RATIONAL

Report / on the first half year 2018

Landsberg am Lech, 9 August 2018

RATIONAL AG

Fit for the future

Key Figures

in mEUR	2nd quarter 2018	2nd quarter 2017	Absolute change	Percentage change	1st half year 2018	1st half year 2017	Absolute change	Change in %
Sales revenues and earnings								
Sales revenues	193.8	165.4	+ 28.4	+ 17	367.3	331.1	+ 36.2	+ 11
Sales revenues generated abroad in %	88	88	0	–	88	88	0	–
Cost of sales	79.3	64.0	+ 15.3	+ 24	148.8	128.6	+ 20.2	+ 16
Gross profit	114.5	101.4	+ 13.1	+ 13	218.5	202.5	+ 16.0	+ 8
as a percentage of sales revenues	59.1	61.3	– 2.2	–	59.5	61.2	– 1.7	–
Sales and service expenses	47.6	43.2	+ 4.4	+ 10	93.7	87.0	+ 6.7	+ 8
Research and development expenses	9.6	8.1	+ 1.5	+ 18	18.6	15.7	+ 2.9	+ 19
General administration expenses	8.0	7.3	+ 0.7	+ 9	15.9	14.4	+ 1.5	+ 11
Earnings before interest and taxes (EBIT)	50.0	39.7	+ 10.3	+ 26	90.9	83.8	+ 7.1	+ 8
as a percentage of sales revenues	25.8	24.0	+ 1.8	–	24.7	25.3	– 0.6	–
Profit or loss after taxes	38.2	30.3	+ 7.9	+ 26	69.4	64.0	+ 5.4	+ 8
Balance Sheet								
Total equity and liabilities					506.2	473.3	+ 32.9	+ 7
Equity					367.9	346.7	+ 21.2	+ 6
Equity ratio in %					72.7	73.2	– 0.5	–
Cash flow								
Cash flow from operating activities					55.0	44.9	+ 10.1	+ 23
Cash-effective investments					28.0	8.8	+ 19.2	+ 218
Free cash flow [1]					27.0	36.1	– 9.1	– 25
Number of employees as at 30 June					**2,090**	**1,822**	**+ 268**	**+ 15**
Key figures for RATIONAL shares								
Earnings per share (in EUR)					6.10	5.62	+ 0.48	+ 8
Quarter-end closing price[2] (in EUR)					559.00	466.00	+ 93.00	+ 20
Market capitalisation					6,355.8	5,298.4	+ 1,057.4	+ 20

1 Cash flow from operating activities less capital expenditures
2 XETRA

Letter from the Executive Board

Dear Shareholders,
Customers and Business Partners,

In the first six months of 2018, we continued to invest in order to create the greatest possible benefit for our customers moving ahead.

In July 2017, the foundation stone was laid for the expansion of Factory Section 3 in Landsberg am Lech. The production capacity for combi-steamers will be increased significantly by adding space of 16,000 square metres. After less then one year, the first manufacturing teams and their equipment were able to move into the new production hall this March. This building accounts for the lion's share of our current capital expenditure.

We also modernised and enlarged our existing plant to enable flawless and efficient production so as to meet growing sales volumes.

A professional, reliable and future-proof IT infrastructure is now vital to controlling how customer orders are handled, as well as manufacturing and administrative processes. We have invested in that and will also do so in the years to come. That relates not only to the two production sites at Landsberg am Lech and Wittenheim. We are also expanding our sales and service branch offices, with the employees, premises and infrastructure we need for our growth. We hired more than 200 new employees in all areas of the company in the first half of the year.

Since 2017, the VarioCookingCenter® has been sold in many European markets by the RATIONAL combi-steamer sales organisation and under the RATIONAL brand name. Both product families have been pooled under a joint sales team and the umbrella brand RATIONAL since this year. That means our customers have a one-stop shop for the two product families.

This extensive capital expenditure and the merger of the RATIONAL and FRIMA brands also entail challenges and tie up capacities. That places a lot of demands on our "Entrepreneurs in the Company" and we are proud of and grateful for their great achievements. TNS Kantar conducted a worldwide employee satisfaction survey for the first time and it confirmed that we are also one of the best employers. Investments will be needed if we want to maintain that position.

