3,492	1	–3,493	2,250	2,250	–
Total	**18,233**	**89**	**–18,163**	**18,625**	**18,784**	**2,267**

Provisions for personnel and social security obligations primarily comprise estimated expenses for variable remuneration components and for the holiday allowance and Christmas bonus.

The provision for trade bonuses is recognised for outstanding discounts yet to be granted as of the balance sheet date.

The warranty provision covers the Group's liability to ensure its products are fully functioning. To determine this provision, it is necessary to make assumptions about the future expense that may be incurred as a result of warranty claims. The provision has essentially been determined on the basis of the existing claims history.

The “Other” item includes provisions for freight, contribution obligations, marketing costs and a large number of other items each of only an insignificant amount.

As of the balance sheet date, the non-current portion of other provisions amounted to a total of 3,076 thousand euros (previous year: 2,267 thousand euros). Non-current provisions are for the first time reported as a separate item in this consolidated balance sheet. Previously, they were included in the current provisions. As of December 31, 2008, the non-current portion of other provisions amounted to 838 thousand euros. For reasons of materiality, the consolidated balance sheet as of December 31, 2008 has not been restated. Likewise for reasons of materiality, country-specific rules on the discounting of provisions have still been applied in the consolidated financial statements.

26. Liabilities to banks

As at December 31, 2010, liabilities to banks amounted to 21,297 thousand euros in total (previous year: 31,638 thousand euros), distributed over several banks.

There are no longer any short-term loans included in the balance sheet as of December 31, 2010. The short-term loan of 8,000 thousand euros reported as of December 31, 2009 was repaid on schedule during 2010.

The option of assigning the rights under these long-term agreements to third parties has been contractually excluded.

In fiscal year 2008, RATIONAL had entered into multi-year annuity loan agreements to finance the acquisition of new production facilities. Fixed interest rates were agreed for the entire term of the agreements. The last repayment of principal will be made in 2013. As of December 31, 2010, the remaining liabilities in connection with these loans amounted to 1,613 thousand euros (previous year: 2,757 thousand euros).

Other liabilities to banks relate to two annuity loan agreements, secured by land charges, to fund the construction of an assembly and distribution building in Landsberg. The construction was completed in 2008. Both agreements include fixed interest rates until the end of 2017, and both are scheduled to expire at the end of 2022. As of December 31, 2010, the remaining liabilities in connection with these loans amounted to 19,684 thousand euros (previous year: 20,881 thousand euros).

Of the liabilities to banks, the following payments will become due in subsequent periods:

kEUR	2011	2012 – 2015	From 2016
Payments as of December 31, 2010	3,254	9,144	15,007
kEUR	**2010**	**2011 – 2014**	**From 2015**
Payments as of December 31, 2009	11,442	10,240	17,150

For payments to be made after the fixed interest period has ended, it has been assumed that the terms and conditions will remain unchanged.

27. Trade accounts payable

As a result of the excellent liquidity position payables to suppliers are settled under deduction of early payment discounts. The following table shows a breakdown of maturities for trade accounts payable and the resulting expected cash outflows, based on the payment terms agreed with suppliers:

	Total	Due dates		
kEUR		Up to 30 days	30–60 days	> 60 days
2010	9,240	8,940	294	6
2009	6,963	6,609	350	4

28. Other liabilities

kEUR	2010	2009
Liabilities from value-added tax	4,742	3,094
Liabilities to business partners	4,060	3,360
Liabilities from wages, salaries and other personnel costs	3,773	2,719
Liabilities from PAYE and church taxes	1,824	1,723
Liabilities for consulting and auditing services	1,346	781
Liabilities from finance leasing agreements	465	1,280
Fair value of derivative financial instruments	332	151
Other taxes	137	76
Other (< 100 thousand euros in each case)	26	90
Total	**16,705**	**13,274**

Finance lease liabilities in accordance with IAS 17 were reduced in fiscal year 2010 by the amount of the regular repayments of principal under these leases. These repayments amounted to 815 thousand euros in 2010 (previous year: 772 thousand euros).

