PRELIMINARY OFFERING CIRCULAR

1,185,000 new no-par value ordinary bearer shares

from the cash capital increase of EUR 1,185,000.00 resolved on 3 February 2000

and **1,112,032 no-par value ordinary bearer shares**

from the holdings of the existing shareholders

and up to **185,000 no-par value ordinary bearer shares**

in respect of the overallotment option granted to the lead manager (“greenshoe”)

each with a theoretical interest in the share capital of EUR 1.00 per no-par value share
and each carrying full dividend rights from 1 January 2000

and

COMPANY REPORT

for **11,185,000 no-par value ordinary bearer shares**

(aggregate share capital)

each with a theoretical interest in the share capital of EUR 1.00 per share and each carrying full dividend rights from 1 January 2000

and for

up to 200,000 no-par value ordinary bearer shares
with regard to share option rights from the contingent capital increase resolved by the General Meeting on February 3, 2000, each with a theoretical interest in the share capital of EUR 1.00 per share and each carrying full dividend rights with effect from the beginning of the fiscal year in which they are created through exercise of the option rights,

of **RATIONAL AG,** Landesberg/Lech

for admission to the Geregelter Markt and to trading on the SMAX quality segment of the Frankfurt Stock Exchange

German Securities Code Number (WKN) 701080 for the shares offered and

German Securities Code Number (WKN) 701082 for the shares of the existing shareholders which are subject to the prohibition on disposal of shares

-ISIN Code DE0007010803-

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16 February 2000

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1 GENERAL INFORMATION

1.1 Liability for the contents of the Circular

RATIONAL AG, Landsberg am Lech (hereinafter also referred to as the "**Company**" or "**RATIONAL**"), and the underwriting financial institutions and banks listed at the end of this Offering Circular/Company Report ("**Circular**") assume liability for the contents of this Circular pursuant to section 13 of the Wertpapier-Verkaufsprospektgesetz (German Securities Offering Circular Act) and sections 45 and 77 of the Börsengesetz (German Stock Exchange Act) and herewith state that, to the best of their knowledge, the information contained in this Circular is accurate and that no material circumstances have been omitted.

The Circular will be published as a preliminary Offering Circular pursuant to section 10 of the Wertpapier-Verkaufsprospektgesetz and further additions may be made to it. Such supplements, and the offering conditions which have not yet been published, will be published in accordance with the provisions of the Wertpapier-Verkaufsprospektgesetz.

1.2 Inspection of documents

All documents cited in this Circular relating to the Company as well as future annual reports and interim reports may be inspected at the Company's registered office at Iglinger Straße 62, 86899 Landsberg/Lech and at the offices of J. Henry Schroder & Co. Ltd., 120 Cheapside, London EC2V 6DS during normal office hours.

1.3 Subject of the Circular

The subject of this Circular as an **Offering Circular** is 2,297,032 no-par value ordinary bearer shares with a theoretical interest in the share capital of EUR 1.00 per share (hereinafter also referred to as "**shares**" or "**no-par value shares**"), composed as follows:

- 1,185,000 new shares from the cash capital increase of EUR 1,185,000.00 resolved by the Company on 3 February 2000, and
- 1,112,032 shares from the holdings of the existing shareholders
- as well as up to 185,000 shares from a further cash capital increase from authorized capital, of up to EUR 185,000.00, which may be implemented as required in respect of the overallotment option (greenshoe) granted to the lead manager, each carrying full dividend rights from 1 January 2000.

The subject of this Circular as a **Company Report** is:

- the Company's aggregate share capital of EUR 11,185,000.00 (following the implementation of the capital increase by EUR 4,864,584.35 from EUR 5,135,415.65 (rounded to the nearest cent) to EUR 10,000,000.00 from retained earnings, resolved by the General Meeting on 3 February 2000 and the capital increase against cash contributions of EUR 10,000,000.00 from EUR 1,185,000.00 to EUR 11,185,000.00) resolved by the General Meeting on 3 February 2000, composed of 11,185,000 no-par value ordinary bearer shares with a theoretical interest in the share capital of EUR 1.00 each;
- and up to 200,000 no-par value ordinary bearer shares in respect of share options on shares from the contingent capital increase resolved by the General Meeting on 3 February 2000 with a theoretical interest in the share capital of EUR 1.00 per share and each carrying full dividend rights starting from the beginning of the fiscal year in which these shares are created through the exercise of share options.

No person has been authorized to give any information or to make any representations other than those contained in this Preliminary Offering Circular in connection with the offering or sale of the offered shares and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or any member of the underwriting syndicate (as defined in "Summary" in section 2.4). In making a decision to purchase the offered shares, investors shall rely on no information other than that contained in this Preliminary Offering Circular. The delivery of this Preliminary Offering Circular shall not under any circumstances imply that the information contained therein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of the Company since the date hereof.

This Preliminary Offering Circular is not an invitation to subscribe for or purchase any securities of the Company in any jurisdiction in which such invitation is not authorized or to any person to whom it is unlawful to make such invitation. The distribution of this Preliminary Offering Circular and the offering or sale of the offered shares in certain jurisdictions is restricted by law. Persons into whose possession this Preliminary Offering Circular may come are required by the underwriting syndicate and the Company to inform themselves about and to observe any such restrictions. This Preliminary Offering Circular may not be used for or in connection with any offer to, or solicitation by, anyone in any jurisdiction or in any circumstances where such offer or solicitation is not authorized or is unlawful. Further information with regard to restrictions on offers and sales of the Offered Shares and the distribution of this document is set out under "The Offering" in section 3 below.

The offered shares may not be offered or sold in or into the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing, or disposing of investments (as principal or agent) for the purposes of their business (or in other circumstances that do not constitute an offer to the public in the United Kingdom for the purposes of the Public Offers or Securities Regulations 1995), and this Preliminary Offering Circular may only be issued or passed on in or into the United Kingdom to any person of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996, as amended, or to whom the Preliminary Offering Circular may otherwise lawfully be issued or passed on by reason of, or of any regulation made under, Section 58 of the Financial Services Act 1986. All applicable provisions of the Public Offers of Securities 1995 and Financial Services Act 1986 must be complied with in respect of anything done in relation to the offered shares in, or otherwise involving the United Kingdom.

The offered shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended, and may not be offered or sold within the United States, Canada and Japan.

1.4 Forward-looking statements, reliability of opinions and forecasts

This Circular contains certain forward-looking statements, which are indicated by the use of such words as "believes", "is confident that", "anticipates" or other similar expressions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which could result in the actual future earnings, financial position, development or performance of the Company or the relevant industries deviating substantially from those stated or implied in these statements. These factors include, among others, competition from other companies, the Company's capital requirements, financing costs, changes in operating costs, the Company's ability to attract and retain qualified employees, uncertainties arising from the Company's business activities, and other factors cited in this Circular. In view of these uncertainties, future investors should not rely on such forward-looking statements. The Company does not undertake to adhere to these forward-looking statements in the future or to adapt them to future events or developments.

2 CIRCULAR SUMMARY

The following summary should be read in conjunction with the detailed information and financial section presented elsewhere in this Circular. The summary serves only as a guide to the reader and should not be read as a substitute for the Circular as a whole.

2.1 RATIONAL AG

RATIONAL AG is one of the world's leading suppliers of products and services for thermal food preparation in kitchens for mass and commercial catering. RATIONAL believes that it has a considerable technological edge over the competition. Since the company was formed in 1973, RATIONAL's innovative technologies have fundamentally changed the processes in kitchens for mass and commercial catering worldwide. RATIONAL pioneered hot-air device technology in this sector. Uncompromising further technological development led to the use of a combination of hot air and steam in a single unit with a patented control system. RATIONAL invented the name "combi-steamer" for this technology. The combi-steamer was one of the most important innovations in the mass and commercial kitchen sector and is increasingly replacing conventional food preparation equipment. The worldwide success of the combi-steamer technology is attributable in particular to the enormous increase in the quality of the prepared food, cost and time-savings for users and the development of completely new areas of application. The most recent innovation is the "ClimaPlus Combi" with "ClimaPlus Control" and "IQT" (cutting-edge intelligent software). The "ClimaPlus Combi" model series is an intelligent food preparation technology implemented by the RATIONAL research department. This technology has "learned" to measure the moisture required to produce an ideal climate for specific products and to control this exactly and automatically for each product according to instructions. The intelligent IQT expert system utilizes the food preparation process information gathered from decades of research by RATIONAL. For example, the system uses sensors to determine the degree of browning, the exact core temperature, the size of the food items, and the volume of the cooking area filled in each case, and makes independent decisions concerning each cooking process. The user is required to enter only two parameters to achieve the desired end result, i.e. the degree of browning and the core temperature. The IQT takes care of the rest. This "intelligent" technology greatly simplifies complex procedures.

RATIONAL's corporate philosophy is based on specialization and the exclusive focus of all decisions on customer benefit. RATIONAL's definition of specialization is concentrating on creative solutions for a core set of problems for a clearly defined target group, namely the people who prepare foods thermally in mass and commercial catering kitchens.

RATIONAL is the global market leader in its field. Of the roughly 350,000 combi-steamers estimated by the Company to be in operation today, approximately 150,000 are RATIONAL combi-steamers. RATIONAL plans to consistently develop the most promising sales markets throughout the world, primarily with its own subsidiaries. RATIONAL's market analyses show that the overall potential worldwide is about 2.5 million customers for one or more units. The degree of market penetration is therefore only 10% - 15%. RATIONAL's sales and marketing process is clearly defined, as are its innovation, production and delivery processes. RATIONAL's processes steer clear of extremely labor-intensive and hierarchical work organization, instead applying straightforward and end-to-end processes for which employees on-site largely accept responsibility and decision-making authority themselves. The RATIONAL Group currently employs a total of 551 persons, 159 of whom are outside Germany.

2.2 Key financial data of the RATIONAL Group

	31.12.99 Thousands of DM	*31.12.98 Thousands of DM*	*31.12.97 Thousands of DM*
Sales	**255,789**	**222,089**	**201,720**
Change in inventories	701	–1,515	1,095
Total operating revenue	**256,490**	**220,574**	**202,815**
Other operating income	6,424	3,032	2,862
Operating income	262,914	223,606	205,677
Cost of materials	–91,004	–77,513	–82,653
Personnel expenses	–60,341	–54,365	–48,718
Depreciation and amortization	–3,738	–4,216	–4,561
Taxes on opereations	–562	–86	–524
Other operating expenses	–60,113	–45,858	–41,351
Operating expenses	–215,758	–182,038	–177,807
Financial result	–1,345	–2,174	–3,079
Net profit from ordinary activities	**45,811**	**39,394**	**24,791**
Taxes on income	–17,494	–14,651	–12,085
Net income for the year of the Group before dormant partner interests	28,317	24,743	12,706
Dormant*	*	*	–1,012
Group shareholders' interest in net income	**28,317**	**24,743**	**11,694**
Total assets	**106,297**	**97,133**	**94,274**
Equity	**46,023**	**25,168**	**17,139**

* The dormant partnership was wound up as of 31 December 1997

2.3 Earnings per share

The following table presents the ratio of net income for the year for the last three full fiscal years to subscribed capital, converted into euro and presented in terms of a theoretical interest of EUR 1.00 per share.

	1999	*1998*	*1997*
Net income for the year (DM thousand)	**28,317**	**24,743**	**11,694**
Earnings per share (DM)	**5.51**	**4.82**	**2.28**
No. of shares rounded to the nearest thousand (converted to no-par value shares with a theoretical interest of Euro 1.00)	5,135	5,135	5,135

2.4 Summary

The Offering comprises a public offering of shares of RATIONAL AG in the Federal Republic of Germany by J. Henry Schroder & Co. Ltd., Bayerische Hypo- und Vereinsbank AG, Landesbank Baden-Württemberg and Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien ("underwriting syndicate"), as well as an international private placement in Europe and other parts of the world (except the US, Canada and Japan) from 23 February 2000 to 1 March 2000.

2.4.1 Shares offered

The Offering comprises

- 1,185,000 no-par value shares with a theoretical interest in the share capital of EUR 1.00 each from the capital increase against cash contributions resolved on 3 February 2000,
- 1,112,032 no-par value shares with a theoretical interest in the share capital of EUR 1.00 each from the holdings of the existing shareholders, and

- an additional up to 185,000 no-par value shares with a theoretical interest in the share capital of EUR 1.00 each as part of the overallotment option granted to the lead manager,

each carrying full dividend rights from 1 January 2000.

2.4.2 Overallotment option

The Company will grant the lead manager an option to acquire up to 185,000 no-par value shares with a theoretical interest in the share capital of EUR 1.00 in order to cover the overallotment. The overallotment option will be covered by a cash capital increase yet to be implemented, if necessary, by utilizing authorized capital. The option can be exercised within 30 days after the date of initial listing of the shares of the Company on the Geregelter Markt. Moreover, the lead manager will be authorized to cover overallotments initially from the shares of an existing shareholder which such shareholder will make available to the lead manager in the form of a securities loan. The lead manager can then use the option granted to acquire shares from the authorized capital in order to repay the securities loan.

2.4.3 Existing shareholders

The entire share capital is currently held by the existing shareholders. After the capital increases are implemented and this Offering is completed, the existing shareholders will hold 79.46% of the share capital of the Company (or, if the overallotment option is exercised in full, 78.17%). The existing shareholders are:

	% interest before placement	*Secondary offering*	*% interest after placement (overallotment option not exercised)*	*% interest after placement (overallotment option exercised in full)*
Siegfried Meister	73.12	0.00	65.38	64.31
Walter Kurtz	9.94	0.00	8.88	8.74
Kapitalbeteiligungs-gesellschaft Rheinl.-Pfalz	7.74	–7.74	0.00	0.00
Patricia Poczka	3.09	–2.03	0.95	0.94
Helmut Eichhorn	2.06	–1.35	0.64	0.63
Isolde Glas	1.01	0.00	0.90	0.89
Reinhilde Graser	1.01	0.00	0.90	0.89
Wolfgang Meister	1.01	0.00	0.90	0.89
Ulrike Meister	1.01	0.00	0.90	0.89
Employees	0.00	0.00	0.54	0.53
Free float	**0.00**	**0.00**	**20.00**	**21.30**
Total	**100.00**		**100.00**	**100.00**

2.4.4 The Company's share capital

The share capital of the Company at its formation amounted to DM 10,044,000.00 and was composed of 2,008,800 no-par value shares, each with a theoretical interest of DM 5.00 in the share capital. After the share capital was converted from Deutsche Mark to euros as per a resolution dated 3 February 2000, and after reclassification of the shares and implementation of the capital increases, the share capital amounts to EUR 11,185,000.00 and is composed of 11,185,000 no-par value shares, each with a theoretical interest of EUR 1.00 in the share capital.

2.4.5 Stock exchange listing

On February 15, 2000, the Company applied for admission of its entire share capital to the SMAX quality small-cap segment of the Geregelter Markt of the Frankfurt Stock Exchange as part of the Offering. The listing on the Geregelter Markt is planned for 3 March 2000. The existing shareholders' shares which are subject to a prohibition on disposal may not be traded initially and will not be amalgamated with the custody account containing the shares not subject to a prohibition on disposal until six months after the date of initial listing of the Company's shares.

The Company has declared itself willing to meet the requirements necessary for admission to the SMAX quality small-cap segment (quarterly reports, designated sponsor, and acceptance of the German Takeover Code, or *Übernahmekodex*).

2.4.6 Market protection agreements

The existing shareholders have made a contractual undertaking to the Company and the lead manager not to offer for sale any shares either directly or indirectly on the stock market or over the counter for a period of 12 months from the date of the initial listing of the Company's shares on the Geregelter Markt, nor to sell or announce the sale of shares, nor to take other measures which would constitute the economic equivalent of such a sale. The Company has made an undertaking to Deutsche Börse AG in accordance with section 3.5 of the SMAX listing regulations, as well as to the lead manager, not to offer for sale any shares either directly or indirectly for a period of six months from the date of the initial listing of the Company's shares on the Geregelter Markt, nor to sell or announce the sale of shares, nor to take other measures which would constitute the economic equivalent of such a sale. An exception to this agreement is the implementation of employee equity compensation plans that grant rights to shares. The lead manager can release the Company and/or the existing shareholders from the above obligations based on a justified application by the Company and/or the existing shareholders.

2.4.7 Voting rights

Each no-par value share entitles the holder to one vote at the Company's General Meeting.

2.4.8 Dividend rights

The shares carry full dividend rights from fiscal year 2000.

2.4.9 Utilization of the proceeds of the issue

The funds accruing to the Company from the capital increase and the subsequent placement (including funds from the overallotment option, if exercised) amounting to approximately EUR [●] net (and an additional EUR [●] if the overallotment option is exercised in full) will be used by the Company to finance its further growth and investments in infrastructure, marketing activities, possible acquisitions of companies or associates, and to finance general business objectives. The proceeds of the secondary offering, less the proportionate issuing and placement costs attributable to this, will be paid to the existing shareholders. The issuing and placement costs to be borne by the Company amount to a total of approximately EUR [●], including the remuneration of the underwriting syndicate totaling around EUR [●].

2.4.10 Delivery of shares and payment

Shares are expected to be delivered versus payment on March 6, 2000. The shares will be represented by a permanent global certificate with coupons, which will be deposited with Clearstream AG (formerly Deutsche Börse Clearing AG), Frankfurt/Main, or in share certificates. The global certificate is composed of two partial global certificates with two different German securities code numbers (WKN), one for the shares immediately admitted to trading on the Geregelter Markt (WKN 701080) and one for the existing shareholders' shares subject to a prohibition on disposal (WKN 701082). The second securities code number (WKN 701082) will be encrypted in such a way that stock exchange trading is not possible. The WKN 701082 shares will be completely blocked within the collective custody system, with the result that no changes to the custody account will be possible during the period of six months after initial listing of the Company's shares. On the date the prohibition ends, Clearstream AG (formerly Deutsche Börse Clearing AG) will automatically implement the amalgamation of the custody accounts of both WKNs into WKN 701080. The Company's Articles of Association prohibit the shareholders from claiming delivery of physical certificates, but this privilege can be granted by the Managing Board against reimbursement of costs.

3 THE OFFERING

3.1 General information

The shares described in this Circular are the subject of a public offering in the Federal Republic of Germany and private placements in the rest of Europe and other parts of the world (with the exception of the US, Canada and Japan) during the period from 23 February 2000 to 1 March 2000 and amount to a total of 2,297,032 no-par value shares plus, if the overallotment option is exercised in full, up to 185,000 no-par value shares, each with a theoretical interest in the share capital of the Company of EUR 1.00. The shares offered arose from the cash capital increase resolved by the Ordinary General Meeting on 3 February 2000 and from the holdings of the existing shareholders as well as from a cash capital increase from authorized capital to be implemented, if necessary, in the case of exercise of the overallotment option.

The lead manager for the Offering is J. Henry Schroder & Co. Ltd., London, (hereinafter referred to as the “lead manager”), which is supported by the following additional banks: Bayerische Hypo- und Vereinsbank AG, Landesbank Baden-Württemberg and Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien (together with the lead manager hereinafter referred to as the “underwriting syndicate”). The shares from the cash capital increase will be assumed by J. Henry Schroder & Co. Ltd. in its own name, but on the account of the underwriting syndicate. The shares will be offered publicly in the Federal Republic of Germany. Outside Germany, the shares will be offered through private placements by the underwriting banks.

The purchase price per share will be determined in conjunction with the order book compiled during the bookbuilding process. The price range within which bids can be placed is expected to be determined by the Company and the lead manager on 22 February 2000. The purchase price per share is expected to be determined by the Company and the lead manager on 1 March 2000. Potential investors who place their bids through an underwriting bank are expected to be able to obtain information on the purchase price and the number of shares allotted to them from 2 March 2000 from this underwriting bank. Investors will probably be required to pay the purchase price on 6 March 2000.

The 1,185,000 no-par value shares from the cash capital increase resolved by the Ordinary General Meeting on 3 February 2000 and the 1,112,032 no-par value shares from the holdings of the existing shareholders will be placed with a wide group of investors by the underwriting consortium listed at the end of this Circular under the leadership of the lead manager.

The lead manager has an option to acquire an additional up to 185,000 no-par value shares from a cash capital increase from authorized capital to be resolved, if necessary, in order to cover an overallotment. The lead manager can exercise the overallotment option either in part or in whole within 30 calendar days after the date the shares are traded publicly for the first time. Moreover, the lead manager will be authorized to cover overallotments initially from the shares of an existing shareholder which will be made available to the lead manager in the form of a securities loan. The lead manager can then use the option granted to acquire shares from the authorized capital in order to repay the securities loan.