We are all delighted that we have continued the positive trend of the past years in the first half of 2018. On the back of large orders from North America, we have grown sales revenues by 11% in the first six months and so to a higher level than expected, despite negative currency effects. The outlook for the remainder of 2018 is likewise positive. Against this backdrop, we are raising our sales revenue growth target for full-year 2018 to 10 to 12%. We are sticking to our earnings forecast that the EBIT margin will be between 26% and 27%.

P. Stadelmann

Dr Peter Stadelmann
CEO of RATIONAL AG

Management Report

Economic report

Just under 4% growth in the global economy

The forecast for global economic growth in 2018 was increased from 3.6% to 3.9%. Growth of 4.9% is still anticipated in emerging markets, while the forecast for industrialised countries has been raised from 2.0 to 2.3%.

Economic output in the Eurozone is forecast to grow at 2.4% and so at just about the same level as the previous year (2.3%). In the USA (2.9%), growth is expected to accelerate compared with the previous year (2.3%). The forecasts for the UK and Japan were reduced to 1.6% (2017: 1.8%) and 1.2% (2017: 1.7%) respectively.

The risks to the global economy increased recently. In particular the tariffs imposed on China by the U.S. President could mean that the trade conflict between the two countries is exacerbated further and might also spread to other regions. Even though the likelihood of a trade war can still be assessed as low, the first early economic indicators have responded negatively. Lower growth and higher inflation could be potential consequences of a restriction on international trade. (Source: Warburg, May 2018)

Net assets, financial position and results of operations

Sales revenues increase 11% in the first six months or by 14% after exchange rate adjustments

After a good start in the first quarter of 2018, RATIONAL AG's successful business performance continued in the second quarter, with sales revenues up by 17%. In total, sales revenues amounted to 367.3 million euros in the first six months (2017: 331.1 million euros), which is an increase of 11% compared to the previous year.

In particular, the weakness of the US dollar, Canadian dollar, Brazilian real and Japanese yen had a negative impact on sales revenues. After exchange rate adjustments, sales revenue growth after six months stood at 14%.

Worldwide growth

In our home market of Germany, RATIONAL experienced growth of 12% in the first six months of this fiscal year. Following good growth in the first quarter (+13%), sales revenues were increased by 11% in the second quarter. This successful trend was due in particular to increased sales of combi-steamers (+12%).

After a fairly restrained start to fiscal 2018 in Europe (excluding Germany) due to a base effect from the previous year, sales revenues increased by 18% in the second quarter of 2018. They therefore grew by around 11% over the six-month period.

Sales revenues in North America grew by 32% in the second quarter. That figure includes a big order for a large U.S. chain customer, delivery of which has almost been completed. North America, with growth of 17%, was one of the main growth markets in the first six months of this year. Adjusted for exchange rate movements, sales revenues in the region even increased by 28%.

Sales revenues in Latin America in the first six months were 2% down on the previous year. The main reasons for that are the base effect due to the extremely high growth of 43% in the previous year and the decrease in the value of the Brazilian real (−20%) and Mexican peso (−9%). After adjustment for these currency effects, sales revenues in the first half of the year were 6% lower than in the previous year.

Asia also held on to its growth performance from the first quarter, achieving an increase in sales revenues of 12%. The largest growth driver was China. In China, both street business revenues and chain business are expanding rapidly. Growth after adjustment for exchange rate movements was 15%.

Sales revenues in the “Rest of the world” region increased in the first half of 2018 by 7% year on year. The sales revenue trend in Africa was especially positive.

Gross profit up 8% on the previous year

In the first half of 2018, RATIONAL generated a gross profit of 218.5 million euros (2017: 202.5 million euros), reflecting an increase of 8% compared to the previous year. The gross margin was 60%, a slight decrease over the previous year (2017: 61%). The decline is mainly attributable to the negative currency effects on sales revenues. In addition, rising prices of raw materials and above-average growth for smaller appliance sizes reduced the gross margin.

Currency-adjusted EBIT margin of 26%

RATIONAL achieved an EBIT (earnings before interest and taxes) of 90.9 million euros in the first six months. This equates to growth of 8% compared to the previous year (2017: 83.8 million euros). The EBIT margin (ratio of EBIT to sales revenues) was just below 25% (2017: 25%). The decline in the EBIT margin is mainly due to the described negative currency effects and translation effects on foreign currency positions as at the balance sheet date. Adjusted for exchange rate influences, the EBIT margin after six months was around 26% and so at the level of the previous year.