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

Term; interest	2010			2009		
	Total	Remaining		Total	Remaining	
kEUR		Up to 1 year	> 1 year		Up to 1 year	> 1 year
a) until 2011; 6.65%	278	278	–	737	459	278
b) until 2011; 6.05%	35	35	–	95	60	35
c) until 2011; 3.50%	152	152	–	448	296	152
Total	**465**	**465**	**–**	**1,280**	**815**	**465**

The contract modules a), b) and c) in the above table are elements of finance leases. Fixed interest rates have been agreed over the entire term, as have fixed lease instalments, which are allocated on a straight-line basis 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 contractually agreed that it would be possible for the lessee to enter into a loan agreement to cover the fixed resale value (purchase option for RATIONAL AG) for the leased asset at the end of the lease.

Lease payments amounting to 475 thousand euros will become due for payment under finance leases in 2011. These lease payments comprise a present value of 465 thousand euros and a discounting amount of 10 thousand euros. As of December 31, 2009, total payments of 1,344 thousand euros had been expected for the years 2010 and 2011.

As of December 31, 2010, all other liabilities were current.

Notes on the Cash Flow Statement

29. Cash flow statement

The statement of cash flows shows the changes in RATIONAL's cash and cash equivalents during the year under review. In compliance with IAS 7, the statement of cash flows reports the cash flows classified by operating, investing and financing activities.

Cash and cash equivalents include items subject to restrictions on disposal. These restrictions on disposal relate to an amount of 1,430 thousand euros (previous year: 796 thousand euros). Cash and cash equivalents increased from 35,629 thousand euros at the start of the fiscal year to 47,237 thousand euros as of December 31, 2010. In addition, RATIONAL had fixed-term deposits as of the balance sheet date amounting to 115,900 thousand euros (previous year: 96,000 thousand euros). These deposits had maturities of more than three months from the date of deposit and therefore cannot be included in cash and cash equivalents.

Other Notes on the Group Financial Statements

30. 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 measured with sufficient reliability.

At RATIONAL, warranty obligations could be considered contingent liabilities, although they are covered by appropriate provisions. Other provisions are itemised in the relevant disclosures.

31. Employees and personnel costs

The average size of the workforce increased from 1,031 employees in fiscal year 2009 to 1,058 in the year under review. The average number of people employed outside Germany increased by 37 to 446 (previous year: 409).

The largest growth in relation to the number of people employed occurred in the area of sales and marketing, reflecting the expansion of the international sales organisations.

The breakdown of employees by functional area is as follows:

Employees by function	2010	% of total	2009	% of total
Production and Dispatch	285	27	285	27
Sales and Marketing	423	40	400	39
Technical Customer Service	120	11	120	12
Research and Development	74	7	70	7
Administration	156	15	156	15
Average number of employees	**1,058**		**1,031**	
of which abroad	446	42	409	40

As of December 31, 2010, the number of employees was 1,092, compared with 993 as of the same date in the previous year. The breakdown of the additional 99 employees by functional area is as follows: Production and delivery process 4, sales and marketing 68, technical customer service 2, research and development 14, administration 11.

Personnel costs amounted to 74,284 thousand euros in 2010 (previous year: 71,067 thousand euros).

kEUR	2010	2009
Salaries and wages	62,800	59,902
Social security	11,484	11,165
Total	**74,284**	**71,067**

32. Derivative financial instruments

As a result 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 hedging and financing activities conducted by any of the RATIONAL companies. The activities of Corporate Treasury are governed by written corporate guidelines, which stipulate, among other requirements, the implementation of the dual control principle for treasury activities. The necessary treasury activities are supported, managed and monitored by a professional treasury management system.