3.2 Existing shareholders

The existing shareholders hold the entire share capital of the Company before the cash capital increase and exercise of the Offering. After implementation of the cash capital increase and completion of the Offering, the existing shareholders will hold 79.46% (or, if the overallotment option is exercised in full, 78.17%) of the share capital of the Company (see table below for details) and can therefore exercise a controlling influence on the Company. The shareholder Siegfried Meister, who is also the Chairman of the Supervisory Board of the Company, can influence resolutions requiring a majority vote by the General Meeting by himself, including changes to the Articles of Association (excepting changes to the Company’s statutory purpose), and – depending on the actual attendance of the shareholders at the General Meeting of the Company – may under certain circumstances even reach the 3/4 majority of the share capital represented which is required to change the Company’s statutory purpose.

The current shareholders of the Company ("existing shareholders") are:

	% interest before placement	*Secondary offering*	*% interest after placement (overallotment option not exercised)*	*% interest after placement (overallotment option exercised in full)*
Siegfried Meister	73.12	0.00	65.38	64.31
Walter Kurtz	9.94	0.00	8.88	8.74
Kapitalbeteiligungs-gesellschaft Rheinl.-Pfalz	7.74	–7.74	0.00	0.00
Patricia Poczka	3.09	–2.03	0.95	0.94
Helmut Eichhorn	2.06	–1.35	0.64	0.63
Isolde Glas	1.01	0.00	0.90	0.89
Reinhilde Graser	1.01	0.00	0.90	0.89
Wolfgang Meister	1.01	0.00	0.90	0.89
Ulrike Meister	1.01	0.00	0.90	0.89
Employees	0.00	0.00	0.54	0.53
Free float	**0.00**	**0.00**	**20.00**	**21.30**
Total	**100.00**		**100.00**	**100.00**

3.3 Preferred allotment

A preferred allotment for employees is planned as part of the IPO. Each employee of the Company (not including executives) can acquire up to ten shares at half the issuing price, but at no more than EUR 13.30 per share, and up to 100 shares at the issuing price less a 5% discount, but at no more than EUR 26.60 per share. Selected employees of the Company can also acquire up to a total of 5,500 additional shares at half the issuing price.

Each executive of the Company can acquire up to ten shares at half the issuing price, but at no more than EUR 13.30 per share, and up to 2,000 shares at the issuing price less a 5% discount, but at no more than EUR 26.60 per share.

Each employee of the subsidiaries in France, Italy, Switzerland, the UK, Sweden and Spain (including executives) can acquire up to 100 shares at the issuing price less a 5% discount, but at no more than EUR 26.60 per share.

A total of no more than 60,000 no-par value shares (EUR 60,000, or around 3% of the placement volume before the greenshoe is exercised) will be offered as part of the preferred allotment. All shares are subject to a prohibition on disposal from the date of the listing on the basis of a contractual agreement between the employee and the Company. This prohibition will be ensured by blocking in the employee's custody account in the respective bank. The prohibition period will last at least six months.

3.4 Market protection agreements

The existing shareholders have made a contractual undertaking to the Company and the lead manager not to offer for sale any shares either directly or indirectly on the stock market or over the counter for a period of 12 months from the date of the initial listing of the Company's shares on the Geregelter Markt, nor to sell or announce the sale of shares, nor to take other measures which would constitute the economic equivalent of such a sale ("prohibition on disposal"). The prohibition on disposal is ensured, among other things, by the fact that trading of these shares on the stock exchange is prohibited for a period of six months from the date of the initial listing of the Company's shares on the Geregelter Markt, because the shares of the existing shareholders which are subject to the prohibition on disposal are allocated their own securities code number (WKN). Disposal with the agreement of the lead manager and the Company is possible for an additional period of six months.

The Company has made an undertaking to Deutsche Börse AG in accordance with section 3.5 of the SMAX listing regulations as well as to the lead manager under the applicable regulations of the German Public Companies Act to not offer for sale any shares of the Company either directly or indirectly for a period of six months from the date of the initial listing of the Company's shares on the Geregelter Markt, nor to sell or announce the sale of shares, nor to take other measures which would constitute the economic equivalent of such a sale.

Deutsche Börse AG can release the Company from its obligations in accordance with section 3.5 of the SMAX listing regulations based on a justified application by the Company. J. Henry Schroder & Co. Ltd. can release the Company from its obligations to J. Henry Schroder & Co. Ltd. based on a justified application by the Company.

The Company also has made an undertaking to J. Henry Schroder & Co. Ltd. not to announce or implement any capital increases from authorized capital and/or to propose any resolutions on capital increases to its General Meeting without the prior written consent of J. Henry Schroder & Co. Ltd.. An exception to this agreement is the implementation of employee equity compensation plans that grant rights to shares in accordance with the details of the equity compensation plan described and presented in section 5.7, "Managing Board equity compensation program (share option program)".

3.5 Voting rights

Each share entitles the holder to one vote. There are no limitations on voting rights.

3.6 Dividend rights

The offered shares each carry full dividend rights for the full fiscal year 2000, i.e. from 1 January 2000.

3.7 Listing

Application was made to admit the entire share capital after the capital increase to the Geregelter Markt with admission to trading on the SMAX quality small-cap segment of the Frankfurt Stock Exchange on 15 February 2000. The listing is expected to occur on 3 March 2000. The shares of the existing shareholders subject to the prohibition on disposal are initially excluded from trading and will not be amalgamated with the custody account containing the shares not subject to a prohibition on disposal until six months from the date of the initial listing of the Company's shares.

The Company has undertaken to fulfill the particular requirements for admission to the SMAX quality small-cap segment, such as preparation of quarterly reports, naming of a designated sponsor and acceptance of the German Takeover Code (*Übernahmekodex*).

3.8 Utilization of the proceeds of the issue

The funds accruing to the Company from the capital increase and the subsequent placement (including funds from the overallotment option, if exercised) amounting to approximately EUR [●] net (and an additional EUR [●] if the overallotment option is exercised in full) will be used by the Company to finance its further growth and investments in infrastructure, marketing activities, possible acquisitions of companies or associates, and to finance general business objectives (see also the section entitled "Business Activities"). The proceeds of the secondary offering, less the proportionate issuing and placement costs attributable to this, will be paid to the existing shareholders.

The issuing and placement costs to be borne by the Company amount to a total of approximately EUR [●], including the remuneration of the underwriting syndicate totaling around EUR [●].

3.9 Transferability and delivery of shares and payment

Shares are expected to be delivered versus payment on 6 March 2000.

The Company's shares are freely transferable no-par value bearer shares. The shares will either be represented by a permanent global certificate with coupons, which will be deposited with Clearstream AG (formerly Deutsche Börse Clearing AG), Frankfurt/Main, or by share certificates. The global certificate is composed of two partial global certificates with two securities code numbers (WKN), one for the shares immediately admitted to trading on the Geregelter Markt (WKN 701080) and one for the existing shareholders' shares subject to a prohibition on disposal (WKN 701082). The second securities code number (WKN 701082) will be encrypted in such a way that stock exchange trade is not possible. The WKN 701082 shares will be completely blocked within the collective custody system, with the result that no changes to the custody account will be possible during the period of six months after initial listing of the Company's shares. On the date the prohibition ends, Clearstream AG (formerly Deutsche Börse Clearing AG) will automatically implement the amalgamation of the custody accounts of both WKNs into WKN 701080. The Company's Articles of Association prohibit the shareholders from claiming delivery of physical certificates, but this privilege can be granted by the Managing Board against reimbursement of costs.

Since 4 January 1999, prices of, among other things, shares listed on the stock exchanges of the states participating in European Monetary Union have been quoted exclusively in euros. Investors can, however, decide whether the proceeds from share transactions should be credited to a euro account or a Deutsche Mark account. The exchange rate for euros is DM 1.95583.

3.10 Securities code numbers (WKN)

The German securities code number (WKN) for the shares is 701080 for the offered shares and 701082 for the shares of the existing shareholders subject to a prohibition on disposal.

The International Securities Identification Number (ISIN) is DE 000701803 for the offered shares and DE 000701829 for the shares of the existing shareholders subject to a prohibition on disposal.

3.11 Exchange symbol

The exchange symbol is "RAA".

3.12 Designated Sponsor

Schroder Securities Limited, 120 Cheapside, London EC2V 6DS, is the designated sponsor as defined in the SMAX listing regulations.

4 RISK FACTORS

4.1 Specialization

RATIONAL exclusively specializes in the market for thermal food preparation in kitchens for mass and commercial catering. The Company generates its sales with a limited number of products and services. While RATIONAL has continually developed its products in the past, it relies heavily on the demand for products specially designed for kitchens for mass and commercial catering, and on the ongoing development of these products. For this reason, any decline in the demand for these products in the future could have a material adverse effect on the Company’s financial position and earnings.

4.2 Competition

The mass catering industry market in general has been undergoing consolidation and concentration for a number of years. The possibility that the entry of large, cash-rich groups with high sales could negatively impact RATIONAL’s competitive situation cannot be ruled out. Current competitors could strengthen their market position against RATIONAL in the long term with the help of cash-rich partners. This could have a material adverse effect on the Company’s financial position and earnings.

4.3 Logistics and inventory management

The Company has its own inventory management system, which is based on just-in-time delivery (kanban) instead of substantial in-house stocks. Such optimized inventory control systems require efficient logistics on the part of suppliers. For this reason, supply bottlenecks with individual suppliers can quickly lead to production shortfalls for the Company (within a few days, under certain circumstances). This could have a material adverse effect on the Company’s financial position and earnings. Problems can be identified early by integrating suppliers into RATIONAL’s process organization. There have been no significant supply bottlenecks to date.

4.4 Currency risks

Approximately 28% of the RATIONAL Group’s sales is generated in currencies outside the euro zone. Of this 28%, approximately 4% is generated in US dollars, 13% in British pound sterling, 5% in Japanese yen and 6% in other currencies.

The Company conducts rate hedging transactions to protect it against the exchange rate risk associated with these transactions, taking into account the expected future cash-flow. The aim of these transactions is to secure the expected earnings from current business, i.e. using conservative assumptions rather than for speculative purposes. However, the possibility cannot be ruled out that certain circumstances could result in these transactions generating losses, in particular in the event of strong volatility of the US dollar, British pound sterling or Japanese yen against the euro.

4.5 Dependence on management

The Company’s success is largely dependent on its highly-qualified senior management, particularly Managing Board members, the international sales team and the research and development department. The Company attempts to further strengthen the Managing Board members’ ties to the Company through its share option program. However, no assurance can be given that the Managing Board and certain other key persons will continue to work for the Company in the future. The loss of one or several of these senior managers, particularly members of the Managing Board, sales or research and development employees, could have a material adverse effect on the Company’s business, financial position and earnings.

4.6 Growth

The planned growth is based on estimates of market potential and on certain assumptions regarding the rate at which that market can be developed. Misjudgements cannot be ruled out. The Company’s planned growth also requires a sufficient number of new, highly-qualified specialists and managers around the world. Failure by the Company to recruit these new employees would jeopardize or prevent its growth targets being met. In either case, this could have an adverse effect on the Company’s planned sales and earnings development.

4.7 Product defect risk, product liability

The products manufactured and sold by the Company could contain hidden defects, which could result in claims being made against the Company. In particular, individual components may not withstand the mechanical stress placed upon them. The materials used may result in as yet unknown health risks; in particular, this could affect food prepared with such materials. The Company is confident that such risks are low and should not arise if its products are used properly. In addition, product liability risks can be limited by clear warnings, appropriate advertising and product labeling. However, legal provisions forbid the Company from contractually limiting, or excluding altogether, its liability to customers or third parties as a manufacturer or distributor of products for the thermal preparation of food. To date, no claims have been made against the Company arising from its product liability. The Company has taken out product liability insurance and considers its total policy value to be sufficient. Nonetheless, it cannot be ruled out that product liability claims could arise which are not covered, or are not sufficiently covered, by this insurance policy.

4.8 Risk associated with, or violation of, industrial property rights

All of the Company's products are either sold under the "RATIONAL" brand or under the brand names of other manufacturers of heavy catering equipment such as "Fujimak", "Henny-Penny" or "Welbilt". The Company endeavors to provide appropriate protection for its brand rights and other industrial property rights in all of its important markets, since brand awareness means that these rights are of major importance to the Company. This applies in particular to the "ClimaPlus Combi", "ClimaPlus Control" and "IQT" products. However, it cannot be ruled out that these industrial property rights might be challenged in the future, despite the Company's efforts to sufficiently protect them. There are a number of manufacturers on the market bearing the name "RATIONAL" (in the area of domestic kitchens, for instance, though not in the area of kitchens for mass and commercial catering). The loss of a number of the major brand rights could have a material adverse effect on the Company's business, financial position and earnings.

4.9 Year 2000

Many installed computer systems and software products are coded to accept two-digit date fields. From the year 2000 onwards, these coded date fields must accept four-digit entries, in order to differentiate dates in the 21st century from those in the 20th century. For this reason, computer systems and/or software products in use in many companies must be upgraded to meet this requirement. It cannot be ruled out that computer systems and software used by individual companies within the RATIONAL Group may have hidden defects with regard to the date function, or that these defects will not cause the systems to malfunction. Furthermore, the products of the RATIONAL Group also contain computer systems; the possibility that these systems will malfunction cannot be entirely ruled out. To the Company's knowledge, no malfunctions of this type have arisen to date. Such defects or malfunctions could lead to product liability claims or warranty claims being made against the Company, which in turn could have an adverse effect on the business, financial position and earnings of the RATIONAL Group.

4.10 Influence of existing shareholders

Following implementation of the cash capital increase and the completion of the Offering, the existing shareholders will hold 79.46% of the Company's share capital (78.17% in the event that the overallotment option is fully exercised) and will therefore be in a position to exercise a dominant influence on the Company. The shareholder Siegfried Meister, who is also Chairman of the Supervisory Board, will hold a 65.38% share (64.31% if the overallotment option is fully exercised) and will be able to effect majority decisions at the General Meeting on his own, including changes to the Articles of Association (excepting changes to the Company's statutory purpose) and – depending on the actual attendance of the shareholders at the General Meeting of the Company – may under certain circumstances even reach the 3/4 majority of the share capital represented which required to change the Company's statutory purpose. This would put him in total control of the Company.

In the event that the existing shareholders – Mr. Siegfried Meister in particular – dispose of shares subsequent to the placement of the shares offered in this Circular, this could have a lasting negative effect on the Company's market price. All of the existing shareholders have made an undertaking to the Company and to the lead manager not to sell any shares for a period of twelve months following the initial listing. However, the existing shareholders are free to sell their shares when this market protection agreement expires.

4.11 Dependence on individual sales partners

The Company generates approximately 13% of its total sales from its three largest sales partners. The loss of one or all of these sales partners could have an adverse effect on the Company's business, financial position and earnings.

4.12 Dependence on individual suppliers

The Company's concentration on particular systems suppliers means that it has a certain dependence with regard to the supply of a number of key components. The Company conducts active risk management and quality assurance and has long-term supply contracts, which make it confident that the risks associated with this dependence are relatively low. Nevertheless, the possibility of losing individual suppliers at short notice cannot be ruled out. This could have a material adverse effect on the Company's business, financial position and earnings.

4.13 No public market, fixing of the selling price, share price volatility

There was no public market for the Company's shares prior to the Offering. The issuing price will be determined in the bookbuilding process by the lead manager, the existing shareholders and the Company. It cannot be guaranteed that the share price agreed for the Offering will be the price at which the shares are actually traded following the Offering, or that active trading in the shares will develop. Furthermore, the share price may fluctuate considerably. This could be caused by events directly relating to the Company or developments on the capital markets. In particular, shares with a comparatively limited market are particularly exposed to price and sales fluctuations. These factors could lead to a drop in the share price even though the Company's operating results or financial position have not changed.

5 GENERAL INFORMATION ON THE COMPANY

5.1 Formation, name, commercial register entry and registered office of the Company

The Company was formed in Landsberg am Lech in 1973. In 1989 a further group of investors acquired interests in the Company, now called “RATIONAL Großküchentechnik Service GmbH” (based in Landsberg am Lech), in addition to the existing holdings of the Company founder Siegfried Meister, and the shareholder Walter Kurtz. In 1991 the Company was renamed “RATIONAL GmbH”. By resolution of the Partners’ Meeting of 3 December 1998 RATIONAL GmbH was reorganized as an Aktiengesellschaft (German public company).

This reorganization from a GmbH (Gesellschaft mit beschränkter Haftung) (private limited company) to an Aktiengesellschaft was implemented in accordance with the provisions of sections 190 ff. of the UmwG (Umwandlungsgesetz) (German Reorganization and Transformation Act). In accordance with the provisions of section 245 (1) of the UmwG, the shareholders at the time of the reorganization are considered to be the founders of the Company. The audit by Allrevision Allgemeine Revisions- und Beratungsgesellschaft mbH Wirtschaftsprüfungsgesellschaft, Munich, the court-appointed transformation auditors in accordance with section 245 (1) sentence 2 and section 220 of the UmwG in conjunction with section 33 (2) of the AktG (Aktiengesetz) (German Public Companies Act), established that the reorganization complied with the relevant legal regulations. The report of Allrevision Allgemeine Revisions- und Beratungsgesellschaft mbH Wirtschaftsprüfungsgesellschaft, dated 17 December 1998 confirms that the net value of the reorganized Company reaches the value of the share capital of DM 10,044,000.00, after deduction of liabilities. On 9 February 1999 the reorganized Company was entered in the commercial register of Augsburg Local Court under the number HRB 2001. The Company’s registered office is at Iglinger Straße 62, 86899 Landsberg am Lech.

5.2 Statutory purpose

The Company’s statutory purpose is:

(1) the development, manufacture, sale and transfer of use of machines, equipment and installations, in particular for use in thermal food preparation, either indirectly or directly through the formation, investment in or acquisition of companies the purpose of which is the same as one of the activities mentioned above, in addition to the provision of any services related to these activities.

(2) The Company is authorized to spin off some or all of its business activities to affiliated companies or to transfer such activities to affiliated companies.

(3) The Company is authorized to engage in any business or take any measures which it considers appropriate in furthering the Company’s statutory purpose. In particular, the Company can form other companies, either in Germany or abroad, can acquire such companies or acquire interests in such companies; it can also conclude intercompany or cooperation agreements and establish subsidiaries.

5.3 Duration

The Company was formed for an indefinite period.

5.4 Fiscal year

The fiscal year of the Company is the calendar year.

5.5 Capitalization

5.5.1 Formation and reorganization as an Aktiengesellschaft

The Company was formed in 1973 under the name “RATIONAL Großküchentechnik GmbH” and entered in the commercial register of Augsburg Local Court on 17 August 1973 under the number HRB 3052. This company is still in existence (see section 6.1 “Overview of RATIONAL AG’s affiliates”, p. 24). In 1989 the Company was incorporated into “RATIONAL Großküchentechnik Service GmbH” (entered in the commercial register of Augsburg Local Court under the number HRB 11395 on 6 August 1989) by disposal of the operating assets. On 28 February 1991 the Company name was changed to “RATIONAL GmbH”.

RATIONAL GmbH (formerly RATIONAL Großküchentechnik Service GmbH) had an initial ordinary share capital of DM 100,000.00. This was then increased to DM 5,000,000.00 on 23 July 1990 (entered in the commercial register of Augsburg Local Court on 19 September 1990) and again to DM 10,044,000.00 on 15 April 1997 (entered in the commercial register of Augsburg Local Court on 11 August 1997). All the capital contributions have been paid in.

RATIONAL GmbH was then finally reorganized as an *Aktiengesellschaft* (German public company) under the name "RATIONAL AG", following the resolution of 3 December 1998, with a share capital of DM 10,044,000.00 (entered in the commercial register of Augsburg Local Court on 9 February 1999 under the number HRB 2001).

RATIONAL AG was thus formed with a share capital of DM 10,044,000.00, divided into 2,008,800 no-par value shares, each with a theoretical interest in the Company's share capital of DM 5.00. These shares were registered shares. The transfer of these shares required the approval of the General Meeting.

5.5.2 Capital increases, authorized capital and contingent capital

On 3 February 2000 the General Meeting resolved to convert the share capital to euros and to redenominate the registered shares as bearer shares, which are not subject to any transferability restrictions. In addition, the shares were reclassified as no-par value shares with a theoretical interest in the share capital of EUR 1.00 each. On 3 February 2000 the General Meeting resolved to increase the share capital from retained earnings by EUR 4,864,584.35 to EUR 10,000,000.00 (entered in the commercial register of Augsburg Local Court on 9 February 2000), and to further increase this by EUR 1,185,000.00 to EUR 11,185,000.00 against cash contributions (entered in the commercial register of Augsburg Local Court on [•]). These capital increases were implemented upon entry in the commercial register.