Operating costs grew slightly less than sales revenues by 10% to 128.2 million euros in the first half of 2018 (2017: 117.0 million euros). Costs for sales and service increased by 8% to 93.7 million euros (2017: 87.0 million euros). Further investments were made in expanding the global sales and service organisation, especially in the overseas growth markets. Research and development costs rose by 19% in the six-month period, to 18.6 million euros (2017: 15.7 million euros). Administration expenses rose in line with sales revenues by 11% and were 15.9 million euros after six months (2017: 14.4 million euros).

The profit or loss after taxes in the first half of the year was 69.4 million euros and so 8% above the previous year (2017: 64.0 million euros). The tax ratio was virtually unchanged at 24%.

55 million euros in operating cash flow

In the first six months of the current fiscal year, cash flow from operating activities was 55.0 million euros, well up on the previous year (2017: 44.9 million euros). This increase was the result of higher earnings and effects from the change in working capital and provisions.

The cash flow from investing activities includes investments in property, plant and equipment and in intangible assets. The latter were 28.0 million euros in the first half of the year. This is mainly attributable to new construction work and renovations to increase production capacities at the Landsberg location. The figure also includes returns from financial investments totalling 9.2 million euros. The total cash flow from investing activities was thus −18.8 million euros.

The cash flow from financing activities (−126.5 million euros) essentially reflects the dividend of 125.1 million euros distributed in May (2017: 113.7 million euros).

73% equity ratio

At 73% on 30 June 2018 (2017: 73%), the equity ratio was at its customary high level. On 30 June 2018, in addition to cash and cash equivalents of 105.8 million euros (2017: 127.8 million euros) RATIONAL held financial assets in fixed-term deposits and a special fund amounting to 66.1 million euros (2017: 79.9 million euros). Total liquidity was lower compared to the previous year due to the large investments in the previous and current fiscal year and the dividend distribution of 125.1 million euros.

Segments

RATIONAL

The RATIONAL segment, which represents the production and sale of the SelfCookingCenter® and the CombiMaster® Plus, grew its sales revenues in the first six months by 10% to 338.9 million euros (2017: 307.2 million euros). Segment earnings amounted to 86.9 million euros, 7% up on the previous year (81.2 million euros).

FRIMA

FRIMA produces and markets the VarioCookingCenter®. Segment sales revenues in the first six months were 28.5 million euros, 15% up on the previous year (2017: 24.7 million euros). Segment earnings, which amounted to 4.0 million euros, were 52% up on the previous year (2017: 2.6 million euros).

Employees

206 new employees in the first six months

206 new employees were added in the first six months of 2018, almost half of them in Germany. Most of the new positions are in sales and sales-related functions.

Outlook

Increased growth forecast

The large majority of our customers are so satisfied with the products and services that they would be happy to purchase them again at any time and also recommend them to friends and colleagues. This assessment was confirmed again in the latest customer satisfaction survey in 2018. Given the high market potential and the solid forecasts for the global economy, the Executive Board of RATIONAL AG believes the company is well placed to keep on growing successfully.

Despite the exceptionally strong first half in the previous year and sharply negative currency effects, sales revenues increased by 11% in the first half of 2018 and so exceeded expectations. Apart from the generally positive business trend, that is also due to a number of large orders, especially from North America. The Executive Board of RATIONAL AG also assesses the prospects for the second half of the year as being positive and so is raising the sales revenue growth target for fiscal 2018 to 10 to 12% year on year. We are sticking to the previous earnings forecast that the EBIT margin will be between 26% and 27%; in particular, further exchange rate trends will be a crucial factor here. We still assume that sales revenues will grow in the high single-digit range in the coming years.

Report on opportunities and risks

RATIONAL uses a global risk management system which ensures that risks are identified at an early stage and provides support for the appropriate corrective measures to be taken. The existing risks as regards developments in the global economy continue to represent an uncertainty factor for the development of the business. There are no significant changes to the statement of risks and opportunities given in the last consolidated financial statements.