Derivative financial instruments are used to counter any identified transaction risk. The financial instruments internally permitted for this purpose include futures, swaps, plain vanilla options and zero-cost options. Derivative financial instruments are used to hedge recognised, pending and anticipated transactions. A portion of the identified risk is hedged for a period of six to twelve months. RATIONAL does not generally enter into any contractual commitments unless there is a reasonable alignment with an underlying transaction in terms of substance, value and timing.
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 classifies derivative contracts as “held for trading” and recognises them at fair value because it does not fully meet the IAS 39 requirements for hedge accounting (despite the close alignment of the hedge with the underlying transaction). On the day of trading, derivative financial instruments 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 recognition of derivatives at fair value is based on the figures supplied by the relevant counterparty bank for the measurement date in question. The banks measure fair value on the basis of market data available as of the measurement date using recognised mathematical methods (discounted cash flow method for futures and swaps, the Black-Scholes method for options). We check the values determined by the banks by carrying out additional measurements using our internal treasury management system to ensure that the key assumptions on which the banks have based their calculations do in fact conform to the market as of the respective measurement date.

The fair value (according to the discounted cash flow method) of forward exchange contracts and swaps is calculated using the spot rate applicable on the balance sheet date, taking account of the forward 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 entered into.

In the case of currency options, the fair value (according to Garman-Kohlhagen's modified Black-Scholes method) 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, 2010 and December 31, 2009. 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 one year. All the interest rate/currency swaps have maturities of more than one year. For reasons of materiality, the fair values of these swaps are reported under current assets or current liabilities.

	Currency	Contract value		Positive market value (assets)		Negative market value (liabilities)	
kEUR		2010	2009	2010	2009	2010	2009
Currency options	GBP	5,332	9,908	24	29	3	19
Currency options	USD	7,035	7,213	32	6	21	62
Currency options	JPY	2,936	3,102	39	38	11	20
Interest rate/currency swaps	JPY	1,105	1,634	–	–	297	50
Total		**16,408**	**21,857**	**95**	**73**	**332**	**151**

33. Other financial obligations

In addition to provisions, liabilities and contingent liabilities, there were other financial obligations as of December 31, 2010 amounting to 9,619 thousand euros (previous year: 7,498 thousand euros). This item relates mainly to future payments under leases and maintenance contracts.

The leasing contracts treated as operating leases in accordance with IAS 17 are predominantly for the rental of office space, production facilities, vehicles, IT equipment and miscellaneous office equipment. Some of the leases have fixed terms, others are for an indefinite period. They include the following future minimum lease payments:

Obligations for operative leases

kEUR	Dec. 31, 2010	Dec. 31, 2009
Up to 1 year	3,853	3,044
1 to 5 years	4,689	3,103
More than 5 years	1	–
Total	**8,543**	**6,147**

Insurance against loss or destruction of leased assets is generally covered by insurance policies. There are no restrictions included in any of the leases. Lease expenses recognised in the income statement in fiscal year 2010 amounted to 4,494 thousand euros (previous year: 4,618 thousand euros).

There are further obligations amounting to 944 thousand euros (previous year: 1,034 thousand euros) for maintenance contracts in connection with land and buildings, production machinery and IT equipment.

34. Operating segments

RATIONAL combines the subsidiaries located in the different regions into operating segments. These reflect the internal reporting structure and thus the management approach laid down in IFRS 8. Operating segments are organisational units for which information is passed to management so that it can measure performance and allocate resources.

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.

The “Germany” segment includes both RATIONAL Großküchentechnik GmbH and FRIMA Deutschland GmbH. To simplify administration, capital investment for RATIONAL Großküchentechnik GmbH is undertaken by RATIONAL AG. The segment profit or loss for Germany includes the depreciation and amortisation charges attributable to this capital investment.

The “Europe excluding Germany” segment includes the companies in the UK, France, Italy, Spain, Austria, Switzerland, Poland, Sweden and Russia.

The “Americas” segment brings together the activities of our subsidiaries in the United States, Canada and Brazil.

The activities of the subsidiaries in Japan and China are reported in the “Asia” segment.

The activities of the parent company, RATIONAL AG, (including LechMetall Landsberg GmbH, RATIONAL Technical Services GmbH, and RATIONAL Komponenten GmbH) are reported in the fifth segment. This segment encompasses product development, manufacturing, and the supply of products to subsidiaries as well as service support operations. During the course of the year under review, the supply of goods and services to OEM customers was gradually transferred to RATIONAL International AG.