The General Meeting established two tranches of authorized capital: Authorized Capital I (amounting to EUR 4,400,000.00) and Authorized Capital II (amounting to EUR 1,100,000.00). Authorized Capital I may be exercised on one or several occasions against cash or non-cash contributions until 1 January 2005, up to the amount named. The Managing Board is authorized to restrict or entirely exclude the shareholders' subscription rights. Authorized Capital II may be exercised up to the amount named on one or several occasions until 1 January 2005 by issuing new shares against cash contributions. The shareholders' statutory subscription rights may be restricted or entirely excluded if the issuing price of these new shares does not fall significantly below the current market price.

The General Meeting also resolved a contingent capital increase of up to EUR 200,000.00 for the share option program, which is described in detail in section 5.7 "Managing Board equity compensation program (share option program)", page 22.

The relevant paragraphs in the Articles of Association are as follows:

"Article 4, Amount and classification of share capital

1. The Company's share capital amounts to EUR 11,185,000.00 (eleven million one hundred and eighty-five thousand euros), and is divided into 11,185,000 (eleven million one hundred and eighty-five thousand) no-par value shares.

2. The Managing Board is authorized, with the approval of the Supervisory Board, to increase the Company's share capital on one or several occasions up until 1 January 2005 by means of the issue of new shares against cash or non-cash contributions, up to a maximum of EUR 4,400,000.00 (Authorized Capital I). The Managing Board, with the approval of the Supervisory Board, will decide whether to exclude subscription rights. The Supervisory Board is authorized to amend the Articles of Association to correspond to the size of the capital increase from authorized capital.

3. The Managing Board is authorized, with the approval of the Supervisory Board, to increase the Company's share capital on one or several occasions up until 1 January 2005 by means of the issue of new shares against cash contributions, up to a maximum of EUR 1,100,000.00 (Authorized Capital II). Shareholders' subscription rights may be completely excluded if the issuing price of the new shares is not substantially lower than that of the market price of the shares already listed carrying the same rights when the final issuing price is fixed. The Supervisory Board is authorized to amend the Articles of Association according to the scope of the capital increase from authorized capital.

4. The share capital has been contingently increased by up to EUR 200,000.00 through the issue of up to 200,000 shares. The contingent capital increase will be used to grant options to members of the Company's Managing Board in accordance with the resolution passed by the General Meeting of 3 February 2000. The contingent capital increase will only be implemented insofar as persons holding options exercise those options. The new shares will carry dividend rights with effect from the beginning of the fiscal year in which they come into existence through the options being exercised."

5.5.3 Authorization to acquire treasury shares

Finally, on 3 February 2000 the Company's General Meeting resolved to authorize the Company to acquire up to 10% of its own shares for a period of 18 months, starting from the date of the General Meeting. This authorization will not come into effect until the capitalization measures described above under section 5.5.2 "Capital increases, authorized capital and contingent capital" have been entered in the commercial register. The Managing Board must observe certain minimum and maximum prices when exercising this option.

5.5.4 Control and profit transfer agreements

On 29 June 1990 RATIONAL Großküchentechnik Service GmbH, RATIONAL AG's legal predecessor, concluded a control and profit transfer agreement (as the controlling company) with both of its wholly-owned subsidiaries RATIONAL Großküchentechnik GmbH and Lechmetall Landsberg GmbH Edelstahlerzeugnisse (as controlled companies). As a result of these agreements, all losses of these companies have to be borne by RATIONAL Großküchentechnik Service GmbH. These agreements remain in force following the Company's reorganization as an Aktiengesellschaft and thus affect RATIONAL AG both positively and negatively. Since the conclusion of these agreement, RATIONAL Großküchentechnik Service GmbH / RATIONAL AG only assumed losses in the year 1991, specifically DM 555,000 in losses of Lechmetall Landsberg GmbH Edelstahlerzeugnisse and DM 84,000 in losses of RATIONAL Großküchentechnik GmbH.

5.6 Executive bodies of the Company

5.6.1 General

The Company has a Managing Board and a Supervisory Board, in accordance with the provisions of the Aktiengesetz (German Public Companies Act). The Managing Board is appointed by the Supervisory Board. The Supervisory Board is elected by the General Meeting. The Managing Board and Supervisory Board act independently. No person can be simultaneously a member of both the Managing Board and Supervisory Board. The Managing Board is responsible for the conduct of the Company's business and represents the Company in respect of third parties. The function of the Supervisory Board is the appointment and dismissal of the Managing Board members, in addition to the supervision of the Managing Board's management of the Company.

5.6.2 Managing Board

The Managing Board is responsible for running the Company's business in accordance with the law or the Company's Articles of Association. The Managing Board must comprise at least one member. The Supervisory Board determines the number of Managing Board members and is responsible for appointing and dismissing these members. If the Managing Board is only comprised of one person, that person is authorized to represent the Company alone. If several members are appointed to the Managing Board, the Company is represented by two Managing Board members or by one Managing Board member together with a "*Prokurist*" (authorized signatory). The members of the Managing Board of RATIONAL AG, and their areas of responsibility, are as follows:

Name	*Address*	*Appointment*	*Duration of Appointment*
Dr. Günter Blaschke	Grüntenweg 7 86859 Holzhausen	Chairman	All Managing Board members have been appointed until February 2002.
Erich Baumgärtner	Sarreiterweg 73 85560 Ebersberg	Commercial	
Peter Wiedemann	Südstr. 8 86836 Klosterlechfeld	Technical	

Dr. **Günter Blaschke** Born in 1949, Günter Blaschke studied business administration at the University of Cologne before taking a doctorate specializing in industrial business management. Dr. Blaschke began his professional career in 1978 as assistant marketing manager at Procter & Gamble GmbH in Schwalbach. From 1981 to 1990 he headed the marketing, product management and video products sales departments at 3M Deutschland and later at 3M Europe in Brussels, before alternately managing the sales, marketing, production and development departments for domestic and international markets at Joh. Vaillant GmbH in Remscheid. Mr. Blaschke moved to RATIONAL GmbH as Managing Director in 1997. After the Company was restructured as RATIONAL AG, he took on the role of Managing Board Spokesman in February 1999. He has been Chairman of the Managing Board since September 1999.

Erich Baumgärtner Born in 1954, Erich Baumgärtner studied business administration at Rosenheim University of Applied Technology and worked for Messerschmitt-Bölkow-Blohm GmbH in Ottobrunn from 1979 to 1987. His last position there was as manager of the tender department in the equipment division. In 1988 Mr. Baumgärtner moved to Digital Equipment GmbH, Munich, where he was Chief Financial Officer from 1996. In October 1998 he became manager of the Commercial division of RATIONAL GmbH, and since February 1999 he has been responsible for this department on the Managing Board of RATIONAL AG.

Peter Wiedemann Born in 1959, Peter Wiedemann joined RATIONAL GmbH as an engineer in 1988 after studying mechanical engineering at Munich Technical University. He was product manager from 1990 to 1993, after which he was involved in the establishment of the subsidiary RATIONAL Cooking Systems Inc. in the USA. In 1996 Mr. Wiedemann became a member of the management of RATIONAL GmbH and since September 1999 he has been a member of the Managing Board of RATIONAL AG and chief Technology Officer.

The Managing Board's total remuneration for fiscal 1999 amounted to DM 1,600,000. The Managing Board members do not currently hold any shares in the Company. However, the Company established a share option program on 3 February 2000 for Managing Board members. Details of this can be found in section 5.7 "Managing Board equity compensation program (share option program)", on page 22.

5.6.3 Supervisory Board

The Supervisory Board is responsible for supervising the Company's management by the Managing Board, in accordance with the law and with the Articles of Association. The Supervisory Board must comprise at least three members. The members of the Supervisory Board are elected by the General Meeting. At present, the Company is subject neither to co-determination in accordance with the *Mitbestimmungsgesetz* (German Co-Determination Act), nor the *Betriebsverfassungsgesetz* (German Works Constitution Act) of 1952. The members of RATIONAL AG's Supervisory Board are as follows:

Name	*Address*	*Appointment*	*Duration of Appointment*
Siegfried Meister	Römerauterasse 34 86899 Landsberg/Lech	Chairman of the Supervisory Board	All members of the Supervisory Board are elected for a term of office terminating at the end of the General Meeting which resolves their discharge for fiscal year 2003.
Walter Kurtz	Stäudlweg 3 82205 Gilching	Vice-Chairman of the Supervisory Board	
Roland Poczka	Hindenburgstraße 47 55118 Mainz	Member of the Supervisory Board	

Total remuneration for the Supervisory Board for fiscal year 1999 amounted to DM 226,716. Mr. Siegfried Meister, Mr. Walter Kurtz, and Ms. Patricia Poczka (the wife of Mr. Roland Poczka) all hold shares in the Company. Kapitalbeteiligungsgesellschaft Rheinland-Pfalz (capital investment company of Rhineland-Palatinate) holds shares in the Company and is an affiliate of Landesbank Rheinland-Pfalz, whose senior general manager is Mr. Poczka. Details of this can be found in the breakdown presented in section 3.2 "Existing shareholders", page 11.

5.6.4 General Meeting

The Company's Ordinary General Meeting is held once a year. The Ordinary General Meeting passes resolutions with respect to, among other things, the appropriation of net retained profits (section 119 (1) clause 2 of the AktG), the discharge of the members of the Managing Board and of the Supervisory Board (section 119 (1) clause 3 of the AktG) and the appointment of the auditor (section 119 (1) clause 3 of the AktG). The General Meeting is held at the Company's registered office, at the location of a German stock exchange or in a major German city with a population in excess of 100,000. The General Meeting will usually be convened by the Managing Board. Unless the law or the Articles of Association require otherwise, resolutions of the General Meeting require a simple majority of votes cast. Changes to the Articles of Association (excepting changes to the Company's statutory purpose) and capital increase also require a simple majority of votes cast. Each share entitles the holder to one vote at the General Meeting.

5.7 Managing Board equity compensation program (share option program)

On 3 February 2000 the Company established an equity compensation program for Managing Board members (share option program). The share option program will give the Company's Managing Board members – insofar as the Supervisory Board deems such members to have an option entitlement (option beneficiaries) – a further incentive to secure the Company's financial success in the medium and long term, and increase the Company's shareholder value.

The Company initially intends to grant options to the beneficiaries in up to five yearly tranches for a total of up to 200,000 no-par value shares in the Company with a theoretical interest in the share capital of a total of EUR 200,000.000, the terms and conditions of which will correspond to the details of the agreements reached with the beneficiaries (option agreement). The Supervisory Board is alone responsible for the conclusion of these option agreements and for determining the members of the Managing Board who are to become option beneficiaries. It is planned to distribute 34,500 options in the first tranche, which will be issued in conjunction with the IPO. The first tranche will be distributed in February 2000.

The options can have a term of up to five years from the issue of the individual tranches. The options can be exercised no earlier than two years after they are issued. The Supervisory Board can stipulate that parts, or all, of the options may only be exercised following the expiry of a longer lock-up period (lock-up periods). After such a blocking period has expired, the options may only be exercised within specified periods (exercise periods). These exercise periods each begin on the second and end on the sixth exercise day subsequent to an Ordinary General Meeting of the Company or the presentation of a quarterly report. Exercise days are normal business days for commercial banks in Frankfurt am Main.

The strike price is due when beneficiaries declare their intention to exercise the option, and is payable to the Company. For options which are issued before the Company's shares are first listed on the Frankfurt Stock Exchange during the IPO in 2000, the strike price will correspond to the placement price per share which is fixed in the context of this IPO. For options which are issued subsequently, the average (i.e. arithmetic mean) of the closing prices of the Company's shares recorded on the Frankfurt Stock Exchange during the last five trading days prior to the Supervisory Board's resolution with regard to the relevant issue of options, will apply.

Options may only be exercised if the performance of RATIONAL shares, adjusted for any interim dividend payments, subscription rights and other special rights, at least equals the performance of the SMAX All-Share Index (ISIN code DE 0009660068) during the period between commencement of the issue and commencement of the first option exercise period for the relevant tranche.

The Supervisory Board decides the volume of each offering and the terms and conditions of the option agreements. The Supervisory Board may decide, at its own discretion, that the terms and conditions of the options may provide that the options will be serviced in different ways, either (1) by issuing one share per option on the basis of the contingent capital increase of February 3, 2000 against payment of the strike price, (2) by transfer of one no-par value share for each option from the Company's holdings of treasury shares on the basis of its authorization to buy back shares against remuneration of the strike price, or (3) by cash payment equivalent to 100% of the value of one share in the Company, less the issuing price.

The option agreements will contain standard anti-dilution provisions in the event that the Company implements capitalization measures (such as increasing the share capital) during the term of the options.

5.8 Utilization of Profits 1999

On 3 February 2000, at the suggestion of the Managing Board and the Supervisory Board, the Ordinary General Meeting of the Company adopted a resolution to utilize the net retained profits of 1999 as follows: (1) distribution of a dividend of DM 34,008,984.00; (2) appropriation of DM 9,514,300.09 into the revenue reserves; and (3) utilization of DM 139,241.43 as retained profits brought forward.

5.9 Auditors

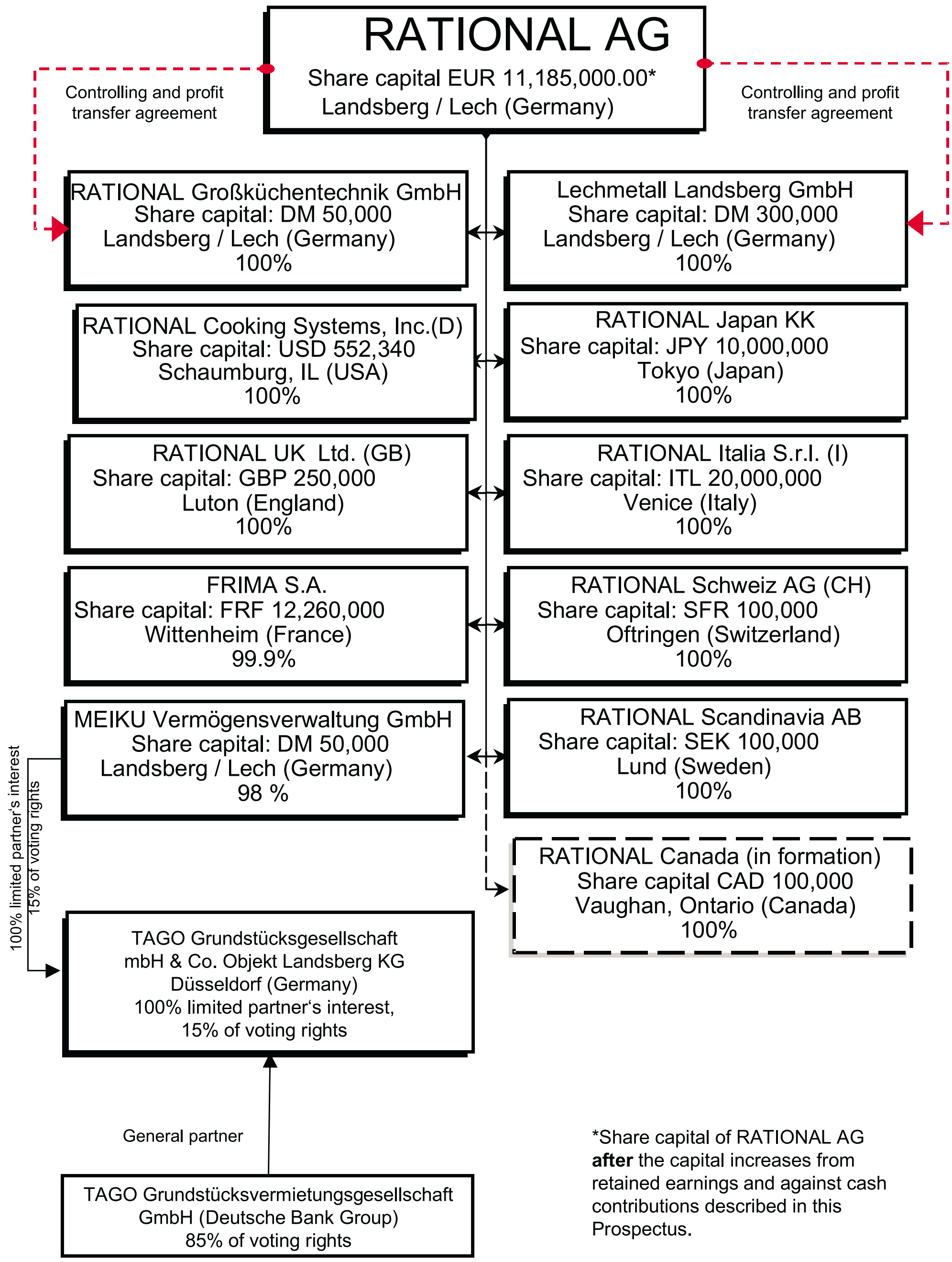
The Company's auditors for the last three fiscal years ending 31 December 1997, 1998 and 1999, respectively, were Allrevision Allgemeine Revisions- und Beratungsgesellschaft mbH Wirtschaftsprüfungsgesellschaft, Nockherstraße 2, 81541 Munich. The annual financial statements for these fiscal years 1997, 1998 and 1999 were each provided with an unrestricted auditor's certificate (*Bestätigungsvermerk*).

5.10 Notices, paying and depositary agents

The Company's notices are exclusively published in the *Bundesanzeiger* (Federal Gazette). The paying and depositary agent is Bayerische Hypo- und Vereinsbank AG.

6 AFFILIATES

6.1 Overview of RATIONAL AG's affiliates



*Share capital of RATIONAL AG **after** the capital increases from retained earnings and against cash contributions described in this Prospectus.

6.2 Key data on the Group companies

6.2.1 RATIONAL Großküchentechnik GmbH

Address:	Iglinger Straße 62 D-86899 Landsberg/Lech Germany Tel.: +49-(0)-8191-3270 Fax.: +49-(0)-8191-21735
Formation:	28 February 1973
Share capital:	DM 50,000.00
Shareholder:	RATIONAL AG 100%
Managing Director:	Dr. Günter Blaschke

Management Company.

6.2.2 Lechmetall Landsberg GmbH Edelstahlerzeugnisse

Address:	Iglinger Straße 62 D-86899 Landsberg/Lech Germany Tel.: +49-(0)-8191-3270 Fax.: +49-(0)-8191-21735
Formation:	12 January 1972
Share capital:	DM 300,000.00
Shareholder:	RATIONAL AG 100%
Managing Director:	Dr. Günter Blaschke

Foreign approval procedure for applicances. Holding company which owns Plant I in Landesberg.

6.2.3 RATIONAL UK Ltd.

Address:	Titan Court, Unit 4 Laporteway Porteway Business Park Luton Bedfordshire LU4 8EF UK Tel.: +44-1582-480-388 Fax.: +44-1582-485-001
Formation:	15 April 1991
Companies Register No.	2576032
Share capital:	GBP 250,000.00
Shareholder:	RATIONAL AG: 100%
Managing Director:	Peter Kubermann; as of 1 February 2000: Jeremy Hall

Sales, customer service and marketing company for appliances for thermal food preparation in the catering sector in the UK.

6.2.4 RATIONAL Italia S.r.l.

Address:	Via Venier 21/A2 I-30020 Marcon (VE) Italy Tel.: +39-41-595-1909 Fax: +39-41-595-1845
Formation:	1 July 1998
Commercial Register No.:	C.C.I.A.A.277970
Share capital:	ITL 20,000,000.00
Shareholder:	RATIONAL AG 100%
Managing Director:	Friedel Günther Freund

Sales, customer service and marketing company for appliances for thermal food preparation in the catering sector in Italy.

6.2.5 FRIMA S.A.

Address:	4, Rue de la Charente F-68270 Wittenheim France Tel.: +33-3-89-57-05-55 Fax.: +33-3-89-57-05-54
Interest acquired:	29 September 1994
Commercial Register No.:	62B42 (Mulhouse)
Share capital:	FRF: 12,260,000.00
Shareholders:	RATIONAL AG: 99.9% Free float (various managers): 0.1%
Managing Director:	Stefan Wagner

Sales, customer service and marketing company for appliances for thermal food preparation in the catering sector in France. Manufacture of an accessory for the RATIONAL product range.