Landsberg am Lech, 27 July 2018

RATIONAL AG
The Executive Board

Financial statements
RATIONAL Group

Statement of Comprehensive Income

RATIONAL Group

for the period 1 January – 30 June

in kEUR	2nd quarter 2018	2nd quarter 2017	1st half year 2018	1st half year 2017
Sales revenues	193,830	165,364	367,311	331,081
Cost of sales	– 79,341	– 63,982	– 148,812	– 128,554
Gross profit	**114,489**	**101,382**	**218,499**	**202,527**
Sales and service expenses	– 47,616	– 43,153	– 93,688	– 86,966
Research and development expenses	– 9,604	– 8,135	– 18,606	– 15,650
General administration expenses	– 8,016	– 7,348	– 15,863	– 14,352
Other operating income	3,995	1,616	5,902	3,765
Other operating expenses	– 3,203	– 4,648	– 5,356	– 5,476
Earnings before financial result and taxes (EBIT)	**50,045**	**39,714**	**90,888**	**83,848**
Interest income	82	77	152	161
Interest expenses	– 83	– 204	– 153	– 409
Other financial result	– 174	0	– 217	0
Earnings before taxes (EBT)	**49,870**	**39,587**	**90,670**	**83,600**
Income taxes	– 11,718	– 9,303	– 21,306	– 19,646
Profit or loss after taxes	**38,152**	**30,284**	**69,364**	**63,954**
Items that may be reclassified to profit and loss in the future:				
Differences from currency translation	– 231	– 777	– 662	– 551
Other comprehensive income	**– 231**	**– 777**	**– 662**	**– 551**
Total comprehensive income	**37,921**	**29,507**	**68,702**	**63,403**
Average number of shares (undiluted/diluted)	11,370,000	11,370,000	11,370,000	11,370,000
Earnings per share (undiluted/diluted) in euros, based on profit or loss after taxes and the number of shares	3.36	2.66	6.10	5.62

Balance Sheet
RATIONAL Group

Assets

in kEUR	30 Jun 2018	30 Jun 2017	31 Dec 2017
Non-current assets	**147,946**	**113,371**	**137,353**
Intangible assets	8,041	8,239	8,525
Property, plant and equipment	129,490	88,539	116,413
Other financial assets	794	5,669	3,239
Deferred tax assets	8,259	9,156	7,475
Other assets	1,362	1,768	1,701
Current assets	**358,243**	**359,938**	**433,346**
Inventories	51,543	41,380	45,682
Trade accounts receivable	119,425	100,839	109,657
Other financial assets	65,267	74,188	72,019
Income tax receivables	555	1,097	416
Other assets	15,682	14,611	9,358
Cash and cash equivalents	105,771	127,823	196,214
Total assets	**506,189**	**473,309**	**570,699**

Equity and liabilities

in kEUR	30 Jun 2018	30 Jun 2017	31 Dec 2017
Equity	**367,904**	**346,661**	**424,527**
Subscribed capital	11,370	11,370	11,370
Capital reserves	28,058	28,058	28,058
Retained earnings	333,482	310,396	389,443
Other components of equity	– 5,006	– 3,163	– 4,344
Non-current liabilities	**28,113**	**33,868**	**28,350**
Provisions for pensions	3,097	3,288	3,000
Other provisions	11,173	10,065	10,905
Financial debt	7,622	18,412	8,937
Other financial liabilities	3,214	0	3,214
Deferred tax liabilities	392	739	663
Income tax liabilities	1,043	1,305	1,489
Other liabilities	1,572	59	142
Current liabilities	**110,172**	**92,780**	**117,822**
Other provisions	48,144	40,559	44,414
Financial debt	5,295	7,034	5,310
Trade accounts payable	26,654	16,426	31,314
Other financial liabilities	3,938	6,065	10,032
Income tax liabilities	5,991	5,486	7,996
Other liabilities	20,150	17,210	18,756
Liabilities	**138,285**	**126,648**	**146,172**
Total equity and liabilities	**506,189**	**473,309**	**570,699**