Segment sales revenue includes both sales revenue from third parties and intercompany sales revenue generated between Group companies across the segments. Intercompany sales and revenue are always based on arm's length prices.

For a further breakdown of sales revenue, see the sales revenue disclosures.

Segment depreciation and amortisation relates to intangible assets and property, plant and equipment. No other material non-cash expenses reportable under IFRS 8.23 were incurred in either 2010 or the previous year.

Segment assets include all assets assigned to a segment.

Of total non-current assets (property, plant and equipment, and intangible assets), assets with a total carrying amount of 51,861 thousand euros (previous year: 54,316 thousand euros) are reported in the “Germany” segment, with assets of 3,449 thousand euros (previous year: 3,264 thousand euros) allocated to other countries.

Segment liabilities are calculated from the difference between segment assets and segment equity.

The reconciliation column reflects the effects of consolidation.

Operating segments 2010

kEUR	Activities of the subsidiaries in: Germany	Europe excl. Germany	Americas	Asia
External sales	54,848	223,756	46,809	14,953
Intercompany sales	330	15,315	–	87
Segment sales	55,178	239,071	46,809	15,040
Segment result	+95	+24,593	+3,944	+748
Financial result	–	–	–	–
Earnings before taxes	–	–	–	–
Segment assets	5,222	80,960	19,235	7,739
Segment liabilities	5,129	47,716	15,553	6,803
Segment investments	33	972	85	39
Segment depreciation	25	736	188	49

Operating segments 2009

kEUR	Activities of the subsidiaries in: Germany	Europe excl. Germany	Americas	Asia
External sales	52,638	196,245	33,371	13,301
Intercompany sales	200	4,674	–	–
Segment sales	52,838	200,919	33,371	13,301
Segment result	+1,316	+16,246	+1,256	+650
Financial result	–	–	–	–
Earnings before taxes	–	–	–	–
Segment assets	4,965	62,237	12,659	5,686
Segment liabilities	4,980	37,695	11,800	5,001
Segment investments	2	143	90	25
Segment depreciation	26	844	208	43

	Activities of the parent company	Total for segments	Reconciliation	Group
	9,770	**350,136**	–	**350,136**
	230,203	**245,935**	–245,935	**–**
	239,973	**596,071**	–245,935	**350,136**
	+78,966	**+108,346**	–2,579	**+105,767**
	–	–	–	**–156**
	–	–	–	**+105,611**
	252,181	**365,337**	–59,622	**305,715**
	47,095	**122,296**	–46,848	**75,448**
	3,348	**4,477**	–	**4,477**
	5,798	**6,796**	–	**6,796**

	Activities of the parent company	Total for segments	Reconciliation	Group
	18,799	**314,354**	–	**314,354**
	199,376	**204,250**	–204,250	**–**
	218,175	**518,604**	–204,250	**314,354**
	+69,456	**+88,924**	+1,558	**+90,482**
	–	–	–	**–355**
	–	–	–	**+90,127**
	229,396	**314,943**	–49,282	**265,661**
	54,549	**114,025**	–38,114	**75,911**
	2,122	**2,382**	–	**2,382**
	6,468	**7,589**	–	**7,589**

35. Legal disputes

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

36. Associated companies and persons

In the year under review, there were transactions with the non-consolidated subsidiaries MEIKU Vermögensverwaltung GmbH and TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG. The only individual related to the Group able to exercise control is majority shareholder Mr. Siegfried Meister, who holds 62.99% of the equity of RATIONAL AG.

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 recognized as expenses in an amount of 120 thousand euros (previous year: 122 thousand euros). Sales revenue generated by RATIONAL AG from transactions with MEIKU Vermögensverwaltung GmbH amounted to 24 thousand euros (previous year: 24 thousand euros). In addition, income from the investment in MEIKU Vermögensverwaltung GmbH amounted to 63 thousand euros (previous year: 66 thousand euros). As of December 31, 2010, RATIONAL AG had neither liabilities due to, nor receivables due from, MEIKU Vermögensverwaltung GmbH, as had also been the case as of December 31, 2009.