6.2.6 RATIONAL Scandinavia A.B.

Address:	Foretagsvägen 44 S-22761 Lund Sweden Tel.: +46-46-303038 Fax.: +46-46-303006
Formation:	1 July 1998
Share capital:	SEK 100,000.00
Shareholder:	RATIONAL AG 100%
Managing Director:	Peter Schön

Sales, customer service and marketing company for appliances for thermal food preparation in the catering sector in Scandinavia.

6.2.7 RATIONAL Schweiz AG

Address:	RATIONAL Schweiz AG Alpenblickweg 7 Postfach 56 CH-4665 Oftringen, AG Switzerland Tel: +41-062-797-3444 Fax.: +41-062-797-3445
Formation:	1 January 1999
Share capital:	SFr 100,000.00
Shareholder:	RATIONAL AG 100%
Managing Director:	Claus Hörr

Sales, customer service and marketing company for appliances for thermal food preparation in the catering sector in Switzerland.

6.2.8 RATIONAL Japan KK

Address:	3-3-16 Chitosedai Setagaya-ku Tokyo 157-0071 Japan Tel.: +81-3-5490-7267 Fax.: +81-3-5490-3731
Formation:	31 August 1992
Share capital:	JPY 10,000,000.00
Shareholder:	RATIONAL AG 100%
Managing Director:	Yukinori Ohta

Sales, customer service and marketing company for appliances for thermal food preparation in the catering sector in Japan.

6.2.9 RATIONAL Cooking Systems Inc.

Address:	455 E. State Parkway, Suite 101 Schaumburg, IL 60173 USA Tel: +1-847-884-9950 Fax: +1-847-884-9949
Formation:	28 July 1993
Interest acquired:	100% 1998
Share capital:	USD 552,340.00
Shareholder:	RATIONAL AG 100%
Managing Director:	Horst Steinberg

Sales, customer service and marketing company for appliances for thermal food preparation in the catering sector in the US.

6.2.10 RATIONAL Canada Inc. (in formation)

Address:	1 Director Court, Suite 102 Vaughan, Ontario L4L 4S5 Canada
Formation:	Currently being formed
Share capital:	CAD 100,000.00
Shareholder:	RATIONAL AG 100%
Managing Director:	Michael Steinbach

Sales, customer service and marketing company for appliances for thermal food preparation in the catering sector in Canada.

6.2.11 RATIONAL Iberia (formation planned)

The formation of this company is planned for Q1/Q2 2000. The registered office is expected to be in the Barcelona area. The company will be a sales, customer service and marketing company for appliances for thermal food preparation in the catering sector in Spain and Portugal. Erhard Weber has been selected to be the Managing Director.

6.2.12 MEIKU Vermögensverwaltung GmbH

Address:	Iglinger Straße 62 D-86899 Landsberg/Lech Germany Tel.: +49-(0)-8191-3270 Fax.: +49-(0)-8191-21735
Formation:	29 November 1989
Share capital:	DM 50,000.00
Shareholder:	RATIONAL AG (98%), Siegfried Meister (1%), Walter Kurtz (1%)
Managing Director:	Gabriella Gottsmann

Asset management company and holding company for limited partner’s interest in TAGO Grundstücksgesellschaft mbH & Co. Objekt Landsberg KG, which in turn is the holding company of the Company’s property on which Plant II in Landsberg is situated. TAGO Grundstücksgesellschaft mbH & Co. Objekt Landsberg KG is controlled by DIL (Deutsche Bank Group), which holds 85% of the voting rights.

7 BUSINESS ACTIVITIES

7.1 Introduction

Innovative RATIONAL technologies have radically changed mass and commercial catering processes across the world.

7.1.1 Corporate philosophy

RATIONAL's philosophy hinges on specialization and on ensuring that all decisions which it makes bring the greatest possible benefit to its customers. For RATIONAL, specialization means focusing on the development of creative solutions for a core problem area of a clearly defined target group. This target group comprises people in mass and commercial catering who thermally prepare food. The Company's specialization and close relationships with the target group give RATIONAL an intimate understanding of caterers' needs and requirements, allowing the Company to produce solutions which are superior to those of the competition.

7.1.2 Overview of the Company's activities

In the first few years of its existence, RATIONAL pioneered hot air technology and set new standards for mass and commercial catering processes. Consistent technological development then led to a system which combined hot air and steam in a single unit, controlled by RATIONAL's patented control system. RATIONAL devised the name "combi-steamer" to describe this technology. The RATIONAL combi-steamer became a significant innovation in mass and commercial catering and radically changed production processes. This all-around appliance replaces conventional cooking appliances to a large degree and has made a lasting impact on the mass catering industry. The global success of the combi-steamer technology is due in particular to the considerable increase in the quality of finished meals and to cost and time savings for the user, while it also opens up completely new application opportunities. The Company now believes itself to be the clear product and market leader, with a considerable technological edge.

7.1.3 Key events in the Company's history:

1973: Formation of the Company under the name "RATIONAL Großküchentechnik GmbH" in Landsberg am Lech.

1976: World launch of the first combi-steamer.

1986: Introduction of the world's first gas-heated combi-steamer; the Company develops an additional market segment.

From 1991: Formation of the Company's own distribution centers and offices in the UK, France, Italy, Switzerland, Scandinavia, Singapore, China, Japan, the US, Argentina and Canada.

1997: World launch of the first ClimaPlus Combi®.

1999: Introduction of IQT technology (cutting-edge integrated systems intelligence/software); change in legal form to an *Aktiengesellschaft* (public company) in preparation for the planned IPO.

7.2 Strategy

7.2.1 Developing world markets

RATIONAL plans to consistently develop the world's strongest sales markets, primarily with its own subsidiaries. According to market studies conducted by RATIONAL, the ten world markets with the strongest sales potential are as follows:

1. US	2. Japan	3. Germany	4. UK
5. France	6. Italy	7. China	8. Canada
9. Spain	10. Brazil		

The Company estimates that these ten markets account for some 75% of the current global sales potential.

RATIONAL plans to establish a major local OEM (Original Equipment Manufacturer) partner in each of its core markets – in addition to selling its brands across the world – primarily in order to accelerate implementation of the "RATIONAL System", while also raising its overall market share. The Company also intends to adapt its products in order to systematically exploit the considerable opportunities now offered by the fast food chain industry around the world.

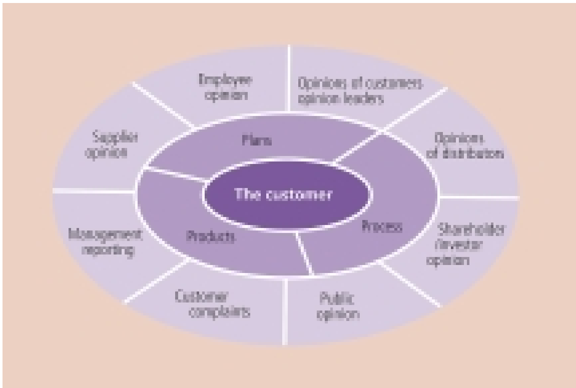
7.2.2 Further development of technological lead

The Company plans to further develop its existing technological lead by making considerable investments in the following areas:

- Basic research
- Application research (systems intelligence, i.e. software)
- Cooking systems technology (hardware).

7.2.3 Unternehmensqualität

RATIONAL plans to quantifiably increase the quality of the Company and the efficiency of all sub-processes each year. RATIONAL's quality approach puts the customer at the center of all of its activities. The primary drivers of this process are the views of the customers themselves, the Company's employees and shareholders and the public at large. The Company conducts representative surveys which form the basis for permanent improvements.



7.2.4 Management capacity

The increased management capacity which is required for the Company's rapid growth will be achieved as follows:

- Internal management development
- Management trainee program
- Customized potential-driven personal development programs
- Increased attractiveness to qualified executives through management equity compensation plans.

7.3 Products

7.3.1 Overview

RATIONAL focuses on providing innovative solutions for the thermal preparation of food in mass and commercial catering. The Company currently manufactures a total of 25 different combi-steamers in three product series:

- "CPC®" product series (ClimaPlus Combi®);
- "CM" product series (Combi Master) and
- "CD" product series (Combi-Steamer).

Both electric and gas models are offered in the CPC® and CM product series, while only electric models are offered in the CD product series.

This product range is further complemented by additional models for special requirements, such as marine versions and models for fast food chains, or for special OEM customers. An extensive range of accessories is offered for all product series.

RATIONAL developed the first combi-steamer over 20 years ago. The combi-steamer is a compact cost- and time-saving appliance. It masters the widest possible range of food preparation methods, from baking to roasting. This fundamentally changes the organization and arrangement of commercial catering kitchens and their production processes. The combi-steamer either partially or entirely replaces a whole range of conventional commercial catering appliances, thanks to its large capacity, small footprint and low energy consumption, which reduce effort and costs. For example, the combi-steamer allows multi-course dinners to be prepared for several thousand people at large banquets and enables each course to be served at just the right time. This means that staff responsible for the preparation of food can operate completely independently of service staff. Bottlenecks in the kitchen at peak times can be eliminated by preparing food in advance without any loss of quality.

The ClimaPlus Combi®, introduced in 1997 with the patented ClimaPlus Control® central measurement and control system, made it possible for the first time to preselect the climate in the cooking cabinet for specific products. The system then regulates this climate fully automatically. This technology is based on the fundamental belief that every food will reach its optimal quality if it is grown, stored and prepared in the ideal climate for that particular product. From growth in the natural environment to being served on the table, quality depends on optimal temperature and humidity. Following on from this idea, the ClimaPlus Combi® guarantees the ideal climate for each product during its thermal preparation, thereby providing the best climate for the last stage of the process before the final product is served. This food preparation technology thus regulates temperature, time and humidity and produces a considerable improvement in food quality. In this regard, there is a decisive difference between the ClimaPlus Combi® and the classic combi-steamer. The introduction of the ClimaPlus Combi® represents a similar technological leap to the invention of the combi-steamer itself over 20 years ago. Customer acceptance of the product around the world testifies to this. The ClimaPlus Combi® already accounts for about 60% of sales. It is the world’s only food preparation appliance which can measure, regulate and display in accordance with the user’s climate settings.

The combi-steamer technology results in considerable savings compared to conventional cooking appliances, and the product will generally amortize within four to twelve months. The specific details of the appliance’s savings potential are as follows:

- Up to 60% less roasting shrinkage: when preparing meat and poultry, weight loss is reduced by up to 60%
- No cooking loss: for vegetables, potatoes, rice and other side-dishes, the 25% cooking loss typical of conventional appliances can be reduced to zero
- Up to 95% less fat: there is usually little or no need for fat when working with the ClimaPlus Combi®
- Up to 60% less energy: all ClimaPlus Combi® appliances heat up very quickly, have exceptionally low heat loss and are highly efficient
- Over 40% less water: depending on how often the ClimaPlus Combi® is used, over 40% less water can be used for comparable cooking volumes
- Space and investment savings: RATIONAL’s ClimaPlus Combi® replaces a wide range of conventional heavy catering equipment, thanks to its versatility, flexibility and performance
- Effort and time savings: the appliance is easy to use, features programmed cooking processes, is self-cleaning, etc.

7.3.2 CPC® (ClimaPlus Combi®) product series

7.3.2.1 General

What sets the ClimaPlus Combi® product series apart is its intelligent cooking technology implemented by RATIONAL research. This technology has "learned" to measure the humidity for the optimum climate for a particular product; it then regulates this ideal climate for each product. This step is performed by "ClimaPlus Control®", ClimaPlus Combi®'s fully automatic central measurement and control system.

The ClimaPlus Combi® is fitted with a patented, processor-controlled, intelligent expert system – IQT – which is programmed to run a very wide range of complete cooking programs. The IQT expert system is "intelligent", and utilizes knowledge of cooking processes which RATIONAL has gained through decades of research. For instance, sensors enable the system to gauge the degree of browning, the exact core temperature, the size of the load and the loading quantity of the cooking cabinet, and it uses this information to make automatic decisions during each individual cooking process. The user only has to enter two parameters - the degree of browning and the core temperature – to achieve the final result required. IQT takes care of everything else. This intelligent technology greatly simplifies complex tasks.

The ClimaPlus Combi® has grown to meet a very wide variety of everyday kitchen demands, such as baking, roasting, grilling, steaming, stewing, blanching, poaching, simmering, soaking, glazing, browning, vacuum cooking, defrosting, scalding, conserving, pasteurizing, low-temperature cooking and reheating. Even if the ClimaPlus Combi® is loaded with a variety of different products simultaneously, there is no taste transfer, and everything will look fresh and appetizing. Vitamins, minerals and nutrients are preserved optimally.

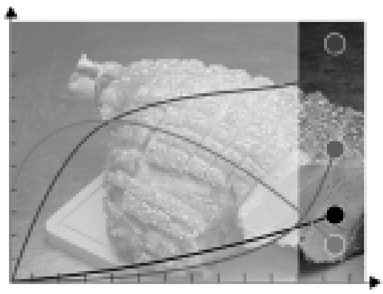
The ClimaPlus Combi®, with a footprint of less than $1m^2$, replaces or relieves stoves, ovens, reel ovens, tilt-pans, boiling pans, pots and pans.

Furthermore, it can do more than conventional combi-steamers: the ClimaPlus Combi® enables new cooking methods such as Clima-baking, Clima-grilling, Clima-roasting and Clima-reheating. The appliance was simultaneously made much more simple to use. The small number of settings requires just two buttons for moist and dry heat – either singly, in turn or in combination – and a central dial. Everything else is fully automatic. This technology is unique in that it allows the regulation of cooking with dry heat, moist heat or both dry and moist heat in combination.

Cooking in dry heat with ClimaPlus Control®	Cooking in moist heat with ClimaPlus Control®	Cooking in a combination of moist and dry heat with ClimaPlus Control®
No humidity is injected into the cooking cabinet. Excess humidity from food is carefully drawn off by ClimaPlus Control®.	The necessary heat is applied to the food in the form of steam. ClimaPlus Control® ensures the optimal level of steam saturation in the cooking cabinet.	The ideal climate is achieved by precise dosing of hot air and injections of fresh steam – regardless of the inherent moisture of the food and of the size of the load.

7.3.2.2 IQT® technology (cutting-edge intelligence)

While a multi-stage cooking process can require complex programming, IQT® just requires two parameters: the degree of browning required and the core temperature. IQT® makes all of the other decisions itself. The IQT® technology constantly monitors the surface temperature of the load, regulates the degree of browning, calculates the precise core temperature and displays the remaining cooking time, which is continually updated. This is how IQT® Logic's cutting-edge intelligence continuously manages the entire cooking process, in close conjunction with ClimaPlus Control®. The whole process is fully automatic; browning, outer crispness, core temperature, consistency and moisture all reach the desired levels at the end of the cooking process.



7.3.2.3 Network compatibility

ClimaPlus Combi® offers an added benefit to the growing outlet and fanchise operations market. A data interface means that the appliances can be networked via a LAN or WAN and globally regulated from a central point. Specific cooking programs only need to be loaded or modified once, and can then be quickly transferred to every site. This reduces the workload on local services staff. Each appliance can also be diagnosed and monitored centrally. The cooking process can be monitored remotely or in batch mode. In addition to this, hygiene requirements, as stipulated by German food safety regulations, are automatically logged and documented during cooking. The ClimaPlus Combi® is gaining increasing acceptance as a result of the current increase in the range of meals on offer in the food service industry, including fast food restaurants.

7.3.3 CM ("Combi-Master") product series

The CM product series is a classic combi-steamer which enables the cooking process to be programmed. The CM can operate in three basic ways: steaming (i.e. cooking in moist air), using hot air (i.e. cooking in dry air), and 'combi-steaming' (using both hot air and steam in combination). Standard cooking programs can be saved and called up as necessary. The capabilities of the CM largely correspond to those of the top-of-the-line product ranges of the Company's main competitors.

7.3.4 CD ("combi-steamer") product series

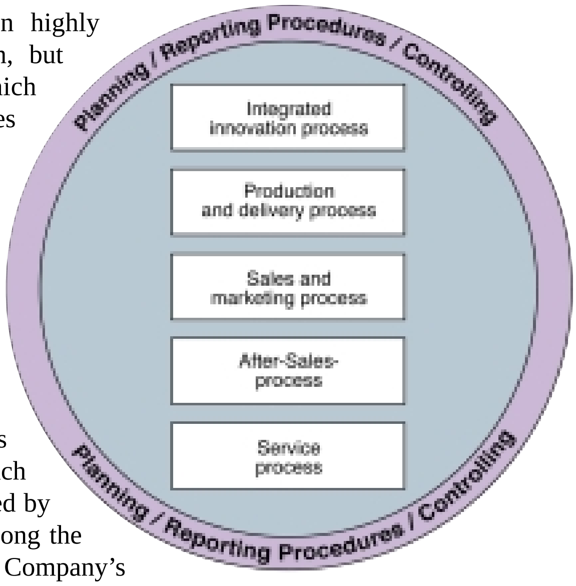
The CD product series is a classic combi-steamer – the cost-effective starter model for simple applications. It uses three basic food preparation methods (steaming, hot air and combi-steaming).

7.3.5 Unique services

The RATIONAL product range is complemented by comprehensive customer services. The Company provides customers maximum benefit thanks to a combination of innovative technology, tried and tested applications and a unique services offering. The main features of the service offering are a closely integrated service network with trained personnel, guaranteed global spare parts delivery, cooking seminars and live presentations for product users and potential users, and a hotline where RATIONAL chefs provide expert professional consultancy and support to customers regarding cooking applications.

7.4 The RATIONAL process organization

The RATIONAL's process organization is not based on highly hierarchical, specialized approaches to work organization, but rather on transparent, comprehensive processes for which employees on-site largely assume responsibility themselves and make their own decisions ("lean management").



7.4.1 Integrated innovation process

Product development itself is entirely process-oriented (simultaneous engineering). All required activities are described in detail and specified in the integrated innovation process. The development of the entire CPC line with all of its new technology only took 18 months – from production planning through to the market launch. During this development, the number of individual parts needed for each unit was reduced by 21%, while manufacturing costs dropped by 32%. RATIONAL believes that its development team is among the largest in the world in the industry. Approximately 7% of the Company's staff in Landsberg work in research and development. RATIONAL's innovative strength has been underscored by numerous independently awarded international prizes for innovation.

7.4.2 Production and delivery process

Production takes place at two plants at the Company's headquarters in Landsberg am Lech. From a logistics point of view, the plants are very well situated. They are about 300 meters apart and linked by direct supply channels. RATIONAL utilizes a modern, process-oriented manufacturing system. Production is divided into logical, end-to-end processes; interim interfaces between these processes were eliminated.

The core elements of the production and delivery process are as follows:

- Employees are given a high degree of personal responsibility and run the individual production processes as independent operators within the Company.
- Products are exclusively manufactured to order.
- It generally takes a maximum of six working days from order to delivery (just in time production).
- A flexitime work system means greater flexibility.
- The process team is responsible for scheduling its own working time and material.
- Material is almost exclusively supplied using a kanban system.

In 1999, RATIONAL was awarded first prize in the "Factory of the Year" competition. The German GEO (Global Excellence in Operations) award is cross-sectoral and judges factors such as customer satisfaction, quality, cost-efficiency, flexibility and innovation in particular.

7.4.3 Sales and marketing process

RATIONAL uses a multi-level sales system to market its products and services. The sales force is tasked with acquiring new customers for RATIONAL's solutions and with influencing the most important opinion-leaders. Order processing, installation, financing and servicing are conducted on site by carefully selected and trained business partners.

All of the Company's sales activities are grouped together and coordinated by teams to ensure efficient customer acquisition and good customer relationships. Potential customers – and their individual needs – are carefully identified by the sales team comprising internal and external sales staff and business partners with the support of modern marketing methods such as telemarketing and database marketing. Almost all members of RATIONAL's sales force are trained chefs, which means that customers recognize them as solutions providers.

Customer orders are the end product of a clearly-defined and quantifiable process chain in the field, which is composed of the following key elements:

- Customer file (potential/needs);
- Customer classification (A/B/C);
- Customer attractiveness;
- Planning/managing visits to customers;
- Customer-specific goal and actions planning, and
- Product demonstrations (live Clima-cooking).

These core elements are globally documented in a consolidated communications and workflow system (Computer Aided Sales/CAS), which means that they are transparent and can be selectively optimized as required.

The primary goal of RATIONAL's marketing activities is to convey RATIONAL's competitive edge and the considerable advantages of its products, and to help this message to be acknowledged.