Cash Flow Statement
RATIONAL Group

for the period 1 January – 30 June

in kEUR	1st Half Year 2018	1st Half Year 2017
Earnings before taxes (EBT)	90,670	83,600
Cash flow from operating activities	**55,023**	**44,859**
Capital expenditures in intangible assets and property, plant and equipment including proceeds from asset disposals	– 27,995	– 8,810
Cash flow from financial investments	9,199	106,361
Cash flow from investing activities	**– 18,796**	**97,551**
Cash flow from financing activities	**– 126,447**	**– 116,435**
Effects of exchange rate fluctuations in cash and cash equivalents	– 223	– 604
Change in cash and cash equivalents	**– 90,443**	**25,371**
Cash and cash equivalents as at 1 January	**196,214**	**102,452**
Cash and cash equivalents as at 30 June	**105,771**	**127,823**

Statement of Changes in Equity
RATIONAL Group

in kEUR	Subscribed capital	Capital reserves	Retained earnings	Other components of equity		Total
				Differences from currency translation	Actuarial gains and losses	
Balance as at 1 January 2017	11,370	28,058	360,142	– 1,584	– 1,028	396,958
Dividend	–	–	– 113,700	–	–	– 113,700
Profit or loss after taxes	–	–	63,954	–	–	63,954
Other comprehensive income	–	–	–	– 551	0	– 551
Balance as at 30 June 2017	11,370	28,058	310,396	– 2,135	– 1,028	346,661
Balance as at 31 December 2017	11,370	28,058	389,443	– 3,341	– 1,003	424,527
First-time adoption of IFRS 9 and IFRS 15	–	–	– 255	–	–	– 255
Balance as at 1 January 2018	11,370	28,058	389,188	– 3,341	– 1,003	424,272
Dividend	–	–	– 125,070	–	–	– 125,070
Profit or loss after taxes	–	–	69,364	–	–	69,364
Other comprehensive income	–	–	–	– 662	0	– 662
Balance as at 30 June 2018	11,370	28,058	333,482	– 4,003	– 1,003	367,904

Notes

Operating Segments

in kEUR

2nd Quarter 2018	RATIONAL	FRIMA	Total of segments	Reconciliation	Group
External sales revenues	178,804	15,026	193,830	0	193,830
Intercompany sales revenues	12	0	12	– 12	–
Segment sales revenues	178,816	15,026	193,842	– 12	193,830
Segment profit or loss	**47,282**	**2,760**	**50,042**	**3**	**50,045**
Financial result	–	–	–	–	– 175
Earnings before taxes	**–**	**–**	**–**	**–**	**49,870**

2nd Quarter 2017	RATIONAL	FRIMA	Total of segments	Reconciliation	Group
External sales revenues	152,476	12,888	165,364	0	165,364
Intercompany sales revenues	383	0	383	– 383	–
Segment sales revenues	152,859	12,888	165,747	– 383	165,364
Segment profit or loss	**37,872**	**1,802**	**39,674**	**40**	**39,714**
Financial result	–	–	–	–	– 127
Earnings before taxes	**–**	**–**	**–**	**–**	**39,587**

1st Half Year 2018	RATIONAL	FRIMA	Total of segments	Reconciliation	Group
External sales revenues	338,852	28,459	367,311	0	367,311
Intercompany sales revenues	12	0	12	– 12	–
Segment sales revenues	338,864	28,459	367,323	– 12	367,311
Segment profit or loss	**86,866**	**4,020**	**90,886**	**2**	**90,888**
Financial result	–	–	–	–	– 218
Earnings before taxes	**–**	**–**	**–**	**–**	**90,670**

1st Half Year 2017	RATIONAL	FRIMA	Total of segments	Reconciliation	Group
External sales revenues	306,370	24,711	331,081	0	331,081
Intercompany sales revenues	878	0	878	– 878	–
Segment sales revenues	307,248	24,711	331,959	– 878	331,081
Segment profit or loss	**81,183**	**2,649**	**83,832**	**16**	**83,848**
Financial result	–	–	–	–	– 248
Earnings before taxes	**–**	**–**	**–**	**–**	**83,600**

Sales revenues by region

in kEUR	2nd Quarter 2018	% of total	2nd Quarter 2017	% of total
Germany	22,806	12	20,521	12
Europe (excluding Germany)	89,836	46	76,486	46
North America	38,601	20	28,960	18
Latin America	9,645	5	9,275	6
Asia	23,841	12	21,521	13
Rest of the world	9,101	5	8,601	5
Total	**193,830**	**100**	**165,364**	**100**