RATIONAL AG leases buildings located at Siemensstrasse 5 in Landsberg am Lech from TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG. The associated charges amounted to 603 thousand euros in 2010 (previous year: 641 thousand euros). As of December 31, 2010, RATIONAL AG had liabilities to TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG amounting to 17 thousand euros (previous year: 16 thousand euros). RATIONAL AG has granted a lessee loan to TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG amounting to 7,775 thousand euros as of December 31, 2010 (previous year: 7,446 thousand euros). The loan will be used to acquire the building at the end of the lease without the need for additional cash. Since finance leases are reported in accordance with IAS 17, these consolidated financial statements do not include any lease expenses or 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 these notes under the disclosures on the consolidation method and on financial assets.

Members of the Supervisory Board hold shares in companies from which the company purchases goods or services. The expense for these goods and services amounted to 1,449 thousand euros in 2010 (previous year: 1,251 thousand euros). As of December 31, 2010, trade accounts payable to these companies amounted to 2 thousand euros (previous year: 27 thousand euros).

Over and above the transactions stated, no further significant transactions occurred with companies or individuals in any way associated with RATIONAL AG.

37. Supervisory Board and Executive Board

The composition of the Supervisory Board did not change during fiscal year 2010. The members of the Supervisory Board are as follows:

Siegfried Meister, entrepreneur	Chairman of the Supervisory Board
Walter Kurtz, entrepreneur	Deputy Chairman of the Supervisory Board
Roland Poczka, entrepreneur	Member of the Supervisory Board

The total compensation due to the Supervisory Board for fiscal year 2010 amounted to 580 thousand euros (previous year: 555 thousand euros). The breakdown by Supervisory Board member is as follows:

2010

kEUR	Fixed	Performance-related	Other	Total
Siegfried Meister	150	53	27	230
Walter Kurtz	125	53	19	197
Roland Poczka	100	53	–	153
Total	**375**	**159**	**46**	**580**

2009

kEUR	Fixed	Performance-related	Other	Total
Siegfried Meister	150	45	27	222
Walter Kurtz	125	45	18	188
Roland Poczka	100	45	–	145
Total	**375**	**135**	**45**	**555**

As of the balance sheet date, Supervisory Board compensation of 533 thousand euros for fiscal year 2010 (previous year: 234 thousand euros) was included in other liabilities.

As of December 31, 2010, the members of the Supervisory Board held a total of 8,120,935 shares in RATIONAL AG (previous year: 8,120,935 shares), of which Mr. Siegfried Meister held 7,161,411 shares (previous year: 7,161,411 shares). Mr. Siegfried Meister and Mr. Walter Kurtz each also hold 1% of the share capital of MEIKU Vermögensverwaltung GmbH.

In addition to his membership of the Supervisory Board of RATIONAL AG, Roland Poczka is on the Advisory Board of the Glatz Group, Niedenfels, Germany.

The Executive Board comprises the following members:

Dr. Günter Blaschke, Dipl.-Kaufmann	Chief Executive Officer
Erich Baumgärtner, Dipl. Betriebswirt	Chief Financial Officer
Peter Wiedemann, Dipl. Ingenieur	Chief Technical Officer
Reinhard Banasch, Dipl. Betriebswirt	Chief Sales 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 paid to the Executive Board for the performance of its duties within the parent company and its subsidiaries in fiscal year 2010 was 3,460 thousand euros (previous year: 3,642 thousand euros). This amount includes a performance-related salary component of 1,826 thousand euros (previous year: 2,082 thousand euros). To this must be added payments of 303 thousand euros made into the pension scheme (previous year: 279 thousand euros).

As of the balance sheet date, the members of the Executive Board together held 14,793 shares in RATIONAL AG (previous year: 15,293 shares).

None of the members of the Executive Board is a member of Supervisory Board committees of companies outside the group.