7.4.4 After-sales process and services

A network of certified customer service partners guarantees support to all customers for RATIONAL products worldwide. The ClimaPlus Combi® can be used in various areas of application, which leads to long daily operating times requiring a corresponding degree of availability.

In addition to maintenance and after-sales services, RATIONAL offers further services to its customers and other interested parties, including its hotline to RATIONAL chefs. The hotline offers customers expert advice for application problems. User seminars are offered on special topics in which customers are given expert advice and learn about additional applications for the ClimaPlus Combi®.

7.5 Business activities and competition

7.5.1 Overview

According to RATIONAL market studies, there are some 2.5 million potential customers worldwide who need one or more combi-steamers. Of the approximately 350,000 combi-steamers currently on the market according to the Company's estimattion, some 150,000 are RATIONAL appliances. This means that only 10 to 15% of global potential has been exploited – major regional markets are poised to be developed. RATIONAL is currently the market leader worldwide. Every day about 80 million meals are prepared in RATIONAL combi-steamers, in some 85 countries. There are a total of approximately 80 brands of combi-steamers worldwide, of which only seven are sold in more than one country. The largest manufacturers of combi-steamers are in Germany and Italy. On the basis of its own figures, RATIONAL estimates the weighted average global market growth at 16% per annum until 2002.

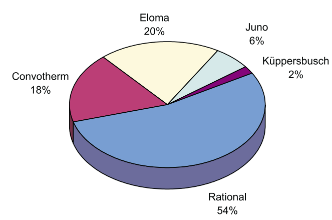
RATIONAL's price structures are customer-focused and oriented to the overall competitive environment. RATIONAL expects selling prices to remain relatively constant until 2002. It intends to cushion cost increases by appropriate rationalization measures. This limits the market's attractiveness for new competitors, while also decreasing its attractiveness for existing competitors. RATIONAL's sales figures are considerably higher than its competitors', which enables the Company to produce its products much more cost-effectively and therefore more profitably.

The following market share information is based on analyses and studies conducted by RATIONAL; these were also used as the basis for estimates of future development. They therefore involve a degree of uncertainty.

7.5.2 Germany

RATIONAL is market leader in Germany, with a 54% share in 1998 (see diagram). Germany's attractive growth potential will continue in the coming years as well. According to RATIONAL's estimates, there is now a replacement requirement for new appliances which will grow dynamically. RATIONAL has a large share – some 65% – of this demand for replacement appliances, and will benefit disproportionately from this demand.

RATIONAL estimates an annual growth of 8-10% for combi-steamers in Germany until 2002.



Source: HKI-Verbandsstatistick (HKI) statistics **1998**

7.5.3 United Kingdom

RATIONAL originally began selling in the UK through trading partners. The Company then formed its own subsidiary, RATIONAL UK Ltd., in 1991. According to the subsidiary's own market study, RATIONAL UK has a 33% market share, making it the leader in the combi-steamer market, followed by Hobart at 19% and Convotherm at 12%. The recent development of the ClimaPlus Combi®, and the Company's increasing sales efficiency, make RATIONAL confident of achieving an increase in its market share to 37% by 2002. The combi-steamer market in the United Kingdom will continue its dynamic growth until 2001, according to RATIONAL studies.

7.5.4 France

In 1994 RATIONAL acquired FRIMA S.A., then a French sales partner. RATIONAL combi-steamers are also marketed by the OEM partner Welbilt. According to its own market study, RATIONAL is market leader in France with a 20% share. Together with Welbilt, RATIONAL's combi-steamer technology has a market share in excess of 27%. RATIONAL expects this joint market share to grow to 36% by 2002, if the market continues its dynamic growth.

7.5.5 Italy

The Italian market has been dominated by Italian manufacturers during the past ten years. RATIONAL's goal is to gain a leading market position in Italy as well in the medium-term. To this end, RATIONAL Italia S.r.l. was formed in mid-1998. In Italy, the established Italian competitors Zanussi and Lainox are market leaders, with market shares of 30% and 29% respectively. According to RATIONAL studies, the Company achieved a market share of 2% during the first year following the formation of the Italian subsidiary. According to its own planning data, RATIONAL expects its market share to grow to 12% by 2002. The Italian combi-steamer market will show moderate growth each year until 2002.

7.5.6 Japan

RATIONAL Japan KK was formed at the end of 1992, marking the Company's first major involvement in Asia. RATIONAL believes that the Company's products are particularly well suited to Asian cuisine, since steaming and stewing of fish, rice and vegetables are a major part of the daily diet. In Japan, RATIONAL sells its products under its own brand and also through Fujimak, its OEM partner. Fujimak's market share is 22% and RATIONAL's is 16%, for a total of 38%. The next largest competitors are Maruzen, with 13%, and Convotherm, with 8%. The Company believes that it has developed the Japanese combi-steamer market over recent years, and made progress together with Fujimak. RATIONAL expects the joint market share to increase to 40% by 2002, and for the market to grow dynamically.

7.5.7 USA

In 1998 RATIONAL acquired RATIONAL Cooking Systems Inc., which had initially been formed as a cooperative venture in 1993. RATIONAL has recorded above-average growth since this restructuring. Alto Sham is market leader in the United States with a market share of about 34%. RATIONAL sells its products under its own name and with its OEM partner Henny-Penny. Henny-Penny has a market share of 15% and RATIONAL has 4%, for a total of 19%. Further competitors are Groen, with 17%, and Blodgett with 12%. RATIONAL plans to double its own market share by 2002. The combi-steamer market in the United States will show particularly dynamic development until 2002, according to RATIONAL studies, and is likely to record a weighted annual growth of approximately 30%.

7.6 Investments

7.6.1 Overview

The introduction of the new ClimaPlus Combi® product series formed the main focus of investment in 1997, at DM 3.6 million. Total investments in 1997 amounted to DM 5.5 million.

In 1998, the main investments were on a new IT environment with SAP/R3 and new hardware with a network (DM 3.6 million), expansion of production capacity (DM 1.0 million) and in the development and further equipment of subsidiaries (DM 1.0 million). Total investments amounted to DM 7.2 million.

During 1999, primary investments were in product development (DM 3.1 million), construction projects in Plant I to modernize and expand the Company's training capacity (DM 0.4 million) and investments for further market development in the subsidiaries (DM 1.1 million). Total investments amounted to DM 6.2 million.

7.6.2 Forthcoming investment projects

7.6.2.1 Market development

Further investment is planned, particularly in the US, Japan, Spain, Turkey, Canada, South Korea, Brazil and Argentina, in order to develop future market potential. Present estimates for the capital required for this are around DM 15 million for 2000 to 2002.

7.6.2.2 Production facility in North America

Initially, the planned plant in North America will conduct assembly work. Continued expansion of the newly-created capacity is planned for subsequent years. Investments are estimated at DM 0.5 million for 2000, DM 4.0 million for 2001 and a further DM 4.0 million for 2002. Several stages are planned for building this manufacturing plant, which are as follows:

2000

- Feasibility study, in which the optimum location will be determined and a detailed concept for establishing the manufacturing plant will be drawn up
- Leasing of premises for start of production
- Recruitment of personnel
- Identification of future personnel

2001

- Establishment of a self-sufficient assembly unit which will have direct access to the suppliers which the Company has used to date
- Development of a purchasing department, with the aim of grading suppliers and concluding master agreements for the local sourcing of parts

2002

- Development of in-house interior cabinet production
- Global sourcing of parts for the production plants in Germany and North America

7.6.2.3 Capacity expansion at German plant

Capacity expansion is planned for Plant II in Landsberg/Lech during 2000, with investments amounting to approximately DM 4.0 million.

7.7 Employees

As at 31 December 1999, RATIONAL has a total of 551 employees, 159 of whom are outside Germany (including all sales offices).

The following table gives an overview of employee growth during the last three years:

Company	*1997*	*1998*	*1999*
RATIONAL AG	418	418	409
France	48	51	55
UK	20	27	30
Scandinavia	–	6	8
Italy	–	4	8
Switzerland	–	–	4
USA	3	14	22
Japan	10	14	15
Total	499	534	551

A preferred allotment of shares is planned for the Company's employees as part of its IPO. Details of this can be found in section 3.3 "Preferred allotment" on page 12.

7.8 Industrial property rights

7.8.1 Trademark protection

The "RATIONAL" logomark is protected in all markets relevant to RATIONAL for major food preparation catering appliances. The products are marketed under names including ClimaPlus Combi®, ClimaPlus Control and IQT.

These names have been fully registered as trademarks in various countries, while in others the Company has only applied for registration. RATIONAL considers its trademark protection to be sufficient in the most important countries.

The Company has no, or only partially secured, trademark protection for RATIONAL AG's remaining areas of activity in the mass catering technology sector. This is relevant in particular to any possible expansion of the Company's business activities in the area of software for mass catering technology applications, beyond its current activities in this area, and for any potential services resulting from this. The Company has run into conflict in Germany with another company which offers services and software under the name "RATIONAL Software Corporation". RATIONAL AG has concluded a trademark differentiation agreement for Germany with this company. Numerous other Companies use "RATIONAL" as part of their company name. For this reason, no assurance can be given that this will not give rise to further conflicts regarding this name in the future. This would be of particular relevance if the Company were to expand its activities beyond its long-standing core business.

7.8.2 Registered designs, utility models, patents

The Company owns a considerable number of patents. All patents used by the Company are the property of the Company. There are a number of legal disputes with regard to these patents (please refer to section 7.9 below). RATIONAL estimates that it currently has a development lead of several years over the competition. The company has filed for, or been issued, 26 patents in the last three years alone. The remaining life of these patents is over ten years on average.

7.9 Litigation

The Company has been accused of infringing two national patents in Italy and the United States. However, as yet no legal proceedings are pending. On the basis of the current state of the art, RATIONAL does not expect an infringement action to be taken, or that such an action would be successful. However, the Company cannot guarantee this. The Company itself has instituted legal proceedings against another company before Düsseldorf Regional Court, due to infringement of one of its patents. A decision has yet to be taken in this matter. The Company is also of the opinion that two more of its patents are being infringed by third parties. However, legal proceedings have not, or have not yet, been initiated.

Several labor disputes are also pending, in addition to competition law disputes, the scope of which is within the normal course of business. No further disputes are pending.

7.10 Real property

7.10.1 Plant I in Landsberg am Lech

RATIONAL has a long-term leasing agreement with its fully-owned subsidiary, LechMetall Landsberg GmbH Edelstahlerzeugnisse, for the Company's Plant I premises in Landsberg am Lech. Both the land and the buildings are the property of LechMetall Landsberg GmbH Edelstahlerzeugnisse.

7.10.2 Plant II in Landsberg am Lech

RATIONAL GmbH, the Company's legal predecessor, concluded a real estate leasing contract with TAGO GrundstücksVermietungsgesellschaft mbH & Co. Objekt Landsberg KG (Düsseldorf commercial register No. HRA 13077) represented by TAGO Grundstücksvermietungsgesellschaft mbH (Düsseldorf commercial register No. HRB 28275), on 24 March 1997 and 11 April 1997. This contract stipulates a total lease duration of 20 years for the original buildings (of which the first rental period will last for ten years), and a total lease duration of 18 years and ten months for the newly constructed buildings. The lease for the original buildings began on 1 May 1997, and for the newly constructed buildings on 1 July 1998. The object of the lease is a total of approximately 31,000 m^2 of property in Landsberg am Lech. The leasing agreement was subsequently amended by three supplements, or rather adjusted to the new economic circumstances (i.e. the expansion of the object of the lease). RATIONAL GmbH concluded an acquisition right agreement with regard to the leasing asset with TAGO GrundstücksVermietungsgesellschaft mbH & Co. Objekt Landsberg KG, which owns the property. This purchase right is secured by a priority notice in the land register. RATIONAL GmbH, as lessee, granted a tenant's loan to TAGO GrundstücksVermietungsgesellschaft mbH & Co. Objekt Landsberg KG, the lessor and property owner, under the terms of the existing customary buy-and-lease-back model. The tenant's loan is being used to finance TAGO Grundstücksvermietungsgesellschaft mbH & Co. Objekt Landsberg KG's investment, which is being entirely financed with borrowed funds. The loan is due to be repaid on April 30, 2007. TAGO GrundstücksVermietungsgesellschaft mbH & Co. Objekt Landsberg KG acquired the two properties from MEIKU Vermögensverwaltung GmbH, Landsberg am Lech (a wholly-owned subsidiary of RATIONAL AG), by a notarized contract dated 15 April 1997. TAGO GrundstücksVermietungsgesellschaft mbH & Co. Objekt Landsberg KG is owned by DIL Deutsche Immobilienleasing GmbH, an affiliate of Deutsche Bank AG.

7.10.3 Frima

A lease purchase agreement was concluded between FRIMA S.A. and CIAL FINANCE S.A. and NATIO CREDIMURS S.A. on 27 September 1996. The object of this lease purchase agreement is FRIMA's business property in Wittenheim, Zone Industrielle "Centre de Gros". The leased area of the buildings amounts to 4,841 m^2 in total. The total investment volume is FRF 10,100,000.00. The contract has been concluded for a period of 12 years and gives FRIMA the right to acquire the site for FRF 1 when the contract expires.

7.10.4 Other

The RATIONAL Group does not own any other real property. All of its properties and buildings are rented.

8 TAXATION IN THE FEDERAL REPUBLIC OF GERMANY

The following section contains a presentation of selected taxation principles in the Federal Republic of Germany. It focuses on the investment income tax liability of natural persons who hold their shares as part of private assets. The taxation of the Company itself is not discussed. The overview does not claim to present a comprehensive explanation of all the information relating to taxation which could be required before any purchase decision is made regarding the shares on offer. The explanations are based on the taxation provisions effective in Germany at the time this Circular went to print. The overview covers only income tax, investment income tax and inheritance and gift tax, but does not cover all aspects of these taxes. Corporation tax is presented only in part, and trade tax on shares held as part of the operating assets of companies is not discussed at all. The overview does not address the individual tax situation of each investor. Prospective investors are therefore strongly advised to consult a tax adviser regarding the tax consequences in their particular case and regarding other questions, including the tax consequences of holding shares as part of operating assets.

8.1 Taxation of dividends

8.1.1 Shareholders domiciled/resident in Germany

In principle, dividend payments are subject in full to German income and corporation tax (including solidarity surcharge and any applicable church tax). Dividends on shares held as part of private assets are not taxed as income from capital assets, insofar as share capital as defined by section 30 (2) No. 4 of the KStG (German Corporation Tax Act) (also known as EK 04) is appropriated, i.e. the capital invested by shareholders is distributed as dividends. In this case, only taxation as defined in sections 17 (4) and (23) of the EStG (German Income Tax Act) is applied. Additional rules apply insofar as tax-exempt foreign income (also known as EK 01) is appropriated for the distribution. A corporation tax imputation credit is not applicable in the case of dividends from EK 01. Shareholders' investment income is defined as the gross dividend, i.e. the net amount received plus the investment income tax withheld (plus solidarity surcharge on that amount) and the allowable corporation tax (= corporation tax imputation credit). The dividend is taxed in accordance with the shareholder's personal tax situation, and the investment income tax withheld (plus solidarity surcharge) and the corporation tax paid by the company are allowable against the income tax or corporation tax (and solidarity surcharge) to be paid, insofar as a completed tax certificate is presented to the German tax authorities (*Finanzamt*).

Shareholders resident in Germany with unlimited tax liability are paid 51.54% (rounded) of the gross dividend net in cash (100% gross dividend less 30% corporation tax liability on the dividend, 17.5% investment income tax and 0.96% solidarity surcharge). The allowable tax credits therefore amount to a total of 48.46% (rounded) and reduce in full the shareholder's personal income tax liability or, if they are greater than that amount, result in a refund. Insofar as share capital as defined by section 30 (2) No. 4 of the KStG is deemed appropriated for the dividend distribution, the gross dividend is paid out as the net amount with no deductions, and the shareholder is subject to income tax only to the extent defined in section 17 (4) and (23) of the EStG. A tax credit is not applicable in the case of this type of dividend.

Shareholders with unlimited tax liability who have presented a non-assessment certificate from the financial authorities in their domicile or place of residence to their custodial bank are paid the full dividend without any deduction of investment income tax and solidarity surcharge, plus the applicable corporation tax. The same is true if a tax exemption application is presented, insofar as the amount of the allowance stated in the application has not already been utilized by other income from capital assets. Corporations not subject to taxation can receive a refund from the custodial bank of all or part of the investment income tax plus solidarity surcharge upon presentation of a non-assessment certificate.

8.1.2 Shareholders domiciled/resident outside of Germany

Shareholders resident abroad do not regularly receive tax credits if their shares are not held as part of a permanent establishment in Germany. Unless a double taxation agreement is applicable, cash dividends (gross dividend less 30% corporation tax) of a German *Aktiengesellschaft* (public company) paid to non-resident shareholders are subject to investment income tax (withholding tax) amounting to 25% plus solidarity surcharge on the investment income tax. In the event that a double taxation agreement is applicable, however, the investment income tax on the dividend is generally reduced. Refunds require an application to the German tax authorities (Bundesamt für Finanzen, Friedhofstrasse 1, 53225 Bonn, Germany).

A solidarity surcharge amounting to 5.5% is levied on investment income tax in the case of dividends of German public companies subject to taxation. Insofar as the solidarity surcharge plus the investment income tax exceeds the highest rate of German withholding tax stipulated in a double taxation agreement, this tax is also refunded upon application.

A corporation tax imputation procedure is not applied to the 30% corporation tax withheld. The corporation tax and the investment income tax not refunded by the German tax authorities comprise the definitive German tax liability on the dividend paid.

If the shares are held as part of a permanent establishment in Germany by a foreign company, the imputation procedure to be applied is the same as that for a shareholder resident in Germany. The corporation tax, investment income tax and the solidarity surcharge on the latter can thus be offset against the German tax liability.

The corporation tax rate for earnings from shares held as part of a permanent establishment in Germany is 40% (plus solidarity surcharge) for shareholders with a limited corporation tax liability who maintain a permanent facility in Germany. Insofar as the corporation tax (including solidarity surcharge) to be paid by the shareholder is less than the amount of applicable tax, the shareholder receives a refund; if the reverse is true, the shareholder must pay the excess corporation tax (including solidarity surcharge). The transfer of dividends received by a permanent facility in Germany to its foreign parent company is not subject to German investment income tax.

8.2 Taxation of capital gains from disposal

If shareholders with unlimited tax liability make a profit from the disposal of shares held as part of private assets, the capital gains from this disposal are subject to income tax if the shares are sold within one year of their acquisition. Losses from the disposal of shares can only be offset against taxable private capital gains from disposal (formerly known as “speculative gains”) from the same year, but not against other income. If the loss cannot be offset in the year it was incurred, it can be offset against relevant capital gains for tax purposes from the year immediately preceding and then against such capital gains from following years.

If the period between the acquisition of shares and their disposal amounts to more than one year, the capital gains are only subject to tax if the shareholder held at least 10% of the capital of the Company within the past five years. Any loss resulting from disposal can only be recognized for tax purposes under certain circumstances.

If the shares are part of the operating assets of a company domiciled in Germany or a permanent facility in Germany owned by a foreign company, the profits from the disposal of shares are taxable regardless of the period of ownership or amount of interest held.

Profits from the disposal of shares are subject to German taxation for shareholders with a limited tax liability in Germany if the shares are part of a permanent establishment maintained in Germany or a permanent business facility, or if the shareholder held at least a 10% share in the capital of the company within the past five years, insofar as German taxation is not excluded in the latter case due to a double taxation agreement. It should be noted that such gains may be taxable in the country in which the shareholder is domiciled or resident.

8.3 Inheritance and gift tax

The transfer of shares by natural persons with an unlimited inheritance tax liability as donors or heirs (residents) on account of death or by way of a gift is subject to inheritance or gift tax at the market value at the time tax is levied. Persons resident or ordinarily resident in Germany and German citizens continuously resident abroad for less than five years are subject to an unlimited inheritance tax liability.

Transfers in which only persons with a limited tax liability are involved are not subject to inheritance or gift tax in Germany unless

(i) the shareholder holds the shares as part of operating assets in Germany or

(ii) (provided that no exemption is possible based on an applicable double taxation agreement) the shareholder either alone or in conjunction with other persons closely associated with him or her directly or indirectly holds at least 10% of the share capital of the company or

(iii) Art 4 of the AStG (German Foreign Tax Law) is applicable.

8.4 Other taxes in Germany

The disposal or transfer of shares is not subject to any stock exchange turnover tax, stamp duty or similar tax in Germany. Wealth tax is no longer levied for assessment periods starting in 1997.