	1st Half Year 2018	% of total	1st Half Year 2017	% of total
Germany	44,621	12	39,886	12
Europe (excluding Germany)	172,619	47	156,178	47
North America	67,474	18	57,928	17
Latin America	18,575	5	19,027	6
Asia	46,646	13	41,815	13
Rest of the world	17,376	5	16,247	5
Total	**367,311**	**100**	**331,081**	**100**

Presentation of financial statements

As of fiscal year 2018, the Statement of Comprehensive Income contains the new item "Other financial result". It includes in particular the measurement gains and losses and the gains and losses due to disposals from the special fund.

The presentation in the Balance Sheet was also adjusted as of 1 January 2018. Other assets and liabilities are classified as financial and non-financial items in accordance with IAS 1. The previous year's figures have been adjusted accordingly in the current report. The table below shows the balance sheet items of the 2017 consolidated financial statements which make up the new balance sheet items:

Non-current assets		
Financial assets, other non-current assets	→	Other financial assets, other assets
Current assets		
Other current assets, cash deposits	→	Other financial assets, other assets
Non-current liabilities		
Other non-current liabilities	→	Other financial liabilities, other liabilities
Current liabilities		
Other current liabilities	→	Other financial liabilities, other liabilities

Basis of preparation

The consolidated semi-annual report has been prepared in accordance with the International Financial Reporting Standards (IFRSs), as adopted in the EU. The IAS 34 rules on condensed financial statements were applied.

As at the start of the fiscal year, the following new or amended standards entered into force:

> IFRS 9 "Financial Instruments":
> IFRS 15 "Revenue from Contracts with Customers"
> Clarifications to IFRS 15 "Revenue from Contracts with Customers"
> Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"
> Annual Improvements to IFRSs 2014 – 2016 Cycle (amendments to IAS 28, IFRS 1)
> Amendments to IAS 40 "Transfers of Investment Property"
> IFRIC 22 "Foreign Currency Transactions and Advance Consideration"
> Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"

First-time application of the new standard IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" entailed changes in the Group's accounting policies. The effects of the first-time application of these two standards are described in the notes. The conversion effects from the first-time application of the new standards were recognised directly in equity as of 1 January 2018; figures for comparison periods have not been adjusted retroactively. There were no significant effects on these consolidated financial statements from other new or amended standards which entered into force at the beginning of the fiscal year and were not applied voluntarily in previous years.

The following new or revised standards did not yet apply on a mandatory basis in fiscal year 2018 and have not been applied early.

> IFRS 16 "Leases": IFRS 16 will have to be applied for the first time to fiscal years beginning on or after 1 January 2019; it replaces the existing IAS 17 and the related interpretations. RATIONAL intends to not apply this standard before the time it enters into force. RATIONAL will choose the modified retrospective approach as part of first-time application, without adjusting the comparative information. Lease liabilities for lease agreements that have been classified to date as an operating lease are measured at the present value of the outstanding lease payments when IFRS 16 is applied for the first time. The right of use will likewise be measured at the present value of the lease liability effective 1 January 2019. RATIONAL will make use of the exemption for leases for low-value assets. Our examination of the impact of the new IFRS 16 has not yet been finalised. At this stage of our analysis, we do not anticipate any significant effects on the income statement. The recognition of rights of use and lease liabilities will increase total assets by an amount in the low double-digit million range.

> IFRS 9 "Prepayment Features with Negative Compensation": This standard is not expected to have any material effect on RATIONAL's consolidated financial statements.

This consolidated semi-annual report was neither audited in accordance with section 317 of the German Commercial Code (HGB) nor reviewed by an auditor.

Scope of consolidation

On 30 June 2018, the scope of consolidation of RATIONAL AG included the parent company RATIONAL AG as well as eight German and 25 foreign subsidiaries. In addition, RATIONAL AG has invested in the special fund "LBBW AM-RAT" since February 2018. RATIONAL holds all the shares in the fund and the separate assets are fully consolidated in the consolidated financial statements.

Apart from the stake in the separate assets, there were no changes to the scope of consolidation compared to 30 June 2017 and the balance sheet date 31 December 2017.