38. Stock option scheme

On February 3, 2000, RATIONAL AG launched a stock option plan for the company’s Executive Board members. The plan 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 toward 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 no-par-value 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. 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 at that time. 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.

To date, two tranches have been issued with a total of 69,000 option rights, which were drawn on in 2002 and 2006 in the form of cash payments equivalent to 100% of the value of a company share minus the exercise price. As of December 31, 2010, option rights to a maximum of 131,000 shares in RATIONAL AG still remained in the stock option plan.

39. Provision for executive management pensions

In 2001, RATIONAL AG implemented a pension plan for the Executive Board and other senior executives through an external insured pension fund. In fiscal year 2010, an amount of 441 thousand euros (previous year: 412 thousand euros) was paid into the defined contribution plan.

40. Declaration 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 May 26, 2010. The declaration is permanently available on RATIONAL AG's website: www.rational-online.com.

41. Subsequent events

No events have taken place since the close of fiscal year 2010 that are of particular significance for the assessment of RATIONAL AG's and the Group's net assets, financial position, and profit or loss, as stipulated by IAS 10.

42. Auditor

By resolution of the shareholders' meeting held on April 21, 2010, "Rölfs WP Partner AG Wirtschaftsprüfungsgesellschaft", Munich, was appointed as auditor for fiscal year 2010.

The auditor's fee, including reimbursement of expenses, amounted to a total of 378 thousand euros (previous year: 339 thousand euros), which is broken down as follows:
an amount of 230 thousand euros (previous year: 207 thousand euros) for the auditing of separate and consolidated financial statements, 28 thousand euros (previous year: 41 thousand euros) for other certification services,
115 thousand euros (previous year: 81 thousand euros) for tax consultancy services, and 5 thousand euros (previous year: 10 thousand euros) for other services.

Landsberg am Lech, February 16, 2011

RATIONAL AG
The Executive Board

Auditors' Report

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, 2010.

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 section 315a para. 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 section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the "Institut der Wirtschaftsprüfer" [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315a para. 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 16, 2011

Rölfs WP Partner AG
Wirtschaftsprüfungsgesellschaft

Dr. Wenk
Wirtschaftsprüfer
(German Public Auditor)

Weissinger
Wirtschaftsprüfer
(German Public Auditor)

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 16, 2011

RATIONAL AG
The Executive Board

Dr. Günter Blaschke
Chief Executive Officer

Erich Baumgärtner
Chief Financial Officer

Peter Wiedemann
Chief Technical Officer

Reinhard Banasch
Chief Sales Officer

Financial Calendar 2011

Balance Sheet Press Conference Year 2010	Munich	Mar. 22, 2011
DVFA Analyst Meeting	Frankfurt	Mar. 22, 2011
General Shareholders Meeting 2011	Augsburg	May 11, 2011
Financial Figures Q1/2011	Landsberg	May 11, 2011
Financial Figures Q2/2011	Landsberg	Aug. 9, 2011
Financial Figures Q3/2011	Landsberg	Nov. 10, 2011