8.5 Planned reform of corporate taxation

A draft bill to reform corporate taxation and reduce tax rates (URefSenkG) was published on 11 January 2000. According to the draft, which is scheduled to take effect on 1 January 2001, the following measures are planned, among others (please note that (possibly considerable) changes could still be made during the legislative process):

- The draft calls for the corporation tax imputation procedure to be abolished. The uniform corporation tax rate would then amount to 25%. The corporation tax paid by companies would no longer be allowable against the income or corporation tax to be paid by the shareholder.

- Only half of the dividends paid to shareholders with unlimited tax liability would be subject to income tax. If shareholders are also subject to an unlimited corporation tax liability, they would not have to pay tax on the dividends (national preferential tax treatment privilege (to avoid double taxation)).

- Capital gains from the disposal of shares by private investors would be subject to taxation even after the shares have been held for a one-year period if the shareholder or, if the shares were not purchased, one of his/her legal predecessors held 1% or more of the nominal share capital of the company at any point within the past five years.

- The draft calls for the disposal of shares by corporations to be tax-exempt.

9 FINANCIAL SECTION

- Audit opinion on the annual financial statements for 1999, consolidated financial statements for 1999 and management report
- Consolidated balance sheets for the years ended 31 December 1997 to 31 December 1999 (three-year overview)
- Balance sheets of RATIONAL GmbH/RATIONAL AG for the years ended 31 December 1997 to 31 December 1999 (three-year overview)
- Consolidated income statements for the years ended 31 December 1997 to 31 December 1999 (three-year overview)
- Income statements of RATIONAL GmbH/RATIONAL AG for the years ended 31 December 1997 to 31 December 1999 (three-year overview)
- Notes to the consolidated financial statements and management report (consolidated annual financial statements as of 31 December 1999)
- Statements of changes in fixed assets 1997 to 1999

9.1 Audit opinion on the annual financial statements for 1999, consolidated financial statements for 1999 and management report

"We audited the annual financial statements and the accounting of Rational Aktiengesellschaft, as well as the consolidated financial statements prepared by the Company, and its management report on the Company and the Group for the fiscal year from 1 January 1999 to 31 December 1999. The legal representatives of the Company are responsible for preparing these documents in accordance with the German Commercial Code. Our responsibility is to express an assessment, based on our audit, of the annual financial statements, including the accounting, the consolidated financial statements prepared by the Company, and the management report on the Company and the Group.

We conducted our audit of the annual and consolidated financial statements in accordance with section 317 of the HGB (German Commercial Code) and the principles of proper auditing adopted by the IDW (Institut der Wirtschaftsprüfer – the German Institute of Auditors). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether inaccuracies and violations are identified that could have a material effect on the annual and consolidated financial statement presentation in accordance with proper accounting principles and on the view of the net worth, financial position and results of operations presented by the management report on the Company and the Group. The process of defining the audit procedures takes account of knowledge about the business activities and the economic and legal environment of the Company, as well as expectations of possible errors. An audit includes examining, largely on a test basis, the effectiveness of the internal control system and evidence supporting the amounts and disclosures in the accounts, the annual and consolidated financial statements and the management report on the Company and the Group. An audit also includes assessing the accounting and consolidation principles used and the significant estimates made by legal representatives, as well as evaluating the overall presentation of the annual and consolidated financial statements and the management report on the Company and the Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not result in any objections.

In our opinion, the annual and consolidated financial statements give a true and fair view, in accordance with the principles of proper accounting, of the net worth, financial position and results of operations of the Company and the Group. Overall, the management report on the Company and Group accurately reflects the position of the Company and the Group and presents the risks associated with future developments."

Munich, 31 January 2000

Allrevision Allgemeine Revisions-
und Beratungsgesellschaft mbH
Wirtschaftsprüfungsgesellschaft

Dr. Maerz Wirtschaftsprüfer	Voshagen Wirtschaftsprüfer

9.2 Consolidated balance sheets for the years ended 31 December 1997 to 31 December 1999

Balance sheet RATIONAL Group

ASSETS	*31 Dec. 1999 Thousands of DM*	*31 Dec. 1998 Thousands of DM*	*31Dec. 1997 Thousands of DM*
Fixed assets			
Intangible asset			
Industrial and similar rights and assets	553	250	1,131
Goodwill	5,403	6,420	6,088
Payments on account	–	–	129
	5,956	**6,670**	**7,348**
Tangible assets			
Land and buildings	11,845	12,505	13,194
Technical equipment and machinery	233	287	407
Operating and office equipment	4,578	3,227	2,638
Payments on account	445	–	–
	17,101	**16,019**	**16,239**
Financial assets			
Shares in affiliates	427	427	427
Loans to associates	2,833	2,147	359
	3,260	**2,574**	**786**
	26,317	**25,263**	**24,373**
Current assets			
Inventories			
Raw materials, consumables and supplies	7,966	7,031	9,472
Work in progress	1,636	2,302	1,168
Finished goods	7,933	6,547	8,200
	17,535	**15,880**	**18,840**
Receivables and other assets			
Trade receivables	44,175	37,603	38,789
Receivables from affiliates	–	5	88
Receivables from shareholders	–	–	1,736
Other assets	3,624	3,730	2,324
	47,799	**41,338**	**42,937**
Securities (treasury shares)	–	–	510
Cash-in-hand and bank balances	9,845	10,480	4,471
Prepaid expenses	4,801	4,172	3,143
	106,297	**97,133**	**94,274**

EQUITY AND LIABILITIES	*31 Dec. 1999 Thousands of DM*	*31 Dec. 1998 Thousands of DM*	*31 Dec. 1997 Thousands of DM*
Equity			
Subscribed capital	10,044	10,044	10,044
Capital reserves	2,000	2,000	2,000
Revenue reserves			
Legal reserve	1,004	1,004	–
Reserve for treasury shares	–	–	510
Net retained profits	33,351	12,046	5,807
	46,399	**25,094**	**18,361**
Minority interests	–	–	–1,019
Difference from currency translation	–376	74	–203
	46,023	**25,168**	**17,139**
Provisions			
Provisions for pensions and similar obligations	929	833	768
Provisions for taxes	3,542	7,328	9,726
Other provisions	11,938	9,619	7,036
	16,409	**17,780**	**17,530**
Liabilities			
– Liabilities to banks	24,682	35,326	40,680
– Trade payables	7,781	6,434	6,719
– Liabilities on bills accepted	–	–	45
– Liabilities to affiliates	37	1,514	362
– Liabilities to shareholders	–	50	2,011
Other liabilities	11,360	10,861	9,529
Payments received on account of orders	5	–	259
	43,865	**54,185**	**59,605**
	106,297	**97,133**	**94,274**

9.3 Balance sheets of RATIONAL GmbH (1997)/Rational AG for the years ended 31 December 1997 to 31 December 1999

Balance sheet RATIONAL GmbH (1997)/Rational AG (1998/1999)

ASSETS	*31 Dec. 1999 Thousands of DM*	*31 Dec. 1998 Thousands of DM*	*31 Dec. 1997 Thousands of DM*
Fixed assets			
Intangible assets			
Industrial and similar rights and assets	489	192	1,046
Goodwill	2,221	2,624	3,027
Payments on account	–	–	129
	2,710	**2,816**	**4,202**
Tangible assets			
Land and buildings	–	–	–
Technical equipment and machinery	168	213	335
Operating and office equipment	2,692	1,965	1,981
Payments on account	445	–	–
	3,305	**2,178**	**2,316**
Financial assets			
Shares in affiliates	19,129	19,007	18,515
Loans to affiliates	7,513	385	–
Loans to associates	2,833	2,146	359
	29,475	**21,538**	**18,874**
Current assets			
Inventories			
Raw materials, consumables and supplies	7,870	6,901	9,317
Finished goods	1,295	1,840	678
Work in progress	2,101	2,063	3,535
	11,266	**10,804**	**13,530**
Receivables and other assets			
Trade receivables	22,620	21,260	27,052
Receivables from affiliates	21,722	18,673	13,462
Receivables from shareholders	–	–	–
Other assets	2,190	2,136	633
	46,532	**42,069**	**41,147**
Securities (treasury shares)	–	–	510
Cash-in-hand and bank balances	1,869	1,668	567
Prepaid expenses	836	1,005	430
	95,993	**82,078**	**81,576**

EQUITY AND LIABILITIES	*31 Dec. 1999 Thousands of DM*	*31 Dec. 1998 Thousands of DM*	*31 Dec. 1997 Thousands of DM*
Equity			
Subscribed capital	10,044	10,044	10,044
Capital reserves	2,000	2,000	2,000
Revenue reserves			
Legal reserve	1,004	1,004	–
Reserve for treasury shares	–	–	510
Net retained profits	43,663	19,924	16,345
	56,711	**32,972**	**28,899**
Provisions			
Provisions for pensions and similar obligations	929	833	768
Provisions for taxes	3,025	6,889	8,428
Other provisions	8,524	7,163	5,713
	12,478	**14,885**	**14,909**
Liabilities			
– Liabilities to banks	15,384	22,728	26,916
– Trade payables	5,508	5,310	5,301
– Liabilities to affiliates	1,708	1,895	412
– Liabilities to shareholders	–	–	777
Other liabilities	4,204	4,288	4,141
Payments received on account of orders	–	–	221
	26,804	**34,221**	**37,768**
	95,993	**82,078**	**81,576**

9.4 Consolidated income statements for the years ended 31 December 1997 to 31 December 1999

Income statement RATIONAL Group

	31 Dec. 1999 Thousands of DM	*31 Dec. 1998 Thousands of DM*	*31 Dec. 1997 Thousands of DM*
Sales	255,789	222,089	201,720
Change in inventories	701	–1,515	1,095
Total operating revenue	**256,490**	**220,574**	**202,815**
Other operating income	6,424	3,032	2,862
Operating income	**262,914**	**223,606**	**205,677**
Cost of materials	–91,004	–77,513	–82,653
Personnel expenses	–60,341	–54,365	–48,718
Amortization of intangible assets and depreciation of tangible assets	–3,738	–4,216	–4,561
Taxes on operations	–562	–86	–524
Other operating expenses	–60,113	–45,858	–41,351
Operating expenses	**–215,758**	**–182,038**	**–177,807**
Operating result	**47,156**	**41,568**	**27,870**
Income from investments	**–**	**–**	**–21**
Net income income	**–1,345**	**–2,174**	**–3,058**
Taxes on income	**–17,494**	**–14,651**	**–12,085**
Net income for the year before dormant partner interests	**28,317**	**24,743**	**12,706**
Dormant partner interests	–	–	–1,012
Net income for the year	**28,317**	**24,743**	**11,694**
Minority interests	–	–	275
Group shareholders' interest in net income	**28,317**	**24,743**	**11,969**
Retained profits/Accumulated losses(–) brought forward	5,034	5,807	–5,992
	33,351	30,550	5,977
Advance dividend payment	–	–17,500	–
Appropriations to revenue reserves			
– to the legal reserve	–	–1,004	–
– to the reserve for treasury shares	–	–	–170
Net retained profits	**33,351**	**12,046**	**5,807**

9.5 Income statements of RATIONAL Gmbh/RATIONAL AG for the years ended 31 December 1997 to 31 December 1999

Income statements RATIONAL GmbH (1997)/RATIONAL AG (1998/1999)

	31 Dec. 1999 Thousands of DM	*31 Dec. 1998 Thousands of DM*	*31 Dec. 1997 Thousands of DM*
Sales	208,132	189,207	175,313
Change in inventories	–525	–1,307	–492
Total operating revenue	**207,607**	**187,900**	**174,821**
Total operating revenue	5,300	3,448	2,056
Operating income	**212,907**	**191,348**	**176,877**
Cost of materials	–77,653	–71,353	–75,941
Personnel expenses	–45,623	–43,520	–40,657
Amortization of intangible assets and depreciation of tangible assets	–1,856	–2,638	–3,170
Taxes on operations	–63	75	–352
Other operating expenses	–40,207	–36,927	–33,713
Operating expenses	**–165,402**	**–154,363**	**–153,833**
Operating result	**47,505**	**36,985**	**23,044**
Income from investments	**1,298**	**749**	**671**
Net income income	**–720**	**–1,329**	**–2,036**
Taxes on income	**–17,333**	**–14,322**	**–11,452**
Net income for the year before dormant partner interests	**30,750**	**22,083**	**10,227**
Dormant partner interests	–	–	–1,012
Net income for the year	**30,750**	**22,083**	**9,215**
Retained profits brought forward	12,913	16,345	7,300
	43,663	38,428	16,515
Dividend prepayment	–	–17,500	–
Appropriations to revenue reserves			
– to the legal reserve	–	–1,004	–
– to the reserve for treasury shares	–	–	–170
Net retained profits	**43,663**	**19,924**	**16,345**

9.6 Notes to the consolidated financial statements and management report on the annual financial statements for 1999

RATIONAL Aktiengesellschaft
Landsberg am Lech

COMBINED NOTES FOR THE PARENT COMPANY
AND THE GROUP FOR FISCAL YEAR 1999

The reorganization and transformation of RATIONAL GmbH as RATIONAL Aktiengesellschaft resolved at the Shareholders' Meeting on 3 December 1998 was recorded in the commercial register and thus took effect on 9 February 1999.

The following notes are combined for the parent company and the Group in accordance with section 298 (3) of the HGB (German Commercial Code).

I. Companies consolidated

The following companies, which are subsidiaries of the parent company RATIONAL AG, have been consolidated:

	Equity interest in %	*Carrying value at the AG in thousands of DM*	*Equity in thousands of DM*	*Net profit in thousands of DM*
LechMetall Landsberg GmbH Edelstahlerzeugnisse, Landsberg am Lech	100.0	6,868	300	675*)
RATIONAL Großküchentechnik GmbH, Landsberg am Lech	100.0	50	50	8 *)
RATIONAL UK Limited, Luton, UK	100.0	121	4,181	1,236
FRIMA S.A., Wittenheim, France	99.9	10,565	5,919	1,156
RATIONAL Japan KK, Tokyo, Japan	100.0	128	–733	411
RATIONAL Cooking Systems, Schaumburg, USA	100.0	804	–6,090	–2,053
RATIONAL Skandinavia AB, Lund, Sweden	100.0	23	574	241
RATIONAL Italia S.R.L., Marcon, Italy	100.0	20	64	–5
RATIONAL Schweiz AG Oftringen, Switzerland	100.0	123	–215	–337

*) before profit transfer to parent company

Amounts in foreign currencies are translated at the rate prevailing at the balance sheet date.

In addition, RATIONAL AG carries DM 427 thousand, or a 98% interest in MEIKU Vermögensverwaltung GmbH, Landsberg, which in turn is the sole limited partner in TAGO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Landsberg KG. MEIKU Vermögensverwaltung GmbH disclosed equity of DM 142 thousand along with net income for the year of DM 79 thousand as of its balance sheet date of 30 April 1999. These companies and the subsidiary of FRIMA S.A. Topinox Sarl, Nantes, France, have not been consolidated due to their minor importance, as allowed by section 296 (2) of the HGB.

II. Consolidation

Capital consolidation uses the book value method. The acquisition costs of the equity investments were eliminated against the equity attributable to these interests. Any resulting difference was taken to assets where their fair value differed from the book value at the time of initial consolidation. Any remaining difference is carried as goodwill. Capital consolidation is applied at the time of acquisition or formation of the subsidiaries.

Receivables, liabilities and contingent liabilities, as well as sales revenues and other significant income and expense items between the consolidated companies were eliminated.

The foreign currency items in the balance sheets of the foreign subsidiaries were translated consistently at the mean exchange rate prevailing at the balance sheet date. The components of equity and of the retained earnings or accumulated losses brought forward that are to be included in capital consolidation were translated at historical exchange rates. Any resulting differences in the balance sheet were taken to “Difference from currency translation” in equity without being recognized in income.

Foreign currency items in the income statements of the foreign subsidiaries were consistently translated at annual average exchange rates. “Depreciation and amortization” items were translated at the closing rate. The net amount of any remaining differences in the income statement was taken to “Other operating expenses”.

The net amount of the differences due to exchange rate fluctuations resulting from consolidation measures was eliminated against “Other operating income”, the “Cost of materials” or “Other operating expenses”, depending on the origin of the difference.

III. Accounting policies

The classification of the balance sheet and the income statement is based on the provisions of sections 266 and 275 (2) of the HGB. The same accounting policies as for the parent company were applied to all companies consolidated in compliance with the principle of materiality.

Acquired intangible assets are capitalized at cost and are written down by regular straight-line amortization over three to five years, unless there is a requirement to write them down to their fair value. Goodwill is amortized over a useful life of four years or the useful life of 15 years required by tax law.

Tangible assets are carried at cost less regular depreciation.

Depreciation is charged using both the straight-line and the declining balance methods. Additions in the first half of the fiscal year are written down at the full yearly rate; those in the second half of the year at half the yearly rate. Low-value assets are written down in full in the year of acquisition.

For developed property, depreciation is charged using the straight-line method at between 2% and 10%, and using the declining balance at 1.25% and 2.5%. Other tangible assets are largely written down at 30% using the declining balance method unless the application of the straight-line method is more favorable.

The shares in affiliates carried in the financial statements of the parent company are carried at the acquisition cost or fair value at the balance sheet date. The same applies to unconsolidated affiliates in the consolidated financial statements.

Inventories are carried at the moving average acquisition cost or at the manufacturing cost, unless there was a requirement to write them down to their fair value. This approach differs from that used in previous years and has been used since the implementation of the new IT system at the start of 1999. The change in valuation method is not expected to have a material effect on the value of the inventories. In addition to directly attributable costs, the manufacturing costs also include materials and production overheads. Any assets from intercompany deliveries to be included in the consolidated financial statements are carried at the consolidated acquisition or manufacturing cost.

Receivables and other assets are carried at their principal amount; liabilities are carried at their redemption value. Specific write-downs take account of identifiable risks in the receivables, and a global write-down takes account of the general credit risk.

The pension provision set up was calculated using actuarial principles on the basis of a 6% interest rate at the 1998 mortality tables. The other provisions take account of all identifiable risks and uncertain liabilities.

Foreign currency assets and liabilities in the single-entity financial statements included in consolidation are generally carried at current market rates. Where the rate at the balance sheet date is lower or higher, they are carried at the lower or higher rate at the balance sheet date in accordance with the principle of lower of cost or market. Where rate hedging transactions have been entered into for foreign currency receivables and the hedging rate is lower than the rate at the transaction date, the receivables are carried at the lower hedging rate.

IV. Notes to the balance sheet

1. Fixed assets

Changes in individual items of fixed assets and depreciation and amortization in fiscal year 1999 are presented in the separate statements of changes in fixed assets for the parent company and the Group.

Differences as against the previous year's balance sheet date from the translation of asset items partially denominated in foreign currencies at the closing rate are presented separately in the column "Exchange differences".

2. Receivables and other assets

Maturity dates of receivables and other assets:

Parent company	*Due within one year Thousands of DM*	*Due after more than one year Thousands of DM*	*Total according to balance sheet Thousands of DM*
Trade receivables	22,619	–	22,619
Receivables from affiliates	17,591	4,131	21,722
Other assets	2,119	71	2,190
	42,329	4,202	46,531
Group			
Trade receivables	43,105	1,070	44,175
Other assets	3,097	527	3,624
	46,202	1,597	47,799

Receivables from affiliates relate primarily to trade receivables.

3. Prepaid expenses

Prepaid expenses in the consolidated balance sheet contain deferred tax assets from consolidation amounting to DM 3,530 thousand.

4. Equity

The subscribed capital of the AG totaling DM 10,044,000 is composed of 2,008,800 no-par value shares.

5. Provisions

The other provisions set up by the parent company are composed of the following items:

	Thousands of DM
Personnel	3,224
Outstanding invoices	2,633
Warranties	2,080
Supervisory Board remuneration	220
Bonuses	206
Other	161
	8,524

6. Liabilities

Maturity of liabilities:

	Up to one year Thousands of DM	*One to five years Thousands of DM*	*More than five years Thousands of DM*	*Total according to balance sheet Thousands of DM*
Parent company				
Liabilities to banks	15,384	–	–	15,384
Trade payables	5,508	–	–	5,508
Liabilities to affiliates	1,708	–	–	1,708
Other liabilities	4,092	113	–	4,205
	26,692	113	–	26,805
Group				
Liabilities to banks	24,464	133	85	24,682
Advance payments received	5	–	–	5
Trade payables	7,781	–	–	7,781
Liabilities to affiliates	37	—	—	37
Other liabilities	8,895	113	2,352	11,360
	41,182	246	2,437	43,865

The liabilities to affiliates result from short-term clearing transactions.