Changes to accounting policies

Where they differ from the previously applied accounting policies, the accounting policies that have been newly applied as of 1 January 2018 pursuant to IFRS 9 and IFRS 15 are described below.

Financial instruments

First-time application of IFRS 9 means there are new classification and measurement requirements for financial assets defining subsequent measurement of a financial instrument. IFRS 9 requires all financial assets to be classified as being subsequently measured at amortised cost or at fair value. The classification depends on the group's business model for controlling financial assets and on the contractual cash flow characteristics of the financial assets.

RATIONAL does not exercise the option of designating debt instruments, which would otherwise be measured at amortised cost, as being measured at fair value through profit or loss as part of first-time application.

Allowances for accounts receivable

RATIONAL applies the simplified approach under IFRS 9 to measure the expected credit losses for trade accounts receivable. Accordingly, the lifetime expected credit losses losses are applied to trade accounts receivable. In order to measure the expected credit losses, the trade accounts receivable are segmented based on shared credit risk characteristics and historical, current and forward-looking information on losses is applied. Expected credit losses must be set up for all trade accounts receivable that are to be classified as doubtful on the basis of objective criteria and so for which an allowance has already been recognised.

Allowances for cash deposits

All cash deposits measured at amortised cost are classified as having a low risk of default. The allowances recognised for these financial instruments have therefore been limited to the 12-month expected credit losses. Listed bonds have a low risk of default if they have an "investment grade" rating. The impairment loss is calculated on the basis of corresponding credit default swaps.

Recognition of income and expense

RATIONAL generates sales revenues in particular from selling goods to dealers and partners. On completion of a service, i.e. on transfer of ownership and risk to the customer, revenues are usually recognised if it is sufficiently likely that economic benefits will accrue to the consolidated group from such service and the amount of the revenues can be reliably determined. The revenues include the consideration received or receivable, not including cash discounts, discounts and trade bonuses.

Effects of the new standards on the opening balance sheet for fiscal year 2018

in kEUR	Closing balance sheet at 31/12/17	Opening balance sheet at 01/01/18	Deviation due to IFRS 9	Deviation due to IFRS 15	Change in retained earnings
Other financial assets	75,258	75,181	– 77		– 77
Trade accounts receivables	109,657	109,517	– 140		– 140
Other provisions	55,319	55,127		– 192	+ 192
Other liabilities	18,898	19,225		+ 327	– 327
Deferred tax assets	7,475	7,572	+ 60	+ 37	+ 97

Use of estimates and assumptions and significant use of management judgement

Discretionary decisions are taken by management in reviewing the business model for classifying and measuring financial assets. The impairment losses for financial assets are based on assumptions about the risk of default and expected loss rates. The Group applies discretionary judgement in drawing up these assumptions and selecting the factors influencing calculation of the impairment loss, based on the Group's past experience, existing market conditions and forward-looking estimates at the end of each reporting period.

Notes to the consolidated statement of comprehensive income

The regional distribution of sales revenues by customer location and their distribution by business segments are shown in the tables below. 74% (2017: 74%) of the sales revenues was attributable to appliance sales. The remaining 26% (2015: 26%) was generated from the sale of accessories, spare parts and care products and from the provision of services.

Other operating income includes exchange gains of 4,480 thousand euros (2017: 2,696 thousand euros). Other operating expenses include exchange losses of 4,621 thousand euros (2017: 4,834 thousand euros). That also includes impairment costs in accordance with IFRS 9 for trade accounts receivable.

Notes to the consolidated balance sheet

The increase in property, plant and equipment compared to 31 December 2017 is mainly due to construction work at the Landsberg site and to capital expenditure on technical equipment and machinery.

The other financial assets include fixed-term deposits totalling 24,631 thousand euros (31 December 2017: 73,234 thousand euros). This item also includes investments from the special fund in equity and debt instruments totalling 39,262 thousand euros (31 December 2017: 0 thousand euros), which are carried at fair value.

Notes on financial instruments

Due to the first-time application of IFRS 9, RATIONAL reassessed all the company's financial assets at the time the standard was applied for the first time, i.e. 1 January 2018. There was no change in subsequent recognition for any of the financial instruments as a result of that.