Imprint

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Text, conzept & realisation

better value, Munich/Berlin

Multi-year Overview

		2010	2009	2008	2007	2006	2005	2004
Earnings situation								
Sales	m EUR	350.1	314.4	343.0	336.6	283.7	246.4	221.8
Sales abroad	%	84	83	84	84	84	83	84
Gross profit	m EUR	217.0	191.6	203.7	199.9	173.8	149.7	131.5
EBITDA	m EUR	112.6	98.1	90.4	97.9	84.8	71.2	57.9
Depreciation/Amortisation	m EUR	6.8	7.6	7.3	5.3	4.3	4.3	4.6
EBIT	m EUR	105.8	90.5	83.1	92.6	80.5	66.9	53.3
Financial results	m EUR	–0.2	–0.4	0.4	0.9	0.6	0.3	0.5
EBT	m EUR	105.6	90.1	83.5	93.5	81.1	67.2	53.9
Group earnings	m EUR	79.8	67.3	61.7	61.2	51.8	42.4	33.8
Earnings per share (undiluted)	EUR	7.02	5.92	5.42	5.38	4.55	3.73	2.98
Gross margin	%	62.0	60.9	59.4	59.4	61.3	60.8	59.3
EBITDA-margin	%	32.2	31.2	26.4	29.1	29.9	28.9	26.1
EBIT-margin	%	30.2	28.8	24.2	27.5	28.4	27.2	24.0
EBT-margin	%	30.2	28.7	24.4	27.8	28.6	27.3	24.3
Return on equity (after taxes)	%	38.0	41.6	47.9	53.3	52.9	43.7	34.7
Return on invested capital (ROIC)	%	33.9	35.5	40.7	48.0	49.6	40.4	32.1
Dividend*	m EUR	102.3	39.8	11.4	51.2	42.6	34.1	56.9
Dividend per share*	EUR	9.00	3.50	1.00	4.50	3.75	3.00	5.00

* Dividend 2010 – subject to approval by Shareholders' Meeting

		2010	2009	2008	2007	2006	2005	2004
Asset situation								
Fixed assets	m EUR	55.4	57.6	63.1	38.0	29.2	28.1	28.1
Current assets (including deferred tax assets and other long-term assets)	m EUR	250.3	208.1	145.9	149.4	117.4	104.0	118.7
Inventories	m EUR	19.3	17.8	20.6	18.6	15.5	16.2	14.3
Trade receivables	m EUR	58.7	51.4	57.7	61.4	53.1	46.1	36.7
Cash and cash equivalents (including fixed deposits)	m EUR	163.1	131.6	57.1	62.3	40.6	34.8	59.9
Balance sheet total	m EUR	305.7	265.7	209.0	187.4	146.6	132.1	146.8
Equity	m EUR	230.3	189.8	133.6	124.0	105.8	89.9	104.1
Liabilities	m EUR	75.4	75.9	75.4	63.4	40.8	42.2	42.7
Provisions (including liabilities for current tax)	m EUR	28.2	24.0	22.1	19.7	21.8	21.3	22.0
Liabilities to banks	m EUR	21.3	31.6	25.8	18.0	–	2.5	2.2
Trade accounts payable	m EUR	9.2	7.0	10.9	9.3	6.8	5.4	5.8
Other liabilities	m EUR	16.7	13.3	16.6	16.4	12.2	13.0	12.7
Liabilities from finance leasing agreements	m EUR	0.5	1.3	2.1	2.9	4.0	5.8	5.6
Other liabilities	m EUR	16.2	12.0	14.5	13.5	8.2	7.2	7.1
Equity ratio	%	75.3	71.4	63.9	66.2	72.2	68.1	70.9
Debt ratio	%	24.7	28.6	36.1	33.8	27.8	31.9	29.1
Equity-to-fixed-assets ratio	%	415.7	329.5	211.7	326.3	362.3	320.0	370.5
Invested capital (average)	m EUR	238.0	192.7	153.8	128.1	104.7	105.7	106.4
Working Capital (excluding liquid funds)	m EUR	58.2	54.7	60.7	61.7	58.4	53.0	41.0
as a percentage of sales	%	16.6	17.4	17.7	18.3	20.6	21.5	18.5
Cash flow/Investments								
Cash flow from operating activities	m EUR	86.9	83.2	71.0	61.1	49.1	32.8	39.2
Cash flow from investing activities	m EUR	–23.4	–72.2	–38.4	–30.2	–1.8	–3.7	–4.6
Cash flow from financing activities	m EUR	–52.2	–7.7	–45.4	–26.0	–38.4	–42.3	–37.3
Investments	m EUR	4.5	2.4	32.6	14.3	5.7	6.0	5.7
Employees								
Number of employees (average)		1,058	1,031	1,090	965	864	792	742
Personnel expenses	m EUR	74.3	71.1	72.3	63.7	57.0	53.4	47.7
Sales per employee	kEUR	330.9	304.9	314.6	348.8	328.4	311.1	298.9

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