7. Contingent liabilities

There are liabilities on bills of DM 211 thousand at the parent company and DM 1,890 thousand in the Group.

The parent company has furnished guarantees of DM 4,966 thousand for bank liabilities of consolidated subsidiaries.

V. Notes to the income statement

Breakdown of sales:

	Parent company DM million	*Group DM million*
Germany	61.1	61.1
Rest of Europe	98.6	135.1
America	15.3	20.6
Africa	4.7	4.7
Asia	21.4	27.4
Australia	6.9	6.9
	208.0	255.8

In calculating the tax expense, it was assumed that an amount of DM 34 million will be distributed for fiscal year 1999, in line with the Managing Board's proposal.

VI. Other disclosures

1. Group financial position

The Group's liquidity position and financial development are presented separately in the attached cash flow statement.

2. Other financial obligations

In 2000, rental and lease payments for business premises in Germany and abroad will probably amount to DM 2,331 thousand for the parent company and DM 1,854 thousand for the Group. The expenses of the parent company include lease payments of DM 1,053 thousand in the Group for Plant 1. The lease for Plant 2 in Landsberg is governed by a leasing agreement with a remaining term until 30 April 2007 and with variable lease payments. An interest-free loan must also be granted to the lessor; this amounted to DM 2,833 thousand at 31 December 1999 and will amount to DM 10,534 thousand at the end of the lease. The annual instalments of lease payments and loan instalments amount to DM 1,836 thousand. In the case of the other lease agreements, it should also be assumed that these are largely long-term leases and that expiring agreements will be prolonged.

There are also obligations from remaining maturity of leasing agreements for hardware and software of up to five years and other assets of DM 9,551 thousand at the parent company and of DM 10,485 thousand in the Group.

There is an obligation of DM 489 thousand from contractual agreements in conjunction with the preparation of the IPO. Payments of DM 242 thousand must be made to former employees for agreed restraints on competition.

3. Number of employees

The parent company and the Group employed an average of 412 and 543 employees, respectively, in the twelve months prior to the balance sheet date. The number of employees at 31 December 1999 is broken down as follows:

	Parent company	*Group*
Marketing	16	16
Production	184	199
Sales	54	119
Research/development	37	37
Customer service	50	88
Administration	68	92
	409	551

4. Managing Board

The members of the Managing Board are

Dipl.-Business Dr. Günter Blaschke – Chairman –

Dipl.-Management Erich Baumgärtner

Dipl.-Engineering Peter Wiedemann (since September 1, 1999)

The Supervisory Board resolved on 21 July 1999 to appoint Mr. Peter Wiedemann as Managing Board member and Chief Technology Officer with effect from 1 September 1999.

The total remuneration of the Managing Board in fiscal year 1999 amounted to DM 1,455 thousand.

5. Supervisory Board

The members of the Supervisory Board are

Siegfried Meister, Businessman – Chairman –

Walter Kurtz, Technician – Deputy –

Roland Poczka, Bank Officer

The total remuneration of the Supervisory Board in fiscal year 1999 amounted to DM 267 thousand. The Company has short-term receivables from Supervisory Board members amounting to DM 64 thousand from advances.

Landsberg am Lech, 31 January 2000

RATIONAL Aktiengesellschaft

Dr. Günter Blaschke Erich Baumgärtner Peter Wiedemann

RATIONAL AG

Combined management report for the parent company and Group as of 31 December 1999

Positive economic environment

The global economy remained healthy in 1999. The crises in South America and Asia had not yet been completely overcome, but signs of economic improvement and a resurgence in demand are already on the horizon. Japan has recovered more slowly than expected from its most severe economic crisis since 1945; gross domestic product (GDP) rose by only 0.5% in 1999. Only moderate improvement is expected again for 2000.

Germany, which is RATIONAL AG's strongest single market in terms of sales, is experiencing a continued upswing. The GDP growth rate slowed to 1.4% (2.2%), but the country's economic output increased by DM 57 billion, thereby raising the standard of living of all people living in Germany. The most important growth drivers in the German economy were capital goods spending, which rose by 7.3%, and domestic demand, which increased by 2.0%. Exports also recovered by the end of the year after a weak showing in the first two quarters. Thanks to continually increasing growth rates, the economy saw growth of 2.1% as of the end of the year.

RATIONAL AG dominates the market for combi-steamers. The Company believes that its superior technology enabled it to again increase its edge over the competition. RATIONAL AG produced approximately 17,000 units in 1999, several times the number manufactured by its competitors.

The generally positive global economic outlook and the Company's front-runner position in its market segment have again enabled RATIONAL AG to strengthen its market position further in the past fiscal year.

Record sales

The RATIONAL Group was able to sustain its strong record of growth worldwide in 1999. The parent company's sales rose by 10% (8%) to DM 208 (189) million, while consolidated sales grew by 15% (10%) to DM 256 (222) million. The greater increase in consolidated sales was the result of the rising proportion of sales attributable to the subsidiaries and the positive development of currency parities.

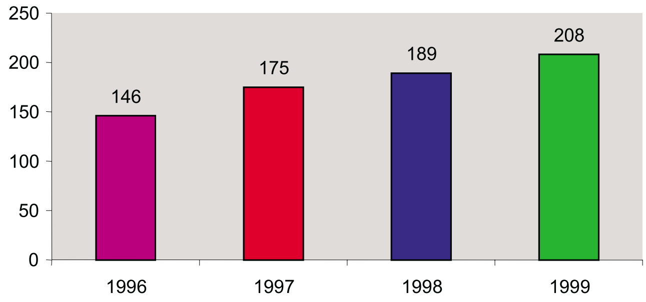
RATIONAL AG's total operating revenue also increased by 11% (8%) to DM 208 (188) million, while that of the Group rose by 16% (9%) to DM 256 (221) million.

The growth drivers in RATIONAL's brand-name business were the subsidiaries in Europe, North America and Asia again in 1999. Sales there increased by 25% (33%), pushing the share of the Group's sales attributable to these subsidiaries up from 38% to 41%.

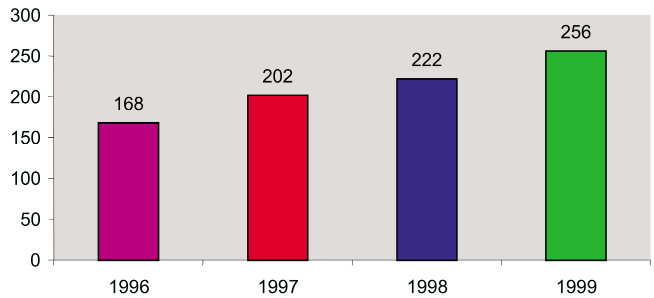
After a disappointing performance in 1998, the crisis-affected regions of Asia and South America were able to contribute positively to the Company's growth with increases of +10% (–28%) and +11% (– 34%) respectively in 1999. Sales in Europe and Africa were particularly encouraging with a growth rate of +21% (18%).

Despite a hesitant start to business in Germany, growth rates in the second half of the year increased appreciably. The Company still generated a satisfactory level of earnings on the whole with a percentage increase of +6% (15%) and absolute growth amounting to DM +4 (8) million.

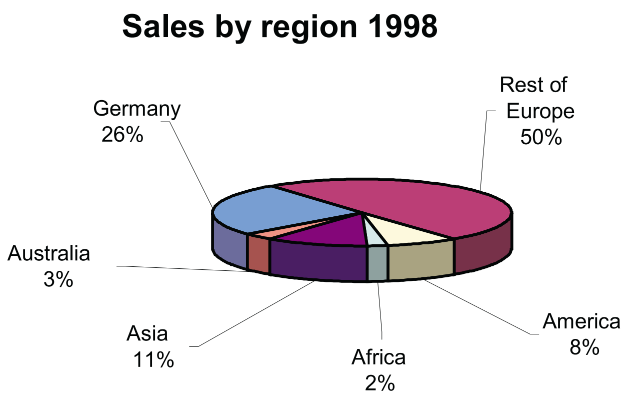
Sales development RATIONAL AG (DM million)

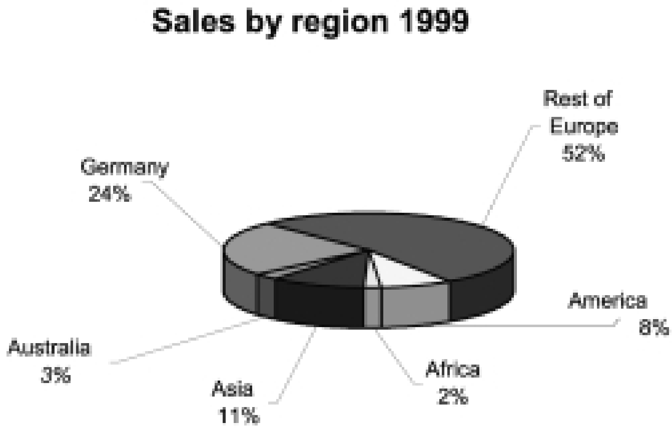


Sales development RATIONAL Group (DM million)



The regional distribution of the RATIONAL Group's sales changed only marginally due to this development.





Positive earnings trend

The consistent focus of the Company on the optimization of benefit for a clearly defined target group of customers means that RATIONAL can systematically eliminate unnecessary alternative processes. This enables RATIONAL to offer its products and services to the market at margins exceeding those of its competitors. Transparent process organization allows the early detection and correction of undesirable developments.

The cost of materials increased to DM 78 (71) million at RATIONAL AG and to DM 91 (78) million for the Group. This led to a ratio of cost of materials to total operating revenue of 37% (38%) for RATIONAL AG and 35% (35%) for the Group.

Personnel expenses rose by 5% (7%) for RATIONAL AG and 11% (12%) for the Group, a rate of increase less than that of total operating revenue.

RATIONAL AG's other operating expenses rose by 9% (10%) to DM 40 (37) million. These expenses include the one-time costs of the planned IPO amounting to DM 1.4 million.

The Group experienced an increase of +31% (11%) to DM 60 (46) million, which is primarily attributable to the formation of new subsidiaries and developments in the US and Japan.

RATIONAL AG's result from ordinary activities rose to a new record high of DM 48 (36) million, a 33% increase. The Group's result also rose by 18% to DM 46 (39) million, which is a disproportionately high growth rate as compared to total operating revenue. The financial result of RATIONAL AG improved by DM 1.2 (0.8) million and includes distributions from Group companies amounting to DM 0.5 million. The Group's financial result totaling DM -1.3 (-2.2) million improved by 38% (29%) over the equivalent period the previous year.

The net income for the year increased by 39% to DM 31 (22) million for RATIONAL AG and by 14% to DM 28 (25) million for the Group. The planned distribution of a cash dividend to shareholders amounting to DM 34 million led to an equivalent decrease in the Company's tax rate.

The difference in the result of RATIONAL AG and the Group was essentially caused by the subsidiaries' additional inventories, which in turn had an equivalent effect on the elimination of intercompany profits. The earnings situation of the US-based subsidiary RCSI also adversely affected the Group's result.

Net value added as an indicator of extremely strong performance

RATIONAL AG's net value added amounted to 45% (43%), while that of the Group totaled 42% (37%) in 1999. This is proof of the RATIONAL organization's strong performance.

Value added – RATIONAL AG

	1999		*1998*		*Change*	
	Thousands of DM	*%*	*Thousands of DM*	*%*	*Thousands of DM*	*%*
Operating revenue	207,607	100.0	187,900	100.0	19,707	10.5
Advance payments	111,262	53.6	104,083	55.4	7,179	6.9
= Gross value added	**96,345**	**46.4**	**83,817**	**44.6**	**12,528**	**14.9**
Depreciation/amortization	1,856	0.9	2,638	1.4	–782	–29.6
= Net value added	**94,489**	**45.5**	**81,179**	**43.2**	**13,310**	**16.4**
thereof employees	45,623	22.0	43,520	23.2	2,103	4.8
thereof public sector	17,396	8.4	14,247	7.6	3,149	22.1
thereof shareholders	7,011	3.4	17,500	9.3	–10,489	–59.9
thereof lenders	720	0.3	1,329	0.7	–609	–45.8
Remaining in the Company	**23,739**	**11.4**	**4,583**	**2.4**	**19,156**	**418.0**

Value Added – RATIONAL Group

	1999		*1998*		*Change*	
	Thousands of DM	*%*	*Thousands of DM*	*%*	*Thousands of DM*	*%*
Operating revenue	256,490	100.0	220,574	100.0	35,916	16.3
Advance payments	144,574	56.4	120,339	54.6	24,235	20.1
= Gross value added	**111,916**	**43.6**	**100,235**	**45.4**	**11,681**	**11.7**
Depreciation/amortization	3,738	1.5	4,216	1.9	–478	–11.3
= Net value added	**108,178**	**42.2**	**96,019**	**43.5**	**12,159**	**12.7**
thereof employees	60,341	23.5	54,365	24.6	5,976	11.0
thereof public sector	18,056	7.0	14,737	6.7	3,319	22.5
hereof shareholders	7,011	2.7	17,500	7.9	–10,489	–59.9
thereof lenders	1,464	0.6	2,174	1.0	–710	–32
Remaining in the Company	**21,306**	**8.3**	**7,243**	**3.3**	**14,063**	**194.2**

Excellent balance sheet structure

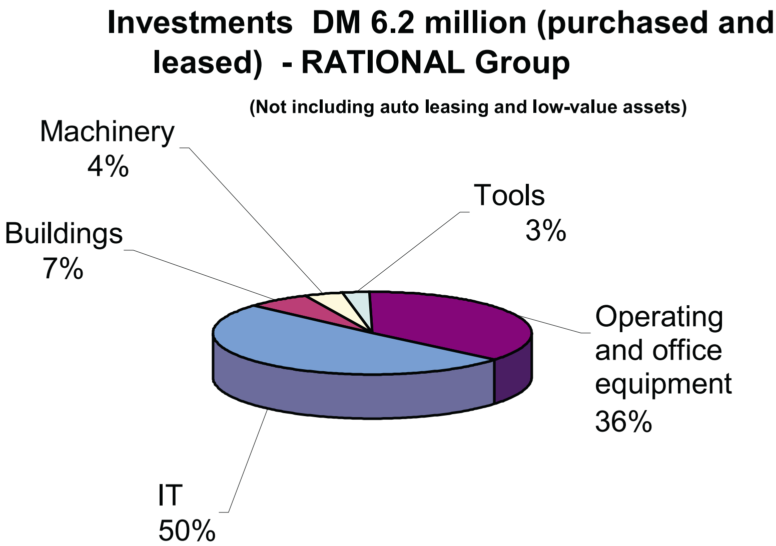
The Company's excellent earnings situation, professional debtor management and the re-optimized inventories at RATIONAL AG improved the balance sheet structure for the long term. RATIONAL AG's equity ratio amounts to 59% (40%), while the Group's is 43% (26%).

The planned distribution of a DM 34 million cash dividend will reduce the equity ratio accordingly.

Despite the 15% (10%) increase in the Group's volume of business, the Company's total assets rose only by 9% (3%). One reason for this is the further optimization of logistics and manufacturing processes which led to low inventory levels at RATIONAL AG.

Investment focus: expansion of product development and sales network

The RATIONAL Group invested a total of DM 6.2 (6.3) million in 1999, DM 2.9 million of which was financed by leasing. The Company's investment focus was on improving its product development infrastructure, expanding subsidiaries and the sales structure, and expanding and modernizing its training capacity for users and other interested parties.



Employees are the key to success

As of 31 December 1999, the RATIONAL Group employed a total of 551 (534) persons, 159 (132) of which were employed abroad. The number of persons employed by the subsidiaries rose disproportionately as a result of the further expansion of the Company's worldwide sales network.

Advances in manufacturing productivity led to a decrease in the proportion of industrial employees to the Company's entire workforce from 38% to 36%. The Company views "One-piece Flow" as a very promising production model for the future. In this model, the few product assembly interfaces still in existence today are reduced to a minimum. This measure is expected to lead to even greater identification with the product on the part of the employees, and therefore an improvement in quality and a reduction in current inventories.

In 1999 RATIONAL AG introduced a structured development program for management trainees. RATIONAL intends to utilize this program to increasingly cover its own requirement for managers, which is rising further due to international growth, from within the Company.

The employees' identification with the Company is strengthened additionally by RATIONAL through voluntary profit-sharing. The Company distributed 10% of its net income for 1998 to its employees in the form of bonuses in 1999. In this way, RATIONAL involves each individual employee in the Company's success.

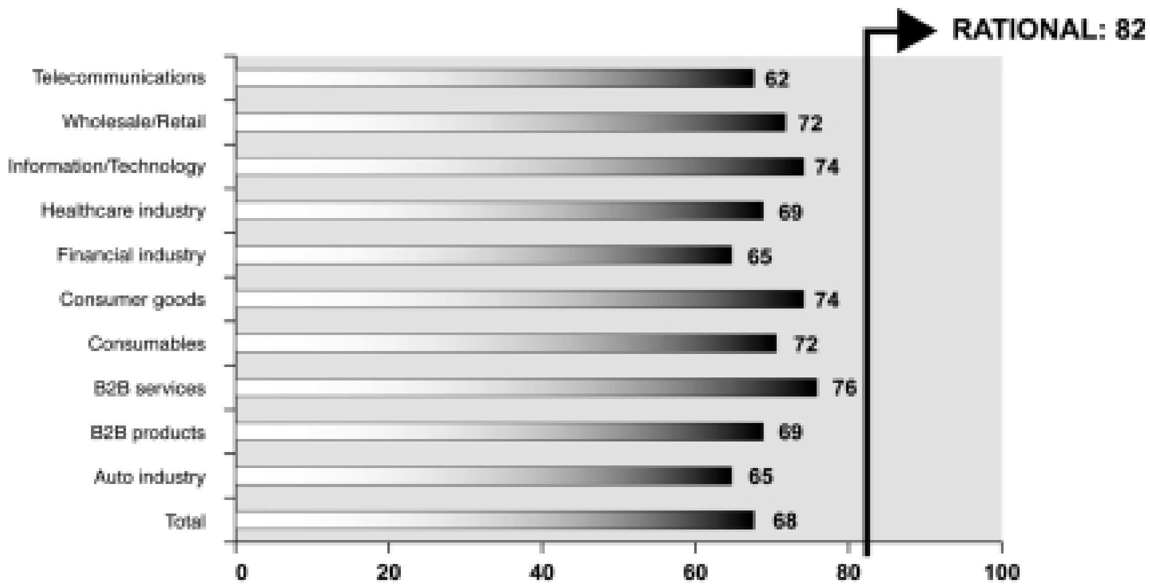
As part of the IPO, the employees will also be offered the opportunity to become shareholders by acquiring preferred shares of the Company.

Production – "Factory of the Year 1999"

RATIONAL AG was awarded first prize in a multi-industry competition for "Factory of the Year" (German GEO Award) in 1999, not least due to its enterprise-wide re-engineering successes. The criteria for the award were highest customer satisfaction, best quality and efficiency, highest degree of flexibility and innovation.

Customer survey brings top result in multi-industry comparson

A high-profile customer survey completed in Germany in 1999 by the market research institute Infratest/Burke indicated that the Company has a level of customer loyalty and satisfaction which is well above average. This result underscores RATIONAL's leading market position. The following graphic shows RATIONAL's score of 82 with regard to degree of customer loyalty. This value is well above the average for all companies studied thus far in various industries and also confirms the extraordinary market position of RATIONAL from the point of view of its customers.



Technological superiority further reinforced

RATIONAL's leading position is largely based on the high degree of development of its products and services as compared to its worldwide competitors.

In order to maintain this position, RATIONAL AG invested DM 9.4 (7.0) million in research and development in 1999. The focus of one of the largest development teams in the industry is on developing new products and improving existing ones.

In autumn of 1999, a new era in food preparation technology was heralded by RATIONAL's IQT technology (cutting-edge intelligence). The entry of only two parameters (degree of browning and core temperature) replaces the programming of complex, multi-step cooking processes and automatically leads to the desired result, while operating the unit is also extremely simple. According to the Company, this innovation, for which a patent application has been submitted, further increased its edge over the competition again in 1999.

The addition of a Chief Technology Officer to the Managing Board in September 1999 underscores the importance of technology for the Company's success. The appointment of Peter Wiedemann represents the addition of a highly qualified and experienced technician to the Managing Board. After completing studies in mechanical engineering at the Technical University (TU) in Munich, Mr. Wiedemann joined RATIONAL GmbH as an engineer in 1988 and most recently was already a manager responsible for technology.