Based on the classification categories in IFRS 9, financial assets and liabilities are in general recognised subsequently at amortised cost in the balance sheet. Exceptions to that are derivative financial instruments and other financial instruments, which are recognised at fair value in the balance sheet.

The following table shows the carrying amounts and the fair values that have to be disclosed additionally under IFRS 7.29 for financial instruments. If no fair value is stated in the table for a financial instrument, the specified carrying amount of the financial instrument is a reasonable approximation of its fair value. That is the case in particular with current financial instruments with maturities of less than one year. Exceptions to that are short-term cash deposits and short-term financial debts, for which a fair value is calculated.

The above table contains the fair value hierarchy levels in accordance with IFRS 13 used to determine the fair value of financial instruments. During the reporting period there were no reclassifications between the fair value hierarchy levels. If circumstances occur which necessitate a different classification, the financial instruments will be reclassified at the end of the reporting period.

Categories of financial assets and liabilities acc. to IFRS 9

in kEUR	Fair value hierarchy	Carrying amount 31 Jun 2018	Fair value 30 Jun 2018	Carrying amount 31 Dec 2017	Fair value 31 Dec 2017
Financial assets measured at amortised cost		**251,736**		**380,752**	
Other financial assets (non-current)	Level 2	794	794	3,239	3,243
Trade accounts receivables		119,425		109,657	
Other financial assets (current)	Level 2	25,746	24,631	71,642	70,749
Cash and cash equivalents		105,771		196,214	
Financial assets measured at fair value through profit or loss		**39,521**		**377**	
Derivatives not in a hedging relationship[1]	Level 1	98	98	–	–
Derivatives not in a hedging relationship[1]	Level 2	161	161	377	377
Other financial assets (current)	Level 1	38,565	38,565	–	–
Other financial assets (current)	Level 2	697	697	–	–
Financial liabilities measured at amortised cost		**46,016**		**58,650**	
Financial debt (non-current)	Level 2	7,622	7,958	8,937	9,340
Other financial liabilities (non-current)	Level 2	3,214	3,213	3,214	3,088
Financial debt (current)	Level 2	5,295	5,322	5,310	5,341
Trade accounts payable		26,654		31,314	
Other financial liabilities (current)		3,231		9,875	
Financial liabilities measured at fair value through profit or loss		**707**		**157**	
Derivatives not in a hedging relationship[2]	Level 1	100	100	–	–
Derivatives not in a hedging relationship[2]	Level 2	607	607	157	157

1 Included in “Other financial assets” (current) balance sheet item
2 Included in “Other financial liabilities” (current) balance sheet item

Operating Segments

The Group is exclusively involved in the thermal preparation of food in professional kitchens. The reporting structure of the Group is geared to the RATIONAL and FRIMA products. RATIONAL concentrates on cooking processes in which heat is transferred by means of steam, hot air or a combination of the two. FRIMA focuses on cooking applications in which cooking is carried out in liquid or with direct contact heat. Both segments include the functions of development, manufacturing, sales and service, as well as administration.

Segment sales revenues include both sales revenues from third parties and intercompany sales revenues generated between Group companies across the segments. Intercompany sales and revenue are always based on arm’s length prices. Segment profit or loss corresponds to earnings before interest and taxes of the respective segments. Besides segment sales revenues, this includes all segment expenses except for income taxes and the financial result.

The reconciliation column essentially reflects the effects of consolidation. In addition, differences between the figures presented to management in the context of internal reporting and the externally reported figures are included there.

Related parties

In the first six months of 2018, no significant transactions occurred with companies or individuals in any way related to RATIONAL AG.

Statement of Responsibility

Statement of Responsibility

To the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the consolidated group, and the interim consolidated 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 in the remainder of the fiscal year.

Landsberg am Lech, 27 July 2018

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Disclaimer

This half-yearly financial report contains forward-looking statements that are based on assumptions and expectations at the time the statement is published. They are subject to risks and uncertainties and the actual results may differ significantly from those in the forward-looking statements.

Many of these risks and uncertainties are determined by factors that are outside the influence of RATIONAL AG and cannot be assessed reliably at present. They include future market conditions and economic trends, the actions of other market players, and legal and political decisions.

RATIONAL AG is also not obligated to publish revisions to these forward-looking statements in order to reflect events or circumstances that have occurred after they were published.