Subsidiaries boost growth

Eighty percent of the worldwide potential for RATIONAL's technologies is currently accounted for by about 20 countries. The Company plans to form its own subsidiaries in these "A-list" countries in the medium term. The existing subsidiaries contributed a disproportionately high share of the Group's growth in 1999 with 25% (33%). The subsidiaries' contribution to total sales is currently already 41% (38%).

New subsidiaries particularly successful

The formation of a new subsidiary in Switzerland was successful. Together with subsidiaries in Italy and the USA which were formed or acquired in 1998, these new subsidiaries are already contributing heavily to the Group's growth with increases in sales between 80% and 170%.

The following information on market share is based on studies and estimates by RATIONAL AG.

England

RATIONAL UK Ltd. was very successful in 1999 with sales rising by 24% (24%). This growth was made possible primarily by increased sales efficiency and better market penetration, which were helped along by the advantageous exchange rate development of the British pound. This success is also evident in the rise in net income for the year by 82% to DM 1.2 million.

The Company was able to further increase its market share in the food chain business which is important in the UK market. RATIONAL is the overall market leader there by a comfortable margin with a market share of approximately 33%.

France

The French subsidiary FRIMA S. A. was able to maintain the momentum of the prior year's positive development with an increase in sales by 13% (11%). This growth was achieved without major new investments. The Thermojet business also grew disproportionately strongly due to concentration on a few core markets. FRIMA S. A. generated net income for the year amounting to DM 1.1 million.

The market share for combi-steamers was expanded from 20% to 22%, making RATIONAL the clear market leader in France as well.

Italy

The Italian market was developed and dominated by local manufacturers over the past ten years. RATIONAL was only represented by a distributor until 1998; RATIONAL Italia was formed in mid-1998 and expanded accordingly in 1999. The most basic aspects of RATIONAL's sales and marketing process have already been established. This enabled the subsidiary to generate sales of DM 3.6 million in its first full fiscal year, while the result nearly balanced this out. The Company was thus able to successfully enter the Italian market, even though this is the home market of major European competitors such as Zanussi and Lainox.

Japan

RATIONAL Japan KK grew by 36% in 1999. This momentous growth has also been positively influenced by development of the yen. The expansion and continuation of the implementation of RATIONAL's sales and marketing process led to accelerated growth in the second most important export market for RATIONAL products. The net income for 1999 amounting to DM 0.4 million is not yet satisfactory. Personnel changes were made in RATIONAL Japan KK's management as part of a reorganization of the subsidiary in 1999.

USA

The business structure of the Company was changed in 1999 such that deliveries to the US-based OEM partner are no longer invoiced via the Company, but directly by the parent company. This led to a corresponding change in external sales.

RATIONAL Cooking Systems Inc. (RCSI) was able to increase sales by 86% and expand its market share in the brand-name business. In terms of market development, the subsidiary is concentrating on clearly defined core areas in order to attain a high level of sales efficiency. RATIONAL's sales and marketing process is largely established and will be expanded further. The Company did not cover its costs in 1999 due to large investments in the establishment of the sales and customer service structure, and reported a loss of DM 2 million. The Company considers these preliminary investments to be reasonable and necessary since the US is RATIONAL's largest and most important single market. In the medium term, the Company also expects sustained positive earnings for the US subsidiary on the basis of the forecast growth rates.

Scandinavia

RATIONAL Scandinavia AB, which was formed in 1998, was able to maintain its market position after a very successful year in 1998 by keeping its sales volume steady at 1998 levels. Sales increased in Sweden and Denmark, while Norway experienced a decline. RATIONAL's sales team further increased sales and market share through targeted market development in Sweden. Business with the Company's partner in Denmark was also satisfactory. The drop in sales in Norway is attributable principally to the sharp increase in sales in the previous year due to a major project.

This subsidiary has been successful from the start, generating net income for its first complete fiscal year amounting to DM 0.2 million.

Switzerland

RATIONAL Schweiz AG was formed in January 1999. RATIONAL's top market position led to sales of DM 2.4 million in the subsidiary's first fiscal year alone. However, start-up investments meant that the company reported a loss of DM 0.3 million.

Preparation of the IPO

RATIONAL AG plans to go public in spring 2000 by applying for admission to the *Geregelter Markt* with admission to the SMAX quality small-cap segment. The underwriting syndicate will be lead-managed by J. Henry Schroder & Co. Ltd (London) investment bank. The Company expects the IPO to give a considerable boost to its market awareness, even outside of its target group, therefore increasing its attractiveness for internationally oriented executives. The funds generated by the IPO will serve to finance the Company's further growth as well as marketing and technology investments.

The Company will change its capital structure as part of the planned IPO. The share capital amounting to DM 10,044,000 composed of 2,008,800 no-par value shares with a theoretical interest in the share capital of DM 5.00 will initially be converted to euros. The share capital will then be increased from retained earnings to EUR 10,000,000 and, at the same time, converted to no-par value shares with a theoretical interest in the share capital of EUR 1.00.

An additional increase of the share capital to EUR 11,185,000 as part of the IPO will be implemented by issuing 1,185,000 new shares against cash contributions amounting to EUR 1,185,000. The new shares will carry dividend rights as of 1 January 2000.

Outlook

According to the Company, only around 15% of the market potential for RATIONAL technologies has been exploited. Although mid-level development of the European market has already occurred, market penetration in the US and Asia, which are the strategically important economic areas for the Company, is only just beginning. The most significant single markets are the US, Japan and the "Top 5" in Europe (Germany, the UK, France, Italy, Spain).

By focusing on the countries which currently have the greatest potential in line with the principle of "depth before breadth", the RATIONAL Group expects growth to continue to be more rapid in the future on the basis of its market standing.

The Company plans to further increase its technological lead through consistent, major investments in research and development. Its IQT technology, which was launched in 1999, is additional proof of RATIONAL's potential for innovation.

RATIONAL studied all of its processes and documented all possible risks as part of its risk management process. Possible risks include, for example, the economic and political stability of individual sales markets. Due to the

Company's international orientation, however, it has numerous options for compensating these risks. Currency risks due to exchange rate fluctuations are limited principally by conservative budgeted exchange rates and rate hedging transactions. Possible production and supplier risks were analyzed and the relevant alternative solutions defined. The monthly reporting was expanded to include threshold values above which corrective measures and escalation management are initiated. An institutionalized risk management system will be completed in 2000 and audited by external auditors.

Upswing in 2000

The forecasts for the global economy in 2000 are favorable. The crises in South America and Asia have nearly been overcome, and the dynamic growth experienced in the second half of 1999 is expected to continue in Germany and the rest of Europe.

Forecasts also indicate the strong economic development of the past years will continue in the US.

Only Japan is progressing more slowly than anticipated. In Japan, however, there is a high degree of willingness to invest in streamlining due to the high level of purchasing power there, particularly in difficult economic times. This is the reason that Japan remains an important growth market for RATIONAL in addition to Europe and the US.

The investments that RATIONAL has planned for 2000 are aimed at product and market development. The Company also intends to expand production capacity at its Landsberg site in order to ensure that it can deliver orders even after 2001.

The Company is working on the assumption that the single European currency, the euro, will rebound in the course of 2000. This expected development is accounted for in conservative budgeted exchange rates and corresponding rate hedging transactions.

The RATIONAL Group expects its strategic focus to enable it to continue to achieve high growth rates in sales in the future with proportional increases in earnings (adjusted for the costs of the IPO in 2000).

Landsberg, 31 January 2000

9.7 Statements of changes in fixed assets (1997 to 1999)

9.7.1 CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 1997

	Acquisition costs					*Depreciation and Amortization/Value adjustments*					*Book values*	
	Balance at 1 Jan. 1997 DM	*Exchange differences DM*	*Additions DM*	*Disposals DM*	*Balance at 31 Dec. 1997 DM*	*Balance at 1 Jan. 1997 DM*	*Exchange differences DM*	*Additions DM*	*Disposals DM*	*Balance at 31 Dec. 1997 DM*	*Balance at 31 Dec. 1997 DM*	*Balance at 31 Dec. 1996 DM*
INTANGIBLE ASSETS												
Industrial and similar rights and assets	26,226,508.58	2,774.41	192,912.13	141,051.22	26,281,143.90	23,515,808.33	1,462.24	1,720,848.67	87,917.27	25,150,201.97	1,130,941.93	2,710,700.25
Goodwill	10,634,890.85	409.46	0.00	0.00	10,635,300.31	3,841,167.45	0.00	705,663.00	0.00	4,546,830.45	6,088,469.86	6,793,723.40
Payments on account	0.00	0.00	128,661.00	0.00	128,661.00	0.00	0.00	0.00	0.00	0.00	128,661.00	0.00
	36,861,399.43	3,183.87	321,573.13	141,051.22	37,045,105.21	27,356,975.78	1,462.24	2,426,511.67	87,917.27	29,697,032.42	7,348,072.79	9,504,423.65
TANGIBLE ASSETS												
Land and buildings	23,034,459.84	22,400.66	0.00	0.00	23,056,860.50	9,145,237.53	7,134.66	710,569.69	0.00	9,862,941.88	13,193,918.62	13,889,222.31
Technical equipment and machines	4,146,018.91	8,569.39	260,314.99	128,415.15	4,286,488.14	3,815,416.87	7,682.67	346,357.99	290,038.19	3,879,419.34	407,068.80	330,602.04
Other equipment, operating and office equipment	9,255,466.72	195,269.20	1,688,430.02	1,087,092.17	10,052,073.77	6,991,974.94	135,388.41	1,077,528.46	790,879.32	7,414,012.49	2,638,061.28	2,263,491.78
Payments on account	33,061.50	0.00	0.00	33,061.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	33,061.50
	36,469,006.97	226,239.25	1,948,745.01	1,248,568.82	37,395,422.41	19,952,629.34	150,205.74	2,134,456.14	1,080,917.51	21,156,373.71	16,239,048.70	16,516,377.63
FINANCIAL ASSETS												
Shares in affiliates	59,280.00	486.00	5,271,386.00	0.00	5,331,152.00	38,532.00	315.90	4,864,918.10	0.00	4,903,766.00	427,386.00	20,748.00
Loans to associates	0.00	0.00	358,918.00	0.00	358,918.00	0.00	0.00	0.00	0.00	0.00	358,918.00	0.00
	59,280.00	486.00	5,630,304.00	0.00	5,690,070.00	38,532.00	315.90	4,864,918.10	0.00	4,903,766.00	786,304.00	20,748.00
	73,389,686.40	229,909.12	7,900,622.14	1,389,620.04	80,130,597.62	47,348,137.12	151,983.88	9,425,885.91	1,168,834.78	55,757,172.13	24,373,425.49	26,041,549.28

9.7.2 CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 1998

	Acquisition costs					*Depreciation and Amortisation/Value adjustments*					*Book values*	
	Balance at 1 Jan. 1998 DM	*Exchange differences DM*	*Additions DM*	*Disposals DM*	*Balance at 31 Dec. 1998 DM*	*Balance at 1 Jan. 1998 DM*	*Exchange differences DM*	*Additions DM*	*Disposals DM*	*Balance at 31 Dec. 1998 DM*	*Balance at 31 Dec. 1998 DM*	*Balance at 31 Dec. 1997 DM*
INTANGIBLE ASSETS												
Industrial and similar rights and assets	26,281,143.90	–529.47	135,275.84	69,221.60	26,346,668.67	25,150,201.97	–345.60	1,015,384.22	68,913.27	26,096,327.32	250,341.35	1,130,941.93
Goodwill	10,635,300.31	–109.52	1,242,977.72	50,243.34	11,827,925.17	4,546,830.45	0.00	861,640.72	0.00	5,408,471.17	6,419,454.00	6,088,469.86
Payments on account	128,661.00	0.00	0.00	128,661.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	128,661.00
	37,045,105.21	–638.99	1,378,253.56	248,125.94	38,174,593.84	29,697,032.42	–345.60	1,877,024.94	68,913.27	31,504,798.49	6,669,795.35	7,348,072.79
TANGIBLE ASSETS												
Land and buildings	23,056,860.50	–5,992.10	0.00	0.00	23,050,868.40	9,862,941.88	–2,186.49	684,555.68	0.00	10,545,311.07	12,505,557.33	13,193,918.62
Technical equipment and machines	4,286,488.14	–786.61	40,888.15	221,772.54	4,104,817.14	3,879,419.34	–630.57	158,493.96	219,396.71	3,817,886.02	286,931.12	407,068.80
Other equipment, operating and office equipment	10,052,073.77	–90,389.89	2,389,408.36	1,661,685.88	10,689,406.36	7,414,012.49	–68,143.44	1,495,889.83	1,379,236.83	7,462,522.05	3,226,884.31	2,638,061.28
Payments on account	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	37,395,422.41	–97,168.60	2,430,296.51	1,883,458.42	37,845,091.90	21,156,373.71	–70,960.50	2,338,939.47	1,598,633.54	21,825,719.14	16,019,372.76	16,239,048.70
FINANCIAL ASSETS												
Shares in affiliates	5,331,152.00	–130.00	0.00	0.00	5,331,022.00	4,903,766.00	–130.00	0.00	0.00	4,903,636.00	427,386.00	427,386.00
Loans to associates	358,918.00	0.00	1,787,818.00	0.00	2,146,736.00	0.00	0.00	0.00	0.00	0.00	2,146,736.00	358,918.00
	5,690,070.00	–130.00	1,787,818.00	0.00	7,477,758.00	4,903,766.00	–130.00	0.00	0.00	4,903,636.00	2,574,122.00	786,304.00
	80,130,597.62	–97,937.59	5,596,368.07	2,131,584.36	83,497,443.74	55,757,172.13	–71,436.10	4,215,964.41	1,667,546.81	58,234,153.63	25,263,290.11	24,373,425.49

9.7.3 CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 1999

	Acquisition costs					*Depreciation and Amortization/Value adjustments*					*Book values*	
	Balance at 1 Jan. 1999 DM	*Exchange differences DM*	*Additions DM*	*Disposals DM*	*Balance at 31 Dec. 1999 DM*	*Balance at 1 Jan. 1999 DM*	*Exchange differences DM*	*Additions DM*	*Disposals DM*	*Balance at 31 Dec. 1999 DM*	*Balance at 31 Dec. 1999 DM*	*Balance at 31 Dec. 1998 DM*
INTANGIBLE ASSETS												
Industrial and similar rights and assets	26,346,668.67	–9.52	462,755.49	272,402.34	26,537,012.30	26,096,327.32	–6.38	158,674.06	270,887.34	25,984,107.66	552,904.64	250,341.35
Goodwill	11,827,925.17	0.00	0.00	0.00	11,827,925.17	5,408,471.17	0.00	1,016,402.00	0.00	6,424,873.17	5,403,052.00	6,419,454.00
Payments on accounts	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	38,174,593.84	–9.52	462,755.49	272,402.34	38,364,937.47	31,504,798.49	–6.38	1,175,076.06	270,887.34	32,408,980.83	5,955,956.64	6,669,795.35
TANGIBLE ASSETS												
Land and buildings	23,050,868.40	–147.49	0.00	0.00	23,050,720.91	10,545,311.07	–60.66	660,235.81	0.30	11,205,485.92	11,845,234.99	12,505,557.33
Technical equipment and machines	4,104,817.14	12,444.29	42,908.04	156,192.62	3,946,957.77	3,817,886.02	12,446.15	96,963.65	156,192.62	3,714,084.12	232,873.65	286,931.12
Other equipment, operating and office equipment	10,689,406.36	336,964.35	3,146,568.47	736,841.13	13,493,117.13	7,462,522.05	146,599.27	1,804,841.45	555,898.78	8,915,083.07	4,578,034.06	3,226,884.31
Payments on account	0.00	0.00	445,193.17	0.00	445,193.17	0.00	0.00	0.00	0.00	0.00	445,193.17	0.00
	37,845,091.90	349,261.15	3,634,669.68	893,033.75	40,935,988.98	21,825,719.14	158,984.76	2,562,040.91	712,091.70	23,834,653.11	17,101,335.87	16,019,372.76
FINANCIAL ASSETS												
Shares in affiliates	5,331,022.00	–3.20	0.00	0.00	5,331,018.80	4,903,636.00	–3.20	0.00	0.00	4,903,632.80	427,386.00	427,386.00
Loans to associates	2,146,736.00	0.00	686,479.68	0.00	2,833,215.68	0.00	0.00	0.00	0.00	0.00	2,833,215.68	2,146,736.00
	7,477,758.00	–3.20	686,479.68	0.00	8,164,234.48	4,903,636.00	–3,20	0.00	0.00	4,903,632.80	3,260,601.68	2,574,122.00
	83,497,443.74	349,248.43	4,783,904.85	1,165,436.09	87,465,160.93	58,234,153.63	158,975.18	3,737,116.97	982,979.04	61,147,266.74	26,317,894.19	25,263,290.11

10 BUSINESS DEVELOPMENTS AND OUTLOOK

In 1999, the Company generated sales revenues of DM 256 million, topping the previous year's figure by 15.3%. RATIONAL AG's current forecasts indicate a considerable increase in sales for fiscal year 2000 with a proportional rise in earnings (adjusted for the costs of the IPO). The expected rise in sales is based on the partially implemented further expansion of the Company's sales structure at the Company's distribution partners, as well as its own distributors, and derived from an analysis of the market potential to be exploited.

In the estimation of the managing board, the Rational Group's sales of DM 15.4 million in January 2000 increased by approximately 70% over the same period in the previous year, January 1999. The operative costs of DM 9 million in January 2000 increased by approximately 11% over the same period in the previous year. In January 2000 the earnings before taxes (EBT) amounted to +DM 1.5 million in contrast to a loss in the amount of DM 1.4 million during the same period in the previous year. The incoming orders for January 2000 amounted to DM 17.4 million, representing a +12% increase rate over the same period in the previous year. In the view of the managing board, a comparison period of only one month cannot be deemed to be representative of the Company's earnings, since monthly results can fluctuate very sharply.

Since only about 15% of the global market potential has been developed and exploited to date, the Company expects its current sales volume to double in the medium term. In particular, growth is planned in high-potential markets which are still only partially developed, such as the US, Canada, Japan, South Korea, the United Kingdom, France, Italy and Spain.

As the Company is active in a market which has as yet undergone very little development on a global level, economic cycles and industry growth are not major factors. Even during a recession, the market for capital expenditures on rationalization with short pay-back periods will grow, as recently demonstrated in Japan.

These positive sales estimates are based on experience with growth rates in established markets. The existing subsidiaries are expected to continue growing disproportionately. Furthermore, the Company plans to establish new subsidiaries in Canada, Spain and South Korea as early as 2000.

Approximately 20 countries account for over 80% of the global market potential which has yet to be developed. The Company plans to accelerate its development of sales and marketing activities in these countries over the coming years, in line with the principle of "depth before breadth", in order to continue to grow faster than the competition in the future.

RATIONAL's global leadership is, however, also the result of economies of scale, particularly in both the production and research and development areas:

- According to the Company's own estimates, RATIONAL manufactures more than four times as many appliances as its closest competitor and thus benefits from the advantages due to declining manufacturing costs.

- Including wage costs, RATIONAL invests approximately DM 10 million in research and development. This corresponds to about 20% of its closest competitor's sales. This is anticipated to enable the Company to further develop its innovation lead in the future.

However, the Company's earnings power is also based on its good overall organizational and cost structure. By consistently optimizing its workflows and as a result of its comprehensive reporting system based on SAP/R3, development problems can be identified in time and be corrected accordingly.

Landsberg, February 2000

RATIONAL AG

On the basis of the above Offering Circular/Company Report, application is made to admit the
11,185,000 no-par value ordinary bearer shares
(aggregate share capital),

each with a theoretical interest in the share capital of EUR 1.00 per no-par value share and each carrying full dividend rights from 1 January 2000

and

up to **200,000 no-par value ordinary bearer shares**
with regard to share option rights from the contingent capital increase resolved by the General Meeting on 3 February 2000, each with a theoretical interest in the share capital of EUR 1.00 per share and each carrying full dividend rights with effect from the beginning of the fiscal year in which they are created through exercise of the option rights

of

RATIONAL AG, Landsberg/Lech

for admission to the *Geregelten Markt* and to trading on the SMAX quality segment of the Frankfurt Stock Exchange.

London, Munich, Stuttgart and Frankfurt am Main, February 2000

Schroder Securities Ltd

Bayerische Hypo- und Vereinsbank Aktiengesellschaft

Landesbank Baden-Württemberg

Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien